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

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

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________to ______________.

Commission File Number	Exact name of registrant as specified in its charter and principal office address and telephone number	State of Incorporation	I.R.S. Employer Identification No.	Name of exchange on which registered	Securities registered pursuant to Section 12(b) of the Act:	Securities registered pursuant to Section 12(g) of the Act:
1-6364	South Jersey Industries, Inc. 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000	New Jersey	22-1901645	New York Stock Exchange	Common Stock - $1.25 par value per share (Title of each class)	None
000-22211	South Jersey Gas Company 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000	New Jersey	21-0398330	N/A	None	None

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

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

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

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

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

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

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

South Jersey Gas Company:

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

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

South Jersey Industries, Inc. (common stock - $1.25 par value) - The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2018 was $2,854,343,456. As of February 15, 2019, there were 92,315,906 shares of the registrant's common stock outstanding. South Jersey Gas Company common stock ($2.50 par value) outstanding as of February 15, 2019 was 2,339,139 shares. All of South Jersey Gas Company's outstanding shares of common stock are held by South Jersey Industries, Inc.

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

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

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

INTRODUCTION

FILING FORMAT

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

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

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

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Forward Looking Statements

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

Available Information

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

PART I

Item 1. Business

Description of Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Information About Reportable Segments

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

Sources and Availability of Raw Materials

The Utilities:

Transportation and Storage Agreements

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

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

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

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

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

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

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

Gas Supplies

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

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

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

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

Supplemental Gas Supplies

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

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

Peak-Day Supply

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

South Jersey Energy Company

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

South Jersey Resources Group

Transportation and Storage Agreements

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

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

Gas Supplies

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

Patents and Franchises

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

South Jersey Industries, Inc.
Part I

Seasonal Aspects

Utility Companies

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

Non-Utility Companies

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

Working Capital Practices

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

Customers

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

Backlog

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

Government Contracts

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

Competition

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

Research

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

Environmental Matters

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

Employees

SJI and its subsidiaries had a total of approximately 1,100 employees as of December 31, 2018, approximately 550 of which were SJG employees. Of those totals, 495 of SJI employees are unionized and 317 SJG employees are unionized (all of SJI's unionized employees are with SJG or ETG). SJI has collective bargaining agreements with unions that represent these employees: IBEW Local 1293; IAM Local 76; and UWUA Local 424. SJG employees represented by the IBEW operate under a collective bargaining agreement that runs through February 2022. SJG's remaining unionized employees are represented by the IAM and operate under a collective bargaining agreement that runs through August 2021. ETG employees represented by the UWUA operate under a collective bargaining agreement that runs through November 2019.

Financial Information About Foreign and Domestic Operations and Export Sales

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- We issued additional securities to provide permanent financing for the Acquisition, and, as a result, we are subject t