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NATIONAL FUEL GAS CO

Form 10-Q

May 03, 2019

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iso4217:USD xbrli:pure utreg:MMcf nfg:segment nfg:counterparty utreg:bb

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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, 2019**

**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**

(State or other jurisdiction of incorporation or organization)

**13-1086010**

(I.R.S. Employer Identification No.)

**6363 Main Street**

**Williamsville, New York**

(Address of principal executive offices)

**14221**

(Zip Code)

**(716) 857-7000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$1.00 per share	NFG	New York Stock Exchange

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, 2019: 86,306,427 shares.

Table of Contents**GLOSSARY OF TERMS**

Frequently used abbreviations, acronyms, or terms used in this report:

***National Fuel Gas******Companies***

Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries as appropriate in the context of the disclosure
Distribution Corporation	National Fuel Gas Distribution Corporation
Empire	Empire Pipeline, Inc.
Midstream Company	National Fuel Gas Midstream Company, LLC
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
Seneca	Seneca Resources Company, LLC
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***

2018 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2018
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.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****National Fuel Gas Company****Consolidated Statements of Income and Earnings****Reinvested in the Business****(Unaudited)**

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands of U.S. Dollars, Except Per Common Share Amounts)	2019	2018	2019	2018
<b>INCOME</b>				
<b>Operating Revenues:</b>				
Utility and Energy Marketing Revenues	\$ 357,654	\$ 339,422	\$ 629,747	\$ 565,147
Exploration and Production and Other Revenues	146,467	147,868	310,403	288,318
Pipeline and Storage and Gathering Revenues	48,423	53,615	102,641	107,096
	552,544	540,905	1,042,791	960,561
<b>Operating Expenses:</b>				
Purchased Gas	195,037	176,608	333,697	270,642
Operation and Maintenance:				
Utility and Energy Marketing	48,559	46,708	92,475	90,789
Exploration and Production and Other	40,141	39,127	72,936	74,209
Pipeline and Storage and Gathering	27,249	22,916	52,182	43,227
Property, Franchise and Other Taxes	22,535	22,802	46,540	43,650
Depreciation, Depletion and Amortization	65,664	61,155	129,918	116,985
	399,185	369,316	727,748	639,502
<b>Operating Income</b>	153,359	171,589	315,043	321,059
<b>Other Income (Expense):</b>				
Other Income (Deductions)	(5,919 )	(13,092 )	(15,521 )	(16,594 )
Interest Expense on Long-Term Debt	(25,273 )	(27,148 )	(50,713 )	(55,235 )
Other Interest Expense	(1,787 )	(1,233 )	(2,860 )	(1,736 )
<b>Income Before Income Taxes</b>	120,380	130,116	245,949	247,494
Income Tax Expense (Benefit)	29,785	38,269	52,693	(43,007 )
<b>Net Income Available for Common Stock</b>	90,595	91,847	193,256	290,501
<b>EARNINGS REINVESTED IN THE BUSINESS</b>				
Balance at Beginning of Period	1,172,334	1,014,733	1,098,900	851,669
	1,262,929	1,106,580	1,292,156	1,142,170
Dividends on Common Stock	(36,678 )	(35,641 )	(73,342 )	(71,231 )
Cumulative Effect of Adoption of Authoritative Guidance for Financial Assets and Liabilities	—	—	7,437	—
Cumulative Effect of Adoption of Authoritative Guidance for Reclassification of Stranded Tax Effects	10,406	—	10,406	—
<b>Balance at March 31</b>	\$ 1,236,657	\$ 1,070,939	\$ 1,236,657	\$ 1,070,939
<b>Earnings Per Common Share:</b>				
Basic:				

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<b>Net Income Available for Common Stock</b>	\$ 1.05	\$ 1.07	\$ 2.24	\$ 3.39
Diluted:				
<b>Net Income Available for Common Stock</b>	\$ 1.04	\$ 1.06	\$ 2.23	\$ 3.37
<b>Weighted Average Common Shares Outstanding:</b>				
Used in Basic Calculation	86,290,047	85,809,233	86,159,932	85,718,779
Used in Diluted Calculation	86,767,673	86,323,636	86,738,809	86,318,892
<b>Dividends Per Common Share:</b>				
Dividends Declared	\$ 0.425	\$ 0.415	\$ 0.850	\$ 0.830
See Notes to Condensed Consolidated Financial Statements				

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

	Three Months		Six Months Ended	
	Ended March 31,		March 31,	
(Thousands of U.S. Dollars)	2019	2018	2019	2018
Net Income Available for Common Stock	\$90,595	\$91,847	\$193,256	\$290,501
Other Comprehensive Income (Loss), Before Tax:				
Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	—	(678 )	—	(722 )
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(26,000 )	(12,582 )	19,390	(18,081 )
Reclassification Adjustment for Realized (Gains) Losses on Securities Available for Sale in Net Income	—	—	—	(430 )
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	4,739	3,199	24,384	(9,349 )
Reclassification Adjustment for the Cumulative Effect of Adoption of Authoritative Guidance for Financial Assets and Liabilities to Earnings Reinvested in the Business	—	—	(11,738 )	—
Other Comprehensive Income (Loss), Before Tax	(21,261 )	(10,061 )	32,036	(28,582 )
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Securities Available for Sale Arising During the Period	—	(252 )	—	(317 )
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(7,399 )	(3,519 )	5,593	(5,824 )
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Securities Available for Sale in Net Income	—	—	—	(158 )
Reclassification Adjustment for Income Tax Benefit (Expense) on Realized Losses (Gains) from Derivative Financial Instruments in Net Income	1,328	551	6,874	(4,646 )
Reclassification Adjustment for Income Tax Benefit (Expense) on the Cumulative Effect of Adoption of Authoritative Guidance for Financial Assets and Liabilities to Earnings Reinvested in the Business	—	—	(4,301 )	—
Reclassification Adjustment for Stranded Tax Effects Related to the 2017 Tax Reform Act to Earnings Reinvested in the Business	10,406	—	10,406	—
Income Taxes – Net	4,335	(3,220 )	18,572	(10,945 )
Other Comprehensive Income (Loss)	(25,596 )	(6,841 )	13,464	(17,637 )
Comprehensive Income	\$64,999	\$85,006	\$206,720	\$272,864

See Notes to Condensed Consolidated Financial Statements

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

	March 31, 2019	September 30, 2018
(Thousands of U.S. Dollars)		
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>	\$10,788,894	\$10,439,839
Less - Accumulated Depreciation, Depletion and Amortization	5,573,020	5,462,696
	5,215,874	4,977,143
<b>Current Assets</b>		
Cash and Temporary Cash Investments	100,643	229,606
Hedging Collateral Deposits	1,983	3,441
Receivables – Net of Allowance for Uncollectible Accounts of \$30,234 and \$24,537, Respectively	235,586	141,498
Unbilled Revenue	60,196	24,182
Gas Stored Underground	6,848	37,813
Materials and Supplies - at average cost	37,695	35,823
Unrecovered Purchased Gas Costs	5,760	4,204
Other Current Assets	57,586	68,024
	506,297	544,591
<b>Other Assets</b>		
Recoverable Future Taxes	113,441	115,460
Unamortized Debt Expense	14,922	15,975
Other Regulatory Assets	108,193	112,918
Deferred Charges	39,634	40,025
Other Investments	135,022	132,545
Goodwill	5,476	5,476
Prepaid Post-Retirement Benefit Costs	86,802	82,733
Fair Value of Derivative Financial Instruments	11,130	9,518
Other	42,184	102
	556,804	514,752
<b>Total Assets</b>	<b>\$6,278,975</b>	<b>\$6,036,486</b>

See Notes to Condensed Consolidated Financial Statements

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

	March 31, 2019	September 30, 2018
(Thousands of U.S. Dollars)		
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
<b>Comprehensive Shareholders' Equity</b>		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding – 86,300,675 Shares and 85,956,814 Shares, Respectively	\$86,301	\$85,957
Paid in Capital	821,837	820,223
Earnings Reinvested in the Business	1,236,657	1,098,900
Accumulated Other Comprehensive Loss	(54,286)	(67,750)
<b>Total Comprehensive Shareholders' Equity</b>	<b>2,090,509</b>	<b>1,937,330</b>
<b>Long-Term Debt, Net of Current Portion and Unamortized Discount and Debt Issuance Costs</b>	<b>2,132,488</b>	<b>2,131,365</b>
<b>Total Capitalization</b>	<b>4,222,997</b>	<b>4,068,695</b>
<b>Current and Accrued Liabilities</b>		
Notes Payable to Banks and Commercial Paper	—	—
Current Portion of Long-Term Debt	—	—
Accounts Payable	141,851	160,031
Amounts Payable to Customers	15,463	3,394
Dividends Payable	36,678	36,532
Interest Payable on Long-Term Debt	18,508	19,062
Customer Advances	433	13,609
Customer Security Deposits	18,519	25,703
Other Accruals and Current Liabilities	195,797	132,693
Fair Value of Derivative Financial Instruments	5,749	49,036
	432,998	440,060
<b>Deferred Credits</b>		
Deferred Income Taxes	618,850	512,686
Taxes Refundable to Customers	365,380	370,628
Cost of Removal Regulatory Liability	215,864	212,311
Other Regulatory Liabilities	156,722	146,743
Pension and Other Post-Retirement Liabilities	49,213	66,103
Asset Retirement Obligations	104,138	108,235
Other Deferred Credits	112,813	111,025
	1,622,980	1,527,731
<b>Commitments and Contingencies (Note 7)</b>	<b>—</b>	<b>—</b>
<b>Total Capitalization and Liabilities</b>	<b>\$6,278,975</b>	<b>\$6,036,486</b>

See Notes to Condensed Consolidated Financial Statements

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

(Thousands of U.S. Dollars)	Six Months Ended March 31,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net Income Available for Common Stock	\$ 193,256	\$ 290,501
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	129,918	116,985
Deferred Income Taxes	90,468	(62,459 )
Stock-Based Compensation	10,731	7,862
Other	7,997	8,052
Change in:		
Receivables and Unbilled Revenue	(130,377 )	(123,954 )
Gas Stored Underground and Materials and Supplies	29,093	28,004
Unrecovered Purchased Gas Costs	(1,556 )	4,197
Other Current Assets	10,438	(8,819 )
Accounts Payable	10,226	10,838
Amounts Payable to Customers	12,069	12,083
Customer Advances	(13,176 )	(15,547 )
Customer Security Deposits	(7,184 )	(1,399 )
Other Accruals and Current Liabilities	48,028	37,646
Other Assets	(38,686 )	(9,541 )
Other Liabilities	(10,410 )	(5,767 )
<b>Net Cash Provided by Operating Activities</b>	<b>340,835</b>	<b>288,682</b>
<b>INVESTING ACTIVITIES</b>		
Capital Expenditures	(386,579 )	(261,720 )
Net Proceeds from Sale of Oil and Gas Producing Properties	—	17,310
Other	(2,616 )	5,355
<b>Net Cash Used in Investing Activities</b>	<b>(389,195 )</b>	<b>(239,055 )</b>
<b>FINANCING ACTIVITIES</b>		
Reduction of Long-Term Debt	—	(307,047 )
Dividends Paid on Common Stock	(73,197 )	(71,091 )
Net Proceeds from Issuance (Repurchase) of Common Stock	(8,864 )	2,891
<b>Net Cash Used in Financing Activities</b>	<b>(82,061 )</b>	<b>(375,247 )</b>
<b>Net Decrease in Cash, Cash Equivalents, and Restricted Cash</b>	<b>(130,421 )</b>	<b>(325,620 )</b>
<b>Cash, Cash Equivalents, and Restricted Cash at October 1</b>	<b>233,047</b>	<b>557,271</b>
<b>Cash, Cash Equivalents, and Restricted Cash at March 31</b>	<b>\$ 102,626</b>	<b>\$ 231,651</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
<b>Non-Cash Investing Activities:</b>		
Non-Cash Capital Expenditures	\$ 74,929	\$ 51,939

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.

**Reclassifications.** In November 2016, the FASB issued authoritative guidance related to the presentation of restricted cash on the statement of cash flows. The new guidance requires restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows, and requires disclosure of how cash and cash equivalents on the statement of cash flows reconciles to the balance sheet. The Company considers Hedging Collateral Deposits to be restricted cash. The Company adopted this guidance effective October 1, 2018 on a retrospective basis. As a result, prior periods have been reclassified to conform to the current year presentation. Additional discussion is provided below at Consolidated Statement of Cash Flows.

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 is eligible to be capitalized as part of the cost of inventory or property, plant and equipment while the other components of net periodic pension cost and net periodic postretirement benefit cost are generally not eligible for capitalization, unless allowed by a regulator. The Company adopted this guidance effective October 1, 2018. The Company applied the guidance retrospectively for the pension and postretirement benefit costs using amounts disclosed in prior period financial statement notes as estimates for the reclassifications in accordance with a practical expedient allowed under the guidance. For the quarter and six months ended March 31, 2018, Operating Income increased \$14.9 million and \$22.4 million, respectively, and Other Income (Deductions) decreased by the same amounts as a result of the reclassifications. For the quarter and six months ended March 31, 2019, Other Income (Deductions) includes \$12.4 million and \$19.8 million, respectively, of pension and postretirement benefit costs.

**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, 2018, 2017 and 2016 that are included in the Company's 2018 Form 10-K. The consolidated financial statements for the year ended September 30, 2019 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, 2019 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2019. 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 8 – Business Segment Information.

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**Consolidated Statements of Cash Flows.** The components, as reported on the Company's Consolidated Balance Sheets, of the total cash, cash equivalents, and restricted cash presented on the Statement of Cash Flows are as follows (in thousands):

	<b>Six Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31, 2019</b>		<b>March 31, 2018</b>	
	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>
	<b>at</b>	<b>at</b>	<b>at</b>	<b>at</b>
	<b>October</b>	<b>March</b>	<b>October</b>	<b>March</b>
	<b>1, 2018</b>	<b>31, 2019</b>	<b>1, 2017</b>	<b>31, 2018</b>
Cash and Temporary Cash Investments	\$229,606	\$100,643	\$555,530	\$227,994
Hedging Collateral Deposits	3,441	1,983	1,741	3,657
Cash, Cash Equivalents, and Restricted Cash	\$233,047	\$102,626	\$557,271	\$231,651

The Company considers all highly liquid debt instruments purchased with a maturity date of generally three months or less to be cash equivalents. The Company's restricted cash is comprised entirely of amounts reported as Hedging Collateral Deposits on the Consolidated Balance Sheets. Hedging Collateral Deposits 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 \$36.9 million at March 31, 2019, 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 \$64.9 million and \$62.2 million at March 31, 2019 and September 30, 2018, 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, 2019, the ceiling exceeded the book value of the oil and gas properties by approximately \$577.5 million. In adjusting estimated future cash flows for hedging under the ceiling test at March 31, 2019, estimated future net cash flows were decreased by \$37.0 million.



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**Accumulated Other Comprehensive Loss.** The components of Accumulated Other Comprehensive Loss and changes for the six months ended March 31, 2019 and 2018, net of related tax effect, are as follows (amounts in parentheses indicate debits) (in thousands):

	<b>Gains and Losses on Derivative Financial Instruments</b>	<b>Gains and Losses on Securities Available for Sale</b>	<b>Funded Status of the Pension and Other Post-Retirement Benefit Plans</b>	<b>Total</b>
<b>Three Months Ended March 31, 2019</b>				
Balance at January 1, 2019	\$ 17,886	\$ —	\$ (46,576 )	\$(28,690 )
Other Comprehensive Gains and Losses Before Reclassifications	(18,601 )	—	—	(18,601 )
Amounts Reclassified From Other Comprehensive Income (Loss)	3,411	—	—	3,411
Reclassification of Stranded Tax Effects Related to the 2017 Tax Reform Act	1,866	—	(12,272 )	(10,406 )
Balance at March 31, 2019	\$ 4,562	\$ —	\$ (58,848 )	\$(54,286 )
<b>Six Months Ended March 31, 2019</b>				
Balance at October 1, 2018	\$ (28,611 )	\$ 7,437	\$ (46,576 )	\$(67,750 )
Other Comprehensive Gains and Losses Before Reclassifications	13,797	—	—	13,797
Amounts Reclassified From Other Comprehensive Income (Loss)	17,510	—	—	17,510
Reclassification Adjustment for the Cumulative Effect of Adoption of Authoritative Guidance for Financial Assets and Liabilities	—	(7,437 )	—	(7,437 )
Reclassification of Stranded Tax Effects Related to the 2017 Tax Reform Act	1,866	—	(12,272 )	(10,406 )
Balance at March 31, 2019	\$ 4,562	\$ —	\$ (58,848 )	\$(54,286 )
<b>Three Months Ended March 31, 2018</b>				
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 )
<b>Six Months Ended March 31, 2018</b>				
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 )

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 Company adopted this authoritative

guidance effective January 1, 2019 and recorded a cumulative effect adjustment related to deferred income taxes associated with hedging activities and pension and post-retirement benefit obligations for the quarter ended March 31, 2019 to increase retained earnings by \$10.4 million and decrease accumulated other comprehensive income by the same amount.

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 and the presentation and disclosure

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requirements for financial instruments. All equity investments in unconsolidated entities will be measured at fair value through earnings rather than through accumulated other comprehensive income. The Company adopted this authoritative guidance effective October 1, 2018 and, as called for by the modified retrospective method of adoption, recorded a cumulative effect adjustment for the quarter ended December 31, 2018 to increase retained earnings by \$7.4 million and decrease accumulated other comprehensive income by the same amount.

**Reclassifications Out of Accumulated Other Comprehensive Loss.** The details about the reclassification adjustments out of accumulated other comprehensive loss for the six months ended March 31, 2019 and 2018 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)				Affected Line Item in the Statement Where Net Income is Presented
	Reclassified from				
	Accumulated Other Comprehensive Loss		Accumulated Other Comprehensive Loss		
	Three Months Ended March 31, 2019	Six Months Ended March 31, 2018	Three Months Ended March 31, 2019	Six Months Ended March 31, 2018	
Gains (Losses) on Derivative Financial Instrument Cash Flow Hedges:					
Commodity Contracts	(\$4,260 )	(\$3,467 )	(\$22,782 )	\$9,375	Operating Revenues
Commodity Contracts	(280 )	750	(1,182 )	947	Purchased Gas
Foreign Currency Contracts	(199 )	(482 )	(420 )	(973 )	Operating Revenues
Gains (Losses) on Securities Available for Sale	—	—	—	430	Other Income (Deductions)
	(4,739 )	(3,199 )	(24,384 )	9,779	Total Before Income Tax
	1,328	551	6,874	(4,804 )	Income Tax Expense
	(\$3,411 )	(\$2,648 )	(\$17,510 )	\$4,975	Net of Tax

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

	At March 31, 2019	At September 30, 2018
Prepayments	\$8,063	\$ 11,126
Prepaid Property and Other Taxes	23,015	14,088
Federal Income Taxes Receivable	7,460	22,457
State Income Taxes Receivable	7,677	8,822
Fair Values of Firm Commitments	179	1,739
Regulatory Assets	11,192	9,792
	\$57,586	\$ 68,024

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

	At March 31, 2019	At September 30, 2018

Federal Income Taxes Receivable	\$42,093	\$ —
Other	91	102
	\$42,184	\$ 102

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

	At March 31, 2019	At September 30, 2018
Accrued Capital Expenditures	\$52,875	\$ 38,354
Regulatory Liabilities	53,744	57,425
Reserve for Gas Replacement	36,922	—
Liability for Royalty and Working Interests	21,438	12,062
Other	30,818	24,852
	\$195,797	\$ 132,693

**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 SARs, restricted stock units and performance shares. For the quarter and six months ended March 31, 2019, 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. SARs, restricted stock units and performance shares that are antidilutive are excluded from the calculation of diluted earnings per common share. There were 159,023 securities and 175,443 securities excluded as being antidilutive for the quarter and six months ended March 31, 2019, respectively. There were 685,338 securities and 316,159 securities excluded as being antidilutive for the quarter and six months ended March 31, 2018, respectively.

**Stock-Based Compensation.** The Company granted 244,734 performance shares during the six months ended March 31, 2019. The weighted average fair value of such performance shares was \$55.67 per share for the six months ended March 31, 2019. 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, 2019 must meet a performance goal related to relative return on capital over a three-year performance cycle. 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, 2019 must meet a performance goal related to relative total shareholder return over a three-year performance cycle. 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 total 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 111,108 non-performance based restricted stock units during the six months ended March 31, 2019. The weighted average fair value of such non-performance based restricted stock units was \$49.72 per share for the six months ended March 31, 2019. Restricted stock units represent the right to receive shares of common stock of the Company (or

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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 February 2016, the FASB issued authoritative guidance, which has subsequently been amended, 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. The Company has developed a plan for the adoption and implementation of the authoritative guidance and continues to develop its complete lease inventory. The Company also continues to evaluate and document technical accounting issues, policy considerations, financial reporting and disclosure implications, and changes to internal controls and business processes. While the Company continues to assess the impact on its financial statements, the Company expects that adoption of the authoritative guidance will result in an increase to its assets and liabilities on its consolidated balance sheet.

In August 2017, the FASB issued authoritative guidance which changes the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities and to simplify the application of hedge accounting. The new guidance will be effective as of the Company's first quarter of fiscal 2020, with early adoption permitted. The Company does not expect adoption of this guidance to have a significant impact on its consolidated financial statements and is currently evaluating the impact of this guidance.

**Note 2 – Revenue from Contracts with Customers**

The Company adopted authoritative guidance regarding revenue recognition on October 1, 2018 using the modified retrospective method of adoption for open contracts as of October 1, 2018. A cumulative effect adjustment to retained earnings was not necessary since no revenue recognition differences were identified when comparing the revenue recognition criteria under the new authoritative guidance to the previous guidance. The Company records revenue related to its derivative financial instruments in the Exploration and Production segment as well as in the Energy Marketing segment. The Company also records revenue related to alternative revenue programs in its Utility segment. Revenue related to derivative financial instruments and alternative revenue programs are excluded from the scope of the new authoritative guidance since they are accounted for under other existing accounting guidance.

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The following tables provide a disaggregation of the Company's revenues for the quarter and six months ended March 31, 2019, presented by type of service from each reportable segment.

Quarter Ended March 31, 2019 (Thousands)

Revenues By Type of Service	Exploration and Production	Pipeline and Storage	Gathering	Utility	Energy Marketing	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Production of Natural Gas	\$ 121,824	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 121,824
Production of Crude Oil	34,878	—	—	—	—	—	—	34,878
Natural Gas Processing	971	—	—	—	—	—	—	971
Natural Gas Gathering Services	—	—	29,368	—	—	—	(29,366)	) 2
Natural Gas Transportation Service	—	52,239	—	45,083	—	—	(19,819)	) 77,503
Natural Gas Storage Service	—	19,360	—	—	—	—	(8,333)	) 11,027
Natural Gas Residential Sales	—	—	—	229,254	—	—	—	229,254
Natural Gas Commercial Sales	—	—	—	34,255	—	—	—	34,255
Natural Gas Industrial Sales	—	—	—	1,867	—	—	—	1,867
Natural Gas Marketing	—	—	—	—	58,516	—	(43)	) 58,473
Other	493	740	—	(5,963)	) 8	310	(105)	) (4,517)
Total Revenues from Contracts with Customers	158,166	72,339	29,368	304,496	58,524	310	(57,666)	) 565,537
Alternative Revenue Programs	—	—	—	(1,466)	) —	—	—	(1,466)
Derivative Financial Instruments	(12,064)	) —	—	—	537	—	—	(11,527)
Total Revenues	\$ 146,102	\$ 72,339	\$ 29,368	\$ 303,030	\$ 59,061	\$ 310	\$ (57,666)	) \$ 552,544

Six Months Ended March 31, 2019 (Thousands)

Revenues By Type of Service	Exploration and Production	Pipeline and Storage	Gathering	Utility	Energy Marketing	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Production of Natural Gas	\$ 257,735	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 257,735
Production of Crude Oil	72,433	—	—	—	—	—	—	72,433
Natural Gas Processing	1,945	—	—	—	—	—	—	1,945
Natural Gas Gathering Services	—	—	59,058	—	—	—	(59,056)	) 2
Natural Gas Transportation Service	—	108,375	—	80,714	—	—	(36,884)	) 152,205
Natural Gas Storage Service	—	38,289	—	—	—	—	(16,306)	) 21,983
Natural Gas Residential Sales	—	—	—	396,121	—	—	—	396,121
Natural Gas Commercial Sales	—	—	—	56,301	—	—	—	56,301
Natural Gas Industrial Sales	—	—	—	3,368	—	—	—	3,368
Natural Gas Marketing	—	—	—	—	107,803	—	(375)	) 107,428
Other	876	2,744	—	(8,824)	) 9	1,316	(510)	) (4,389)
Total Revenues from Contracts with Customers	332,989	149,408	59,058	527,680	107,812	1,316	(113,131)	) 1,065,132
Alternative Revenue Programs	—	—	—	(1,993)	) —	—	—	(1,993)
Derivative Financial Instruments	(24,011)	) —	—	—	3,663	—	—	(20,348)
Total Revenues	\$ 308,978	\$ 149,408	\$ 59,058	\$ 525,687	\$ 111,475	\$ 1,316	\$ (113,131)	) \$ 1,042,791



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### **Exploration and Production Segment Revenue**

The Company's Exploration and Production segment records revenue from the sale of the natural gas and oil that it produces and natural gas liquids (NGLs) processed based on entitlement, which means that revenue is recorded based on the actual amount of natural gas or oil that is delivered to a pipeline, or upon pick-up in the case of NGLs, and the Company's ownership interest. Natural gas production occurs primarily in the Appalachian region of the United States and crude oil production occurs primarily in the West Coast region of the United States. If a production imbalance occurs between what was supposed to be delivered to a pipeline and what was actually produced and delivered, the Company accrues the difference as an imbalance. The sales contracts generally require the Company to deliver a specific quantity of a commodity per day for a specific number of days at a price that is either fixed or variable and considers the delivery of each unit (MMBtu or Bbl) to be a separate performance obligation that is satisfied upon delivery.

The transaction price for the sale of natural gas, oil and NGLs is contractually agreed upon based on prevailing market pricing (primarily tied to a market index with certain adjustments based on factors such as delivery location and prevailing supply and demand conditions) or fixed pricing. The Company allocates the transaction price to each performance obligation on the basis of the relative standalone selling price of each distinct unit sold. Revenue is recognized at a point in time when the transfer of the commodity occurs at the delivery point per the contract. The amount billable, as determined by the contracted quantity and price, indicates the value to the customer, and is used for revenue recognition purposes by the Exploration and Production segment as specified by the "invoice practical expedient" (the amount that the Exploration and Production segment has the right to invoice) under the authoritative guidance for revenue recognition. The contracts typically require payment within 30 days of the end of the calendar month in which the natural gas and oil is delivered, or picked up in the case of NGLs.

The Company uses derivative financial instruments to manage commodity price risk in the Exploration and Production segment related to sales of the natural gas and oil that it produces. Gains or losses on such derivative financial instruments are recorded as adjustments to revenue; however, they are not considered to be revenue from contracts with customers.

### **Pipeline and Storage Segment Revenue**

The Company's Pipeline and Storage segment records revenue for natural gas transportation and storage services in New York and Pennsylvania at tariff-based rates regulated by the FERC. Customers secure their own gas supply and the Pipeline and Storage segment provides transportation and/or storage services to move the customer-supplied gas to the intended location, including injections into or withdrawals from the storage field. This performance obligation is satisfied over time. The rate design for the Pipeline and Storage segment's customers generally includes a combination of volumetric or commodity charges as well as monthly "fixed" charges (including charges commonly referred to as capacity charges, demand charges, or reservation charges). These types of fixed charges represent compensation for standing ready over the period of the month to deliver quantities of gas, regardless of whether the customer takes delivery of any quantity of gas. The performance obligation under these circumstances is satisfied based on the passage of time and meter reads, if applicable, which correlates to the period for which the charges are eligible to be invoiced. The amount billable, as determined by the meter read and the "fixed" monthly charge, indicates the value to the customer, and is used for revenue recognition purposes by the Pipeline and Storage segment as specified by the "invoice practical expedient" (the amount that the Pipeline and Storage segment has the right to invoice) under the authoritative guidance for revenue recognition. Customers are billed after the end of each calendar month, with payment typically due by the 25th day of the month in which the invoice is received.

The Company's Pipeline and Storage segment expects to recognize the following revenue amounts in future periods related to "fixed" charges associated with remaining performance obligations for transportation and storage contracts: \$82.8 million for the remainder of fiscal 2019; \$156.4 million for fiscal 2020; \$133.1 million for fiscal 2021; \$114.0 million for fiscal 2022; \$82.7 million for fiscal 2023; and \$370.7 million thereafter.

### **Gathering Segment Revenue**

The Company's Gathering segment provides gathering and processing services in the Appalachian region of Pennsylvania, primarily for Seneca. The Gathering segment's primary performance obligation is to deliver gathered natural gas volumes from Seneca's wells into interstate pipelines at contractually agreed upon per unit rates. This obligation is satisfied over time. The performance obligation is satisfied based on the passage of time and meter reads, which correlates to the period for which the charges are eligible to be invoiced. The amount billable, as determined by the meter read and the contracted volumetric rate, indicates the value to the customer, and is used for revenue recognition purposes by the Gathering segment as specified by the "invoice practical expedient" (the amount that the Gathering segment has the right to invoice) under the authoritative guidance for revenue recognition. Customers are billed after the end of each calendar month, with payment typically due by the 10th day after the invoice is received.

Table of Contents**Utility Segment Revenue**

The Company's Utility segment records revenue for natural gas sales and natural gas transportation services in western New York and northwestern Pennsylvania at tariff-based rates regulated by the NYPSC and the PaPUC. Natural gas sales and transportation services are provided largely to residential, commercial and industrial customers. The Utility segment's performance obligation to its customers is to deliver natural gas, an obligation which is satisfied over time. This obligation generally remains in effect as long as the customer consumes the natural gas provided by the Utility segment. The Utility segment recognizes revenue when it satisfies its performance obligation by delivering natural gas to the customer. Natural gas is delivered and consumed by the customer simultaneously. The satisfaction of the performance obligation is measured by the turn of the meter dial. The amount billable, as determined by the meter read and the tariff-based rate, indicates the value to the customer, and is used for revenue recognition purposes by the Utility segment as specified by the "invoice practical expedient" (the amount that the Utility segment has the right to invoice) under the authoritative guidance for revenue recognition. Since the Utility segment bills its customers in cycles having billing dates that do not generally coincide with the end of a calendar month, a receivable is recorded for natural gas delivered but not yet billed to customers based on an estimate of the amount of natural gas delivered between the last meter reading date and the end of the accounting period. Such receivables are a component of Unbilled Revenue on the Consolidated Balance Sheets. The Utility segment's tariffs allow customers to utilize budget billing. In this situation, since the amount billed may differ from the amount of natural gas delivered to the customer in any given month, revenue is recognized monthly based on the amount of natural gas consumed. The differential between the amount billed and the amount consumed is recorded as a component of Receivables or Customer Advances on the Consolidated Balance Sheets. All receivables or advances related to budget billing are settled within one year.

**Utility Segment Alternative Revenue Programs**

As indicated in the revenue table shown above, the Company's Utility segment has alternative revenue programs that are excluded from the scope of the new authoritative guidance regarding revenue recognition. The NYPSC has authorized alternative revenue programs that are designed to mitigate the impact that weather and conservation have on margin. The NYPSC has also authorized additional alternative revenue programs that adjust billings for the effects of broad external factors or to compensate the Company for demand-side management initiatives. These alternative revenue programs primarily allow the Company and customer to share in variances from imputed margins due to migration of transportation customers, allow for adjustments to the gas cost recovery mechanism for fluctuations in uncollectible expenses associated with gas costs, and allow the Company to pass on to customers costs associated with customer energy efficiency programs. In general, revenue is adjusted monthly for these programs and is collected from or passed back to customers within 24 months of the annual reconciliation period.

**Energy Marketing Segment Revenue**

The Company's Energy Marketing segment records revenue for competitively priced natural gas sales in western and central New York and northwestern Pennsylvania. Sales are provided largely to industrial, wholesale, commercial, public authority and residential customers. The Energy Marketing segment's performance obligation to its customers is to deliver natural gas, an obligation which is satisfied over time. This obligation generally remains in effect as long as the customer consumes the natural gas provided by the Energy Marketing segment. The Energy Marketing segment recognizes revenue when it satisfies its performance obligation by delivering natural gas to the customer. Natural gas is delivered and consumed by the customer simultaneously. The satisfaction of the performance obligation is measured by the turn of the meter dial. The amount billable, as determined by the meter read and the contracted or market based rate, indicates the value to the customer, and is used for revenue recognition purposes by the Energy

Marketing segment as specified by the “invoice practical expedient” (the amount that the Energy Marketing segment has the right to invoice) under the authoritative guidance for revenue recognition. Since the Energy Marketing segment bills its residential customers in cycles having billing dates that do not generally coincide with the end of a calendar month, a receivable is recorded for natural gas delivered but not yet billed to customers based on an estimate of the amount of natural gas delivered between the last meter reading date and the end of the accounting period. Such receivables are a component of Unbilled Revenue on the Consolidated Balance Sheets. The Energy Marketing segment also allows customers to utilize budget billing. In this situation, since the amount billed may differ from the amount of natural gas delivered to the customer in any given month, revenue is recognized monthly based on the amount of natural gas consumed. The differential between the amount billed and the amount consumed is recorded as a component of Receivables or Customer Advances on the Consolidated Balance Sheets. All receivables or advances related to budget billing are settled within one year.

The Company uses derivative financial instruments to manage commodity price risk in the Energy Marketing segment related to the sale of natural gas to its customers. Gains or losses on such derivative financial instruments are recorded as adjustments to revenue; however, they are not considered to be revenue from contracts with customers.

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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 March 31, 2019 and September 30, 2018. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value presentation for over the counter swaps combines gas and oil swaps because a significant number of the counterparties enter into both gas and oil swap agreements with the Company.

Recurring Fair Value Measures (Thousands of Dollars)	At fair value as of March 31, 2019					Total(1)
	Level 1	Level 2	Level 3	Netting Adjustments(1)		
Assets:						
Cash Equivalents – Money Market Mutual Funds	\$79,632	\$—	\$—	\$—		\$79,632
Derivative Financial Instruments:						
Commodity Futures Contracts – Gas	1,468	—	—	(1,415	)	53
Over the Counter Swaps – Gas and Oil	—	23,389	—	(12,312	)	11,077
Foreign Currency Contracts	—	5	—	(5	)	—
Other Investments:						
Balanced Equity Mutual Fund	38,892	—	—	—		38,892
Fixed Income Mutual Fund	54,165	—	—	—		54,165
Common Stock – Financial Services Industry	1,713	—	—	—		1,713
Hedging Collateral Deposits	1,983	—	—	—		1,983
Total	\$177,853	\$23,394	\$—	\$(13,732	)	\$187,515
Liabilities:						
Derivative Financial Instruments:						
Commodity Futures Contracts – Gas	\$1,415	\$—	\$—	\$—		