NATIONAL FUEL GAS CO
Form 10-K
November 16, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2018
¨ 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
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share, and Common Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically 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 þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	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 Act). Yes ¨ No þ

The aggregate market value of the voting stock held by nonaffiliates of the registrant amounted to $4,333,193,000 as of March 31, 2018.

Common Stock, par value $1.00 per share, outstanding as of October 31, 2018: 85,963,834 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days of September 30, 2018, are incorporated by reference into Part III of this report.

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 (formerly National Fuel Gas Midstream Corporation) *
National Fuel National Fuel Gas Company
NFR National Fuel Resources, Inc.
Registrant National Fuel Gas Company
Seneca Seneca Resources Company, LLC (formerly Seneca Resources Corporation) *
Supply Corporation National Fuel Gas Supply Corporation
* Effective August 1, 2018, the Company converted Seneca Resources Corporation and National Fuel Gas Midstream Corporation to limited liability companies (LLCs) for tax purposes. Both LLCs are wholly owned by a newly formed subsidiary named Pennsylvania Gas Holdings Corporation which in turn is wholly owned by the Company.
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
PHMSA Pipeline and Hazardous Materials Safety Administration
SEC Securities and Exchange Commission
Other
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 pays Supply Corporation and/or Empire for gas the customer receives in excess of amounts delivered into Supply Corporation’s and Empire’s systems by the customer’s shipper.
Degree day A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative A financial instrument or other contract, the terms of which include an underlying variable (a price, interest rate, index rate, exchange rate, or other variable) and a notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or

contract. Examples include futures contracts, options, no cost collars and swaps.
Development costs Costs incurred to obtain access to proved oil and gas reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas.
Development well A well drilled to a known producing formation in a previously discovered field.
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.
Exploitation Development of a field, including the location, drilling, completion and equipment of wells necessary to produce the commercially recoverable oil and gas in the field.
Exploration costs Costs incurred in identifying areas that may warrant examination, as well as costs incurred in examining specific areas, including drilling exploratory wells.
FERC 7(c) application An application to the FERC under Section 7(c) of the federal Natural Gas Act for authority to construct, operate (and provide services through) facilities to transport or store natural gas in interstate commerce.
Exploratory well A well drilled in unproven or semi-proven territory for the purpose of ascertaining the presence underground of a commercial hydrocarbon deposit.
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 dekatherm of natural gas)
MMcf Million cubic feet (of natural gas)
MMcfe Million cubic feet equivalent
NEPA National Environmental Policy Act of 1969, as amended

NGA The Natural Gas Act of 1938, as amended; the federal law regulating interstate natural gas pipeline and storage companies, among other things, codified beginning at 15 U.S.C. Section 717.
NYMEX New York Mercantile Exchange. An exchange which maintains a futures market for crude oil and natural gas.
Open Season A bidding procedure used by pipelines to allocate firm transportation or storage capacity among prospective shippers, in which all bids submitted during a defined time period are evaluated as if they had been submitted simultaneously.
PCB Polychlorinated Biphenyl
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 those reserves productive.
PRP Potentially responsible party
Reliable technology Technology that a company may use to establish reserves estimates and categories that has been proven empirically to lead to correct conclusions.
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 pipeline and/or utility industry by statutory or regulatory process. Restructuring of federally regulated natural gas pipelines 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.

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 Ratings 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.
Spot gas purchases The purchase of natural gas on a short-term basis.
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.
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.

For the Fiscal Year Ended September 30, 2018
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PART I

Item 1 Business

The Company and its Subsidiaries

National Fuel Gas Company (the Registrant), incorporated in 1902, is a holding company organized under the laws of the State of New Jersey. Except as otherwise indicated below, the Registrant owns directly or indirectly all of the outstanding securities of its subsidiaries. Reference to “the Company” in this report means the Registrant, the Registrant and its subsidiaries or the Registrant’s subsidiaries as appropriate in the context of the disclosure. Also, all references to a certain year in this report relate to the Company’s fiscal year ended September 30 of that year unless otherwise noted.

The Company is a diversified energy company engaged principally in the production, gathering, transportation, distribution and marketing of natural gas. The Company operates an integrated business, with assets centered in western New York and Pennsylvania, being used for, and benefiting from, the production and transportation of natural gas from the Appalachian basin. Current development activities are focused in the Marcellus and Utica Shales, geological shale formations that are present nearly a mile or more below the surface in the Appalachian region of the United States. The common geographic footprint of the Company’s subsidiaries enables them to share management, labor, facilities and support services across various businesses and pursue coordinated projects designed to produce and transport natural gas from the Appalachian basin to markets in Canada and the eastern United States. The Company also develops and produces oil reserves, primarily in California. The Company reports financial results for five business segments: Exploration and Production, Pipeline and Storage, Gathering, Utility, and Energy Marketing.

1. The Exploration and Production segment operations are carried out by Seneca Resources Company, LLC (Seneca), a Pennsylvania limited liability company. Seneca is engaged in the exploration for, and the development and production of, natural gas and oil reserves in California and in the Appalachian region of the United States. At September 30, 2018, Seneca had U.S. proved developed and undeveloped reserves of 27,663 Mbbl of oil and 2,357,342 MMcf of natural gas.
2. The Pipeline and Storage segment operations are carried out by National Fuel Gas Supply Corporation (Supply Corporation), a Pennsylvania corporation, and Empire Pipeline, Inc. (Empire), a New York corporation. Supply Corporation provides interstate natural gas transportation and storage services for affiliated and nonaffiliated companies through (i) an integrated gas pipeline system extending from southwestern Pennsylvania to the New York-Canadian border at the Niagara River and eastward to Ellisburg and Leidy, Pennsylvania, and (ii) 28 underground natural gas storage fields owned and operated by Supply Corporation as well as three other underground natural gas storage fields owned and operated jointly with other interstate gas pipeline companies. Empire transports and stores natural gas for major industrial companies, utilities (including Distribution Corporation) and power producers in New York State. Empire also transports natural gas for natural gas marketers along with exploration and production companies from natural gas producing areas in Pennsylvania to markets in New York and to interstate pipeline delivery points for additional markets in the northeastern United States and Canada. Empire owns the Empire Pipeline, a 266-mile pipeline system comprising four principal components: a 157-mile pipeline that extends from the United States/Canadian border at the Niagara River near Buffalo, New York to near Syracuse, New York; a 77-mile pipeline extension from near Rochester, New York to an interconnection with the unaffiliated Millennium Pipeline near Corning, New York (the Empire Connector), a 15-mile pipeline extension from Corning into Tioga County, Pennsylvania (the Tioga County Extension) and a 17-mile pipeline extension between Empire's pipeline system and Supply Corporation's system at Tuscarora, New York.
3. The Gathering segment operations are carried out by wholly-owned subsidiaries of National Fuel Gas Midstream Company, LLC (Midstream Company), a Pennsylvania limited liability company. Through these subsidiaries, Midstream Company builds, owns and operates natural gas processing and pipeline gathering facilities in the Appalachian region.
4. The Utility segment operations are carried out by National Fuel Gas Distribution Corporation (Distribution Corporation), a New York corporation. Distribution Corporation sells natural gas or provides natural gas

transportation services to approximately 750,200 customers through a local distribution system located in western New York and northwestern Pennsylvania. The principal metropolitan areas served by Distribution Corporation include Buffalo, Niagara Falls and Jamestown, New York and Erie and Sharon, Pennsylvania.

5. The Energy Marketing segment operations are carried out by National Fuel Resources, Inc. (NFR), a New York corporation, which markets natural gas to industrial, wholesale, commercial, public authority and residential customers primarily in western and central New York and northwestern Pennsylvania, offering competitively priced natural gas for its customers.

Financial information about each of the Company’s business segments can be found in Item 7, MD&A and also in Item 8 at Note J — Business Segment Information.

Seneca’s Northeast Division is included in the Company's All Other Category. This division markets timber from Appalachian land holdings. At September 30, 2018, the Company owned approximately 94,000 acres of timber property and managed approximately 3,000 additional acres of timber cutting rights.

No single customer, or group of customers under common control, accounted for more than 10% of the Company’s consolidated revenues in 2018.

Rates and Regulation

The Utility segment’s rates, services and other matters are regulated by the NYPSC with respect to services provided within New York and by the PaPUC with respect to services provided within Pennsylvania. For additional discussion of the Utility segment’s rates and regulation, see Item 7, MD&A under the heading “Rate and Regulatory Matters” and Item 8 at Note A — Summary of Significant Accounting Policies (Regulatory Mechanisms) and Note C — Regulatory Matters.

The Pipeline and Storage segment’s rates, services and other matters are regulated by the FERC. For additional discussion of the Pipeline and Storage segment’s rates and regulation, see Item 7, MD&A under the heading “Rate and Regulatory Matters” and Item 8 at Note A — Summary of Significant Accounting Policies (Regulatory Mechanisms) and Note C — Regulatory Matters.

The discussion under Item 8 at Note C — Regulatory Matters includes a description of the regulatory assets and liabilities reflected on the Company’s Consolidated Balance Sheets in accordance with applicable accounting standards. To the extent that the criteria set forth in such accounting standards are not met by the operations of the Utility segment or the Pipeline and Storage segment, as the case may be, the related regulatory assets and liabilities would be eliminated from the Company’s Consolidated Balance Sheets and such accounting treatment would be discontinued.

In addition, the Company and its subsidiaries are subject to the same federal, state and local regulations on various subjects, including environmental matters, to which other companies doing similar business in the same locations are subject.

The Exploration and Production Segment

The Exploration and Production segment contributed approximately 46.1% of the Company's 2018 net income available for common stock.

Additional discussion of the Exploration and Production segment appears below in this Item 1 under the headings “Sources and Availability of Raw Materials” and “Competition: The Exploration and Production Segment,” in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Pipeline and Storage Segment

The Pipeline and Storage segment contributed approximately 24.8% of the Company's 2018 net income available for common stock.

Supply Corporation’s firm transportation capacity is subject to change as the market identifies different transportation paths and receipt/delivery point combinations. At the end of fiscal year 2018, Supply Corporation had firm transportation service agreements and leases for approximately 3,187 MDth per day (contracted transportation capacity). The Utility segment accounts for approximately 1,124 MDth per day or 35% of contracted transportation capacity, and the Energy Marketing and Exploration and Production segments represent another 165 MDth per day or 5%. Additionally, Supply Corporation leases 55 MDth per day or 2% of its firm transportation capacity to Empire. The remaining 1,843 MDth or 58% is subject to firm contracts or leases with nonaffiliated customers. Contracted transportation capacity with both affiliated and nonaffiliated shippers is expected to remain relatively constant in fiscal 2019.

Supply Corporation had service agreements and leases for all of its firm storage capacity, totaling 71,938 MDth, at the end of 2018. The Utility segment has contracted for 28,491 MDth or 40% of the total firm storage capacity, and the Energy Marketing segment accounts for another 2,644 MDth or 4%. Additionally, Supply Corporation leases 3,753 MDth or 5% of its firm storage capacity to Empire. Nonaffiliated customers have contracted for the remaining 37,050 MDth or 51%. Supply Corporation expects several contracted storage services to terminate and be remarketed in fiscal 2019 totaling approximately 2,000 MDth.

At the end of fiscal 2018, Empire had service agreements in place for firm transportation capacity totaling up to approximately 978 MDth per day, with 95% of that capacity contracted as long-term, full-year deals. The Utility segment accounted for 4% of Empire’s firm contracted capacity, with the remaining 96% subject to contracts with nonaffiliated customers. Empire expects several contracted firm transportation services to terminate and be remarketed in fiscal 2019 totaling approximately 153 MDth per day.

Empire’s firm storage capacity, totaling 3,753 MDth, was fully contracted at the end of fiscal 2018. The total storage capacity is contracted on a long-term basis, with a nonaffiliated customer. The contract will not expire or terminate in fiscal 2019.

The majority of Supply Corporation’s transportation and storage contracts, and the majority of Empire’s transportation contracts, allow either party to terminate the contract upon six or twelve months’ notice effective at the end of the primary term, and include “evergreen” language that allows for annual term extension(s). Empire's storage contract contains similar termination and "evergreen" language.

Additional discussion of the Pipeline and Storage segment appears below under the headings “Sources and Availability of Raw Materials,” “Competition: The Pipeline and Storage Segment” and “Seasonality,” in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Gathering Segment

The Gathering segment contributed approximately 21.3% of the Company's 2018 net income available for common stock.

Additional discussion of the Gathering segment appears below under the headings “Sources and Availability of Raw Materials” and “Competition: The Gathering Segment,” in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Utility Segment

The Utility segment contributed approximately 13.1% of the Company's 2018 net income available for common stock.

Additional discussion of the Utility segment appears below under the headings “Sources and Availability of Raw Materials,” “Competition: The Utility Segment” and “Seasonality,” in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Energy Marketing Segment

The Energy Marketing segment contributed approximately 0.1% of the Company's 2018 net income available for common stock.

Additional discussion of the Energy Marketing segment appears below under the headings “Sources and Availability of Raw Materials,” “Competition: The Energy Marketing Segment” and “Seasonality,” in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

All Other Category and Corporate Operations

The All Other category and Corporate operations incurred a net loss in 2018. The impact of this net loss in relation to the Company's 2018 net income available for common stock was negative 5.4%.

Additional discussion of the All Other category and Corporate operations appears below in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

Sources and Availability of Raw Materials

The Exploration and Production segment seeks to discover and produce raw materials (natural gas, oil and hydrocarbon liquids) as further described in this report in Item 7, MD&A and Item 8 at Note J — Business Segment Information and Note L — Supplementary Information for Oil and Gas Producing Activities.

The Pipeline and Storage segment transports and stores natural gas owned by its customers, whose gas originates in the southwestern, mid-continent and Appalachian regions of the United States as well as in Canada. Additional discussion of proposed pipeline projects appears below under “Competition: The Pipeline and Storage Segment” and in Item 7, MD&A.

The Gathering segment gathers, processes and transports natural gas that is produced by Seneca in the Appalachian region of the United States. Additional discussion of proposed gathering projects appears below in Item 7, MD&A.

Natural gas is the principal raw material for the Utility segment. In 2018, the Utility segment purchased 74.5 Bcf of gas (including 70.0 Bcf for delivery to retail customers, 0.1 Bcf for off-system sales and 4.4 Bcf used in operations). Gas purchased from producers and suppliers in the United States under firm contracts (seasonal and longer) accounted for 52% of these purchases. Purchases of gas on the spot market (contracts of one month or less) accounted for 48% of the Utility segment’s 2018 purchases. Purchases from DTE Energy Trading, Inc. (31%), NextEra Energy Marketing, LLC (12%), SWN Energy Services Company, LLC (11%), South Jersey Resources Group, LLC (10%), Shell Energy North America US (7%) and Direct Energy Business Marketing (5%) accounted for 76% of the Utility’s 2018 gas purchases. No other producer or supplier provided the Utility segment with more than 5% of its gas requirements in 2018.

The Energy Marketing segment depends on an adequate supply of natural gas to deliver to its customers. In 2018, this segment purchased 42.8 Bcf of gas, including 42.3 Bcf for delivery to its customers. The remaining 0.5 Bcf largely represents gas used in operations. The gas purchased by the Energy Marketing segment originates primarily in either the Appalachian or mid-continent regions of the United States.

Competition

Competition in the natural gas industry exists among providers of natural gas, as well as between natural gas and other sources of energy, such as fuel oil and electricity. Management believes that the environmental advantages of natural gas have enhanced its competitive position relative to other fuels.

The Company competes on the basis of price, service and reliability, product performance and other factors. Sources and providers of energy, other than those described under this “Competition” heading, do not compete with the Company to any significant extent.

Competition: The Exploration and Production Segment

The Exploration and Production segment competes with other oil and natural gas producers and marketers with respect to sales of oil and natural gas. The Exploration and Production segment also competes, by competitive bidding and otherwise, with other oil and natural gas producers with respect to exploration and development prospects and mineral leaseholds.

To compete in this environment, Seneca originates and acts as operator on its prospects, seeks to minimize the risk of exploratory efforts through partnership-type arrangements, utilizes technology for both exploratory studies and drilling operations, and seeks market niches based on size, operating expertise and financial criteria.

Competition: The Pipeline and Storage Segment

Supply Corporation competes for market growth in the natural gas market with other pipeline companies transporting gas in the northeast United States and with other companies providing gas storage services. Supply Corporation has some unique characteristics which enhance its competitive position, as described below. Most of Supply Corporation's facilities are in or near areas overlying the Marcellus and Utica Shale production areas in Pennsylvania, and it has established interconnections with producers and other pipelines to access these supplies. Its facilities are also located adjacent to the Canadian border at the Niagara River providing access to markets in Canada and, through TransCanada Pipeline, to markets in the northeastern and midwestern United States. Supply Corporation has developed and placed into service a number of pipeline expansion projects to transport natural gas to key markets within New York and Pennsylvania, the northeastern United States, Canada, and most recently to long-haul pipelines moving gas into the U.S. Midwest and even back to the gulf coast. For further discussion of Pipeline and Storage projects, refer to Item 7, MD&A under the headings "Investing Cash Flow."

Empire competes for market growth in the natural gas market with other pipeline companies transporting gas in the northeast United States and upstate New York in particular. Empire is well situated to provide transportation of Appalachian-sourced gas as well as gas received at the Niagara River at Chippawa. Empire's location provides it the opportunity to compete for an increased share of the gas transportation markets both for delivery to the New York and Northeast markets and from and into Canada. The Empire Connector and other projects expanded Empire's natural gas pipeline and enables Empire to serve new markets in New York and elsewhere in the Northeast, and to attach to prolific Marcellus and Utica supplies principally from Tioga and Bradford Counties in Pennsylvania. Like Supply Corporation, Empire's expanded system facilitates transportation of Marcellus Shale gas to key markets within New York State, the northeastern United States and Canada.

Competition: The Gathering Segment

The Gathering segment provides gathering services for Seneca's production and competes with other companies that gather and process natural gas in the Appalachian region.

Competition: The Utility Segment

With respect to gas commodity service, in New York and Pennsylvania, both of which have implemented "unbundling" policies that allow customers to choose their gas commodity supplier, Distribution Corporation has retained a substantial majority of small sales customers. In New York, approximately 17%, and in Pennsylvania, approximately 14%, of Distribution Corporation's small-volume residential and commercial customers purchase their supplies from unregulated marketers. In contrast, almost all large-volume load is served by unregulated retail marketers. However, retail competition for gas commodity service does not pose an acute competitive threat for Distribution Corporation, because in both jurisdictions, utility cost of service is recovered through rates and charges for gas delivery service, not gas commodity service.

Competition for transportation service to large-volume customers continues with local producers or pipeline companies attempting to sell or transport gas directly to end-users located within the Utility segment's service territories without use of the utility's facilities (i.e., bypass). In addition, while competition with fuel oil suppliers exists, recent commodity pricing has enhanced the competitive position of natural gas.

The Utility segment competes in its most vulnerable markets (the large commercial and industrial markets) by offering unbundled, flexible, high quality services. The Utility segment continues to develop programs promoting new uses of natural gas.

Competition: The Energy Marketing Segment

The Energy Marketing segment competes with other marketers of natural gas and with other providers of energy supply. Competition in this area is well developed with regard to price and services from local, regional and national marketers.

Seasonality

Variations in weather conditions can materially affect the volume of natural gas delivered by the Utility segment, as virtually all of its residential and commercial customers use natural gas for space heating. The effect that this has on Utility segment margins in New York is mitigated by a WNC, which covers the eight-month period from October through May. Weather that is warmer than normal results in an upward adjustment to customers' current bills, while weather that is colder than normal results in a downward adjustment, so that in either case projected operating costs calculated at normal temperatures will be recovered.

Volumes transported and stored by Supply Corporation and volumes transported by Empire may vary materially depending on weather, without materially affecting the revenues of those companies. Supply Corporation's and Empire's allowed rates are based on a straight fixed-variable rate design which allows recovery of fixed costs in fixed monthly reservation charges. Variable charges based on volumes are designed to recover only the variable costs associated with actual transportation or storage of gas.

Variations in weather conditions materially affect the volume of gas consumed by customers of the Energy Marketing segment. Volume variations have a corresponding impact on revenues within this segment.

Capital Expenditures

A discussion of capital expenditures by business segment is included in Item 7, MD&A under the heading "Investing Cash Flow."

Environmental Matters

A discussion of material environmental matters involving the Company is included in Item 7, MD&A under the heading "Environmental Matters" and in Item 8, Note I — Commitments and Contingencies.

Miscellaneous

The Company and its wholly owned or majority-owned subsidiaries had a total of 2,105 full-time employees at September 30, 2018.

The Company has agreements in place with collective bargaining units in New York and Pennsylvania. Agreements covering employees in collective bargaining units in New York are scheduled to expire in February 2021. Agreements covering employees in collective bargaining units in Pennsylvania are scheduled to expire in April 2022.

The Utility segment has numerous municipal franchises under which it uses public roads and certain other rights-of-way and public property for the location of facilities. When necessary, the Utility segment renews such franchises.