



April 22, 2022

VIA EMAIL

Honorable Carmen Diaz, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 1st Floor
P.O. Box 350
Trenton, NJ 08625-0350

Re: In The Matter of The Petition of New Jersey Natural Gas Company for Authorization for Three (3) Years: (1) To Issue And Sell Pursuant To N.J.S.A. 48:3-9 Medium Term Notes; (2) To Enter Into Interest Rate Risk Management Transactions Related to Any New Issuances Approved Hereunder; (3) Redeem, Refinance or Defease Any of The Company's Outstanding Long-Term Debt Securities; And (4) Pursuant to N.J.S.A. 48: 3-9, To Enter Into A Credit Facility Allowing The Issuance of Bank Note Obligations
BPU Docket No.

Dear Secretary Diaz:

Enclosed herewith for filing with the Board, is a Petition of New Jersey Natural Gas Company ("NJNG") in the above-referenced matter.

In accordance with the Order issued by the Board in connection with I/M/O the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations, BPU Docket No. EO20030254, Order dated March 19, 2020, this document is being electronically filed. No paper copies will follow.

Copies of this Petition, including the supporting exhibits, are also being served electronically upon the New Jersey Division of Rate Counsel.

Kindly acknowledge receipt of this filing via return email.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Andrew K. Dembia'. The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Andrew K. Dembia
Regulatory Affairs Counsel

AKD:sf
Enclosures

C: Service List

In The Matter of The Petition of New Jersey Natural Gas Company
for Authorization for Three (3) Years: (1) To Issue And Sell Pursuant To N.J.S.A. 48:3-9 Medium
Term Notes; (2) To Enter Into Interest Rate Risk Management Transactions Related to Any New
Issuances Approved Hereunder; (3) Redeem, Refinance or Defease Any of The Company's
Outstanding Long-Term Debt Securities; And (4) Pursuant to N.J.S.A. 48: 3-9, To Enter Into A
Credit Facility Allowing The Issuance of Bank Note Obligations

DOCKET NO.

SERVICE LIST

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**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

-----X

PETITION
BPU DOCKET NO. GF____

**IN THE MATTER OF THE PETITION OF NEW
JERSEY NATURAL GAS COMPANY FOR
AUTHORIZATION FOR THREE (3) YEARS : (1) TO
ISSUE AND SELL PURSUANT TO N.J.S.A. 48:3-9
MEDIUM TERM NOTES; (2) TO ENTER INTO
INTEREST RATE RISK MANAGEMENT
TRANSACTIONS RELATED TO ANY NEW
ISSUANCES APPROVED HEREUNDER; (3)
REDEEM, REFINANCE OR DEFEASE ANY OF THE
COMPANY'S OUTSTANDING LONG-TERM DEBT
SECURITIES; AND (4) PURSUANT TO N.J.S.A. 48: 3-
9, TO ENTER INTO A CREDIT FACILITY
ALLOWING THE ISSUANCE OF BANK NOTE
OBLIGATIONS.**

-----X

**TO THE BOARD OF PUBLIC UTILITIES
OF THE STATE OF NEW JERSEY:**

A. By this Petition, New Jersey Natural Gas Company ("NJNG," the "Company" or "Petitioner") hereby requests of the New Jersey Board of Public Utilities ("Board") authorization for three (3) years to:

(a) (i) issue and sell pursuant to N.J.S.A. 48:3-9 Medium-Term Notes ("MTNs") with a maturity of not more than forty (40) years in an aggregate principal amount of not more than \$500,000,000; (ii) make, execute and deliver pursuant to N.J.S.A. 48:3-9 a trust indenture, trust indentures or supplements thereto or a note purchase agreement or note purchase agreements providing for the issuance of such MTNs; (iii) make, execute and deliver pursuant to N.J.S.A. 48:3-7, additional supplemental indentures providing for the issuance of MTNs in the form of a first mortgage bond or bonds with a maturity or maturities of not more than forty (40) years and in aggregate principal amount of not more than \$500,000,000 or to secure MTNs issued as described in (i) above; and (iv) make execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such first mortgage bonds thereunder as shall be necessary to complete the transactions contemplated in this petition;

(b) pursuant to N.J.S.A. 48:3-9, enter into one or more interest rate risk management transactions, including interest rate swaps and interest caps, floors and collars or other derivative agreements or arrangements with a duration of up to three years (collectively, “Interest Rate Swaps”) in connection with the issuance and sale of the MTNs in amount up to \$500,000,000.

(c) redeem, refinance, or defease any of the Company’s outstanding long-term debt securities, as long as the redemption, refinancing or defeasance is economically advantageous for the Company;

(d) pursuant to N.J.S.A 48:3-9, to enter into a revolving credit facility with a duration for up to five years and an option for up to two additional one-year extensions beyond the original five-year duration, providing, among other things, for the issuance of promissory notes (“Bank Note Obligations”) in an aggregate principal amount not to exceed \$500,000,000 at any one time outstanding; and

(e) make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement instruments) and take such other actions the Petitioner determines may be necessary in connection therewith as shall be necessary to complete the transactions contemplated in this Petition without further order of the Board. In support of its Petition, NJNG states the following:

1. All communications with respect to this pleading and in this proceeding should be served on the following persons:

Mark G. Kahrer
Senior Vice President, Regulatory Affairs, Marketing and Energy
Efficiency
New Jersey Natural Gas Company
1415 Wyckoff Road
Wall, New Jersey 07719
(732) 938-1214

Richard Reich, Esq.
Senior Vice President, General Counsel and Corporate Secretary
New Jersey Natural Gas Company
1415 Wyckoff Road
Wall, New Jersey 07719
(732) 938-7890

2. NJNG is a duly organized corporation and a local natural gas distribution utility regulated under the laws of the State of New Jersey and has its principal place of business at 1415

Wyckoff Road, Wall, NJ 07719. NJNG distributes natural gas and provides transportation service at retail to over half a million residential, commercial and industrial customers in the State of New Jersey.

3. By this Petition, NJNG seeks authorization to engage in a transaction or series of transactions for three (3) years, the net result of which will be the issuance of up to \$500,000,000 of new MTNs. The net proceeds of these transactions or series of transactions will be utilized to retire short-term debt through the issuance of long-term debt; to fund capital expenditure requirements, including, but not limited to, those related to NJNG's Board-approved Infrastructure Investment Program ("IIP"), energy efficiency expenditures such as those made in connection with the SAVEGREEN ProjectTM, environmental remediation expenditures, our IT infrastructure program ("NEXT"), and other system reliability infrastructure programs; to fund pension and other post-employment benefit programs; and, potentially, to redeem, refinance or defease any of Petitioner's indebtedness or debt securities as long as such redemption, refinancing or defeasance would be economically advantageous for the Company. NJNG's construction program has been financed, and it is expected that it will be financed, in part, by short-term debt, and periodically NJNG will retire such debt. The financing program for which NJNG is seeking authorization of the Board in this Petition is comparable to the financing programs for which NJNG received approval of the Board under Docket Nos. GF19070817, GF17010072, GF14010067, GF12060491, GF09080702, GF07050343 and GF05060554.

4. NJNG requests authority to issue and sell, in one or more series, at any time for three years from the effective date of the Order, not more than \$500,000,000 in aggregate principal amount of its MTNs.

5. The MTNs may be issued as part of one, or as part of several series, and may be issued on a secured or unsecured basis. MTNs will be issued with maturities from one to forty years and with various specified conditions, including redemption provisions. The MTNs will be limited to an aggregate principal amount of \$500,000,000. The MTNs will be sold at 100% of principal amount, at a discount, or at a premium.

6. NJNG proposes to issue some or all of the MTNs under an indenture (a "Note Indenture") or under various Note Indentures between NJNG and U.S. Bank, N.A., or a similar financial institution, as trustee (the "Note Trustee"). MTNs may be issued under the Note Indentures in one or more series from time to time without limit within the parameters approved

by the Board pursuant to this Petition. MTNs issued under the Note Indentures may be secured by the Pledged Bonds, discussed *infra*. Alternatively, NJNG may elect to issue the MTNs as unsecured debt pursuant to a separate indenture or indentures between NJNG and U.S. Bank, N.A., or similar financial institution, as trustee. NJNG may also issue the MTNs pursuant to a note purchase agreement or note purchase agreements. The MTNs may be issued at an interest rate to be determined via a negotiated sale or by way of a competitive bidding process.

7. The MTNs may be issued pursuant to the Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement dated as of September 1, 2014, by and between NJNG and U.S. Bank National Association, as Trustee, as amended by ten supplemental indentures, or a successor mortgage indenture securing substantially all of the real property and equipment of NJNG (the “Mortgage Indenture”). MTNs issued under the Mortgage Indenture will be issued pursuant to one or more supplemental indentures under the Mortgage Indenture. As a result, it may be necessary for NJNG to make, execute and deliver the Eleventh (11th) Supplemental Indenture and supplemental Mortgage Indentures in addition thereto. NJNG will choose to issue MTNs under the Note Indenture (in the form of secured or unsecured notes) or the Mortgage Indenture, or under a different indenture or indentures or Note Purchase Agreement or Note Purchase Agreements or any of the foregoing depending upon which structure in NJNG’s judgment allows it to issue MTNs in an economically advantageous manner.

8. Whether the MTNs are issued under the Note Indenture or Note Indentures or a Note Purchase Agreement or Note Purchase Agreements; or on a secured or unsecured basis under a separate indenture; or as mortgage bonds under the Mortgage Indenture; the total aggregate principal amount of MTNs to be issued pursuant to this Petition will not exceed \$500,000,000.

9. In addition to being issued in various series, NJNG proposes that the MTNs may be issued at various times for three years from the effective date of the Order and have differing maturity dates and may bear interest at different rates and may contain other terms that vary from series to series. NJNG intends to sell the MTNs either to or through agents who will be “accredited investors,” as defined in rules promulgated under the Securities Act of 1933, as amended (the “Securities Act”). The successful bidder or bidders, in turn, may resell the MTNs to “qualified institutional buyers” pursuant to Rule 144A under the Securities Act or to any eligible purchasers under an applicable exemption under the Securities Act. The sale will be made to or through the agent or agents whose bid or bids result is the most economically advantageous to the Company.

Through the agent or agents, NJNG will conduct a competitive bidding process or negotiate sale terms directly (if market conditions dictate that a negotiated sale would be the best option), designed to provide the Company with the most economically advantageous financing. The agents to be utilized by the Company may change from offering to offering.

10. NJNG proposes to issue MTNs within the following yield spreads over U.S. Treasury securities with comparable maturities:

<u>Range of Maturities</u>	Maximum Yield Spread (Basis Points)
1 year to less than 18 months	125
18 months to less than 2 years	150
2 years to less than 3 years	175
3 years to less than 4 years	200
4 years to less than 5 years	225
5 years to less than 7 years	250
7 years to less than 10 years	250
10 years to less than 15 years	275
15 years to less than 20 years	300
20 years to 30 years	325
30+ years	350

11. In order to provide it with the opportunity to take advantage of changing financial market conditions and advantageously manage its cost of capital and meet competitive conditions, NJNG requests authority, as appropriate market opportunities arise, to issue and sell MTNs in one or more offerings. The terms and the timing of the proposed MTN offerings cannot be determined at this time, as they will be dependent upon market and other conditions beyond NJNG's control. Such determinations will depend upon the market conditions at the time of issuance and sale. However, NJNG will select the form of instrument which in its sole judgment would allow the issuance and sale of MTNs in an economically advantageous manner. NJNG represents that after completion of the interest rate pricing of any MTN issuance, it will notify the Board of the rate of interest and other material terms and conditions of the MTNs in a timely manner.

12. The timing of each transaction with respect to each issuance of MTNs, the price to be paid to NJNG, the rate of interest (fixed or variable), maturity, redemption provisions and prices, and the type, terms and conditions of the MTNs have not yet been determined. Such determinations will depend upon the market conditions at the time of issuance and sale. Depending upon the then prevailing market conditions, the MTNs may have maturities of up to forty (40)

years. MTNs may include conventional terms, floating rates, puts, calls, remarketed notes, swaps, options or other terms and conditions. NJNG requests that all of the MTNs be sold without further approval by this Board in accordance with procedures set forth in this Petition.

13. MTNs issued under a Note Indenture or Note Indentures may be secured with a bond (a “Pledged Bond”) or Pledged Bonds that will be one or a series of bonds issued under the Mortgage Indenture. The Pledged Bond or Pledged Bonds, if any, issued to secure MTNs, will be issued under the Mortgage Indenture, as supplemented and amended, and as to be supplemented by supplemental indentures providing for the issuance of the Pledged Bond or Pledged Bonds. Said Mortgage Indenture is a first lien upon virtually all of NJNG’s real estate and personal property except certain items such as gas inventory, cash and transportation equipment. The terms and conditions for supplemental indentures will be determined prior to the issuance of the Pledged Bond or Pledged Bonds. NJNG may also execute additional supplemental indentures and issue additional mortgage bonds providing for the issuance of a Pledged Bond or Pledged Bonds or providing for the issuance of MTNs as mortgage bonds as provided in Paragraph 6 of this Petition. As of December 31, 2021, the principal amount outstanding under the Mortgage Indenture was \$1.19 billion and the principal amount authorized to be issued under the Mortgage Indenture on the basis of property additions and on the basis of retired mortgage bonds was approximately \$1.359 billion.

14. Each MTN shall bear interest from its date of issue at a rate to be determined prior to the issuance thereof; provided, however, that the interest rate on any Pledged Bond shall not exceed the interest rate on the corresponding secured MTN, if any.

15. The Pledged Bond or other Pledged Bonds may be issued in an aggregate principal amount up to \$500,000,000. The Pledged Bond or Pledged Bonds may be issued and pledged by the Company and delivered to the Note Trustee or the Note Trustees in accordance with the Note Indenture or Note Indentures, the collateral agent for the MTN purchaser or purchasers in accordance with the Note Purchase Agreement or Note Purchase Agreements, as the case may be. The Pledged Bond or Pledged Bonds will secure the payment of the principal of, premium, if any, and interest on, secured MTNs. Prior to the release of any Pledged Bond or Pledged Bonds, the principal amount of Pledged Bond or Pledged Bonds deemed outstanding will at all times be equal to the outstanding principal amount of the secured MTNs issued and then outstanding under the Note Indenture or the Note Indentures, the Note Purchase Agreement or Note Purchase

Agreements, as the case may be. No increase in the amount of long-term debt will be outstanding due to the issuance of up to \$500,000,000 of Pledged Bonds. The MTNs may simply be secured by the Pledged Bonds. Since the issuance of Pledged Bonds does not result in any additional long-term debt becoming outstanding, NJNG requests that the potential issuance of up to \$500,000,000 principal amount of Pledged Bonds to secure MTNs not be treated as using any of the authority to issue debt otherwise approved by the Board.

16. Interest on the Pledged Bond or Pledged Bonds shall accrue at the same rate as the related MTN. The amount of interest due and payable on the Pledged Bonds from time to time will equal the amount of interest due under all outstanding secured MTNs. As a result, the Company shall be entitled to credit on the Pledged Bonds equal to the amount paid on the secured MTNs.

17. Given volatility in the financial markets, NJNG requests authority in connection with the issuance and sale of the MTNs to enter into one or more Interest Rate Swaps related to the aggregate principal amount of the MTNs. The purpose of these types of transactions is to better manage interest costs and provide protection in the event of significant changes in financial market conditions. NJNG also requests authority to enter into one or more forward rate agreements. The purpose of these types of transactions is to allow NJNG to take advantage of favorable interest rates by agreeing to an interest rate that would be effective sometime in the future.

18. Additionally, NJNG requests authority to engage in market opportunity redemptions, refinancings or defeasances of any of its outstanding debt securities, at any time for three years from the effective date of the Order. Specifically, NJNG requests authority, if the Company believes it is in its best interest, to redeem, refinance or defease at its option, any of the outstanding principal balance of any of its remaining outstanding debt securities which are eligible to be redeemed at their previously established redemption prices, including any premium, plus interest thereon to the date of redemption. NJNG will not engage in any such redemption, refinancing or defeasance unless it is economically advantageous to the Company. NJNG requests authority to issue MTNs in order to, among other things, finance such redemption, refinancing or defeasance.

19. NJNG proposes to amortize the issuance cost of the MTNs by monthly charges to account number 428, Amortization of Debt Discount and Expense.

20. NJNG has continued to add new customers, and, in recent years, to meet the needs of its service territory and the requirements of pipeline safety, NJNG has increased its capital expenditures. For the fiscal years 2020 and 2021, capital expenditures for NJNG amounted to approximately \$312.1 million and \$426.6 million, respectively. The level of planned capital expenditures for fiscal 2022, fiscal 2023 and fiscal 2024 will be approximately \$382.4 million, \$374.2 million and \$346.4 million, respectively. It is expected that a high level of capital expenditures will continue for the foreseeable future. A schedule of anticipated capital expenditures as of December 31, 2021, is attached hereto as Exhibit D.

21. It is NJNG's policy to initially finance its construction program with internally generated funds and short-term debt. Periodically, NJNG pays down its short-term debt to prevent balances from becoming too high using the proceeds from the sale of long-term debt or from equity contributions.

22. NJNG intends to use the net proceeds of these transactions or series of transactions to retire short-term debt through the issuance of long-term debt; to fund capital expenditure requirements, including, but not limited to, those related to NJNG's Board-approved IIP, NEXT, other infrastructure and energy efficiency programs such as those made in connection with the SAVEGREEN program and environmental remediation expenditures; to fund pension and other post-employment benefit programs; and, potentially, to redeem, refinance or defease any of NJNG's indebtedness or debt securities as long as such redemption, refinancing or defeasance would be economically advantageous for the Company.

23. a) By this Petition, NJNG seeks authorization to issue Bank Note Obligations in an aggregate principal amount not to exceed \$500,000,000 at any one time outstanding under the terms of a credit facility with several banks and other financial institutions before the expiration of NJNG's current credit facility (which expires in September 2026). The proposed credit facility would initially be a \$250,000,000 committed credit facility, but in certain circumstances would provide NJNG with the ability to increase the size of the lenders' commitments under proposed credit facility to \$500,000,000. The maturity date of the proposed credit facility and the Bank Note Obligations to be issued in connection therewith would be up to five years and an option for up to two additional one-year extensions beyond the original five-year duration. Amounts borrowed under the proposed facility would be used for working capital and other general corporate purposes of NJNG, including to support the issuance by NJNG of short-term notes in

the commercial paper market. NJNG currently is a party to a \$250,000,000 committed credit facility with several banks, with a 5-year term, expiring in September 2026. NJNG had short-term, commercial borrowings in the amount of \$177,400,000, which were supported by the credit facility as of December 31, 2021.

b) The interest rate applicable to the Bank Note Obligations will be the best interest rates obtainable by NJNG for the type of transaction involved. In transactions of this type, such rates normally are based upon the applicable prime commercial lending rate, federal funds open rate, the London Interbank Offered Rate (LIBOR) or the Daily Simple SOFR, as the case may be.

c) The authority to enter into the proposed credit facility and to issue the Bank Note Obligations will provide NJNG with the flexibility it requires to meet continued cash needs and to manage cash flows during fiscal years 2022-2025 and beyond. Permanent financing and refinancing for NJNG's continuing infrastructure improvement programs are provided through the issuance of long-term debt and equity securities and by internally generated cash. However, in addition, NJNG needs to fund its utility obligations, purchases of natural gas, payment of state income and other taxes, capital expenditures (described more fully in Paragraph 3 of this Petition), environmental remediation expenses, temporary funding of maturing long-term debt and managing its cash receipts, including collections from customers, and its cash outflows, gas supply contract payments, as well as other working capital needs. In order to employ internally generated cash efficiently and to provide the flexibility necessary to effectively manage cash flows, NJNG needs to continue to support the issuance of its short-term notes in the commercial paper market with the availability of advances under the proposed credit facility, as well as to have the flexibility to obtain direct loans and other financial accommodations from the lenders under the proposed credit facility.

d) Proceeds of loans under the proposed credit facility will be added to NJNG's general funds, and will be used solely for regulated utility purposes, including (in addition to the purposes noted elsewhere in this Petition) temporary funding of maturing long-term debt, payment of other current utility transactions, and for working capital purposes.

e) NJNG will use its best efforts to negotiate the terms of the proposed credit facility to achieve the lowest reasonable cost available to NJNG.

24. In support of NJNG's Petition, attached are the following exhibits and appendix:

- a) Exhibit A — Schedule of Indebtedness Issued under Mortgage Indenture and Other Indebtedness
- b) Exhibit B — 2021 Annual Report of New Jersey Natural Gas Company
- c) Exhibit C — Statement of Interest Charged to Income for the Twelve Months Ended September 30, 2021
- d) Exhibit D — Schedule of Anticipated Capital Expenditures for Fiscal Years 2022 - 2025
- e) Appendix A - Certified Copy of Resolutions of the Board of Directors of NJNG

25. Information relating to the financial condition of NJNG as of September 30, 2021, provided pursuant to N.J.A.C. 14:1-5.9(a)(9) is contained in Exhibits B, C and D of this Petition. The amount authorized and the amount issued and outstanding of each class of capital stock is contained in Exhibit B to this Petition.

26. The amount of interest charged to income during the fiscal year ended September 30, 2021, on each kind of indebtedness and the applicable rate per annum are contained in Exhibit C to this Petition.

27. The amount of cash dividends paid by NJNG to New Jersey Resources Corporation (“NJR”) during the fiscal year ended September 30, 2021 was \$0. NJNG does not anticipate paying cash dividends to NJR during fiscal year 2022.

28. A detailed NJNG income statement and NJNG balance sheet for the fiscal year ended September 30, 2021 are contained in Exhibit B to this Petition.

B. The Transaction is in Accordance with the Law and is not Contrary to the Public Interest.

The Board’s standard for approving financing arrangements is that such arrangement must be in accordance with the law and not contrary to the public interest (*New Jersey Natural Gas Co.*, Board Docket No. GF98030151, Order, (Sept. 23, 1998)). The transactions will allow NJNG to continue to fund its daily utility operations and to fund spending for utility construction and other corporate needs. The financing authority the Company is seeking should provide the financial flexibility needed to maintain adequate liquidity and to access the capital markets as needed over the next three years. The volatility and uncertainty in the financial markets is likely to continue for some time. As a result, the Company needs the flexibility afforded by a

multi-year authorization to quickly take advantage of available capital market opportunities when they arise. Such reduced costs will be of benefit to NJNG's customers in the form of lower cost of capital. Thus, the Board should approve the transaction.

C. CONCLUSION

WHEREFORE, New Jersey Natural Gas Company respectfully requests that the Board grant NJNG authority to do the following and provide any other relief deemed just and equitable:

- (a) (i) issue and sell pursuant to N.J.S.A. 48:3-9 MTNs with a maturity of not more than forty (40) years in an aggregate principal amount of not more than \$500,000,000; (ii) make, execute and deliver pursuant to N.J.S.A. 48:3-9 a trust indenture, trust indentures or supplements thereto or a note purchase agreement or note purchase agreements, as the case may be, providing for the issuance of such MTNs; (iii) make, execute and deliver pursuant to N.J.S.A. 48:3-7 additional supplemental indentures providing for the issuance of MTNs (A) in the form of a first mortgage bond or bonds with a maturity or maturities of not more than forty (40) years and in aggregate principal amount of not more than \$500,000,000 or (B) to secure MTNs; and (iv) make execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such first mortgage bonds thereunder as shall be necessary to complete the transactions contemplated in this petition;
- (b) enter into, pursuant to N.J.S.A. 48:3-9, one or more Interest Rate Swaps in connection with the MTNs;
- (c) redeem, refinance, or defease any of the Company's outstanding long-term debt securities as long as the redemption, refinancing or defeasance is economically advantageous to the Company;
- (d) enter into, pursuant to N.J.S.A. 48:3-9, a revolving credit facility with a duration for up to five years and an option for up to two additional one-year extensions beyond the original five-year duration providing, among other things, for the issuance of Bank Note Obligations in an aggregate principal amount not to exceed \$500,000,000 at any one time outstanding; and
- (e) make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement

instruments) and take such other actions the Petitioner determines may be necessary in connection therewith as shall be necessary to complete the transactions contemplated in this Petition without further order of the Board. To make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement instruments) in connection therewith as shall be necessary to complete the transactions contemplated in this Petition without further order of the Board.

Respectfully submitted



Richard Reich, Esq.
Senior Vice President, General Counsel
and Corporate Secretary
New Jersey Natural Gas Company
Attn: Legal Department
1415 Wyckoff Road
Wall, New Jersey 07719
(732) 938-7890
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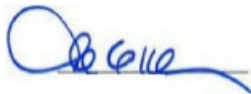
Date: April 21, 2022

VERIFICATION

STATE OF NEW JERSEY)
)
COUNTY OF MONMOUTH)

MARK G. KAHRER being duly sworn deposes and says:

1. I am Senior Vice President, Regulatory Affairs, Marketing and Energy Efficiency for New Jersey Natural Gas Company (“NJNG”), 1415 Wyckoff Road, Wall, New Jersey 07719.
2. I have read the foregoing Petition, know the contents thereof, and the same is true to the best of my knowledge, information and belief.
3. Furthermore, it is the intention of NJNG in good faith to use the proceeds of the securities proposed to be issued for the purposes set forth in the Petition.



Mark G. Kahrer
Senior Vice President, Regulatory
Affairs, Marketing and Energy Efficiency

Sworn to before me this 21st day
of April 2022



Andrew K. Dembia
Regulatory Affairs Counsel

NEW JERSEY NATURAL GAS COMPANY
SCHEDULE OF INDEBTEDNESS ISSUED UNDER MORTGAGE INDENTURE
AND OTHER INDEBTEDNESS

- a. In April, 1952, the Petitioner sold \$12,500,000 of Series A Bonds under said Indenture, the proceeds of which were used in connection with acquisition of gas properties of Jersey Central Power & Light Company.
- b. In February, 1958, the Petitioner sold \$2,500,000 of Series B Bonds which funds were used to satisfy short-term notes. See Docket No.10433, which is incorporated herein by reference.
- c. In December, 1960, the Petitioner sold \$4,000,000 of Series C Bonds which funds were used to satisfy short-term notes, reimbursement of treasury, and for construction purposes. See Docket No. 6010-742, which is incorporated herein by reference.
- d. In September, 1962, the Petitioner sold \$5,000,000 of Series D Bonds which funds were used to satisfy short-term notes. See Docket No.628-557, which is incorporated herein by reference.
- e. In December, 1963, the Petitioner sold \$4,500,000 of Series E Bonds which funds were used to satisfy short-term bank notes. See Docket No.6311-696, which is incorporated herein by reference.
- f. In October, 1970, the Petitioner sold \$15,000,000 of Series F Bonds, which funds were used to satisfy short-term bank borrowings and commercial paper. See Docket No. 703-136 which is incorporated herein by reference.
- g. In May, 1975, the Petitioner sold \$10,000,000 of Series G Bonds which funds were used to satisfy short-term bank borrowings and commercial paper. See Docket No. 754-451 which is incorporated herein by reference.
- h. In February, 1977, the Petitioner sold \$10,000,000 of Series H Bonds which funds were used to satisfy short-term bank borrowings and commercial paper. See Docket No.771-11 which is incorporated herein by reference.
- i. In September, 1980, the Petitioner was authorized under Docket No. 807-450A (incorporated herein by reference) to issue and deliver from time to time up to \$9,545,000 of Series J Bonds, which funds were used for the purpose of financing its capital construction program in Morris County.

- j. In September, 1983, the Petitioner was authorized under Docket No.831-34A (incorporated herein by reference) to issue and deliver from time to time up to \$10,500,000 of Series K Bonds, which funds were used for the purpose of financing its capital construction program in Morris County.
- k. In August, 1984, the Petitioner was authorized under Docket No. 8441-190A to issue and deliver from time to time up to \$10,500,000 of Series L Bonds, which funds were to be used for financing of the construction of certain natural gas transmission and related facilities for its Northern Division in Morris County.
- l. In October, 1985, the Petitioner sold \$12,000,000 of Series M Bonds which funds were used to refinance the Promissory Note issued pursuant to the Term Loan Agreement with Midlantic National Bank in the amount of \$12,000,000, which was authorized under Docket No.826-556 which is incorporated herein by reference. See Docket No. GF-8507769, which is also incorporated herein by reference.
- m. In May, 1986, the Petitioner sold \$10,000,000 of Series N Bonds which funds were used to satisfy short-term bank borrowings and commercial paper. See Docket No. GF8602230, which is incorporated herein by reference.
- n. In March, 1987, the Petitioner sold \$15,000,000 of Series P Bonds which funds were used to satisfy short-term bank borrowings and commercial paper. See Docket No. GF870111, which is incorporated herein by reference.
- o. In December, 1987, the Petitioner sold \$13,500,000 of Series Q Bonds which funds were used for the financing of the construction of certain natural gas transmission and related facilities for its Northern Division in Morris County. See Docket No. GF 85121146, which is incorporated herein by reference.
- p. In June, 1988, the Petitioner sold \$25,000,000 of Series R Bonds which funds were used for the financing of the construction of certain natural gas transmission and related facilities for its Northern Division in Morris County. See Docket No. GF88040576, which is incorporated herein by reference.
- q. In June, 1989, the Petitioner sold \$20,000,000 of Series S Bonds which funds were used to repay short-term debt, which had been incurred in financing a portion of the Petitioner's ongoing construction program. See Docket No. GR89030290J which is incorporated herein by reference.

- r. In March, 1991, the Petitioner sold \$9,545,000 of Series T Bonds which funds were used to refund a like amount of the Petitioner's 9-1/8% Series J Bonds. See Docket No. GF90080822J, which is incorporated herein by reference.
- s. In March, 1991, the Petitioner was authorized under Docket No. GF90080822J to issue and deliver from time to time up to \$15,000,000 of Series U Bonds, which funds were used to finance the Petitioner's capital construction program in its Northern Division for the years 1992, 1993 and 1994.
- t. In December, 1992, the Petitioner sold \$25,000,000 of Series V Bonds which were used to repay short-term debt and refund the Petitioner's remaining balance of 9-1/4% Series F Bonds. See Docket No. GF92020111J, which is incorporated herein by reference.
- u. In August, 1993, the Petitioner sold \$10,300,000 of Series W Bonds which were used to refund the Petitioner's remaining balance of 10.38% Series K Bonds. See Docket No. GF93060218 which is incorporated herein by reference.
- v. In October, 1993, the Petitioner sold \$30,000,000 of Series X Bonds of an authorized \$75,000,000 to finance a portion of the Petitioner's ongoing construction program. See Docket No. GF93060260, which is incorporated herein by reference.
- w. In August, 1994, the Petitioner sold \$10,500,000 of Series Y Bonds which were used to refund the Petitioner's remaining balance of 10 1/2% Series L Bonds. See Docket No. GF94070317, which is incorporated herein by reference.
- x. In October, 1994, the Petitioner sold \$25,000,000 of Series Z Bonds of an authorized \$75,000,000 to finance a portion of the Petitioner's ongoing construction program. See Docket No. GF93060260, which is incorporated herein by reference.
- y. In July, 1995, the Petitioner sold \$25,000,000 of Series AA Bonds which were used to refund the Petitioner's remaining balance of 8.5% Series R Bonds. See Docket No. GF94070317, which is incorporated herein by reference.

- z. In July, 1995, the Petitioner sold \$16,000,000 of Series BB Bonds, which were used to finance the Petitioner's capital construction program in its Northern Division for the years 1995, 1996, and 1997. See Docket No. GF95030133, which is incorporated herein by reference.
- aa. In October, 1995, the Petitioner sold \$20,000,000 of Series CC Bonds of an authorized \$75,000,000 to finance a portion of the Petitioner's ongoing construction program. See Docket No. GF93060260, which is incorporated herein by reference.
- bb. In October, 1997, the Petitioner sold \$13,500,000 of Series DD Bonds which were used to refund the Petitioner's remaining balance of 9% Series Q Bonds. See Docket No. GR97070504, which is incorporated herein by reference.
- cc. In January, 1998, the Petitioner sold \$9,545,000 of Series EE Bonds, which were used to refund the Petitioner's remaining balance of 7.05% Series T Bonds. See Docket No. GF97100763, which is incorporated herein by reference.
- dd. In January, 1998, the Petitioner sold \$15,000,000 of Series FF Bonds, which were used to refund the Petitioner's remaining balance of 7.50% Series U Bonds. See Docket No. GF97100763, which is incorporated herein by reference.
- ee. In April, 1998, the Petitioner sold \$18,000,000 of Series GG Bonds, which were used to finance Petitioner's capital construction program for facilities necessary to furnish natural gas in Petitioner's Northern Division in Morris County. See Docket No. GF980020082, which is incorporated herein by reference.
- ff. In December, 2001, the Petitioner entered into a \$20,631,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated herein by reference.
- gg. In December, 2002, the Petitioner entered into a \$5,300,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated herein by reference.
- hh. In December, 2003 the Petitioner entered into a \$3,900,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated herein by reference.
- ii. In December, 2003, the Petitioner sold \$12,000,000 of Series HH Bonds, which were used to finance Petitioner's capital construction program for facilities necessary to furnish natural gas in Petitioner's Northern Division in Morris County. See Docket No. GF03030223, which is incorporated herein by reference.

- jj. In March, 2004, the Petitioner sold \$60,000,000 of Unsecured Senior Notes to finance Petitioner's capital construction program and redeem Petitioner's \$25,000,000 8.25% Series Z Bonds in October 2004. See Docket No. GF03030223, which is incorporated herein by reference.
- kk. In December, 2004, the Petitioner entered into a \$4,900,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated herein by reference.
- ll. In October, 2005, the Petitioner sold \$10,300,000 of Series II Bonds which were used to refund the Petitioner's 5.375% Series W Bonds. See Docket No. GF05060544, which is incorporated herein by reference.
- mm. In October, 2005, the Petitioner sold \$10,500,000 of Series JJ Bonds which were used to refund the Petitioner's 6.25% Series Y Bonds. See Docket No. GF05060544, which is incorporated herein by reference.
- nn. In October, 2005, the Petitioner sold \$15,000,000 of Series KK Bonds, which were used to finance Petitioner's capital construction program for facilities necessary to furnish natural gas in Petitioner's Northern Division in Morris County. See Docket No. GF05060544, which is incorporated herein by reference.
- oo. In December, 2005, the Petitioner entered into a \$4,100,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated herein by reference.
- pp. In December, 2006, the Petitioner entered into a \$5,500,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated herein by reference.
- qq. In December, 2007, the Petitioner entered into a \$7,500,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated by reference.
- rr. In May, 2008, the Petitioner sold \$125,000,000 of 5.60% Notes due 2018 secured by \$125,000,000 Series LL Mortgage Bonds. The proceeds of the Notes were used to refinance short-term debt. See Docket No. GF07050343, which is incorporated by reference.
- ss. In December, 2008, the Petitioner entered into a \$6,300,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF01030184, which is incorporated by reference.

- tt. In December, 2009, the Petitioner entered into a \$6,300,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket Nos. GF01030184 and GF09080702, which are incorporated by reference.
- uu. In December, 2010, the Petitioner entered into a \$4,900,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket Nos. GF01030184 and GF09080702, which are incorporated by reference.
- vv. In August 2011, the Petitioner sold \$9,545,000 of Series MM Bonds, the proceeds of which were used to refund the Petitioner's Series EE Bonds. See Docket No. GF09080702, which is incorporated by reference.*
- ww. In August 2011, the Petitioner sold \$41,000,000 of Series NN Bonds, the proceeds of which were used to refund the Petitioner's Series AA and BB Bonds. See Docket No. GF09080702, which is incorporated by reference.*
- xx. In August 2011, the Petitioner sold \$46,500,000 of Series OO Bonds, the proceeds of which were used to refund the Petitioner's Series DD, FF and GG Bonds. See Docket No. GF09080702, which is incorporated by reference.*
- yy. In December 2011, the Petitioner entered into a \$6,500,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket Nos. GF01030184 and GF09080702, which are incorporated by reference.
- zz. In December 2012, the Petitioner entered into a \$7,100,000 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket Nos. GF01030184, GF09080702 and GF12060491, which are incorporated by reference.
- aaa. In April 2013, the Petitioner sold \$50,000,000 of 3.15% Notes due April 15, 2028 secured by \$50,000,000 Series PP Mortgage Bonds. The proceeds of the Notes were used to refinance short-term debt. See Docket No. GF12060491, which is incorporated by reference.
- bbb. In December 2013, the Petitioner entered into a \$7,575,981 agreement with a bank for the sale and leaseback of a portion of its meters. See Docket Nos. GF01030184, GF09080702 and GF12060491, which are incorporated by reference.
- ccc. On March 13, 2014, the Petitioner issued \$70 million of 3.58 percent senior notes due March 13, 2024, and \$55 million of 4.61 percent senior notes due March 13, 2044, secured by an equal principal amount of the Company's First Mortgage Bonds ("FMB") in the private placement market pursuant to a note purchase

agreement entered into on February 7, 2014. The proceeds were used to pay down short-term debt and redeem the Petitioner's \$60 million, 4.77 percent private placement bonds on March 15, 2014. See Docket No. GF-14010067, which is incorporated by reference.

- ddd. On May 27, 2014, the Petitioner redeemed the \$12 million, 5 percent Series HH bonds, which were callable as of December 1, 2013. See Docket No. GF-14010067, which is incorporated by reference.
- eee. The Petitioner received \$7.2 million and \$7.6 million for fiscal 2015 and 2014, respectively, in connection with the sale-leaseback of its natural gas meters. See Docket No. GF-14010067, which is incorporated by reference.
- fff. On April 15, 2015, the Petitioner issued \$50 million of 2.82 percent senior notes due April 15, 2025, and \$100 million of 3.66 percent senior notes due April 15, 2045, secured by an equal principal amount of the Company's FMB in the private placement market pursuant to a note purchase agreement entered into on February 12, 2015. The proceeds of the notes were used for general corporate purposes, to refinance or retire debt and to fund capital expenditure requirements. See Docket No. GF-14010067, which is incorporated by reference.
- ggg. On June 21, 2016, the Petitioner entered into a Note Purchase Agreement, under which the Petitioner issued \$125 million of its 3.63 percent senior notes due June 21, 2046. The notes are secured by an equal principal amount of the Company's FMB (series UU) issued under the Company's Mortgage Indenture. The proceeds of the notes were used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. See Docket No. GF-14010067, which is incorporated by reference.
- hhh. On December 23, 2016, the Petitioner entered into a \$9.6 million agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF-14010067, which is incorporated by reference.
- iii. On January 17, 2017, the Petitioner entered into an agreement to purchase, in lieu of redemption, its \$10,300,000 New Jersey Economic Development Authority Natural Gas Facilities Refunding Revenue Bonds, Series 2005A (New Jersey Natural Gas Company Project), secured by the Petitioner's 4.5%, \$10,300,00 First Mortgage Bonds, Series II; its \$10,500,000 New Jersey Economic Development Authority Natural Gas Facilities Refunding Revenue Bonds, Series 2005B (New Jersey Natural Gas Company Project), secured by the Petitioner's 4.6%, \$10,500,00 First Mortgage Bonds, Series JJ; and its \$15,000,000 New Jersey Economic Development Authority Natural Gas Facilities Revenue Bonds, Series 2005C (New Jersey Natural Gas Company Project), secured by the Petitioner's 4.9%, \$15,000,00 First Mortgage Bonds, Series KK (collectively referred to as the "2005 EDA Bonds"). The purchase, in lieu of redemption, allows NJNG to own the Bonds and pay interest to NJNG, while preserving its right to re-issue the

bonds in the future when market conditions are favorable through either a fixed or floating rate financial instrument. See Docket No. GF-14010067, which is incorporated by reference.

- jjj. On December 13, 2017, the Petitioner entered into a \$7.8 million agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF-17010072, which is incorporated by reference.
- kkk. On May 11, 2018, Petitioner entered into a note purchase agreement, under which Petitioner issued \$125 million of 4.01 percent senior notes due May 11, 2048. The interest rate includes the quoted March 9, 2018 30-year treasury rate, plus a market-based credit spread. The notes are secured by an equal principal amount of Petitioner's FMB (series VV) issued under Petitioner's Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. See Docket No. GF-17010072, which is incorporated by reference.
- lll. On December 19, 2018, the Petition entered into a \$9.9M agreement with a bank for the sale and leaseback of a portion of its meters. See Docket No. GF-17010072, which is incorporated by reference.
- mmm. On April 18, 2019, the Petitioner reoffered and re-issued \$10,300,000 aggregate principal amount of Natural Gas Facilities Refunding Revenue Bonds, Series 2005A, \$10,500,000 aggregate principal amount of Natural Gas Facilities Refunding Revenue Bonds, Series 20005B and \$15,000,000 aggregate principal amount of Natural Gas Facilities Refunding Revenue Bonds, Series 20005C. See Docket No. GF-14010067, which is incorporated by reference.*
- nnn. On July 17, 2019, Petitioner entered into a note purchase agreement, under which Petitioner issued \$100 million of 3.76 percent senior notes due July 17, 2049 and \$85 million of 3.86 percent senior notes due July 17, 2059. The interest rate includes the quoted June 27, 2019 30-year treasury rate, plus a market-based credit spread. The notes will be secured by an equal principal amount of Petitioner's FMB (series ZZ and series AAA, respectively) issued under Petitioner's Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. See Docket No. GF-17010072, which is incorporated by reference.
- ooo. On June 30, 2020, Petitioner entered into a note purchase agreement, under which Petitioner issued \$50 million of 3.13 percent senior notes due June 30, 2050, \$50 million of 3.13 percent senior notes due July 23, 2050 and \$25 million of 3.33 percent senior notes due July 23, 2060. The interest rate included the quoted June 30, 2020 30-year treasury rate, plus a market-based credit spread. The notes will be secured by an equal principal amount of Petitioner's FMB (series DDD, series

EEE and series FFF, respectively) issued under Petitioner’s Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. See Docket No. GF-19070817, which is incorporated by reference.

ppp. On September 1, 2020, Petitioner entered into a note purchase agreement, under which Petitioner issued \$25 million of 2.87 percent senior notes due September 1, 2050 and \$50 million of 2.97 percent senior notes due September, 2060. The interest rate included the quoted September 1, 2020 30-year treasury rate, plus a market-based credit spread. The notes will be secured by an equal principal amount of Petitioner’s FMB (series GGG and series HHH, respectively) issued under Petitioner’s Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. See Docket No. GF-19070817, which is incorporated by reference.

qqq. On October 28, 2021, Petitioner entered into a note purchase agreement, under which Petitioner issued \$50 million of 2.97 percent senior notes due October 30, 2051 and \$50 million of 3.07 percent senior notes due October 28, 2061. The interest rate included the quoted October 28, 2021 30-year treasury rate, plus a market-based credit spread. The notes will be secured by an equal principal amount of Petitioner’s FMB (series III and series JJJ, respectively) issued under Petitioner’s Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. See Docket No. GF-19070817, which is incorporated by reference.

* The bonds issued in these transactions are referred to in the Petition as “EDA Bonds.”

2021 ANNUAL REPORT OF NEW JERSEY NATURAL GAS COMPANY



2021 ANNUAL REPORT



NEW JERSEY NATURAL GAS

2021 ANNUAL REPORT

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NEW JERSEY NATURAL GAS COMPANY

GLOSSARY OF KEY TERMS

Adelphia	Adelphia Gateway, LLC
AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
The Company	New Jersey Natural Gas Company
COVID-19	Novel coronavirus disease
CR&R	Commercial Realty & Resources Corp.
Credit Facility	The \$250 million unsecured committed credit facility expiring in December 2023
Dths	Dekatherms
EDECA	Electric Discount and Energy Competition Act
EE	Energy Efficiency
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings Company
FMB	First Mortgage Bonds
GAAP	Generally Accepted Accounting Principles of the United States
HCCTR	Health Care Cost Trend Rate
ICE	Intercontinental Exchange
IRS	Internal Revenue Service
ISDA	The International Swaps and Derivatives Association
LNG	Liquefied Natural Gas
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service, Inc.
Mortgage Indenture	The Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement between the Company and U.S. Bank National Association dated as of September 1, 2014
NAESB	The North American Energy Standards Board
NAV	Net Asset Value
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJR	New Jersey Resources Corporation
NJR Service	NJR Service Corporation
NJRCEV	NJR Clean Energy Ventures Corporation
NJRES	NJR Energy Services Company
NJRHS	NJR Home Services Company
NPNS	Normal Purchase/Normal Sale
NYMEX	New York Mercantile Exchange

NEW JERSEY NATURAL GAS COMPANY

GLOSSARY OF KEY TERMS (Continued)

O&M	Operations and Maintenance
OPEB	Other Postemployment Benefit Plans
PEP	Pension Equalization Plan
PIM	Pipeline Integrity Management
RAC	Remediation Adjustment Clause
S&P	Standard & Poor's Financial Services, LLC
SAFE I	Safety Acceleration and Facility Enhancement Program, Phase I
SAFE II	Safety Acceleration and Facility Enhancement Program, Phase II
SAVEGREEN	The SAVEGREEN Project®
Savings Plan	Employees' Retirement Savings Plan
SBC	Societal Benefits Charge
SRL	Southern Reliability Link
Steckman Ridge	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP
The Tax Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, previously known as The Tax Cuts and Jobs Act of 2017
Trustee	U.S. Bank National Association
U.S.	The United States of America
USF	Universal Service Fund



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of New Jersey Natural Gas Company:

We have audited the accompanying financial statements of New Jersey Natural Gas Company (the "Company"), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of operations, common stock equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Natural Gas Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

December 16, 2021

NEW JERSEY NATURAL GAS COMPANY

STATEMENTS OF OPERATIONS

(Thousands)

Fiscal years ended September 30,	2021	2020
OPERATING REVENUES	\$ 731,796	\$ 729,923
OPERATING EXPENSES		
Natural gas purchases	260,714	287,307
Operation and maintenance	203,740	162,792
Regulatory rider expenses	38,304	34,529
Depreciation and amortization	80,045	71,883
Total operating expenses	582,803	556,511
OPERATING INCOME	148,993	173,412
Other income, net	13,841	11,486
Interest charges, net of capitalized interest	36,405	30,975
INCOME BEFORE INCOME TAXES	126,429	153,923
Income tax provision	19,054	27,021
NET INCOME	\$ 107,375	\$ 126,902

See Notes to Financial Statements

NEW JERSEY NATURAL GAS COMPANY

STATEMENTS OF CASH FLOWS

(Thousands)

Fiscal years ended September 30,	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 107,375	\$ 126,902
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	80,045	71,883
Allowance for funds used during construction	(16,605)	(14,599)
Allowance for doubtful accounts	12,640	1,620
Deferred income taxes	26,202	21,358
Manufactured gas plant remediation costs	(17,532)	(7,651)
Cost of removal - asset retirement obligations	(1,129)	(245)
Contributions to postemployment benefit plans	(7,222)	(8,661)
Taxes related to stock-based compensation	(14)	40
Changes in:		
Components of working capital	12,491	(23,488)
Other noncurrent assets	2,161	2,325
Other noncurrent liabilities	19,491	11,939
Cash flows from operating activities	217,903	181,423
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(375,812)	(290,040)
Nonutility plant	(500)	—
Cost of removal	(50,316)	(22,059)
Cash flows used in investing activities	(426,628)	(312,099)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	—	200,000
Payments of long-term debt	(8,460)	(11,157)
Proceeds from short-term debt, net	158,200	—
Proceeds from sale-leaseback transaction	—	4,000
Contribution from Parent	—	50,000
Payments of common stock dividends to parent	(50,000)	—
Tax withholding payments related to net settled stock compensation	(137)	(275)
Cash flows from financing activities	99,603	242,568
Change in cash, cash equivalents and restricted cash	(109,122)	111,892
Cash, cash equivalents and restricted cash at beginning of period	114,367	2,475
Cash, cash equivalents and restricted cash at end of period	\$ 5,245	\$ 114,367
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (4,192)	\$ (17,994)
Inventories	(3,348)	2,024
Recovery of natural gas costs	(13,124)	17,637
Natural gas purchases payable	17,293	(7,835)
Accounts payable and other	(11,038)	(6,065)
Prepaid expenses	2,057	1,431
Prepaid and accrued taxes	(136)	(3,621)
Restricted broker margin accounts	31,507	(6,061)
Customers' credit balances and deposits	6,652	(1,180)
Other current assets, net	(13,180)	(1,824)
Total	\$ 12,491	\$ (23,488)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	\$ 44,413	\$ 35,129
Accrued capital expenditures	\$ 32,984	\$ 8,071

See Notes to Financial Statements

NEW JERSEY NATURAL GAS COMPANY

BALANCE SHEETS

ASSETS

(Thousands)

September 30,	2021	2020
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 3,324,111	\$ 2,800,052
Construction work in progress	182,196	379,846
Nonutility plant and equipment, at cost	500	—
Total property, plant and equipment	3,506,807	3,179,898
Accumulated depreciation and amortization	(611,837)	(601,635)
Property, plant and equipment, net	2,894,970	2,578,263
CURRENT ASSETS		
Cash and cash equivalents	3,951	113,085
Customer accounts receivable:		
Billed	54,514	52,134
Unbilled	8,427	7,843
Allowance for doubtful accounts	(17,040)	(5,628)
Regulatory assets	29,701	36,372
Natural gas in storage, at average cost	115,824	110,037
Materials and supplies, at average cost	15,113	17,552
Prepaid expenses	1,655	3,712
Prepaid taxes	21,862	21,726
Derivatives, at fair value	2,082	149
Restricted broker margin account	2,791	13,525
Other current assets	31,428	18,120
Total current assets	270,308	388,627
NONCURRENT ASSETS		
Regulatory assets	519,600	526,462
Other noncurrent assets	39,818	39,605
Total noncurrent assets	559,418	566,067
Total assets	\$ 3,724,696	\$ 3,532,957

See Notes to Financial Statements

NEW JERSEY NATURAL GAS COMPANY

BALANCE SHEETS (Continued)

CAPITALIZATION AND LIABILITIES

(Thousands, except for share data)

September 30,	2021	2020
CAPITALIZATION		
Common stock, \$5 par value; authorized 4,750,000 shares; outstanding 3,214,923 shares	\$ 16,075	\$ 16,075
Premium on common stock	11,269	11,269
Contribution from Parent and other	559,522	559,522
Retained earnings	831,432	724,057
Common stock equity	1,418,298	1,310,923
Long-term debt	1,098,494	1,147,393
Total capitalization	2,516,792	2,458,316
CURRENT LIABILITIES		
Current maturities of long-term debt	5,393	10,416
Short-term debt	158,200	—
Natural gas purchases payable	35,713	18,422
Natural gas purchases payable related party	777	775
Accounts payable and other	109,590	81,880
Dividend payable to Parent	—	50,000
Regulatory liabilities	28,007	26,188
New Jersey clean energy program	16,308	15,570
Derivatives, at fair value	29	358
Customer credit balances and deposits	32,586	25,934
Total current liabilities	386,603	229,543
NONCURRENT LIABILITIES		
Deferred income taxes	366,069	323,053
Deferred investment tax credits	3,010	3,332
Manufactured gas plant remediation	135,012	150,590
Postemployment employee benefit liability	77,244	136,881
Regulatory liabilities	191,888	196,286
Asset retirement obligation	41,611	29,280
Other noncurrent liabilities	6,467	5,676
Total noncurrent liabilities	821,301	845,098
Total capitalization and liabilities	\$ 3,724,696	\$ 3,532,957

See Notes to Financial Statements

NEW JERSEY NATURAL GAS COMPANY

STATEMENTS OF COMMON STOCK EQUITY

<i>(Thousands)</i>	Number of Shares	Common Stock	Premium on Common Stock	Contribution from Parent and Other	Retained Earnings	Total
Balance at September 30, 2019	3,215	\$ 16,075	\$ 11,269	\$ 509,522	\$ 647,155	\$ 1,184,021
Net income					126,902	126,902
Contribution from Parent				50,000		50,000
Cash dividend declared					(50,000)	(50,000)
Balance at September 30, 2020	3,215	16,075	11,269	559,522	724,057	1,310,923
Net income					107,375	107,375
Balance at September 30, 2021	3,215	\$ 16,075	\$ 11,269	\$ 559,522	\$ 831,432	\$ 1,418,298

See Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

New Jersey Natural Gas Company is a local natural gas distribution company that provides regulated retail natural gas service to approximately 564,000 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. The Company is the regulated utility subsidiary of NJR and is subject to rate regulation by the BPU. The Company owns distribution mains, service mains, transmission mains and meters. Mains are primarily located under public roads. Where mains are located under private property, the Company has obtained easements from the owners of record.

Additionally, the Company owns and operates two LNG storage plants in Stafford Township, Ocean County, and Howell Township, Monmouth County. These facilities are used for peaking natural gas supply and for emergencies. The Company's liquefaction facility is also located on the Howell Township property and can convert natural gas into LNG to fill the existing storage tanks. A Power-to-Gas System is also located at the LNG plant in Howell Township and uses solar power to produce hydrogen and inject it into the natural gas system. It consists primarily of an electrolyzer unit, electrical and instrumentation building, and small hydrogen storage tank, along with other supporting systems.

The Company owns five service centers located in Rockaway Township, Morris County; Atlantic Highlands and Wall Township, Monmouth County; and Lakewood and Stafford Township, Ocean County. These service centers house storerooms, garages, natural gas distribution and administrative offices. The Company owns its headquarters and customer service facilities in Wall Township, Monmouth County, and leases a customer service office in Asbury Park, Monmouth County and a service center in Manahawkin, Ocean County. These customer service offices support customer contact, marketing, economic development and other functions. The Company also owns a training facility in Howell Township, Monmouth County, to support the technical training of its employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies during the reporting period. On a quarterly basis or more frequently whenever events or changes in circumstances indicate a need, the Company evaluates its estimates, including those related to the calculation of the fair value of derivative instruments, debt, unbilled revenues, allowance for doubtful accounts, provisions for depreciation and amortization, long-lived assets, regulatory assets and liabilities, income taxes, pensions and other postemployment benefits, contingencies related to environmental matters and litigation. ARO are evaluated as often as needed. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

The Company has legal, regulatory and environmental proceedings during the normal course of business that can result in loss contingencies. When evaluating the potential for a loss, the Company will establish a reserve if a loss is probable and can be reasonably estimated, in which case it is the Company's policy to accrue the full amount of such estimates. Where the information is sufficient only to establish a

NOTES TO THE FINANCIAL STATEMENTS (Continued)

range of probable liability, and no point within the range is more likely than any other, it is the Company's policy to accrue the lower end of the range. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates.

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention and has spread globally, including throughout the U.S.. The Company's Financial Statements reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the balance sheet date and reported amounts of revenue and expenses during the reporting periods presented. The Company considered the impacts of COVID-19 on the assumptions and estimates used and determined that there have been no material adverse impacts on the Company's results of operations as of September 30, 2021.

Revenues

Revenues from the sale of natural gas to customers are recognized in the period that natural gas is delivered and consumed by customers, including an estimate for unbilled revenue. The Company records unbilled revenue for natural gas services. Natural gas sales to individual customers are based on meter readings, which are performed on a systematic basis throughout the month. At the end of each month, the amount of natural gas delivered to each customer after the last meter reading through the end of the respective accounting period is estimated, and the Company recognizes unbilled revenues related to these amounts. The unbilled revenue estimates are based on estimated customer usage by customer type, weather effects, unaccounted-for gas and the most current tariff rates.

Natural Gas Purchases

The Company's tariff includes a component for BGSS, which is designed to allow the recovery of the cost of natural gas through rates charged to its customers and is typically revised on an annual basis. As part of computing its BGSS rate, the Company projects its cost of natural gas, net of supplier refunds, the impact of hedging activities and cost savings created by BGSS incentive programs. The Company subsequently recovers or credits the difference, if any, of actual costs compared with those included in current rates. Any underrecoveries or overrecoveries are either credited to customers or deferred and, subject to BPU approval, reflected in the BGSS rates in subsequent years.

Demand Fees

For the purpose of securing storage and pipeline capacity, the Company enters into storage and pipeline capacity contracts, which require the payment of associated demand fees and charges that allow access to a high priority of service in order to maintain the ability to access storage or pipeline capacity, during a fixed time period, which generally ranges from one to 10 years. Many of these demand fees and charges are based on established tariff rates as established and regulated by FERC. These charges represent commitments to pay storage providers and pipeline companies for the priority right to transport and/or store natural gas utilizing their respective assets.

Demand fees of \$123.2 million and \$131.9 million for fiscal years ended September 30, 2021 and 2020, respectively, which are net of fees received for capacity release, are included in its weighted average cost of natural gas. The demand charges are expensed as a component of natural gas purchases in the Statements of Operations based on BGSS sales and recovered as part of its natural gas commodity component of its BGSS tariff.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Operations and Maintenance Expenses

Operations and maintenance expenses include operations and maintenance salaries and benefits, materials and supplies, usage of vehicles, tools and equipment, payments to contractors, utility plant maintenance, customer service, professional fees and other outside services, insurance expense, accretion of cost of removal for future retirements of utility assets and other administrative expenses and are expensed as incurred.

Stock-Based Compensation

Stock based awards are granted to eligible employees through the NJR Stock Award and Incentive Plan. The Company measures compensation expense related to performance shares based on the fair value of these awards at their date of grant. In accordance with ASC 718, *Compensation - Stock Compensation*, compensation expense for market condition grants are recognized for awards granted, and are not adjusted based on actual achievement of the performance goals. The Company estimated the fair value of these grants on the date of grant using a lattice model. Performance condition grants are initially fair valued at NJR's stock price on grant date, and are subsequently adjusted for actual achievement of the performance goals. The Company recognized stock-based compensation expense of \$559,000 and \$706,000 for fiscal years ended September 30, 2021 and 2020, respectively, which is included in operation and maintenance expense on the Statements of Operations.

Income Taxes

The Company computes income taxes using the asset and liability method, whereby deferred income taxes are generally determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. See *Note 10. Income Taxes*. In addition, the Company evaluates its tax positions to determine the appropriate accounting and recognition of future obligations associated with unrecognized tax benefits.

Income tax credits have been deferred and are being amortized to income over the average lives of the related equipment in accordance with regulatory treatment.

The Company is included in the consolidated tax return of NJR. The Company calculates the provision for income taxes by using a separate return method. Under this method, the Company is assumed to file a separate return with the tax authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from NJR. The Company's current provision is the amount of tax payable or refundable on the basis of a hypothetical, current-year separate return. The Company provides deferred taxes on temporary differences and on any carryforwards that we could claim on our hypothetical return and assesses the need for a valuation allowance on the basis of our projected separate return results. Any difference between the tax provision or benefit computed by the Company under the separate return method and payments to be made to or received from NJR for tax expense are settled through intercompany payments.

Property, Plant and Equipment

Regulated property, plant and equipment is stated at original cost. Costs include direct labor, materials and third-party construction contractor costs, AFUDC and certain indirect costs related to

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

equipment and employees engaged in construction. Upon retirement, the cost of depreciable regulated property, plus removal costs less salvage, is charged to accumulated depreciation with no gain or loss recorded.

Depreciation is computed on a straight-line basis over the useful life of the assets for financial statement purposes and using rates based on the estimated average lives of the various classes of depreciable property. The composite rate of depreciation used was 2.42 percent and 2.65 percent of average depreciable property during fiscal 2021 and 2020, respectively. The Company recorded depreciation expense of approximately \$80.0 million and \$71.9 million during fiscal 2021 and 2020, respectively.

Property, plant and equipment was comprised of the following as of September 30:

(Thousands)

Property Classifications	Estimated Useful Lives	2021	2020
Distribution facilities	38 to 74 years	\$ 2,558,651	\$ 2,309,039
Transmission facilities	35 to 56 years	643,942	332,947
Storage facilities	34 to 47 years	79,892	79,922
All other property	5 to 35 years	42,126	78,144
Construction work in progress		182,196	379,846 ⁽¹⁾
Total property, plant and equipment		3,506,807	3,179,898
Accumulated depreciation and amortization		(611,837)	(601,635)
Property, plant and equipment, net		\$ 2,894,970	\$ 2,578,263

(1) During fiscal 2020, construction work in progress was included within the various property classifications.

Capitalized and Deferred Interest

The Company's base rates include the ability to recover AFUDC on its construction work in progress. For all of the construction projects, an incremental cost of equity is recoverable during periods when the Company's short-term debt balances are lower than its construction work in progress. For more information on AFUDC treatment with respect to certain accelerated infrastructure projects, see *Note 4. Regulation - Infrastructure Programs*.

Capitalized amounts associated with the debt and equity components of AFUDC are recorded in utility plant on the Balance Sheets. Corresponding amounts for the debt component are recognized in interest expense and in other income for the equity component on the Statements of Operations and include the following for the fiscal years ended September 30:

<i>(Thousands)</i>	2021	2020
AFUDC:		
Debt	\$ 5,648	\$ 5,134
Equity	16,605	14,599
Total	\$ 22,253	\$ 19,733
Weighted average interest rate	5.97 %	6.79 %

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Pursuant to a BPU order, the Company is permitted to recover carrying costs on uncollected balances related to SBC program costs, which include NJCEP, RAC and USF expenditures. See *Note 4. Regulation*. The SBC interest rate changes each September based on the August 31 seven-year constant maturity treasury rate plus 60 basis points. The rate was 1.68 percent and 1.97 percent for the fiscal years ended September 30, 2021 and 2020, respectively. Accordingly, other income included \$346,000 and \$511,000 for the fiscal years ended September 30, 2021 and 2020, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on deposit and temporary investments with maturities of three months or less, and excludes restricted cash related to escrow balances for utility plant projects, which is recorded in other current and noncurrent assets on the Balance Sheets.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported in the Balance Sheets to the total amounts in the Statements of Cash Flows, as of September 30:

<i>(Thousands)</i>	2021	2020
Balance Sheet		
Cash and cash equivalents	\$ 3,951	\$ 113,085
Restricted cash in other noncurrent assets	\$ 1,294	\$ 1,282
Statements of Cash Flow		
Cash, cash equivalents and restricted cash	\$ 5,245	\$ 114,367

Allowance for Doubtful Accounts

As of October 1, 2020, the Company adopted ASU No. 2016-13, an amendment to ASC 326, Financial Instruments - Credit Losses, which changes the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The Company segregates financial assets that fall within the scope of ASC 326, primarily trade receivables and unbilled revenues due in one year or less, into portfolio segments based on shared risk characteristics, such as geographical location and regulatory environment, for evaluation of expected credit losses. Historical and current information, such as average write-offs, are applied to each portfolio segment to estimate the allowance for losses on uncollectible receivables. Additionally, the allowance for losses on uncollectible receivables is adjusted for reasonable and supportable forecasts of future economic conditions, which can include changing weather, commodity prices, regulations, and macroeconomic factors, such as unemployment rates among others. Allowance for doubtful accounts was \$17.0 million and \$5.6 million as of September 30, 2021 and 2020, respectively.

Loans Receivable

The Company currently provides loans, with terms ranging from two to 10 years, to customers that elect to purchase and install certain energy efficient equipment in accordance with its BPU-approved SAVEGREEN program. The loans are recognized at fair value on the Balance Sheets. The Company recorded \$14.2 million and \$13.7 million in other current assets and \$32.3 million and \$35.3 million in other noncurrent assets as of September 30, 2021 and 2020, respectively, related to the loans. If the Company determines a loan is impaired, the basis of the loan would be subject to regulatory review for recovery. As of September 30, 2021 and 2020, the Company has not recorded any impairments for SAVEGREEN loans.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Regulatory Assets & Liabilities

Under cost-based regulation, regulated utility enterprises generally are permitted to recover their operating expenses and earn a reasonable rate of return on their utility investment.

The Company maintains its accounts in accordance with the FERC Uniform System of Accounts as prescribed by the BPU and in accordance with ASC 980, *Regulated Operations*. As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities on the Balance Sheets. See *Note 4. Regulation*, for a more detailed description of the Company's regulatory assets and liabilities.

Natural Gas in Storage

Natural gas in storage is reflected at average cost on the Balance Sheets, and represents natural gas and LNG that will be utilized in the ordinary course of business. The Company had 27.6 Bcf and 27.2 Bcf of gas in storage as of September 30, 2021 and 2020, respectively.

Derivative Instruments

Derivative instruments associated with natural gas commodity contracts are recorded in accordance with ASC 815, *Derivatives and Hedging*, under which the Company records the fair value of derivatives, held as assets and liabilities. ASC 815 also provides for a NPNS election for physical commodity contracts that meet the definition of a derivative and require physical delivery that is in the normal course of business. Effective January 1, 2016, the Company prospectively applies this normal scope exception on a case by case basis to physical commodity contracts. When applied, it does not record changes in the fair value of these contracts until the contract settles and the related underlying natural gas is delivered. Gains and/or losses on derivatives used to economically hedge its regulated natural gas supply obligations, as well as its exposure to interest rate variability, are recoverable through its BGSS, a component of its tariff. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability on the Balance Sheets.

Fair values of exchange-traded instruments, including futures and swaps, are based on unadjusted, quoted prices in active markets. In establishing the fair value of contracts for which a quoted basis price is not available at the measurement date, management utilizes available market data and pricing models to estimate fair values. Fair values are subject to change in the near term and reflect management's best estimate based on a variety of factors. Estimating fair values of instruments that do not have quoted market prices requires management's judgment in determining amounts that could reasonably be expected to be received from, or paid to, a third party in settlement of the instruments. These amounts could be materially different from amounts realized in an actual sale transaction.

During fiscal 2020, the Company entered into treasury lock transactions to fix the benchmark treasury rate associated with debt issuances that occurred during the fiscal year. Settlement of the Company's treasury locks resulted in a loss, which was recorded as a component of regulatory assets on the Balance Sheets and will be amortized in earnings over the term of the debt as a component of interest expense on the Statements of Operations. Amounts recognized in interest expense related to the amortization of the loss on treasury lock transactions totaled \$223,000 and \$50,000 as of September 30, 2021 and 2020, respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)***Software Costs***

The Company capitalizes certain costs, such as software design and configuration, coding, testing and installation, that are incurred to purchase or create and implement computer software for internal use. Capitalized costs include external costs of materials and services utilized in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with and devote time to the internal-use software project. Maintenance costs are expensed as incurred. Upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Amortization is recorded on the straight-line basis over the estimated useful lives.

The following table presents software costs included in the Financial Statements, as of September 30:

<i>(Thousands)</i>	2021	2020
Balance Sheets		
Utility plant, at cost	\$ 16,543	\$ 13,452
Construction work in progress	\$ 7,801	\$ —
Accumulated depreciation and amortization, utility plant	\$ (1,333)	\$ (279)
Statements of Operations		
Operation and maintenance	\$ 7,433	\$ 5,007
Depreciation and amortization	\$ 1,054	\$ 279

Long-Lived Assets

The Company reviews the recoverability of long-lived assets intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable, such as significant adverse changes in regulation, business climate or market conditions, including prolonged periods of adverse commodity and capacity prices. If there are changes indicating that the carrying value of such assets may not be recoverable, an undiscounted cash flows test is performed. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized by reducing the recorded value of the asset to its fair value. Factors that the Company analyzes in determining whether an impairment in its long-lived assets exists include: a significant decrease in the market price of a long-lived asset; a significant adverse change in the extent in which a long-lived asset is being used in its physical condition; legal proceedings or factors; significant business climate changes; accumulations of costs in significant excess of the amounts expected; a current-period operating or cash flow loss combined with a history of such events; and current expectations that more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its estimated useful life. During fiscal 2021 and 2020, there were no events or circumstances that indicated that the carrying value of long-lived assets were not recoverable.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized as interest expense on a basis which approximates the effective interest method over the term of the related debt. Debt issuance costs are presented as a direct deduction from the carrying amount of the related debt. See *Note 7. Debt* for the total unamortized debt issuance costs that are recorded as a reduction to long-term debt on the Balance Sheets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sale Leasebacks

The Company utilizes sale leaseback arrangements as a financing mechanism to fund certain of its capital expenditures related to natural gas meters, whereby the physical asset is sold concurrent with an agreement to lease the asset back. These agreements include options to renew the lease at the end of the term or repurchase the asset. Proceeds from sale leaseback transactions are accounted for as financings and are included in long-term debt on the Balance Sheets. During fiscal 2020, the Company received \$4.0 million in connection with the sale leaseback of its natural gas meters with terms ranging from seven to ten years. There were no natural gas meter sale leasebacks recorded during fiscal 2021.

Environmental Contingencies

Loss contingencies are recorded as liabilities when it is probable a liability has been incurred and the amount of the loss is reasonably estimable in accordance with accounting standards for contingencies. Estimating probable losses requires an analysis of uncertainties that often depend upon judgments about potential actions by third parties. Accruals for loss contingencies are recorded based on an analysis of potential results.

With respect to environmental liabilities and related costs, the Company periodically, and at least annually, performs an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. The Company's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. Where it is probable that costs will be incurred, and the information is sufficient to establish a range of possible liability, the Company accrues the most likely amount in the range. If no point within the range is more likely than the other, it is the Company's policy to accrue the lower end of the range. The actual costs to be incurred by the Company are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries. The Company will continue to seek recovery of MGP-related costs through the RAC. If any future regulatory position indicates that the recovery of such costs is not probable, the related non-recoverable costs would be charged to income in the period of such determination. See *Note 12. Commitments and Contingent Liabilities* for more details.

Pension and Postemployment Plans

The Company has two noncontributory defined pension plans covering eligible employees, including officers. Benefits are based on each employee's years of service and compensation. The Company's funding policy is to contribute annually to these plans at least the minimum amount required under the Employee Retirement Income Security Act, as amended, and not more than can be deducted for federal income tax purposes. Plan assets consist of equity securities, fixed-income securities and short-term investments. In fiscal 2021 and 2020, the Company had no minimum funding requirements. The Company made no discretionary contributions to the pension plans during fiscal 2021 and 2020.

The Company also provides two primarily noncontributory medical and life insurance plans for eligible retirees and dependents. Medical benefits, which make up the largest component of the plans, are based upon an age and years-of-service vesting schedule and other plan provisions. Funding of these benefits is made primarily into Voluntary Employee Beneficiary Association trust funds. The Company contributed \$6.8 million and \$8.1 million in aggregate to these plans during fiscal 2021 and 2020, respectively, which is recorded in postemployment employee benefit liability on the Balance Sheets. See

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 8. Employee Benefit Plans, for a more detailed description of the Company's pension and postemployment plans.

Asset Retirement Obligations

The Company recognizes ARO related to the costs associated with cutting and capping mains and service natural gas distribution mains, which is required by New Jersey law when taking such natural gas distribution mains out of service.

ARO are initially recognized when the legal obligation to retire an asset has been incurred and a reasonable estimate of fair value can be made. The discounted fair value is recognized as an ARO liability with a corresponding amount capitalized as part of the carrying cost of the underlying asset. The obligation is subsequently accreted to the future value of the expected retirement cost and the corresponding asset retirement cost is depreciated over the life of the related asset. Accretion amounts are recognized as part of its depreciation expense and the corresponding liability and regulatory asset are shown gross on the Balance Sheets.

Estimating future removal costs requires management to make significant judgments because most of the removal obligations span long time frames and removal may be conditioned upon future events. Asset removal technologies are also constantly changing, which makes it difficult to estimate removal costs. Accordingly, inherent in the estimate of ARO are various assumptions including the ultimate settlement date, expected cash outflows, inflation rates, credit-adjusted risk-free rates and consideration of potential outcomes where settlement of the ARO can be conditioned upon events. In the latter case, the Company develops possible retirement scenarios and assigns probabilities based on management's reasonable judgment and knowledge of industry practice. Accordingly, ARO are subject to change.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. Construction work in progress previously classified within various property classifications in the Property Plant and Equipment section of this note has been reclassified to its own category.

Recently Adopted Updates to the Accounting Standards Codification

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, an amendment to ASC 326, Financial Instruments - Credit Losses, which changes the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model requires recognition based upon an estimation of expected credit losses rather than recognition of losses when it is probable that they have been incurred. An entity will apply the amendment through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company assessed the impact of the guidance on reserve methodologies and credit policies and procedures for any assets that could be impacted, noting the majority of financial assets are short-term in nature, such as trade receivables and unbilled revenues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company completed its evaluation of this amendment and all subsequent amendments related to this topic and adopted this guidance on October 1, 2020 using the modified retrospective method. The adoption did not result in a cumulative effect adjustment to retained earnings as the current expected lifetime loss estimates were not materially different from the reserves already in place.

The Company segregates financial assets that fall within the scope of ASC 326, primarily trade receivables and unbilled revenues due in one year or less, into portfolio segments based on shared risk characteristics, such as geographical location and regulatory environment, for evaluation of expected credit losses. Historical and current information, such as average write-offs, are applied to each portfolio segment to estimate the allowance for losses on uncollectible receivables. Additionally, the allowance for losses on uncollectible receivables is adjusted for reasonable and supportable forecasts of future economic conditions, which can include changing weather, commodity prices, regulations, and macroeconomic factors, such as unemployment rates among others.

Fair Value

In August 2018, the FASB issued ASU No. 2018-13, an amendment to ASC 820, Fair Value Measurement which removes, modifies and adds to certain disclosure requirements of fair value measurements. Disclosure requirements removed include the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. Modifications include considerations around the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse. The additions include the requirement to disclose changes in unrealized gains and losses for the period in other comprehensive income for recurring Level 3 fair value measurements held and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company adopted this guidance on October 1, 2020 on a prospective basis. The Company does not have either Level 3 fair value measurements or transfers between Level 1 or Level 2 in its current portfolios, and therefore, this ASU did not have an impact on the Company's financial position, results of operations or cash flows.

Compensation - Retirement Benefits

In August 2018, the FASB issued ASU No. 2018-14, an amendment to ASC 715, Compensation - Retirement Benefits, which removes disclosures that no longer are considered cost-beneficial, clarifies the specific requirements of certain disclosures and adds new disclosure requirements identified as relevant. The Company adopted this guidance on October 1, 2020. There was no impact to the Company's financial position, results of operations or cash flows.

Reference Rate Reform

In January 2021, the FASB issued ASU No. 2021-01, which refines the scope of ASC 848, Reference Rate Reform, and clarifies some of its guidance of global reference rate reform activities. The amendments in this update permit entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities under way in global financial markets (the "discounting transition"). The amendments in this update are effective upon the ASU issuance and allow for retrospective application or prospective application through December 31, 2022. The Company adopted this standard prospectively in January 2021. There was no impact to the Company's financial position, results of operations or cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Other Recent Updates to the Accounting Standards Codification***Income Taxes***

In December 2019, the FASB issued ASU No. 2019-12, an amendment to ASC 740, *Income Taxes*, which simplifies the accounting for income taxes and changes the accounting for certain income tax transactions, among other minor improvements. The guidance is effective for the Company beginning October 1, 2021 and will be applied on a prospective basis. The Company has evaluated the amendments and concluded that they are either not applicable, currently applied, or will have no material impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Investments - Equity Method and Derivatives and Hedging

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. The update requires an entity to evaluate observable transactions that necessitate applying or discontinuing the equity method of accounting when applying the measurement alternative in Topic 321. This evaluation occurs prior to applying or upon ceasing the equity method. The update also states that when applying paragraph 815-10-15-141(a) for forward contracts and purchased options, an entity is not required to assess whether the underlying securities will be accounted for under the equity method in accordance with Topic 323 or fair value method under Topic 825 upon settlement or exercise. The guidance is effective for the Company beginning October 1, 2021 and will be applied on a prospective basis. The Company has evaluated the amendments and does not expect a material impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Other

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*, which clarifies application of various provisions in the ASC by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. It also improves the consistency by amending the ASC to include all disclosure guidance in the appropriate section. The guidance is effective for the Company on October 1, 2021. The Company has evaluated the amendments and does not expect a material impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Subsequent Events

To the best of our knowledge and belief, no other material events have occurred subsequent to September 30, 2021, through December 16, 2021, the date the financial statements were issued that require consideration as adjustments to or disclosures in the aforementioned financial statements, except as disclosed in *Note 4. Regulation* and *Note 7. Debt*.

3. REVENUE

Revenue is recognized when a performance obligation is satisfied by transferring control of a product or service to a customer. Revenue is measured based on consideration specified in a contract with a customer using the output method of progress. As a part of the adoption of ASC 606, *Revenue from*

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contracts with Customers, the Company elected to apply the invoice practical expedient for recognizing revenue, whereby the amounts invoiced to customers represent the value to the customer and the Company's performance completion as of the invoice date. Therefore we do not disclose related unsatisfied performance obligations. The Company also elected the practical expedient to exclude from the transaction price all sales taxes that are assessed by a governmental authority and therefore presents sales tax net in operating revenues on the Statements of Operations.

The Company's performance obligation is to provide natural gas to residential, commercial and industrial customers as demanded, based on regulated tariff rates, which are established by the BPU. Revenues from the sale of natural gas are recognized in the period that gas is delivered and consumed by customers, including an estimate for quantities consumed but not billed during the period. Payment is due each month for the previous month's deliveries. Natural gas sales to individual customers are based on meter readings, which are performed on a systematic basis throughout the billing period. The unbilled revenue estimates are based on estimated customer usage by customer type, weather effects and the most current tariff rates. The Company is entitled to be compensated for performance completed until service is terminated.

Customers may elect to purchase the natural gas commodity from the Company or may contract separately to purchase natural gas directly from third-party suppliers. As the Company is acting as an agent on behalf of the third-party supplier, revenue is recorded for the delivery of natural gas to the customer.

Disaggregated revenues from contracts with customers by product line during the fiscal years ended September 30, are as follows:

<i>(Thousands)</i>	2021	2020
Natural gas utility sales	\$ 694,635	\$ 695,858
Revenues from contracts with customers	694,635	695,858
Alternative revenue programs ⁽¹⁾	(7,282)	15,750
Derivative instruments	44,443	18,315
Revenues out of scope	37,161	34,065
Total operating revenues	\$ 731,796	\$ 729,923

(1) Includes CIP revenue, see Note 4. Regulatory for more details regarding CIP.

Disaggregated revenues from contracts with customers by customer type during the fiscal years ended September 30, are as follows:

<i>(Thousands)</i>	2021	2020
Residential	\$ 487,018	\$ 490,233
Commercial and industrial	124,519	129,946
Firm transportation	79,256	69,357
Interruptible and off-tariff	3,842	6,322
Revenues out of scope	37,161	34,065
Total operating revenues	\$ 731,796	\$ 729,923

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Customer Accounts Receivable/Credit Balances and Deposits

The timing of revenue recognition, customer billings and cash collections resulting in accounts receivables, billed and unbilled, and customers' credit balances and deposits on the Balance Sheets, are as follows:

<i>(Thousands)</i>	Customer Accounts Receivable		Customers' Credit
	Billed	Unbilled	Balances and Deposits
Balance as of September 30, 2019	\$ 36,302	\$ 6,510	\$ 27,114
Increase (Decrease)	15,832	1,333	(1,180)
Balance as of September 30, 2020	\$ 52,134	\$ 7,843	\$ 25,934
Increase	2,380	584	6,652
Balance as of September 30, 2021	\$ 54,514	\$ 8,427	\$ 32,586

4. REGULATION

The EDECA is the legal framework for New Jersey's public utility and wholesale energy landscape. The Company is required, pursuant to a written order by the BPU under EDECA, to open its residential markets to competition from third-party natural gas suppliers. Customers can choose the supplier of their natural gas commodity in the Company's service territory.

As required by the EDECA, the Company's rates are segregated into two primary components the commodity portion, which represents the wholesale cost of natural gas, including the cost for interstate pipeline capacity to transport the gas to the Company's service territory, and the delivery portion, which represents the transportation of the commodity portion through the Company's natural gas distribution system to the end-use customer. The Company does not earn utility gross margin on the commodity portion of its natural gas sales. The Company earns utility gross margin through the delivery of natural gas to its customers, regardless of whether it or a third-party supplier provides the wholesale natural gas commodity.

Under the EDECA, the BPU is required to audit the state's energy utilities every two years. The primary purpose of the audit is to ensure that utilities and their affiliates offering unregulated retail services do not have an unfair competitive advantage over nonaffiliated providers of similar retail services. A combined competitive services and management audit of the Company commenced in August 1, 2013. A draft management audit report was accepted by the BPU on July 23, 2014, for public comment. To date, the Company has implemented all audit recommendations with the approval of BPU staff and is waiting for final BPU approval.

The Company is subject to cost-based regulation, therefore, it is permitted to recover authorized operating expenses and earn a reasonable return on its utility capital investments based on the BPU's approval. The impact of the ratemaking process and decisions authorized by the BPU allows the Company to capitalize or defer certain costs that are expected to be recovered from its customers as regulatory assets, and to recognize certain obligations representing amounts that are probable future expenditures as regulatory liabilities in accordance with accounting guidance applicable to regulated operations.

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company's recovery of costs is facilitated through its base rates, BGSS and other regulatory tariff riders. The Company is required to make an annual filing to the BPU by June 1 of each year for review of its BGSS, CIP and other programs and related rates. Annual rate changes are requested to be effective at the beginning of the following fiscal year. The current base rates include a weighted average cost of capital of 6.95 percent and a return on common equity of 9.6 percent. All rate and program changes are subject to proper notification and BPU review and approval. In addition, the Company is permitted to implement certain BGSS rate changes on a provisional basis with proper notification to the BPU.

Regulatory assets and liabilities included on the Balance Sheets as of September 30, are comprised of the following:

<i>(Thousands)</i>	2021	2020
Regulatory assets-current		
New Jersey Clean Energy Program	\$ 16,308	\$ 15,570
Conservation Incentive Program	11,839	19,120
Other current regulatory assets	1,554	1,682
Total current regulatory assets	\$ 29,701	\$ 36,372
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	\$ 58,483	\$ 36,516
Liability for future expenditures	135,012	150,590
Deferred income taxes	39,694	28,241
Derivatives at fair value, net	—	1
SAVEGREEN	32,941	21,281
Postemployment and other benefit costs	117,194	188,170
Deferred storm damage costs	4,343	6,515
Cost of removal	99,238	75,080
Other noncurrent assets	32,695	20,068
Total noncurrent regulatory assets	\$ 519,600	\$ 526,462
Regulatory liabilities-current		
Overrecovered natural gas costs	\$ 5,510	\$ 25,914
Derivatives at fair value, net	22,497	274
Total current regulatory liabilities	\$ 28,007	\$ 26,188
Regulatory liabilities-noncurrent		
Tax Act impact ⁽¹⁾	\$ 190,386	\$ 195,425
Derivatives at fair value, net	1,166	352
Other noncurrent regulatory liabilities	336	509
Total noncurrent regulatory liabilities	\$ 191,888	\$ 196,286

(1) Reflects the re-measurement and subsequent amortization of the Company's net deferred tax liabilities as a result of the change in federal tax rates enacted in the Tax Act.

Recovery of regulatory assets is subject to BPU approval, and therefore, if there are any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to income in the period of such determination.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

New Jersey Clean Energy Program

The NJCEP is a statewide program that encourages energy efficiency and renewable energy. Funding amounts are determined by the BPU's Office of Clean Energy and all New Jersey utilities are required to share in the annual funding obligation. The current NJCEP program is for the State of New Jersey's fiscal year ending June 2022. The Company recovers the costs associated with its portion of the NJCEP obligation through its NJCEP rider, with interest.

Over and Underrecovered Natural Gas Costs

The Company recovers its cost of natural gas through the BGSS rate component of its customers' bills. The Company's cost of natural gas includes the purchased cost of the natural gas commodity, fees paid to pipelines and storage facilities, adjustments as a result of BGSS incentive programs and hedging transactions. Overrecovered natural gas costs represent a regulatory liability that generally occurs when the Company's BGSS rates are higher than actual costs and requests approval to be returned to customers including interest, when applicable, in accordance with the Company's approved BGSS tariff. Conversely, underrecovered natural gas costs generally occur during periods when the Company's BGSS rates are lower than actual costs, in which case the Company records a regulatory asset and requests amounts to be recovered from customers in the future.

Derivatives

Derivatives are utilized by the Company to manage the price risk associated with its natural gas purchasing activities and to participate in certain BGSS incentive programs. The gains and losses associated with the Company's derivatives are recoverable through its BGSS, as noted above, without interest. See *Note 5. Derivative Instruments*.

Conservation Incentive Program

The CIP permits the Company to recover utility gross margin variations related to customer usage resulting from customer conservation efforts and mitigates the impact of weather on its margin. Such utility gross margin variations are recovered in the year following the end of the CIP usage year, without interest, and are subject to additional conditions, including an earnings test, a revenue test and an evaluation of BGSS-related savings. This program has no expiration date.

Environmental Remediation Costs

The Company is responsible for the cleanup of certain former gas manufacturing facilities. Actual expenditures are recovered from customers, with interest, over seven-year rolling periods, through a RAC rate rider. Recovery for the Company's estimated future liability will be requested and/or recovered when actual expenditures are incurred. See *Note 12. Commitments and Contingent Liabilities*.

Deferred Income Taxes

Upon adoption of a 1993 provision of ASC 740, *Income Taxes*, the Company recognized a transition adjustment and corresponding regulatory asset representing the difference between the Company's existing deferred tax amounts compared with the deferred tax amounts calculated in accordance with the change in method prescribed by ASC 740. The Company recovers the regulatory asset associated with these tax impacts through future base rates, without interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SAVEGREEN

The Company administers certain programs that supplement the state's NJCEP and that allow the Company to promote clean energy to its residential and commercial customers, as described further below. The Company will recover related expenditures and a weighted average cost of capital on the unamortized balance through a tariff rider, without interest, as approved by the BPU, over a two to 10-year period depending upon the specific program incentive.

Postemployment and Other Benefit Costs

Postemployment and Other Benefit Costs represents the Company's underfunded postemployment benefit obligations, as well as a fiscal 2010 tax charge resulting from a change in the deductibility of federal subsidies associated with Medicare Part D, both of which are deferred as regulatory assets and are recoverable, without interest, in base rates. The BPU approved the recovery of the tax charge through the Company's base rates effective October 2016 over a seven-year amortization period. See *Note 8. Employee Benefit Plans*.

Deferred Storm Damage Costs

Portions of the Company's distribution system incurred significant damage as a result of Post-Tropical Cyclone Sandy in October 2012. The Company deferred the uninsured incremental O&M costs associated with its restoration efforts, which were approved for recovery by the BPU through the Company's base rates, without interest, effective October 2016 over a seven-year amortization period.

Cost of Removal

The Company accrues and collects for cost of removal in base rates on its utility property, without interest. These costs are recorded in accumulated depreciation for regulatory reporting purposes, and actual costs of removal, without interest, will be recovered in subsequent rates, pursuant to the BPU order. Consistent with GAAP, amounts recorded within accumulated depreciation for regulatory accounting purposes are reclassified out of accumulated depreciation to either a regulatory asset or a regulatory liability depending on whether actual cost of removal is still subject to collection or amounts overcollected will be refunded back to customers. The Company's prior regulatory liability represented customer collections in excess of actual expenditures, which the Company returned to customers as a reduction to depreciation expense.

Other Regulatory Assets

Other regulatory assets consist primarily of deferred costs associated with certain components of the Company's SBC, as discussed further in the regulatory proceedings section, and the Company's compliance with federal- and state-mandated PIM provisions. The Company's related costs to maintain the operational integrity of its distribution and transmission main are recoverable, without interest, subject to BPU review and approval. As of September 30, 2021, the Company recorded \$1.1 million of PIM in other regulatory assets, which is being recovered through base rates over a seven-year amortization period effective October 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following is a description of certain regulatory proceedings during fiscal 2020 and 2021:

On March 30, 2021, the Company filed a base rate case with the BPU requesting a natural gas revenue increase of \$165.7 million including a rate recovery for SRL and other infrastructure investments. On July 9, 2021, the Company updated its base rate request to \$163.9 million, based on nine months of actual information through June 30, 2021. On September 23, 2021, the Company filed its second update to the base rate case. The updated filing seeks a base rate increase of \$162.5 million.

On November 17, 2021, the BPU issued an order adopting a stipulation of settlement approving a \$79.0 million increase to base rates, effective December 1, 2021. The increase includes an overall rate of return on rate base of 6.84 percent, return on common equity of 9.6 percent, a common equity ratio of 54.0 percent and a depreciation rate of 2.78 percent.

BGSS and CIP

BGSS rates are normally revised on an annual basis. In addition, to manage the fluctuations in wholesale natural gas costs, the Company has the ability to make two interim filings during each fiscal year to increase residential and small commercial customer BGSS rates on a self-implementing and provisional basis. The Company is also permitted to refund or credit back a portion of the commodity costs to customers at any time given five days' notice when the natural gas commodity costs decrease in comparison to amounts projected or to amounts previously collected from customers. Concurrent with the annual BGSS filing, the Company files for an annual review of its CIP. The Company's annual BGSS and CIP filings are summarized as follows:

- 2020 BGSS/CIP filing — On March 3, 2021, the BPU approved, on a final basis, the Company's annual petition to modify its BGSS, balancing charge and CIP rates for residential and small commercial customers. The rate changes will result in a \$20.4 million decrease to the annual revenues credited to BGSS, a \$3.8 million annual decrease related to its balancing charge, as well as changes to CIP rates, which resulted in a \$16.5 million annual recovery increase, effective October 1, 2020. On November 20, 2020, the Company notified the BPU of its intent to provide BGSS bill credits to residential and small commercial sales customers effective December 1, 2020 to December 31, 2020. On December 22, 2020, the Company notified the BPU of the extension of the BGSS bill credits through January 31, 2021. The actual bill credits given to customers totaled \$20.6 million, \$19.3 million net of tax.
- 2021 BGSS/CIP filing — On May 28, 2021, the Company submitted to the BPU the annual petition to modify its BGSS, balancing charge and CIP rates. On November 17, 2021, the BPU approved a \$2.9 million increase to the annual revenues credited to BGSS, a \$13.0 million annual increase related to its balancing charge, as well as changes to CIP rates, which will result in a \$6.3 million decrease to the annual recovery, effective December 1, 2021.

BGSS Incentive Programs

The Company is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include off-system sales, capacity release and storage incentive programs. The Company is permitted to annually propose a process to evaluate and discuss alternative incentive programs, should performance of the existing incentives or market conditions warrant re-evaluation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Energy Efficiency Programs

SAVEGREEN conducts home energy audits and provides various grants, incentives and financing alternatives, which are designed to encourage the installation of high efficiency heating and cooling equipment and other upgrades to promote energy efficiency to its residential and commercial customers while stimulating state and local economies through the creation of jobs. Depending on the specific initiative or approval, the Company recovers costs associated with the programs over a three- to 10-year period through a tariff rider mechanism. As of September 30, 2021, the BPU has approved total SAVEGREEN investments of approximately \$354.3 million, including \$135.0 million that was approved in September 2018, for a continuation of existing EE programs and the implementation of new programs through December 2021.

On March 3, 2021 the BPU approved the three-year SAVEGREEN program consisting of approximately \$126.1 million of direct investment, \$109.4 million in financing options, and \$23.4 million in operation and maintenance expenses, which resulted in a \$15.6 million annual recovery increase, effective July 1, 2021. SAVEGREEN investments and costs are filed with the BPU on an annual basis. The Company's annual EE filings are summarized as follows:

- 2020 EE filing — On May 29, 2020, the Company filed a petition with the BPU to minimally decrease its EE recovery rate. Throughout the course of the proceeding, the Company updated the filing for additional actual information. Based on the updated information, the BPU approved the request to maintain its existing rate, which results in an annual recovery of approximately \$11.4 million, effective November 1, 2020.
- 2021 EE filing — On June 11, 2021, the Company submitted its annual cost recovery filing for the SAVEGREEN programs established from 2010 through 2018. If approved, the proposed rate increase will increase annual recoveries by \$2.2 million. It is anticipated that this increase will be effective in early 2022.

Societal Benefits Charge

The SBC is comprised of three primary riders that allow the Company to recover costs associated with USF, which is a permanent statewide program for all natural gas and electric utilities for the benefit of income-eligible customers, MGP remediation and the NJCEP. The Company has submitted the following filings to the BPU, which include a report of program expenditures incurred each program year:

- 2019 SBC filing — On September 9, 2020, the BPU approved the Company's annual SBC application which included an increase in the RAC rate of \$1.2 million annually and a decrease to the NJCEP factor of \$600,000, which was effective October 1, 2020.
- 2020 USF filing — On October 1, 2020, the BPU approved the Company's annual USF compliance filing to decrease the statewide USF rate by approximately \$400,000 annually, which was effective October 1, 2020.
- 2020 SBC filing — On April 7, 2021, the BPU approved a stipulation resolving the Company's annual SBC application requesting to recover remediation expenses, including an increase in the RAC of approximately \$1.3 million annually and an increase to the NJCEP factor, which resulted in an annual increase of approximately \$6.0 million, effective May 1, 2021.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- 2021 USF filing — On June 25, 2021, the Company filed its annual USF compliance filing proposing an increase to the statewide USF rate, which results in an annual increase of approximately \$4.9 million. On September 14, 2021, the BPU approved the increase, effective October 1, 2021.
- 2021 SBC filing - On September 30, 2021, the Company filed its annual SBC application requesting to recover remediation expenses including an increase in the RAC of approximately \$2.0 million annually and a decrease to the NJCEP factor, which will result in an annual decrease of approximately \$500,000, effective April 1, 2022.

Infrastructure Programs

The Company has significant annual capital expenditures associated with the management of its natural gas distribution and transmission system, including new utility plant for customer growth and its associated PIM and infrastructure programs. The Company continues to implement BPU-approved infrastructure projects that are designed to enhance the reliability of the Company's natural gas distribution system, including SAFE and NJ RISE.

SAFE/NJ RISE

The SAFE program replaces portions of the Company's natural gas distribution unprotected steel, cast iron infrastructure and associated services to improve the safety and reliability of the natural gas distribution system. SAFE I was approved to invest up to \$130.0 million, exclusive of AFUDC, over a four-year period. SAFE II was approved to invest up to \$200.0 million, excluding AFUDC, over a five-year period. The Company will recover approximately \$157.5 million through annual rate filings, with the remainder recovered through subsequent rate cases. As a condition of approval of the program, the Company was required to file a base rate case no later than November 2019 and satisfied this requirement with its March 29, 2019 base rate case filing.

NJ RISE consists of six capital investment projects estimated to cost \$102.5 million over a five-year period, excluding AFUDC, for natural gas distribution storm-hardening and mitigation projects, along with incremental depreciation expense. NJ RISE includes a weighted average cost of capital that ranges from 6.74 percent to 6.9 percent and a return on equity of 9.75 percent. Requests for recovery of future NJ RISE capital costs will occur in conjunction with SAFE II.

On September 27, 2019, the BPU approved the Company's annual SAFE II/NJ RISE petition requesting a base rate increase of \$7.8 million, effective October 1, 2019. On September 9, 2020, the BPU approved the Company's annual SAFE II/NJ RISE petition requesting a base rate increase of \$7.1 million, effective October 1, 2020.

On March 31, 2021, the Company filed a petition with the BPU requesting the final base rate increase of approximately \$311,000 for the recovery associated with NJ RISE and SAFE II capital investments cost of approximately \$3.4 million made through June 30, 2021. On June 22, 2021, this filing was consolidated with the 2021 base rate case and on July 30, 2021, was updated for actual information through June 30, 2021. Changes to base rates are anticipated to be effective concurrent with the base rate case request.

On July 30, 2021, the Company updated its annual SAFE II/NJ RISE cost recovery filing through June 30, 2021, this filing seeks a base rate increase of approximately \$269,000 annually. This is expected to be the last annual SAFE II/NJ RISE cost recovery filings. This increase will be effective December 1, 2021, concurrent with the rate case.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Southern Reliability Link

The SRL is an approximately 30-mile, 30-inch transmission main designed to support improved reliability in the southern portion of the Company's service territory. SRL was placed in service during August 2021 with total costs of \$304.4 million.

Infrastructure Investment Program

On February 28, 2019, the Company filed a petition with the BPU seeking authority to implement a five-year IIP. The IIP consists of two components, transmission and distribution investments and information technology replacement and enhancements. The total investment for the IIP is approximately \$507.0 million. Upon approval from the BPU, investments will be recovered through annual filings to adjust base rates. On October 28, 2020, the BPU approved the Company's transmission and distribution component of the IIP for \$150.0 million over five years, effective November 1, 2020. The recovery of information technology replacement and enhancements, that was included in the original IIP filing, will be included as part of base rate filings as projects are placed in service.

COVID-19

On July 2, 2020, the BPU issued an order which authorized New Jersey utilities to create a regulatory asset by deferring incremental COVID-19 related costs and required a related quarterly report be filed for the COVID-19-related costs and savings incurred. Utilities must file petition by the later of December 31, 2021, or within 60 days of the close of the regulatory asset period and rate recovery can be addressed in the filing or the utility may request consideration be deferred to future rate case. Any potential rate recovery and the appropriate period of recovery, will be addressed through that filing, or may request a deferral of rate recovery for a future base rate case. On September 14, 2021, the BPU extended the filing date to December 31, 2022, or within 60 days of the close of the regulatory asset period.

5. DERIVATIVE INSTRUMENTS

The Company is subject primarily to commodity price risk due to fluctuations in the market price of natural gas. To manage this risk, the Company enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas. Accordingly, all of the financial derivative instruments are recorded at fair value on the Balance Sheets. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with derivative instruments, see *Note 6. Fair Value*.

Changes in fair value of the Company's financial commodity derivatives are recorded as a component of regulatory assets or liabilities on the Balance Sheets. The Company elects NPNS accounting treatment on all physical commodity contracts that the Company entered into on or before December 31, 2015, and accounts for these contracts on an accrual basis. Accordingly, physical natural gas purchases are recognized in regulatory assets or liabilities on the Balance Sheets when the contract settles and the natural gas is delivered. The average cost of natural gas is charged to expense in the current period earnings based on the BGSS factor times the therm sales. Effective for contracts executed on or after January 1, 2016, the Company no longer elects NPNS accounting treatment on a portfolio basis. However, since NPNS is a contract-by-contract election, where it makes sense to do so, the Company can and may elect to treat

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

certain contracts as normal. Because the Company recovers these amounts through future BGSS rates as increases or decreases to the cost of natural gas in the Company's tariff for natural gas service, the changes in fair value of these contracts are deferred as a component of regulatory assets or liabilities on the Balance Sheets.

In February 2020 and March 2020, the Company entered into treasury lock transactions to fix the benchmark treasury rate associated with a \$75 million debt tranche that was issued in September 2020. Settlement of the treasury locks resulted in a \$6.6 million loss, which was recorded as a component of regulatory assets on the Balance Sheets. The loss is being amortized into earnings over the term of the debt as a component of interest expense on the Statements of Operations, which totaled \$223,000 and \$50,000, as of September 30, 2021 and 2020, respectively.

Fair Value of Derivatives

The following table reflects the fair value of the Company's derivative assets and liabilities recognized on the Balance Sheets as of September 30:

<i>(Thousands)</i>	Balance Sheet Location	Fair Value			
		2021		2020	
		Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Physical commodity contracts	Derivatives - current	\$ 36	\$ 16	\$ 78	\$ 76
Financial commodity contracts	Derivatives - current	2,046	13	71	282
Total fair value of derivatives		\$ 2,082	\$ 29	\$ 149	\$ 358

Offsetting of Derivatives

The Company transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty. However, the Company's policy is to present its derivative assets and liabilities on a gross basis at the contract level unit of account on the Balance Sheets. The following table summarizes the reported gross amounts, the amounts that the Company has the right to offset but elects not to, financial collateral, as well as the net amounts the Company could present on the Balance Sheets but elects not to.

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<i>(Thousands)</i>	Amounts Presented in Balance Sheets ⁽¹⁾	Offsetting Derivative Instruments ⁽²⁾	Financial Collateral Received/Pledged ⁽³⁾	Net Amounts ⁽⁴⁾
As of September 30, 2021				
Derivative assets:				
Physical commodity contracts	\$ 36	\$ (8)	\$ —	\$ 28
Financial commodity contracts	2,046	(13)	—	2,033
Total assets	\$ 2,082	\$ (21)	\$ —	\$ 2,061
Derivative liabilities:				
Physical commodity contracts	\$ 16	\$ (8)	\$ —	\$ 8
Financial commodity contracts	13	(13)	—	—
Total liabilities	\$ 29	\$ (21)	\$ —	\$ 8
As of September 30, 2020:				
Derivative assets:				
Physical commodity contracts	\$ 78	\$ (65)	\$ —	\$ 13
Financial commodity contracts	71	(71)	—	—
Total assets	\$ 149	\$ (136)	\$ —	\$ 13
Derivative liabilities:				
Physical commodity contracts	\$ 76	\$ (65)	\$ —	\$ 11
Financial commodity contracts	282	(71)	—	211
Total liabilities	\$ 358	\$ (136)	\$ —	\$ 222

- (1) Derivative assets and liabilities are presented on a gross basis in the balance sheet as the Company does not elect balance sheet offsetting under ASC 210-20.
- (2) Includes transactions with NAESB netting election, transactions held by FCMs with net margining and transactions with ISDA netting.
- (3) Financial collateral includes cash balances at FCMs as well as cash received from or pledged to other counterparties.
- (4) Net amounts represent presentation of derivative assets and liabilities if the Company were to elect balance sheet offsetting under ASC 210-20.

The Company's derivative contracts are part of the Company's risk management activities that relate to its natural gas purchases, BGSS incentive programs and debt financing. These transactions are entered into pursuant to regulatory approval and, at settlement, the resulting gains and/or losses are payable to, or recoverable from, utility customers. Any changes in the value of the Company's financial derivatives are deferred in regulatory assets or liabilities resulting in no impact to earnings.

The following table reflects the gains (losses) associated with the Company's derivative instruments as of September 30:

<i>(Thousands)</i>	2021	2020
Physical commodity contracts	\$ 2,174	\$ 2,077
Financial commodity contracts	32,725	(3,903)
Total unrealized and realized losses	\$ 34,899	\$ (1,826)

The Company had the following outstanding long derivatives as of September 30:

	Volume (Bcf)	
	2021	2020
Futures	22.2	23.7
Physical	7.6	6.0

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Broker Margin

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on exchange requirements and a variable amount based on a daily mark-to-market. The Company's broker margin account balances were approximately \$2.8 million and \$13.5 million as of September 30, 2021 and 2020, respectively.

Wholesale Credit Risk

The Company is exposed to credit risk as a result of their wholesale marketing activities. As a result of the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty fails to perform the obligations under its contract, then the Company could sustain a loss.

The Company monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of current and prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits and exposure, daily communication with traders regarding credit status and the use of credit mitigation measures, such as collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit. Collateral may be requested due to the Company's election not to extend credit or because exposure exceeds defined thresholds. Most of the Company's wholesale marketing contracts contain standard netting provisions. These contracts include those governed by ISDA and the NAESB. The netting provisions refer to payment netting, whereby receivables and payables with the same counterparty are offset and the resulting net amount is paid to the party to which it is due.

Internally-rated exposure applies to counterparties that are not rated by Fitch or Moody's. In these cases, the counterparty's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by Fitch and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts plus any outstanding wholesale receivable for the value of natural gas delivered and/or financial derivative commodity contract that has settled for which payment has not yet been received.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of September 30, 2021. The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for retail natural gas sales and services.

<i>(Thousands)</i>	Gross Credit Exposure
Investment grade	\$ 5,870
Noninvestment grade	927
Internally rated investment grade	371
Internally rated noninvestment grade	2,125
Total	\$ 9,293

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Conversely, certain of the Company's derivative instruments are linked to agreements containing provisions that would require cash collateral payments from the Company if certain events occur. These provisions vary based upon the terms in individual counterparty agreements and can result in cash payments if the Company's credit rating were to fall below its current level. Specifically, most, but not all, of these additional payments will be triggered if the Company's debt is downgraded by the major credit agencies, regardless of investment grade status. In addition, some of these agreements include threshold amounts that would result in additional collateral payments if the values of derivative liabilities were to exceed the maximum values provided for in relevant counterparty agreements. Other provisions include payment features that are not specifically linked to ratings, but are based on certain financial metrics.

Collateral amounts associated with any of these conditions, are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on September 30, 2021 and 2020, were considered immaterial. These amounts differ from the respective net derivative liabilities reflected on the Balance Sheets because the agreements also include clauses, commonly known as "Rights of Offset," that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted, as previously discussed.

6. FAIR VALUE*Fair Value of Assets and Liabilities*

The fair value of cash and cash equivalents, accounts receivable, current loan receivables, accounts payable, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. Non-current loan receivables are recorded based on what the Company expects to receive, which approximates fair value. The Company regularly evaluates the credit quality and collection profile of its customers to approximate fair value.

The estimated fair value of long-term debt, including current maturities and excluding finance leases, as applicable as of September 30, are as follows:

<i>(Thousands)</i>	2021	2020
Carrying value ^{(1) (2)}	\$ 1,092,845	\$ 1,092,845
Fair market value	\$ 1,188,261	\$ 1,271,715

(1) Excludes finance leases of \$20.1 million and \$74.2 million as of September 30, 2021 and 2020, respectively.

(2) Excludes debt issuance costs of \$9.1 million and \$9.2 million as of September 30, 2021 and 2020, respectively.

The Company utilizes a discounted cash flow method to determine the fair value of its debt. Inputs include observable municipal and corporate yields, as appropriate, for the maturity of the specific issue and the Company's credit rating. As of September 30, 2021 and 2020, the Company discloses its debt within Level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fair Value Hierarchy

The Company applies fair value measurement guidance to its financial assets and liabilities, as appropriate, which include financial and physical contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, authoritative accounting literature prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

- Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets. The Company's Level 1 assets and liabilities include exchange traded natural gas futures and options contracts, listed equities, and money market funds. Exchange traded futures and options contracts include all energy contracts traded on the NYMEX/CME and ICE that the Company refers to internally as basis swaps, fixed swaps, futures and financial options that are cleared through a FCM.
- Level 2 Other significant observable inputs such as interest rates or price data, including both commodity and basis pricing that is observed either directly or indirectly from publications or pricing services. The Company's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts and derivatives that are initially valued using observable quotes and are subsequently adjusted to include time value, credit risk or estimated transport pricing components for which no basis price is available. Level 2 financial derivatives consist of transactions with non-FCM counterparties (basis swaps, fixed swaps and/or options). For some physical commodity contracts, the Company utilizes transportation tariff rates that are publicly available and that it considers to be observable inputs that are equivalent to market data received from an independent source. There are no significant judgments or adjustments applied to the transportation tariff inputs and no market perspective is required. Even if the transportation tariff input were considered to be a "model," it would still be considered to be a Level 2 input as the data is:
- widely accepted and public;
 - non-proprietary and sourced from an independent third party; and
 - observable and published.

These additional adjustments are generally not considered to be significant to the ultimate recognized values.

- Level 3 Inputs derived from a significant amount of unobservable market data include the Company's best estimate of fair value and are derived primarily through the use of internal valuation methodologies.

The Company's derivatives portfolio consists mainly of physical natural gas and exchange traded futures and options contracts. The Company primarily uses the market approach and its policy is to use actively quoted market prices when available. The principal market for its physical and financial derivative transactions is the natural gas wholesale market, therefore, the primary source for its price inputs are CME, NYMEX and ICE.

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company also has other financial assets that include listed equities, mutual funds and money market funds for which there are active exchange quotes available.

When the Company determines fair values, measurements are adjusted, as needed, for credit risk associated with its counterparties, as well as its own credit risk. The Company determines these adjustments by using historical default probabilities that correspond to the applicable S&P issuer ratings, while also taking into consideration collateral and netting arrangements that serve to mitigate risk.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

<i>(Thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>As of September 30, 2021</u>				
Assets:				
Physical commodity contracts	\$ —	\$ 36	\$ —	\$ 36
Financial commodity contracts	2,046	—	—	2,046
Total assets at fair value	\$ 2,046	\$ 36	\$ —	\$ 2,082
Liabilities:				
Physical commodity contracts	\$ —	\$ 16	\$ —	\$ 16
Financial commodity contracts	13	—	—	13
Total liabilities at fair value	\$ 13	\$ 16	\$ —	\$ 29
<u>As of September 30, 2020:</u>				
Assets:				
Physical commodity contracts	\$ —	\$ 78	\$ —	\$ 78
Financial commodity contracts	71	—	—	71
Money market funds	112,289	—	—	112,289
Total assets at fair value	\$ 112,360	\$ 78	\$ —	\$ 112,438
Liabilities:				
Physical commodity contracts	\$ —	\$ 76	\$ —	\$ 76
Financial commodity contracts	282	—	—	282
Total liabilities at fair value	\$ 282	\$ 76	\$ —	\$ 358

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. DEBT

The following table presents the long-term debt of the Company as of September 30:

<i>(Thousands)</i>			2021	2020
Long-Term Debt				
First mortgage bonds:		Maturity date:		
3.00%	Series OO	August 1, 2041	46,500	46,500
3.15%	Series PP	April 15, 2028	50,000	50,000
3.58%	Series QQ	March 13, 2024	70,000	70,000
4.61%	Series RR	March 13, 2044	55,000	55,000
2.82%	Series SS	April 15, 2025	50,000	50,000
3.66%	Series TT	April 15, 2045	100,000	100,000
3.63%	Series UU	June 21, 2046	125,000	125,000
4.01%	Series VV	May 11, 2048	125,000	125,000
3.50%	Series WW	April 1, 2042	10,300	10,300
3.38%	Series XX	April 1, 2038	10,500	10,500
2.45%	Series YY	April 1, 2059	15,000	15,000
3.76%	Series ZZ	July 17, 2049	100,000	100,000
3.86%	Series AAA	July 17, 2059	85,000	85,000
2.75%	Series BBB (formally MM)	August 1, 2039	9,545	9,545
3.00%	Series CCC (formally NN)	August 1, 2043	41,000	41,000
3.13%	Series DDD	June 30, 2050	50,000	50,000
3.13%	Series EEE	July 23, 2050	50,000	50,000
3.33%	Series FFF	July 23, 2060	25,000	25,000
2.87%	Series GGG	September 1, 2050	25,000	25,000
2.97%	Series HHH	September 1, 2060	50,000	50,000
	Finance lease obligation-buildings	June 30, 2037	—	47,597
	Finance lease obligation-meters	Various dates	20,135	26,562
	Less: Debt issuance costs		(9,093)	(9,195)
	Less: Current maturities of long-term debt		(5,393)	(10,416)
	Total long-term debt		\$ 1,098,494	\$ 1,147,393

Annual long-term debt redemption requirements, excluding finance leases and debt issuance costs, as of September 30, are as follows:

<i>(Thousands)</i>	Redemption
2022	\$ —
2023	\$ —
2024	\$ 70,000
2025	\$ 50,000
2026	\$ —
Thereafter	\$ 972,845

First Mortgage Bonds

The Company and Trustee, entered into the Mortgage Indenture, dated September 1, 2014, which secures all of the outstanding First Mortgage Bonds issued by the Company. The Mortgage Indenture provides a direct first mortgage lien upon substantially all of the operating properties and franchises of the Company (other than excepted property, such as cash on hand, choses-in-action, securities, rent, natural

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

gas meters and certain materials, supplies, appliances and vehicles), subject only to certain permitted encumbrances. The Mortgage Indenture contains provisions subjecting after-acquired property (other than excepted property and subject to pre-existing liens, if any, at the time of acquisition) to the lien thereof.

The Company's Mortgage Indenture does not restrict the Company's ability to pay dividends. New Jersey Administrative Code 14:4-4.7 states that a public utility cannot issue dividends, without regulatory approval, if its equity to total capitalization ratio falls below 30 percent. As of September 30, 2021, the Company's equity to total capitalization ratio is 52.9 percent and has the ability to issue up to \$1.2 billion of FMB under the terms of the Mortgage Indenture.

On October 28, 2021, the Company entered into a Note Purchase Agreement for \$100 million of its senior notes, of which \$50 million were issued at an interest rate of 2.97 percent, maturing in 2051, and \$50 million were issued at an interest rate of 3.07 percent, maturing in 2061. The senior notes are secured by an equal principal amount of the Company's FMBs issued under the Company's Mortgage Indenture.

Sale Leasebacks

The Company received \$4.0 million during fiscal 2020, in connection with the sale leaseback of its natural gas meters with terms ranging from seven to 11 years. The Company records a finance lease liability that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration of the lease. The Company exercised early purchase options with respect to certain outstanding meter leases by making final principal payments of \$1.2 million for both fiscal 2021 and 2020. There were no natural gas meter sale leasebacks recorded during fiscal 2021.

Contractual commitments for finance lease payments, as of the fiscal years ended September 30, are as follows:

<i>(Thousands)</i>	Lease Payments
2022	\$ 6,004
2023	4,622
2024	5,279
2025	3,396
2026	2,324
Subtotal	21,625
Less: interest component	(1,490)
Total	\$ 20,135

Short-term Debt

A summary of the Company's credit facilities, which require commitment fees on the unused amounts, as of September 30, are as follows:

<i>(Thousands)</i>	2021	2020
Bank revolving credit facilities ⁽¹⁾	\$250,000	\$ 250,000
Commercial paper outstanding at end of period	\$158,200	\$ —
Weighted average interest rate at end of period	0.17 %	— %
Amount available at end of period ⁽²⁾	\$ 91,069	\$ 249,269

(1) Committed credit facilities, which require commitment fees of .075 percent on the unused amounts.

(2) Letters of credit outstanding total \$731,000 as of both September 30, 2021 and 2020, which reduces amount available by the same amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Amounts available under credit facilities are reduced by bank or commercial paper borrowings, as applicable, and any outstanding letters of credit.

On September 2, 2021, the Company entered into a Second Amended and Restated Credit Agreement governing a \$250 million Credit Facility. The agreement refinances a \$250 million revolving credit facility that was scheduled to expire on December 5, 2023, but has now been terminated. The Credit Facility expires on September 2, 2026, subject to two mutual options for a one-year extension beyond that date. The Credit Facility permits the borrowing of revolving loans and swingline loans, as well as a \$30 million sublimit for the issuance of letters of credit. The Credit Facility also includes an accordion feature, which would allow the Company, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the Credit Facility in minimum increments of \$50 million up to a maximum of \$100 million.

As of September 30, 2021, the Company has two letters of credit outstanding for \$731,000. The Company's letters of credit are used as collateral for remediation projects and expire in August 11, 2022. These letters of credit reduce the amount available under the Company's committed credit facility by the same amount. The Company does not anticipate that these letters of credit will be drawn upon by the counterparty and they will be renewed as necessary.

8. EMPLOYEE BENEFIT PLANS***Pension and Other Postemployment Benefit Plans***

The Company has two trustee, noncontributory defined benefit retirement plans covering eligible regular represented and non-represented employees with more than one year of service. Defined benefit plan benefits are based on years of service and average compensation during the highest sixty consecutive months of employment. The Company also provides postemployment medical and life insurance benefits to employees who meet certain eligibility requirements.

The Company's represented employees hired on or after January 1, 2012, are covered by an enhanced defined contribution plan instead of the defined benefit plan. Participation in the postemployment medical and life insurance plan was also frozen to new employees as of the same date.

The Company maintains an unfunded nonqualified PEP that was established to provide employees with the full level of benefits as stated in the qualified plan without reductions due to various limitations imposed by the provisions of federal income tax laws and regulations. There were no plan assets in the nonqualified plan due to the nature of the plan.

The Company's funding policy for its pension plans is to contribute at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. In fiscal 2021 and 2020, the Company had no minimum funding requirements. The Company made no discretionary contributions to the pension plans in fiscal 2021 and 2020. The Company does not expect to be required to make additional contributions to fund the pension plans over the following two fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents.

There are no Federal requirements to pre-fund OPEB benefits. However, the Company is required to fund certain amounts due to regulatory agreements with the BPU. The Company contributed \$6.8 million and \$8.1 million, in fiscal 2021 and 2020, respectively, and estimates that it will contribute between \$5

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

million to \$10 million over each of the next five years. Additional contributions may be required based on market conditions and changes to assumptions.

The Affordable Care Act was enacted in March 2010 and created an excise tax applicable to high-cost health plans, commonly known as the Cadillac Tax. Employers who sponsor health plans that have an annual cost that exceeded an amount defined by the law would pay a 40 percent tax on the excess plan costs beginning in 2022. The 2020 federal spending package permanently eliminated the Affordable Care Act-mandated Cadillac tax on high-cost employer-sponsored health coverage. Due to the repeal, the Company's OPEB liability was revalued for these changes. The Company applied a practical expedient to remeasure the plan assets and obligations as of December 31, 2019, which was the nearest calendar month-end date. The impact of the revaluation of the OPEB liability was recorded as of January 1, 2020 and is incorporated within actuarial assumptions at September 30, 2020.

The following summarizes the changes in the funded status of the plans and the related liabilities recognized on the Balance Sheets as of September 30:

(Thousands)	Pension ⁽¹⁾		OPEB	
	2021	2020	2021	2020
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 288,480	\$ 262,888	\$ 193,512	\$ 208,420
Service cost	6,552	6,195	3,216	3,277
Interest cost	6,625	7,733	4,789	5,593
Plan participants' contributions ⁽²⁾	26	22	451	194
Actuarial (gain) loss	(7,757)	20,003	(4,626)	(21,577)
Benefits paid, net of retiree subsidies received	(8,649)	(8,361)	(7,081)	(2,395)
Benefit obligation at end of year	\$ 285,277	\$ 288,480	\$ 190,261	\$ 193,512
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 248,408	\$ 231,979	\$ 95,922	\$ 83,138
Actual return on plan assets	47,564	24,666	18,144	6,872
Employer contributions	101	102	6,794	8,141
Benefits paid, net of plan participants' contributions ⁽²⁾	(8,623)	(8,339)	(6,777)	(2,229)
Fair value of plan assets at end of year	\$ 287,450	\$ 248,408	\$ 114,083	\$ 95,922
Funded status	\$ 2,173	\$ (40,072)	\$ (76,178)	\$ (97,590)
Amounts recognized on the Balance Sheets				
Postemployment employee benefit asset				
Non-current	\$ 4,016	\$ —	\$ —	\$ —
Total asset	\$ 4,016	\$ —	\$ —	\$ —
Postemployment employee (liability)				
Current	\$ (132)	\$ (132)	\$ (645)	\$ (649)
Non-current	(1,711)	(39,940)	(75,533)	(96,941)
Total	\$ (1,843)	\$ (40,072)	\$ (76,178)	\$ (97,590)

(1) Includes the Company's PEP.

(2) Prior to July 1, 1998, employees were eligible to elect an additional participant contribution to enhance their benefits and contributions made during the periods were insignificant.

The actuarial gains on the Company's pension and OPEB are primarily due to a decrease in the discount rate used to measure the benefit obligation. The Company recognizes a liability for its underfunded benefit plans as required by ASC 715, *Compensation - Retirement Benefits*. The Company records the offset to regulatory assets.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following table summarizes the amounts recognized in regulatory assets as of September 30:

	Pension	OPEB
Balance at September 30, 2019	\$ 99,606	\$ 111,629
Amounts arising during the period:		
Net actuarial loss (gain)	11,953	(21,974)
Amounts amortized to net periodic costs:		
Net actuarial (loss)	(7,893)	(6,536)
Prior service (cost) credit	(102)	182
Balance at September 30, 2020	\$ 103,564	\$ 83,301
Amounts arising during the period:		
Net actuarial (gain)	(39,006)	(16,286)
Amounts amortized to net periodic costs:		
Net actuarial (loss)	(8,269)	(6,846)
Prior service (cost) credit	(102)	166
Balance at September 30, 2021	\$ 56,187	\$ 60,335

The amounts in regulatory assets not yet recognized as components of net periodic benefit cost as of September 30 are:

<i>(Thousands)</i>	Pension		OPEB	
	2021	2020	2021	2020
Net actuarial loss	\$ 55,922	\$ 103,197	\$ 60,468	\$ 83,600
Prior service cost (credit)	265	367	(133)	(299)
Total	\$ 56,187	\$ 103,564	\$ 60,335	\$ 83,301

To the extent the unrecognized amounts in regulatory assets exceed 10 percent of the greater of the benefit obligation or the fair value of plan assets, an amortized amount over the average expected future working lifetime of the active plan participants is recognized. Amounts included in regulatory assets expected to be recognized as components of net periodic benefit cost in fiscal 2022 are as follows:

<i>(Thousands)</i>	Pension	OPEB
Net actuarial loss	\$ 5,843	\$ 4,577
Prior service cost (credit)	102	(133)
Total	\$ 5,945	\$ 4,444

The projected benefit and accumulated benefit obligations and the fair value of plan assets as of September 30, are as follows:

<i>(Thousands)</i>	Pension	
	2021	2020
Projected benefit obligation	\$ 285,277	\$ 288,480
Accumulated benefit obligation	\$ 255,022	\$ 255,410
Fair value of plan assets	\$ 287,450	\$ 248,408

The components of the net periodic cost for pension benefits, including the Company's PEP and OPEB costs (principally health care and life insurance) for employees and covered dependents for fiscal years ended September 30, are as follows:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

<i>(Thousands)</i>	Pension		OPEB	
	2021	2020	2021	2020
Service cost	\$ 6,552	\$ 6,195	\$ 3,216	\$ 3,277
Interest cost	6,625	7,733	4,789	5,593
Expected return on plan assets	(16,315)	(16,616)	(6,484)	(6,475)
Recognized actuarial loss	8,269	7,896	6,846	6,535
Prior service cost (credit) amortization	102	101	(166)	(182)
Net periodic benefit cost recognized as expense	\$ 5,233	\$ 5,309	\$ 8,201	\$ 8,748

Assumptions

The weighted average assumptions used to determine benefit costs during the fiscal year and obligations as of September 30, are as follows:

	Pension		OPEB	
	2021	2020	2021	2020
Benefit costs:				
Discount rate	2.95%/2.92% (1)	3.37%/3.35% (1)	3.08%/3.03% (1)	3.48%/3.44% (1)
Expected asset return	6.75 %	7.25 %	6.75 %	7.25 %
Compensation increase	3.00%/3.50% (1)	3.00%/3.50% (1)	3.00%/3.50% (1)	3.00%/3.50% (1)
Obligations:				
Discount rate	3.10%/3.07% (1)	2.95%/2.92% (1)	3.24%/3.17% (1)	3.08%/3.03% (1)
Compensation increase	3.00%/3.50% (1)	3.00%/3.50% (1)	3.00%/3.50% (1)	3.00%/3.50% (1)

(1) Percentages for represented and nonrepresented plans, respectively.

When measuring its projected benefit obligations, the Company uses an aggregate discount rate at which its obligation could be effectively settled. The Company determines a single weighted average discount rate based on a yield curve comprised of rates of return on a population of high quality debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of its expected future benefit payments. The Company measures its service and interest costs using a disaggregated, or spot rate, approach. The Company applies the duration-specific spot rates from the full yield curve, as of the measurement date, to each year's future benefit payments, which aligns the timing of the plans' separate future cash flows to the corresponding spot rates on the yield curve.

Information relating to the assumed HCCTR used to determine expected OPEB benefits as of September 30, and the effect of a one percent change in the rate, are as follows:

<i>(\$ in thousands)</i>	2021	2020
HCCTR	6.6 %	6.9 %
Ultimate HCCTR	4.5 %	4.5 %
Year ultimate HCCTR reached	2027	2027
Effect of a 1 percentage point increase in the HCCTR on:		
Year-end benefit obligation	\$ 33,840	\$ 38,871
Total service and interest cost	\$ 2,184	\$ 2,105
Effect of a 1 percentage point decrease in the HCCTR on:		
Year-end benefit obligation	\$ (27,116)	\$ (30,717)
Total service and interest costs	\$ (1,662)	\$ (1,616)

The Company's investment objective is a long-term real rate of return on assets before permissible expenses that is approximately 5 percent greater than the assumed rate of inflation, as measured by the

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

consumer price index. The expected long-term rate of return is based on the asset categories in which the Company invests and the current expectations and historical performance for these categories.

The mix and targeted allocation of the pension and OPEB plans' assets are as follows:

Asset Allocation	2022	Assets at	
	Target Allocation	2021	September 30, 2020
U.S. equity securities	34 %	36 %	38 %
International equity securities	17	17	18
Fixed income	38	40	39
Alternative investments	11	7	5
Total	100 %	100 %	100 %

The Company adopted the revised mortality assumptions published by the Society of Actuaries for its pension and other postemployment benefit obligations, which reflected increased life expectancies in the U.S. The adoption of the new mortality projection scale, MP-2019 and the Pri-2012 mortality study, did not materially impact the projected benefit obligation for the plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

<i>(Thousands)</i>	Pension	OPEB
2022	\$ 9,666	\$ 5,726
2023	\$ 10,378	\$ 6,211
2024	\$ 11,094	\$ 6,707
2025	\$ 11,834	\$ 7,280
2026	\$ 12,565	\$ 7,848
2027 - 2031	\$ 73,662	\$ 46,517

The Company's OPEB plans provide prescription drug benefits that are actuarially equivalent to those provided by Medicare Part D. Therefore, under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 the Company qualifies for federal subsidies.

The following estimated subsidy payments are expected to be paid during the following fiscal years:

<i>(Thousands)</i>	Estimated Subsidy Payment
2022	\$ 260
2023	\$ 287
2024	\$ 320
2025	\$ 351
2026	\$ 384
2027 - 2031	\$ 2,563

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Pension and OPEB assets held in the master trust, measured at fair value, as of September 30, are summarized as follows:

<i>(Thousands)</i> As of September 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)		Quoted Prices in Active Markets for Identical Assets (Level 1)	
	Pension	Total	OPEB	Total
Assets				
Money market funds	\$ —	\$ —	\$ 32	\$ 32
Registered Investment Companies:				
Equity Funds:				
Large Cap Index	84,112	84,112	33,614	33,614
Extended Market Index	17,757	17,757	7,090	7,090
International Stock	49,585	49,585	20,045	20,045
Fixed Income Funds:				
Emerging Markets	14,799	14,799	5,996	5,996
Core Fixed Income	—	—	13,333	13,333
Opportunistic Income	—	—	8,560	8,560
Ultra Short Duration	—	—	8,528	8,528
High Yield Bond Fund	24,515	24,515	9,903	9,903
Long Duration Fund	75,930	75,930	—	—
Total assets in the fair value hierarchy	\$ 266,698	266,698	\$ 107,101	107,101
Investments measured at net asset value				
Common collective trusts		20,752		6,982
Total assets at fair value		\$ 287,450		\$ 114,083

<i>(Thousands)</i> As of September 30, 2020:	Quoted Prices in Active Markets for Identical Assets (Level 1)		Quoted Prices in Active Markets for Identical Assets (Level 1)	
	Pension	Total	OPEB	Total
Assets				
Money market funds	\$ —	\$ —	\$ 15	\$ 15
Registered Investment Companies:				
Equity Funds:				
Large Cap Index	77,064	77,064	29,758	29,758
Extended Market Index	17,007	17,007	6,438	6,438
International Stock	45,905	45,905	17,303	17,303
Fixed Income Funds:				
Emerging Markets	12,912	12,912	4,933	4,933
Core Fixed Income	—	—	11,090	11,090
Opportunistic Income	—	—	7,092	7,092
Ultra Short Duration	—	—	7,022	7,022
High Yield Bond Fund	21,216	21,216	8,182	8,182
Long Duration Fund	62,137	62,137	—	—
Total assets in the fair value hierarchy	\$ 236,241	236,241	\$ 91,833	91,833
Investments measured at net asset value				
Common collective trusts		12,167		4,089
Total assets at fair value		\$ 248,408		\$ 95,922

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The plan had no Level 2 or Level 3 fair value measurements during fiscal 2021 and 2020, and there have been no changes in valuation methodologies as of September 30, 2021. The Plan held assets that are valued using NAV as a practical expedient, which are excluded from the fair value hierarchy.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money Market funds — Represents bank balances and money market funds that are valued based on the net asset value of shares held at year end.

Registered Investment Companies — Equity and fixed income funds valued at the net asset value of shares held by the plan at year end as reported on the active market on which the individual securities are traded.

Common collective trusts — The NAV for common collective trusts is provided by the trustee, and is used as a practical expedient to estimate fair value. The NAV is based on the value of the underlying assets owned by the fund less liabilities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Defined Contribution Plan

The Company offers a Savings Plan to eligible employees. The Company matches 85 percent of participants' contributions up to 6 percent of base compensation. The Company's non-represented employees hired on or after October 1, 2009, and represented employees hired on or after January 1, 2012, are eligible for an employer special contribution of between 3.5 percent and 4.5 percent of base compensation, depending on years of service, into the Savings Plan on their behalf. The amount expensed and contributed for the matching provision of the Savings Plan was \$2.8 million during fiscal 2021 and \$2.5 million during fiscal 2020. The amount contributed for the employer special contribution of the Savings Plan was \$791,000 and \$569,000 during fiscal 2021 and 2020, respectively.

9. ASSET RETIREMENT OBLIGATIONS

The Company recognizes AROs when the legal obligation to retire an asset has been incurred and a reasonable estimate of fair value can be made. Accordingly, the Company recognizes AROs related to the costs associated with cutting and capping its main and service natural gas distribution pipelines, which is required by New Jersey law when taking such natural gas distribution pipeline out of service.

Accretion amounts associated with the Company's ARO are recognized as part of its depreciation expense and the corresponding regulatory asset and liability will be shown gross on the Balance Sheets.

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following is an analysis of the change in the ARO liability for the fiscal years ended September 30:

<i>(Thousands)</i>	2021	2020
Balance at October 1	\$ 29,280	\$ 26,944
Accretion	1,612	1,476
Additions	5,697	—
Change in assumptions	6,151	1,104
Retirements	(1,129)	(244)
Balance at period end	\$ 41,611	\$ 29,280

Accretion for the next five years for the fiscal years ended September 30, are estimated to be as follows:

<i>(Thousands)</i>	Estimated Accretion
2022	\$ 1,827
2023	1,900
2024	1,974
2025	2,047
2026	2,123
Total	\$ 9,871

10. INCOME TAXES

The income tax provision (benefit) from operations for the fiscal years ended September 30, consists of the following:

<i>(Thousands)</i>	2021	2020
Current		
Federal	\$ (7,196)	\$ 6,138
State	1	—
Deferred		
Federal	19,346	11,472
State	7,225	9,733
Investment tax credits	(322)	(322)
Income tax provision	\$ 19,054	\$ 27,021

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of September 30, the temporary differences, which give rise to deferred tax assets and (liabilities), consist of the following:

<i>(Thousands)</i>	2021	2020
Deferred tax assets		
Overrecovered natural gas costs	\$ 1,540	\$ 7,244
State net operating losses	9,750	4,356
Allowance for doubtful accounts	4,763	1,573
Investment tax credits	814	898
Incentive compensation	971	882
Other	1,252	1,474
Total deferred tax assets	\$ 19,090	\$ 16,427
Deferred tax liabilities		
Property related items	\$ (347,733)	\$ (302,499)
Remediation costs	(16,347)	(10,207)
Post employment benefits	(12,756)	(14,790)
Conservation incentive plan	(3,309)	(5,345)
Capitalized interest	(3,654)	(4,215)
Deferred storm damage costs	(1,214)	(1,821)
Other	(146)	(603)
Total deferred tax liabilities	\$ (385,159)	\$ (339,480)
Total net deferred tax liabilities	\$ (366,069)	\$ (323,053)

A reconciliation of the United States federal statutory rate to the effective rate from operations for the fiscal years ended September 30, are as follows:

<i>(Thousands)</i>	2021	2020
Statutory income tax expense	\$ 26,550	\$ 32,324
Change resulting from:		
State income taxes, net of federal benefit	5,708	7,689
Cost of removal of assets placed in service prior to 1981	(5,366)	(5,362)
AFUDC equity	(3,487)	(3,066)
Investment tax credits	(322)	(322)
Tax Act - excess deferred income taxes amortized	(3,573)	(3,573)
Other	(456)	(669)
Income tax provision	\$ 19,054	\$ 27,021
Effective income tax rate	15.1 %	17.6 %

The Company's federal income tax returns through 2017 have either been reviewed by the IRS, or the related statute of limitations has expired and all matters have been settled. Federal income tax returns for all periods subsequent to those ended September 30, 2017, are statutorily open to examination. In New Jersey all periods subsequent to September 30, 2016 are statutorily open to examination.

The Company evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. Interest and penalties related to unrecognized tax benefits, if any, are recognized within income tax expense and accrued interest, and penalties are recognized within other noncurrent liabilities on the Balance Sheets. As of September 30, 2021 and 2020, based on its analysis, the Company determined there was no need to recognize any liabilities associated with uncertain tax positions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

CARES Act

On March 27, 2020, the President of the U.S. signed the CARES Act, which is aimed at providing emergency assistance and health care for individuals, families, and businesses affected by the COVID-19 pandemic and generally supporting the U.S. economy. The CARES Act, among other things, includes several business tax provisions which include, but are not limited to modifications of federal net operating loss carrybacks and deductibility, changes to prior year refundable alternative minimum tax liabilities, increase of limitations on business interest deductions from 30 percent to 50 percent of earnings before interest, taxes, depreciation, and amortization, technical corrections of the classification of qualified improvement property making them eligible for bonus depreciation, increase of the limits on charitable contribution deductions from 10 percent to 25 percent of adjusted taxable income, modifications of the treatment of federal loans, loan guarantees, and other investments, suspension of industry specific excise taxes, deferral of the company portion of OASDI, and implementation of a refundable employee retention tax credit.

The CARES Act provides for the delay in the required deposit of the employer portion of the OASDI payroll tax from the date of enactment through the end of 2020. Of the taxes that the Company can defer, 50 percent of the deferred taxes are required to be deposited by the end of 2021 and the remaining 50 percent are required to be deposited by the end of 2022. Additionally, The CARES Act provides a refundable tax credit, the employee retention tax credit, to certain employers who are ordered by a competent governmental authority to suspend or reduce business operations due to concern about the spread of COVID-19 or suffered a significant decline in the business during a calendar quarter during 2020 compared to the same calendar quarter during the previous year. As of September 30, 2021 and 2020, the Company deferred approximately \$3.0 million and \$1.9 million, respectively, related to the employer portion of the OASDI tax.

On March 11, 2021, the President of the U.S. signed the American Rescue Plan Act of 2021, which is primarily an economic stimulus package. It also expanded the scope of Section 162(m) of the Internal Revenue Code, which imposes a \$1.0 million deduction limit on compensation paid to covered employees from the top five officers to also include the next five highest paid employees for tax years beginning after December 31, 2026.

11. LEASES***Lessee Accounting***

The Company determines if an arrangement is a lease at inception based on whether the Company has the right to control the use of an identified asset, the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset and accounts for leases in accordance with ASC 842, *Leases*. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and leased liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term, including payments at commencement that depend on an index or rate. The Company's land leases and office equipment leases in which the Company is the lessee do not have a readily determinable implicit rate, so an incremental borrowing rate, based on the information available at the lease commencement date, is utilized to determine the present value of lease payments. When a secured borrowing rate is not readily available, unsecured borrowing rates are adjusted for the effects of collateral to determine the incremental

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

borrowing rate. The Company uses the implicit rate for agreements in which it is a lessor. The Company has not entered into any material agreements in which it is a lessor. Lease expense and lease income are recognized on a straight-line basis over the lease term for operating leases.

The Company's lease agreements primarily consist of equipment and real property, including land and office facilities, office equipment and the sale leaseback of its natural gas meters. The Company's office leases vary in duration, ranging from two to five years and may or may not include extension or early purchase options. The Company's meter lease terms are between seven and ten years with purchase options available prior to the end of the term. Equipment leases include general office equipment that also vary in duration, most of which are for a term of three years. The Company's lease terms may include options to extend, purchase the leased asset or terminate a lease and they are included in the lease liability calculation when it is reasonably certain that those options will be exercised. The Company has elected an accounting policy that exempts leases with an original term of one year or less from the recognition requirements of ASC 842, Leases.

The Company has lease agreements with lease and nonlease components and has elected the practical expedient to combine lease and nonlease components for certain classes of leases, such as office buildings and office equipment. Variable payments are not significant to the Company. The Company's lease agreements do not contain any material residual value guarantees, material restrictions or material covenants.

The following table presents the Company's lease costs included in the Statements of Operations for the fiscal year ended September 30:

<i>(Thousands)</i>	Income Statement Location	2021	2020
Finance lease cost			
Amortization of right-of-use assets	Depreciation and amortization	\$ 3,442	\$ 5,007
Interest on lease liabilities	Interest expense, net of capitalized interest	710	1,511
Total finance lease cost		4,152	6,518
Operating lease cost	Operation and maintenance	\$ 50	\$ 306
Short-term lease cost	Operation and maintenance	11	500
Total lease cost		\$ 4,213	\$ 7,324

The following table presents supplemental cash flow information related to leases for the fiscal year ended September 30:

<i>(Thousands)</i>	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 131	\$ 263
Operating cash flows from finance leases	\$ 1,167	\$ 1,189
Financing cash flows from finance leases	\$ 8,180	\$ 6,985

Assets obtained or modified through amendments in exchange for operating lease liabilities during fiscal 2021 and 2020 were \$29,000 and \$813,000, respectively. There were no assets obtained or modified through finance lease liabilities during fiscal 2021. Assets obtained or modified through finance lease liabilities totaled approximately \$49.7 million during fiscal 2020.

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following table presents the balance and classifications of our right of use assets and lease liabilities included in the Balance Sheets for the fiscal year ended September 30:

<i>(Thousands)</i>	Balance Sheet Location	2021	2020
Assets			
Noncurrent			
Operating lease assets	Operating lease assets	\$ 172	\$ 619
Finance lease assets	Utility plant	13,489	71,085
Total lease assets		\$ 13,661	\$ 71,704
Liabilities			
Current			
Operating lease liabilities	Operating lease liabilities	\$ 38	\$ 257
Finance lease liabilities	Current maturities of long-term debt	5,393	10,416
Noncurrent			
Operating lease liabilities	Operating lease liabilities	137	339
Finance lease liabilities	Long-term debt	14,742	63,743
Total lease liabilities		\$ 20,310	\$ 74,755

For operating lease assets and liabilities, the weighted average remaining lease term was 4.8 years and 3.1 years and the weighted average discount rate used in the valuation over the remaining lease term was 1.4 percent and 2.17 percent as of September 30, 2021 and 2020, respectively. For finance lease assets and liabilities as of September 30, 2021 and 2020, the weighted average remaining lease term was 3.4 years and 11.5 years and the weighted average discount rate used in the valuation over the remaining lease term is 3.5 percent and 2.5 percent as of September 30, 2021 and 2020, respectively.

The following table presents the Company's maturities of lease liabilities as of September 30, 2021:

<i>(Thousands)</i>	Operating Leases	Finance Leases
2022	\$ 40	\$ 6,004
2023	38	4,622
2024	40	5,279
2025	35	3,396
2026	27	2,324
Total future lease payments	180	21,625
Less: Liability accretion	(5)	(1,490)
Total lease liability	\$ 175	\$ 20,135

The Company was a lessee as part of a lease agreement for its headquarters building with a 16-year term that would have expired in June 2037. On May 26, 2021, the Company exercised a purchase option of the lease to acquire the building for \$41.1 million, which is included in utility plant on the Balance Sheets. Following the purchase of the building, the Company removed the present value of the future lease payments of \$46.9 million, which was reflected within utility plant and \$45.6 million as presented within finance lease liabilities on the Balance Sheets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)***Lessor Accounting***

The Company has related party leases in which it is the lessor and other NJR subsidiaries are the lessees related to their share of office space in the Company's headquarters building. The terms of these leases are for 16 years, with annual escalation provisions for inflation metrics. An incremental borrowing rate was utilized for the lessees, as is standard for the Company's operating leases in which it is a lessee. The Company recognizes its building headquarters within property, plant and equipment on the Balance Sheets in accordance with ASC 360. Lease income recognized was approximately \$337,000 for the fiscal year ended September 30, 2021. The lessor maturities of these related party leases as of September 30, 2021, is approximately \$1.3 million for years 2022 through 2026 each year and \$14.5 million thereafter.

12. COMMITMENTS AND CONTINGENT LIABILITIES***Cash Commitments***

The Company has entered into long-term contracts, expiring at various dates through November 2038, for the supply, storage and transportation of natural gas. These contracts include current annual fixed charges of approximately \$168.5 million at current contract rates and volumes, which are recoverable through BGSS.

Commitments as of September 30, 2021, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

<i>(Thousands)</i>	2022	2023	2024	2025	2026	Thereafter
Natural gas purchases	\$ 35,389	\$ —	\$ —	\$ —	\$ —	\$ —
Storage demand fees	37,293	27,981	14,300	6,856	1,726	1,870
Pipeline demand fees	131,207	126,177	126,343	127,990	121,258	1,066,014
Total ⁽¹⁾	\$ 203,889	\$ 154,158	\$ 140,643	\$ 134,846	\$ 122,984	\$ 1,067,884

(1) Does not include amounts related to intercompany asset management agreements with NJRES.

Legal Proceedings***Manufactured Gas Plant Remediation***

The Company is responsible for the remedial cleanup of certain former MGP sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. The Company is currently involved in administrative proceedings with the NJDEP, and participating in various studies and investigations by outside consultants, to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under NJDEP regulations.

The Company periodically, and at least annually, performs an environmental review of former MGP sites located in Atlantic Highlands, Berkeley, Long Branch, Manchester, Toms River, Freehold and Aberdeen, New Jersey, including a review of potential liability for investigation and remedial action. The Company estimated at the time of the most recent review that total future expenditures at the former MGP sites for which it is responsible, including potential liabilities for natural resource damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites will range from approximately \$115.4 million to \$178.4 million. The Company's estimate of these

NOTES TO THE FINANCIAL STATEMENTS (Continued)

liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. Where it is probable that costs will be incurred, and the information is sufficient to establish a range of possible liability, the Company accrues the most likely amount in the range. If no point within the range is more likely than the other, it is the Company's policy to accrue the lower end of the range. Accordingly, as of September 30, 2021, the Company recorded a MGP remediation liability and a corresponding regulatory asset of approximately \$135.0 million on the Balance Sheets based on the most likely amount.

On September 30, 2021, the Company filed its annual SBC application requesting to recover remediation expenses including an increase in the RAC, of approximately \$2.0 million annually, effective April 1, 2022. The actual costs to be incurred by the Company are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and insurance recoveries, if any.

In June 2019, the Company initiated a preliminary assessment of a site in Aberdeen, New Jersey to determine prior ownership and if former MGP operations were active at the location. The preliminary assessment and site investigation activities are ongoing at the Aberdeen, NJ site location. The estimated costs to complete the preliminary assessment and site investigation phase are included in the MGP remediation liability and corresponding regulatory asset on the Balance Sheet at September 30, 2021. The Company will continue to gather information to determine whether the obligation exists to undertake remedial action, if any, and refine its estimate of potential costs for this site as more information becomes available.

The Company recovers its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RAC approved by the BPU. On September 9, 2020, the BPU approved the Company's increase in the RAC, which increased the annual recovery from \$8.5 million to \$9.7 million, effective October 1, 2020. On April 7, 2021, the BPU approved an increase in the RAC, which increased the annual recovery from \$9.7 million to \$11.1 million and was effective May 1, 2021. As of September 30, 2021, \$58.5 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Balance Sheets. The Company will continue to seek recovery of MGP-related costs through the RAC. If any future regulatory position indicates that the recovery of such costs is not probable, the related non-recoverable costs would be charged to income in the period of such determination.

General

The Company is involved, and from time to time in the future may be involved, in a number of pending and threatened judicial, regulatory and arbitration proceedings relating to matters that arise in the ordinary course of business. In view of the inherent difficulty of predicting the outcome of litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, the Company cannot state with confidence what the eventual outcome of the pending litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter will be, if any. In accordance with applicable accounting guidance, the Company establishes accruals for litigation for those matters that present loss contingencies as to which it is both probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company also discloses contingent matters for which there is a reasonable possibility of a loss. Based upon currently available information, the Company believes that the results of litigation that is

NOTES TO THE FINANCIAL STATEMENTS (Continued)

currently pending, taken together, will not have a materially adverse effect on the Company's financial condition, results of operations or cash flows. The actual results of resolving the pending litigation matters may be substantially higher than the amounts accrued.

The foregoing statements about The Company's litigation are based upon the Company's judgments, assumptions and estimates and are necessarily subjective and uncertain. The Company has a number of threatened and pending litigation matters at various stages.

13. RELATED PARTY TRANSACTIONS

The Company participates in various transactions with NJR and other subsidiaries of NJR in the ordinary course of business. These transactions result in either charges or credits to operation and maintenance expense in the Statements of Operations.

Charges incurred by the Company for the fiscal years ended September 30, are as follows:

<i>(Thousands)</i>	2021	2020
NJR Service	\$ 48,442	\$ 34,988
NJR	21,987	14,049
Total	\$ 70,429	\$ 49,037

Charges from NJR Service were primarily related to financial and administrative, legal, human resources, corporate communications, taxation, internal audit and technology services. Charges from NJR were for various services, including executive management and corporate governance.

Charges from the Company for the fiscal years ended September 30, are as follows:

<i>(Thousands)</i>	2021	2020
NJRHS	\$ 3,337	\$ 4,735
NJRES	70	707
NJRCEV	207	678
NJR Service	71	—
NJR	9	327
Adelphia	—	20
Total	\$ 3,694	\$ 6,467

Charges to NJRHS and NJRCEV were for services related to billing, customer inquiry, payment processing, vehicle fleet maintenance and operating expenses. Charges to NJRES were for administrative services and operating expenses. Charges to NJR Service, NJR and Adelphia were for operating expenses.

NEW JERSEY NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following table reflects the net (payable) receivable the Company had as of September 30, which are included in accounts payable and other and other current assets, respectively, on the Balance Sheets:

<i>(Thousands)</i>	2021	2020
NJR Service	\$ (4,719)	\$ (2,788)
NJR	(2,093)	(1,664)
NJRHS	1,425	927
NJRES	207	12
NJRCEV	191	78
CR&R	1	8
Adelphia	72	25
Leaf River	44	—
NJR Midstream	85	25
Total	\$ (4,787)	\$ (3,377)

Effective April 1, 2020, the Company entered into a 5-year agreement for 3 Bcf of firm storage capacity with Steckman Ridge, which expires on March 31, 2025. Under the terms of the agreement, the Company incurs demand fees, at market rates, of approximately \$9.3 million annually. These fees are recoverable through the Company's BGSS mechanism and are included as a component of regulatory assets. Demand fees associated with Steckman Ridge were \$9.2 million and \$9.3 million during the fiscal years ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, the Company had fees payable to Steckman Ridge in the amount of \$778,000 and \$775,000, respectively.

The Company and NJRES have entered into various asset management agreements. Under the terms of these agreements, the Company releases certain transportation and storage contracts to NJRES. The Company retains the right to purchase market priced natural gas or fixed price storage natural gas from NJRES. As of September 30, 2021, the Company and NJRES had two asset management agreements with expiration dates ranging from October 31, 2021 through March 31, 2022. The Company purchased natural gas from NJRES in the amount of \$3.7 million and \$2.2 million during the fiscal years ended September 30, 2021 and 2020, respectively.

The Company has entered into a 5-year transportation precedent agreement with Adelphia Gateway for committed capacity of 130,000 Dths per day, which is expected to begin during the 2nd quarter of fiscal 2022, dependent upon the completion of a compressor.

In March 2021, the Company and NJRCEV entered into a 15-year sublease and PPA agreement related to an onsite solar array and the related energy output at the Company's headquarters in Wall, New Jersey, the effects of which are immaterial to the financial statements.

In July 2021, the Company entered into 16-year lease agreements with various NJR subsidiaries for office space at the Company's headquarters in Wall, New Jersey. Lease income recognized was approximately \$337,000 for the fiscal year ended September 30, 2021.

EXHIBIT C**STATEMENT OF INTEREST CHARGED TO INCOME
For the Twelve Months Ended September 30, 2021**

Issue	Amount (\$000)
First Mortgage Bonds Series OO	1,395
First Mortgage Bonds Series PP	1,575
First Mortgage Bonds Series QQ	2,506
First Mortgage Bonds Series RR	2,536
First Mortgage Bonds Series SS	1,410
First Mortgage Bonds Series TT	3,660
First Mortgage Bonds Series UU	4,538
First Mortgage Bonds Series VV	5,013
First Mortgage Bonds Series WW	451
First Mortgage Bonds Series XX	500
First Mortgage Bonds Series YY	483
First Mortgage Bonds Series ZZ	3,774
First Mortgage Bonds Series AAA	3,515
First Mortgage Bonds Series BBB	262
First Mortgage Bonds Series CCC	1,230
First Mortgage Bonds Series DDD	1,956
First Mortgage Bonds Series EEE	1,556
First Mortgage Bonds Series FFF	828
First Mortgage Bonds Series GGG	777
First Mortgage Bonds Series HHH	1,609
Meter Leases	710
Short-term and Commercial Paper	83
Total	40,367

EXHIBIT D**New Jersey Natural Gas Company
Schedule of Anticipated Capital Expenditures for Fiscal Years 2022-2025**

(\$MM)	2022E	2023E	2024E	2025E	2022-2025 Total
New Customer	\$54.1	\$56.8	\$56.0	\$56.0	\$222.9
Maintenance	125.5	101.51	116.41	101.59	445.01
Cost of Removal/Other	84.95	83.90	69.88	52.83	291.56
NEXT	39.5	48.1	29.9	-	117.5
Infrastructure Investment Program (IIP)	26.3	33.9	24.2	29.8	114.2
Sub-Total	\$330.4	\$324.2	\$296.4	\$240.2	\$1,191.2
SAVEGREEN	52.0	50.0	50.0	50.0	202.0
Total	\$382.4	\$374.2	\$346.4	\$290.2	\$1,393.2

APPENDIX A

RESOLUTIONS OF THE BOARD OF DIRECTORS OF NEW JERSEY NATURAL GAS COMPANY

**EXTRACT FROM THE MINUTES OF A MEETING OF THE BOARD OF
DIRECTORS OF NEW JERSEY NATURAL GAS COMPANY
HELD APRIL 20, 2022**

WHEREAS, New Jersey Natural Gas Company (the “Company”) is planning to file a petition (the “Petition”) with the Board of Public Utilities of the State of New Jersey (“BPU”), a draft of which is attached hereto as Exhibit A, requesting authorization for three years from the effective date of the order of the BPU to (i) issue and sell medium-term notes (“MTNs”) with a maturity of not more than forty (40) years in an aggregate principal amount of not more than \$500,000,000 and issue first mortgage bonds under the Company’s mortgage indenture to secure the MTNs; (ii) enter into one or more interest rate risk management transactions, including interest rate swaps and interest caps, floors and collars with a duration of up to three years (collectively, “Interest Rate Swaps”) in connection with the issuance and sale of the MTNs in an amount up to \$500,000,000; (iii) redeem, refinance, or defease any of the Company’s outstanding long-term debt securities, as long as the redemption, refinancing or defeasance is economically advantageous to the Company; (iv) enter into a revolving credit facility with a duration for up to five years and an option for up to two additional one-year extensions beyond the original five-year duration, providing, among other things, for the issuance of promissory notes in an aggregate principal amount not to exceed \$500,000,000; and (v) make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement instruments) and take such other actions that may be necessary in connection therewith without further order of the Board of Directors (collectively, (i) through (v) are referred to herein as the “Transactions”); and

WHEREAS, the Company plans to use the proceeds of the issuance and sale of the MTNs to retire short-term debt through the issuance of long-term debt; to fund capital expenditure requirements, including, but not limited to, those related to NJNG’s BPU approved Infrastructure Investment Program, energy efficiency expenditures such as those made in connection with the SAVEGREEN Project[®], environmental remediation expenditures, our IT infrastructure program and other system reliability infrastructure programs; to fund pension and other post-employment benefit programs; and, potentially, to redeem, refinance or defease any of the Company’s indebtedness or debt securities as long as such redemption, refinancing or defeasance would be economically advantageous for the Company; and

WHEREAS, it is in the best interests of the Company to issue and sell MTNs and enter into certain transactions related to that proposed issuance, offering and sale of up to \$500,000,000 of MTNs; and

WHEREAS, the Company may enter into Interest Rate Swaps with a duration of up to three years in connection with the issuance and sale of the MTNs in an amount up to \$500,000,000; and

WHEREAS, the Company may enter into a revolving credit facility with a duration for up to five years and an option for up to two additional one-year extensions beyond the original five-

year duration, providing, among other things, for the issuance of promissory notes in an aggregate principal amount not to exceed \$500,000,000; and

WHEREAS, the Company may make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement instruments) and take such other actions that may be necessary in connection therewith without further order of the Board of Directors; and

WHEREAS, it is in the best interests of the Company to maintain the flexibility to quickly respond to changing market conditions as deemed necessary by the officers of the Company and enter into the Interest Rate Swaps; and

WHEREAS, it is in the best interests of the Company to maintain the flexibility to quickly respond to changing market conditions and to issue and sell MTNs as deemed necessary by the officers of the Company; and

WHEREAS, the Company is duly authorized to incur indebtedness for its corporate purposes and to issue its notes and other obligations to evidence such indebtedness; and

WHEREAS, in the judgment of this Board of Directors it is advisable and in the best interests of the Company and its shareowners that the officers of the Company be authorized to file the Petition and to undertake the Transactions, including, but not limited to, the issuance and sale of the MTNs; the Interest Rate Swaps, the revolving credit facility, and the execution and delivery of any transaction documents related to the foregoing; provided that prior to the execution of the issuance and sale of the MTNs (the “Transactions Requiring Further Board Approval”), officers of the Company shall seek final approval from this Board of Directors.

NOW THEREFORE, it is hereby resolved by the Board of Directors of the Company as follows:

1. That the filing of the Petition with the BPU is hereby authorized and the President, any Vice President or the Treasurer be and each of them acting alone is hereby authorized, empowered and directed to execute the Petition for and on behalf of and in the name of the Company.
2. That the proposed Transactions are each hereby approved subject to the issuance by the BPU of an order approving the Petition and the final approval of this Board of Directors, in the case of the Transactions Requiring Further Board Approval.
3. That any and all documents related to the Transactions (“Transaction Documents”) may be executed by the President, any Vice President or the Treasurer only upon final approval of this Board of the specific Transaction or Transactions to which the Transaction Documents relate, in the case of the Transactions Requiring Further Board Approval.

4. That the officers, agents and employees of the Company are authorized and empowered to do and perform such other acts and things to carry out the intent of these resolutions, and all acts and things whether heretofore or hereafter done or performed by any of the officers of the Company which are in conformity with the intents and purposes of these resolutions shall be and the same are hereby in all respects ratified, confirmed and approved.

5. That all actions of the officers, agents and employees of the Company in furtherance of the Transactions and taken up through the date hereof are hereby ratified and approved.

6. That the Corporate Secretary of the Company shall deliver a certified copy of these resolutions to the BPU.

I hereby certify this 21st day of April, 2022, that the foregoing is a true and correct extract from the minutes of a meeting of the Board of Directors of New Jersey Natural Gas duly called and held on April 20, 2022, at which a quorum was present and that the resolution set forth in such extract was duly adopted by said Board of Directors of the Company and has not been amended or rescinded and is still in full force and effect.



Richard Reich
Senior Vice President, General Counsel and
Corporate Secretary