

NATIONAL FUEL GAS CO  
Form 10-Q  
August 03, 2018  
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, 2018  
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 organization) (I.R.S. Employer Identification No.)  
  
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

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, 2018: 85,951,198 shares.

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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 Company	National Fuel Gas Midstream Company, LLC (formerly National Fuel Gas Midstream Corporation) *
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
Seneca	Seneca Resources Company, LLC (formerly Seneca Resources Corporation) *
Supply Corporation	National Fuel Gas Supply Corporation

\* Effective August 1, 2018, the Company converted Seneca Resources Corporation and National Fuel Gas Midstream Corporation to limited liability companies (LLCs) for tax purposes. Both LLCs are wholly owned by a newly formed subsidiary named Pennsylvania Gas Holdings Corporation which in turn is wholly owned by the Company.

## 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

2017 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2017
2017 Tax Reform Act	Tax legislation referred to as the "Tax Cuts and Jobs Act," enacted December 22, 2017.
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 (e.g. a marketer) pays for gas the customer receives in excess of amounts delivered into pipeline/storage or distribution 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.

Table of Contents

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, forward 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
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.
Exploratory well	A well drilled in unproven or semi-proven territory for the purpose of ascertaining the presence underground of a commercial hydrocarbon deposit.
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



Table of Contents

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.
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
Utica Shale	A Middle Ordovician-age geological formation lying several thousand feet below the Marcellus Shale in the Appalachian region of the United States, including much of Ohio, Pennsylvania, West Virginia and southern New York.
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, 2018 and 2017</u>	<u>6</u>
<u>b. Consolidated Statements of Comprehensive Income – Three and Nine Months Ended June 30, 2018 and 2017</u>	<u>7</u>
<u>c. Consolidated Balance Sheets – June 30, 2018 and September 30, 2017</u>	<u>8</u>
<u>d. Consolidated Statements of Cash Flows – Nine Months Ended June 30, 2018 and 2017</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>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 4. Controls and Procedures</u>	<u>47</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1 A. Risk Factors</u>	<u>47</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>48</u>
<u>Signatures</u>	<u>49</u>

• The Company has nothing to report under this item.

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)	2018	2017	2018	2017
<b>INCOME</b>				
Operating Revenues:				
Utility and Energy Marketing Revenues	\$154,088	\$146,360	\$719,234	\$663,029
Exploration and Production and Other Revenues	137,492	151,925	425,811	473,617
Pipeline and Storage and Gathering Revenues	51,332	50,083	158,428	156,298
	342,912	348,368	1,303,473	1,292,944
Operating Expenses:				
Purchased Gas	52,211	46,135	322,854	264,349
Operation and Maintenance:				
Utility and Energy Marketing	45,618	44,467	158,397	158,796
Exploration and Production and Other	31,141	34,098	106,268	102,153
Pipeline and Storage and Gathering	24,770	23,250	67,450	69,016
Property, Franchise and Other Taxes	20,595	21,447	64,245	64,368
Depreciation, Depletion and Amortization	60,817	55,617	177,802	168,812
	235,152	225,014	897,016	827,494
Operating Income	107,760	123,354	406,457	465,450
Other Income (Expense):				
Interest Income	1,632	853	4,907	2,844
Other Income	999	1,370	3,492	4,728
Interest Expense on Long-Term Debt	(27,177 )	(29,225 )	(82,412 )	(87,241 )
Other Interest Expense	(1,006 )	(846 )	(2,742 )	(2,680 )
Income Before Income Taxes	82,208	95,506	329,702	383,101
Income Tax Expense (Benefit)	19,183	35,792	(23,825 )	145,195
Net Income Available for Common Stock	63,025	59,714	353,527	237,906
<b>EARNINGS REINVESTED IN THE BUSINESS</b>				
Balance at Beginning of Period	1,070,939	817,348	851,669	676,361
	1,133,964	877,062	1,205,196	914,267
Dividends on Common Stock	(36,526 )	(35,469 )	(107,758 )	(104,590 )
Cumulative Effect of Adoption of Authoritative Guidance for Stock-Based Compensation	—	—	—	31,916
Balance at June 30	\$1,097,438	\$841,593	\$1,097,438	\$841,593
Earnings Per Common Share:				
Basic:				

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Net Income Available for Common Stock	\$0.73	\$0.70	\$4.12	\$2.79
Diluted:				
Net Income Available for Common Stock	\$0.73	\$0.69	\$4.09	\$2.77
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation	85,930,289	85,422,313	85,789,279	85,315,154
Used in Diluted Calculation	86,501,194	86,064,464	86,370,900	85,950,742
Dividends Per Common Share:				
Dividends Declared	\$0.425	\$0.415	\$1.255	\$1.225
See Notes to Condensed Consolidated Financial Statements				

Table of Contents

National Fuel Gas Company  
Consolidated Statements of Comprehensive Income  
(Unaudited)

	Three Months		Nine Months Ended	
	Ended June 30,		June 30,	
(Thousands of Dollars)	2018	2017	2018	2017
Net Income Available for Common Stock	\$63,025	\$59,714	\$353,527	\$237,906
Other Comprehensive Income (Loss), Before Tax:				
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(121 )	1,437	(843 )	2,280
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(37,452 )	18,233	(55,534 )	9,829
Reclassification Adjustment for Realized (Gains) Losses on Securities Available for Sale in Net Income	—	—	(430 )	(741 )
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	3,771	(18,452 )	(5,577 )	(59,641 )
Other Comprehensive Income (Loss), Before Tax	(33,802 )	1,218	(62,384 )	(48,273 )
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	42	532	(275 )	832
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(10,416 )	7,592	(16,240 )	3,892
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Securities Available for Sale in Net Income	—	—	(158 )	(272 )
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	1,208	(7,693 )	(3,438 )	(25,061 )
Income Taxes – Net	(9,166 )	431	(20,111 )	(20,609 )
Other Comprehensive Income (Loss)	(24,636 )	787	(42,273 )	(27,664 )
Comprehensive Income	\$38,389	\$60,501	\$311,254	\$210,242

See Notes to Condensed Consolidated Financial Statements

7

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

	June 30, 2018	September 30, 2017
(Thousands of Dollars)		
<b>ASSETS</b>		
Property, Plant and Equipment	\$10,254,976	\$ 9,945,560
Less - Accumulated Depreciation, Depletion and Amortization	5,411,746	5,271,486
	4,843,230	4,674,074
Current Assets		
Cash and Temporary Cash Investments	313,307	555,530
Hedging Collateral Deposits	2,283	1,741
Receivables – Net of Allowance for Uncollectible Accounts of \$26,711 and \$22,526, Respectively	151,005	112,383
Unbilled Revenue	18,930	22,883
Gas Stored Underground	16,090	35,689
Materials and Supplies - at average cost	34,693	33,926
Unrecovered Purchased Gas Costs	—	4,623
Other Current Assets	52,690	51,505
	588,998	818,280
Other Assets		
Recoverable Future Taxes	115,688	181,363
Unamortized Debt Expense	7,587	1,159
Other Regulatory Assets	171,792	174,433
Deferred Charges	37,349	30,047
Other Investments	130,744	125,265
Goodwill	5,476	5,476
Prepaid Post-Retirement Benefit Costs	61,371	56,370
Fair Value of Derivative Financial Instruments	11,760	36,111
Other	108	742
	541,875	610,966
<b>Total Assets</b>	<b>\$5,974,103</b>	<b>\$ 6,103,320</b>

See Notes to Condensed Consolidated Financial Statements



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

	June 30, 2018	September 30, 2017
(Thousands of Dollars)		
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding – 85,943,875 Shares and 85,543,125 Shares, Respectively	\$ 85,944	\$ 85,543
Paid in Capital	816,395	796,646
Earnings Reinvested in the Business	1,097,438	851,669
Accumulated Other Comprehensive Loss	(72,396 )	(30,123 )
Total Comprehensive Shareholders' Equity	1,927,381	1,703,735
Long-Term Debt, Net of Current Portion and Unamortized Discount and Debt Issuance Costs	1,835,582	2,083,681
Total Capitalization	3,762,963	3,787,416
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	—	—
Current Portion of Long-Term Debt	250,000	300,000
Accounts Payable	111,812	126,443
Amounts Payable to Customers	16,833	—
Dividends Payable	36,526	35,500
Interest Payable on Long-Term Debt	28,357	35,031
Customer Advances	197	15,701
Customer Security Deposits	18,468	20,372
Other Accruals and Current Liabilities	161,252	111,889
Fair Value of Derivative Financial Instruments	38,012	1,103
	661,457	646,039
Deferred Credits		
Deferred Income Taxes	491,520	891,287
Taxes Refundable to Customers	366,183	95,739
Cost of Removal Regulatory Liability	213,560	204,630
Other Regulatory Liabilities	128,184	113,716
Pension and Other Post-Retirement Liabilities	138,275	149,079
Asset Retirement Obligations	101,833	106,395
Other Deferred Credits	110,128	109,019
	1,549,683	1,669,865
Commitments and Contingencies (Note 6)	—	—
Total Capitalization and Liabilities	\$5,974,103	\$ 6,103,320

See Notes to Condensed Consolidated Financial Statements





Table of Contents

National Fuel Gas Company  
 Consolidated Statements of Cash Flows  
 (Unaudited)

	Nine Months Ended June 30,	
(Thousands of Dollars)	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net Income Available for Common Stock	\$353,527	\$237,906
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	177,802	168,812
Deferred Income Taxes	(43,537 )	105,073
Stock-Based Compensation	11,770	8,857
Other	12,311	11,084
Change in:		
Hedging Collateral Deposits	(542 )	(658 )
Receivables and Unbilled Revenue	(35,021 )	(15,885 )
Gas Stored Underground and Materials and Supplies	18,832	15,699
Unrecovered Purchased Gas Costs	4,623	(1,317 )
Other Current Assets	(1,185 )	8,502
Accounts Payable	2,327	5,046
Amounts Payable to Customers	16,833	(6,467 )
Customer Advances	(15,504 )	(14,538 )
Customer Security Deposits	(1,904 )	1,503
Other Accruals and Current Liabilities	26,538	25,423
Other Assets	(10,770 )	(3,548 )
Other Liabilities	1,441	5,638
Net Cash Provided by Operating Activities	517,541	551,130
<b>INVESTING ACTIVITIES</b>		
Capital Expenditures	(403,994 )	(314,774 )
Net Proceeds from Sale of Oil and Gas Producing Properties	55,506	26,554
Other	(1,759 )	(10,186 )
Net Cash Used in Investing Activities	(350,247 )	(298,406 )
<b>FINANCING ACTIVITIES</b>		
Reduction of Long-Term Debt	(307,047 )	—
Dividends Paid on Common Stock	(106,732 )	(103,594 )
Net Proceeds from Issuance of Common Stock	4,262	6,223
Net Cash Used in Financing Activities	(409,517 )	(97,371 )
Net Increase (Decrease) in Cash and Temporary Cash Investments	(242,223 )	155,353
Cash and Temporary Cash Investments at October 1	555,530	129,972
Cash and Temporary Cash Investments at June 30	\$313,307	\$285,325
<b>Supplemental Disclosure of Cash Flow Information</b>		
Non-Cash Investing Activities:		
Non-Cash Capital Expenditures	\$71,410	\$47,508
See Notes to Condensed Consolidated Financial Statements		



Table of Contents

National Fuel Gas Company  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

Note 1 - Summary of Significant Accounting Policies

**Principles of Consolidation.** The Company consolidates all entities in which it has a controlling financial interest. All significant intercompany balances and transactions are eliminated. The Company uses proportionate consolidation when accounting for drilling arrangements related to oil and gas producing properties accounted for under the full cost method of accounting.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Earnings for Interim Periods.** The Company, in its opinion, has included all adjustments (which consist of only normally recurring adjustments, unless otherwise disclosed in this Form 10-Q) that are necessary for a fair statement of the results of operations for the reported periods. The consolidated financial statements and notes thereto, included herein, should be read in conjunction with the financial statements and notes for the years ended September 30, 2017, 2016 and 2015 that are included in the Company's 2017 Form 10-K. The consolidated financial statements for the year ended September 30, 2018 will be audited by the Company's independent registered public accounting firm after the end of the fiscal year.

The earnings for the nine months ended June 30, 2018 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2018. Most of the business of the Utility and Energy Marketing segments is seasonal in nature and is influenced by weather conditions. Due to the seasonal nature of the heating business in the Utility and Energy Marketing segments, earnings during the winter months normally represent a substantial part of the earnings that those segments are expected to achieve for the entire fiscal year. The Company's business segments are discussed more fully in Note 7 – Business Segment Information.

**Consolidated Statements of Cash Flows.** For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of generally three months or less to be cash equivalents.

**Hedging Collateral Deposits.** This is an account title for cash held in margin accounts funded by the Company to serve as collateral for hedging positions. In accordance with its accounting policy, the Company does not offset hedging collateral deposits paid or received against related derivative financial instruments liability or asset balances.

**Gas Stored Underground.** In the Utility segment, gas stored underground is carried at lower of cost or net realizable value, on a LIFO method. Gas stored underground normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. In the Utility segment, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance Sheets under the caption "Other Accruals and Current Liabilities." Such reserve, which amounted to \$14.7 million at June 30, 2018, is reduced to zero by September 30 of each year as the inventory is replenished.

Property, Plant and Equipment. In the Company's Exploration and Production segment, oil and gas property acquisition, exploration and development costs are capitalized under the full cost method of accounting. Under this methodology, all costs associated with property acquisition, exploration and development activities are capitalized, including internal costs directly identified with acquisition, exploration and development activities. The internal costs that are capitalized do not include any costs related to production, general corporate overhead, or similar activities. The Company does not recognize any gain or loss on the sale or other disposition of oil and gas properties unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to a cost center.

Capitalized costs include costs related to unproved properties, which are excluded from amortization until proved reserves are found or it is determined that the unproved properties are impaired. Such costs amounted to \$96.3 million and \$80.9 million at June 30, 2018 and September 30, 2017, respectively. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the pool of capitalized costs being amortized.

Capitalized costs are subject to the SEC full cost ceiling test. The ceiling test, which is performed each quarter, determines a limit, or ceiling, on the amount of property acquisition, exploration and development costs that can be capitalized. The ceiling under this test represents (a) the present value of estimated future net cash flows, excluding future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, using a discount factor of 10%, which is computed

Table of Contents

by applying prices of oil and gas (as adjusted for hedging) to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet, less estimated future expenditures, plus (b) the cost of unevaluated properties not being depleted, less (c) income tax effects related to the differences between the book and tax basis of the properties. The natural gas and oil prices used to calculate the full cost ceiling are based on an unweighted arithmetic average of the first day of the month oil and gas prices for each month within the twelve-month period prior to the end of the reporting period. If capitalized costs, net of accumulated depreciation, depletion and amortization and related deferred income taxes, exceed the ceiling at the end of any quarter, a permanent impairment is required to be charged to earnings in that quarter. At June 30, 2018, the ceiling exceeded the book value of the oil and gas properties by approximately \$462.3 million. In adjusting estimated future cash flows for hedging under the ceiling test at June 30, 2018, estimated future net cash flows were decreased by \$6.7 million.

The Company entered into a purchase and sale agreement to sell its oil and gas properties in the Sespe Field area of Ventura County, California in October 2017 for \$43.0 million. The Company completed the sale on May 1, 2018, effective as of October 1, 2017, receiving net proceeds of \$38.2 million (included in Net Proceeds from Sale of Oil and Gas Producing Properties on the Consolidated Statement of Cash Flows for the nine months ended June 30, 2018). The net proceeds received by the Company were adjusted for production revenue and production expenses retained by the Company between the effective date of the sale and the closing date, resulting in lower proceeds from sale at the closing date. The divestiture of the Company's oil and gas properties in the Sespe Field reflects continuing efforts to focus West Coast development activities in the San Joaquin basin, particularly at the Midway Sunset field in Kern County, California. Under the full cost method of accounting for oil and natural gas properties, the sale proceeds were accounted for as a reduction of capitalized costs. Since the disposition did not significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to the cost center, the Company did not record any gain or loss from this sale.

On December 1, 2015, Seneca and IOG - CRV Marcellus, LLC (IOG), an affiliate of IOG Capital, LP, and funds managed by affiliates of Fortress Investment Group, LLC, executed a joint development agreement that allows IOG to participate in the development of certain oil and gas interests owned by Seneca in Elk, McKean and Cameron Counties, Pennsylvania. On June 13, 2016, Seneca and IOG executed an extension of the joint development agreement. Under the terms of the extended agreement, Seneca and IOG jointly participate in a program to develop up to 75 Marcellus wells, with Seneca serving as program operator. IOG holds an 80% working interest in all of the joint development wells. In total, IOG has funded \$305.3 million as of June 30, 2018 for its 80% working interest in the 75 joint development wells, which includes \$181.2 million of cash (\$137.3 million in fiscal 2016, \$26.6 million in fiscal 2017 and \$17.3 million in the nine months ended June 30, 2018) included in Net Proceeds from Sale of Oil and Gas Producing Properties on the Consolidated Statements of Cash Flows for fiscal 2016, fiscal 2017 and for the nine months ended June 30, 2018, respectively. Such proceeds from sale represent funding received from IOG for costs previously incurred by Seneca to develop a portion of the 75 joint development wells. As the fee-owner of the property's mineral rights, Seneca currently retains a 7.5% royalty interest and the remaining 20% working interest (26% net revenue interest) in 56 of the joint development wells. In the remaining 19 wells, Seneca retains a 20% working and net revenue interest. Seneca's working interest under the agreement will increase to 85% after IOG achieves a 15% internal rate of return.

Table of Contents

Accumulated Other Comprehensive Loss. The components of Accumulated Other Comprehensive Loss and changes for the quarter and nine months ended June 30, 2018 and 2017, net of related tax effect, are as follows (amounts in parentheses indicate debits) (in thousands):

	Gains and Losses on Derivative Financial Instruments	Gains and Losses on Securities Available for Sale	Funded Status of the Pension and Other Post-Retirement Benefit Plans	Total
<b>Three Months Ended June 30, 2018</b>				
Balance at April 1, 2018	\$ 3,841	\$ 6,885	\$ (58,486 )	\$(47,760)
Other Comprehensive Gains and Losses Before Reclassifications	(27,036 )	(163 )	—	(27,199 )
Amounts Reclassified From Other Comprehensive Income (Loss)	2,563	—	—	2,563
Balance at June 30, 2018	\$ (20,632 )	\$ 6,722	\$ (58,486 )	\$(72,396)
<b>Nine Months Ended June 30, 2018</b>				
Balance at October 1, 2017	\$ 20,801	\$ 7,562	\$ (58,486 )	\$(30,123)
Other Comprehensive Gains and Losses Before Reclassifications	(39,294 )	(568 )	—	(39,862 )
Amounts Reclassified From Other Comprehensive Income (Loss)	(2,139 )	(272 )	—	(2,411 )
Balance at June 30, 2018	\$ (20,632 )	\$ 6,722	\$ (58,486 )	\$(72,396)
<b>Three Months Ended June 30, 2017</b>				
Balance at April 1, 2017	\$ 36,257	\$ 6,128	\$ (76,476 )	\$(34,091)
Other Comprehensive Gains and Losses Before Reclassifications	10,641	905	—	11,546
Amounts Reclassified From Other Comprehensive Income (Loss)	(10,759 )	—	—	(10,759 )
Balance at June 30, 2017	\$ 36,139	\$ 7,033	\$ (76,476 )	\$(33,304)
<b>Nine Months Ended June 30, 2017</b>				
Balance at October 1, 2016	\$ 64,782	\$ 6,054	\$ (76,476 )	\$(5,640 )
Other Comprehensive Gains and Losses Before Reclassifications	5,937	1,448	—	7,385
Amounts Reclassified From Other Comprehensive Income (Loss)	(34,580 )	(469 )	—	(35,049 )
Balance at June 30, 2017	\$ 36,139	\$ 7,033	\$ (76,476 )	\$(33,304)

Table of Contents

Reclassifications Out of Accumulated Other Comprehensive Loss. The details about the reclassification adjustments out of accumulated other comprehensive loss for the quarter and nine months ended June 30, 2018 and 2017 are as follows (amounts in parentheses indicate debits to the income statement) (in thousands):

Details About Accumulated Other Comprehensive Loss Components	Amount of Gain or (Loss) Reclassified from				Affected Line Item in the Statement Where Net Income is Presented
	Accumulated Other Comprehensive Loss				
	Three Months Ended June 30, 2018		Nine Months Ended June 30, 2017		
	2018	2017	2018	2017	
Gains (Losses) on Derivative Financial Instrument Cash Flow Hedges:					
Commodity Contracts	(\$3,249)	\$18,600	\$6,125	\$62,030	Operating Revenues
Commodity Contracts	5	21	952	(1,938)	Purchased Gas
Foreign Currency Contracts	(527)	(169)	(1,500)	(451)	Operation and Maintenance Expense
Gains (Losses) on Securities Available for Sale	—	—	430	741	Other Income
	(3,771)	18,452	6,007	60,382	Total Before Income Tax
	1,208	(7,693)	(3,596)	(25,333)	Income Tax Expense
	(\$2,563)	\$10,759	\$2,411	\$35,049	Net of Tax

Other Current Assets. The components of the Company's Other Current Assets are as follows (in thousands):

	At June 30, 2018	At September 30, 2017
Prepayments	\$10,594	\$10,927
Prepaid Property and Other Taxes	11,177	13,974
Federal Income Taxes Receivable	17,216	—
State Income Taxes Receivable	5,065	9,689
Fair Values of Firm Commitments	1,350	1,031
Regulatory Assets	7,288	15,884
	\$52,690	\$51,505

Other Accruals and Current Liabilities. The components of the Company's Other Accruals and Current Liabilities are as follows (in thousands):

	At June 30, 2018	At September 30, 2017
Accrued Capital Expenditures	\$53,534	\$37,382
Regulatory Liabilities	43,167	34,059
Reserve for Gas Replacement	14,651	—
Federal Income Taxes Payable	—	1,775
2017 Tax Reform Act Regulatory Refund	11,817	—
Other	38,083	38,673
	\$161,252	\$111,889

Earnings Per Common Share. Basic earnings per common share is computed by dividing income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For purposes of determining earnings per common share, the potentially dilutive securities the Company had outstanding were stock options, SARs, restricted stock units and performance shares. For the quarter and nine months ended June 30, 2018, the diluted weighted average shares outstanding shown on the Consolidated Statements of Income reflects the potential dilution as a result of these securities as determined using the Treasury Stock Method. Stock options, SARs, restricted stock units and performance shares that are



Table of Contents

antidilutive are excluded from the calculation of diluted earnings per common share. There were 1,095,838 securities and 316,279 securities excluded as being antidilutive for the quarter and nine months ended June 30, 2018, respectively. There were 172,500 securities and 157,638 securities excluded as being antidilutive for the quarter and nine months ended June 30, 2017, respectively.

**Stock-Based Compensation.** The Company granted 208,588 performance shares during the nine months ended June 30, 2018. The weighted average fair value of such performance shares was \$50.95 per share for the nine months ended June 30, 2018. Performance shares are an award constituting units denominated in common stock of the Company, the number of which may be adjusted over a performance cycle based upon the extent to which performance goals have been satisfied. Earned performance shares may be distributed in the form of shares of common stock of the Company, an equivalent value in cash or a combination of cash and shares of common stock of the Company, as determined by the Company. The performance shares do not entitle the participant to receive dividends during the vesting period.

Half of the performance shares granted during the nine months ended June 30, 2018 must meet a performance goal related to relative return on capital over the performance cycle of October 1, 2017 to September 30, 2020. The performance goal over the performance cycle is the Company's total return on capital relative to the total return on capital of other companies in a group selected by the Compensation Committee ("Report Group"). Total return on capital for a given company means the average of the Report Group companies' returns on capital for each twelve month period corresponding to each of the Company's fiscal years during the performance cycle, based on data reported for the Report Group companies in the Bloomberg database. The number of these performance shares that will vest and be paid will depend upon the Company's performance relative to the Report Group and not upon the absolute level of return achieved by the Company. The fair value of these performance shares is calculated by multiplying the expected number of shares that will be issued by the average market price of Company common stock on the date of grant reduced by the present value of forgone dividends over the vesting term of the award. The fair value is recorded as compensation expense over the vesting term of the award. The other half of the performance shares granted during the nine months ended June 30, 2018 must meet a performance goal related to relative total shareholder return over the performance cycle of October 1, 2017 to September 30, 2020. The performance goal over the performance cycle is the Company's three-year total shareholder return relative to the three-year total shareholder return of the other companies in the Report Group. Three-year shareholder return for a given company will be based on the data reported for that company (with the starting and ending stock prices over the performance cycle calculated as the average closing stock price for the prior calendar month and with dividends reinvested in that company's securities at each ex-dividend date) in the Bloomberg database. The number of these total shareholder return performance shares ("TSR performance shares") that will vest and be paid will depend upon the Company's performance relative to the Report Group and not upon the absolute level of return achieved by the Company. The fair value price at the date of grant for the TSR performance shares is determined using a Monte Carlo simulation technique, which includes a reduction in value for the present value of forgone dividends over the vesting term of the award. This price is multiplied by the number of TSR performance shares awarded, the result of which is recorded as compensation expense over the vesting term of the award.

The Company granted 89,672 non-performance based restricted stock units during the nine months ended June 30, 2018. The weighted average fair value of such non-performance based restricted stock units was \$51.23 per share for the nine months ended June 30, 2018. Restricted stock units represent the right to receive shares of common stock of the Company (or the equivalent value in cash or a combination of cash and shares of common stock of the Company, as determined by the Company) at the end of a specified time period. These non-performance based restricted stock units do not entitle the participant to receive dividends during the vesting period. The accounting for non-performance based restricted stock units is the same as the accounting for restricted share awards, except that the fair value at the date of grant of the restricted stock units must be reduced by the present value of forgone dividends over the vesting

term of the award.

New Authoritative Accounting and Financial Reporting Guidance. In May 2014, the FASB issued authoritative guidance regarding revenue recognition. The authoritative guidance provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The original effective date of this authoritative guidance was as of the Company's first quarter of fiscal 2018. However, the FASB delayed the effective date of the new revenue standard by one year, and the guidance will now be effective as of the Company's first quarter of fiscal 2019. The Company has substantially completed its detailed review of the impact of the guidance on each of its revenue streams. Based on this review, the Company has not currently identified any changes to net income, cash flows or the timing of revenue recognition, although the Company will continue to assess the impact of the guidance through the date of adoption. The Company will also need to review its internal controls and enhance its financial statement disclosures to comply with the new authoritative guidance. The Company expects to adopt the guidance using the modified retrospective method of adoption on October 1, 2018. Under the modified retrospective approach, the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings in the period of adoption.

15

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Table of Contents

In February 2016, the FASB issued authoritative guidance requiring organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by all leases, regardless of whether they are considered to be capital leases or operating leases. The FASB's previous authoritative guidance required organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by capital leases while excluding operating leases from balance sheet recognition. The new authoritative guidance will be effective as of the Company's first quarter of fiscal 2020, with early adoption permitted. The Company does not anticipate early adoption and is currently evaluating the provisions of the revised guidance.

In March 2016, the FASB issued authoritative guidance simplifying several aspects of the accounting for stock-based compensation. The Company adopted this guidance effective as of October 1, 2016, recognizing a cumulative effect adjustment that increased retained earnings by \$31.9 million. The cumulative effect represents the tax benefit of previously unrecognized tax deductions in excess of stock compensation recorded for financial reporting purposes. On a prospective basis, the tax effect of all future differences between stock compensation recorded for financial reporting purposes and actual tax deductions for stock compensation will be recognized upon vesting or settlement as income tax expense or benefit in the income statement. From a statement of cash flows perspective, the tax benefits relating to differences between stock compensation recorded for financial reporting purposes and actual tax deductions for stock compensation are now included in cash provided by operating activities instead of cash provided by financing activities. The changes to the statement of cash flows were applied prospectively at the time of adoption.

In March 2017, the FASB issued authoritative guidance related to the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires segregation of the service cost component from the other components of net periodic pension cost and net periodic postretirement benefit cost for financial reporting purposes. The service cost component is to be presented on the income statement in the same line items as other compensation costs included within Operating Expenses and the other components of net periodic pension cost and net periodic postretirement benefit cost are to be presented on the income statement below the subtotal labeled Operating Income (Loss). Under this guidance, the service cost component is eligible to be capitalized as part of the cost of inventory or property, plant and equipment while the other components of net periodic pension cost and net periodic postretirement benefit cost are generally not eligible for capitalization, unless allowed by a regulator. The new guidance will be effective as of the Company's first quarter of fiscal 2019. Refer to Note 8 - Retirement Plan and Other Post-Retirement Benefits for the components of the Company's net periodic pension cost and net periodic postretirement benefit cost.

In February 2018, the FASB issued authoritative guidance that allows an entity to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Reform Act and requires certain disclosures about stranded tax effects. The new guidance will be effective as of the Company's first quarter of fiscal 2020, with early adoption permitted. The Company anticipates early adoption and is currently awaiting regulatory approval of the reclassification to retained earnings from the FERC for the Company's Pipeline and Storage segment.

#### Note 2 – Fair Value Measurements

The FASB authoritative guidance regarding fair value measurements establishes a fair-value hierarchy and prioritizes the inputs used in valuation techniques that measure fair value. Those inputs are prioritized into three levels. Level 1 inputs are unadjusted quoted prices in active markets for assets or liabilities that the Company can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly at the measurement date. Level 3 inputs are unobservable inputs for the asset or liability at the measurement date. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.



Table of Contents

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities (as applicable) that were accounted for at fair value on a recurring basis as of June 30, 2018 and September 30, 2017. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value presentation for over the counter swaps combines gas and oil swaps because a significant number of the counterparties enter into both gas and oil swap agreements with the Company.

Recurring Fair Value Measures (Thousands of Dollars)	At fair value as of June 30, 2018				
	Level 1	Level 2	Level 3	Netting Adjustments <sup>(1)</sup>	Total <sup>(1)</sup>
<b>Assets:</b>					
Cash Equivalents – Money Market Mutual Funds	\$291,994	\$—	\$	—\$ —	\$291,994
<b>Derivative Financial Instruments:</b>					
Commodity Futures Contracts – Gas	1,022	—	—	(1,022	) —
Over the Counter Swaps – Gas and Oil	—	28,180	—	(17,567	) 10,613
Foreign Currency Contracts	—	155	—	(155	) —
<b>Other Investments:</b>					
Balanced Equity Mutual Fund	37,300	—	—	—	37,300
Fixed Income Mutual Fund	51,201	—	—	—	51,201
Common Stock – Financial Services Industry	2,790	—	—	—	2,790
Hedging Collateral Deposits	2,283	—	—	—	2,283
<b>Total</b>	<b>\$386,590</b>	<b>\$28,335</b>	<b>\$</b>	<b>—\$ (18,744</b>	<b>) \$396,181</b>
<b>Liabilities:</b>					
<b>Derivative Financial Instruments:</b>					
Commodity Futures Contracts – Gas	\$1,785	\$—	\$	—\$ (1,022	) \$763
Over the Counter Swaps – Gas and Oil	—	53,305	—	(17,567	) 35,738
Foreign Currency Contracts	—	1,666	—	(155	) 1,511
<b>Total</b>	<b>\$</b>				