

NATIONAL FUEL GAS CO
Form DEF 14A
January 22, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
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NATIONAL FUEL GAS COMPANY

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- x No fee required.
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NATIONAL FUEL GAS COMPANY

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Stockholders

to be held on

March 10, 2016

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WHY YOUR VOTE IS IMPORTANT

Q: Who is asking for my vote and why am I receiving this document?

A: The Board asks that you vote on the matters listed in the Notice of Annual Meeting, which are more fully described in this Proxy Statement. This Proxy Statement is a document that Securities and Exchange Commission regulations require that we give you when we ask you to sign a proxy designating individuals to vote on your behalf. A proxy, if duly executed and not revoked, will be voted and, if it contains any specific instructions, will be voted in accordance with those instructions.

Q: How many shares are not voted at the Annual Meeting on non-routine matters (like the advisory vote on executive compensation and proposals other than the ratification of accountant)?

A: **20% of all shares were not voted** last year at our Annual Meeting on non-routine matters. **YOU MUST TELL YOUR BROKER HOW TO VOTE YOUR SHARES.** Since 2010, brokers have not been able to vote customer shares on non-routine matters. As you can see, this has disenfranchised a significant group of our stockholders.

Q: How can I vote?

A: There are four ways to vote by proxy:

Vote by Phone by calling 1-800-690-6903: You will need information from your proxy card to vote; have it available and follow the instructions provided.

Vote by scanning the Quick Response Code or QR Code on the Proxy card: By accessing the QR site through the proxy card you can vote your shares.

Vote by Internet by going to www.proxyvote.com: You will need information from your proxy card to vote; have it available and follow the instructions provided.

Vote by Mail: Complete and return the separate enclosed proxy card in the prepaid and addressed envelope.

You may also vote in person at the Annual Meeting. However, if you are the beneficial owner of the shares, you must obtain a legal proxy from the stockholder of record, usually your bank or broker, and bring it with you. A legal proxy identifies you, states the number of shares you own, and gives you the right to vote those shares. Without a legal proxy we cannot identify you as the owner, and will not know how many shares you have to vote.

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PLEASE VOTE BY PHONE, BY QR CODE OR BY INTERNET, OR COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD.

Table of Contents**2016 Proxy Statement Overview & Summary**

This overview and summary includes certain business performance information and highlights information contained elsewhere in this proxy statement. This overview and summary does not contain all of the information that you should consider, and you should read the Company's Summary Annual Report and Form 10-K and this entire proxy statement carefully before voting.

Annual Meeting Voting Matters

The table below summarizes the matters that will be subject to the vote of stockholders at the 2016 Annual Meeting of Stockholders of National Fuel Gas Company:

Proposals	Board Vote	Page Number
	Recommendation	(for additional details)
1. Election of Directors	FOR ALL NOMINEES	Page 4
2. Advisory Approval of Named Executive Officer Compensation	FOR	Page 59
3. Amendment and Reapproval of the 2009 Non-Employee Director Equity Compensation Plan	FOR	Page 65
4. Ratification of Auditor	FOR	Page 67
5. Stockholder Proposal	AGAINST	Page 68

Annual Meeting of Stockholders

Ø Time and Date	March 10, 2016 at 9:30 a.m. local time
Ø Location	The Ritz-Carlton Golf Resort, Naples 2600 Tiburón Drive, Naples, FL 34109
Ø Record Date	January 11, 2016
Ø Voting Details	Stockholders as of the record date are entitled to one vote for each share of common stock for each director nominee and each other proposal to be voted.
Ø Voting Deadline	Votes must be received by March 9, 2016. <u>For stock that is held in employee benefit plans</u> votes must be received by March 8, 2016.
Ø Attending the Meeting	National Fuel stockholders as of the record date are entitled to attend the annual meeting. In accordance with our security procedures, all persons attending the annual meeting may be asked for picture identification and proof of stock ownership. Please see Attending the Meeting on page 2.

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Overview of Business Performance and Long-Term Strategic Initiatives

Fiscal 2015 was a challenging year for both the Company and the energy industry. Accounting rules required that we record a series of non-cash write-downs of our oil and gas properties in the Exploration & Production segment due to low commodity prices. Those non-cash write-downs resulted in a net loss for the year. Nonetheless, we had a successful year operationally as we positioned the Company for the longer term.

The low commodity price environment, while depressing financial results in the short-term, presents an opportunity to capitalize on the strategic geographic location of our Pipeline and Storage segment between Appalachian production and Canadian, Midwest and East Coast consumers. Our strategy is to grow the earnings and cash flows of our midstream businesses while ultimately allowing Seneca Resources Corporation (Seneca), our exploration and production subsidiary, to sell its low-cost Appalachian production in higher priced markets.

2015 Financial and Operating Highlights:

45th Year of Consecutive Dividend Increases: In June, the Company's annual dividend rate was increased by 2.6% to \$1.58 per share, marking the 45th year of consecutive dividend increases and 113th year of uninterrupted dividend payments. The financial stability of our regulated Utility and Pipeline & Storage segments supports the Company's dividend.

Continued Growth from Pipeline and Storage Segment: The Company's Pipeline and Storage segment generated net income of \$80.4 million, which was an increase of 4% over the prior year. The Company's midstream businesses, which include the Gathering segment as well as the Pipeline and Storage segment, earned a combined \$112.2 million in net income in fiscal 2015, a 2% increase over the prior year and 208% increase since fiscal 2011. The Pipeline and Storage segment's transportation capacity under contract increased to 3,811,000 dekatherms (Dth) per day, a 5% increase over the prior year and 37% increase since fiscal 2011.

22% Growth in Natural Gas & Crude Oil Reserves: At the end of fiscal 2015, Seneca increased its proved reserves of natural gas and crude oil to 2.344 trillion cubic feet equivalent (Tcfe), an increase of 22% over the prior year, replacing 373% of fiscal 2015 production.

Firm Sales and Hedge Portfolio Partially Insulates Seneca's Cash Flows from Volatile Commodity Prices: Seneca's average net realized natural gas and crude oil prices in fiscal 2015, after the impact of hedging, were \$3.38 per thousand cubic feet (Mcf) and \$70.36 per barrel (Bbl), a decrease of only 5% and 26%, respectively, from the prior year. Comparatively, average NYMEX natural gas and crude oil prices for the fiscal 2015 period decreased 29% and 43%, respectively, versus the fiscal 2014 period. Seneca has taken a conservative approach to provide a measure of protection against volatile swings in commodity prices by building a portfolio of physical firm sales, firm transportation capacity and financial hedges that locks in the realizations on a majority of its total natural gas and oil production.

Continued First-Rate Service and Safety Record: The winter of 2014-15, the second coldest winter in our utility service territories in 50 years, and a season that saw one early winter storm dump over 70 inches of snow in parts of our New York service territory, once again tested our employees, systems and infrastructure. Despite the adverse conditions, our servicemen and women in the field, our customer response representatives on the phone, and our dispatch operators and compression engineers kept the gas flowing to all of our customers with minimal disruption. Even more impressive, considering the severity of the weather, we achieved our best personal safety record in our history, recording our lowest OSHA recordable injury rates in any fiscal year and demonstrating that safety is a core value at National Fuel.

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Long-Term Strategic Initiatives

National Fuel's capital intensive operations require a focus on strategic initiatives, including those between subsidiaries, that may take several years from business planning through completion. The results of this focus include:

Ongoing Major Interstate Pipeline Expansion and Modernization Projects: In the Pipeline and Storage segment, we placed the Mercer Expansion project into service in the first quarter of fiscal 2015. At a total capital cost of \$34 million, which included \$4 million of system modernization, this project added 105,000 Dth per day of transportation capacity and annual reservation charge revenues of \$5.4 million. Additionally, the Pipeline and Storage segment invested a total of \$230 million to expand and modernize its pipeline systems in fiscal 2015, primarily on the Westside Expansion and Modernization, Tuscarora Lateral, and Northern Access 2015 projects that went into service during the first quarter of fiscal 2016. These projects collectively add transportation capacity of 170,000 Dth per day for Seneca, 34,500 Dth per day for our Utility segment and 159,500 Dth per day for nonaffiliated customers, and afford customers of our Empire Pipeline system additional options to access storage services on our National Fuel Gas Supply Corporation system.

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Continued Build Out of the Clermont Gathering System: National Fuel Gas Midstream Corporation is continuing its construction of the Clermont Gathering System, a 1 billion cubic feet (Bcf) per day system of gathering pipelines and compression facilities that will represent an investment in excess of \$500 million when fully constructed. This gathering system is instrumental to the success of Seneca s long-term development program in its Western Development Area in Pennsylvania, providing a key link in the value chain that will allow Seneca to deliver its gas to the interstate pipeline system. The build out of this gathering system will continue for a number of years and is fully integrated with Seneca s drilling plans, such that capital deployment and construction activities are directly coordinated with Seneca s development in the Marcellus Shale.

Ongoing Natural Gas Development Success: The level and pace of Seneca s Appalachian development have been appropriately scaled back in response to the current commodity price environment and tailored to fill over 900,000 Dth per day of contracted firm transportation capacity available by 2018, including 630,000 Dth per day of capacity on National Fuel s Northern Access pipeline expansion projects. Seneca continues to pursue drilling and completion efficiencies that drive down well costs, including a long-term focus on water sourcing, handling and disposal activities designed to reduce water usage and costs.

Proposal 1 Nominees for Election as Directors

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES FOR THE BOARD OF DIRECTORS.

Nominees for three-year term:

David C. Carroll age 59

Principal Occupation: President and Chief Executive Officer of Gas Technology Institute

Expertise: Leadership, Industry, Technology

Joseph N. Jagers age 62

Principal Occupation: President, Chief Executive Officer and Chairman of Jagged Peak Energy LLC

Expertise: Leadership, Exploration and Production

David F. Smith age 62

Principal Occupation: Chairman of the Board of National Fuel Gas Company

Expertise: Leadership, Industry, Regional

Nominee for two-year term:

Craig G. Matthews age 73

Principal Occupation: Former President, Chief Executive Officer and Director of NUI Corporation

Expertise: Leadership, Industry, Financial

For complete information on this proposal, please refer to page 4 and following.

Proposal 2 Advisory Approval of Named Executive Officer Compensation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE COMPANY'S NAMED EXECUTIVE OFFICER COMPENSATION.

This proposal allows stockholders to take part in a non-binding, advisory vote to approve the compensation of the Company's named executive officers. The summary below and the discussion in the Compensation Discussion and Analysis (as well as the Say-on-Pay Proposal) provide information about the Company's compensation programs. Unless otherwise indicated, we intend capitalized and abbreviated terms to have the same meaning in this section as in the CD&A.

Table of Contents**CEO Compensation in Alignment with Peers**

As described in the 2015 Financial and Operating Highlights above, low commodity prices weighed on fiscal 2015 financial results but the Company had another successful year operationally. CEO compensation is targeted at approximately the 50th percentile of the Hay Energy Industry market data. The Compensation Committee understands the importance of using benchmark data that reflects information from companies with comparable business segments over similar time periods. Reflected in the chart below is The Hay Group's comparison of fiscal 2014 total direct compensation for the Company's CEO (Mr. Tanski) against that of CEOs in our Hay peer group. The Company's CEO total direct compensation, shown in the table below, is in line with that of our peers.

Fiscal 2014 is the most recent complete fiscal year for which proxy statement data is available. Fiscal 2015 compensation may not yet be accurately compared to peers because 2015 compensation data for most of those peers is not yet available.

CEO and President

Compared to CEO proxy data for fiscal year 2014

Company	Title	FYE Revenue (millions)	Market Cap as of 9/30/14 (millions)	Total Direct Compensation	
				Actual	Target
AGL Resources, Inc.	Chairman, President & CEO	\$5,385	\$6,134	\$6,694,338	\$6,408,232
Atmos Energy Corp.	President & CEO	\$4,941	\$4,787	\$4,573,561	\$4,002,585
Cabot Oil & Gas Corp.	Chairman, President & CEO	\$2,173	\$13,641	\$9,517,329	\$8,824,319
Energen Corp.	Chairman & CEO	\$1,344	\$5,288	\$5,873,945	\$5,715,652
EQT Corp.	Chairman, President & CEO	\$2,470	\$13,868	\$8,607,998	\$7,182,998
MDU Resources Group, Inc.	President & CEO	\$4,671	\$5,394	\$2,901,050	\$3,097,635
New Jersey Resources Corp.	Chairman, President & CEO	\$3,738	\$2,132	\$3,704,879	\$3,307,608
Northwest Natural Gas Co.	President & CEO	\$773	\$1,148	\$1,844,598	\$1,825,264
Questar Corp.	Chairman, President & CEO	\$1,189	\$3,907	\$4,060,765	\$3,792,182
Range Resources Corp.	President & CEO	\$2,419	\$11,439	\$10,529,256	\$10,167,546
SM Energy Co.	CEO	\$2,511	\$5,255	\$5,807,059	\$5,352,590
Southwest Gas Corp.	President & CEO	\$2,122	\$2,260	\$2,712,754	\$2,272,686
UGI Corp.	President & CEO	\$8,277	\$5,877	\$7,046,945	\$6,306,569
Ultra Petroleum Corp.	Chairman, President & CEO	\$1,182	\$3,564	\$3,320,000	\$2,620,000
Whiting Petroleum Corp.	Chairman & CEO	\$3,055	\$9,227	\$12,653,612	\$7,000,000
Summary Statistics					
75th Percentile		\$4,204	\$7,681	\$7,827,472	\$6,704,116
Average		\$3,083	\$6,261	\$5,989,873	\$5,191,724
Median		\$2,470	\$5,288	\$5,807,059	\$5,352,590
25th Percentile		\$1,733	\$3,735	\$3,512,440	\$3,202,622
National Fuel Gas Company	President & CEO	\$2,113	\$5,887	\$4,334,691	\$4,020,372
Percentile Rank		28%	65%	40%	43%

Total Direct Compensation = base salary + bonus + long-term incentives (target value for cash and grant date value for equity).

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As a result of stockholder feedback, the Company has fully transitioned its long-term incentive program from one awarded partially in cash to one awarded fully in equity, two-thirds of which is performance based relative to the Hay peer group.

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Due to the failure of the performance condition, a three-year (fiscal 2013 – fiscal 2015) performance-based equity award will not vest. This represents \$3,026,063 of the CEO’s 2013 compensation reflected in the Summary Compensation Table under the Stock Awards column, on page 40. The Company’s officers will forfeit these performance-based restricted stock units (RSUs) awarded in fiscal 2013. **Other outstanding performance-based equity awards, granted after fiscal 2013, are similarly subject to forfeiture, depending upon whether applicable performance conditions are achieved.**

2015 Advisory Vote on Named Executive Officer Compensation and Stockholder Feedback 2015 Say-on-Pay Vote and Stockholder Engagement

The 2015 Say-on-Pay advisory vote yielded a result of 96% of votes cast in support of the compensation of the Company’s named executive officers. As in prior years, members of Company management continue to hold meetings with some of the Company’s largest stockholders to obtain feedback on the Company’s compensation program, among other topics. The Board and management believe that this engagement facilitates important dialogue from which we gather various important viewpoints.

As a result of the stockholder feedback received in 2012, in 2013 the Compensation Committee of the Board (the Compensation Committee) converted a cash-based long-term incentive program to an equity-based program utilizing performance-based restricted stock units (RSUs). This is the equity award that will not vest. As with the cash-based program, the RSU program was subject to the same three-year total return on capital performance target relative to companies reported in the Natural Gas Distribution and Integrated Natural Gas Companies group of the Monthly Utility Reports of AUS, Inc. In both programs the target award would vest if the Company ranked at the 60th percentile of the peer group. For the RSU program, performance at the 60th percentile would result in fifty percent of the RSUs vesting.

For fiscal 2014, the Compensation Committee adopted a new approach to long-term incentive compensation. Under the new approach, approximately two-thirds of a named executive officer’s long-term incentive award consists of performance shares, split between two distinct performance conditions: one performance condition is tied to 3-year total shareholder return (TSR) and the other is tied to 3-year total return on capital, both relative to the performance of companies in the Hay peer group (as described below). The Committee selected the two relative performance metrics to focus executive officers’ attention on increasing long-term stockholder value while maintaining long-term profitability. The remaining approximately one-third of the long-term incentive award consists of time-vested RSUs used as a retention tool. The Compensation Committee’s action represents an evolution from its practice prior to fiscal 2013 of utilizing a cash component for approximately one-half of long-term incentive awards. The Compensation Committee utilized its new approach in fiscal year 2014 and continued it in 2015.

Compensation Summary and Overview Objectives of the Compensation Committee

When setting compensation for the Company’s executives, the Compensation Committee’s primary goal is to provide balanced incentives for creating value for stockholders in both the near-term and long-term. In order for this to occur, the Compensation Committee awards a combination of cash and equity components that are designed to:

- Ø Focus management efforts on both near-term and long-term drivers of stockholder value;
- Ø Tie executive compensation to long-term TSR and long-term total return on capital by linking a significant portion of an executive officer’s potential compensation to the future price of the Company’s common stock and the future returns on capital achieved by the Company, both relative to peers; and
- Ø Attract, motivate, reward and retain management talent in the highly competitive energy industry in order to achieve the objectives that contribute to the overall success of the Company.

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Elements of Compensation

The main elements of the 2015 executive compensation program are as follows:

- Ø *Base Salary (Cash)* Provides a predictable base compensation for day-to-day job performance;
- Ø *Short-Term Performance Incentives (Cash)* Utilizes metrics specific to each executive in order to motivate them to deliver near-term results for stockholders, generally over a period that is no longer than two years; and
- Ø *Long-Term Performance Incentives (Equity)* Focuses the attention of executives on delivering long-term stockholder value and on maintaining a significant personal investment in the Company through stock ownership.

Changes to the Compensation Program Since 2012

After meeting with many of our largest stockholders during the past few years and obtaining valuable feedback, the compensation program was amended in fiscal 2013 and further refined in fiscal 2014. These changes to the executive compensation program were as follows:

- Ø *Shifting Long-Term Performance Incentive to Equity* Prior to fiscal 2013, the Company granted a combination of equity-based awards (restricted stock and stock appreciation rights (SARs)) and performance-based cash awards tied to a total return on capital goal. In fiscal 2013, as an interim step prior to an in-depth review of its long term incentive (LTI) approach, the Compensation Committee replaced the cash portion of the program with performance-based RSUs, utilizing the same relative total return on capital metric. **For the most recently completed 3-year performance period, the performance condition will not be achieved at a level high enough to trigger payment of any portion of these RSUs.** During fiscal 2014, the Company further revised the mix of awards to be approximately two-thirds performance shares (split between two distinct relative performance metrics measured over three years against a peer group) and one-third time-vested RSUs (vesting ratably over a 3-year period). The Company retained this mix of awards in fiscal 2015. **Like the performance-based RSUs granted in fiscal 2013, the performance shares granted since that time will be forfeited if applicable performance conditions are not met.**
- Ø *Adoption of Relative Performance Conditions* As noted above, for fiscal 2014 and fiscal 2015, the Compensation Committee devoted two-thirds of the LTI award to performance shares. The Committee established two distinct performance metrics: 3-year TSR relative to the Hay peer group and 3-year total return on capital relative to the Hay peer group.
- Ø *The CEO is Required To Own Six Times Base Salary in Company Stock* Our CEO s stock ownership is approximately 15 times his base salary as of November 30, 2015.

Other Key Compensation Features

- Ø The Company does not provide tax gross-ups ;
- Ø Named executive officers and other officers are required to meet stock ownership guidelines that range from one to six times base salary;
- Ø Equity incentive plans prohibit the repricing or exchange of equity awards without stockholder approval;
- Ø The Committee engaged two independent compensation consultants to assist in setting compensation;
- Ø All change-in-control agreements are double triggered; and