

NATIONAL FUEL GAS CO

Form 10-Q

May 08, 2007

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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 March 31, 2007

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. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 April 30, 2007: 83,475,537 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

2006 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2006
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

Derivative	65 degrees Fahrenheit. 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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Table of Contents**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)
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 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.
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
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
SFAS 115	Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities

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GLOSSARY OF TERMS (Concl.)

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 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
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.
WNC	Weather normalization clause; a clause in utility rates which adjusts customer rates to allow a utility to recover its normal operating costs calculated at normal temperatures. If temperatures during the measured period are warmer than normal, customer rates are adjusted upward in order to recover projected operating costs. If temperatures during the measured period are colder than normal, customer rates are adjusted downward so that only the projected operating costs will be recovered.

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The Company has nothing to report under this item.

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

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, those statements that are designated with an asterisk (*) following the statement, as well as those statements that are identified by the use of the words anticipates, estimates, expects, intends, plans, predicts, 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 March 31,	
	2007	2006
INCOME		
Operating Revenues	\$ 812,156	\$ 890,981
Operating Expenses		
Purchased Gas	476,904	566,540
Operation and Maintenance	125,539	121,076
Property, Franchise and Other Taxes	20,233	20,120
Depreciation, Depletion and Amortization	42,061	44,278
	664,737	752,014
Operating Income	147,419	138,967
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	942	720
Interest Income	885	965
Other Income	2,526	248
Interest Expense on Long-Term Debt	(17,888)	(18,149)
Other Interest Expense	(1,516)	(1,465)
Income Before Income Taxes	132,368	121,286
Income Tax Expense	53,921	42,692
Net Income Available for Common Stock	78,447	78,594
EARNINGS REINVESTED IN THE BUSINESS		
Balance at December 31	781,728	845,951
	860,175	924,545
Share Repurchases	333	22,619
Dividends on Common Stock (2007 - \$0.30; 2006 - \$0.29)	24,940	24,327
Balance at March 31	\$ 834,902	\$ 877,599

Earnings Per Common Share:

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Basic:			
Net Income Available for Common Stock	\$	0.95	\$ 0.93
Diluted:			
Net Income Available for Common Stock	\$	0.92	\$ 0.91
Weighted Average Common Shares Outstanding:			
Used in Basic Calculation		82,895,087	84,346,733
Used in Diluted Calculation		85,033,127	86,253,597

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)	Six Months Ended March 31,	
	2007	2006
INCOME		
Operating Revenues	\$ 1,316,396	\$ 1,601,737
Operating Expenses		
Purchased Gas	719,843	1,003,317
Operation and Maintenance	224,913	224,704
Property, Franchise and Other Taxes	37,345	37,302
Depreciation, Depletion and Amortization	84,886	87,324
	1,066,987	1,352,647
Operating Income	249,409	249,090
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	2,173	1,985
Interest Income	2,248	2,098
Other Income	3,241	989
Interest Expense on Long-Term Debt	(33,931)	(36,367)
Other Interest Expense	(3,366)	(3,240)
Income Before Income Taxes	219,774	214,555
Income Tax Expense	86,807	78,542
Net Income Available for Common Stock	132,967	136,013
EARNINGS REINVESTED IN THE BUSINESS		
Balance at October 1	786,013	813,020
	918,980	949,033
Share Repurchases	34,351	22,619
Dividends on Common Stock (2007 - \$0.60; 2006 - \$0.58)	49,727	48,815
Balance at March 31	\$ 834,902	\$ 877,599
Earnings Per Common Share:		
Basic:		

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Net Income Available for Common Stock	\$	1.61	\$	1.61
Diluted:				
Net Income Available for Common Stock	\$	1.57	\$	1.58
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation		82,786,027		84,385,140
Used in Diluted Calculation		84,891,742		86,256,515

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)

	March 31, 2007	September 30, 2006
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$ 4,820,700	\$ 4,703,040
Less Accumulated Depreciation, Depletion and Amortization	1,893,449	1,825,314
	2,927,251	2,877,726
Current Assets		
Cash and Temporary Cash Investments	121,809	69,611
Hedging Collateral Deposits	2,034	19,676
Receivables Net of Allowance for Uncollectible Accounts of \$44,471 and \$31,427, Respectively	335,666	144,254
Unbilled Utility Revenue	58,850	25,538
Gas Stored Underground	17,021	59,461
Materials and Supplies at average cost	31,853	36,693
Unrecovered Purchased Gas Costs	13,962	12,970
Prepaid Pension and Post-Retirement Benefit Costs	68,483	64,125
Other Current Assets	30,700	63,723
Deferred Income Taxes	23,951	23,402
	704,329	519,453
Other Assets		
Recoverable Future Taxes	79,177	79,511
Unamortized Debt Expense	14,482	15,492
Other Regulatory Assets	85,427	76,917
Deferred Charges	5,234	3,558
Other Investments	80,866	88,414
Investments in Unconsolidated Subsidiaries	15,850	11,590
Goodwill	5,476	5,476
Intangible Assets	30,423	31,498
Fair Value of Derivative Financial Instruments	1,866	11,305
Deferred Income Taxes	4,627	9,003
Other	6,010	4,388
	329,438	337,152
Total Assets	\$ 3,961,018	\$ 3,734,331

See Notes to Condensed Consolidated Financial Statements

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

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	March 31, 2007	September 30, 2006
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders Equity		
Common Stock, \$1 Par Value Authorized 200,000,000 Shares; Issued And Outstanding 83,132,149 Shares and 83,402,670 Shares, Respectively	\$ 83,132	\$ 83,403
Paid in Capital	565,809	543,730
Earnings Reinvested in the Business	834,902	786,013
 Total Common Shareholder Equity Before Items of Other Comprehensive Income	 1,483,843	 1,413,146
Accumulated Other Comprehensive Income	21,733	30,416
 Total Comprehensive Shareholders Equity	 1,505,576	 1,443,562
Long-Term Debt, Net of Current Portion	999,000	1,095,675
 Total Capitalization	 2,504,576	 2,539,237
 Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper		
Current Portion of Long-Term Debt	96,393	22,925
Accounts Payable	166,990	133,034
Amounts Payable to Customers	10,596	23,935
Dividends Payable	24,927	25,008
Interest Payable on Long-Term Debt	18,419	18,420
Other Accruals and Current Liabilities	176,307	27,040
Fair Value of Derivative Financial Instruments	32,122	39,983
	525,754	290,345
 Deferred Credits		
Deferred Income Taxes	556,115	544,502
Taxes Refundable to Customers	10,433	10,426
Unamortized Investment Tax Credit	5,743	6,094
Cost of Removal Regulatory Liability	87,986	85,076
Other Regulatory Liabilities	70,842	75,456
Post-Retirement Liabilities	26,953	32,918
Asset Retirement Obligations	79,609	77,392
Other Deferred Credits	93,007	72,885

930,688

904,749

Commitments and Contingencies

Total Capitalization and Liabilities

\$3,961,018

\$3,734,331

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 Cash Flows
(Unaudited)

(Thousands of Dollars)	Six Months Ended March 31,	
	2007	2006
OPERATING ACTIVITIES		
Net Income Available for Common Stock	\$ 132,967	\$ 136,013
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	84,886	87,324
Deferred Income Taxes	21,803	(1,435)
(Income) Loss from Unconsolidated Subsidiaries, Net of Cash Distributions	(960)	1,166
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(13,689)	(6,515)
Other	3,818	(5,297)
Change in:		
Hedging Collateral Deposits	17,642	60,894
Receivables and Unbilled Utility Revenue	(225,511)	(249,466)
Gas Stored Underground and Materials and Supplies	47,243	33,486
Unrecovered Purchased Gas Costs	(992)	14,817
Prepayments and Other Current Assets	28,659	24,372
Accounts Payable	34,417	(9,951)
Amounts Payable to Customers	(13,339)	11,492
Other Accruals and Current Liabilities	163,928	139,020
Other Assets	(3,765)	(11,837)
Other Liabilities	(2,434)	19,107
Net Cash Provided by Operating Activities	274,673	243,190
INVESTING ACTIVITIES		
Capital Expenditures	(132,313)	(134,961)
Investment in Partnership	(3,300)	
Net Proceeds from Sale of Oil and Gas Producing Properties	2,330	4
Other	(339)	(1,396)
Net Cash Used in Investing Activities	(133,622)	(136,353)
FINANCING ACTIVITIES		
Excess Tax Benefits Associated with Stock-Based Compensation Awards	13,689	6,515
Shares Repurchased under Repurchase Plan	(43,344)	(26,577)
Reduction of Long-Term Debt	(23,207)	(4,529)
Dividends Paid on Common Stock	(49,808)	(48,933)
Net Proceeds from Issuance of Common Stock	14,604	7,164

Net Cash Used in Financing Activities	(88,066)	(66,360)
Effect of Exchange Rates on Cash	(787)	15
Net Increase in Cash and Temporary Cash Investments	52,198	40,492
Cash and Temporary Cash Investments at October 1	69,611	57,607
Cash and Temporary Cash Investments at March 31	\$ 121,809	\$ 98,099

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 Comprehensive Income
(Unaudited)

(Thousands of Dollars)	Three Months Ended March 31,	
	2007	2006
Net Income Available for Common Stock	\$ 78,447	\$ 78,594
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	1,223	(991)
Minimum Pension Liability Adjustment	(320)	
Unrealized Gain on Securities Available for Sale Arising During the Period	483	1,121
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(20,456)	21,618
Reclassification Adjustment for Realized (Gains) Losses on Derivative Financial Instruments in Net Income	(958)	25,794
Other Comprehensive Income (Loss), Before Tax	(20,028)	47,542
Income Tax Benefit Related to Minimum Pension Liability Adjustment	(121)	
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	209	392
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(8,494)	8,334
Reclassification Adjustment for Income Tax (Expense) Benefit on Realized (Gains) Losses from Derivative Financial Instruments In Net Income	(364)	10,000
Income Taxes Net	(8,770)	18,726
Other Comprehensive Income (Loss)	(11,258)	28,816
Comprehensive Income	\$ 67,189	\$ 107,410

(Thousands of Dollars)	Six Months Ended March 31,	
	2007	2006
Net Income Available for Common Stock	\$ 132,967	\$ 136,013
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	(3,645)	(736)
Minimum Pension Liability Adjustment	(320)	
Unrealized Gain on Securities Available for Sale Arising During the Period	1,274	2,263
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(10,955)	62,615

Reclassification Adjustment for Realized Losses on Deri