NATIONAL FUEL GAS CO
Form 10-Q
February 05, 2016
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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 December 31, 2015
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from____ to_____
Commission File Number 1-3880

NATIONAL FUEL GAS COMPANY
(Exact name of registrant as specified in its charter)

New Jersey	13-1086010
(State or other jurisdiction of incorporation or 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 þ 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 þ 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	þ	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

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, 2016: 84,790,295 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	
2015 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2015
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.
FERC 7(c) application	An application to the FERC under Section 7(c) of the federal Natural Gas Act for authority to construct, operate (and provide services through) facilities to transport or store natural gas in interstate commerce.
Firm transportation and/or storage	The transportation and/or storage service that a supplier of such service is obligated by contract to provide and for which the customer is obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United States of America
Goodwill	An intangible asset representing the difference between the fair value of a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes, often times through the use of derivative financial instruments.
Hub	Location where pipelines intersect enabling the trading, transportation, storage, exchange, lending and borrowing of natural gas.
ICE	Intercontinental Exchange. An exchange which maintains a futures market for crude oil and natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service, and for which the customer does not pay unless utilized.
LDC	Local distribution company
LIBOR	London Interbank Offered Rate
LIFO	Last-in, first-out
Marcellus Shale	A Middle Devonian-age geological shale formation that is present nearly a mile or more below the surface in the Appalachian region of the United States, including much of Pennsylvania and southern New York.
Mbbl	Thousand barrels (of oil)
Mcf	Thousand cubic feet (of natural gas)
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDth	Thousand decatherms (of natural gas)
MMBtu	Million British thermal units (heating value of one decatherm of natural gas)
MMcf	Million cubic feet (of natural gas)
NEPA	National Environmental Policy Act of 1969, as amended
NGA	The Natural Gas Act of 1938, as amended; the federal law regulating interstate natural gas pipeline and storage companies, among other things, codified beginning at 15 U.S.C. Section 717.
NYMEX	

	New York Mercantile Exchange. An exchange which maintains a futures market for crude oil and natural gas.
Open Season	A bidding procedure used by pipelines to allocate firm transportation or storage capacity among prospective shippers, in which all bids submitted during a defined time period are evaluated as if they had been submitted simultaneously.
Precedent Agreement	An agreement between a pipeline company and a potential customer to sign a service agreement after specified events (called “conditions precedent”) happen, usually within a specified time.

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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 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,	
(Thousands of Dollars, Except Per Common Share Amounts)	2015	2014
INCOME		
Operating Revenues	$375,195	$523,909
Operating Expenses		
Purchased Gas	42,068	127,091
Operation and Maintenance	112,692	112,582
Property, Franchise and Other Taxes	20,357	20,929
Depreciation, Depletion and Amortization	70,551	102,747
Impairment of Oil and Gas Producing Properties	435,451	—
	681,119	363,349
Operating Income (Loss)	(305,924)	160,560
Other Income (Expense):		
Interest Income	1,799	1,258
Other Income	2,418	1,183
Interest Expense on Long-Term Debt	(30,372)	(22,311)
Other Interest Expense	(1,380)	(790)
Income (Loss) Before Income Taxes	(333,459)	139,900
Income Tax Expense (Benefit)	(144,350)	55,160
Net Income (Loss) Available for Common Stock	(189,109)	84,740
EARNINGS REINVESTED IN THE BUSINESS		
Balance at Beginning of Period	1,103,200	1,614,361
	914,091	1,699,101
Dividends on Common Stock	(33,472)	(32,442)
Balance at December 31	$880,619	$1,666,659
Earnings Per Common Share:		
Basic:		
Net Income (Loss) Available for Common Stock	$(2.23)	$1.01
Diluted:		
Net Income (Loss) Available for Common Stock	$(2.23)	$1.00
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	84,651,233	84,208,645
Used in Diluted Calculation	84,651,233	85,118,516
Dividends Per Common Share:		
Dividends Declared	$0.395	$0.385

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 December 31, 2015	2014
Net Income (Loss) Available for Common Stock	$(189,109)	$84,740
Other Comprehensive Income (Loss), Before Tax:		
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(638)	(412)
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	65,372	243,829
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	(57,170)	(24,265)
Other Comprehensive Income (Loss), Before Tax	7,564	219,152
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(191)	(160)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	20,676	102,949
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	(18,005)	(10,089)
Income Taxes – Net	2,480	92,700
Other Comprehensive Income	5,084	126,452
Comprehensive Income (Loss)	$(184,025)	$211,192

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	December 31, 2015	September 30, 2015
ASSETS		
Property, Plant and Equipment	$9,311,376	$9,261,323
Less - Accumulated Depreciation, Depletion and Amortization	4,428,593	3,929,428
	4,882,783	5,331,895
Current Assets		
Cash and Temporary Cash Investments	36,329	113,596
Hedging Collateral Deposits	9,551	11,124
Receivables – Net of Allowance for Uncollectible Accounts of $30,946 and $29,029, Respectively	211,112	105,004
Unbilled Revenue	40,178	20,746
Gas Stored Underground	28,811	34,252
Materials and Supplies - at average cost	32,389	30,414
Other Current Assets	66,145	60,665
	424,515	375,801
Other Assets		
Recoverable Future Taxes	172,205	168,214
Unamortized Debt Expense	2,085	2,218
Other Regulatory Assets	275,721	278,227
Deferred Charges	16,410	15,129
Other Investments	108,209	92,990
Goodwill	5,476	5,476
Prepaid Post-Retirement Benefit Costs	25,357	24,459
Fair Value of Derivative Financial Instruments	277,409	270,363
Other	162	167
	883,034	857,243
Total Assets	$6,190,332	$6,564,939

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	December 31, 2015	September 30, 2015
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders’ Equity		
Common Stock, $1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding – 84,739,068 Shares and 84,594,383 Shares, Respectively	$84,739	$84,594
Paid in Capital	748,867	744,274
Earnings Reinvested in the Business	880,619	1,103,200
Accumulated Other Comprehensive Income	98,456	93,372
Total Comprehensive Shareholders’ Equity	1,812,681	2,025,440
Long-Term Debt, Net of Unamortized Discount and Debt Issuance Costs	2,084,562	2,084,009
Total Capitalization	3,897,243	4,109,449
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	31,400	—
Current Portion of Long-Term Debt	—	—
Accounts Payable	126,917	180,388
Amounts Payable to Customers	45,076	56,778
Dividends Payable	33,472	33,415
Interest Payable on Long-Term Debt	30,285	36,200
Customer Advances	23,425	16,236
Customer Security Deposits	16,757	16,490
Other Accruals and Current Liabilities	95,830	96,557
Fair Value of Derivative Financial Instruments	7,969	10,076
	411,131	446,140
Deferred Credits		
Deferred Income Taxes	999,399	1,137,962
Taxes Refundable to Customers	94,468	89,448
Unamortized Investment Tax Credit	644	731
Cost of Removal Regulatory Liability	184,784	184,907
Other Regulatory Liabilities	113,187	108,617
Pension and Other Post-Retirement Liabilities	205,431	202,807
Asset Retirement Obligations	158,108	156,805
Other Deferred Credits	125,937	128,073
	1,881,958	2,009,350
Commitments and Contingencies	—	—
Total Capitalization and Liabilities	$6,190,332	$6,564,939

See Notes to Condensed Consolidated Financial Statements

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

(Thousands of Dollars)	Three Months Ended December 31, 2015	2014
OPERATING ACTIVITIES		
Net Income (Loss) Available for Common Stock	$(189,109)	$84,740
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	70,551	102,747
Deferred Income Taxes	(140,013)	33,207
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(226)	(7,667)
Stock-Based Compensation	960	3,078
Other	3,418	2,358
Change in:		
Hedging Collateral Deposits	1,573	(10,734)
Receivables and Unbilled Revenue	(31,150)	(60,947)
Gas Stored Underground and Materials and Supplies	3,466	9,386
Other Current Assets	(5,254)	(5,635)
Accounts Payable	(20,784)	19,378
Amounts Payable to Customers	(11,702)	2,249
Customer Advances	7,189	1,431
Customer Security Deposits	267	630
Other Accruals and Current Liabilities	(14,353)	(6,416)
Other Assets	885	2,142
Other Liabilities	2,904	19,132
Net Cash Provided by Operating Activities	114,073	189,079
INVESTING ACTIVITIES		
Capital Expenditures	(186,437)	(244,927)
Net Proceeds from Sale of Oil and Gas Producing Properties	10,574	—
Other	(15,756)	(1,229)
Net Cash Used in Investing Activities	(191,619)	(246,156)
FINANCING ACTIVITIES		
Changes in Notes Payable to Banks and Commercial Paper	31,400	87,300
Excess Tax Benefits Associated with Stock-Based Compensation Awards	226	7,667
Dividends Paid on Common Stock	(33,415)	(32,400)
Net Proceeds from Issuance of Common Stock	2,068	1,548
Net Cash Provided by Financing Activities	279	64,115
Net Increase (Decrease) in Cash and Temporary Cash Investments	(77,267)	7,038
Cash and Temporary Cash Investments at October 1	113,596	36,886
Cash and Temporary Cash Investments at December 31	$36,329	$43,924

Supplemental Disclosure of Cash Flow Information		
Non-Cash Investing Activities:		
Non-Cash Capital Expenditures	$93,983	$101,664
Receivable from Sale of Oil and Gas Producing Properties	$94,364	$—

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 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. Due to the adoption of the authoritative guidance regarding the presentation of deferred income taxes, certain prior year amounts have been reclassified to conform with current year presentation. The Company reclassified Deferred Income Taxes of $137.2 million previously shown as Current Assets to Deferred Income Taxes shown as Deferred Credits on the Consolidated Balance Sheet at September 30, 2015.

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, 2015, 2014 and 2013 that are included in the Company's 2015 Form 10-K. The consolidated financial statements for the year ended September 30, 2016 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, 2015 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2016. 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 Statement of Cash Flows. For purposes of the Consolidated Statement 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 market, 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 $1.0 million at December 31, 2015, 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 $169.5 million and $176.3 million at December 31, 2015 and September 30, 2015, 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.

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Capitalized costs are subject to the SEC full cost ceiling test. The ceiling test, which is performed each quarter, determines a limit, or ceiling, on the amount of property acquisition, exploration and development costs that can be capitalized. The ceiling under this test represents (a) the present value of estimated future net cash flows, excluding future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, using a discount factor of 10%, which is computed 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. The book value of the oil and gas properties exceeded the ceiling at December 31, 2015. As such, the Company recognized a pre-tax impairment charge of $435.5 million for the quarter ended December 31, 2015. A deferred income tax benefit of $182.9 million related to the impairment charge was also recognized for the quarter ended December 31, 2015. In adjusting estimated future cash flows for hedging under the ceiling test at December 31, 2015, estimated future net cash flows were increased by $253.7 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. Under the terms of the agreement, Seneca and IOG will jointly participate in a program that will develop up to 80 Marcellus wells, with Seneca serving as program operator. IOG will hold an 80% working interest and is obligated to participate in the first 42 wells, and has a one-time option to participate in the remaining 38 wells that can be exercised on or before July 1, 2016. With respect to the first 42 wells, IOG has committed to fund up to $231 million to develop the joint wells. At December 31, 2015, Seneca recorded $10.6 million of cash, a $94.4 million receivable (which was received in January 2016) and a $105 million reduction of property, plant and equipment in recognition of the first installment of IOG funding that is due to Seneca for costs previously incurred to develop a portion of the first 42 wells. 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 the first 42 wells. If IOG exercises its option to participate in the remaining 38 wells, IOG has agreed to fund up to an additional $211 million to develop such joint wells. Seneca will retain a 10% royalty and the remaining 20% working interest (28% net revenue interest) in the remaining 38 wells. Seneca's working interest under the agreement will increase to 85% after IOG achieves a 15% internal rate of return.

Accumulated Other Comprehensive Income. The components of Accumulated Other Comprehensive Income and changes for the three months ended December 31, 2015 and 2014, 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 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
	(39,165)	—	—	(39,165)

Amounts Reclassified From Other Comprehensive Income				
Balance at December 31, 2015	$162,728	$5,522	$(69,794)	$98,456
Three Months Ended December 31, 2014				
Balance at October 1, 2014	$43,659	$8,382	$(56,020)	$(3,979)
Other Comprehensive Gains and Losses Before Reclassifications	140,880	(252)	—	140,628
Amounts Reclassified From Other Comprehensive Income	(14,176)	—	—	(14,176)
Balance at December 31, 2014	$170,363	$8,130	$(56,020)	$122,473

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Reclassifications Out of Accumulated Other Comprehensive Income. The details about the reclassification adjustments out of accumulated other comprehensive income for the three months ended December 31, 2015 and 2014 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 Three Months Ended December 31, 2015	2014	Affected Line Item in the Statement Where Net Income (Loss) is Presented
Gains (Losses) on Derivative Financial Instrument Cash Flow Hedges:			
Commodity Contracts	$56,327	$20,036	Operating Revenues
Commodity Contracts	920	4,229	Purchased Gas
Foreign Currency Contracts	(77)	—	Operation and Maintenance Expense
	57,170	24,265	Total Before Income Tax
	(18,005)	(10,089)	Income Tax Expense
	$39,165	$14,176	Net of Tax

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

	At December 31, 2015	At September 30, 2015
Prepayments	$8,727	$10,743
Prepaid Property and Other Taxes	15,143	13,709
Federal Income Taxes Receivable	7,120	—
Fair Values of Firm Commitments	16,618	15,775
Regulatory Assets	18,537	20,438
	$66,145	$60,665

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

	At December 31, 2015	At September 30, 2015
Accrued Capital Expenditures	$61,362	$53,652
Regulatory Liabilities	4,695	5,346
Reserve for Gas Replacement	976	—
Federal Income Taxes Payable	—	5,686
State Income Taxes Payable	751	1,170
Other	28,046	30,703
	$95,830	$96,557

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. As the Company recognized a net loss for the quarter ended December 31, 2015, the aforementioned securities, amounting to 394,205 securities, were not recognized in the diluted earnings per share calculation for the quarter ended December 31, 2015. For 2014, 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 2,461 securities excluded as being antidilutive for the quarter ended December 31, 2014.

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Stock-Based Compensation. The Company granted 309,996 performance shares during the quarter ended December 31, 2015. The weighted average fair value of such performance shares was $30.71 per share for the quarter ended December 31, 2015. 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, 2015 must meet a performance goal related to relative return on capital over the performance cycle of October 1, 2015 to September 30, 2018. 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, 2015 must meet a performance goal related to relative total shareholder return over the performance cycle of October 1, 2015 to September 30, 2018. 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 99,843 non-performance based restricted stock units during the quarter ended December 31, 2015. The weighted average fair value of such non-performance based restricted stock units was $35.57 per share for the quarter ended December 31, 2015. 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, 2015.

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. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements and disclosures.

In June 2014, the FASB issued authoritative guidance regarding accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the employee has completed the requisite service period. This authoritative guidance requires that such performance targets that affect vesting be treated as performance conditions, meaning that the performance target should not be factored in the calculation of the award at the grant date. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. This authoritative guidance will be effective as of the Company's first quarter of fiscal 2017, with early adoption permitted. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

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In July 2015, the FASB issued authoritative guidance simplifying inventory measurement by requiring companies to value inventory at the lower of cost and net realizable value. The authoritative guidance applies to all inventory other than inventory that is measured using last-in, first-out or the retail inventory method. The intention of this authoritative guidance is to eliminate some diversity in practice. This authoritative guidance will be effective as of the Company's first quarter of fiscal 2018, with early adoption permitted. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

In November 2015, the FASB issued authoritative guidance simplifying the presentation of deferred income taxes. The authoritative guidance requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company early adopted this guidance at December 31, 2015 on a retrospective basis.

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 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.

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.

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, 2015 and September 30, 2015. 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 December 31, 2015				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments(1)	Total(1)
Assets:					
Cash Equivalents – Money Market Mutual Funds	$10,323	$—	$—	$ —	$10,323
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	5,350	—	—	(5,350)	—
Over the Counter Swaps – Gas and Oil	—	284,066	—	(1,598)	282,468
Foreign Currency Contacts	—	—	—	(5,059)	(5,059)
Other Investments:					
Balanced Equity Mutual Fund	36,096	—	—	—	36,096
Fixed Income Mutual Fund	21,980	—	—	—	21,980

Common Stock – Financial Services Industry	4,179	—	—	—	4,179
Other Common Stock	494	—	—	—	494
Hedging Collateral Deposits	9,551	—	—	—	9,551
Total	$87,973	$284,066	$—	$ (12,007)	$360,032
Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	$11,677	$—	$—	$ (5,350)	$6,327
Over the Counter Swaps – Gas and Oil	—	3,240	—	(1,598)	1,642
Foreign Currency Contracts	—	5,059	—	(5,059)	—
Total	$11,677	$8,299	$—	$ (12,007)	$7,969
Total Net Assets/(Liabilities)	$76,296	$275,767	$—	$ —	$352,063

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Recurring Fair Value Measures	At fair value as of September 30, 2015				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total[1]
Assets:					
Cash Equivalents – Money Market Mutual Funds	$92,196	$—	$—	$ —	$92,196
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	6,373	—	—	(6,373)	—
Over the Counter Swaps – Gas and Oil	—	272,335	1,791	(808)	273,318
Foreign Currency Contracts	—	—	—	(2,955)	(2,955)
Other Investments:					
Balanced Equity Mutual Fund	34,884	—	—	—	34,884
Fixed Income Mutual Fund	8,004	—	—	—	8,004
Common Stock – Financial Services Industry	4,318	—	—	—	4,318
Other Common Stock	450	—	—	—	450
Hedging Collateral Deposits	11,124	—	—	—	11,124
Total	$157,349	$272,335	$1,791	$ (10,136)	$421,339
Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	$15,276	$—	$—	$ (6,373)	$8,903
Over the Counter Swaps – Gas and Oil	—	1,981	—	(808)	1,173
Foreign Currency Contracts	—	2,955	—	(2,955)	—
Total	$15,276	$4,936	$—	$ (10,136)	$10,076
Total Net Assets/(Liabilities)	$142,073	$267,399	$1,791	$ —	$411,263

(1) Netting Adjustments represent the impact of legally-enforceable master netting arrangements that allow the 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.

Derivative Financial Instruments

At December 31, 2015 and September 30, 2015, 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 of $9.6 million at December 31, 2015 and $11.1 million at September 30, 2015, which are associated with these futures contracts, have been reported in Level 1 as well. The derivative financial instruments reported in Level 2 at December 31, 2015 and September 30, 2015 consist of natural gas price swap agreements used in the Company's Exploration and Production and Energy Marketing segments, the majority of the 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 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 derivative financial instruments reported in Level 3 consist of a small portion of the crude oil price swap agreements used in the Company's Exploration and Production segment at September 30, 2015 that settled prior to December 31, 2015. The fair value of the Level 3 crude oil price swap agreements was based on an internal, discounted cash flow model that uses both observable (i.e. LIBOR based discount rates) and unobservable inputs (i.e. basis differential information of crude oil trading markets with low trading volume).

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 December 31, 2015, 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.

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The tables listed below provide reconciliations of the beginning and ending net balances for assets and liabilities measured at fair value and classified as Level 3 for the quarters ended December 31, 2015 and 2014, respectively. For the quarters ended December 31, 2015 and December 31, 2014, no transfers in or out of Level 1 or Level 2 occurred. There were no purchases or sales of derivative financial instruments during the periods presented in the tables below. All settlements of the derivative financial instruments are reflected in the Gains/Losses Realized and Included in Earnings column of the tables below (amounts in parentheses indicate credits in the derivative asset/liability accounts).

Fair Value Measurements Using Unobservable Inputs (Level 3)

(Thousands of Dollars)		Total Gains/Losses			
	October 1, 2015	Gains/Losses Realized and Included in Earnings	Gains/Losses Unrealized and Included in Other Comprehensive Income (Loss)	Transfer In/Out of Level 3	December 31, 2015
Derivative Financial Instruments[2]	$1,791	$(2,002)[1]	$211	$—	$—

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the three months ended December 31, 2015.

[2] Derivative Financial Instruments are shown on a net basis.

Fair Value Measurements Using Unobservable Inputs (Level 3)

(Thousands of Dollars)		Total Gains/Losses			
	October 1, 2014	Gains/Losses Realized and Included in Earnings	Gains/Losses Unrealized and Included in Other Comprehensive Income (Loss)	Transfer In/Out of Level 3	December 31, 2014
Derivative Financial Instruments[2]	$1,368	$(3,855)[1]	$7,824	$—	$5,337

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the three months ended December 31, 2014.

[2] Derivative Financial Instruments are shown on a net basis.

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):

	December 31, 2015		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$2,084,562	$1,970,742	$2,084,009	$2,129,558

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.

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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 $45.5 million at December 31, 2015 and $45.3 million at September 30, 2015. The fair value of the equity mutual fund was $36.1 million at December 31, 2015 and $34.9 million at September 30, 2015. The gross unrealized gain on this equity mutual fund was $6.0 million at December 31, 2015 and $6.5 million at September 30, 2015. The fair value of the fixed income mutual fund was $22.0 million at December 31, 2015 and $8.0 million at September 30, 2015. The gross unrealized loss on this fixed income mutual fund was $0.1 million at December 31, 2015. The fair value of the stock of an insurance company was $4.2 million at December 31, 2015 and $4.3 million at September 30, 2015. The gross unrealized gain on this stock was $2.5 million at December 31, 2015 and $2.6 million at September 30, 2015. 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 5 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 derivative financial instruments held by the Energy Marketing segment are not considered to be material to the Company.

The Company has presented its net derivative assets and liabilities as “Fair Value of Derivative Financial Instruments” on its Consolidated Balance Sheets at December 31, 2015 and September 30, 2015. 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 r