

NATIONAL FUEL GAS CO
Form 10-Q
August 09, 2013
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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 June 30, 2013

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

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(Exact name of registrant as specified in its charter)

New Jersey 13-1086010
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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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 July 31, 2013: 83,617,599 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.
ESNE	Energy Systems North East, LLC
Horizon Power	Horizon Power, 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

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2012 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2012
Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Bcfe (or Mcfe) – represents Bcf (or Mcf) Equivalent	The total heat value (Btu) of natural gas and oil expressed as a volume of natural gas. The Company uses a conversion formula of 1 barrel of oil = 6 Mcf of natural gas.
Btu	British thermal unit; the amount of heat needed to raise the temperature of one pound of water one degree Fahrenheit
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Supply Corporation and/or Empire for gas the customer receives in excess of amounts delivered into Supply Corporation's and Empire's systems by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying variable (a price, interest rate, index rate, exchange rate, or other variable) and a notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, options, no cost collars and swaps.

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Development costs	Costs incurred to obtain access to proved oil and gas reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act.
Dth	Decatherm; one Dth of natural gas has a heating value of 1,000,000 British thermal units, approximately equal to the heating value of 1 Mcf of natural gas.
Exchange Act	Securities Exchange Act of 1934, as amended
Expenditures for long-lived assets	Includes capital expenditures, stock acquisitions and/or investments in partnerships.
Exploration costs	Costs incurred in identifying areas that may warrant examination, as well as costs incurred in examining specific areas, including drilling exploratory wells.
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.
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.
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)
NGA	The Natural Gas Act of 1938, as amended; the federal law regulating interstate natural gas pipeline and storage companies, among other things, codified beginning at 15 U.S.C. Section 717.
NYMEX	New York Mercantile Exchange. An exchange which maintains a futures market for crude oil and natural gas.
Open Season	A bidding procedure used by pipelines to allocate firm transportation or storage capacity among prospective shippers, in which all bids submitted during a defined time period are evaluated as if they had been submitted simultaneously.
Precedent Agreement	An agreement between a pipeline company and a potential customer to sign a service agreement after specified events (called "conditions precedent") happen, usually within a specified time.

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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
SAR	Service 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.

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

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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)

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
INCOME				
Operating Revenues	\$ 440,008	\$ 328,861	\$ 1,490,688	\$ 1,313,593
Operating Expenses				
Purchased Gas	95,164	50,160	426,900	390,889
Operation and Maintenance	108,497	93,749	338,533	311,857
Property, Franchise and Other Taxes	21,201	20,432	63,550	70,138
Depreciation, Depletion and Amortization	88,142	74,227	240,503	199,925
	313,004	238,568	1,069,486	972,809
Operating Income	127,004	90,293	421,202	340,784
Other Income (Expense):				
Interest Income	317	390	1,844	1,686
Other Income	1,163	1,086	3,666	4,076
Interest Expense on Long-Term Debt	(22,998)	(21,529)	(67,232)	(60,594)
Other Interest Expense	(1,303)	(828)	(2,898)	(2,851)
Income Before Income Taxes	104,183	69,412	356,582	283,101
Income Tax Expense	45,688	26,228	144,423	111,826
Net Income Available for Common Stock	58,495	43,184	212,159	171,275

EARNINGS REINVESTED IN THE BUSINESS

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Balance at Beginning of Period	1,398,999	1,275,107	1,306,284	1,206,022
	1,457,494	1,318,291	1,518,443	1,377,297
Dividends on Common Stock	(31,346)	(30,393)	(92,295)	(89,399)
Balance at June 30	\$ 1,426,148	\$ 1,287,898	\$ 1,426,148	\$ 1,287,898
Earnings Per Common Share:				
Basic:				
Net Income Available for Common Stock	\$ 0.70	\$ 0.52	\$ 2.54	\$ 2.06
Diluted:				
Net Income Available for Common Stock	\$ 0.69	\$ 0.52	\$ 2.52	\$ 2.05
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation	83,557,968	83,227,602	83,481,849	83,068,083
Used in Diluted Calculation	84,325,465	83,674,823	84,242,128	83,690,436
Dividends Per Common Share:				
Dividends Declared	\$ 0.375	\$ 0.365	\$ 1.105	\$ 1.075

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Statements of Comprehensive Income

(Unaudited)

(Thousands of Dollars)	Three Months Ended		Nine Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net Income Available for Common Stock	\$ 58,495	\$ 43,184	\$ 212,159	\$ 171,275
Other Comprehensive Income (Loss), Before Tax:				
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	331	(1,870)	3,104	1,959
Unrealized Gain on Derivative Financial Instruments Arising During the Period	101,866	30,432	89,865	47,085
Reclassification Adjustment for Realized Gains on Derivative Financial Instruments in Net Income	(1,885)	(21,599)	(23,973)	(49,649)
Other Comprehensive Income (Loss), Before Tax	100,312	6,963	68,996	(605)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	123	(701)	1,160	723
Income Tax Expense Related to Unrealized Gain on Derivative Financial Instruments Arising During the Period	42,566	12,688	37,490	14,346
Reclassification Adjustment for Income Tax Expense on Realized Gains from Derivative Financial Instruments In Net Income	(791)	(8,973)	(10,065)	(15,433)
Income Taxes – Net	41,898	3,014	28,585	(364)
Other Comprehensive Income (Loss)	58,414	3,949	40,411	(241)
Comprehensive Income	\$ 116,909	\$ 47,133	\$ 252,570	\$ 171,034

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Balance Sheets

(Unaudited)

	June 30, 2013	September 30, 2012
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$ 7,102,369	\$ 6,615,813
Less - Accumulated Depreciation, Depletion and Amortization	2,088,337	1,876,010
	5,014,032	4,739,803
Current Assets		
Cash and Temporary Cash Investments	134,582	74,494
Hedging Collateral Deposits	694	364
Receivables – Net of Allowance for Uncollectible Accounts of \$34,887 and \$30,317, Respectively	165,047	115,818
Unbilled Utility Revenue	13,643	19,652
Gas Stored Underground	22,180	49,795
Materials and Supplies - at average cost	31,641	28,577
Other Current Assets	46,205	56,121
Deferred Income Taxes	15,148	10,755
	429,140	355,576
Other Assets		
Recoverable Future Taxes	152,122	150,941
Unamortized Debt Expense	17,227	13,409
Other Regulatory Assets	556,449	546,851
Deferred Charges	8,051	7,591
Other Investments	93,749	86,774
Goodwill	5,476	5,476

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Fair Value of Derivative Financial Instruments	65,170	27,616
Other	2,524	1,105
	900,768	839,763
Total Assets	\$ 6,343,940	\$ 5,935,142

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Balance Sheets

(Unaudited)

	June 30, 2013	September 30, 2012
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding - 83,587,858 Shares and 83,330,140 Shares, Respectively		
	\$ 83,588	\$ 83,330
Paid in Capital	686,038	669,501
Earnings Reinvested in the Business	1,426,148	1,306,284
Accumulated Other Comprehensive Loss	(58,609)	(99,020)
Total Comprehensive Shareholders' Equity	2,137,165	1,960,095
Long-Term Debt, Net of Current Portion	1,649,000	1,149,000
Total Capitalization	3,786,165	3,109,095
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	-	171,000
Current Portion of Long-Term Debt	-	250,000
Accounts Payable	77,466	87,985
Amounts Payable to Customers	12,386	19,964
Dividends Payable	31,346	30,416
Interest Payable on Long-Term Debt	18,976	29,491
Customer Advances	246	24,055
Customer Security Deposits	16,830	17,942
Other Accruals and Current Liabilities	109,933	79,099
Fair Value of Derivative Financial Instruments	2,217	24,527
	269,400	734,479
Deferred Credits		
Deferred Income Taxes	1,237,727	1,065,757
Taxes Refundable to Customers	65,069	66,392
Unamortized Investment Tax Credit	1,685	2,005

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Cost of Removal Regulatory Liability	151,846	139,611
Other Regulatory Liabilities	33,247	21,014
Pension and Other Post-Retirement Liabilities	511,516	516,197
Asset Retirement Obligations	126,879	119,246
Other Deferred Credits	160,406	161,346
	2,288,375	2,091,568
Commitments and Contingencies	-	-
Total Capitalization and Liabilities	\$	