NATIONAL FUEL GAS CO
Form 10-Q
May 04, 2018
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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 March 31, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from____ to_____
Commission File Number 1-3880
NATIONAL FUEL GAS COMPANY
(Exact name of registrant as specified in its charter)

New Jersey	13-1086010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6363 Main Street	
Williamsville, New York	14221
(Address of principal executive offices)	(Zip Code)

(716) 857-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	þ	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨
		Emerging Growth Company	¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨   NO 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 April 30, 2018: 85,927,173 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	
2017 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2017
2017 Tax Reform Act	Tax legislation referred to as the "Tax Cuts and Jobs Act," enacted December 22, 2017.
Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Bcfe (or Mcfe) – represents Bcf (or Mcf) Equivalent	The total heat value (Btu) of natural gas and oil expressed as a volume of natural gas. The Company uses a conversion formula of 1 barrel of oil = 6 Mcf of natural gas.
Btu	British thermal unit; the amount of heat needed to raise the temperature of one pound of water one degree Fahrenheit
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer (e.g. a marketer) pays for gas the customer receives in excess of amounts delivered into pipeline/storage or distribution systems by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
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.

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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.
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
Utica Shale	A Middle Ordovician-age geological formation lying several thousand feet below the Marcellus Shale in the Appalachian region of the United States, including much of Ohio, Pennsylvania, West Virginia and southern New York.
VEBA	Voluntary Employees' Beneficiary Association
WNC	Weather normalization clause; a clause in utility rates which adjusts customer rates to allow a utility to recover its normal operating costs calculated at normal temperatures. If temperatures during the measured period are warmer than normal, customer rates are adjusted upward in order to recover projected operating costs. If temperatures during the measured period are colder than normal, customer rates are adjusted downward so that only the projected operating costs will be recovered.

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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)

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended March 31, 2018	2017	Six Months Ended March 31, 2018	2017
INCOME				
Operating Revenues:				
Utility and Energy Marketing Revenues	$339,422	$308,889	$565,147	$516,669
Exploration and Production and Other Revenues	147,868	159,997	288,318	321,691
Pipeline and Storage and Gathering Revenues	53,615	53,189	107,096	106,216
	540,905	522,075	960,561	944,576
Operating Expenses:				
Purchased Gas	176,608	147,971	270,642	218,214
Operation and Maintenance:				
Utility and Energy Marketing	61,410	63,907	112,780	114,329
Exploration and Production and Other	39,586	37,593	75,127	68,055
Pipeline and Storage and Gathering	22,642	23,106	42,679	45,766
Property, Franchise and Other Taxes	22,802	22,542	43,650	42,921
Depreciation, Depletion and Amortization	61,155	56,999	116,985	113,194
	384,203	352,118	661,863	602,479
Operating Income	156,702	169,957	298,698	342,097
Other Income (Expense):				
Interest Income	1,025	391	3,275	1,991
Other Income	770	1,744	2,492	3,356
Interest Expense on Long-Term Debt	(27,148)	(28,913)	(55,235)	(58,016)
Other Interest Expense	(1,233)	(924)	(1,736)	(1,834)
Income Before Income Taxes	130,116	142,255	247,494	287,594
Income Tax Expense (Benefit)	38,269	52,971	(43,007)	109,403
Net Income Available for Common Stock	91,847	89,284	290,501	178,191
EARNINGS REINVESTED IN THE BUSINESS				
Balance at Beginning of Period	1,014,733	762,641	851,669	676,361
	1,106,580	851,925	1,142,170	854,552
Dividends on Common Stock	(35,641)	(34,577)	(71,231)	(69,120)
Cumulative Effect of Adoption of Authoritative Guidance for Stock-Based Compensation	—	—	—	31,916
Balance at March 31	$1,070,939	$817,348	$1,070,939	$817,348
Earnings Per Common Share:				
Basic:				

Net Income Available for Common Stock	$1.07	$1.05	$3.39	$2.09
Diluted:				
Net Income Available for Common Stock	$1.06	$1.04	$3.37	$2.07
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation	85,809,233	85,334,887	85,718,779	85,261,575
Used in Diluted Calculation	86,323,636	86,006,614	86,318,892	85,897,282
Dividends Per Common Share:				
Dividends Declared	$0.415	$0.405	$0.830	$0.810

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands of Dollars)	2018	2017	2018	2017
Net Income Available for Common Stock	$91,847	$89,284	$290,501	$178,191
Other Comprehensive Income (Loss), Before Tax:				
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(678)	1,726	(722)	843
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(12,582)	44,097	(18,081)	(8,404)
Reclassification Adjustment for Realized (Gains) Losses on Securities Available for Sale in Net Income	—	—	(430)	(741)
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	3,199	(10,472)	(9,349)	(41,189)
Other Comprehensive Income (Loss), Before Tax	(10,061)	35,351	(28,582)	(49,491)
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	(252)	645	(317)	300
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(3,519)	18,352	(5,824)	(3,699)
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Securities Available for Sale in Net Income	—	—	(158)	(272)
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	551	(4,414)	(4,646)	(17,369)
Income Taxes – Net	(3,220)	14,583	(10,945)	(21,040)
Other Comprehensive Income (Loss)	(6,841)	20,768	(17,637)	(28,451)
Comprehensive Income	$85,006	$110,052	$272,864	$149,740

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	March 31, 2018	September 30, 2017
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	$10,126,931	$ 9,945,560
Less - Accumulated Depreciation, Depletion and Amortization	5,344,134	5,271,486
	4,782,797	4,674,074
Current Assets		
Cash and Temporary Cash Investments	227,994	555,530
Hedging Collateral Deposits	3,657	1,741
Receivables – Net of Allowance for Uncollectible Accounts of $28,592 and $22,526, Respectively	198,922	112,383
Unbilled Revenue	60,059	22,883
Gas Stored Underground	6,842	35,689
Materials and Supplies - at average cost	34,769	33,926
Unrecovered Purchased Gas Costs	426	4,623
Other Current Assets	60,324	51,505
	592,993	818,280
Other Assets		
Recoverable Future Taxes	115,514	181,363
Unamortized Debt Expense	7,861	1,159
Other Regulatory Assets	171,902	174,433
Deferred Charges	36,835	30,047
Other Investments	123,039	125,265
Goodwill	5,476	5,476
Prepaid Post-Retirement Benefit Costs	59,586	56,370
Fair Value of Derivative Financial Instruments	18,144	36,111
Other	426	742
	538,783	610,966
Total Assets	$5,914,573	$ 6,103,320

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	March 31, 2018	September 30, 2017
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, $1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding – 85,881,897 Shares and 85,543,125 Shares, Respectively	$85,882	$85,543
Paid in Capital	810,126	796,646
Earnings Reinvested in the Business	1,070,939	851,669
Accumulated Other Comprehensive Loss	(47,760)	(30,123)
Total Comprehensive Shareholders' Equity	1,919,187	1,703,735
Long-Term Debt, Net of Current Portion and Unamortized Discount and Debt Issuance Costs	2,085,012	2,083,681
Total Capitalization	4,004,199	3,787,416
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	—	—
Current Portion of Long-Term Debt	—	300,000
Accounts Payable	127,585	126,443
Amounts Payable to Customers	12,083	—
Dividends Payable	35,641	35,500
Interest Payable on Long-Term Debt	26,435	35,031
Customer Advances	154	15,701
Customer Security Deposits	18,973	20,372
Other Accruals and Current Liabilities	147,549	111,889
Fair Value of Derivative Financial Instruments	11,475	1,103
	379,895	646,039
Deferred Credits		
Deferred Income Taxes	482,682	891,287
Taxes Refundable to Customers	365,091	95,739
Cost of Removal Regulatory Liability	207,711	204,630
Other Regulatory Liabilities	124,868	113,716
Pension and Other Post-Retirement Liabilities	133,852	149,079
Asset Retirement Obligations	106,481	106,395
Other Deferred Credits	109,794	109,019
	1,530,479	1,669,865
Commitments and Contingencies (Note 6)	—	—
Total Capitalization and Liabilities	$5,914,573	$6,103,320

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended March 31,	
(Thousands of Dollars)	2018	2017
OPERATING ACTIVITIES		
Net Income Available for Common Stock	$290,501	$178,191
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	116,985	113,194
Deferred Income Taxes	(62,459)	63,781
Stock-Based Compensation	7,862	5,632
Other	8,052	7,713
Change in:		
Hedging Collateral Deposits	(1,916)	(287)
Receivables and Unbilled Revenue	(123,954)	(92,155)
Gas Stored Underground and Materials and Supplies	28,004	24,476
Unrecovered Purchased Gas Costs	4,197	(2,241)
Other Current Assets	(8,819)	7,769
Accounts Payable	10,838	13,997
Amounts Payable to Customers	12,083	(71)
Customer Advances	(15,547)	(14,462)
Customer Security Deposits	(1,399)	1,493
Other Accruals and Current Liabilities	37,646	44,690
Other Assets	(9,541)	(32)
Other Liabilities	(5,767)	202
Net Cash Provided by Operating Activities	286,766	351,890
INVESTING ACTIVITIES		
Capital Expenditures	(261,720)	(208,231)
Net Proceeds from Sale of Oil and Gas Producing Properties	17,310	26,554
Other	5,355	(3,225)
Net Cash Used in Investing Activities	(239,055)	(184,902)
FINANCING ACTIVITIES		
Reduction of Long-Term Debt	(307,047)	—
Dividends Paid on Common Stock	(71,091)	(69,017)
Net Proceeds from Issuance of Common Stock	2,891	3,230
Net Cash Used in Financing Activities	(375,247)	(65,787)
Net Increase (Decrease) in Cash and Temporary Cash Investments	(327,536)	101,201
Cash and Temporary Cash Investments at October 1	555,530	129,972
Cash and Temporary Cash Investments at March 31	$227,994	$231,173
Supplemental Disclosure of Cash Flow Information		
Non-Cash Investing Activities:		
Non-Cash Capital Expenditures	$51,939	$36,932

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, 2017, 2016 and 2015 that are included in the Company's 2017 Form 10-K. The consolidated financial statements for the year ended September 30, 2018 will be audited by the Company's independent registered public accounting firm after the end of the fiscal year.

The earnings for the six months ended March 31, 2018 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2018. Most of the business of the Utility and Energy Marketing segments is seasonal in nature and is influenced by weather conditions. Due to the seasonal nature of the heating business in the Utility and Energy Marketing segments, earnings during the winter months normally represent a substantial part of the earnings that those segments are expected to achieve for the entire fiscal year. The Company’s business segments are discussed more fully in Note 7 – Business Segment Information.

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

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

Gas Stored Underground. In the Utility segment, gas stored underground is carried at lower of cost or net realizable value, on a LIFO method. Gas stored underground normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. In the Utility segment, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance Sheets under the caption “Other Accruals and Current Liabilities.” Such reserve, which amounted to $34.3 million at March 31, 2018, is reduced to zero by September 30 of each year as the inventory is replenished.

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

Capitalized costs include costs related to unproved properties, which are excluded from amortization until proved reserves are found or it is determined that the unproved properties are impaired. Such costs amounted to $67.6 million and $80.9 million at March 31, 2018 and September 30, 2017, respectively. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the pool of capitalized costs being amortized.

Capitalized costs are subject to the SEC full cost ceiling test. The ceiling test, which is performed each quarter, determines a limit, or ceiling, on the amount of property acquisition, exploration and development costs that can be capitalized. The ceiling under this test represents (a) the present value of estimated future net cash flows, excluding future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, using a discount factor of 10%, which is computed 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 March 31, 2018, the ceiling exceeded the book value of the oil and gas properties by approximately $502.8 million. In adjusting estimated future cash flows for hedging under the ceiling test at March 31, 2018, estimated future net cash flows were increased by $7.5 million.

On December 1, 2015, Seneca and IOG - CRV Marcellus, LLC (IOG), an affiliate of IOG Capital, LP, and funds managed by affiliates of Fortress Investment Group, LLC, executed a joint development agreement that allows IOG to participate in the development of certain oil and gas interests owned by Seneca in Elk, McKean and Cameron Counties, Pennsylvania. On June 13, 2016, Seneca and IOG executed an extension of the joint development agreement. Under the terms of the extended agreement, Seneca and IOG will jointly participate in a program to develop up to 75 Marcellus wells, with Seneca serving as program operator. IOG will hold an 80% working interest in all of the joint development wells. In total, IOG is expected to fund approximately $305 million for its 80% working interest in the 75 joint development wells. Of this amount, IOG has funded $301.5 million as of March 31, 2018, which includes $181.2 million of cash ($137.3 million in fiscal 2016, $26.6 million in fiscal 2017 and $17.3 million in the six months ended March 31, 2018) shown as Net Proceeds from Sale of Oil and Gas Producing Properties on the Consolidated Statements of Cash Flows for fiscal 2016, fiscal 2017 and for the six months ended March 31, 2018, respectively. Such proceeds from sale represent funding received from IOG for costs previously incurred by Seneca to develop a portion of the 75 joint development wells. As the fee-owner of the property's mineral rights, Seneca currently retains a 7.5% royalty interest and the remaining 20% working interest (26% net revenue interest) in 56 of the joint development wells. In the remaining 19 wells, Seneca retains a 20% working and net revenue interest. Seneca's working interest under the agreement will increase to 85% after IOG achieves a 15% internal rate of return.

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Accumulated Other Comprehensive Loss. The components of Accumulated Other Comprehensive Loss and changes for the quarter and six months ended March 31, 2018 and 2017, net of related tax effect, are as follows (amounts in parentheses indicate debits) (in thousands):

	Gains and Losses on Derivative Financial Instruments	Gains and Losses on Securities Available for Sale	Funded Status of the Pension and Other Post-Retirement Benefit Plans	Total
Three Months Ended March 31, 2018				
Balance at January 1, 2018	$ 10,256	$ 7,311	$ (58,486)	$(40,919)
Other Comprehensive Gains and Losses Before Reclassifications	(9,063)	(426)	—	(9,489)
Amounts Reclassified From Other Comprehensive Income (Loss)	2,648	—	—	2,648
Balance at March 31, 2018	$ 3,841	$ 6,885	$ (58,486)	$(47,760)
Six Months Ended March 31, 2018				
Balance at October 1, 2017	$ 20,801	$ 7,562	$ (58,486)	$(30,123)
Other Comprehensive Gains and Losses Before Reclassifications	(12,257)	(405)	—	(12,662)
Amounts Reclassified From Other Comprehensive Income (Loss)	(4,703)	(272)	—	(4,975)
Balance at March 31, 2018	$ 3,841	$ 6,885	$ (58,486)	$(47,760)
Three Months Ended March 31, 2017				
Balance at January 1, 2017	$ 16,570	$ 5,047	$ (76,476)	$(54,859)
Other Comprehensive Gains and Losses Before Reclassifications	25,745	1,081	—	26,826
Amounts Reclassified From Other Comprehensive Income (Loss)	(6,058)	—	—	(6,058)
Balance at March 31, 2017	$ 36,257	$ 6,128	$ (76,476)	$(34,091)
Six Months Ended March 31, 2017				
Balance at October 1, 2016	$ 64,782	$ 6,054	$ (76,476)	$(5,640)
Other Comprehensive Gains and Losses Before Reclassifications	(4,705)	543	—	(4,162)
Amounts Reclassified From Other Comprehensive Income (Loss)	(23,820)	(469)	—	(24,289)
Balance at March 31, 2017	$ 36,257	$ 6,128	$ (76,476)	$(34,091)

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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 quarter and six months ended March 31, 2018 and 2017 are as follows (amounts in parentheses indicate debits to the income statement) (in thousands):

Details About Accumulated Other Comprehensive Loss Components	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended March 31,		Six Months Ended March 31,		
	2018	2017	2018	2017	
Gains (Losses) on Derivative Financial Instrument Cash Flow Hedges:					
Commodity Contracts	($3,467)	$12,109	$9,375	$43,429	Operating Revenues
Commodity Contracts	750	(1,498)	947	(1,958)	Purchased Gas
Foreign Currency Contracts	(482)	(139)	(973)	(282)	Operation and Maintenance Expense
Gains (Losses) on Securities Available for Sale	—	—	430	741	Other Income
	(3,199)	10,472	9,779	41,930	Total Before Income Tax
	551	(4,414)	(4,804)	(17,641)	Income Tax Expense
	($2,648)	$6,058	$4,975	$24,289	Net of Tax

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

	At March 31, 2018	At September 30, 2017
Prepayments	$6,208	$ 10,927
Prepaid Property and Other Taxes	22,482	13,974
Federal Income Taxes Receivable	17,282	—
State Income Taxes Receivable	2,371	9,689
Fair Values of Firm Commitments	1,608	1,031
Regulatory Assets	10,373	15,884
	$60,324	$ 51,505

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

	At March 31, 2018	At September 30, 2017
Accrued Capital Expenditures	$26,800	$ 37,382
Regulatory Liabilities	41,409	34,059
Reserve for Gas Replacement	34,332	—
Federal Income Taxes Payable	—	1,775
2017 Tax Reform Act Regulatory Refund	11,336	—
Other	33,672	38,673
	$147,549	$ 111,889

Earnings Per Common Share. Basic earnings per common share is computed by dividing income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For purposes of determining earnings per common share, the potentially dilutive securities the Company had outstanding were stock options, SARs, restricted stock units and performance shares. For the quarter and six months ended March 31, 2018, the diluted weighted average shares outstanding shown on the Consolidated Statements of Income reflects the potential dilution as a result of these securities as determined using the Treasury Stock Method. Stock options, SARs, restricted stock units and performance shares that are antidilutive are excluded from the calculation of diluted earnings per common share. There were 685,338 securities and 316,159 securities excluded as being antidilutive for the quarter and six months ended March 31, 2018, respectively. There were 157,554 securities and 158,211 securities excluded as being antidilutive for the quarter and six months ended March 31, 2017, respectively.

Stock-Based Compensation. The Company granted 208,588 performance shares during the six months ended March 31, 2018. The weighted average fair value of such performance shares was $50.95 per share for the six months ended March 31, 2018. Performance shares are an award constituting units denominated in common stock of the Company, the number of which may be adjusted over a performance cycle based upon the extent to which performance goals have been satisfied. Earned performance shares may be distributed in the form of shares of common stock of the Company, an equivalent value in cash or a combination of cash and shares of common stock of the Company, as determined by the Company. The performance shares do not entitle the participant to receive dividends during the vesting period.

Half of the performance shares granted during the six months ended March 31, 2018 must meet a performance goal related to relative return on capital over the performance cycle of October 1, 2017 to September 30, 2020. The performance goal over the performance cycle is the Company’s total return on capital relative to the total return on capital of other companies in a group selected by the Compensation Committee (“Report Group”). Total return on capital for a given company means the average of the Report Group companies’ returns on capital for each twelve month period corresponding to each of the Company’s fiscal years during the performance cycle, based on data reported for the Report Group companies in the Bloomberg database. The number of these performance shares that will vest and be paid will depend upon the Company’s performance relative to the Report Group and not upon the absolute level of return achieved by the Company. The fair value of these performance shares is calculated by multiplying the expected number of shares that will be issued by the average market price of Company common stock on the date of grant reduced by the present value of forgone dividends over the vesting term of the award. The fair value is recorded as compensation expense over the vesting term of the award. The other half of the performance shares granted during the six months ended March 31, 2018 must meet a performance goal related to relative total shareholder return over the performance cycle of October 1, 2017 to September 30, 2020. The performance goal over the performance cycle is the Company’s three-year total shareholder return relative to the three-year total shareholder return of the other companies in the Report Group. Three-year shareholder return for a given company will be based on the data reported for that company (with the starting and ending stock prices over the performance cycle calculated as the average closing stock price for the prior calendar month and with dividends reinvested in that company’s securities at each ex-dividend date) in the Bloomberg database. The number of these total shareholder return performance shares ("TSR performance shares") that will vest and be paid will depend upon the Company’s performance relative to the Report Group and not upon the absolute level of return achieved by the Company. The fair value price at the date of grant for the TSR performance shares is determined using a Monte Carlo simulation technique, which includes a reduction in value for the present value of forgone dividends over the vesting term of the award. This price is multiplied by the number of TSR performance shares awarded, the result of which is recorded as compensation expense over the vesting term of the award.

The Company granted 89,672 non-performance based restricted stock units during the six months ended March 31, 2018. The weighted average fair value of such non-performance based restricted stock units was $51.23 per share for the six months ended March 31, 2018. Restricted stock units represent the right to receive shares of common stock of the Company (or the equivalent value in cash or a combination of cash and shares of common stock of the Company, as determined by the Company) at the end of a specified time period. These non-performance based restricted stock units do not entitle the participant to receive dividends during the vesting period. The accounting for non-performance based restricted stock units is the same as the accounting for restricted share awards, except that the fair value at the date of grant of the restricted stock units must be reduced by the present value of forgone dividends over the vesting term of the award.

New Authoritative Accounting and Financial Reporting Guidance. In May 2014, the FASB issued authoritative guidance regarding revenue recognition. The authoritative guidance provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The original effective date of this authoritative guidance was as of the Company's first quarter of fiscal 2018. However, the FASB 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. The Company does not believe that its revenue recognition policies will change materially, although the Company is still assessing the impact. The Company will need to enhance its financial statement disclosures to comply with the new authoritative guidance.

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

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

In March 2017, the FASB issued authoritative guidance related to the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires segregation of the service cost component from the other components of net periodic pension cost and net periodic postretirement benefit cost for financial reporting purposes. The service cost component is to be presented on the income statement in the same line items as other compensation costs included within Operating Expenses and the other components of net periodic pension cost and net periodic postretirement benefit cost are to be presented on the income statement below the subtotal labeled Operating Income (Loss). Under this guidance, the service cost component shall be the only component eligible to be capitalized as part of the cost of inventory or property, plant and equipment. The new guidance will be effective as of the Company's first quarter of fiscal 2019, with early adoption permitted. The Company does not anticipate early adoption and is currently evaluating the interaction of this authoritative guidance with the various regulatory provisions concerning pension and postretirement benefit costs in the Company's Utility and Pipeline and Storage segments.

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

Note 2 – Fair Value Measurements

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

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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 March 31, 2018 and September 30, 2017. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value presentation for over the counter swaps combines gas and oil swaps because a significant number of the counterparties enter into both gas and oil swap agreements with the Company.

Recurring Fair Value Measures	At fair value as of March 31, 2018				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments[(1)]	Total[(1)]
Assets:					
Cash Equivalents – Money Market Mutual Funds	$196,448	$—	$—	$—	$196,448
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	727	—	—	(727)	—
Over the Counter Swaps – Gas and Oil	—	32,770	—	(14,837)	17,933
Foreign Currency Contracts	—	608	—	(397)	211
Other Investments:					
Balanced Equity Mutual Fund	36,910	—	—	—	36,910
Fixed Income Mutual Fund	44,192	—	—	—	44,192
Common Stock – Financial Services Industry	2,885	—	—	—	2,885
Hedging Collateral Deposits	3,657	—	—	—	3,657
Total	$284,819	$33,378	$—	$(15,961)	$302,236
Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	$1,479	$—	$—	$(727)	$752
Over the Counter Swaps – Gas and Oil	—	24,911	—	(14,837)	10,074
Foreign Currency Contracts	—	1,046	—	(397)	649
Total	$1,479	$25,957	$—	$(15,961)	$11,475
Total Net Assets/(Liabilities)	$283,340	$7,421	$—	$—	$290,761

Recurring Fair Value Measures	At fair value as of September 30, 2017				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments[(1)]	Total[(1)]
Assets:					