

NATIONAL FUEL GAS CO  
Form 10-Q  
February 03, 2017  
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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 December 31, 2016  
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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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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 January 31, 2017: 85,330,867 shares.

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## 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 pays Supply Corporation and/or Empire for gas the customer receives in excess of amounts delivered into Supply Corporation's and Empire's systems by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying variable (a price, interest rate, index rate, exchange rate, or other variable) and a notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, 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

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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
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.



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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
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.

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- 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.



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## 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 December 31,	
	2016	2015
(Thousands of Dollars, Except Per Common Share Amounts)		
<b>INCOME</b>		
Operating Revenues:		
Utility and Energy Marketing Revenues	\$207,780	\$168,832
Exploration and Production and Other Revenues	161,694	152,884
Pipeline and Storage and Gathering Revenues	53,026	53,479
	422,500	375,195
Operating Expenses:		
Purchased Gas	70,243	42,068
Operation and Maintenance:		
Utility and Energy Marketing	50,422	47,549
Exploration and Production and Other	30,461	45,575
Pipeline and Storage and Gathering	22,660	19,568
Property, Franchise and Other Taxes	20,379	20,357
Depreciation, Depletion and Amortization	56,196	70,551
Impairment of Oil and Gas Producing Properties	—	435,451
	250,361	681,119
Operating Income (Loss)	172,139	(305,924 )
Other Income (Expense):		
Interest Income	1,600	1,799
Other Income	1,614	2,418
Interest Expense on Long-Term Debt	(29,103 )	(30,372 )
Other Interest Expense	(910 )	(1,380 )
Income (Loss) Before Income Taxes	145,340	(333,459 )
Income Tax Expense (Benefit)	56,432	(144,350 )
Net Income (Loss) Available for Common Stock	88,908	(189,109 )
<b>EARNINGS REINVESTED IN THE BUSINESS</b>		
Balance at Beginning of Period	676,361	1,103,200
	765,269	914,091
Dividends on Common Stock	(34,544 )	(33,472 )
Cumulative Effect of Adoption of Authoritative Guidance for Stock-Based Compensation	31,916	—
Balance at December 31	\$762,641	\$880,619
Earnings Per Common Share:		
Basic:		

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Net Income (Loss) Available for Common Stock	\$1.04	\$(2.23 )
Diluted:		
Net Income (Loss) Available for Common Stock	\$1.04	\$(2.23 )
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	85,189,851	84,651,233
Used in Diluted Calculation	85,797,989	84,651,233
Dividends Per Common Share:		
Dividends Declared	\$0.405	\$0.395
See Notes to Condensed Consolidated Financial Statements		

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

	Three Months Ended December 31,	
(Thousands of Dollars)	2016	2015
Net Income (Loss) Available for Common Stock	\$88,908	\$(189,109)
Other Comprehensive Income (Loss), Before Tax:		
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(883 )	(638 )
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(52,501 )	65,372
Reclassification Adjustment for Realized (Gains) Losses on Securities Available for Sale in Net Income	(741 )	—
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	(30,717 )	(57,170 )
Other Comprehensive Income (Loss), Before Tax	(84,842 )	7,564
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(344 )	(191 )
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(22,052 )	20,676
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Securities Available for Sale in Net Income	(273 )	—
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	(12,954 )	(18,005 )
Income Taxes – Net	(35,623 )	2,480
Other Comprehensive Income (Loss)	(49,219 )	5,084
Comprehensive Income (Loss)	\$39,689	\$(184,025)

See Notes to Condensed Consolidated Financial Statements

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Consolidated Balance Sheets  
(Unaudited)

	December 31, September 30,	
	2016	2016
(Thousands of Dollars)		
<b>ASSETS</b>		
Property, Plant and Equipment	\$ 9,620,006	\$ 9,539,581
Less - Accumulated Depreciation, Depletion and Amortization	5,133,877	5,085,099
	4,486,129	4,454,482
Current Assets		
Cash and Temporary Cash Investments	136,493	129,972
Hedging Collateral Deposits	—	1,484
Receivables – Net of Allowance for Uncollectible Accounts of \$22,701 and \$21,109, Respectively	161,025	133,201
Unbilled Revenue	59,121	18,382
Gas Stored Underground	23,431	34,332
Materials and Supplies - at average cost	34,170	33,866
Unrecovered Purchased Gas Costs	3,697	2,440
Other Current Assets	49,778	59,354
	467,715	413,031
Other Assets		
Recoverable Future Taxes	179,941	177,261
Unamortized Debt Expense	1,556	1,688
Other Regulatory Assets	323,448	320,750
Deferred Charges	22,215	20,978
Other Investments	114,721	110,664
Goodwill	5,476	5,476
Prepaid Post-Retirement Benefit Costs	17,960	17,649
Fair Value of Derivative Financial Instruments	42,065	113,804
Other	491	604
	707,873	768,874
<b>Total Assets</b>	<b>\$ 5,661,717</b>	<b>\$ 5,636,387</b>

See Notes to Condensed Consolidated Financial Statements



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

	December 31, 2016	September 30, 2016
(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 – 85,292,570 Shares and 85,118,886 Shares, Respectively	\$ 85,293	\$ 85,119
Paid in Capital	775,868	771,164
Earnings Reinvested in the Business	762,641	676,361
Accumulated Other Comprehensive Loss	(54,859	) (5,640 )
Total Comprehensive Shareholders' Equity	1,568,943	1,527,004
Long-Term Debt, Net of Unamortized Discount and Debt Issuance Costs	2,086,817	2,086,252
Total Capitalization	3,655,760	3,613,256
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	—	—
Current Portion of Long-Term Debt	—	—
Accounts Payable	113,136	108,056
Amounts Payable to Customers	3,231	19,537
Dividends Payable	34,544	34,473
Interest Payable on Long-Term Debt	28,985	34,900
Customer Advances	13,779	14,762
Customer Security Deposits	16,692	16,019
Other Accruals and Current Liabilities	88,519	74,430
Fair Value of Derivative Financial Instruments	7,312	1,560
	306,198	303,737
Deferred Credits		
Deferred Income Taxes	803,166	823,795
Taxes Refundable to Customers	93,940	93,318
Unamortized Investment Tax Credit	340	383
Cost of Removal Regulatory Liability	195,544	193,424
Other Regulatory Liabilities	104,054	99,789
Pension and Other Post-Retirement Liabilities	272,672	277,113
Asset Retirement Obligations	113,194	112,330
Other Deferred Credits	116,849	119,242
	1,699,759	1,719,394
Commitments and Contingencies (Note 6)	—	—
Total Capitalization and Liabilities	\$ 5,661,717	\$ 5,636,387

See Notes to Condensed Consolidated Financial Statements





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Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended December 31,	
(Thousands of Dollars)	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss) Available for Common Stock	\$88,908	\$(189,109)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Impairment of Oil and Gas Producing Properties	—	435,451
Depreciation, Depletion and Amortization	56,196	70,551
Deferred Income Taxes	44,852	(140,013 )
Excess Tax Benefits Associated with Stock-Based Compensation Awards	—	(226 )
Stock-Based Compensation	2,482	960
Other	3,607	3,418
Change in:		
Hedging Collateral Deposits	1,484	1,573
Receivables and Unbilled Revenue	(67,395 )	(31,150 )
Gas Stored Underground and Materials and Supplies	10,597	3,466
Unrecovered Purchased Gas Costs	(1,257 )	—
Other Current Assets	9,576	(5,254 )
Accounts Payable	18,805	(20,784 )
Amounts Payable to Customers	(16,306 )	(11,702 )
Customer Advances	(983 )	7,189
Customer Security Deposits	673	267
Other Accruals and Current Liabilities	5,919	(14,353 )
Other Assets	(8,389 )	885
Other Liabilities	(4,122 )	2,904
Net Cash Provided by Operating Activities	144,647	114,073
<b>INVESTING ACTIVITIES</b>		
Capital Expenditures	(106,053 )	(186,437 )
Net Proceeds from Sale of Oil and Gas Producing Properties	5,759	10,574
Other	(4,297 )	(15,756 )
Net Cash Used in Investing Activities	(104,591 )	(191,619 )
<b>FINANCING ACTIVITIES</b>		
Changes in Notes Payable to Banks and Commercial Paper	—	31,400
Excess Tax Benefits Associated with Stock-Based Compensation Awards	—	226
Dividends Paid on Common Stock	(34,473 )	(33,415 )
Net Proceeds from Issuance of Common Stock	938	2,068
Net Cash (Used in) Provided by Financing Activities	(33,535 )	279
Net Increase (Decrease) in Cash and Temporary Cash Investments	6,521	(77,267 )
Cash and Temporary Cash Investments at October 1	129,972	113,596
Cash and Temporary Cash Investments at December 31	\$136,493	\$36,329

## Supplemental Disclosure of Cash Flow Information

Non-Cash Investing Activities:

Non-Cash Capital Expenditures	\$48,965	\$93,983
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Receivable from Sale of Oil and Gas Producing Properties	\$20,795	\$94,364
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See Notes to Condensed Consolidated Financial Statements

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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, 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 three months ended December 31, 2016 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 \$1.7 million at December 31, 2016, 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 \$126.7 million and \$135.3 million at December 31, 2016 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 under this test represents (a) the present value of estimated future net cash flows, excluding future cash outflows associated with

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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 December 31, 2016, the ceiling exceeded the book value of the oil and gas properties by approximately \$71.5 million. In adjusting estimated future cash flows for hedging under the ceiling test at December 31, 2016, estimated future net cash flows were increased by \$169.3 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. The extended joint development agreement gives IOG the option to participate in a 7-well Marcellus pad that is expected to be completed before December 31, 2017, which, if exercised, would increase the maximum number of joint development wells to 82. Under the original joint development agreement, IOG had committed to develop 42 Marcellus wells. 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. As of December 31, 2016, Seneca had received \$143.1 million of cash (\$137.3 million in fiscal 2016 and \$5.8 million in the quarter ended December 31, 2016) and had recorded a \$20.8 million receivable 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 and receivable were recorded by Seneca as a \$163.9 million reduction of property, plant and equipment. 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.

Accumulated Other Comprehensive Loss. The components of Accumulated Other Comprehensive Loss and changes for the three months ended December 31, 2016 and 2015, 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 Pension and Other Post-Retirement Benefit Plans	Total
Three Months Ended December 31, 2016				
Balance at October 1, 2016	\$ 64,782	\$ 6,054	\$ (76,476)	) \$(5,640 )
Other Comprehensive Gains and Losses Before Reclassifications	(30,449	) (539	)—	(30,988 )
Amounts Reclassified From Other Comprehensive Income (Loss)	(17,763	) (468	)—	(18,231 )
Balance at December 31, 2016	\$ 16,570	\$ 5,047	\$ (76,476)	) \$(54,859)
Three Months Ended December 31, 2015				
Balance at October 1, 2015	\$ 157,197	\$ 5,969	\$ (69,794)	) \$93,372
Other Comprehensive Gains and Losses Before Reclassifications	44,696	(447	)—	44,249
Amounts Reclassified From Other Comprehensive Income (Loss)	(39,165	)—	—	(39,165 )
Balance at December 31, 2015	\$ 162,728	\$ 5,522	\$ (69,794)	) \$98,456



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Reclassifications Out of Accumulated Other Comprehensive Loss. The details about the reclassification adjustments out of accumulated other comprehensive loss for the three months ended December 31, 2016 and 2015 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)		Affected Line Item in the Statement Where Net Income (Loss) is Presented
	Reclassified from Accumulated Other Comprehensive Loss		
	Three Months Ended December 31,		
	2016	2015	
Gains (Losses) on Derivative Financial Instrument Cash Flow Hedges:			
Commodity Contracts	\$31,320	\$56,327	Operating Revenues
Commodity Contracts	(460)	)920	Purchased Gas
Foreign Currency Contracts	(143)	)(77)	)Operation and Maintenance Expense
Gains (Losses) on Securities Available for Sale	741	—	Other Income
	31,458	57,170	Total Before Income Tax
	(13,227)	)(18,005)	)Income Tax Expense
	\$18,231	\$39,165	Net of Tax

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

	At December 31, 2016	At September 30, 2016
Prepayments	\$ 7,406	\$ 10,919
Prepaid Property and Other Taxes	15,054	13,138
Federal Income Taxes Receivable	3,514	11,758
State Income Taxes Receivable	4,292	3,961
Fair Values of Firm Commitments	41	3,962
Regulatory Assets	19,471	15,616
	\$ 49,778	\$ 59,354

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

	At December 31, 2016	At September 30, 2016
Accrued Capital Expenditures	\$ 29,052	\$ 26,796
Regulatory Liabilities	17,984	14,725
Reserve for Gas Replacement	1,700	—
Fair Values of Firm Commitments	3,832	—
Other	35,951	32,909

\$ 88,519    \$ 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 ended December 31, 2016, 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 317,686 shares excluded as being antidilutive for the quarter ended December 31, 2016. As the Company recognized a net loss for the quarter ended December 31,



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2015, the aforementioned potentially dilutive securities, amounting to 394,205 shares, were not recognized in the diluted earnings per share calculation for the quarter ended December 31, 2015.

**Stock-Based Compensation.** The Company granted 184,148 performance shares during the quarter ended December 31, 2016. The weighted average fair value of such performance shares was \$56.39 per share for the quarter ended December 31, 2016. 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 quarter ended December 31, 2016 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 quarter ended December 31, 2016 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 85,643 non-performance based restricted stock units during the quarter ended December 31, 2016. The weighted average fair value of such non-performance based restricted stock units was \$52.12 per share for the quarter ended December 31, 2016. 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.

No stock options, SARs or restricted share awards were granted by the Company during the quarter ended December 31, 2016.

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 and intends to begin analyzing its contractual arrangements with customers in the second half of fiscal 2017.

In January 2016, the FASB issued authoritative guidance regarding the recognition and measurement of financial assets and liabilities. The authoritative guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. All equity investments in

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unconsolidated entities will be measured at fair value through earnings rather than through other comprehensive income. This authoritative guidance will be effective as of the Company's first quarter of fiscal 2019. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements. 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 have been applied prospectively and prior periods have not been adjusted.

In November 2016, the FASB issued authoritative guidance related to the presentation of restricted cash on the statement of cash flows. The new guidance requires restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows, and requires disclosure of how cash and cash equivalents on the statement of cash flows reconciles to the balance sheet. The Company considers hedging collateral deposits to be restricted cash. The new authoritative guidance will be effective as of the Company's first quarter of fiscal 2019, with early adoption permitted. The Company is currently evaluating whether it should adopt this guidance earlier than the first quarter of fiscal 2019.

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.

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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 December 31, 2016 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 (Thousands of Dollars)	At fair value as of December 31, 2016				
	Level 1	Level 2	Level 3	Netting Adjustments <sup>(1)</sup>	Total <sup>(1)</sup>
<b>Assets:</b>					
Cash Equivalents – Money Market Mutual Funds	\$119,601	\$—	\$ —	\$ —	\$119,601
<b>Derivative Financial Instruments:</b>					
Commodity Futures Contracts – Gas	8,878	—	—	(4,446	) 4,432
Over the Counter Swaps – Gas and Oil	—	62,093	—	(24,460	) 37,633
<b>Other Investments:</b>					
Balanced Equity Mutual Fund	32,965	—	—	—	32,965
Fixed Income Mutual Fund	38,290	—	—	—	38,290
Common Stock – Financial Services Industry	3,666	—	—	—	3,666
<b>Total</b>	<b>\$203,400</b>	<b>\$62,093</b>	<b>\$ —</b>	<b>-\$ (28,906</b>	<b>) \$236,587</b>
<b>Liabilities:</b>					
<b>Derivative Financial Instruments:</b>					
Commodity Futures Contracts – Gas	\$4,446	\$—	\$ —	-\$ (4,446	) \$—
Over the Counter Swaps – Gas and Oil	—	29,057	—	(24,460	) 4,597
Foreign Currency Contracts	—	2,715	—	—	2,715
<b>Total</b>	<b>\$4,446</b>	<b>\$31,772</b>	<b>\$ —</b>	<b>-\$ (28,906</b>	<b>) \$7,312</b>
<b>Total Net Assets/(Liabilities)</b>	<b>\$198,954</b>	<b>\$30,321</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>