

NATIONAL FUEL GAS CO
Form DEF 14A
January 24, 2014
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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

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- Preliminary Proxy Statement
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NATIONAL FUEL GAS COMPANY

(Name of Registrant as Specified in its Charter)

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NATIONAL FUEL GAS COMPANY

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Stockholders

to be held on

March 13, 2014

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** To be voted on at the meeting

**YOUR VOTE IS IMPORTANT!
PLEASE VOTE BY INTERNET, PHONE OR COMPLETE, SIGN, DATE AND RETURN YOUR PROXY.**

Table of Contents**2014 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 2014 Annual Meeting of Stockholders of National Fuel Gas Company:

	Board Vote	Page Number
Proposals	Recommendation	(for additional details)
1. Election of Directors	FOR ALL NOMINEES	Page 4
2. Ratification of Auditor	FOR	Page 63
3. Advisory Approval of Named Executive Officer Compensation	FOR	Page 64
4. Stockholder Proposal	AGAINST	Page 71

Annual Meeting of Stockholders

Ø Time and Date	March 13, 2014 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 13, 2014
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 12, 2014. <u>For employee benefit plans</u> votes must be received by March 11, 2014.
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 2013 was a remarkable year for the Company, both financially and operationally. Year over year results improved in each of the Company's reporting segments.

The Company's exploration & production subsidiary, Seneca Resources Corporation (Seneca), continued to develop its position in the Eastern Development area of its Marcellus Shale acreage. Seneca also identified a high-quality geologic trend with the potential for nearly 2,000 well locations in Elk and Cameron counties, Pennsylvania, a major breakthrough on its legacy Western Development acreage.

Additionally, the Company's midstream businesses, consisting of the Pipeline & Storage and Gathering segments, continued to evaluate, construct and operate substantial expansions to their Appalachian pipeline infrastructure, not only for affiliated customers, but also third-party producers active in developing the Marcellus and Utica Shales. These projects can take three to five years from conception to active service and the Company continues to pursue additional expansions to alleviate the pipeline constraints facing many natural gas shippers in the Appalachian Basin.

2013 Financial and Operating Highlights:

17% Growth in Earnings per Share: The Company's earnings per share in 2013 were \$3.08, which was an increase of 17% compared to the prior year.

Strong TSR Performance: The Company's total shareholder return (TSR) for the one-year, three-year and five-year periods was 30%, 43% and 87%, respectively. These results placed the Company at the 69th, 44th, and 63rd percentiles of the 2013 Hay peer group for the same respective periods.

45% Increase in Natural Gas and Crude Oil Production: Seneca increased its total natural gas and crude oil production to 120.7 billion cubic feet equivalent (Bcfe), a 45% increase over the prior year.

24% Growth in Natural Gas & Crude Oil Reserves: At the end of fiscal 2013, Seneca increased its proved reserves of natural gas and crude oil to 1.549 trillion cubic feet equivalent (Tcfe), an improvement of 24% from the prior year.

Midstream Businesses Achieved Growth: The Company's midstream businesses generated combined net income of \$76.6 million (\$63.3 million for the Pipeline and Storage segment and \$13.3 million for the Gathering segment), which was an increase of 14% over the prior year. This growth was driven by the completion of three new major pipeline projects in late fiscal 2012 and early fiscal 2013.

43rd Year of Consecutive Dividend Increases: In June, the Company's annual dividend rate was increased by 2.7% to \$1.50 per share, marking the 43rd year of consecutive dividend increases and 111th year of uninterrupted dividend payments.

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2013 Long-Term Strategic Results

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

Commencing a Major New Marcellus Development Program: The Company's Exploration & Production segment continued its multi-year delineation efforts in the Marcellus Shale. In 2013, these efforts led to a major breakthrough on Seneca's 780,000 net acres in Pennsylvania. New wells tested during the year have significantly furthered the Company's confidence in the long-term potential of its Marcellus Shale acreage. In particular, an additional 2,000 drilling locations, with a resource potential of more than 10 Tcfe, have been identified as economic at natural gas prices of \$4 per Mcf or lower. With this new confidence, the Company moved to a full-scale development program in its Rich Valley/Clermont prospect area that will last for many years.

Ongoing Interstate Pipeline Expansion Projects: In the Pipeline & Storage segment, two major interstate pipeline expansion projects were placed in service. In the first half of fiscal 2013, the Company completed construction of National Fuel Gas Supply Corporation's Northern Access Expansion and Line N 2012 Expansion. These projects, combined with the phase-in of previously completed projects, added more than \$26 million in transportation revenue to the Pipeline & Storage segment in fiscal 2013.

Continued Build Out of Gathering Infrastructure: National Fuel Gas Midstream Corporation and its subsidiaries, within the Company's Gathering segment, invested \$48 million in 2013 for

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the continued expansion of the Trout Run Gathering System in Pennsylvania. This gathering system is instrumental to the success of Seneca's Eastern Development area, and ensuring that its natural gas production reaches a sales market promptly upon completion of wells. Additionally, initial plans were formulated for a new 1 Bcf per day gathering system to support Seneca's development of its Rich Valley/Clermont prospect area. Net income of the Gathering segment increased 93% in 2013 to \$13.3 million from \$6.9 million in 2012.

Expanding Natural Gas Transportation Capabilities: The Company continues to aggressively pursue opportunities to expand its infrastructure to serve the rapid growth in volumes of natural gas produced from the Marcellus and Utica Shales in Appalachia. Capital expenditures for fiscal 2014 through fiscal 2016 are estimated to be \$648.6 million in the Pipeline and Storage segment and \$392.6 million in the Gathering segment, a combined addition of 84% to the \$1,235.2 million of Midstream business net property plant and equipment, and 20% to the \$5,151.7 million of Company net property plant and equipment, both as of the end of fiscal 2013. A component of this spending is for the Northern Access 2015 Expansion project. This is designed to provide Seneca's production with a path to export gas to high-value Canadian markets, further enhancing the Company's ability to export natural gas.

Proposal 1 Nominees for Election as Directors

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

Ronald W. Jibson Age 60

Principal Occupation: Chairman of the Board of Questar Corporation (Questar) and President and Chief Executive Officer of Questar

Expertise: Leadership, Industry

Jeffrey W. Shaw Age 55

Principal Occupation: President and Chief Executive Officer of Southwest Gas Corporation

Expertise: Leadership, Industry

Ronald J. Tanski Age 61

Principal Occupation: President and Chief Executive Officer of National Fuel Gas Company

Expertise: Leadership, Industry, Regional

Proposal 2 Ratification of Auditors

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THIS APPOINTMENT

As a matter of good governance, it is important that stockholders vote to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal 2014.

For full details, please see page 63

Proposal 3 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.

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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 (CD&A) beginning on page 21 provide information about the Company's compensation programs.

¹ Unless otherwise indicated, we intend capitalized and abbreviated terms to have the same meaning in this section as in the CD&A.

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As described in the 2013 Financial and Operating Highlights on page 64, from both a short- and long-term perspective, fiscal 2013 was a highly successful year operationally and financially. Stockholders were rewarded with strong short-term and long-term TSR performance relative to the Company's peers and the market. The Company's one-year TSR of 30% was at the 69th percentile of the Company's 2013 Hay peer group, and three- and five-year TSR of 43% and 87% were at the 44th and 63rd percentile of the same peer group, respectively. The Board of Directors (Board) recommends a vote FOR the advisory approval of named executive officer compensation because it believes that the Company's compensation policies and procedures, as developed following engagement with its stockholders, encourage a culture of pay for performance and are strongly aligned with the interests of the Company's stockholders.

For complete information on this proposal, please refer to page 64 and following.

2013 Advisory Vote on Executive Compensation and Stockholder Feedback

2013 Say-on-Pay Vote and Stockholder Engagement

The 2013 Say-on-Pay advisory vote yielded a result of 84% of votes cast in support of the compensation of the Company's named executive officers. As in 2012, in the summer of 2013 members of Company management again held meetings with some of the Company's largest stockholders to obtain feedback on the Company's compensation program, among other topics. This engagement, reaching holders of more than 24% of our shares outstanding as of September 30, 2013, facilitated important dialogue from which we continued to gather various 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 restricted stock units (RSUs). As with the cash-based program, the RSU program is 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. (AUS peer group). In both programs the target award will vest should the Company rank at the 60th percentile of the peer group. For the RSU program, performance at the 60th percentile will result in fifty percent of the RSUs vesting.

For fiscal 2014, the Compensation Committee adopted a new approach to long-term incentive compensation. Going forward, approximately two-thirds of a named executive officer's long-term incentive award will be comprised of performance shares, split between two distinct performance conditions: one performance condition is tied to 3-year 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 remaining approximately one-third of the long-term incentive award will be comprised 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.

CEO Compensation

In fiscal 2013, because of the transition to a new Chief Executive Officer (CEO) and away from a long-term incentive partially paid in cash, the Summary Compensation Table does not appropriately reflect the philosophy behind the Compensation Committee's approach to CEO Compensation.

Below is a chart which compares the recommendation that Hay made to the Compensation Committee's target for Mr. Tanski's compensation upon his succession to the CEO position, the Compensation Committee's targeting of Mr. Tanski's pay for fiscal 2013 and the corresponding amounts contained in the Summary Compensation Table.

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Fiscal 2013

CEO Compensation

	Hay Target	As Targeted by		As Contained in the
	Recommendation	Compensation	Committee	Summary Compensation Table
Base Salary	750,000		726,148	726,148
Bonus	750,000		580,918	802,829
Total Cash	1,500,000		1,307,066	1,528,977
Stock Awards (Performance-Based RSU Grant)	Not Broken Out		1,601,750	3,026,063
Equity Awards (SAR Grant)	Not Broken Out		458,250	458,072
Total Target LTI	2,060,000		2,060,000	3,484,135
Total Direct Compensation	3,560,000		3,367,066	5,013,112

In particular, note that the amount reported in the Summary Compensation Table under Stock Awards reflects close to double the target amount. This is due to the doubling of the RSU grant to allow for performance at two times the target percentile and an estimate for Summary Compensation Table purposes close to that maximum opportunity. Should the Company achieve only target performance at the 60th percentile of the AUS peer group, 50% of the awarded RSUs will vest. Stated another way, the award amount is a maximum opportunity to be decreased should the percentile ranking be below the 100th percentile. The award will only vest following fiscal 2015, in accordance with the vesting schedule below:

Company's Rank as a Percentile of the		
AUS Peer Group	Percentage of RSUs Vesting	
<45.01%	0%	
45.01%	25.00%	
60.00%	50.00%	
75.00%	75.00%	
100.00%	100.00%	

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 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 a significant portion of executive compensation to long-term TSR by linking a significant portion of an executive officer's potential compensation to the future price of the Company's Common Stock; 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 2013 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.

Recent Changes to the Compensation Program

Executive compensation for fiscal 2013 was set early in the fiscal year, prior to the voting results at the Annual Meeting of Stockholders held in March of 2013. After meeting with many of our largest stockholders during the past two fiscal years and obtaining valuable feedback, the compensation program has been amended in each of the past two years.

These recent changes to the executive compensation program are as follows:

- Ø *Shifting Long-Term Performance Incentive to Equity* Prior to 2013, the Company granted a combination of equity-based awards (restricted stock and stock appreciation rights (SARs)) and performance-based cash target awards tied to total return on capital goals. In 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 2014, the Company further revised the mix of awards to be approximately two-thirds performance shares (split between two distinct performance metrics measured over three years against a peer group) and one-third time-vested RSUs (vesting ratably over a 3-year period).
- Ø *Adoption of Relative Performance Conditions for Fiscal 2014* As noted above, for fiscal 2014, 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 *CEO Compensation* To increase the CEO compensation tied to equity and moderate cash compensation, upon his appointment as CEO, Mr. Tanski's salary was set at approximately the 25th percentile of the Hay Energy Industry data and an additional performance-based equity award was made so that total direct compensation is targeted at the 50th percentile.
- Ø *Ownership Requirements were Increased for the CEO to Six Times Base Salary.* Our CEO's stock ownership is 22 times his base salary as of November 29, 2013.

Other Key Compensation Features

- Ø The Company does not provide tax gross-ups ;
- Ø 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 has engaged two independent compensation consultants to assist in setting compensation; and
- Ø All change-in-control agreements are double triggered.

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Given changes by the Compensation Committee (following stockholder outreach) to the LTI program as discussed above, we have provided an additional, supplemental compensation table below in order to distinguish the annual short-term cash incentive from the 3-year long-term cash incentive, to remove the impact of the 2013 move from a cash-based LTI award to an RSU-based LTI award, and to remove the volatile, significant effects of changes in actuarial assumptions on the value of the named executive officers' pension benefits disclosed in the 2013 Summary Compensation Table. This table, however, is not a substitute for the Summary Compensation Table, which can be found at page 41 in this proxy statement.

Name and Principal Position	Year	Salary (\$)	Short-Term	Long-Term	Stock Awards (2)(\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
			Cash Incentive (\$)	Cash Incentive (1)(\$)				
David F. Smith	2013	776,600	1,378,894	1,439,730	N/A	909,650	168,863	4,673,737
Chairman and Chief	2012	880,000	1,073,160	1,317,400	550,900	448,008	151,211	4,420,679
Executive Officer of the Company until 3/7/13, when named Executive Chairman	2011	835,000	1,457,075	1,091,232	598,734	574,838	171,440	4,728,319
Ronald J. Tanski	2013	726,148	802,829	809,260	N/A	458,072	107,613	2,903,922
President and Chief	2012	681,000	640,140	752,800	344,313	280,005	96,124	2,794,382
Executive Officer of the Company since 3/7/13	2011	652,500	810,144	631,500	399,156	383,225	104,539	2,981,064
David P. Bauer	2013	318,000	233,000	225,840	N/A	113		