

NATIONAL FUEL GAS CO
Form 10-Q
August 08, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____
Commission File Number 1-3880**

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

New Jersey

13-1086010

(State or other jurisdiction of
incorporation or organization)

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

**6363 Main Street
Williamsville, New York**

14221

(Address of principal executive offices)

(Zip Code)

(716) 857-7000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$1 par value, outstanding at July 31, 2008: 81,475,950 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
Data-Track	Data-Track Account Services, Inc.
Distribution Corporation	National Fuel Gas Distribution Corporation
Empire	Empire State Pipeline
ESNE	Energy Systems North East, LLC
Highland	Highland Forest Resources, Inc.
Horizon	Horizon Energy Development, Inc.
Horizon LFG	Horizon LFG, Inc.
Horizon Power	Horizon Power, Inc.
Leidy Hub	Leidy Hub, Inc.
Model City	Model City Energy, LLC
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
SECI	Seneca Energy Canada Inc.
Seneca	Seneca Resources Corporation
Seneca Energy	Seneca Energy II, LLC
Supply Corporation	National Fuel Gas Supply Corporation

Regulatory Agencies

FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
NTSB	National Transportation Safety Board
NYDEC	New York State Department of Environmental Conservation
NYPSC	State of New York Public Service Commission
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission

Other

2007 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2007
ARB 51	Accounting Research Bulletin No. 51, Consolidated Financial Statements
Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Board foot	A measure of lumber and/or timber equal to 12 inches in length by 12 inches in width by one inch in thickness.
Btu	British thermal unit; the amount of heat needed to raise the temperature of one pound of water one degree Fahrenheit.
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.

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

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GLOSSARY OF TERMS (Cont.)

Exchange Act	Securities Exchange Act of 1934, as amended
Expenditures for long-lived assets	Includes capital expenditures, stock acquisitions and/or investments in partnerships.
FIN	FASB Interpretation Number
FIN 48	FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of SFAS 109
Firm transportation and/or storage	The transportation and/or storage service that a supplier of such service is obligated by contract to provide and for which the customer is obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United States of America
Goodwill	An intangible asset representing the difference between the fair value of a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes, often times through the use of derivative financial instruments.
Hub	Location where pipelines intersect enabling the trading, transportation, storage, exchange, lending and borrowing of natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service, and for which the customer does not pay unless utilized.
LIFO	Last-in, first-out
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)
MMcf	Million cubic feet (of natural gas)
Open Season	A bidding procedure used by pipelines to allocate firm transportation or storage capacity among prospective shippers, in which all bids submitted during a defined time period are evaluated as if they had been submitted simultaneously.
Proved developed reserves	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
Proved undeveloped 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.
PRP	Potentially responsible party
Reserves	The unproduced but recoverable oil and/or gas in place in a formation which has been proven by production.
Restructuring	Generally referring to partial deregulation of the utility industry by a statutory or regulatory process. Restructuring of federally regulated natural gas pipelines has resulted in the separation (or unbundling) of gas commodity service from transportation service for wholesale and large-volume retail markets. State restructuring programs attempt to extend the same process to retail mass markets.
SAR	Stock-settled stock appreciation right
SFAS	Statement of Financial Accounting Standards

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SFAS 87	Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions
SFAS 88	Statement of Financial Accounting Standards No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits
SFAS 106	Statement of Financial Accounting Standards No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions
SFAS 109	Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes

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GLOSSARY OF TERMS (Concl.)

SFAS 115	Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities
SFAS 123R	Statement of Financial Accounting Standards No. 123R, Share-Based Payment
SFAS 132R	Statement of Financial Accounting Standards No. 132R, Employers Disclosures about Pensions and Other Postretirement Benefits
SFAS 133	Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities
SFAS 141R	Statement of Financial Accounting Standards No. 141R, Business Combinations
SFAS 157	Statement of Financial Accounting Standards No. 157, Fair Value Measurements
SFAS 158	Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS 87, 88, 106, and 132R
SFAS 159	Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115
SFAS 160	Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51
SFAS 161	Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS 133
Stock acquisitions	Investments in corporations.
Unbundled service	A service that has been separated from other services, with rates charged that reflect only the cost of the separated service.
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.

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

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-Q at Item 2 MD&A, under the heading Safe Harbor for Forward-Looking Statements. Forward-looking statements are all statements other than statements of historical fact, including, without limitation, statements regarding future prospects, plans, performance and capital structure, anticipated capital expenditures, completion of construction projects, projections for pension and other post-retirement benefit obligations, impacts of the adoption of new accounting rules, and possible outcomes of litigation or regulatory proceedings, as well as statements that are identified by the use of the words anticipates, estimates, expects, forecasts, intends, plans, predicts, projects, believes, seeks, will, may, and similar expressions.

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)

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended June 30,	
	2008	2007
INCOME		
Operating Revenues	\$ 548,382	\$ 448,779
Operating Expenses		
Purchased Gas	272,893	219,075
Operation and Maintenance	102,602	90,390
Property, Franchise and Other Taxes	19,135	17,622
Depreciation, Depletion and Amortization	42,804	37,759
	437,434	364,846
Operating Income	110,948	83,933
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	1,561	926
Interest Income	3,086	1,377
Other Income	1,649	787
Interest Expense on Long-Term Debt	(19,468)	(18,226)
Other Interest Expense	(1,199)	(1,512)
Income from Continuing Operations Before Income Taxes	96,577	67,285
Income Tax Expense	36,722	26,073
Income from Continuing Operations	59,855	41,212
Income from Discontinued Operations, Net of Tax		5,586
Net Income Available for Common Stock	59,855	46,798
EARNINGS REINVESTED IN THE BUSINESS		
Balance at April 1	1,008,084	834,902
Share Repurchases	1,067,939 (17,083)	881,700

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Dividends on Common Stock (2008 - \$0.325 per share; 2007 - \$0.31 per share)	(26,479)	(25,897)
Balance at June 30	\$ 1,024,377	\$ 855,803
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$ 0.74	\$ 0.49
Income from Discontinued Operations		0.07
Net Income Available for Common Stock	\$ 0.74	\$ 0.56
Diluted:		
Income from Continuing Operations	\$ 0.72	\$ 0.48
Income from Discontinued Operations		0.07
Net Income Available for Common Stock	\$ 0.72	\$ 0.55
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	81,342,788	83,483,718
Used in Diluted Calculation	83,712,193	85,668,055

See Notes to Condensed Consolidated Financial Statements

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Table of Contents**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company
Consolidated Statements of Income and Earnings
Reinvested in the Business
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)	Nine Months Ended June 30,	
	2008	2007
INCOME		
Operating Revenues	\$ 2,002,503	\$ 1,737,537
Operating Expenses		
Purchased Gas	1,082,340	938,918
Operation and Maintenance	325,642	305,502
Property, Franchise and Other Taxes	58,206	54,562
Depreciation, Depletion and Amortization	129,337	115,561
	1,595,525	1,414,543
Operating Income	406,978	322,994
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	4,866	3,099
Interest Income	8,356	3,098
Other Income	4,982	4,028
Interest Expense on Long-Term Debt	(52,045)	(52,158)
Other Interest Expense	(4,209)	(4,877)
Income from Continuing Operations Before Income Taxes	368,928	276,184
Income Tax Expense	143,465	108,804
Income from Continuing Operations	225,463	167,380
Income from Discontinued Operations, Net of Tax		12,385
Net Income Available for Common Stock	225,463	179,765
EARNINGS REINVESTED IN THE BUSINESS		
Balance at October 1	983,776	786,013
	1,209,239	965,778
Share Repurchases	(106,647)	(34,351)
Cumulative Effect of the Adoption of FIN 48	(406)	

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Dividends on Common Stock (2008 - \$0.945 per share; 2007 - \$0.91 per share)	(77,809)	(75,624)
Balance at June 30	\$ 1,024,377	\$ 855,803
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$ 2.72	\$ 2.02
Income from Discontinued Operations		0.15
Net Income Available for Common Stock	\$ 2.72	\$ 2.17
Diluted:		
Income from Continuing Operations	\$ 2.65	\$ 1.96
Income from Discontinued Operations		0.15
Net Income Available for Common Stock	\$ 2.65	\$ 2.11
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	82,789,748	83,018,583
Used in Diluted Calculation	85,000,381	85,192,777

See Notes to Condensed Consolidated Financial Statements

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Table of Contents**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	June 30, 2008	September 30, 2007
ASSETS		
Property, Plant and Equipment	\$4,730,708	\$4,461,586
Less Accumulated Depreciation, Depletion and Amortization	1,686,616	1,583,181
	3,044,092	2,878,405
Current Assets		
Cash and Temporary Cash Investments	259,198	124,806
Cash Held in Escrow		61,964
Hedging Collateral Deposits	30,778	4,066
Receivables Net of Allowance for Uncollectible Accounts of \$35,588 and \$28,654, Respectively	302,522	172,380
Unbilled Utility Revenue	19,580	20,682
Gas Stored Underground	53,735	66,195
Materials and Supplies at average cost	33,310	35,669
Unrecovered Purchased Gas Costs	5,680	14,769
Other Current Assets	31,767	45,057
Deferred Income Taxes	84,297	8,550
	820,867	554,138
Other Assets		
Recoverable Future Taxes	83,453	83,954
Unamortized Debt Expense	14,501	12,070
Other Regulatory Assets	129,640	137,577
Deferred Charges	5,235	5,545
Other Investments	82,474	85,902
Investments in Unconsolidated Subsidiaries	16,916	18,256
Goodwill	5,476	5,476
Intangible Assets	26,839	28,836
Prepaid Pension and Post-Retirement Benefit Costs	56,926	61,006
Fair Value of Derivative Financial Instruments		9,188
Other	7,442	8,059
	428,902	455,869
Total Assets	\$4,293,861	\$3,888,412

See Notes to Condensed Consolidated Financial Statements

Table of Contents**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	June 30, 2008	September 30, 2007
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders Equity		
Common Stock, \$1 Par Value Authorized - 200,000,000 Shares; Issued and Outstanding 81,473,550 Shares and 83,461,308 Shares, Respectively	\$ 81,474	\$ 83,461
Paid in Capital	583,693	569,085
Earnings Reinvested in the Business	1,024,377	983,776
Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,689,544	1,636,322
Accumulated Other Comprehensive Loss	(105,872)	(6,203)
Total Comprehensive Shareholders Equity	1,583,672	1,630,119
Long-Term Debt, Net of Current Portion	999,000	799,000
Total Capitalization	2,582,672	2,429,119
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper		
Current Portion of Long-Term Debt	100,000	200,024
Accounts Payable	162,838	109,757
Amounts Payable to Customers	12,864	10,409
Dividends Payable	26,479	25,873
Interest Payable on Long-Term Debt	15,774	18,158
Customer Advances		22,863
Other Accruals and Current Liabilities	136,458	36,062
Fair Value of Derivative Financial Instruments	180,255	16,200
	634,668	439,346
Deferred Credits		
Deferred Income Taxes	605,818	575,356
Taxes Refundable to Customers	14,037	14,026
Unamortized Investment Tax Credit	4,866	5,392
Cost of Removal Regulatory Liability	101,251	91,226
Other Regulatory Liabilities	95,846	76,659
Post-Retirement Liabilities	60,152	70,555
Asset Retirement Obligations	74,653	75,939
Other Deferred Credits	119,898	110,794

1,076,521 1,019,947

Commitments and Contingencies

Total Capitalization and Liabilities

\$4,293,861 \$3,888,412

See Notes to Condensed Consolidated Financial Statements

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Table of Contents**Item 1. Financial Statements (Cont.)**

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

(Thousands of Dollars)	Nine Months Ended June 30,	
	2008	2007
OPERATING ACTIVITIES		
Net Income Available for Common Stock	\$ 225,463	\$ 179,765
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	129,337	125,986
Deferred Income Taxes	27,603	27,107
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	1,340	(1,486)
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(16,275)	(13,689)
Other	(1,120)	4,722
Change in:		
Hedging Collateral Deposits	(26,712)	16,276
Receivables and Unbilled Utility Revenue	(129,102)	(43,733)
Gas Stored Underground and Materials and Supplies	14,819	34,725
Unrecovered Purchased Gas Costs	9,089	12,970
Prepayments and Other Current Assets	17,370	30,685
Accounts Payable	53,081	(12,560)
Amounts Payable to Customers	2,455	(4,738)
Customer Advances	(22,863)	(29,417)
Other Accruals and Current Liabilities	94,031	77,842
Other Assets	19,178	918
Other Liabilities	17,373	(821)
Net Cash Provided by Operating Activities	415,067	404,552
INVESTING ACTIVITIES		
Capital Expenditures	(264,728)	(206,509)
Investment in Partnership		(3,300)
Cash Held in Escrow	58,397	
Net Proceeds from Sale of Oil and Gas Producing Properties	5,675	5,137
Other	(3,414)	(1,072)
Net Cash Used in Investing Activities	(204,070)	(205,744)
FINANCING ACTIVITIES		
Excess Tax Benefits Associated with Stock-Based Compensation Awards	16,275	13,689
Shares Repurchased under Repurchase Plan	(129,592)	(43,344)

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Net Proceeds from Issuance of Long-Term Debt	296,655	
Reduction of Long-Term Debt	(200,024)	(119,550)
Dividends Paid on Common Stock	(77,204)	(74,748)
Net Proceeds from Issuance of Common Stock	17,285	16,819
Net Cash Used in Financing Activities	(76,605)	(207,134)
Effect of Exchange Rates on Cash		1,245
Net Increase (Decrease) in Cash and Temporary Cash Investments	134,392	(7,081)