



National Fuel Gas Company
2020 Q2 Earnings Conference Call
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C O R P O R A T E P A R T I C I P A N T S

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Holly Stewart, *Scotia Howard Weil*

Ryan Levine, *Citi Research*

P R E S E N T A T I O N

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 2020 Q2 National Fuel Gas Company Earnings Conference Call.

At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speakers' presentation there will be a question-and-answer session. To ask a question during the session, you will need to press star, one on your telephone. If you require any further assistance, please press star, zero.

I would now like to turn the call over to your speaker today, Ken Webster, Director of Investor Relations. Please go ahead.

Kenneth E. Webster

Thank you, Amy, and good morning.

We appreciate you joining us on today's conference call for a discussion of last evening's earnings release. With us on the call for National Fuel Gas Company are Dave Bauer, President and Chief

Executive Officer, Karen Camiolo, Treasurer and Principal Financial Officer, and John McGinnis, President of Seneca Resources. At the end of the prepared remarks, we will open the discussion to questions.

The second quarter fiscal 2020 earnings release and April investor presentation have been posted on our Investor Relations website. We may refer to these materials during today's call.

We would like to remind you that today's teleconference will contain forward-looking statements. While National Fuel's expectations, beliefs, and projections are made in good faith and are believed to have a reasonable basis, actual results may differ materially. These statements speak only as of the date on which they are made, and you may refer to last evening's earnings release for a listing of certain specific risk factors.

National Fuel will be participating in the Citi Global Energy and Utilities Conference later this month. If you plan on attending, please contact me or the conference planners to schedule a meeting with the Management Team.

With that, I'll turn it over to Dave Bauer.

David P. Bauer

Thanks, Ken. Good morning, everyone.

The past few months have been anything but ordinary for National Fuel, as we adapted our operations to address the COVID-19 pandemic. From an earnings perspective, the continued drop in commodity prices weighed on our results leading to the non-cash write-down of our oil and gas properties and lower realizations on our production. Warmer weather in our Pennsylvania service territory also impacted the Utility's earnings for the quarter.

On the positive side, our midstream businesses had a great quarter on the strength of Supply Corporation's recent rate settlement and solid operational execution and well results at Seneca drove record throughput on our Gathering system. In short, other than pricing and weather, the quarter was right in line with our expectations and was another great example of the benefits of our integrated, diversified business model.

The COVID-19 pandemic has obviously impacted the way in which we operate. Each of our businesses has been deemed an essential service and continues to operate as such, but we've taken considerable steps to limit the potential exposure of our workforce, customers and communities in which we operate.

The safety of our employees and customers is our top priority. Any employee who can work from home is currently doing so. Those who cannot work from home and given the nature of our business, there's a large number who can't, are employing both social distancing and personal protective equipment to make sure they stay safe.

We're committed to our employee group and have not implemented any furloughs or workforce reductions. Our employees have really stepped up to the challenge and because of their exceptional efforts the business is running smoothly, all things considered. I'm very proud of our employee group and say thank you to them for everything they're doing during this crisis.

Our regulated businesses haven't seen any meaningful financial impact from the pandemic. The day-to-day operations of the Utility business have been perhaps the most impacted by the pandemic, given that it's the part of the business that has the greatest interaction with customers. So we've suspended all non-

emergency customer-facing work. We're still making reasonable progress on our annual modernization program in both states. Overall, we expect capital spending will be lower by about \$10 million at the Utility as a result of the pandemic.

At this point, we haven't seen a major change in throughput. Industrial volumes are down modestly due to plant shutdowns, but at this point we're not overly concerned. We're very focused on uncollectible expense given the economic backdrop in our service territories. Thankfully, customer bills are relatively small as a result of the warm winter and low gas prices and should get lower as we move into the spring and summer.

At this point, there isn't a discernible downward trend in customer payments but this is an area we'll continue to monitor. Our Pipeline and Storage operations haven't been significantly impacted by the crisis. Our Pipeline facilities and projects are generally located in pretty remote locations and between social distancing and proper PPE the workforce and construction crews on site are able to stay efficient. Construction is well underway on the Empire North Project and should be completed by the end of our fiscal year.

As a reminder, that project will add \$25 million in annual revenues.

You'll note in last night's release that our capital spending guidance at the Pipeline is down \$12.5 million at the midpoint. This is largely due to delays in some smaller modernization projects at Supply Corp.

Supply Corporation had a good outcome in its rate case proceeding. You'll recall we filed the case last summer to satisfy the comeback requirements of our previous rate settlement. In early February, parties reached a black box settlement that provides for a two-phased increase in Supply's rates.

The first phase, which was effective February 1, 2020, increased the Supply's annual transportation and storage rates by approximately \$35 million. This increase was driven in large part by higher plant balances from Supply's modernization program and higher operating costs. In addition, Supply's rates reflect higher depreciation and negative salvage rates, which accounted for approximately \$10 million of the \$35 million rate increase.

The second phase, which will be effective the later of the in-service date of the FM100 Project or April 1, 2020, will increase Supply's rates by another \$15 million to reflect the modernization component of that project. Under the settlement, we agreed to a four-year moratorium on new rate filings and to a comeback after year five if no rate case is filed.

Overall, I think this is a good settlement and that it balances our need to recover the cost of system modernization with our customer's desire for predictable rates. The FERC settlement judge has certified the rate agreement and we're now waiting on final approval from the FERC commissioners, which should come in the next month or two.

Switching to the E&P business, Seneca's drilling and completion crews continue to operate in Pennsylvania. Seneca is currently at two rigs but will drop one this summer and remain at that level through fiscal '21. We're reducing production guidance by 5 Bcf to reflect recent pricing related curtailments but capital spending is also coming in lower which mitigates the impact on Seneca's cash flows.

Oil prices are a concern but we're well hedged at prices above \$60 a barrel for 2020. Our drilling program in California is complete for the year and looking to fiscal '21 absent a major recovery in prices we expect a significant cut in capital and O&M spending in California next year.

Overall, the business continues to be in good shape. Our regulated businesses continue to perform well and thanks to projects like Empire North are positioned for growth into fiscal '21. Commodity prices have weighed on Seneca's results but looking at the NYMEX futures curve there's cause for optimism in fiscal '21 and beyond.

With that, I'll turn the call over to John for more on Seneca's program.

John P. McGinnis

Thanks, Dave, and good morning, everyone.

While pricing related curtailments put a damper on Seneca's results, operationally, we're very pleased with our business and where gas prices appear to be heading. Seneca produced 59.8 Bcfe during the second quarter, an increase of 23% compared to last year's second quarter, and even though we voluntarily curtailed almost 3 Bcf this quarter as a result of low natural gas prices, we still saw an increase in production quarter-over-quarter with solid results across all of our operating areas. We are currently operating two rigs in Pennsylvania, but as discussed last quarter, in an effort to moderate capital spending given current commodity prices, we will drop to a single rig this summer. We are currently drilling a 10 well pad in the WDA, and will drop this rig once we're complete.

In terms of our WDA Utica Development Program, we brought online our second pad located in the Beechwood/Rich Valley area this quarter. We drilled six wells off this pad and the results are outperforming the type curve by about 30% and are comparable to our first pad in this area. It's interesting to note that as we move further south and deeper into the basin, we have brought online our two best performing Utica pads in the WDA. As we move forward with our development program, production from this area is expected to be utilized to fill our Leidy South firm capacity, which is still on target for an in-service date in early fiscal '22. The next pad to be brought online in this area is a four well pad scheduled for late in our fiscal fourth quarter.

In California, we've produced around 605,000 barrels of oil during the second quarter, an increase of 7% over last year's second quarter. This increase is primarily driven by our recent drill activity at our Pioneer and 17N properties located within Midway Sunset in Kern County and Coalinga in Fresno County. As a result of the recent collapse in oil prices, however, we have implemented measures to reduce our operating expenses without negatively impacting the long-term performances of each field. Fortunately, with approximately 72% of our oil production hedged for the remainder of the year at an average price of around \$62 per barrel, we're in good shape to weather this recent downturn in oil prices. As we look out to the remainder of fiscal '20, we expect oil production to be flat to modestly lower when compared to our second quarter results.

In terms of guidance, we are now lowering our production forecast to range between 230 to 240 Bcfe, down around 5 Bcf at the midpoint, due entirely to our second quarter curtailments of 2.7 Bcf and additional curtailments of around 2 Bcf in April. As usual, we forecast no additional curtailments for the remainder of the fiscal year. We're also lowering our cap ex guidance to range between \$375 million to \$395 million, a decrease of \$7.5 million at the midpoint. We continue to see reductions in service cost associated with the decline in industry activity, as well as continued efficiency gains in the drilling of our Marcellus and Utica wells in the East.

We're well-positioned for the rest of the year with approximately 76 Bcf or about 70% of our remaining fiscal '20 East Division gas production locked in physically and financially at a realized price of \$2.16 per Mcf. We have another 25 Bcf of firm sales providing basis protection, so over 90% of our remaining forecasted gas production is already sold.

Interestingly, the recent collapse in oil prices have been a huge lift for natural gas prices moving into the next two years. And as a result, we have significantly increased our hedge position over the next couple of years, the details of which are reflected on Page 57 of our investor presentation.

And finally, I'm very pleased with how our Seneca team has conducted business through the impact of the coronavirus. We have been able to work effectively from home since our offices are closed and our operations team has done a great job continuing to operate successfully and safely in the field during this period.

And with that, I'll turn it over to Karen.

Karen M. Camiolo

Thank you, John, and good morning, everyone.

As you read in our release, we reported a GAAP loss of \$1.23 per share, a decrease of \$2.27 per share from last year's second quarter. This was primarily driven by a \$1.49 per share charge related to a ceiling test impairment on our oil and gas properties, as well as a \$0.66 per share charge tied to a state deferred tax asset valuation allowance in our non-regulated segments. After adjusting for these charges and another small unrealized loss on certain benefit plan investments, we reported operating results of \$0.97 for the quarter. This was a decrease of \$0.10 per share from the prior year. The impact of lower commodity prices realized on our oil and gas production and warmer weather in our utility more than offset the impact of higher Seneca natural gas production throughput at the Gathering segment and the successful settlement of our Supply Corporation rate proceeding.

The earnings release does a good job describing all of the other drivers, so please refer to that for more details.

Turning to our forecast, we are revising our fiscal 2020 earnings guidance to a range of \$2.75 to \$2.95 per share, representing a \$0.20 decrease at the midpoint. It's important to note that our updated guidance excludes items impacting comparability including the valuation allowance and ceiling test impairment recorded this quarter, as well as future impairments we expect in the coming quarters. Our forecast also does not assume any impact of future price related production curtailments.

In addition to incorporating results from the second quarter, we've made other changes to our assumptions. We continue to assume NYMEX natural gas prices average \$2.05 per MMBtu and now project Appalachian spot pricing averages \$1.65 per MMBtu for the remainder of the year.

On the oil side, we've made steeper reductions to our forecast with WTI assumed to average \$22.50 per barrel for the remaining six months. We've also reduced our California differential at Midway Sunset from 104% to 90%.

As it relates to Seneca's per unit DD&A rate, our current guidance reflects the impact of the ceiling test impairment recorded this quarter but does not incorporate any future ceiling test charges. We will revise this rate each quarter if and when we record additional impairments.

There are two other changes related to items from this quarter that need to be extrapolated out for the remainder of the year. First, the settlement of our Supply rate case is leading to higher forecasted revenues for the fiscal year. We now assume revenues will be approximately \$305 million in the Pipeline and Storage segment. However, this will not all flow through to the bottom line, as we also agreed to higher depreciation rates as part of the settlement. With the higher depreciation rates we now expect our

underlying depreciation expense in this segment to increase approximately \$2.5 million per quarter relative to our prior forecast.

Lastly, as it relates to guidance, the assessment of the state deferred tax assets that led to a valuation allowance this quarter will also drive a higher effective tax rate. Additional state NOLs and tax credits generated during the year are subject to the same evidentiary test as those that are on the balance sheet. Given the evidence as of today, we will not be able to record the benefit of the newly generated NOLs and credits until the evidence supports utilization of these tax benefits. This will lead to an increase in our effective tax rate which we now expect to be 26% for the full year.

Let me touch briefly on the impact of COVID-19. Outside of the decrease in oil prices, there were no major effects during the quarter. As we look forward, however, we expect a modest impact in our Utilities segment as it relates to operating costs and uncollectible expense. On the operating expense side, the principle drivers is the slowdown in construction activity, which is typically ramping up at this point in the year as the weather breaks. Our workforce shifts from operating expense activities in the winter months to capital related work in the summer. But given the slowdown in customer-facing capital work and our commitment to not furloughing any employees, we are expecting more of our labor costs to be expensed over the next several months.

In addition, we are projecting higher uncollectible expenses as a result of larger unemployment and the temporary halt in customer collections. While we are forecasting higher uncollectible expense, we have not experienced any discernible trend in customer payments that might indicate significantly larger than normal write-offs. We will continue to closely monitor customer payment trends over the coming quarters.

With respect to capital, we are reducing the midpoint of our capital guidance range by \$30 million to a new range of \$680 million to \$740 million. While the impact of COVID-19 on customer-facing capital work is driving the \$10 million decrease at the Utility segment, the other three segments are flat to lower for the year as a result of continued focus on cost control and updated timing on certain pipeline modernization projects.

With our revised earnings projections and lower capital spending plan for the year, we continue to expect our funds from operations and capital expenditures to be roughly in line with each other. Adding on our dividend, we expect a financing need of approximately \$150 million for the full year. We started the year with nearly \$700 million available of liquidity under our revolving credit facility, and we plan to use that as a first source of financing.

With that, I'll close and ask the Operator to open the line for questions.

Operator

Thank you. At this time, we will be conducting our question-and-answer session. In order to ask a question, please press star, one on your telephone. To withdraw your question, press the pound hash key. Please be advised that if you are on a cellphone you may have to go off speakerphone to effectively queue for Q&A. Please stand by while we compile the Q&A roster.

Your first question comes from the line of Tim Winter with Gabelli Funds. Tim, your line is open.

Tim Winter

Good morning gentlemen. I was wondering if you could talk a little bit about how you think about the dividend as we go into—I think in the press release you're talking about maybe some more oil and gas write-offs given prices and the lower production guidance. How do you guys think about the dividend?

David P. Bauer

Yes. Hi Tim. We generally view the dividend in light of our regulated earnings. So if you look at the Utility and the Pipeline, there were not—we're actually expecting an increase in earnings in the years to come because of projects like Empire North and the continued modernization of our system. So I feel good about the dividend, that the regulated earnings will be there today and in the future to cover it.

Tim Winter

Do you expect much of a impact from what you can see now in the future write-offs as far as the equity ratio on the balance sheet?

David P. Bauer

Yes. Well, if we have continued impairments which will be dependent upon pricing, we'd expect the equity component to drop into the, call it, mid, low 40s, potentially.

Tim Winter

Okay, (multiple speakers)

David P. Bauer

But all that's going to be—yes. All of that's going to be dependent upon commodity prices and how big the impairments end up being.

Tim Winter

Okay. Thank you guys.

David P. Bauer

You bet.

Operator

Your next question comes from the line of Chris Sighinolfi with Jefferies. Chris, your line is open.

Chris Sighinolfi

Hi, good morning everyone.

David P. Bauer

Hey Chris.

Chris Sighinolfi

Thanks for the update. Hope you're all staying safe and sane. I do have a couple of questions, Dave. First, if I could just pivot to John. John, I think you've talked—obviously we saw a deceleration of planned Seneca activity over the winter. It was a different pricing environment then. I know you've talked

historically about certain price points at which you'd contemplate reaccelerating activity. If I look at your fiscal '21 strip I think it's now about \$2.75, but then faces a backwardation in subsequent follow-on years. So, I guess I'm just wondering how you're thinking about both on the completion side and perhaps a resumption of drilling activity what that change in pricing dynamics between the last call and this call means, what the backwardation means and what FM100 capacity means.

John P. McGinnis

Yes. Thanks Chris. Good morning. It's funny you asked that because I've been talking to Dave quite a bit about it. As I think we've said before, we would certainly consider adding back in a rig, another rig if we see prices get to about that \$2.75 plus range, but we also have to be able to lock in acceptable hedges over multiple years in order to support that increased activity level. Right now we don't see that in fiscal '22 or fiscal '23, but certainly in the \$2.70 price range that starts to—we begin at least to have a conversation around it. But right now the out years are just not there.

We have around twenty-five DUCs currently and again, if prices get to a point where we're comfortable going into next year and in the out years, we can certainly accelerate some of those completions as well.

Chris Sighinolfi

Okay, that's helpful. And you had mentioned in the release and I think you mentioned earlier on the call curtailments. I think it was 2.7 Bcf in the last quarter and I think you said 2 Bcf in April. Just curious, is that spread across the acreage or is that concentrated in a particular area of your development?

John P. McGinnis

Yes. Most of our curtailments, Chris, are in the EDA. Both at Lycoming, and in Tioga. Typically, the CRV area has a little bit better pricing, there's just been less curtailments there.

Chris Sighinolfi

Okay. I have a couple more questions. I'm going to ask one more and then I'll hop back in the queue and finish up and let others go. I was just curious, Dave, you mentioned the settlement on Supply Corp. Obviously, Pipeline had strong results in the quarter, which you attributed to the settlement, and I saw Pipeline revenue expectation for the year is up versus your prior guidance. Is it sort of safe to assume based on that that the outcome was better than you had maybe thought that it would be? Could you just talk a little bit about that?

David P. Bauer

Yes, I would say it was within the range of expected outcomes but maybe towards the higher end of the range. The increase in depreciation rates was likely the area that we hadn't necessarily counted on but when you consider the overall environment in New York and the lives we had been using in the past and updated, we were able to convince FERC staff and the parties that an increase in rates was warranted.

Chris Sighinolfi

Okay. All right, thanks a lot for the time guys.

David P. Bauer

You bet.

Operator

And again, if you would like to ask a question, please press star, then the number one on your telephone keypad. If you are using a cellphone, you may have to go off speakerphone to effectively queue for Q&A.

Your next question comes from the line of Gordon Loy with Raymond James. Gordon, your line is open.

Gordon Loy

Good morning all and thanks for taking my questions. I just want to get an idea of what the threshold for the Appalachia prices would be kind of before wells are shut-in. I know that the current strip obviously is more optimistic than it was sometime ago, but I guess I see on Slide 35 that the cash costs all-in for Seneca are about \$1.26 per Mcfe and I'm assuming that Appalachia will be a little lower than that. I guess is that a decent assumption?

David P. Bauer

John, do you want to take that?

John P. McGinnis

Yes, absolutely. I don't like to speak exactly to what prices we could curtail to but essentially we focus on a price where we'll continue to generate positive earnings on a consolidated basis. Essentially that's in the one dollar something range. Beyond that I just don't want to get into too much detail on that.

Gordon Loy

Got it. That's helpful. And then my follow-up is, a while back I think you guys had mentioned that your base declines in the Marcellus were probably in the kind of upper teens range and the Utica was a little higher in the mid 20s to upper 20s. With the decline in activity, I guess this mostly affects the Marcellus, but do you guys have an updated idea of where those base declines are trending?

John P. McGinnis

Yes. Our base declines are—when you look at last year going into this year, overall, we're around 23% base declines in Pennsylvania.

Gordon Loy

Got it. That's helpful. Thank you. Thanks for taking the questions.

John P. McGinnis

Yes.

Operator

Your next question comes from the line of Holly Stewart with Scotia Howard Weil. Holly, your line is open.

Holly Stewart

Good morning gentlemen, Karen.

Karen M. Camiolo

Hey Holly.

John P. McGinnis

Good morning.

Holly Stewart

Maybe, John, just to follow-up a little bit on Chris' question just trying to get a sense for the program in '21. Is there sort of a general rule of thumb that we could use for just that kind of a one rig program throughout '21?

John P. McGinnis

Well, like I told Chris, \$2.75 definitely gets our attention, but until we see recovery in the out years, fiscal '22 and beyond, and recovery in terms of volumes that we can effectively hedge, I think we're going to hold to a one rig case. It's very expensive to add rigs and pull rigs off the table and so I just don't—I want to see some continuity before we start doing—before we start adding and continued dropping of rigs.

Holly Stewart

Yes. I was just trying to get a sense of if there was just sort of a one rig kind of capital number available.

John P. McGinnis

Yes. It's tough for me to speak to what our cap ex guidance is going to be for next year, but it's going to be roughly in the, I'd say, plus or minus \$350 million range. That's a little bit more than what a one rig case will be because there's some other capital projects that we'll be continuing with. But we're looking at that \$350 million, plus or minus.

Holly Stewart

Okay, that's helpful. And then maybe just thoughts around the California activity next year, just kind of given where we are on oil prices.

John P. McGinnis

Yes. If oil prices stay where they are, California activity will be very low. We've already drilled our portfolio, our development program for this year. If prices stay where they are, we would defer that. We don't have to—we're very fortunate in that our California production has very low decline rates. So if we push out or can defer our capital program for a year, there's a modest increase in decline but it's something that we can recover over time.

Holly Stewart

Okay, that's helpful. And then I know previously you've given some color on just kind of the cadence of production throughout the quarters of fiscal 2020. Given the shut-ins that happened in the second quarter

and then what you're seeing right now for April, is there any sort of update to that cadence that you could provide? Is maybe the exit rate higher as a result? I'm trying to think through the next few quarters.

John P. McGinnis

Yes. The next couple of quarters, the way we're looking at it right now, Holly, are pretty flat to maybe modestly a little bit lower, but really they should be pretty flat.

Holly Stewart

Okay, that's helpful. Thank you.

John P. McGinnis

All right. Thank you Holly.

Operator

Your next question comes from the line of Ryan Levine with Citi. Ryan, your line is open.

Ryan Levine

Good morning.

David P. Bauer

Good morning.

Ryan Levine

Could you speak to the regulatory mechanism to get recovery on bad debt expense in the Utility segment and how you're pursuing that?

David P. Bauer

We don't have a regulatory tracking mechanism, per se, on uncollectibles. We have somewhat of a tracker for the impact of gas prices in New York and their impact on uncollectibles. But there isn't a true tracking mechanism per se.

Ryan Levine

Okay. And then what are you seeing in terms of load dynamics in the Utility segment since the quarter end and what are your expectations for your business?

David P. Bauer

Yes. I mean, it's been interesting in that on the residential side it was a pretty cold April in western New York and Northwestern Pennsylvania, so our volumes have actually been up on the residential side. On the large industrial side, we have seen a fall off, call it, in the 5% to 10% range on volumes. So if you put that in perspective, industrial margin is about 10% of the total margin of the Company on an overall basis, not a dramatic impact on the utility. At least at this point we'll see as we go through the rest of the quarter and months ahead.

Ryan Levine

And then can you comment also in terms of how you're managing the expense profile in that segment? It looks like personnel costs ticked up during the quarter. Are you envisioning any type of initiatives to reduce the expense profile?

David P. Bauer

Well, with the basic shelter in place and lockdown expenses generally tend to come in, at least the discretionary part, things like travel and other types of material purchases, tend to naturally drift down. With respect to managing personnel costs, we do have a business to run, right? So we've got all of our people are working and obviously we're charging and collecting rates that are covering those costs. So we're certainly managing our costs—excuse me, managing our expenses, but the business hasn't had a wholesale change, right, it's an essential service.

Ryan Levine

Okay. That's all for me. Thank you.

Operator

Your next question comes from the line of Chris Sighinolfi with Jefferies. Chris, your line is open.

Chris Sighinolfi

Hey everyone. I had mentioned I had some follow-ups, and I do. John, I appreciate all the thoughts on the development activities at Seneca. I had also wanted to get your thoughts on M&A just given the pricing dislocations and the stress some of your peers might be feeling. You sold Sespe, for example, a couple years ago, I think, but are investments in California oil of interest if the prices were right? And, alternatively, on the gas side, if you continue to see a backwardated curve that doesn't give you confidence to ramp-up activities, are there any properties that might be of interest beside as you think about filling FM100 volume?

John P. McGinnis

Let's start in California. We are definitely interested in adding to our California properties out there. 17N, Coalinga, Pioneer, are all examples of that sort of bolt-ons that we've been able to bring into the fold, and between those they're producing 800,000 barrels a day. So they've been great adds to our production profile out there. We continue to look. It's tough—oil has only been down for a very short period of time, so I think there's going to be a bit of hesitancy to move forward with anything very quickly that I think we could agree to. But we're certainly keeping an eye on what's going on out there. We'd love to be able to get some more assets in.

Moving to Pennsylvania, we've talked about this before, we're always looking for opportunities to expand our position in the EDA, and really specifically those that are near our current operations and honestly that we want both the upstream piece and the midstream piece associated with that. So we continue to work that and we will continue to do that going forward.

I know that was a very vague answer but that's where we are in the...

Chris Sighinolfi

Well, no, it's still helpful just to get a sense of—if you had no interest you'd say so. So it's—I know that opportunities come along but it takes a willing seller. So...

John P. McGinnis

Absolutely.

Chris Sighinolfi

... I think that's been one of the struggles. I guess as it pertains to Karen, Tim asked you earlier about the capitalization structure given some of the write-downs with what they do to book equity position, and I know there was a debt covenant back in the day that I think pertains more to total company losses and restrictions on incremental borrowings after—I think it was an annual period or multiple annual periods of loss. But you had written in last night's release about Seneca specifically having multiple years potentially of losses and that affecting what you were doing with your deferred tax assets. I was just curious if there's any ramification on either one of those items with regard to your capacity for incremental leverage. And maybe as it pertains to that, could you remind me just if the—I think the covenants are predicated on debt to cap. Could you just remind me where those reside?

Karen M. Camiolo

So I think the one you might be talking about is the restriction to our '74 Indenture where we have to be at a two times interest coverage in order to be able to issue incremental long-term debt. So the ceiling test impairment definitely get into that calculation because it's a book—based on book operating income. So, having said that, we are expecting the ceiling test impairments. They're certainly not going to be the magnitude that we saw back in '15-'16 when we kind of were closed out of issuing incremental long-term debt for a period of time. So, having said that, there could be some impact on that but we're not expecting that in the near term, certainly. So, I don't know if that answers your question.

Chris Sighinolfi

It answers—yes, you're right about what I was referencing. I was frankly a little confused as to what bond indenture I was referring to, but I remember it being something that was quite some time ago. So, I guess, as we roll forward on a 12 month look back on the strip and as we incorporate new prices, you're going to get ceiling tests which reduced this down. I guess my question is, if it triggers what it did in 2015, what is the stay out period of time in which you'd not be able to raise any long-term debt?

Karen M. Camiolo

So it depends, the magnitude of those and how long we continue to have them, but we'd expect that if there's any impact it's not in this fiscal year and if we kind of project out maybe a quarter or two in the next fiscal year that that could be—could have an impact. But, I mean, like you said, prices are running up. We've been able to put on some incremental hedges, so that could change what our forecast is on the ceiling test impairments that we're expecting.

So, if we are out it's not for a long—it's not for an extended period of time. We don't have an upcoming maturity, and even under that covenant we're able to refinance any refinancing needs we have and that's not until December of '21. And, I mean, if we're anticipating to be closed out in a couple of quarters of next year we do still have the remainder of this fiscal year to do something if we felt we needed to.

Chris Sighinolfi

Yes, for sure. Okay. I appreciate the color. I was remembering that there were certain things that loomed out there that had crept up a couple of years ago and I didn't want to lose sight of them. So I appreciate all the color. Thanks a lot.

David P. Bauer

Yes. Chris, the way the covenant works is if you look back on a trailing 12 month basis and you basically have to show positive GAAP earnings, so as you roll through time if the ceiling test charges were really large like they were in '15 and '16, that can kick us out for an extended period of time, but if they're more modest, like the one we saw this quarter and may see in the future, they roll off pretty quickly.

Chris Sighinolfi

Okay. That's very helpful, Dave. Thanks everyone.

David P. Bauer

You bet.

Operator

This concludes our question-and-answer session. I will now turn the call back over to Ken Webster for closing remarks.

Kenneth E. Webster

Thank you Amy. We'd like to thank everyone for taking the time to be with us today. A replay of this call will be available at approximately 3:00 PM Eastern time on both our website and by telephone, and will run through the close of business on Friday, May 8. To access the replay online, please visit our Investor Relations website at investor.nationalfuelgas.com, and to access by telephone call 1-800-585-8367 and enter Conference ID number 9349819.

This concludes our conference call for today. Thank you and goodbye.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.