SOUTH JERSEY INDUSTRIES INC
Form 10-Q
August 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark one)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from ____________________ to ______________________

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

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

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

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

South Jersey Industries, Inc.:

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

South Jersey Gas Company:

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

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

13(a) of the Exchange Act o

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

South Jersey Industries, Inc. common stock ($1.25 par value) outstanding as of August 1, 2018 was 85,506,217 shares. South Jersey Gas Company common stock ($2.50 par value) outstanding as of August 1, 2018 was 2,339,139 shares. All of South Jersey Gas Company's outstanding shares of common stock are held by SJI Utilities, Inc.

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

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INTRODUCTION

FILING FORMAT

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

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

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

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Item 1. Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended June 30, 2018	2017
Operating Revenues (See Note 16):		
Utility	$75,603	$81,938
Nonutility	151,727	162,436
Total Operating Revenues	227,330	244,374
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	18,181	32,331
- Nonutility	127,615	147,354
Operations (See Note 1)	58,007	37,296
Impairment Charges	99,233	—
Maintenance	6,812	4,672
Depreciation	24,771	24,556
Energy and Other Taxes	1,243	1,551
Total Operating Expenses	335,862	247,760
Operating Loss (See Note 1)	(108,532)	(3,386)
Other Income and Expense (See Note 1)	974	1,139
Interest Charges	(19,561)	(10,979)
Loss Before Income Taxes	(127,119)	(13,226)
Income Taxes	31,972	5,544
Equity in Earnings of Affiliated Companies	1,354	70
Loss from Continuing Operations	(93,793)	(7,612)
Loss from Discontinued Operations - (Net of tax benefit)	(26)	(47)
Net Loss	$(93,819)	$(7,659)
Basic Earnings Per Common Share:		
Continuing Operations	$(1.12)	$(0.10)
Discontinued Operations	—	—
Basic Earnings Per Common Share	$(1.12)	$(0.10)
Average Shares of Common Stock Outstanding - Basic	84,080	79,549
Diluted Earnings Per Common Share:		
Continuing Operations	$(1.12)	$(0.10)
Discontinued Operations	—	—
Diluted Earnings Per Common Share	$(1.12)	$(0.10)
Average Shares of Common Stock Outstanding - Diluted	84,080	79,549
Dividends Declared Per Common Share	$0.28	$0.27

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

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	Six Months Ended June 30,	
	2018	2017
Operating Revenues (See Note 16):		
Utility	$307,371	$277,707
Nonutility	441,904	392,496
Total Operating Revenues	749,275	670,203
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	105,298	103,710
- Nonutility	323,566	363,117
Operations (See Note 1)	105,051	75,744
Impairment Charges	99,233	—
Maintenance	13,674	9,653
Depreciation	49,433	48,879
Energy and Other Taxes	3,682	3,622
Total Operating Expenses	699,937	604,725
Operating Income (See Note 1)	49,338	65,478
Other Income and Expense (See Note 1)	3,735	5,626
Interest Charges	(33,533)	(27,724)
Income Before Income Taxes	19,540	43,380
Income Taxes	(4,443)	(16,326)
Equity in Earnings of Affiliated Companies	2,416	3,081
Income from Continuing Operations	17,513	30,135
Loss from Discontinued Operations - (Net of tax benefit)	(92)	(77)
Net Income	$17,421	$30,058
Basic Earnings Per Common Share:		
Continuing Operations	$0.21	$0.38
Discontinued Operations	—	—
Basic Earnings Per Common Share	$0.21	$0.38
Average Shares of Common Stock Outstanding - Basic	81,850	79,534
Diluted Earnings Per Common Share:		
Continuing Operations	$0.21	$0.38
Discontinued Operations	—	—
Diluted Earnings Per Common Share	$0.21	$0.38
Average Shares of Common Stock Outstanding - Diluted	82,302	79,670
Dividends Declared per Common Share	$0.56	$0.54

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

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

	Three Months Ended June 30,	
	2018	2017
Net Loss	$(93,819)	$(7,659)
Other Comprehensive Income, Net of Tax:*		
Unrealized Gain on Derivatives - Other	8	7
Other Comprehensive Income - Net of Tax*	8	7
Comprehensive Loss	$(93,811)	$(7,652)

	Six Months Ended June 30,	
	2018	2017
Net Income	$17,421	$30,058
Other Comprehensive Income, Net of Tax:*		
Unrealized Gain on Derivatives - Other	17	1,522
Other Comprehensive Income - Net of Tax*	17	1,522
Comprehensive Income	$17,438	$31,580

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

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

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

	Six Months Ended June 30,	
	2018	2017
Net Cash Provided by Operating Activities	$152,828	$123,658
Cash Flows from Investing Activities:		
Capital Expenditures	(125,973)	(142,029)
Proceeds from Sale of Property, Plant & Equipment	—	3,058
Investment in Long-Term Receivables	(3,947)	(4,602)
Proceeds from Long-Term Receivables	5,035	4,948
Notes Receivable	—	3,000
Purchase of Company-Owned Life Insurance	(574)	(8,074)
Investment in Affiliate	(8,413)	(19,461)
Net Repayment of Notes Receivable - Affiliate	2,006	243
Net Cash Used in Investing Activities	(131,866)	(162,917)
Cash Flows from Financing Activities:		
Net (Repayments of) Borrowings from Short-Term Credit Facilities	(10,000)	200
Proceeds from Issuance of Long-Term Debt	1,592,500	321,000
Principal Repayments of Long-Term Debt	—	(277,400)
Payments for Issuance of Long-Term Debt	(13,821)	(2,060)
Net Settlement of Restricted Stock	(776)	(751)
Dividends on Common Stock	(22,292)	(21,676)
Proceeds from Sale of Common Stock	173,750	—
Payments for the Issuance of Common Stock	(6,554)	—
Net Cash Provided by Financing Activities	1,712,807	19,313
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	1,733,769	(19,946)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	39,695	31,910
Cash, Cash Equivalents and Restricted Cash at End of Period	$1,773,464	$11,964

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

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

	June 30, 2018	December 31, 2017
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,748,076	$2,652,244
Accumulated Depreciation	(509,797)	(498,161)
Nonutility Property and Equipment, at cost	171,983	741,027
Accumulated Depreciation	(48,954)	(194,913)
Property, Plant and Equipment - Net	2,361,308	2,700,197
Investments:		
Available-for-Sale Securities	36	36
Restricted	10,664	31,876
Investment in Affiliates	72,426	62,292
Total Investments	83,126	94,204
Current Assets:		
Cash and Cash Equivalents	22,420	7,819
Restricted Cash	1,740,380	—
Accounts Receivable	196,601	202,379
Unbilled Revenues	24,464	73,377
Provision for Uncollectibles	(13,983)	(13,988)
Notes Receivable - Affiliate	2,907	4,913
Natural Gas in Storage, average cost	44,086	48,513
Materials and Supplies, average cost	4,200	4,239
Prepaid Taxes	30,040	41,355
Derivatives - Energy Related Assets	23,892	42,139
Assets Held For Sale	329,622	—
Other Prepayments and Current Assets	19,907	28,247
Total Current Assets	2,424,536	438,993
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	476,635	469,224
Derivatives - Energy Related Assets	10,283	5,988
Notes Receivable - Affiliate	13,275	13,275
Contract Receivables	28,002	28,721
Goodwill	3,578	3,578
Identifiable Intangible Assets	12,000	12,480
Other	96,754	98,426
Total Regulatory and Other Noncurrent Assets	640,527	631,692
Total Assets	$5,509,497	$3,865,086

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

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

	June 30, 2018	December 31, 2017
Capitalization and Liabilities		
Equity:		
Common Stock	$ 106,882	$ 99,436
Premium on Common Stock	842,327	709,658
Treasury Stock (at par)	(282)	(271)
Accumulated Other Comprehensive Loss	(36,748)	(36,765)
Retained Earnings	391,538	420,351
Total Equity	1,303,717	1,192,409
Long-Term Debt	1,403,802	1,122,999
Total Capitalization	2,707,519	2,315,408
Current Liabilities:		
Notes Payable	336,400	346,400
Current Portion of Long-Term Debt	1,368,809	63,809
Accounts Payable	262,090	284,899
Customer Deposits and Credit Balances	28,913	43,398
Environmental Remediation Costs	43,808	66,372
Taxes Accrued	2,529	2,932
Derivatives - Energy Related Liabilities	10,798	46,938
Deferred Contract Revenues	329	259
Derivatives - Other Current	443	748
Dividends Payable	23,941	—
Interest Accrued	13,016	9,079
Pension Benefits	2,388	2,388
Other Current Liabilities	21,354	15,860
Total Current Liabilities	2,114,818	883,082
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	91,690	86,884
Pension and Other Postretirement Benefits	105,789	101,544
Environmental Remediation Costs	108,054	106,483
Asset Retirement Obligations	43,807	59,497
Derivatives - Energy Related Liabilities	3,427	6,025
Derivatives - Other Noncurrent	6,252	9,622
Regulatory Liabilities	299,382	287,105
Other	28,759	9,436
Total Deferred Credits and Other Noncurrent Liabilities	687,160	666,596
Commitments and Contingencies (Note 11)		

Total Capitalization and Liabilities	$5,509,497	$3,865,086

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

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

	Three Months Ended June 30,	
	2018	2017
Operating Revenues (See Note 16)	$76,801	$83,251
Operating Expenses:		
Cost of Sales (Excluding depreciation)	19,379	33,644
Operations (See Note 1)	27,268	22,455
Maintenance	6,812	4,672
Depreciation	14,401	12,873
Energy and Other Taxes	498	872
Total Operating Expenses	68,358	74,516
Operating Income (See Note 1)	8,443	8,735
Other Income and Expense (See Note 1)	607	1,039
Interest Charges	(6,999)	(6,077)
Income Before Income Taxes	2,051	3,697
Income Taxes	(482)	(1,431)
Net Income	$1,569	$2,266

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

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	Six Months Ended June 30,	
	2018	2017
Operating Revenues (See Note 16)	$311,260	$280,065
Operating Expenses:		
Cost of Sales (Excluding depreciation)	109,187	106,068
Operations (See Note 1)	56,638	46,630
Maintenance	13,674	9,653
Depreciation	28,764	25,587
Energy and Other Taxes	1,753	2,167
Total Operating Expenses	210,016	190,105
Operating Income (See Note 1)	101,244	89,960
Other Income and Expense (See Note 1)	3,117	2,081
Interest Charges	(13,727)	(11,955)
Income Before Income Taxes	90,634	80,086
Income Taxes	(22,318)	(31,342)
Net Income	$68,316	$48,744

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

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

	Three Months Ended June 30,	
	2018	2017
Net Income	$1,569	$2,266
Other Comprehensive Income - Net of Tax: *		
Unrealized Gain on Derivatives - Other	8	7
Other Comprehensive Income - Net of Tax *	8	7
Comprehensive Income	$1,577	$2,273

	Six Months Ended June 30,	
	2018	2017
Net Income	$68,316	$48,744
Other Comprehensive Income - Net of Tax: *		
Unrealized Gain on Derivatives - Other	17	14
Other Comprehensive Income - Net of Tax *	17	14
Comprehensive Income	$68,333	$48,758

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

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

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

	Six Months Ended June 30,	
	2018	2017
Net Cash Provided by Operating Activities	$85,263	$75,514
Cash Flows from Investing Activities:		
Capital Expenditures	(113,226)	(127,209)
Purchase of Company-Owned Life Insurance	—	(4,875)
Investment in Long-Term Receivables	(3,947)	(4,602)
Proceeds from Long-Term Receivables	5,035	4,948
Net Cash Used in Investing Activities	(112,138)	(131,738)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Short-Term Credit Facilities	24,400	(101,500)
Proceeds from Issuance of Long-Term Debt	—	321,000
Principal Repayments of Long-Term Debt	—	(200,000)
Payments for Issuance of Long-Term Debt	(5)	(2,029)
Additional Investment by Shareholder	—	40,000
Net Cash Provided by Financing Activities	24,395	57,471
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(2,480)	1,247
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	4,619	1,391
Cash, Cash Equivalents and Restricted Cash at End of Period	$2,139	$2,638

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

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

	June 30, 2018	December 31, 2017
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,748,076	$2,652,244
Accumulated Depreciation	(509,797)	(498,161)
Property, Plant and Equipment - Net	2,238,279	2,154,083
Investments:		
Restricted Investments	505	2,912
Total Investments	505	2,912
Current Assets:		
Cash and Cash Equivalents	1,634	1,707
Accounts Receivable	95,420	78,571
Accounts Receivable - Related Parties	2,139	988
Unbilled Revenues	9,721	54,980
Provision for Uncollectibles	(13,772)	(13,799)
Natural Gas in Storage, average cost	12,482	14,932
Materials and Supplies, average cost	796	825
Prepaid Taxes	27,507	38,326
Derivatives - Energy Related Assets	6,726	7,327
Other Prepayments and Current Assets	10,849	12,670
Total Current Assets	153,502	196,527
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	476,635	469,224
Long-Term Receivables	25,347	25,851
Derivatives - Energy Related Assets	—	5
Other	18,786	17,372
Total Regulatory and Other Noncurrent Assets	520,768	512,452
Total Assets	$2,913,054	$2,865,974

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

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

	June 30, 2018	December 31, 2017
Capitalization and Liabilities		
Equity:		
Common Stock	$5,848	$5,848
Other Paid-In Capital and Premium on Common Stock	355,744	355,744
Accumulated Other Comprehensive Loss	(25,980)	(25,997)
Retained Earnings	654,153	585,838
Total Equity	989,765	921,433
Long-Term Debt	558,388	758,052
Total Capitalization	1,548,153	1,679,485
Current Liabilities:		
Notes Payable	76,400	52,000
Current Portion of Long-Term Debt	263,809	63,809
Accounts Payable - Commodity	28,669	43,341
Accounts Payable - Other	45,732	41,365
Accounts Payable - Related Parties	7,049	17,029
Derivatives - Energy Related Liabilities	950	9,270
Derivatives - Other Current	318	389
Customer Deposits and Credit Balances	24,998	41,656
Environmental Remediation Costs	43,502	66,040
Taxes Accrued	1,527	1,760
Pension Benefits	2,353	2,353
Interest Accrued	7,572	7,615
Other Current Liabilities	5,922	7,027
Total Current Liabilities	508,801	353,654
Regulatory and Other Noncurrent Liabilities:		
Regulatory Liabilities	299,382	287,105
Deferred Income Taxes - Net	303,282	280,746
Environmental Remediation Costs	107,278	105,656
Asset Retirement Obligations	43,011	58,714
Pension and Other Postretirement Benefits	92,862	88,871
Derivatives - Energy Related Liabilities	114	170
Derivatives - Other Noncurrent	5,282	6,639
Other	4,889	4,934
Total Regulatory and Other Noncurrent Liabilities	856,100	832,835

Commitments and Contingencies (Note 11)

Total Capitalization and Liabilities	$2,913,054	$2,865,974

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

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

SJI Utilities, Inc. (SJIU) is a holding company that owns South Jersey Gas Company, along with, as of July 1, 2018, Elizabethtown Gas and Elkton Gas (see "Acquisitions" below).

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

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

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

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

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

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

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

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

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

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

BASIS OF PRESENTATION - SJI's condensed consolidated financial statements include the accounts of SJI, its wholly-owned subsidiaries (including SJG) and subsidiaries in which SJI has a controlling interest. SJI eliminates all significant intercompany accounts and transactions. In management's opinion, the unaudited condensed consolidated financial statements of SJI and SJG reflect all normal and recurring adjustments needed to fairly present their respective financial positions, operating results and cash flows at the dates and for the periods presented. SJI's and

SJG's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year’s operating results. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying unaudited condensed consolidated financial statements of SJI and SJG contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI’s and SJG's Annual Reports on Form 10-K for the year ended December 31, 2017 for a more complete discussion of the accounting policies and certain other information.

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Certain reclassifications have been made to SJI's and SJG's prior period condensed consolidated statements of income to conform to the current period presentation. The non-service cost components of net periodic pension and postretirement benefit costs are now included as a reduction to Other Income and Expense, as opposed to being recorded as an Operations Expense, to conform with ASU 2017-07, which is described below under "New Accounting Pronouncements." This caused a reduction to both Operations Expense and Other Income on the condensed consolidated statements of income for the three and six months ended June 30, 2017. This also caused a reclassification to SJI's prior period segments disclosure in Note 6 to increase Operating Income within both the Gas Utility Operations and Corporate & Services segments for the three and six months ended June 30, 2017.

Certain reclassifications have been made to SJI's prior period segments disclosures to conform to the current period presentation. The activities of SJI Midstream, which were presented in the Corporate & Services segment during the three and six months ended June 30, 2017, are now separated into the Midstream segment for the same periods in 2018. This caused prior period adjustments to Interest Charges, Income Taxes and Property Additions in Note 6.

ACQUISITIONS - In October 2017, SJI announced that it had entered into agreements to acquire the assets of Elizabethtown Gas (ETG) and Elkton Gas (ELK) from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas (collectively, the "Acquisition"). SJI, through its wholly-owned subsidiary SJIU, is acquiring the assets of both companies for total consideration of $1.7 billion. The Acquisition closed on July 1, 2018 (see Note 17). In the second quarter of 2018, SJI completed public equity offerings and issued long-term debt to help fund the Acquisition (see Notes 4 and 14, respectively).

In connection with the Acquisition, SJI incurred the following fees during the three and six months ended June 30, 2018 (in millions):

Expense Type	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Line Item in the Condensed Consolidated Statements of Income
Consulting & Legal	$ 9.5	$ 15.0	Operations Expense
Interest Charges (A)	2.7	2.7	Interest Charges
Amortization (A,B)	5.3	7.9	Interest Charges
Ticking Fees (B)	0.5	1.7	Interest Charges
Total Costs (C)	$ 18.0	$ 27.3	

(A) These interest charges relate to debt that was issued during the second quarter of 2018 to fund a portion of the purchase price for the Acquisition, along with the amortization of debt issuance costs incurred. See Note 14.

(B) Relates to a senior unsecured bridge facility (the “Bridge Facility”), which was entered into in the fourth quarter of 2017. This Bridge Facility was terminated as of June 30, 2018.

(C) All of these costs are included in the Corporate & Services segment.

Not included in the table above are costs incurred, including underwriting discounts and commissions, related to equity and debt issuances of $6.5 million and $13.8 million, respectively, which are recorded in Premium on Common Stock and Long-Term Debt (net of $0.1 million of amortization), respectively, on the condensed consolidated balance sheet as of June 30, 2018. These equity and debt issuances were used to fund a portion of the Acquisition. See Notes 4 and 14.

AGREEMENT TO SELL SOLAR ASSETS - On June 27, 2018, the Company, through its wholly-owned subsidiary, Marina, entered into a series of agreements whereby Marina will sell its portfolio of solar energy assets (the “Transaction”) to a third-party buyer. As part of the Transaction, Marina has agreed to sell 76 distributed solar energy projects located at 143 sites across New Jersey, Maryland, Massachusetts and Vermont with total capacity of approximately 204 MW and a net book value as of June 30, 2018 of $428.9 million (the “Projects”). Total consideration for the Transaction is $347.9 million in cash. As part of the Transaction, Marina will sell the assets comprising the Projects or, in some cases, 100% of the equity interests of certain special purpose companies wholly-owned by Marina that own the assets comprising certain Projects, including MCS, NBS and SBS. The sale of individual Projects will occur on a rolling basis as the conditions precedent to each closing are satisfied, including obtaining certain regulatory filings and receipt of consents to assignment of project contracts and permits. Depending on the timing of closing with respect to individual Projects, the individual purchase prices for those Projects may be adjusted to account for Project revenues retained by Marina during the period prior to such closings, with a maximum aggregate downward adjustment of approximately $5.4 million. Also in connection with the Transaction, Marina will lease certain of the Projects that have not yet passed the fifth anniversary of their placed-in-service dates for U.S. federal income tax purposes back from the buyer from the date each such project is acquired by the buyer until the later of the first anniversary of the applicable acquisition date and the fifth anniversary

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of the applicable placed-in-service date of the project. The Company currently expects that all but one of the Projects will satisfy all closing conditions on or before December 31, 2018; the remaining Project is expected to satisfy all closing conditions on or before August 31, 2019.

The Company has recorded all of the assets related to these projects as Assets Held For Sale on the condensed consolidated balance sheets as of June 30, 2018, where they will remain until closing conditions have been met and the assets are transferred to the buyer.

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

The Transaction described above under "Agreement to Sell Solar Assets" triggered an indicator of impairment as the purchase price was less than the carrying amount for several of the assets being sold (but not all of them) and, as a result, several assets were considered to be impaired. The Company measured the impairment loss as the difference between the carrying amount of the respective assets and the fair value, which was determined using the purchase price and the expected cash flows from the assets, including potential price reductions resulting from the timing needed to satisfy all required closing conditions. As a result, the Company recorded an impairment charge within the on-site energy production segment of $99.2 million (pre-tax) in Operating Expenses during the three and six months ended June 30, 2018, to reduce the carrying amount of several assets to their fair market value. The Company estimated the purchase price with the expectation that all but one of the Projects will satisfy all closing conditions on or before December 31, 2018; the remaining Project is expected to satisfy all closing conditions on or before August 31, 2019.

No impairments were identified at SJG for the three and six months ended June 30, 2018. SJI recorded an impairment charge of $0.3 million for the six months ended June 30, 2017 due to a reduction in the expected cash flows to be received from a solar generating facility within the on-site energy production segment. No impairments charges were identified at SJI for the three months ended June 30, 2017. For the three and six months ended June 30, 2017, no impairments were identified at SJG.

REVENUE-BASED TAXES - SJG collects certain revenue-based energy taxes from its customers. Such taxes include the New Jersey State Sales Tax and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. The PUA is included in both Utility Revenue and Energy and Other Taxes and totaled $0.2 million for both the three months ended June 30, 2018 and 2017, and $0.5 million and $0.6 million for the six months ended June 30, 2018 and 2017, respectively.

GAS EXPLORATION AND DEVELOPMENT - SJI capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. No impairment charges were recorded on these properties during the three and six months ended June 30, 2018 or 2017. As of June 30, 2018 and December 31, 2017, $8.6 million and $8.7 million, respectively, related to interests in unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on SJI's condensed consolidated balance sheets.

TREASURY STOCK - SJI uses the par value method of accounting for treasury stock. As of June 30, 2018 and December 31, 2017, SJI held 225,333 and 216,642 shares of treasury stock, respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

INCOME TAXES - Deferred income taxes are provided for all significant temporary differences between the book and taxable bases of assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 - “Income Taxes.” A valuation allowance is established when it is determined that it is more likely than not that a deferred tax asset will not be realized.

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

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

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

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

GOODWILL - Goodwill represents the excess of the consideration paid over the fair value of identifiable net assets acquired. Goodwill is not amortized, but instead is subject to impairment testing on an annual basis, and between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. No such events have occurred during the three and six months ended June 30, 2018. Goodwill totaled $3.6 million on the condensed consolidated balance sheets of SJI as of both June 30, 2018 and December 31, 2017.

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

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

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

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

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

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

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

On January 1, 2018, SJI and SJG adopted ASU 2014-09 and all amendments, which meant adopting the guidance in ASC 606. SJI and SJG adopted the new guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 605. See Note 16. The methods of recognizing revenue for SJI's and SJG's contracts with customers is the same under ASC 605 and ASC 606, as revenues from contracts that SJI and SJG have with customers are currently recorded as gas or electricity is delivered to the customer, which is consistent with the new guidance under ASC 606. As such, there was no significant impact to revenues for the three and six months ended June 30, 2018 for SJI or SJG as a result of applying ASC 606, and there was no cumulative catch-up to retained earnings for SJI or SJG under the modified retrospective method for changes in accounting for revenues. Further, there were no significant changes to SJI's or SJG's business processes, systems or internal controls over financial reporting needed to support recognition and disclosure under the new guidance.

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

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

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

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

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

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

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This ASU aligns the accounting for share-based payment awards issued to employees and nonemployees. Under the new guidance, equity-classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date. For performance conditions, compensation cost associated with the award will be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition. The current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

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2. STOCK-BASED COMPENSATION PLAN:

On April 30, 2015, the shareholders of SJI approved the adoption of SJI's 2015 Omnibus Equity Compensation Plan (Plan), replacing the Amended and Restated 1997 Stock-Based Compensation Plan that had terminated on January 26, 2015. Under the Plan, shares may be issued to SJI’s officers (Officers), non-employee directors (Directors) and other key employees. No options were granted or outstanding during the six months ended June 30, 2018 and 2017. No stock appreciation rights have been issued under the plans. During the six months ended June 30, 2018 and 2017, SJI granted 197,844 and 167,444 restricted shares, respectively, to Officers and other key employees under the Plan. Performance-based restricted shares vest over a three-year period and are subject to SJI achieving certain market and earnings-based performance targets, which can cause the actual amount of shares that ultimately vest to range from 0% to 200% of the original shares granted.

In 2015, SJI began granting time-based shares of restricted stock, one-third of which vest annually over a three-year period and which are limited to a 100% payout. Vesting of time-based grants is contingent upon SJI achieving a return on equity (ROE) of at least 7% during the initial year of the grant and meeting the service requirement. Provided that the 7% ROE requirement is met in the initial year, payout is solely contingent upon the service requirement being met in years two and three of the grant. Beginning in 2018, the vesting and payout of time-based shares of restricted stock is only contingent upon the service requirement being met in years one, two, and three of the grant. During the six months ended June 30, 2018 and 2017, Officers and other key employees were granted 64,712 and 52,971 shares of time-based restricted stock, respectively, which are included in the shares noted above.

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

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

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

The following table summarizes the nonvested restricted stock awards outstanding for SJI at June 30, 2018 and the assumptions used to estimate the fair value of the awards:

Grants	Shares Outstanding	Fair Value Per	Expected Volatility	Risk-Free Interest Rate

			Share				
Officers & Key Employees -	2016 - TSR	56,595	$22.53	18.1	%	1.31	%
	2016 - CEGR, Time	71,543	$23.52	N/A		N/A	
	2017 - TSR	48,533	$32.17	20.8	%	1.47	%
	2017 - CEGR, Time	79,524	$33.69	N/A		N/A	
	2018 - TSR	65,351	$31.05	21.9	%	2.00	%
	2018 - CEGR, Time	129,902	$31.23	N/A		N/A	
Directors -	2018	26,416	$31.16	N/A		N/A	

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

The following table summarizes the total stock-based compensation cost to SJI for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Officers & Key Employees	$1,090	$1,117	$2,190	$2,187
Directors	206	256	412	512
Total Cost	1,296	1,373	2,602	2,699
Capitalized	(101)	(104)	(202)	(192)
Net Expense	$1,195	$1,269	$2,400	$2,507

As of June 30, 2018, there was $8.1 million of total unrecognized compensation cost related to nonvested stock-based compensation awards granted under the plans. That cost is expected to be recognized over a weighted average period of 2.0 years.

The following table summarizes information regarding restricted stock award activity for SJI during the six months ended June 30, 2018, excluding accrued dividend equivalents:

	Officers &Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2018	342,793	30,394	$ 28.60
Granted	197,844	26,416	$ 31.17
Cancelled/Forfeited	(44,287)	—	$ 28.34
Vested	(44,901)	(30,394)	$ 30.56
Nonvested Shares Outstanding, June 30, 2018	451,449	26,416	$ 29.52

During the six months ended June 30, 2018 and 2017, SJI awarded 66,894 shares to its Officers and other key employees at a market value of $2.0 million, and 65,628 shares at a market value of $2.2 million, respectively. During the six months ended June 30, 2018 and 2017, SJI also granted 26,416 and 30,394 shares to its Directors at a market value of $0.8 million and $1.0 million, respectively.

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

South Jersey Gas Company - Officers and other key employees of SJG participate in the stock-based compensation plans of SJI. During the six months ended June 30, 2018 and 2017, SJG officers and other key employees were granted 32,185 and 24,001 shares of SJI restricted stock, respectively. The cost of outstanding stock awards for SJG during each of the six months ended June 30, 2018 and 2017 was $0.3 million. Approximately 64% of these costs were capitalized on SJG's condensed balance sheets to Utility Plant.

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

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

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

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

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

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

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

SJRG had net sales to EnergyMark of $8.0 million and $7.3 million for the three months ended June 30, 2018 and 2017, respectively, and $21.2 million and $20.6 million