SOUTH JERSEY INDUSTRIES INC
Form 10-K
February 29, 2016

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, 2015

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 1-6364
SOUTH JERSEY INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New Jersey (State of incorporation) | 22-1901645 (IRS employer identification no.) |
| 1 South Jersey Plaza, Folsom, New Jersey 08037 | (609) 561-9000 |
| (Address of principal executive offices, including zip code) | (Registrant's telephone number, including area code) |

Securities registered pursuant to Section 12(b) of the Act:

| | |
|---|---|
| Common Stock - $1.25 par value per share | New York Stock Exchange |
| (Title of each class) | (Name of exchange on which registered) |

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the 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 the 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 the 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 the 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 the registrant was required to submit and post 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. x

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2015 was $1,687,786,543. As of February 15, 2016, there were 71,130,732 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:
In Part III of Form 10-K: Portions of the registrant's definitive proxy statement filed for the registrant's 2016 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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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 other than statements of historical fact included in this Report should be considered forward-looking statements made in good faith by South Jersey Industries (SJI or the Company) 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 of the Company's documents or oral presentations, words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “goal,” “intend,” “objective,” “plan,” “project,” “seek,” “strategy” and similar expressions are intended to identify forward-looking statements. 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 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, SJI 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

The Company's Internet address is 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 Securities and Exchange Commission (SEC). The SEC maintains an Internet site 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 web site referred to in this filing is not incorporated by reference into this Report unless expressly noted otherwise.

Units of Measurement

| | |
|---|---|
| For Natural Gas: | |
| 1 Bcf | = One billion cubic feet |
| 1dt | = One decatherm |
| 1 MMdts | = One million decatherms |
| dts/d | = Decatherms per day |
| MDWQ | = Maximum daily withdrawal quantity |
| For Electric: | |
| 1 MMMWh | = One million megawatt hours |
| 1 MWh | = One megawatt hour |

# PART I

## Item 1. Business

### Description of Business

The registrant, 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 currently provides a variety of energy-related products and services, primarily through the following subsidiaries:

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

- South Jersey Energy Company (SJE) acquires and markets natural gas and electricity to retail end users and provides total energy management services to commercial and industrial 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, a natural gas fueled combined heating, cooling and power facility, landfill gas-fired electric production facilities and solar-generation sites.

- South Jersey Energy Service Plus, LLC (SJESP) services residential and small commercial HVAC systems, installs small commercial HVAC systems, provides plumbing services and services appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.

- SJI Midstream, LLC (Midstream) was formed in 2014 to invest in infrastructure and other midstream projects, including a current project to build a 100-mile natural gas pipeline in Pennsylvania and New Jersey.

Additional Information on the nature of our business 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.

South Jersey Industries, Inc.
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Sources and Availability of Raw Materials

South Jersey Gas Company

Transportation and Storage Agreements

SJG has direct connections to the interstate pipeline systems of both Transcontinental Gas Pipe Line Company, LLC (Transco) and Columbia Gas Transmission, LLC (Columbia). During 2015, SJG purchased and had delivered approximately 44.8 million decatherms (MMdts) of natural gas for distribution to both on-system and off-system customers and for injections into storage. Of this total, 28.1 MMdts were transported on the Transco pipeline system while 16.7 MMdts were transported on the Columbia pipeline system. Moreover, during 2015 third-party suppliers delivered 30.4 MMdts to SJG's system on behalf of end use customers behind SJG's city gate stations. SJG also secures other long-term services from Dominion Transmission, Inc. (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. Services provided by all of the above-mentioned pipelines are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Unless otherwise indicated, our intentions are to renew or extend these service agreements before they expire.

Transcontinental Gas Pipeline (Transco):

Transco is SJG's largest supplier of long-term gas transmission services which includes both year-round and seasonal firm transportation (FT) service arrangements. When combined, these FT services enable SJG to purchase gas from third parties and have delivered to its city gate stations by Transco a total of 297,958 dts per day (dts/d). Of this total, 133,917 dts/d is long-haul FT (where gas can be transported from the production areas of the Southwest to the market areas of the Northeast) while 164,041 dts/d is market area FT. The terms of SJG's year-round agreements extend for various periods through 2025. SJG's seasonal agreements are currently operating under their respective evergreen provisions.

Of the 297,958 dts/d of Transco services mentioned above, SJG has released a total of 49,041 dts/d of its market area FT service. These releases were made in association with SJG's Conservation Incentive Program (CIP) discussed further under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations". In addition, SJG released a total of 50,000 dts/d of its long-haul FT as part of Asset Management Agreements (AMA). The AMA-related releases are discussed below under “Gas Supplies”. In addition, SJG released a total of 30,000 dts/d of its long-haul FT as an Off-System Sale capacity release.

SJG currently has six long-term gas storage service agreements with Transco that, when combined, are capable of storing approximately 5.0 MMdts. Through these agreements, SJG can inject gas into market and production area storages during periods of low demand and extract gas at a Maximum Daily Withdrawal Quantity (MDWQ) of up to 107,407 dts during periods of high demand. The longest term of these storage service agreements extends through March 31, 2023.

Dominion:

SJG subscribes to a firm storage service from Dominion, under its Rate Schedule GSS. This storage has an MDWQ of 10,000 dts during the period between November 16 and March 31 of each winter season, with an associated total storage capacity of 423,000 dts. Gas withdrawn from Dominion GSS storage is delivered through both the Dominion and Transco (Leidy Line) pipeline systems for delivery to SJG service territory. The primary term of this agreement extends through March 31, 2019.

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South Jersey Industries, Inc.
Part I

Columbia:

SJG subscribes to four firm transportation agreements with Columbia which provide for an aggregate of 104,022 dts/d with the term of 9,000 dts/d of this capacity extending through October 31, 2017 while the term of 45,022 dts/d of this deliverability extends through October 31, 2019. The remaining 50,000 dts/d continues through October 31, 2030. SJG released 8,671 dts/d of this amount to SJRG in conjunction with its Conservation Incentive Program (CIP) thereby reducing the combined availability of firm transportation on the Columbia system to 95,351 dts/d. In addition, SJG released a total of 20,000 dts/d of this capacity to a gas marketer as part of an AMA leaving a net of 75,351 dts/d available to SJG. This AMA-related release is further discussed below under “Gas Supplies.”

SJG also subscribes to a firm storage service with Columbia under its Rate Schedule FSS along with an associated firm transportation service under Rate Schedule SST, each of which extends through October 31, 2019. SJG has a total FSS MDWQ of 52,891 dts and a related 3,473,022 dts of storage capacity. SJG released to SJRG 19,029 dts/d of its FSS MDWQ along with 1,249,485 dts of its FSS storage capacity. Additionally, SJG released to SJRG 19,029 dts/d of its Columbia SST transportation service. Both releases made by SJG were in connection with its CIP and extend through September 30, 2016.

Gas Supplies

During 2015, SJG entered into an AMA with a gas marketer which extends through March 31, 2016. Under this agreement SJG released to the marketer its firm transportation rights equal to 30,000 dts/d of transportation capacity on Transco. The marketer manages this capacity and provides SJG with up to 30,000 dts/d of firm deliverability each day through March 31, 2016. The marketer's intent was to optimize the capacity released to them under this AMA and pay SJG a monthly asset management fee.

Also during 2015, SJG entered into two additional AMA's with two separate gas marketers which both extend through October 31, 2016. Under these agreements, SJG has released to each of the marketers firm transportation rights equal to 10,000 dts/d of transportation capacity on Transco. The marketers manage their respective capacity and provide SJG with up to 10,000 dts/d each of firm deliverability everyday through October 31, 2016. The marketers will seek to optimize the capacity released to them under these AMA's and pay SJG a one-time asset management fee.

Also during 2015, SJG entered into two further AMA's with two separate gas marketers which both also extend through October 31, 2016. Under these agreements, SJG has released to each of the marketers firm transportation rights equal to 10,000 dts/d of transportation capacity on Columbia. The marketers manage their respective capacity and provide SJG with up to 10,000 dts/d each of firm deliverability everyday through March 31, 2016. The marketers will seek to optimize the capacity released to it under these AMA's and pay SJG a one-time asset management fee.

In 2011, SJG entered into a long-term gas purchase agreement with a gas producer, the primary term of which extends through October 31, 2019. The maximum daily quantities (MDQ) available for purchase under this agreement initially start at 6,250 dts/d and ratchet up to an MDQ of 25,000 dts/d. Gas purchased from this producer will be sourced in the Appalachian supply areas and delivered into the Columbia pipeline system for delivery to SJG.

As part of its gas purchasing strategy, SJG uses financial contracts to hedge against forward price risk. These contracts are recoverable through SJG’s Basic Gas Supply Service Clause (BGSS), subject to the New Jersey Board of Public Utilities (BPU) approval.

Supplemental Gas Supplies

During 2015, SJG purchased Liquefied Natural Gas (LNG) from two separate third party LNG suppliers. This LNG was purchased as a supply source to replenish SJG's LNG inventory at its storage facility, located in McKee City, NJ. SJG purchased LNG from one supplier during the 2014-15 winter season, and from a second supplier during the 2015 summer season and the 2015-16 winter season.

SJG operates peaking facilities which can store and vaporize 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.

Peak-Day Supply

SJG plans for a winter season peak-day demand on the basis of an average daily temperature of 2 degrees Fahrenheit (F). Gas demand on such a design day for the 2015-2016 winter season is estimated to be 503,873 dts (excluding industrial customers). SJG projects that it has adequate supplies and interstate pipeline entitlements to meet its design requirements. SJG experienced its highest peak-day demand for calendar year 2015 of 507,219 dts (including industrial customers) on February 15, while experiencing an average temperature of 10.1 degrees F that day.

Natural Gas Prices

SJG's average cost of natural gas purchased and delivered in 2015, 2014 and 2013, including demand charges, was $4.71 per dt, $6.56 per dt and $4.81 per dt, respectively.

South Jersey Energy Company

Transportation and Storage Agreements - Natural Gas

Access to gas suppliers and cost of gas are significant to the operations of SJE. No material part of the business of SJE is dependent upon a single customer or a few customers. SJE purchases delivered gas only, primarily from SJRG. Consequently, SJE maintains no transportation or storage agreements.

Electric Supply

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

National Fuel Gas Supply Corporation:

SJRG has multiple storage service agreements with National Fuel Gas Supply Corporation (National Fuel). Two contracts totaling 2,581,420 dts of capacity have evergreen provisions that extend year to year. One additional contract covering 224,576 dts of storage capacity extends through March 31, 2018, while a final contract covering 150,040 dts of capacity expires March 31, 2023.

SJRG holds long-term firm transportation agreements with National Fuel associated with the above-mentioned agreements. Under these agreements, National Fuel will provide SJRG with a maximum daily injection transportation quantity of 16,947 dts/d with primary receipt points from Tennessee Gas Pipeline for delivery into storage, and 25,661 dts/d of maximum daily withdrawal transportation quantity, with a primary receipt point of storage and a primary delivery point of the Transcontinental Gas Pipeline.

Transcontinental Gas Pipeline (Transco):

SJRG has a storage agreement with Transco for storage service at Transco's WSS facility which expires in October 2017. Under this contract, up to 24,479 dts/d may be injected and up to 46,380 dts/d may be withdrawn. Total storage capacity under the agreement is 4,406,135 dts.

SJRG holds a firm transportation agreement with Transco which expires March 31, 2043. Under this agreement, Transco will provide SJRG with 10,000 dts/d of deliveries to New York and receipts at Leidy, PA.

Dominion Gas Transmission:

SJRG has a firm transportation agreement with Dominion which expires October 31, 2022. Under this agreement, Dominion will provide SJRG with 5,000 dts/d of deliveries to Leidy, PA and receipts at Lebanon, Ohio.

Columbia Gas Transmission:

SJRG holds a firm transportation agreement with Columbia. Under this evergreen agreement, Columbia provides receipts at Leach, Kentucky and deliveries of 14,714 dts/d to New Jersey. In addition, SJRG has 10,000 dts/d of Columbia capacity from New York to Maryland expiring October 31, 2018. SJRG also holds capacity ranging from 40,000/dth/d to 60,000 dth/d of receipts from Marcellus to Southern New Jersey expiring October 31, 2030.

SJRG holds a storage agreement with Columbia for service under Columbia's FSS rate schedule. Under this evergreen agreement, Columbia will provide SJRG with storage capacity of 1,249,515 dts. Under this agreement, 19,029 dts/d may be withdrawn from storage and 9,996 dts/d may be injected.

SJRG holds firm transportation related to the above mentioned storage agreement which provides for receipts at storage and deliveries to New Jersey of 19,029 dts/d. Under this evergreen contract, these services with Columbia were released to SJRG by SJG.

Columbia Gulf Transmission:

SJRG holds a firm transportation agreement with Columbia Gulf which expires October 31, 2019. Under this agreement, Columbia Gulf provides receipts in Louisiana with deliveries at Leach, Kentucky in the amount of 15,000 dts/d.

Tennessee Gas Transmission:

SJRG holds multiple firm transportation agreements with the Tennessee Gas Pipeline that have various deliveries and receipts in Pennsylvania and Louisiana.  The contract volumes range from 10,000 to 65,200 per contract and expire between October 31, 2016 and October 31, 2019.

Egan Storage:

SJRG holds a storage agreement with Egan Storage for service under Tetco’s FSS rate schedule.  Under this agreement, which expires March 31, 2016, Tetco provides SJRG with storage capacity of 500,000 dts.

Pine Prairie:

SJRG holds a storage agreement with Pine Prairie for service under Tetco’s FSS rate schedule.  Under this agreement, which expires March 31, 2016, Tetco provides SJRG with storage capacity of 500,000 dts.

Gas Supplies

SJRG has entered into several long-term natural gas supply agreements to purchase a minimum of 626,500 dts/d and up to 796,250 dts/d, depending upon production levels, for terms ranging from three to ten years at index-based prices.

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South Jersey Industries, Inc.
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Patents and Franchises

South Jersey Gas Company

SJG holds nonexclusive franchises granted by municipalities in the seven-county area of southern New Jersey that it serves. No other natural gas public utility presently serves the territory covered by SJG's franchises. Otherwise, patents, trademarks, licenses, franchises and concessions are not material to the business of SJG.

Seasonal Aspects

South Jersey Gas Company

SJG experiences seasonal fluctuations in sales when selling natural gas for heating purposes. SJG meets this seasonal fluctuation in demand from its 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, SJG's 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 and retail gas marketing have seasonal patterns similar to SJG's. Activities such as energy services and energy project development do not follow seasonal patterns. Other activities, such as retail electric marketing and appliance service, can have seasonal earnings patterns that are different from the utility. While growth in the earnings contributions from nonutility operations has improved SJI's second and third quarter net income levels, 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 SJI's performance on a consolidated basis.

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.

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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 720 employees as of December 31, 2015. Of that total, approximately 320 employees are unionized. The Company has collective bargaining agreements with two unions that represent these employees: the International Brotherhood of Electrical Workers (IBEW) Local 1293 and the International Association of Machinists and Aerospace Workers (IAM) Local 76. SJG and SJESP employees represented by the IBEW operate under collective bargaining agreements that run through February 2017. The remaining unionized employees are represented by the IAM and operate under collective bargaining agreements that run through August 2017.

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 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.

- 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 are concentrated in southern New Jersey. Changes in the economies of southern New Jersey and surrounding regions could negatively impact the growth opportunities available to SJI and the financial condition of the customers and prospects of SJI.
- Changes in the regulatory environment or unfavorable rate regulation at its utility may have an unfavorable impact on SJI's financial performance or condition. SJI's utility business is regulated by the New Jersey Board of Public Utilities (BPU) which has authority over many of the activities of the utility business including, but not limited to, the rates it 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 SJG's ability to earn a reasonable rate of return on invested capital and/or fully recover operating costs may adversely affect its results of operations, financial condition and cash flows.
- SJI may not be able to respond effectively to competition, which may negatively impact SJI's 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 energy products and services. SJI's utility currently has a conservation incentive program clause that protects its revenues and gross margin against usage that is lower than a set level. Should this clause be terminated without replacement, lower customer energy utilization levels would likely reduce SJI's net income. Further, during periods of warmer temperatures, demand and volatility in the natural gas market could decrease, which would negatively impact the Company's financial results.

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- High natural gas prices could cause more of SJI's receivables to be uncollectible. Higher levels of uncollectibles from either residential or commercial customers would negatively impact SJI's income and could result in higher working capital requirements.
- SJI's net income could decrease if it is required to incur additional costs to comply with new governmental safety, health or environmental legislation. SJI is 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 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. Several of SJI's subsidiaries 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 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. SJI uses short-term borrowings under committed credit facilities provided by commercial banks to supplement cash provided by operations, to support working capital needs, and to finance capital expenditures, as incurred. SJG also relies upon short-term borrowings issued under a commercial paper program supported by a committed bank credit facility to support working capital needs, and to finance capital expenditures, as incurred. If the customary sources of short-term capital were no longer available due to market conditions, SJI and its subsidiaries may not be able to meet their working capital and capital expenditure requirements and borrowing costs could increase.
- A downgrade in either SJI's or SJG's credit ratings could negatively affect our ability to access adequate and cost-effective capital. Our ability to obtain adequate and cost-effective capital depends to a significant degree on our credit ratings, which are greatly influenced by our financial condition and results of operations. If the rating agencies downgrade either SJI's or SJG's credit ratings, particularly below investment grade, our borrowing costs would increase. In addition, we would likely be required to pay higher interest rates in future financings and potential funding sources would likely decrease. To the extent that a decline in SJG's credit rating has a negative effect on SJI, SJI could be required to provide additional support to certain counterparties.
- Hedging activities of the Company designed to protect against commodity price or interest rate risk may cause fluctuations in reported financial results and SJI's stock price could be adversely affected as a result. Although SJI enters into various contracts to hedge the value of energy assets, liabilities, firm commitments or forecasted transactions, the timing of the recognition of gains or losses on these economic hedges in accordance with accounting

principles generally accepted in the United States of America does not always match up with the gains or losses on the items being hedged. The difference in accounting can result in volatility in reported results, even though the expected profit margin is essentially unchanged from the dates the transactions were consummated.

- The inability to obtain natural gas or electricity from suppliers would negatively impact the financial performance of SJI. Several of SJI's subsidiaries have businesses based upon the ability to deliver natural gas or electricity to customers. Disruption in the production or transportation to SJI from its suppliers could prevent SJI 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 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 maintains 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 financial position, results of operations and cash flows.
- Adverse results in legal proceedings could be detrimental to the financial condition of SJI. The outcomes of legal proceedings can be unpredictable and can result in adverse judgments.
- Renewable energy projects at Marina receive significant benefit from tax and regulatory incentives. A significant portion of the expected return on investment of these renewable energy projects is dependent upon federal investment tax credits (ITCs) and the future market for renewable energy credits (RECs). The benefits from ITCs are typically available when the project is placed in service while the benefits from RECs are produced during the entire life of the project. As a result, earnings from existing projects would be adversely affected without a liquid REC market. In addition, the return on investment from new projects may not be as attractive if ITCs are not available and/or a liquid REC market ceases to exist. Therefore, these projects are exposed to the risk that favorable tax and regulatory incentives expire or are adversely modified.
- 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.
- Failures in the security of our computer systems through cyberattacks, hackers or other sources, could have a material adverse impact on our business and results of operations. SJI uses computer systems and services that involve the storage of confidential information on our employees, customers and vendors. In addition, certain computer systems monitor and control our generation and distribution processes. Experienced hackers may be able to develop and deploy viruses that exploit the security of our computer systems and thus obtain confidential information and/or disrupt significant business processes. Unauthorized access to confidential information or disruptions to significant business processes could damage our reputation and negatively impact our results of operations and financial condition.
- The risk of terrorism may adversely affect the economy as well as SJI'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 ability to deliver products or raise capital and could adversely impact its results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The principal property of SJI consists of SJG's gas transmission and distribution systems that include mains, service connections and meters. The transmission facilities carry the gas from the connections with Transco and Columbia to SJG's distribution systems for delivery to customers. As of December 31, 2015, there were approximately 122.7 miles of mains in the transmission systems and 6,503 miles of mains in the distribution systems.

SJG owns approximately 154 acres of land in Folsom, New Jersey which is the site of SJI's corporate headquarters. Approximately 140 acres of this property is deed restricted. SJG also has office and service buildings at six other locations in its territory. There is a liquefied natural gas storage and vaporization facility at one of these locations.

As of December 31, 2015, SJG's utility plant had a gross book value of $2.2 billion and a net book value, after accumulated depreciation, of $1.8 billion. In 2015, $207.8 million was spent on additions to utility plant and there were retirements of property having an aggregate gross book cost of $17.8 million.

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

Nonutility property and equipment with a net book value of $677.3 million consists primarily of Marina's energy projects.

Energy and Minerals Inc. (EMI) owns 235 acres of land in Vineland, New Jersey.

South Jersey Fuel, Inc., an inactive subsidiary, owns land in Deptford Township and owns real estate in Upper Township, New Jersey.

R&T Castellini, Inc., an inactive subsidiary, owns land and buildings in Vineland, New Jersey.

Item 3. Legal Proceedings

The Company is subject to claims arising in the ordinary course of business and other legal proceedings. The Company has been named in, among other actions, certain gas supply and capacity management contract disputes and certain product liability claims related to our former sand mining subsidiary. We accrue liabilities related to these claims when we can reasonably estimate the amount or range of amounts of probable settlement costs or other charges for these claims. The Company has accrued approximately $3.2 million and $2.9 million related to all claims in the aggregate as of December 31, 2015 and 2014, respectively. Management does not believe that it is reasonably possible that there will be a material change in the Company's estimated liability in the near term and does not currently anticipate the disposition of any known claims that would have a material effect on the Company's financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Item 4A. Executive Officers of the Registrant

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

South Jersey Industries, Inc.
Part I

| Name, age and position with the Company | Period Served |
|---|---|
| Michael J. Renna, Age 48 | |
| Chief Executive Officer | April 2015 - Present |
| Director | January 2014 - Present |
| President | January 2014 - Present |
| Chief Operating Officer | January 2014 - April 2015 |
| Senior Vice President | January 2013 - January 2014 |
| Vice President | January 2004 - December 2012 |
| Jeffrey E. DuBois, Age 57 | |
| Executive Vice President | April 2015 - Present |
| Senior Vice President | January 2013 - April 2015 |
| Vice President | January 2004 - December 2012 |
| Stephen H. Clark, Age 57 | |
| Senior Vice President | April 2015 - Present |
| Chief Financial Officer | November 2013 - Present |
| Vice President | January 2013 - November 2013 |
| Treasurer | January 2004 - April 2014 |
| Kenneth A. Lynch, Age 50 | |
| Senior Vice President | April 2015 - Present |
| Chief Accounting Officer | January 2013 - Present |
| Assistant Vice President | July 2006 - December 2012 |
| Kathleen A. McEndy, Age 62 | |
| Chief Administrative Officer | June 2015 - Present |
| Senior Vice President | April 2015 - Present |
| Chief Human Resources Officer | March 2013 - June 2015 |
| Vice President | March 2013 - April 2015 |
| Principal, The McEndy Group, LLC | January 2009 - March 2013 |
| Gina M. Merritt-Epps, Age 48 | |
| Senior Vice President | April 2015 - Present |
| General Counsel and Corporate Secretary | May 2009 - Present |
| Gregory M. Nuzzo, Age 41 | |
| Senior Vice President | April 2015 - Present |
| Vice President | April 2014 - April 2015 |
| Senior Vice President, South Jersey Energy Solutions | January 2013 - Present |
| Senior Vice President, South Jersey Resources Group | January 2013 - March 2014 |
| Vice President, South Jersey Energy Solutions | January 2012 - December 2012 |
| Vice President, South Jersey Resources Group | January 2010 - December 2012 |
| David Robbins, Jr., Age 53 | |
| Senior Vice President | April 2015 - Present |
| Vice President | April 2014 - April 2015 |

| | |
|---|---|
| Senior Vice President, South Jersey Energy Solutions | January 2013 - Present |
| Chief Operating Officer, South Jersey Energy Solutions | January 2013 - April 2014 |
| Vice President, South Jersey Energy Solutions | April 2011 - December 2012 |
| Treasurer & Secretary, South Jersey Energy Solutions | January 2010 - December 2012 |

PART II

Item 5. Market for the Registrant's Common Equity,

Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price of Common Stock and Related Information

| Quarter Ended | Market Price Per Share* | | Dividends | Quarter Ended | Market Price Per Share* | | Dividends |
|---|---|---|---|---|---|---|---|
| | | | Declared | | | | Declared |
| 2015 | High | Low | Per Share* | 2014 | High | Low | Per Share* |
| March 31 | $30.37 | $26.02 | $0.251 | March 31 | $29.05 | $25.89 | $0.236 |
| June 30 | $27.66 | $24.51 | $0.251 | June 30 | $30.28 | $27.21 | $0.236 |
| September 30 | $26.09 | $22.91 | $0.251 | September 30 | $30.34 | $26.13 | $0.236 |
| December 31 | $27.34 | $21.24 | $0.264 | December 31 | $30.62 | $26.50 | $0.251 |

*All per share amounts were adjusted for all periods presented for the 2-for-1 stock split, effected in the form of a stock dividend, effective May 8, 2015. See Note 1 to the consolidated financial statements.

These quotations are based on the list of composite transactions of the New York Stock Exchange. Our stock is traded on the New York Stock Exchange under the symbol SJI. We have declared and expect to continue to declare regular quarterly cash dividends. As of December 31, 2015, the latest available date, our records indicate there were 6,745 shareholders of record.

Stock Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of $100 in South Jersey Industries, Inc. common stock, as compared with the S&P 500 Stock Index and the S&P Utility Index for the five-year period through 2015.

This performance chart assumes:

- $100 invested on December 31, 2010 in South Jersey Industries, Inc. common stock, in the S&P 500 Stock Index and in the S&P Utility Index; and
- All dividends are reinvested.

South Jersey Industries, Inc.
Part II

| | Dec-10 | Dec-11 | Dec-12 | Dec-13 | Dec-14 | Dec-15 |
|---|---|---|---|---|---|---|
| S&P 500 | $100 | $102 | $118 | $157 | $178 | $181 |
| S&P Utilities | $100 | $120 | $121 | $138 | $177 | $169 |
| SJI | $100 | $111 | $101 | $116 | $126 | $105 |

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

SJI has a stated goal of increasing its dividend annually.

In 2015, non-employee members of SJI's Board of Directors received an aggregate of 26,338 shares of restricted stock, valued at that time at $769,333, as part of their compensation for serving on the Board.

Issuer Purchases of Equity Securities - There were no purchases by SJI of its own common stock during the year ended December 31, 2015.

South Jersey Industries, Inc.
Part II

Item 6. Selected Financial Data
2015 HIGHLIGHTS
Five-Year Summary of Selected Financial Data
(In Thousands Where Applicable)
South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Operating Results: | | | | | |
| Operating Revenues | $959,568 | $886,996 | $731,421 | $706,280 | $828,560 |
| Operating Income | $156,894 | $127,603 | $69,636 | $109,898 | $121,607 |
| Income from Continuing Operations | $105,610 | $97,628 | $82,389 | $92,776 | $89,859 |
| Discontinued Operations - Net (1) | (503) | (582) | (796) | (1,168) | (568) |
| Net Income | $105,107 | $97,046 | $81,593 | $91,608 | $89,291 |
| Total Assets | $3,480,900 | $3,349,425 | $2,924,855 | $2,631,440 | $2,247,510 |
| Capitalization: | | | | | |
| Equity | $1,037,539 | $932,432 | $827,000 | $736,214 | $624,114 |
| Long-Term Debt | 1,006,394 | 859,491 | 680,400 | 601,400 | 424,213 |
| Total Capitalization | $2,043,933 | $1,791,923 | $1,507,400 | $1,337,614 | $1,048,327 |
| Ratio of Earnings to Fixed Charges (2) | 3.8x | 3.8x | 3.0x | 5.1x | 5.4x |
| Diluted Earnings Per Common Share (Based on Average Diluted Shares Outstanding) (3): | | | | | |
| Continuing Operations | $1.53 | $1.47 | $1.29 | $1.51 | $1.50 |
| Discontinued Operations - Net (1) | (0.01) | (0.01) | (0.01) | (0.02) | (0.01) |
| Diluted Earnings Per Common Share (3) | $1.52 | $1.46 | $1.28 | $1.49 | $1.49 |
| Return on Average Equity (4) | 10.7% | 11.1% | 10.5% | 13.6% | 15.0% |
| Share Data: | | | | | |
| Number of Shareholders of Record | 6.7 | 6.9 | 6.9 | 7.1 | 7.1 |
| Average Common Shares (3) | 68,735 | 66,278 | 63,978 | 61,488 | 60,000 |
| Common Shares Outstanding at Year End (3) | 70,966 | 68,334 | 65,430 | 63,306 | 60,424 |
| Dividend Reinvestment Plan: | | | | | |
| Number of Shareholders | 5.2 | 5.2 | 5.2 | 4.8 | 4.4 |

| | | | | | |
|---|---|---|---|---|---|
| Number of Participating Shares (3) | 4,170 | 4,082 | 4,118 | 4,924 | 4,386 |
| Book Value at Year End (3) | $14.62 | $13.65 | $12.64 | $11.63 | $10.33 |
| Dividends Declared per Common Share (3) | $1.02 | $0.96 | $0.90 | $0.83 | $0.75 |
| Market Price at Year End (3) | $23.52 | $29.46 | $27.98 | $25.17 | $28.41 |
| Dividend Payout (3): | | | | | |

South Jersey Industries, Inc.
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| | | | | | |
|---|---|---|---|---|---|
| From Continuing Operations | 66.4 % | 65.2 % | 69.9 % | 54.7 % | 50.1 % |
| From Total Net Income | 66.7 % | 65.6 % | 70.6 % | 55.4 % | 50.4 % |
| Market-to-Book Ratio (3) | 1.6 x | 2.2x | 2.2x | 2.2x | 2.7x |
| Price Earnings Ratio (3, 4) | 15.4 x | 20.0x | 21.8x | 16.7x | 19.0x |
| | | | | | |
| Consolidated Economic Earnings (5) | | | | | |
| Income from Continuing Operations | $105,610 | $97,628 | $82,389 | $92,776 | $89,859 |
| Minus/Plus: | | | | | |
| Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges | (5,012 ) | 4,927 | 14,054 | (865 ) | (2,876 ) |
| Net Loss from Affiliated Companies, Not Part of Ongoing Operations (6) | — | — | 751 | — | — |
| Unrealized Loss on Property, Plant and Equipment | — | — | — | 1,402 | — |
| Net Loss from Affiliated Companies (7) | (1,524 ) | 1,524 | — | — | — |
| Other (8) | (100 ) | (100 ) | (100 ) | — | — |
| Economic Earnings | $98,974 | $103,979 | $97,094 | $93,313 | $86,983 |
| | | | | | |
| Earnings per Share from Continuing Operations (3) | $1.53 | $1.47 | $1.29 | $1.50 | $1.49 |
| Minus/Plus: | | | | | |
| Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges | (0.07 ) | 0.07 | 0.21 | (0.02 ) | (0.04 ) |
| Net Loss from Affiliated Companies, Not Part of Ongoing Operations (6) | — | — | 0.01 | — | — |
| Unrealized Loss on Property, Plant and Equipment | — | — | — | 0.03 | — |
| Net Loss from Affiliated Companies (7) | (0.02 ) | 0.03 | — | — | — |
| Economic Earnings per Share (3) | $1.44 | $1.57 | $1.51 | $1.51 | $1.45 |

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

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

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

(4) Calculated based on Income from Continuing Operations.

(5) This section includes the non-generally accepted accounting principles ("non-GAAP") financial measures of Economic Earnings and Economic Earnings per share. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Report for a discussion regarding the use of non-GAAP financial measures.

(6) Resulting from the termination of the contract at LVE Energy Partners, LLC to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada.

(7)

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

(8) Represents additional depreciation expense within Economic Earnings on a solar generating facility. During 2012 an impairment charge was recorded within Income from Continuing Operations on a solar generating facility which reduced its depreciable basis and recurring depreciation expense. This impairment charge was excluded from Economic Earnings and, therefore, the related reduction in depreciation expense is being added back.

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South Jersey Industries, Inc.
Part II

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

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

South Jersey Gas Company (SJG)

SJG, a New Jersey corporation, is an operating public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also sells natural gas and pipeline transportation capacity (off-system sales) on a wholesale basis to various customers on the interstate pipeline system and transports natural gas purchased directly from producers or suppliers to their customers. SJG contributed approximately 63.3% of SJI's net income on a consolidated basis in 2015.

SJG's service territory covers approximately 2,500 square miles in the southern part of New Jersey. It includes 117 municipalities throughout Atlantic, Cape May, Cumberland and Salem Counties and portions of Burlington, Camden and Gloucester Counties, with an estimated permanent population of 1.2 million. SJG benefits from its proximity to Philadelphia, PA and Wilmington, DE on the western side of its service territory and the popular shore communities on the eastern side. Continuing expansion of SJG's infrastructure throughout its seven-county region has fueled annual customer growth and creates opportunities for future extension into areas not yet served by natural gas.

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

As of December 31, 2015, SJG served 373,100 residential, commercial and industrial customers in southern New Jersey, compared with 366,854 customers at December 31, 2014. No material part of SJG's business is dependent upon a single customer or a few customers. Gas sales, transportation and capacity release for 2015 amounted to 136.8 MMdts (million dekatherms), of which 58.5 MMdts were firm sales and transportation, 1.3 MMdts were interruptible sales and transportation and 77.0 MMdts were off-system sales and capacity release. The breakdown of firm sales and transportation includes 45.0% residential, 21.8% commercial, 20.7% industrial, and 12.5% cogeneration and electric generation. As of December 31, 2015, SJG served 348,093 residential customers, 24,565 commercial customers and 442 industrial customers. This includes 2015 net additions of 5,938 residential customers and 312 commercial customers.

SJG makes wholesale gas sales to gas marketers for resale and ultimate delivery to end users. These “off-system” sales are made possible through the issuance of the Federal Energy Regulatory Commission (FERC) Orders No. 547 and 636. Order No. 547 issued a blanket certificate of public convenience and necessity authorizing all parties, which are not interstate pipelines, to make FERC jurisdictional gas sales for resale at negotiated rates, while Order No. 636 allowed SJG to deliver gas at delivery points on the interstate pipeline system other than its own city gate stations and release excess pipeline capacity to third parties. During 2015, off-system sales amounted to 14.6 MMdts and capacity release amounted to 62.3 MMdts.

Supplies of natural gas available to SJG that are in excess of the quantity required by those customers who use gas as their sole source of fuel (firm customers) make possible the sale and transportation of gas on an interruptible basis to commercial and industrial customers whose equipment is capable of using natural gas or other fuels, such as fuel oil and propane. The term “interruptible” is used in the sense that deliveries of natural gas may be terminated by SJG at any time if this action is necessary to meet the needs of higher priority customers as described in SJG's tariffs. In 2015, usage by interruptible customers, excluding off-system customers, amounted to 1.3 MMdts, or approximately 1.0% of the total throughput.

South Jersey Industries, Inc.
Part II

South Jersey Energy Solutions, LLC

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

South Jersey Energy Company (SJE)

SJE provides services for the acquisition and transportation of natural gas and electricity for retail end users and markets total energy management services. SJE markets natural gas and electricity to commercial and industrial customers. SJE will become active in the residential market for electricity beginning in March 2016 as a result of several municipal aggregation bids won in the second half of 2015. Most customers served by SJE are located within New Jersey, northwestern Pennsylvania and New England. In 2015, SJE incurred a net loss that reduced SJI's net income by less than 1.0% on a consolidated basis.

South Jersey Resources Group, LLC (SJRG)

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

SJRG also conducts price risk management activities by entering into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts. In 2015, SJRG contributed approximately 20.2% of SJI's net income on a consolidated basis.

South Jersey Exploration, LLC (SJEX)

SJEX owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania. SJEX is a wholly-owned subsidiary of SJES and is also considered part of SJI's wholesale energy operations. In 2015, SJEX contributed approximately 1.4% of SJI's net income on a consolidated basis.

Marina Energy LLC (Marina)

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

Marina's other projects include a 50% equity interest in Energenic-US, LLC (Energenic). Energenic develops, owns and operates on-site energy projects such as thermal facilities, combined heat and power facilities, landfill gas-fired electric production facilities and solar projects. On December 31, 2015, Energenic, Marina and its joint venture partner entered into two Equity Distribution and Purchase Agreements, pursuant to which Marina became the sole owner of eight of the Energenic projects and its joint venture partner became the sole owner of seven other Energenic projects. The project entities that are now wholly owned by Marina are ACB Energy Partners, LLC (ACB), AC Landfill Energy, LLC (ACLE), BC Landfill Energy, LLC (BCLE), SC Landfill Energy, LLC (SCLE), SX Landfill Energy, LLC (SXLE), MCS Energy Partners, LLC (MCS), NBS Energy Partners, LLC (NBS) & SBS Energy

Partners, LLC (SBS).

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

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

MCS, NBS and SBS own and operate solar-generation sites located in New Jersey.

In 2015, Marina contributed approximately 14.7% of SJI's net income on a consolidated basis.

South Jersey Industries, Inc.
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South Jersey Energy Service Plus, LLC (SJESP)

SJESP services residential and small commercial HVAC systems, installs small commercial HVAC systems, provides plumbing services and services appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. SJESP serves southern New Jersey where it is one of the largest local HVAC service company's with nearly 25 experienced technicians. SJESP receives a commission on all new and renewed service contracts and is paid a fee to service those warranty contracts. In 2015, SJESP contributed less than 1.0% of SJI's net income on a consolidated basis.

Other

SJI Midstream, LLC owns a 20% equity investment in PennEast Pipeline Company, LLC, through which SJI, along with other investors, expect to construct an approximately 100-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey, estimated to be completed in 2017.

Energy & Minerals, Inc. (EMI) principally manages liabilities associated with its discontinued operations of nonutility subsidiaries.

Primary Factors Affecting SJI's Business

SJI's stated long-term goals are to: 1) Grow Economic Earnings to $150 million by 2020; 2) Improve the quality of earnings; 3) Strengthen the balance sheet; and 4) Maintain a low-to-moderate risk profile. Management established those goals in conjunction with SJI's Board of Directors based upon a number of different internal and external factors that characterize and influence SJI's current and expected future activities.

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

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

Customer Growth - Southern New Jersey, our primary area of operations, has not been immune to the issues impacting the new housing market nationally. Residential new construction, especially higher density, multi-family units, continues to improve slowly. Net customers for SJG grew 1.7% for 2015 as SJG continues its focus on customer conversions. In 2015, the 5,802 consumers converting their homes and businesses from other heating fuels, such as electric, propane or oil, represented approximately 66% of the total new customer acquisitions for the year. In comparison, conversions over the past five years averaged 5,195 annually. Customers in our service territory typically base their decisions to convert on comparisons of fuel costs, environmental considerations and efficiencies. As such, SJG began a comprehensive partnership with the State's Office of Clean Energy to educate consumers on energy efficiency and to promote the rebates and incentives available to natural gas users.

Regulatory Environment - SJG is primarily regulated by the New Jersey Board of Public Utilities (BPU). The BPU sets the rates that SJG charges its rate-regulated customers for services provided and establishes the terms of service under which SJG operates. SJG expects the BPU to continue to set rates and establish terms of service that will enable SJG to obtain a fair and reasonable return on capital invested. The BPU approved a Conservation Incentive Program (CIP) effective October 1, 2006, discussed in greater detail under "Results of Operations", that protects SJG's net income from severe fluctuations in gas used by residential, commercial and small industrial customers. In addition, in

February 2013, the BPU issued an Order approving the Accelerated Infrastructure Replacement Program (AIRP), a $141.2 million program to replace cast iron and unprotected bare steel mains and services over a four-year period, with annual investments of approximately $35.3 million. SJG earns a return on AIRP investments until they are included in rate base in future base rate proceedings. The BPU also issued an Order in August 2014 approving the Storm Hardening and Reliability Program (SHARP), a $103.5 million program to replace low-pressure distribution mains and services with high-pressure mains and services on the barrier islands over a three-year period, with annual investments of approximately $34.5 million.  SJG earns a return on SHARP investments until they are included in rate base through annual rate adjustments.

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

Changes in Natural Gas, Electricity and Solar Renewable Energy Credit (SREC) Prices - The utility's gas costs are passed on directly to customers without any profit margin added by SJG. The price the utility charges its periodic customers is set annually, with a regulatory mechanism in place to make limited adjustments to that price during the course of a year. In the event that gas cost increases would justify customer price increases greater than those permitted under the regulatory mechanism, SJG can petition the BPU for an incremental rate increase. High prices can make it more difficult for SJG's customers to pay their bills and may result in elevated levels of bad-debt expense. Among our nonutility activities, the business most likely to be impacted by changes in natural gas prices is our wholesale gas marketing business. Wholesale gas marketing typically benefits from volatility in gas prices during different points in time. The actual price of the commodity does not typically have an impact on the performance of this business line. Our ability to add and retain customers at our retail marketing business is affected by the relationship between the price that the utility charges customers for gas or electric and the cost available in the market at specific points in time. However, retail marketing accounts for a very small portion of SJI's overall activities. Marina Energy’s SREC portfolio typically benefits from increases in individual SREC spot markets for any current or future energy year. Positive spot market movement affords Marina a potential opportunity to sell open production and improve upon or solidify future SREC revenue streams for particular SREC products.

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

Midstream Investments - Design, engineering and environmental assessments continue moving forward on a natural gas pipeline in Pennsylvania and New Jersey. In September 2015, Midstream, along with other partners in the project, submitted an application to FERC for a permit to proceed with construction. The requested Certificate of Public Convenience and Necessity would authorize PennEast, of which Midstream has a 20% equity interest, to construct, install, own, operate and maintain this pipeline. We expect to make additional investments in similar midstream projects.

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

Labor and Benefit Costs - Labor and benefit costs have a significant impact on SJI's profitability. Benefit costs, especially those related to pension and health care, have risen in recent years. We seek to manage these costs by revising health care plans offered to existing employees, capping postretirement health care benefits, and changing health care and pension packages offered to new hires. We expect savings from these changes to gradually increase as new hires replace retiring employees. Our workforce totaled approximately 720 employees at the end of 2015, of which approximately 320 are unionized.

Balance Sheet Strength - Our goal is to maintain a strong balance sheet. Our average equity-to-capitalization ratio was approximately 42% as calculated for the four quarters of 2015 as compared with 44% in 2014. A strong balance sheet assists us in maintaining the financial flexibility necessary to take advantage of growth opportunities and to address volatile economic and commodity markets while maintaining a low-to-moderate risk platform.

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

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Regulatory Accounting - SJI's largest subsidiary, SJG, maintains its accounts according to the Uniform System of Accounts as prescribed by the BPU. As a result of the ratemaking process, SJG is required to follow Financial Accounting Standards Board (FASB) ASC Topic 980 - “Regulated Operations.” SJG is required under Topic 980 to recognize the impact of regulatory decisions on its financial statements. SJG is required under its Basic Gas Supply Service (BGSS) clause to forecast its natural gas costs and customer consumption in setting its rates. Subject to BPU approval, SJG is able to recover or return the difference between gas cost recoveries and the actual costs of gas through a BGSS charge to customers. SJG records any over/under recoveries as a regulatory asset or liability on the consolidated balance sheets and reflects them in the BGSS charge to customers in subsequent years. SJG also enters into derivatives that are used to hedge natural gas purchases. The offset to the resulting derivative assets or liabilities is recorded as a regulatory asset or liability on the consolidated balance sheets. See additional detailed discussions on Rates and Regulatory Actions in Note 10 to the consolidated financial statements.

Derivatives - SJI recognizes assets or liabilities for contracts that qualify as derivatives that are entered into by its subsidiaries when such contracts are executed. We record contracts at their fair value in accordance with FASB ASC Topic 815 - “Derivatives and Hedging.” We record changes in the fair value of the effective portion of derivatives qualifying as cash flow hedges, net of tax, in Accumulated Other Comprehensive Loss and recognize such changes in the income statement when the hedged item affects earnings. Changes in the fair value of derivatives not designated as hedges are recorded in earnings in the current period. Currently we do not have any energy-related derivative instruments designated as cash flow hedges. Hedge accounting has been discontinued for the remaining interest rate derivatives. As a result, unrealized gains and losses on these derivatives, that were previously recorded in Accumulated Other Comprehensive Loss on the consolidated balance sheets, are being recorded into earnings over the remaining life of the derivative. These derivatives will mature in 2026.

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

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

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

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

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

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

During 2013, discount rates increased and equity markets continued to outperform management's expectations. As a result, the Company experienced a $5.3 million decrease in the cost of providing such benefits in 2014.

A subsequent decrease in discount rates in 2014, coupled with lower than expected returns on plan assets and the impact of new mortality tables released by the Society of Actuaries in late 2014, resulted in a $7.6 million increase in the cost of providing such benefits in 2015. Management took measures to mitigate this increase by contributing an aggregate of $26.0 million to its pension and postretirement healthcare plans in January 2015. These contributions provided for a $1.9 million incremental earnings credit partially offsetting the expense, resulting in a net increase in retirement benefit costs of $5.7 million in 2015.

During 2015, a combination of factors resulted in lowering the Company’s expected cost of providing pension and other postretirement healthcare costs in 2016. These include increasing discount rates and updated mortality tables released by the Society of Actuaries again in late 2015. Further, the Company changed the structure of its postretirement healthcare plan for retirees to provide them with a fixed contribution to a healthcare reimbursement account and allowing them to obtain coverage from healthcare exchanges, rather than utilizing the company-provided healthcare plan. These positive factors are partially offset by lower than expected returns on plan assets due to poor performance in the equity markets in 2015. As a result of these factors, the Company is estimating a $1.1 million net decrease in the cost of providing these benefits in 2016.

Additional information regarding investment returns and assumptions can be found in Pension and Other Postretirement Benefits in Note 12 to the consolidated financial statements.

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

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

We recognize revenues related to SJESP's appliance service contracts on a monthly basis as work is completed or commissions are earned. Revenues related to services provided on a time and materials basis are recognized on a monthly basis as the services are provided.

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

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

SJG filed a petition in March 2013 to extend the Conservation Incentive Program (CIP) program and, in May 2014, the BPU approved the continuation of the CIP, with certain modifications. Each CIP year begins October 1 and ends September 30 of the subsequent year. On a monthly basis during a CIP year, SJG records adjustments to earnings based on weather and customer usage factors, as incurred. Subsequent to each year, SJG makes filings with the BPU to review and approve amounts recorded under the CIP. BPU-approved cash inflows or outflows generally will not begin until the next CIP year and have no impact on earnings at that time.

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

RATES AND REGULATION - As a public utility, SJG is subject to regulation by the BPU. Additionally, the Natural Gas Policy Act, which was enacted in November 1978, contains provisions for Federal regulation of certain aspects of SJG's business. SJG is affected by Federal regulation with respect to transportation and pricing policies applicable to pipeline capacity from Transcontinental Gas Pipe Line Company, LLC (SJG's major supplier), Columbia Gas Transmission, LLC and Dominion Transmission, Inc., since such services are provided under rates and terms established under the jurisdiction of the FERC. SJG's retail sales are made under rate schedules within a tariff filed with, and subject to the jurisdiction of, the BPU. These rate schedules provide primarily for either block rates or demand/commodity rate structures. SJG's primary rate mechanisms include base rates, the Basic Gas Supply Service Clause (BGSS), Accelerated Infrastructure Programs, Energy Efficiency Tracker (EET) and the Conservation Incentive Program (CIP).

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

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

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net Income Impact: | | | |
| CIP - Weather Related | $0.9 | $(4.7) | $(0.3) |
| CIP - Usage Related | (1.9) | 2.0 | 3.4 |
| Total Net Income Impact | $(1.0) | $(2.7) | $3.1 |
| | | | |
| Weather Compared to 20-Year Average | 3.1% warmer | 7.5% colder | 0.6% colder |
| Weather Compared to Prior Year | 9.6% warmer | 4.6% colder | 20.6% colder |

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

Earnings accrued and payments received under the CIP are limited to a level that will not cause SJG's return on equity to exceed 9.75% (excluding earnings from off-system gas sales and certain other tariff clauses) and CIP recoveries are limited by the annualized savings attained from reducing gas supply and storage assets.

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

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

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

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

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

SJE competes with utilities and other third-party marketers to sell the unregulated natural gas and electricity commodity to customers. Marketers compete largely on price, which is driven by the commodity market. While the utilities are typically indifferent as to where customers get their gas or electricity, the price they set for the commodity they sell creates competition for SJE. Based on its market share, SJE is one of the largest marketers of natural gas in southern New Jersey as of December 31, 2015. In addition, similar to SJG, SJE faces competition from other energy products.

SJESP competes primarily with smaller, local contractors in southern New Jersey that service residential and commercial HVAC systems and provide major appliance repair and plumbing services. These contractors typically only serve their local communities and do not serve the entire southern part of New Jersey.

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CUSTOMER CHOICE LEGISLATION - All residential natural gas customers in New Jersey can choose their natural gas commodity supplier under the terms of the “Electric Discount and Energy Competition Act of 1999." This bill created the framework and necessary time schedules for the restructuring of the state's electric and natural gas utilities. The Act established unbundling, where redesigned utility rate structures allow natural gas and electric consumers to choose their energy supplier. It also established time frames for instituting competitive services for customer account functions and for determining whether basic gas supply services should become competitive. Customers purchasing natural gas from a provider other than the local utility (the “marketer”) are charged for the gas costs by the marketer and charged for the transportation costs by the utility. The total number of customers in SJG's service territory purchasing natural gas from a marketer averaged 36,191, 41,837 and 46,872 during 2015, 2014 and 2013, respectively.

RESULTS OF OPERATIONS:

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

- Gas utility operations (SJG) consist primarily of natural gas distribution to residential, commercial and industrial customers.
- Wholesale energy operations include the activities of SJRG and SJEX.
- SJE is involved in both retail gas and retail electric activities.
  Retail gas and other operations include natural gas acquisition and transportation service business lines.
  Retail electric operations consist of electricity acquisition and transportation to commercial and industrial customers.
- On-site energy production consists of Marina's thermal energy facility and other energy-related projects. Also included in this segment are the activities of ACB, ACLE, BCLE, SCLE, SXLE, MCS, NBS and SBS. These entities became wholly-owned subsidiaries of Marina on December 31, 2015 (see Note 3 to the consolidated financial statements).
- Appliance service operations includes SJESP’s servicing of appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.
- The activities of Midstream are a part of the Corporate & Services segment.

SJI groups its nonutility operations into two categories: Energy Group and Energy Services. Energy Group includes wholesale energy, retail gas and other, and retail electric operations. Energy Services includes on-site energy production and appliance service operations.

SJI's net income for 2015 increased $8.1 million, or 8.3%, to $105.1 million compared to 2014 primarily as a result of the following:

- The net income contribution from SJRG increased $15.6 million to net income of $21.2 million due primarily to an approximately $11.1 million increase resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk as discussed under "Operating Revenues - Energy Group" below, along with an approximately $4.5 million increase related to higher storage hedge gains and higher daily trading margins, partially offset by lower storage volumes sold compared to the prior year as described in "Gross Margin - Energy Group" below.

- The net income contribution from Marina decreased $6.6 million to $15.5 million due primarily to the impact of a reduction in the carrying amount of an investment, along with an accrual of the cost to settle a legal claim, at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 7 to the consolidated financial statements). Partially offsetting this decrease is the impact of the investment tax credits available on renewable energy facilities compared to the prior year.

- The net income contribution from SJE decreased $1.6 million to a net loss of $0.7 million due primarily to the change in unrealized gains and losses on forward financial contracts used to mitigate price risk on retail gas as discussed under "Operating Revenues – Nonutility" below.

SJI's net income for 2014 increased $15.5 million, or 18.9%, to $97.0 million compared to 2013 primarily as a result of the following:

- The net income contribution from SJRG increased $28.0 million to net income of $5.6 million due primarily to an approximately $16.6 million increase related to higher daily trading margins and higher storage volumes sold as described in "Gross Margin - Energy Group" below, along with an $11.4 million increase resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk, as discussed under "Operating Revenues - Energy Group" below.

- The net income contribution from SJG increased $4.2 million to $66.5 million due primarily to increases in the accelerated infrastructure programs and customer growth over the prior year.

- The net income contribution from Marina decreased $16.9 million to $22.0 million due primarily to a reserve for uncollectible accounts established at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 15 to the consolidated financial statements), along with the impact of the investment tax credits available on renewable energy facilities as compared to the prior year.

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

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

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

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

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

We define Economic Earnings as: Income from continuing operations, (a) less the change in unrealized gains and plus the change in unrealized losses, as applicable and in each case after tax, on all derivative transactions, and (b) less realized gains and plus realized losses, as applicable and in each case after tax, on all commodity derivative transactions attributed to expected purchases of gas in storage to match the recognition of these gains and losses with the recognition of the related cost of the gas in storage in the period of withdrawal, and (c) less the impact of transactions or contractual arrangements where the true economic impact will be realized in a future period. With respect to the third part of the definition of Economic Earnings:

- For the years ended December 31, 2015, 2014 and 2013, Economic Earnings includes additional depreciation expense on a solar generating facility. During 2012, an impairment charge was recorded within Income from Continuing Operations on a solar generating facility which reduced its depreciable basis and recurring depreciation expense. This impairment charge was excluded from Economic Earnings and, therefore, the related reduction in depreciation expense is being added back.

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- For the year ended December 31, 2015, Economic Earnings includes net losses of $1.5 million (net of tax) from affiliated companies that were excluded from Economic Earnings for the year ended December 31, 2014. These adjustments are the result of a reserve for uncollectible accounts recorded by an Energenic subsidiary that owns and operates a central energy center and energy distribution system for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 7 to the consolidated financial statements). In 2014, this charge was excluded from Economic Earnings as the total economic impact of the proceedings had not been realized. During the second quarter of 2015, the Company, through its investment in Energenic, reduced the carrying value of the investment in this project. As such, this charge is now being included in Economic Earnings for the year ended December 31, 2015.

- For the year ended December 31, 2013, Economic Earnings excludes a $0.8 million loss (net of tax) from affiliated companies, not part of ongoing operations. This adjustment is the result of the termination of the contract at LVE Energy Partners, LLC ("LVE") and is being excluded because all of the assets of LVE have been sold and LVE is no longer considered part of the ongoing operations of the Company. LVE was dissolved prior to December 31, 2013; as such, there was no gain/loss from affiliated companies not part of ongoing operations for the years ended December 31, 2015 or 2014.

Economic Earnings is a significant performance metric used by our management to indicate the amount and timing of income from continuing operations that we expect to earn after taking into account the impact of derivative instruments on the related transactions and transactions or contractual arrangements where the true economic impact will be realized in a future period. Specifically, we believe that this financial measure indicates to investors the profitability of the entire derivative-related transaction and not just the portion that is subject to mark-to-market valuation under GAAP. Considering only the change in market value on the derivative side of the transaction can produce a false sense as to the ultimate profitability of the total transaction as no change in value is reflected for the non-derivative portion of the transaction.

Economic Earnings for 2015 decreased $5.0 million, or 4.8%, to $99.0 million compared to 2014 primarily as a result of the following:

- The income contribution from Marina decreased $10.0 million to $14.0 million due primarily to the impact of a reduction in the carrying amount of an investment, along with an accrual of the cost to settle a legal claim, at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 7 to the consolidated financial statements). Partially offsetting this decrease is the impact of the investment tax credits available on renewable energy facilities compared to the prior year.

- The income contribution from SJRG increased $4.5 million to $13.6 million due primarily to higher storage hedge gains and higher daily trading margins, partially offset with lower storage volumes sold compared to the prior year as described in "Gross Margin - Energy Group" below.

Economic Earnings for 2014 increased $6.9 million, or 7.1%, to $104.0 million compared to 2013 primarily as a result of the following:

- The income contribution from SJRG increased $16.6 million to $9.0 million due primarily to higher daily trading margins and higher storage volumes sold as described in "Gross Margin - Energy Group" below.

- The income contribution from SJG increased $4.2 million to $66.5 million due primarily to increases in the accelerated infrastructure programs and customer growth over the prior year.

- The income contribution from Marina decreased $14.4 million to $24.0 million due primarily to a reserve for uncollectible accounts established at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 15 to the consolidated financial statements), along with the impact of the investment tax credits available on renewable energy facilities as compared to the prior year.

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Income from Continuing Operations | $105,610 | $97,628 | $82,389 |
| Minus/Plus: | | | |
| Unrealized Mark-to-Market (Gains)/Losses on Derivatives | (5,066) | 4,500 | 14,058 |
| Realized Losses/(Gains) on Inventory Injection Hedges | 54 | 427 | (4) |
| Net Loss from Affiliated Companies, Not Part of Ongoing Operations (A) | — | — | 751 |
| Net Loss from Affiliated Companies (B) | (1,524) | 1,524 | — |
| Other (C) | (100) | (100) | (100) |
| Economic Earnings | $98,974 | $103,979 | $97,094 |
| Earnings per Share from Continuing Operations (D) | $1.53 | $1.47 | $1.29 |
| Minus/Plus: | | | |
| Unrealized Mark-to-Market (Gains)/Losses on Derivatives | (0.07) | 0.07 | 0.21 |
| Realized Losses on Inventory Injection Hedges | — | — | — |
| Net Loss from Affiliated Companies, Not Part of Ongoing Operations (A) | — | — | 0.01 |
| Net Loss from Affiliated Companies (B) | (0.02) | 0.03 | — |
| Economic Earnings per Share | $1.44 | $1.57 | $1.51 |

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gains (losses) on energy-related commodity contracts | $8,401 | $(6,592) | $(25,823) |
| Gains (losses) on interest rate contracts | 96 | (467) | 2,760 |
| Total before income taxes | 8,497 | (7,059) | (23,063) |
| Income taxes (E) | (3,399) | 2,824 | 9,455 |
| Total after income taxes | 5,098 | (4,235) | (13,608) |
| Unrealized mark-to-market losses on derivatives held by affiliated companies, net of tax (E) | (32) | (265) | (450) |
| Total unrealized mark-to-market gains (losses) on derivatives | 5,066 | (4,500) | (14,058) |
| Realized (losses) gains on inventory injection hedges, net of tax (E) | (54) | (427) | 4 |
| Net Loss from Affiliated Companies, Not Part of Ongoing Operations (A) | — | — | (751) |
| Net Loss from Affiliated Companies (B) | 1,524 | (1,524) | — |
| Other (C) | 100 | 100 | 100 |
| Total reconciling items between income from continuing operations and Economic Earnings | $6,636 | $(6,351) | $(14,705) |

(A) Resulting from the termination of the contract at LVE Energy Partners, LLC to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada.

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

(C) Represents additional depreciation expense within Economic Earnings on a solar generating facility. During 2012, an impairment charge was recorded within Income from Continuing Operations on a solar generating facility which reduced its depreciable basis and recurring depreciation expense. This impairment charge was excluded from Economic Earnings and therefore the related reduction in depreciation expense is being added back.

(D) All per share amounts were adjusted for the 2-for-1 stock split, effected in the form of a stock dividend, effective on May 8, 2015. See Note 1 to the consolidated financial statements.

(E) For 2015 and 2014, determined using a combined average statutory tax rate of 40%. For 2013, determined using a combined statutory tax rate of 41%.

South Jersey Industries, Inc.
Part II

Throughput-Gas Utility Operations - The following table summarizes the composition of select gas utility data for the years ended December 31 (in thousands, except for customer and degree day data):

| | December 31, 2015 | | | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| Utility Throughput - dth: | | | | | | | | | |
| Firm Sales - | | | | | | | | | |
| Residential | 23,852 | 17 | % | 24,508 | 18 | % | 22,070 | 20 | % |
| Commercial | 5,980 | 4 | % | 5,530 | 4 | % | 5,408 | 5 | % |
| Industrial | 338 | — | | 283 | — | | 292 | — | |
| Cogeneration and electric generation | 1,449 | 1 | % | 1,035 | 1 | % | 1,562 | 1 | % |
| Firm Transportation - | | | | | | | | | |
| Residential | 2,427 | 2 | % | 3,291 | 2 | % | 3,319 | 3 | % |
| Commercial | 6,783 | 5 | % | 7,103 | 5 | % | 6,780 | 6 | % |
| Industrial | 11,780 | 9 | % | 13,168 | 10 | % | 13,051 | 12 | % |
| Cogeneration and electric generation | 5,870 | 4 | % | 10,307 | 7 | % | 7,977 | 7 | % |
| Total Firm Throughput | 58,479 | 42 | % | 65,225 | 47 | % | 60,459 | 54 | % |
| | | | | | | | | | |
| Interruptible Sales | 20 | — | | — | — | | 14 | — | |
| Interruptible Transportation | 1,338 | 1 | % | 1,401 | 1 | % | 1,452 | 1 | % |
| Off-System | 14,603 | 11 | % | 9,411 | 7 | % | 9,685 | 9 | % |
| Capacity Release | 62,349 | 46 | % | 62,193 | 45 | % | 40,088 | 36 | % |
| | | | | | | | | | |
| Total Throughput - Utility | 136,789 | 100 | % | 138,230 | 100 | % | 111,698 | 100 | % |
| | | | | | | | | | |
| Utility Operating Revenues: | | | | | | | | | |
| Firm Sales- | | | | | | | | | |
| Residential | $317,491 | 59 | % | $279,797 | 56 | % | $246,227 | 56 | % |
| Commercial | 69,845 | 13 | % | 63,584 | 13 | % | 57,126 | 13 | % |
| Industrial | 4,083 | 1 | % | 4,070 | 1 | % | 3,485 | 1 | % |
| Cogeneration and electric generation | 5,666 | 1 | % | 6,037 | 1 | % | 8,144 | 2 | % |
| Firm Transportation - | | | | | | | | | |
| Residential | 16,594 | 3 | % | 20,648 | 4 | % | 21,392 | 5 | % |
| Commercial | 30,602 | 6 | % | 30,850 | 6 | % | 28,165 | 6 | % |
| Industrial | 22,106 | 4 | % | 25,737 | 5 | % | 23,551 | 5 | % |
| Cogeneration and electric generation | 4,920 | 1 | % | 9,531 | 2 | % | 6,982 | 2 | % |
| Total Firm Revenues | 471,307 | 88 | % | 440,254 | 88 | % | 395,072 | 90 | % |
| | | | | | | | | | |
| Interruptible Sales | 300 | — | | 15 | — | | 342 | — | |
| Interruptible Transportation | 1,373 | — | | 1,694 | — | | 1,827 | — | |
| Off-System | 49,624 | 9 | % | 52,809 | 11 | % | 41,488 | 9 | % |
| Capacity Release | 10,296 | 2 | % | 5,835 | 1 | % | 6,384 | 1 | % |
| Other | 1,390 | 1 | % | 1,268 | — | | 1,367 | — | |
| | 534,290 | 100 | % | 501,875 | 100 | % | 446,480 | 100 | % |

Less: