

NATIONAL FUEL GAS CO
Form 10-Q
August 04, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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 ☐

Accelerated ..
Filer

Non-Accelerated Filer ☒ (Do not check if a smaller reporting company)

Smaller
Reporting ..
Company
Emerging
Growth ..
Company

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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, 2017: 85,507,508 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

2016 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2016
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.
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.

Table of Contents

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
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.

Table of Contents

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
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, 2017 and 2016</u>	<u>6</u>
<u>b. Consolidated Statements of Comprehensive Income – Three and Nine Months Ended June 30, 2017 and 2016</u>	<u>7</u>
<u>c. Consolidated Balance Sheets – June 30, 2017 and September 30, 2016</u>	<u>8</u>
<u>d. Consolidated Statements of Cash Flows – Nine Months Ended June 30, 2017 and 2016</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>46</u>
Item 3. Defaults Upon Senior Securities	•
Item 4. Mine Safety Disclosures	•
Item 5. Other Information	•
<u>Item 6. Exhibits</u>	<u>47</u>
<u>Signatures</u>	<u>48</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 June 30,		Nine Months Ended June 30,	
(Thousands of Dollars, Except Per Common Share Amounts)	2017	2016	2017	2016
INCOME				
Operating Revenues:				
Utility and Energy Marketing Revenues	\$ 146,360	\$ 123,976	\$ 663,029	\$ 540,981
Exploration and Production and Other Revenues	151,925	158,578	473,617	456,032
Pipeline and Storage and Gathering Revenues	50,083	53,063	156,298	162,930
	348,368	335,617	1,292,944	1,159,943
Operating Expenses:				
Purchased Gas	46,135	23,477	264,349	147,168
Operation and Maintenance:				
Utility and Energy Marketing	44,467	46,616	158,796	151,474
Exploration and Production and Other	34,098	35,427	102,153	123,965
Pipeline and Storage and Gathering	23,250	23,215	69,016	64,324
Property, Franchise and Other Taxes	21,447	20,261	64,368	61,923
Depreciation, Depletion and Amortization	55,617	58,802	168,812	193,300
Impairment of Oil and Gas Producing Properties	—	82,658	—	915,552
	225,014	290,456	827,494	1,657,706
Operating Income (Loss)	123,354	45,161	465,450	(497,763)
Other Income (Expense):				
Interest Income	853	564	2,844	2,640
Other Income	1,370	1,519	4,728	7,173
Interest Expense on Long-Term Debt	(29,225)	(28,897)	(87,241)	(88,263)
Other Interest Expense	(846)	(1,321)	(2,680)	(3,938)
Income (Loss) Before Income Taxes	95,506	17,026	383,101	(580,151)
Income Tax Expense (Benefit)	35,792	8,740	145,195	(251,641)
Net Income (Loss) Available for Common Stock	59,714	8,286	237,906	(328,510)
EARNINGS REINVESTED IN THE BUSINESS				
Balance at Beginning of Period	817,348	699,399	676,361	1,103,200
	877,062	707,685	914,267	774,690
Dividends on Common Stock	(35,469)	(34,404)	(104,590)	(101,409)
Cumulative Effect of Adoption of Authoritative Guidance for Stock-Based Compensation	—	—	31,916	—
Balance at June 30	\$ 841,593	\$ 673,281	\$ 841,593	\$ 673,281

Earnings Per Common Share:

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Basic:

Net Income (Loss) Available for Common Stock	\$0.70	\$0.10	\$2.79	\$(3.87)
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Diluted:

Net Income (Loss) Available for Common Stock	\$0.69	\$0.10	\$2.77	\$(3.87)
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Weighted Average Common Shares Outstanding:

Used in Basic Calculation	85,422,313	84,917,664	85,315,154	84,791,447
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Used in Diluted Calculation	86,064,464	85,470,216	85,950,742	84,791,447
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Dividends Per Common Share:

Dividends Declared	\$0.415	\$0.405	\$1.225	\$1.195
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See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands of Dollars)	2017	2016	2017	2016
Net Income (Loss) Available for Common Stock	\$59,714	\$8,286	\$237,906	\$(328,510)
Other Comprehensive Income (Loss), Before Tax:				
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	1,437	376	2,280	(266)
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	18,233	(70,363)	9,829	28,777
Reclassification Adjustment for Realized (Gains) Losses on Securities Available for Sale in Net Income	—	—	(741)	(388)
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	(18,452)	(58,373)	(59,641)	(176,779)
Other Comprehensive Income (Loss), Before Tax	1,218	(128,360)	(48,273)	(148,656)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	532	122	832	(85)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	7,592	(29,521)	3,892	5,345
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Securities Available for Sale in Net Income	—	—	(272)	(163)
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	(7,693)	(24,514)	(25,061)	(68,120)
Income Taxes – Net	431	(53,913)	(20,609)	(63,023)
Other Comprehensive Income (Loss)	787	(74,447)	(27,664)	(85,633)
Comprehensive Income (Loss)	\$60,501	\$(66,161)	\$210,242	\$(414,143)

See Notes to Condensed Consolidated Financial Statements

7

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

	June 30, 2017	September 30, 2016
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$9,816,295	\$ 9,539,581
Less - Accumulated Depreciation, Depletion and Amortization	5,232,771	5,085,099
	4,583,524	4,454,482
Current Assets		
Cash and Temporary Cash Investments	285,325	129,972
Hedging Collateral Deposits	2,142	1,484
Receivables – Net of Allowance for Uncollectible Accounts of \$27,545 and \$21,109, Respectively	127,876	133,201
Unbilled Revenue	19,729	18,382
Gas Stored Underground	17,793	34,332
Materials and Supplies - at average cost	34,706	33,866
Unrecovered Purchased Gas Costs	3,757	2,440
Other Current Assets	50,852	59,354
	542,180	413,031
Other Assets		
Recoverable Future Taxes	182,469	177,261
Unamortized Debt Expense	1,292	1,688
Other Regulatory Assets	315,126	320,750
Deferred Charges	28,821	20,978
Other Investments	126,485	110,664
Goodwill	5,476	5,476
Prepaid Post-Retirement Benefit Costs	18,619	17,649
Fair Value of Derivative Financial Instruments	63,036	113,804
Other	479	604
	741,803	768,874
Total Assets	\$5,867,507	\$ 5,636,387

See Notes to Condensed Consolidated Financial Statements

Table of Contents

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	June 30, 2017	September 30, 2016
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding – 85,467,963 Shares and 85,118,886 Shares, Respectively	\$ 85,468	\$ 85,119
Paid in Capital	790,291	771,164
Earnings Reinvested in the Business	841,593	676,361
Accumulated Other Comprehensive Loss	(33,304)	(5,640)
Total Comprehensive Shareholders' Equity	1,684,048	1,527,004
Long-Term Debt, Net of Unamortized Discount and Debt Issuance Costs	1,787,954	2,086,252
Total Capitalization	3,472,002	3,613,256
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	—	—
Current Portion of Long-Term Debt	300,000	—
Accounts Payable	98,842	108,056
Amounts Payable to Customers	13,070	19,537
Dividends Payable	35,469	34,473
Interest Payable on Long-Term Debt	28,985	34,900
Customer Advances	224	14,762
Customer Security Deposits	17,522	16,019
Other Accruals and Current Liabilities	107,101	74,430
Fair Value of Derivative Financial Instruments	922	1,560
	602,135	303,737
Deferred Credits		
Deferred Income Taxes	881,547	823,795
Taxes Refundable to Customers	93,321	93,318
Cost of Removal Regulatory Liability	199,739	193,424
Other Regulatory Liabilities	88,647	99,789
Pension and Other Post-Retirement Liabilities	299,326	277,113
Asset Retirement Obligations	115,354	112,330
Other Deferred Credits	115,436	119,625
	1,793,370	1,719,394
Commitments and Contingencies (Note 6)	—	—
Total Capitalization and Liabilities	\$5,867,507	\$5,636,387

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)	2017	2016
OPERATING ACTIVITIES		
Net Income (Loss) Available for Common Stock	\$237,906	\$(328,510)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Impairment of Oil and Gas Producing Properties	—	915,552
Depreciation, Depletion and Amortization	168,812	193,300
Deferred Income Taxes	105,073	(269,248)
Excess Tax Benefits Associated with Stock-Based Compensation Awards	—	(1,786)
Stock-Based Compensation	8,857	3,138
Other	11,084	9,685
Change in:		
Hedging Collateral Deposits	(658)	8,116
Receivables and Unbilled Revenue	(15,885)	(7,756)
Gas Stored Underground and Materials and Supplies	15,699	15,683
Unrecovered Purchased Gas Costs	(1,317)	(933)
Other Current Assets	8,502	15,334
Accounts Payable	5,046	(53,687)
Amounts Payable to Customers	(6,467)	(21,337)
Customer Advances	(14,538)	(16,198)
Customer Security Deposits	1,503	(396)
Other Accruals and Current Liabilities	25,423	3,375
Other Assets	(3,548)	3,775
Other Liabilities	5,638	(8,152)
Net Cash Provided by Operating Activities	551,130	459,955
INVESTING ACTIVITIES		
Capital Expenditures	(314,774)	(481,781)
Net Proceeds from Sale of Oil and Gas Producing Properties	26,554	115,235
Other	(10,186)	(11,163)
Net Cash Used in Investing Activities	(298,406)	(377,709)
FINANCING ACTIVITIES		
Excess Tax Benefits Associated with Stock-Based Compensation Awards	—	1,786
Dividends Paid on Common Stock	(103,594)	(100,419)
Net Proceeds from Issuance of Common Stock	6,223	8,358
Net Cash Used in Financing Activities	(97,371)	(90,275)
Net Increase (Decrease) in Cash and Temporary Cash Investments	155,353	(8,029)
Cash and Temporary Cash Investments at October 1	129,972	113,596
Cash and Temporary Cash Investments at June 30	\$285,325	\$105,567
Supplemental Disclosure of Cash Flow Information		
Non-Cash Investing Activities:		

Non-Cash Capital Expenditures	\$47,508	\$44,380
Receivable from Sale of Oil and Gas Producing Properties	\$—	\$22,081
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.

Reclassification. Certain prior year amounts have been reclassified to conform with current year presentation.

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, 2016, 2015 and 2014 that are included in the Company's 2016 Form 10-K. The consolidated financial statements for the year ended September 30, 2017 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, 2017 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2017. 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 \$7.7 million at June 30, 2017, 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 \$100.6 million and \$135.3 million at June 30, 2017 and September 30, 2016, 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

Table of Contents

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 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, 2017, the ceiling exceeded the book value of the oil and gas properties by approximately \$304.8 million. In adjusting estimated future cash flows for hedging under the ceiling test at June 30, 2017, estimated future net cash flows were increased by \$49.8 million.

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 will jointly participate in a program to develop up to 75 Marcellus wells, with Seneca serving as program operator. IOG will hold an 80% working interest in all of the joint development wells. In total, IOG is expected to fund approximately \$325 million for its 80% working interest in the 75 joint development wells. Of this amount, IOG has funded \$262.5 million as of June 30, 2017, which includes \$163.9 million of cash (\$137.3 million in fiscal 2016 and \$26.6 million in fiscal 2017) that Seneca had received in recognition of IOG funding that is due to Seneca for costs previously incurred to develop a portion of the first 75 joint development wells. The cash proceeds were recorded by Seneca as a \$163.9 million reduction of property, plant and equipment. The remainder funded joint development expenditures. As the fee-owner of the property's mineral rights, Seneca 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 Income (Loss). The components of Accumulated Other Comprehensive Income (Loss) and changes for the nine months ended June 30, 2017 and 2016, 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
Three Months Ended June 30, 2017				
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)
Nine Months Ended June 30, 2017				
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)
Three Months Ended June 30, 2016				
Balance at April 1, 2016	\$ 146,671	\$ 5,309	\$ (69,794)	\$ 82,186
Other Comprehensive Gains and Losses Before Reclassifications	(40,842)	254	—	(40,588)
Amounts Reclassified From Other Comprehensive Income (Loss)	(33,859)	—	—	(33,859)
Balance at June 30, 2016	\$ 71,970	\$ 5,563	\$ (69,794)	\$ 7,739
Nine Months Ended June 30, 2016				
Balance at October 1, 2015	\$ 157,197	\$ 5,969	\$ (69,794)	\$ 93,372
Other Comprehensive Gains and Losses Before Reclassifications	23,432	(181)	—	23,251
Amounts Reclassified From Other Comprehensive Income (Loss)	(108,659)	(225)	—	(108,884)
Balance at June 30, 2016	\$ 71,970	\$ 5,563	\$ (69,794)	\$ 7,739

Table of Contents

Reclassifications Out of Accumulated Other Comprehensive Income (Loss). The details about the reclassification adjustments out of accumulated other comprehensive loss for the nine months ended June 30, 2017 and 2016 are as follows (amounts in parentheses indicate debits to the income statement) (in thousands):

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income (Loss) is Presented	
	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2016		
Gains (Losses) on Derivative Financial Instrument Cash Flow Hedges:				
Commodity Contracts	\$18,600	\$58,354	\$62,030	\$172,596
Commodity Contracts	21	70	(1,938)	4,520
Foreign Currency Contracts	(169)	(51)	(451)	(337)
Gains (Losses) on Securities Available for Sale	—	—	741	388
	18,452	58,373	60,382	177,167
	(7,693)	(24,514)	(25,333)	(68,283)
	\$10,759	\$33,859	\$35,049	\$108,884
				Net of Tax

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

	At June 30, 2017	At September 30, 2016
Prepayments	\$11,396	\$ 10,919
Prepaid Property and Other Taxes	11,180	13,138
Federal Income Taxes Receivable	—	11,758
State Income Taxes Receivable	9,658	3,961
Fair Values of Firm Commitments	1,473	3,962
Regulatory Assets	17,145	15,616
	\$50,852	\$ 59,354

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

	At June 30, 2017	At September 30, 2016
Accrued Capital Expenditures	\$28,129	\$ 26,796
Regulatory Liabilities	34,552	14,725
Reserve for Gas Replacement	7,667	—
Federal Income Taxes Payable	2,573	—
Other	34,180	32,909
	\$107,101	\$ 74,430

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 has outstanding are stock options, SARs, restricted stock units and performance shares. For the quarter and nine months ended June 30, 2017, 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 antidilutive are excluded from the calculation of diluted earnings per common share. There were 172,500 securities and 157,638 securities excluded as being antidilutive for the quarter and nine months ended June 30, 2017, respectively. There were 346,090

Table of Contents

securities excluded as being antidilutive for the quarter ended June 30, 2016. As the Company recognized a net loss for the nine months ended June 30, 2016, the aforementioned potentially dilutive securities, amounting to 414,092 securities, were not recognized in the diluted earnings per share calculation for the nine months ended June 30, 2016.

Stock-Based Compensation. The Company granted 184,148 performance shares during the nine months ended June 30, 2017. The weighted average fair value of such performance shares was \$56.39 per share for the nine months ended June 30, 2017. 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, 2017 must meet a performance goal related to relative return on capital over the performance cycle of October 1, 2016 to September 30, 2019. 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, 2017 must meet a performance goal related to relative total shareholder return over the performance cycle of October 1, 2016 to September 30, 2019. 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 87,143 non-performance based restricted stock units during the nine months ended June 30, 2017. The weighted average fair value of such non-performance based restricted stock units was \$52.13 per share for the nine months ended June 30, 2017. 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 has 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. Working towards this implementation date, the Company is currently evaluating the guidance and the various issues identified by industry based revenue recognition task forces. Recent task force guidance suggests that the Company's revenue recognition policies may not change significantly although the Company is still assessing the impact. The Company will need to enhance its financial statement disclosures to comply with the new authoritative guidance.

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

Table of Contents

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 have been applied prospectively and prior periods have not been adjusted.

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 shall be the only component eligible to be capitalized as part of the cost of inventory or property, plant and equipment. The new guidance will be effective as of the Company's first quarter of fiscal 2019, with early adoption permitted. The Company is currently evaluating the interaction of this authoritative guidance with the various regulatory provisions concerning pension and postretirement benefit costs in the Company's Utility and Pipeline and Storage segments.

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, 2017 and September 30, 2016. 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	At fair value as of June 30, 2017				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments ⁽¹⁾	Total ⁽¹⁾
Assets:					
Cash Equivalents – Money Market Mutual Funds	\$257,721	\$—	\$	—\$ —	\$257,721
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	1,354	—	—	(1,125)	229
Over the Counter Swaps – Gas and Oil	—	67,890	—	(3,895)	63,995
Foreign Currency Contracts	—	336	—	(1,524)	(1,188)
Other Investments:					
Balanced Equity Mutual Fund	36,107	—	—	—	36,107
Fixed Income Mutual Fund	45,547	—	—	—	45,547
Common Stock – Financial Services Industry	3,859	—	—	—	3,859
Hedging Collateral Deposits	2,142	—	—	—	2,142
Total	\$346,730	\$68,226	\$	—\$ (6,544)	\$408,412
Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	\$1,125	\$—	\$	—\$ (1,125)	\$—
Over the Counter Swaps – Gas and Oil	—	4,817	—	(3,895)	922
Foreign Currency Contracts	—	1,524	—	(1,524)	—
Total	\$1,125	\$6,341	\$	—\$ (6,544)	\$922
Total Net Assets/(Liabilities)	\$345,605	\$61,885	\$	—\$ —	\$407,490
Recurring Fair Value Measures	At fair value as of September 30, 2016				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments ⁽¹⁾	Total ⁽¹⁾
Assets:					
Cash Equivalents – Money Market Mutual Funds	\$114,895	\$—	\$	—\$ —	\$114,895
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	2,623	—	—	(2,276)	347
Over the Counter Swaps – Gas and Oil	—	119,654	—	(3,860)	115,794
Foreign Currency Contracts	—	—	—	(2,337)	(2,337)
Other Investments:					
Balanced Equity Mutual Fund	36,658	—	—	—	36,658
Fixed Income Mutual Fund	31,395	—	—	—	31,395
Common Stock – Financial Services Industry	2,902	—	—	—	2,902
Hedging Collateral Deposits	1,484	—	—	—	1,484
Total	\$189,957	\$119,654	\$	—\$ (8,473)	\$301,138
Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	\$2,276	\$—	\$	—\$ (2,276)	\$—

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Over the Counter Swaps – Gas and Oil	—	5,322	—	(3,860)	1,462
Foreign Currency Contracts	—	2,337	—	(2,337)	—
Total	\$2,276	\$7,659	\$	—\$ (8,473	)	\$1,462
Total Net Assets/(Liabilities)	\$187,681	\$111,995	\$	—\$ —		\$299,676

Netting Adjustments represent the impact of legally-enforceable master netting arrangements that allow the

- (1) Company to net gain and loss positions held with the same counterparties. The net asset or net liability for each counterparty is recorded as an asset or liability on the Company's balance sheet.

Table of Contents

Derivative Financial Instruments

At June 30, 2017 and September 30, 2016, the derivative financial instruments reported in Level 1 consist of natural gas NYMEX and ICE futures contracts used in the Company's Energy Marketing segment. Hedging collateral deposits were \$2.1 million at June 30, 2017 and \$1.5 million at September 30, 2016, which were associated with these futures contracts and have been reported in Level 1 as well. The derivative financial instruments reported in Level 2 at June 30, 2017 and September 30, 2016 consist of natural gas price swap agreements used in the Company's Exploration and Production and Energy Marketing segments, crude oil price swap agreements used in the Company's Exploration and Production segment and foreign currency contracts used in the Company's Exploration and Production segment. The derivative financial instruments reported in Level 2 at June 30, 2017 also include basis hedge swap agreements used in the Company's Energy Marketing segment. The fair value of the Level 2 price swap agreements is based on an internal, discounted cash flow model that uses observable inputs (i.e. LIBOR based discount rates and basis differential information, if applicable, at active natural gas and crude oil trading markets). The fair value of the Level 2 foreign currency contracts is determined using the market approach based on observable market transactions of forward Canadian currency rates.

The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At June 30, 2017, the Company determined that nonperformance risk would have no material impact on its financial position or results of operation. To assess nonperformance risk, the Company considered information such as any applicable collateral posted, master netting arrangements, and applied a market-based method by using the counterparty's (assuming the derivative is in a gain position) or the Company's (assuming the derivative is in a loss position) credit default swaps rates.

For the nine months ended June 30, 2017, there were no assets or liabilities measured at fair value and classified as Level 3. The Company's Exploration and Production segment had a small portion of their crude oil price swap agreements reported as Level 3 at October 1, 2015 that settled during the first quarter of fiscal 2016. For the quarters and nine months ended June 30, 2017 and June 30, 2016, no transfers in or out of Level 1 or Level 2 occurred.

Note 3 – Financial Instruments

Long-Term Debt. The fair market value of the Company's debt, as presented in the table below, was determined using a discounted cash flow model, which incorporates the Company's credit ratings and current market conditions in determining the yield, and subsequently, the fair market value of the debt. Based on these criteria, the fair market value of long-term debt, including current portion, was as follows (in thousands):

	June 30, 2017		September 30, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	\$2,087,954	\$2,220,588	\$2,086,252	\$2,255,562

The fair value amounts are not intended to reflect principal amounts that the Company will ultimately be required to pay. Carrying amounts for other financial instruments recorded on the Company's Consolidated Balance Sheets approximate fair value. The fair value of long-term debt was calculated using observable inputs (U.S. Treasuries/LIBOR for the risk free component and company specific credit spread information – generally obtained from recent trade activity in the debt). As such, the Company considers the debt to be Level 2.

Any temporary cash investments, notes payable to banks and commercial paper are stated at cost. Temporary cash investments are considered Level 1, while notes payable to banks and commercial paper are considered to be Level

2. Given the short-term nature of the notes payable to banks and commercial paper, the Company believes cost is a reasonable approximation of fair value.

Other Investments. Investments in life insurance are stated at their cash surrender values or net present value as discussed below. Investments in an equity mutual fund, a fixed income mutual fund and the stock of an insurance company (marketable equity securities), as discussed below, are stated at fair value based on quoted market prices.

Other investments include cash surrender values of insurance contracts (net present value in the case of split-dollar collateral assignment arrangements) and marketable equity and fixed income securities. The values of the insurance contracts amounted to \$41.0 million at June 30, 2017 and \$39.7 million at September 30, 2016. The fair value of the equity mutual fund was \$36.1 million at June 30, 2017 and \$36.7 million at September 30, 2016. The gross unrealized gain on this equity mutual

Table of Contents

fund was \$8.6 million at June 30, 2017 and \$7.9 million at September 30, 2016. The fair value of the fixed income mutual fund was \$45.5 million at June 30, 2017 and \$31.4 million at September 30, 2016. The gross unrealized loss on this fixed income mutual fund was less than \$0.1 million at June 30, 2017 and the gross unrealized gain on this fixed income mutual fund was less than \$0.1 million at September 30, 2016. The fair value of the stock of an insurance company was \$3.9 million at June 30, 2017 and \$2.9 million at September 30, 2016. The gross unrealized gain on this stock was \$2.6 million at June 30, 2017 and \$1.6 million at September 30, 2016. The insurance contracts and marketable equity securities are primarily informal funding mechanisms for various benefit obligations the Company has to certain employees.

Derivative Financial Instruments. The Company uses derivative financial instruments to manage commodity price risk in the Exploration and Production segment as well as the Energy Marketing segment. The Company enters into futures contracts and over-the-counter swap agreements for natural gas and crude oil to manage the price risk associated with forecasted sales of gas and oil. In addition, the Company also enters into foreign exchange forward contracts to manage the risk of currency fluctuations associated with transportation costs denominated in Canadian currency in the Exploration and Production segment. These instruments are accounted for as cash flow hedges. The Company also enters into futures contracts and swaps, which are accounted for as cash flow hedges, to manage the price risk associated with forecasted gas purchases. The Company enters into futures contracts and swaps to mitigate risk associated with fixed price sales commitments, fixed price purchase commitments, and the decline in value of natural gas held in storage. These instruments are accounted for as fair value hedges. The duration of the Company's combined cash flow and fair value commodity hedges does not typically exceed 7 years while the foreign currency forward contracts do not exceed ten years. The Exploration and Production segment holds the majority of the Company's derivative financial instruments.

The Company has presented its net derivative assets and liabilities as "Fair Value of Derivative Financial Instruments" on its Consolidated Balance Sheets at June 30, 2017 and September 30, 2016. Substantially all of the derivative financial instruments reported on those line items relate to commodity contracts and a small portion relates to foreign currency forward contracts.

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of June 30, 2017, the Company had the following commodity derivative contracts (swaps and futures contracts) outstanding:

Commodity Units

Natural Gas 126.6	Bcf (short positions)
Natural Gas 1.1	Bcf (long positions)
Crude Oil 2,631,000	Bbls (short positions)

As of June 30, 2017, the Company was hedging a total of \$88.2 million of forecasted transportation costs denominated in Canadian dollars with foreign currency forward contracts (long positions).

As of June 30, 2017, the Company had \$62.0 million (\$36.1 million after tax) of net hedging gains included in the accumulated other comprehensive income (loss) balance. It is expected that \$39.3 million (\$22.9 million after tax) of such unrealized gains will be reclassified into the Consolidated Statement of Income within the next 12 months as the

underlying hedged transaction are recorded in earnings.

Table of Contents

The Effect of Derivative Financial Instruments on the Statement of Financial Performance for the Three Months Ended June 30, 2017 and 2016 (Thousands of Dollars)

Derivatives in Cash Flow Hedging Relationships	Amount of Derivative Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on the Consolidated Statement of Comprehensive Income (Loss) (Effective Portion) for the Three Months Ended June 30,		Location of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion)	Amount of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion) for the Three Months Ended June 30,		Location of Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the Three Months Ended June 30,	
	2017	2016		2017	2016		2017	2016
Commodity Contracts	\$17,342	\$(68,914)	Operating Revenue	\$18,600	\$58,354	Operating Revenue	\$ 1,040	\$ 87
Commodity Contracts	240	(921)	) Purchased Gas	21	70	Not Applicable	—	—
Foreign Currency Contracts	651	(528)	) Operation and Maintenance Expense	(169)	)(51)	) Not Applicable	—	—
Total	\$18,233	\$(70,363)		\$18,452	\$58,373		\$ 1,040	\$ 87

The Effect of Derivative Financial Instruments on the Statement of Financial Performance for the Nine Months Ended June 30, 2017 and 2016 (Thousands of Dollars)

Derivatives in Cash Flow Hedging Relationships	Amount of Derivative Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on the Consolidated Statement of Comprehensive Income (Loss) (Effective Portion) for the Nine Months Ended June 30,		Location of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion)	Amount of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion) for the Nine Months Ended June 30,		Location of Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the Nine	
	2017	2016		2017	2016		2017	2016

							Months Ended June 30, 2017 2016	
	2017	2016		2017	2016		2017	2016
Commodity Contracts	\$9,382	\$27,304	Operating Revenue	\$62,030	\$172,596	Operating Revenue	\$ 940	\$ 255
Commodity Contracts	(252	) 1,078	Purchased Gas	(1,938	) 4,520	Not Applicable	—	—
Foreign Currency Contracts	699	395	Operation and Maintenance Expense	(451	) (337	) Not Applicable	—	—
Total	\$9,829	\$28,777		\$59,641	\$176,779		\$ 940	\$ 255

Fair Value Hedges

The Company utilizes fair value hedges to mitigate risk associated with fixed price sales commitments, fixed price purchase commitments, and the decline in the value of certain natural gas held in storage. With respect to fixed price sales commitments, the Company enters into long positions to mitigate the risk of price increases for natural gas supplies that could occur after the Company enters into fixed price sales agreements with its customers. With respect to fixed price purchase commitments, the Company enters into short positions to mitigate the risk of price decreases that could occur after the Company locks into fixed price purchase deals with its suppliers. With respect to storage hedges, the Company enters into short positions to mitigate the risk of price decreases that could result in a lower of cost or net realizable value writedown of the value of natural gas in storage that is recorded in the Company's financial statements. As of June 30, 2017, the Company's Energy Marketing segment had fair value hedges covering approximately 17.0 Bcf (16.0 Bcf of fixed price sales commitments, 0.1 Bcf of fixed price purchase commitments and 0.9 Bcf of commitments related to the withdrawal of storage gas). For derivative instruments that are

Table of Contents

designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk completely offset each other in current earnings, as shown below.

Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) on Derivative and Hedged Item Recognized in the Consolidated Statement of Income	Amount of Gain or (Loss) on Derivative Recognized in the Consolidated Statement of Income for the Nine Months Ended June 30, 2017 (In Thousands)	Amount of Gain or (Loss) on Hedged Item Recognized in the Consolidated Statement of Income for the Nine Months Ended June 30, 2017 (In Thousands)
Commodity Contracts	Operating Revenues	\$ 1,317	\$ (1,317)
Commodity Contracts	Purchased Gas	\$ 427	\$ (427)
		\$ 1,744	\$ (1,744)

Credit Risk

The Company may be exposed to credit risk on any of the derivative financial instruments that are in a gain position. Credit risk relates to the risk of loss that the Company would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. To mitigate such credit risk, management performs a credit check, and then on a quarterly basis monitors counterparty credit exposure. The majority of the Company's counterparties are financial institutions and energy traders. The Company has over-the-counter swap positions and applicable foreign currency forward contracts with sixteen counterparties of which all sixteen are in a net gain position. On average, the Company had \$3.9 million of credit exposure per counterparty in a gain position at June 30, 2017. The maximum credit exposure per counterparty in a gain position at June 30, 2017 was \$8.9 million. As of June 30, 2017, no collateral was received from the counterparties by the Company. The Company's gain position on such derivative financial instruments had not exceeded the established thresholds at which the counterparties would be required to post collateral, nor had the counterparties' credit ratings declined to levels at which the counterparties were required to post collateral.

As of June 30, 2017, fourteen of the sixteen counterparties to the Company's outstanding derivative instrument contracts (specifically the over-the-counter swaps and applicable foreign currency forward contracts) had a common credit-risk related contingency feature. In the event the Company's credit rating increases or falls below a certain threshold (applicable debt ratings), the available credit extended to the Company would either increase or decrease. A decline in the Company's credit rating, in and of itself, would not cause the Company to be required to increase the level of its hedging collateral deposits (in the form of cash deposits, letters of credit or treasury debt instruments). If the Company's outstanding derivative instrument contracts were in a liability position (or if the liability were larger) and/or the Company's credit rating declined, then additional hedging collateral deposits may be required. At June 30, 2017, the fair market value of the derivative financial instrument assets with a credit-risk related contingency feature was \$42.5 million according to the Company's internal model (discussed in Note 2 — Fair Value Measurements). For its over-the-counter swap agreements and foreign currency forward contracts, no hedging collateral deposits were

required to be posted by the Company at June 30, 2017.

For its exchange traded futures contracts, the Company was required to post \$2.1 million in hedging collateral deposits as of June 30, 2017. As these are exchange traded futures contracts, there are no specific credit-risk related contingency features. The Company posts or receives hedging collateral based on open positions and margin requirements it has with its counterparties.

The Company's requirement to post hedging collateral deposits and the Company's right to receive hedging collateral deposits is based on the fair value determined by the Company's counterparties, which may differ from the Company's assessment of fair value. Hedging collateral deposits may also include closed derivative positions in which the broker has not cleared the cash from the account to offset the derivative liability. The Company records liabilities related to closed derivative positions in Other Accruals and Current Liabilities on the Consolidated Balance Sheet. These liabilities are relieved when the broker clears the cash from the hedging collateral deposit account. This is discussed in Note 1 under Hedging Collateral Deposits.

Table of Contents

Note 4 - Income Taxes

The components of federal and state income taxes included in the Consolidated Statements of Income are as follows (in thousands):

	Nine Months Ended June 30,	
	2017	2016
Current Income Taxes		
Federal	\$29,832	\$(686)
State	10,290	18,293
Deferred Income Taxes		
Federal	81,163	(184,419)
State	23,910	(84,829)
	145,195	(251,641)
Deferred Investment Tax Credit	(130)	(261)
Total Income Taxes	\$145,065	\$(251,902)
Presented as Follows:		
Other Income	(130)	(261)
Income Tax Expense (Benefit)	145,195	(251,641)
Total Income Taxes	\$145,065	\$(251,902)

Total income taxes as reported differ from the amounts that were computed by applying the federal income tax rate to income (loss) before income taxes. The following is a reconciliation of this difference (in thousands):

	Nine Months Ended June 30,	
	2017	2016
U.S. Income (Loss) Before Income Taxes	\$382,971	\$(580,412)
Income Tax Expense (Benefit), Computed at U.S. Federal Statutory Rate of 35%	\$134,040	\$(203,144)
State Income Taxes (Benefit)	22,230	(43,248)
Miscellaneous	(11,205)	(5,510)
Total Income Taxes	\$145,065	\$(251,902)

Note 5 - Capitalization

Common Stock. During the nine months ended June 30, 2017, the Company issued 31,632 original issue shares of common stock as a result of stock option and SARs exercises, 79,530 original issue shares of common stock for restricted stock units that vested and 43,484 original issue shares of common stock for performance shares that vested. In addition, the Company issued 146,872 original issue shares of common stock for the Direct Stock Purchase and Dividend Reinvestment Plan and 78,327 original issue shares of common stock for the Company's 401(k) plans. The Company also issued 17,017 original issue shares of common stock to the non-employee directors of the Company who receive compensation under the Company's 2009 Non-Employee Director Equity Compensation Plan, as partial consideration for the directors' services during the nine months ended June 30, 2017. Holders of stock options, SARs, restricted share awards or restricted stock units will often tender shares of common stock to the

Company for payment of option exercise prices and/or applicable withholding taxes. During the nine months ended June 30, 2017, 47,785 shares of common stock were tendered to the Company for such purposes. The Company considers all shares tendered as cancelled shares restored to the status of authorized but unissued shares, in accordance with New Jersey law.

Table of Contents

Current Portion of Long-Term Debt. Current portion of Long-Term Debt at June 30, 2017 consists of \$300.0 million of 6.50% notes that mature in April 2018.

Note 6 - Commitments and Contingencies

Environmental Matters. The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and to comply with regulatory requirements. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs.

At June 30, 2017, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be approximately \$3.2 million. The Company expects to recover its environmental clean-up costs through rate recovery over a period of approximately 4 years.

The Company's estimated liability for clean-up costs discussed above includes a \$1.8 million estimated liability related to the remediation of a former manufactured gas plant site located in New York. In February 2009, the Company received approval from the NYDEC of a Remedial Design Work Plan (RDWP) for this site. In October 2010, the Company submitted a RDWP addendum to conduct additional Preliminary Design Investigation field activities necessary to design a successful remediation. As a result of this work, the Company submitted to the NYDEC a proposal to amend the NYDEC's Record of Decision remedy for the site. In April 2013, the NYDEC approved the Company's proposed amendment. Final remedial design work for the site was completed, and active remedial work has also been completed. Restoration work is complete. The Company continues to be responsible for future ongoing monitoring and long-term maintenance at the site.

The Company is currently not aware of any material additional exposure to environmental liabilities. However, changes in environmental laws and regulations, new information or other factors could have an adverse financial impact on the Company.

Northern Access 2016 Project. On February 3, 2017, Supply Corporation and Empire received FERC approval of the Northern Access 2016 project described herein. On April 7, 2017, the NYDEC issued a Notice of Denial of the federal Clean Water Act Section 401 Water Quality Certification and other state stream and wetland permits for the New York portion of the project (the Water Quality Certification for the Pennsylvania portion of the project was received on January 27, 2017). On April 21, 2017, Supply Corporation and Empire filed a Petition for Review in the United States Court of Appeals for the Second Circuit of the NYDEC's Notice of Denial with respect to National Fuel's application for the Water Quality Certification, and on May 11, 2017, the Company commenced legal action in New York State Supreme Court challenging the NYDEC's actions with regard to various state permits. In light of the pending legal action, the Company has not yet determined a revised target in-service date. As a result of the decision of the NYDEC, Supply Corporation and Empire evaluated the capitalized project costs for impairment as of June 30, 2017 and determined that an impairment charge was not required. The evaluation considered probability weighted scenarios of undiscounted future net cash flows, including a scenario assuming successful resolution with the NYDEC and construction of the pipeline, as well as a scenario where the project does not proceed. Further developments or indicators of an unfavorable resolution could result in the impairment of a significant portion of the project costs, which totaled \$73.7 million at June 30, 2017. The project costs are included within Property, Plant and Equipment and Deferred Charges on the Consolidated Balance Sheet.

Other. The Company is involved in other litigation and regulatory matters arising in the normal course of business. These other matters may include, for example, negligence claims and tax, regulatory or other governmental

audits, inspections, investigations and other proceedings. These matters may involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While these other matters arising in the normal course of business could have a material effect on earnings and cash flows in the period in which they are resolved, an estimate of the possible loss or range of loss, if any, cannot be made at this time.

Note 7 – Business Segment Information

The Company reports financial results for five segments: Exploration and Production, Pipeline and Storage, Gathering, Utility and Energy Marketing. The division of the Company's operations into reportable segments is based upon a combination of factors including differences in products and services, regulatory environment and geographic factors.

The data presented in the tables below reflect financial information for the segments and reconciliations to consolidated amounts. As stated in the 2016 Form 10-K, the Company evaluates segment performance based on income before discontinued operations, extraordinary items and cumulative effects of changes in accounting (when applicable). When these items are not applicable, the Company evaluates performance based on net income. There have not been any changes in the basis of segmentation

Table of Contents

nor in the basis of measuring segment profit or loss from those used in the Company's 2016 Form 10-K. A listing of segment assets at June 30, 2017 and September 30, 2016 is shown in the tables below.

Quarter Ended June 30, 2017 (Thousands)

	Exploration and Production	Pipeline and Storage	Gathering	Utility	Energy Marketing	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$151,161	\$50,049	\$34	\$121,900	\$24,460	\$347,604	\$538	\$226	\$348,368
Intersegment Revenues	\$—	\$21,643	\$26,853	\$3,391	\$565	\$52,452	\$—	\$(52,452)	\$—
Segment Profit: Net	\$30,123	\$16,031	\$10,107	\$4,348	\$(564)	\$60,045	\$(98)	\$(233)	\$59,714
Income (Loss)									

Nine Months Ended June 30, 2017
(Thousands)

Exploration and Production	Pipeline and Storage	Gathering	Utility	Energy Marketing	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
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