

NATIONAL FUEL GAS CO
Form 10-Q
August 07, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
 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 1-3880

NATIONAL FUEL GAS COMPANY
(Exact name of registrant as specified in its charter)
New Jersey 13-1086010
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

6363 Main Street
Williamsville, New York 14221
(Address of principal executive offices) (Zip Code)

(716) 857-7000
(Registrant's telephone number, including area code)

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 and (2) has been subject to such filing requirements for the past 90 days. YES NO

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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. (Check one):

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, par value \$1.00 per share, outstanding at July 31, 2015: 84,566,550 shares.

Table of Contents

GLOSSARY OF TERMS

Frequently used abbreviations, acronyms, or terms used in this report:

National Fuel Gas Companies

Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries as appropriate in the context of the disclosure
Distribution Corporation	National Fuel Gas Distribution Corporation
Empire	Empire Pipeline, Inc.
Midstream Corporation	National Fuel Gas Midstream Corporation
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
Seneca	Seneca Resources Corporation
Supply Corporation	National Fuel Gas Supply Corporation

Regulatory Agencies

CFTC	Commodity Futures Trading Commission
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
NYDEC	New York State Department of Environmental Conservation
NYPSC	State of New York Public Service Commission
PaDEP	Pennsylvania Department of Environmental Protection
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission

Other

2014 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2014
Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Bcfe (or Mcfe) – represents Bcf (or Mcf) Equivalent	The total heat value (Btu) of natural gas and oil expressed as a volume of natural gas. The Company uses a conversion formula of 1 barrel of oil = 6 Mcf of natural gas.
Btu	British thermal unit; the amount of heat needed to raise the temperature of one pound of water one degree Fahrenheit
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Supply Corporation and/or Empire for gas the customer receives in excess of amounts delivered into Supply Corporation's and Empire's systems by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying variable (a price, interest rate, index rate, exchange rate, or

other variable) and a notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, options, no cost collars and swaps.

Development costs

Costs incurred to obtain access to proved oil and gas reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas

2

Table of Contents

Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act.
Dth	Decatherm; one Dth of natural gas has a heating value of 1,000,000 British thermal units, approximately equal to the heating value of 1 Mcf of natural gas.
Exchange Act	Securities Exchange Act of 1934, as amended
Expenditures for long-lived assets	Includes capital expenditures, stock acquisitions and/or investments in partnerships.
Exploration costs	Costs incurred in identifying areas that may warrant examination, as well as costs incurred in examining specific areas, including drilling exploratory wells.
FERC 7(c) application	An application to the FERC under Section 7(c) of the federal Natural Gas Act for authority to construct, operate (and provide services through) facilities to transport or store natural gas in interstate commerce.
Firm transportation and/or storage	The transportation and/or storage service that a supplier of such service is obligated by contract to provide and for which the customer is obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United States of America
Goodwill	An intangible asset representing the difference between the fair value of a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes, often times through the use of derivative financial instruments.
Hub	Location where pipelines intersect enabling the trading, transportation, storage, exchange, lending and borrowing of natural gas.
ICE	Intercontinental Exchange. An exchange which maintains a futures market for crude oil and natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service, and for which the customer does not pay unless utilized.
LDC	Local distribution company
LIBOR	London Interbank Offered Rate
LIFO	Last-in, first-out
Marcellus Shale	A Middle Devonian-age geological shale formation that is present nearly a mile or more below the surface in the Appalachian region of the United States, including much of Pennsylvania and southern New York.
Mbbl	Thousand barrels (of oil)
Mcf	Thousand cubic feet (of natural gas)
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDth	Thousand decatherms (of natural gas)
MMBtu	Million British thermal units (heating value of one decatherm of natural gas)
MMcf	Million cubic feet (of natural gas)
NEPA	National Environmental Policy Act of 1969, as amended
NGA	The Natural Gas Act of 1938, as amended; the federal law regulating interstate natural gas pipeline and storage companies, among other things, codified beginning at 15 U.S.C. Section 717.
NYMEX	

New York Mercantile Exchange. An exchange which maintains a futures market for crude oil and natural gas.

Open Season

A bidding procedure used by pipelines to allocate firm transportation or storage capacity among prospective shippers, in which all bids submitted during a defined time period are evaluated as if they had been submitted simultaneously.

Precedent Agreement

An agreement between a pipeline company and a potential customer to sign a service agreement after specified events (called “conditions precedent”) happen, usually within a specified time.

3

Table of Contents

Proved developed reserves	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
Proved undeveloped (PUD) reserves	Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required to make these reserves productive.
Reserves	The unproduced but recoverable oil and/or gas in place in a formation which has been proven by production.
Revenue decoupling mechanism	A rate mechanism which adjusts customer rates to render a utility financially indifferent to throughput decreases resulting from conservation.
S&P	Standard & Poor's Rating Service
SAR	Stock appreciation right
Service agreement	The binding agreement by which the pipeline company agrees to provide service and the shipper agrees to pay for the service.
Stock acquisitions	Investments in corporations
VEBA	Voluntary Employees' Beneficiary Association
WNC	Weather normalization clause; a clause in utility rates which adjusts customer rates to allow a utility to recover its normal operating costs calculated at normal temperatures. If temperatures during the measured period are warmer than normal, customer rates are adjusted upward in order to recover projected operating costs. If temperatures during the measured period are colder than normal, customer rates are adjusted downward so that only the projected operating costs will be recovered.

Table of Contents

INDEX	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	<u>6</u>
<u>a. Consolidated Statements of Income and Earnings Reinvested in the Business - Three and Nine Months Ended June 30, 2015 and 2014</u>	<u>6</u>
<u>b. Consolidated Statements of Comprehensive Income – Three and Nine Months Ended June 30, 2015 and 2014</u>	<u>7</u>
<u>c. Consolidated Balance Sheets – June 30, 2015 and September 30, 2014</u>	<u>8</u>
<u>d. Consolidated Statements of Cash Flows – Nine Months Ended June 30, 2015 and 2014</u>	<u>10</u>
<u>e. Notes to Condensed Consolidated Financial Statements</u>	<u>11</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1 A. Risk Factors</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
Item 3. Defaults Upon Senior Securities	•
Item 4. Mine Safety Disclosures	•
Item 5. Other Information	•
<u>Item 6. Exhibits</u>	<u>49</u>
<u>Signatures</u>	<u>50</u>

- The Company has nothing to report under this item.

Reference to "the Company" in this report means the Registrant or the Registrant and its subsidiaries collectively, as appropriate in the context of the disclosure. All references to a certain year in this report are to the Company's fiscal year ended September 30 of that year, unless otherwise noted.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

National Fuel Gas Company

Consolidated Statements of Income and Earnings

Reinvested in the Business

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(Thousands of Dollars, Except Per Common Share Amounts)	2015	2014	2015	2014
INCOME				
Operating Revenues	\$339,815	\$440,144	\$1,459,851	\$1,746,458
Operating Expenses:				
Purchased Gas	27,038	86,628	344,728	577,005
Operation and Maintenance	110,697	107,232	356,525	352,794
Property, Franchise and Other Taxes	22,717	22,483	68,561	69,114
Depreciation, Depletion and Amortization	79,865	96,788	265,298	279,876
Impairment of Oil and Gas Producing Properties	588,712	—	709,060	—
	829,029	313,131	1,744,172	1,278,789
Operating Income (Loss)	(489,214)	127,013	(284,321)	467,669
Other Income (Expense):				
Interest Income	327	370	1,631	1,321
Other Income	2,066	1,496	4,638	6,847
Interest Expense on Long-Term Debt	(22,213)	(22,116)	(66,900)	(67,767)
Other Interest Expense	(1,007)	(1,136)	(3,382)	(3,460)
Income (Loss) Before Income Taxes	(510,041)	105,627	(348,334)	404,610
Income Tax Expense (Benefit)	(216,907)	41,107	(156,610)	162,627
Net Income (Loss) Available for Common Stock	(293,134)	64,520	(191,724)	241,983
EARNINGS REINVESTED IN THE BUSINESS				
Balance at Beginning of Period	1,650,840	1,557,184	1,614,361	1,442,617
	1,357,706	1,621,704	1,422,637	1,684,600
Dividends on Common Stock	(33,388)	(32,373)	(98,319)	(95,269)
Balance at June 30	\$1,324,318	\$1,589,331	\$1,324,318	\$1,589,331
Earnings Per Common Share:				
Basic:				
Net Income (Loss) Available for Common Stock	\$(3.47)	\$0.77	\$(2.27)	\$2.89
Diluted:				
Net Income (Loss) Available for Common Stock	\$(3.44)	\$0.76	\$(2.25)	\$2.85
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation	84,453,602	84,029,124	84,326,182	83,863,764
Used in Diluted Calculation	85,248,281	84,973,100	85,237,514	84,892,473
Dividends Per Common Share:				
Dividends Declared	\$0.395	\$0.385	\$1.165	\$1.135

See Notes to Condensed Consolidated Financial Statements

6

Table of ContentsNational Fuel Gas Company
Consolidated Statements of Comprehensive Income
(Unaudited)

(Thousands of Dollars)	Three Months Ended		Nine Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Net Income (Loss) Available for Common Stock	\$ (293,134	) \$ 64,520	\$ (191,724	) \$ 241,983
Other Comprehensive Income (Loss), Before Tax:					
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	90	1,191	(56	) 4,311
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(9,483) (13,221) 295,511	(77,903)
Reclassification Adjustment for Realized (Gains) Losses on Securities Available for Sale in Net Income	—	16	—	16	
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	(50,875	) 14,464	(129,270	) 30,921
Other Comprehensive Income (Loss), Before Tax	(60,268) 2,450	166,185	(42,655)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	33	420	(27	) 1,576
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(4,060) (7,656) 124,792	(34,968)
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Securities Available for Sale in Net Income	—	7	—	7	
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	(21,800	) 8,262	(54,807	) 15,134
Income Taxes – Net	(25,827) 1,033	69,958	(18,251)
Other Comprehensive Income (Loss)	(34,441) 1,417	96,227	(24,404)
Comprehensive Income (Loss)	\$ (327,575	) \$ 65,937	\$ (95,497	) \$ 217,579

See Notes to Condensed Consolidated Financial Statements

7

Table of ContentsNational Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	June 30, 2015	September 30, 2014
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$8,937,174	\$8,245,791
Less - Accumulated Depreciation, Depletion and Amortization	3,455,446	2,502,700
	5,481,728	5,743,091
Current Assets		
Cash and Temporary Cash Investments	310,031	36,886
Hedging Collateral Deposits	11,101	2,734
Receivables – Net of Allowance for Uncollectible Accounts of \$34,226 and \$31,811, Respectively	135,427	149,735
Unbilled Revenue	18,234	25,663
Gas Stored Underground	16,506	39,422
Materials and Supplies - at average cost	31,339	27,817
Other Current Assets	49,449	54,752
Deferred Income Taxes	39,383	40,323
	611,470	377,332
Other Assets		
Recoverable Future Taxes	168,436	163,485
Unamortized Debt Expense	17,000	14,304
Other Regulatory Assets	215,630	224,436
Deferred Charges	12,347	14,212