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NATIONAL FUEL GAS CO

FORM 10-Q
(Quarterly Report)

Filed 05/05/06 for the Period Ending 03/31/06

Address	6363 MAIN STREET WILLIAMSVILLE, NY 14221-5887
Telephone	716-857-7000
CIK	0000070145
Symbol	NFG
SIC Code	4924 - Natural Gas Distribution
Industry	Natural Gas Utilities
Sector	Utilities
Fiscal Year	09/30

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United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ____

Commission File Number 1-3880

National Fuel Gas Company

(Exact name of registrant as specified in its charter)

New Jersey	**13-1086010**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6363 Main Street Williamsville, New York	**14221**
	(Zip Code)

(Address of principal executive offices)

(716) 857-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES __X__NO ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer __X__Accelerated Filer ____Non-Accelerated Filer ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___NO __X__

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, $1 par value, outstanding at April 30, 2006: **83,976,340** shares.

GLOSSARY OF TERMS

Frequently used abbreviations or acronyms:

National Fuel Gas Companies	
Company	The Registrant, the Registrant and its subsidiaries or the R subsidiaries as appropriate in the context of the disclosu
Data-Track	Data-Track Account Services, Inc.
Distribution Corporation	National Fuel Gas Distribution Corporation
Empire	Empire State Pipeline
ESNE	Energy Systems North East, LLC
Highland	Highland Forest Resources, Inc.
Horizon	Horizon Energy Development, Inc.
Horizon LFG	Horizon LFG, Inc.
Horizon Power	Horizon Power, Inc.
Leidy Hub	Leidy Hub, Inc.
Model City	Model City Energy, LLC
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
SECI	Seneca Energy Canada Inc.
Seneca	Seneca Resources Corporation
Seneca Energy	Seneca Energy II, LLC
Supply Corporation	National Fuel Gas Supply Corporation
U.E.	United Energy, a.s.
Regulatory Agencies	
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
NYPSC	State of New York Public Service Commission
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission
Other	
2005 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2005
APB 20	Accounting Principles Board Opinion No. 20, Accounting Chang
APB 25	Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees
Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Board foot	A measure of lumber and/or timber equal to 12 inches in leng inches in width by one inch in thickness.
Btu	British thermal unit; the amount of heat needed to raise the of one pound of water one degree Fahrenheit.
Capital expenditure	Represents additions to property, plant, and equipment, or t money a company spends to buy capital assets or upgrade it capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Corporation for gas the customer receives in excess of amo delivered into Supply Corporation's system by the customer
Degree day	A measure of the coldness of the weather experienced, based extent to which the daily average temperature falls below temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which underlying variable (a price, interest rate, index rate, e other variable) and a notional amount (number of units, ba feet, etc.). The terms also permit for the instrument or settled net, and no initial net investment is required to

financial instrument or contract. Examples include future options, no cost collars and swaps.

GLOSSARY OF TERMS (Cont.)

Dth	Dekatherm; one Dth of natural gas has a heating value of 1,0 British thermal units, approximately equal to the heating of natural gas.
Energy Policy Act	Energy Policy Act of 2005
Exchange Act	Securities Exchange Act of 1934
Expenditures for long-lived assets	Includes capital expenditures, stock acquisitions and/or inv partnerships.
FIN 47	FASB Interpretation No. 47, Accounting for Conditional Asset Obligations - an interpretation of SFAS 143
Firm transportation and/or storage	The transportation and/or storage service that a supplier of is obligated by contract to provide and for which the cust obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United State
Goodwill	An intangible asset representing the difference between the a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, a currency exchange rate changes, often times through the us derivative financial instruments.
Hub	Location where pipelines intersect enabling the trading, tra storage, exchange, lending and borrowing of natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordanc contractual arrangements, can be interrupted by the suppli service, and for which the customer does not pay unless ut
LIFO	Last-in, first-out
Mbbl	Thousand barrels (of oil)
Mcf	Thousand cubic feet (of natural gas)
MD&A	Management's Discussion and Analysis of Financial Condition Results of Operations
MDth	Thousand dekatherms (of natural gas)
MMcf	Million cubic feet (of natural gas)
Order 667-A	An order issued by FERC to clarify Order 667 entitled "Repea Public Utility Holding Company Act of 1935 and Enactment o Public Utility Holding Company Act of 2005"
Order 2004	An order issued by FERC entitled "Standards of Conduct for Transmission Providers"
Precedent Agreement	An agreement between a pipeline company and a potential cust sign a service agreement after specified events (called "conditions precedent") happen, usually within a specified
Proved developed reserves	Reserves that can be expected to be recovered through existi with existing equipment and operating methods.
Proved undeveloped reserves	Reserves that are expected to be recovered from new wells on acreage, or from existing wells where a relatively major e required to make these reserves productive.
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
Reserves	The unproduced but recoverable oil and/or gas in place in a which has been proven by production.
Restructuring	Generally referring to partial "deregulation" of the utility statutory or regulatory process. Restructuring of federal natural gas pipelines resulted in the separation (or "unbu gas commodity service from transportation service for whol

	large-volume retail markets. State restructuring programs extend the same process to retail mass markets.
SFAS	Statement of Financial Accounting Standards

GLOSSARY OF TERMS (Concl.)

SFAS 3	Statement of Financial Accounting Standards No. 3, Reporting Accounting Changes in Interim Financial Statements
SFAS 123	Statement of Financial Accounting Standards No. 123, Account for Stock-Based Compensation
SFAS 123R	Statement of Financial Accounting Standards No. 123R, Share-Based Payment
SFAS 143	Statement of Financial Accounting Standards No. 143, Account Asset Retirement Obligations
SFAS 154	Statement of Financial Accounting Standards No. 154, Account Changes and Error Corrections
Stock acquisitions	Investments in corporations.
Unbundled service	A service that has been separated from other services, with charged that reflect only the cost of the separated servic
WNC	Weather normalization clause; a clause in utility rates whic customer rates to allow a utility to recover its normal op calculated at normal temperatures. If temperatures during measured period are warmer than normal, customers are asse a surcharge. If temperatures during the measured period a than normal, customers receive a credit.

INDEX

• The Company has nothing to report under this item.

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

This Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-Q at Item 2 — MD&A, under the heading "Safe Harbor for Forward-Looking Statements." Forward-looking statements are all statements other than statements of historical fact, including, without limitation, those statements that are designated with an asterisk ("*") following the statement, as well as those statements that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions.

Part I. Financial Information

Item 1. Financial Statements

Back to Table of Contents

Consolidated Statements of Income and Earnings

Back to Table of Contents

National Fuel Gas Company
Consolidated Statements of Income and Earnings
Reinvested in the Business
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)	Three M 2006
INCOME	
Operating Revenues	$890,981
Operating Expenses	
Purchased Gas	566,540
Operation and Maintenance	121,076
Property, Franchise and Other Taxes	20,120
Depreciation, Depletion and Amortization	44,278
	752,014

Operating Income	138,967
Other Income (Expense):	
Income from Unconsolidated Subsidiaries	720
Interest Income	965
Other Income	248
Interest Expense on Long-Term Debt	(18,149)
Other Interest Expense	(1,465)
Income from Continuing Operations Before Income Taxes	121,286
Income Tax Expense	42,692
Income from Continuing Operations	78,594
Income from Discontinued Operations, Net of Tax	-
Net Income Available for Common Stock	78,594
EARNINGS REINVESTED IN THE BUSINESS	
Balance at December 31	845,951
	924,545
Share Repurchases	22,619
Dividends on Common Stock (2006 - $0.29; 2005 - $0.28)	24,327
Balance at March 31	$877,599
Earnings Per Common Share:	
Basic:	
Income from Continuing Operations	$0.93
Income from Discontinued Operations	-
Net Income Available for Common Stock	$0.93
Diluted:	
Income from Continuing Operations	$0.91
Income from Discontinued Operations	-
Net Income Available for Common Stock	$0.91
Weighted Average Common Shares Outstanding:	
Used in Basic Calculation	84,346,733
Used in Diluted Calculation	86,253,597

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Statements of Income and Earnings

Back to Table of Contents

National Fuel Gas Company
Consolidated Statements of Income and Earnings
Reinvested in the Business
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)	Six Mon Ma 2006
INCOME	
Operating Revenues	$1,601,737
Operating Expenses	
Purchased Gas	1,003,317
Operation and Maintenance	224,704
Property, Franchise and Other Taxes	37,302
Depreciation, Depletion and Amortization	87,324
	1,352,647
Operating Income	249,090
Other Income (Expense):	
Income from Unconsolidated Subsidiaries	1,985
Interest Income	2,098
Other Income	989
Interest Expense on Long-Term Debt	(36,367)
Other Interest Expense	(3,240)
Income from Continuing Operations Before Income Taxes	214,555
Income Tax Expense	78,542
Income from Continuing Operations	136,013
Income from Discontinued Operations, Net of Tax	-
Net Income Available for Common Stock	136,013
EARNINGS REINVESTED IN THE BUSINESS	
Balance at October 1	813,020
	949,033
Share Repurchases	22,619
Dividends on Common Stock (2006 - $0.58; 2005 - $0.56)	48,815
Balance at March 31	$877,599
Earnings Per Common Share:	
Basic:	
Income from Continuing Operations	$1.61
Income from Discontinued Operations	-
Net Income Available for Common Stock	$1.61
Diluted:	
Income from Continuing Operations	$1.58

Income from Discontinued Operations	-
Net Income Available for Common Stock	$1.58
Weighted Average Common Shares Outstanding:	
Used in Basic Calculation	84,385,140
Used in Diluted Calculation	86,256,515

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Balance Sheets

Back to Table of Contents

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	March 31, 2006
ASSETS	
Property, Plant and Equipment	$4,535,882
Less - Accumulated Depreciation, Depletion and Amortization	1,639,493
	2,896,389
Current Assets	
Cash and Temporary Cash Investments	98,099
Hedging Collateral Deposits	16,890
Receivables - Net of Allowance for Uncollectible Accounts of $43,409 and $26,940, Respectively	358,026
Unbilled Utility Revenue	67,074
Gas Stored Underground	31,883
Materials and Supplies - at average cost	32,425
Unrecovered Purchased Gas Costs	-
Prepayments and Other Current Assets	41,096
Deferred Income Taxes	49,546
Fair Value of Derivative Financial Instruments	5,895
	700,934
Other Assets	
Recoverable Future Taxes	84,834
Unamortized Debt Expense	16,516
Other Regulatory Assets	56,713

Deferred Charges	8,086
Other Investments	85,349
Investments in Unconsolidated Subsidiaries	11,491
Goodwill	5,476
Intangible Assets	40,971
Other	6,808
	316,244
Total Assets	$3,913,567

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Balance Sheets

Back to Table of Contents

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	March 31, 2006
CAPITALIZATION AND LIABILITIES	
Capitalization:	
Comprehensive Shareholders' Equity	
Common Stock, $1 Par Value Authorized - 200,000,000 Shares; Issued And Outstanding - 83,919,742 Shares and 84,356,748 Shares, Respectively	$83,920
Paid in Capital	540,388
Earnings Reinvested in the Business	877,599
Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,501,907
Accumulated Other Comprehensive Loss	(119,248)
Total Comprehensive Shareholders' Equity	1,382,659
Long-Term Debt, Net of Current Portion	1,114,371
Total Capitalization	2,497,030
Current and Accrued Liabilities	
Notes Payable to Banks and Commercial Paper	-
Current Portion of Long-Term Debt	9,505
Accounts Payable	145,438
Amounts Payable to Customers	12,650
Dividends Payable	24,327

Other Accruals and Current Liabilities	193,249
Fair Value of Derivative Financial Instruments	87,962
	473,131
Deferred Credits	
Deferred Income Taxes	503,147
Taxes Refundable to Customers	11,070
Unamortized Investment Tax Credit	6,445
Cost of Removal Regulatory Liability	93,092
Other Regulatory Liabilities	58,886
Pension and Other Post-Retirement Benefit Liabilities	155,582
Asset Retirement Obligation	42,216
Other Deferred Credits	72,968
	943,406
Commitments and Contingencies	-
Total Capitalization and Liabilities	$3,913,567

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Statements of Cash Flows

Back to Table of Contents

National Fuel Gas Company
Consolidated Statements of Cash Flows
Unaudited)

(Thousands of Dollars)	Six Mo Mar 2006
OPERATING ACTIVITIES	
Net Income Available for Common Stock	$136,013
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation, Depletion and Amortization	87,324
Deferred Income Taxes	(1,435)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	1,166
Minority Interest in Foreign Subsidiaries	-
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(6,515)
Other	(5,297)
Change in:	
Hedging Collateral Deposits	60,894
Receivables and Unbilled Utility Revenue	(249,466)
Gas Stored Underground and Materials and Supplies	33,486

Unrecovered Purchased Gas Costs	14,817
Prepayments and Other Current Assets	24,372
Accounts Payable	(9,951)
Amounts Payable to Customers	11,492
Other Accruals and Current Liabilities	139,020
Other Assets	(11,837)
Other Liabilities	19,107
Net Cash Provided by Operating Activities	243,190
INVESTING ACTIVITIES	
Capital Expenditures	(134,961)
Net Proceeds from Sale of Oil and Gas Producing Properties	4
Other	(1,396)
Net Cash Used in Investing Activities	(136,353)
FINANCING ACTIVITIES	
Change in Notes Payable to Banks and Commercial Paper	-
Excess Tax Benefits Associated with Stock-Based Compensation Awards	6,515
Shares Repurchased under Repurchase Plan	(26,577)
Reduction of Long-Term Debt	(4,529)
Dividends Paid on Common Stock	(48,933)
Net Proceeds from Issuance of Common Stock	7,164
Net Cash Used in Financing Activities	(66,360)
Effect of Exchange Rates on Cash	15
Net Increase in Cash and Temporary Cash Investments	40,492
Cash and Temporary Cash Investments at October 1	57,607
Cash and Temporary Cash Investments at March 31	$98,099

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Statements of Comprehensive Income

Back to Table of Contents

National Fuel Gas Company
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Mo Marc
(Thousands of Dollars)	2006

Net Income Available for Common Stock	$78,594
Other Comprehensive Income (Loss), Before Tax:	
Foreign Currency Translation Adjustment	(991)
Unrealized Gain on Securities Available for Sale Arising During the Period	1,121
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	21,618
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	25,794
Other Comprehensive Income (Loss), Before Tax	47,542
Income Tax Expense Related to Cumulative Translation Adjustment	-
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	392
Income Tax Benefit Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	8,334
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	10,000
Income Taxes - Net	18,726
Other Comprehensive Income (Loss)	28,816
Comprehensive Income	$107,410

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Statements of Comprehensive Income

Back to Table of Contents

National Fuel Gas Company
Consolidated Statements of Comprehensive Income
(Unaudited)

	Six Mon Marc
(Thousands of Dollars)	2006
Net Income Available for Common Stock	$136,013
Other Comprehensive Income (Loss), Before Tax:	
Foreign Currency Translation Adjustment	(736)
Unrealized Gain on Securities Available for Sale Arising	

During the Period	2,263
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	62,615
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	63,725
Other Comprehensive Income (Loss), Before Tax	127,867
Income Tax Expense Related to Cumulative Translation Adjustment	-
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	791
Income Tax Benefit Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	24,110
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	24,586
Income Taxes - Net	49,487
Other Comprehensive Income (Loss)	78,380
Comprehensive Income	$214,393

See Notes to Condensed Consolidated Financial Statements

Back to Table of Contents

National Fuel Gas Company

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 – Summary of Significant Accounting Policies

Principles of Consolidation. The Company consolidates its majority owned entities. The equity method is used to account for minority owned entities. All significant intercompany balances and transactions are eliminated.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Earnings for Interim Periods. The Company, in its opinion, has included all adjustments that are necessary for a fair statement of the results of operations for the reported periods. The consolidated financial statements and notes thereto, included herein, should be read in conjunction with the financial statements and notes for the years ended September 30, 2005, 2004 and 2003 that are included in the Company's 2005 Form 10-K. The consolidated financial statements for the year ended September 30, 2006 will be audited by the Company's independent registered public accounting firm after the end of the fiscal year.

The earnings for the six months ended March 31, 2006 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2006. Most of the business of the Utility and Energy Marketing segments is seasonal in nature and is influenced by weather conditions. Due to the seasonal nature of the heating business in the Utility and Energy Marketing segments, earnings during the winter months normally represent a substantial part of the earnings that those segments are expected to achieve for the entire fiscal year.

Consolidated Statement of Cash Flows. For purposes of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of generally three months or less to be cash equivalents.

Hedging Collateral Deposits. Cash held in margin accounts serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

Gas Stored Underground — Current. In the Utility segment, gas stored underground – current is carried at lower of cost or market, on a LIFO method. Gas stored underground – current normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. In the Utility segment, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance Sheets under the caption "Other Accruals and Current Liabilities." Such reserve, which amounted to $121.8 million at March 31, 2006, is reduced to zero by September 30 as the inventory is replenished.

Accumulated Other Comprehensive Income (Loss). The components of Accumulated Other Comprehensive Income (Loss), net of related tax effect, are as follows (in thousands):

Item 1. Financial Statements (Cont.)

	At March 31, 2006	At
Minimum Pension Liability Adjustment	$(107,844)	
Cumulative Foreign Currency Translation Adjustment	27,273	
Net Unrealized Loss on Derivative Financial Instruments	(45,695)	
Net Unrealized Gain on Securities Available for Sale	7,018	
Accumulated Other Comprehensive Loss	$(119,248)	

Earnings per Common Share. Basic earnings per common share is computed by dividing income available for common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For purposes of determining earnings per common share, the only potentially dilutive securities the Company has outstanding are stock options. The diluted weighted average shares outstanding shown on the Consolidated Statements of Income reflects the potential dilution as a result of these stock options as determined using the Treasury Stock Method. Stock options that are antidilutive are excluded from the calculation of diluted earnings per common share. For the quarter and six months ended March 31, 2006, there were no stock options excluded as being antidilutive. For the quarter and six months ended March 31, 2005, 21,434 and 10,599 stock options, respectively, were excluded as being antidilutive.

Share Repurchases. The Company considers all shares repurchased as cancelled shares restored to the status of authorized but unissued shares, in accordance with New Jersey law. The repurchases are accounted for on the date the share repurchase is settled as an adjustment to common stock (at par value) with the excess repurchase price allocated between paid in capital and retained earnings. Refer to Note 3 - Capitalization for further discussion of the share repurchase program.

Stock-Based Compensation. The Company has various stock option and stock award plans which provide or provided for the issuance of one or more of the following to key employees: incentive stock options, nonqualified stock options, restricted stock, performance units or performance shares. Stock options under all plans have exercise prices equal to the average market price of Company common stock on the date of grant, and generally no option is exercisable less than one year or more than ten years after the date of each grant. Restricted stock is subject to restrictions on vesting and transferability. Restricted stock awards entitle the participants to full dividend and voting rights. Certificates for shares of restricted stock awarded under the Company's stock option and stock award plans are held by the Company during the periods in which the restrictions on vesting are effective. Restrictions on restricted stock awards generally lapse ratably over a period of not more than ten years after the date of each grant.

Prior to October 1, 2005, the Company accounted for its stock-based compensation under the recognition and measurement principles of APB 25 and related interpretations. Under that method, no compensation expense was recognized for options granted under the Company's stock option and stock award plans. The Company did record, in accordance with APB 25, compensation expense for the market value of restricted stock on the date of the award over the periods during which the vesting restrictions existed.

Effective October 1, 2005, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options. The Company has chosen to use the modified version of prospective application, as allowed by SFAS 123R. Using the modified prospective application, the Company is recording compensation cost for the portion of awards granted prior to October 1, 2005 for which the requisite service had not been rendered and is recognizing such compensation cost as the requisite service is rendered on or after October 1, 2005. Such compensation expense is based on the grant-date fair value of the awards as calculated for

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the Company's disclosure using a Binomial option-pricing model under SFAS 123. Any new awards, modifications to awards, repurchases of awards, or cancellations of awards subsequent to September 30, 2005 will follow the provisions of SFAS 123R, with compensation expense being calculated using the Black-Scholes-Merton closed form model. The Company has chosen the Black-Scholes-Merton closed form model since it is easier to administer than the Binomial option-pricing model. Furthermore, since the Company does not have complex stock-based compensation awards, it does not believe that compensation expense would be materially different under either model. There were no stock-based compensation awards granted during the quarter or six months ended March 31, 2006. There were 643,000 stock options granted during the quarter ended March 31, 2005. Stock-based compensation expense for the quarters ended March 31, 2006 and March 31, 2005 totaled approximately $134,000 and $152,000, respectively. Stock-based compensation expense for the six months ended March 31, 2006 and March 31, 2005 was approximately $283,000 and $315,000, respectively. Stock-based compensation expense is included in operation and maintenance expenses in the consolidated statement of income. The total income tax benefit related to stock-based compensation expense during the quarters ended March 31, 2006 and March 31, 2005 was approximately $53,000 and $60,000, respectively. The total income tax benefit related to stock-based compensation expense during the six months ended March 31, 2006 and March 31, 2005 was approximately $112,000 and $125,000, respectively. There were no capitalized stock-based compensation costs during the quarters ended March 31, 2006 and March 31, 2005.

The following table illustrates the effect on net income and earnings per share of the Company had the Company applied the fair value recognition provisions of SFAS 123 relating to stock-based employee compensation for the three and six months ended March 31, 2005:

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended March 31, 2005	Six Mo Ma
Net Income, Available for Common Stock, as Reported	$70,683	$
Add:		
Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax (1)	98	
Deduct:		
Total Stock-Based Employee Compensation Expense Determined Under Fair Value Based Method for all Awards, Net of Related Tax Effects	(317)	
Pro Forma Net Income Available For Common Stock	$70,464	$
Earnings Per Common Share:		
Basic - As Reported	$0.85	
Basic - Pro Forma	$0.85	
Diluted - As Reported	$0.83	
Diluted - Pro Forma	$0.83	

(1) Stock-based compensation expense in 2005 represented compensation expense related to restricted stock awards. The pre-tax expense was $152,000 and $315,000, respectively, for the quarter and six months ended Match 31, 2005.

Item 1. Financial Statements (Cont.)

Stock Options

Transactions during the quarter ended March 31, 2006 were as follows (in thousands, except option prices and years):

	Number of Options	Weighted Average Exercise Price	C L
Options Outstanding at September 30, 2005	10,997	$ 23.78	
Granted	-	-	
Exercised	(178)	21.24	
Forfeited	-	-	
Options Outstanding at December 31, 2005	10,819	23.82	
Granted	-	-	
Exercised	(330)	22.34	

Forfeited	(3)	25.89
Options Outstanding at March 31, 2006	10,486	$ 23.87
Options Exercisable at March 31, 2006	10,339	$ 23.87

The total intrinsic value of stock options exercised during the quarters ended March 31, 2006 and March 31, 2005 totaled approximately $3.3 million and $5.6 million, respectively. The amount of cash received by the Company from the exercise of such stock options was approximately $5.4 million during the quarter ended March 31, 2006 and approximately $4.5 million during the quarter ended March 31, 2005. The total intrinsic value of stock options exercised during the six months ended March 31, 2006 and March 31, 2005 totaled approximately $5.2 million and $8.5 million, respectively. For the six months ended March 31, 2006 and March 31, 2005, the amount of cash received by the Company from the exercise of stock options was approximately $8.1 million and $8.2 million, respectively. The Company realizes tax benfits from the exercise of stock options on a calendar year basis as opposed to a fiscal year basis. As such, for stock options exercised during the quarters ended December 31, 2005 and December 31, 2004, the Company realized a tax benefit of $0.9 million and $1.1 million, respectively. For stock options exercised during the quarter ended March 31, 2006, the Company will realize a tax benefit of approximately $1.4 million in the quarter ended December 31, 2006. For stock options exercised during the quarter ended March 31, 2005, the Company realized a tax benefit of approximately $2.0 million in the quarter ended December 31, 2005. No stock options were granted or became fully vested during the quarter ended March 31, 2006. The weighted average grant date fair value of options granted during the quarter ended March 31, 2005 is $4.62 per share. No stock options became fully vested during the quarter ended March 31, 2005. As of March 31, 2006, unrecognized compensation expense related to stock options totaled approximately $124,000, which will be recognized over a weighted average period of 1.3 years.

For options granted prior to October 1, 2005, the fair value of options at date of grant was estimated using a Binomial option-pricing model with the following weighted average assumptions:

	March 31,	
	2006	2005
Risk Free Interest Rate	4.04%	4.74%
Expected Life (years)	6.6	5.9
Expected Volatility	21.2%	21.0%
Expected Dividend Yield (Quarterly)	1.10%	1.04%

The risk-free interest rate is based on the yield of a Treasury Note with a remaining term commensurate with the expected term of the option. The expected life and expected volatility are based on historical experience.

The Company used a forfeiture rate of 13.6% for calculating stock-based compensation expense related to stock options and this rate is based on the Company’s historical experience of forfeitures on unvested stock option grants.

Restricted Share Awards

Transactions during the quarter ended March 31, 2006 were as follows (in thousands, except fair values):

Number of

	Restricted Share Awards
Restricted Share Awards Outstanding at September 30, 2005	65
Granted	-
Vested	(8)
Forfeited	-
Restricted Share Awards Outstanding at December 31, 2005	57
Granted	-
Vested	(25)
Forfeited	-
Restricted Share Awards Outstanding at March 31, 2006	32

As of March 31, 2006, unrecognized compensation expense related to restricted share awards totaled approximately $147,000, which will be recognized over a weighted average period of 1.1 years.

New Accounting Pronouncements. In March 2005, the FASB issued FIN 47, an interpretation of SFAS 143. FIN 47 provides clarification of the term "conditional asset retirement obligation" as used in SFAS 143, defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. Under this standard, a company must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 also serves to clarify when a company would have sufficient information to reasonably estimate the fair value of a conditional asset retirement obligation. FIN 47 becomes effective no later than the end of fiscal 2006. The Company is currently evaluating the impact of FIN 47 on its consolidated financial statements.

In May 2005, the FASB issued SFAS 154. SFAS 154 replaces APB 20 and SFAS 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company is required to adopt SFAS 154 for accounting changes and corrections of errors that occur in fiscal 2007. Early adoption is permitted. The Company's financial condition and results of operations will only be impacted by SFAS 154 if there are any accounting changes or corrections of errors in the future.

Note 2 – Income Taxes

The components of federal, state and foreign income taxes included in the Consolidated Statements of Income are as follows (in thousands):

Item 1. Financial Statements (Cont.)

	Six Mon Mar 2006
Operating Expenses:	
Current Income Taxes	
Federal	$62,466
State	15,181
Foreign	2,328

Deferred Income Taxes	
Federal	(1,433)
State	(223)
Foreign	223
	78,542
Other Income:	
Deferred Investment Tax Credit	(348)
Discontinued Operations	-
Total Income Taxes	$78,194

The U.S. and foreign components of income before income taxes are as follows (in thousands):

	Six M M 2006
U.S.	$195,503
Foreign	18,704
	$214,207

Total income taxes as reported differ from the amounts that were computed by applying the federal income tax rate to income before income taxes. The following is a reconciliation of this difference (in thousands):

	Six Mont Marc 2006
Income Tax Expense, Computed at Statutory Rate of 35%	$74,972
Increase (Reduction) in Taxes Resulting From:	
State Income Taxes	9,723
Dividend from Foreign Subsidiary	-
Foreign Tax Differential	(4,704) (1
Miscellaneous	(1,797)
Total Income Taxes	$78,194

(1) Includes a $5.1 million deferred tax benefit relating to additional future tax deductions forecasted in the Exploration and Production segment’s Canadian division.

Item 1. Financial Statements (Cont.)

Significant components of the Company's deferred tax liabilities (assets) were as follo

	At March 31, 2006	At S
Deferred Tax Liabilities:		
Property, Plant and Equipment	$578,038	
Other	39,692	
Total Deferred Tax Liabilities	617,730	
Deferred Tax Assets:		
Minimum Pension Liability Adjustment	(58,070)	
Capital Loss Carryover	(7,196)	
Unrealized Hedging Losses	(26,170)	
Other	(75,570)	
	(167,006)	
Valuation Allowance	2,877	
Total Deferred Tax Assets	(164,129)	
Total Net Deferred Income Taxes	$453,601	
Presented as Follows:		
Net Deferred Tax Asset - Current	(49,546)	
Net Deferred Tax Liability - Non-Current	503,147	
Total Net Deferred Income Taxes	$453,601	

Regulatory liabilities representing the reduction of previously recorded deferred income taxes with rate-regulated activities that are expected to be refundable to customers amounted to $11.1 million and $11.0 million at March 31, 2006 and September 30, 2005, respectively. Also, regulatory assets representing future amounts collectible from customers, corresponding to additional deferred income taxes not previously recorded because of prior ratemaking practices, amounted to $84.8 million and $85.0 million at March 31, 2006 and September 30, 2005, respectively.

The American Jobs Creation Act of 2004 was signed into law on October 22, 2004. This legislation included a provision which provided a substantially reduced tax rate of 5.25% on certain dividends received from foreign affiliates. In the quarter ended June 30, 2005, the Company received a dividend of $72.8 million from a foreign affiliate and recorded a tax of $3.8 million on such dividend.

A capital loss carryover of $20.6 million existed at March 31, 2006, which expires if not utilized by September 30, 2008. Although realization is not assured, management estimates that a portion of the deferred tax asset associated with this carryover will be realized during the carryover period, and a valuation allowance is recorded for the remaining portion. Adjustments to the valuation allowance may be necessary in the future if estimates of capital gain income are revised.

Note 3 – Capitalization

Common Stock. During the six months ended March 31, 2006, the Company issued 507,855 shares of common stock as a result of stock option exercises. The Company also issued 4,200 shares of common stock to the non-employee directors of the Company as partial consideration for the directors' services during the six months ended March 31, 2006. Holders of stock options or restricted stock will often tender shares of common stock to the Company for payment of option exercise prices and/or applicable withholding taxes. During the six months ended March 31, 2006, 123,811 shares of common stock were tendered to the Company for such purposes. The Company considers all shares tendered as cancelled shares restored to the status of authorized but unissued shares, in accordance with New Jersey law.

Item 1. **Financial Statements (Cont.)**

On December 8, 2005, the Company's board of directors authorized the Company to implement a share repurchase program, whereby the Company may repurchase outstanding shares of common stock, up to an aggregate amount of 8 million shares in the open market or through privately negotiated transactions. During the quarter ended March 31, 2006, the Company repurchased 825,250 shares under this program, funded with cash provided by operating activities. At March 31, 2006, the Company had made commitments to repurchase an additional 16,600 shares of common stock. These commitments were settled and recorded as a reduction of the Company's outstanding shares of common stock in April 2006.

Note 4 – Commitments and Contingencies

Environmental Matters. The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. At March 31, 2006, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be $3.9 million. This liability has been recorded on the Consolidated Balance Sheet at March 31, 2006. The Company expects to recover its environmental clean-up costs from a combination of insurance proceeds and rate recovery. Other than as discussed in Note G of the Company's 2005 Form 10-K (referred to below), the Company is currently not aware of any material additional exposure to environmental liabilities. However, adverse changes in environmental regulations or other factors could impact the Company.

Other. In addition to the legal proceedings disclosed in Part II, Item 1 of this report, the Company is involved in other litigation and regulatory matters arising in the normal course of business. These other matters may include, for example, negligence claims and tax, regulatory or other governmental audits, inspections, investigations or other proceedings. These matters may involve state and federal taxes, safety, compliance with regulations, rate base, cost of service, and purchased gas cost issues, among other things. While these normal-course matters could have a material effect on earnings and cash flows in the quarterly and annual period in which they are resolved, they are not expected to change materially the Company's present liquidity position, nor to have a material adverse effect on the financial condition of the Company.

Note 5 – Discontinued Operations

On July 18, 2005, the Company completed the sale of its entire 85.16% interest in U.E., a district heating and electric generation business in the Bohemia region of the Czech Republic, to Czech Energy Holdings, a.s. for sales proceeds of approximately $116.3 million. The sale resulted in the recognition of a gain of approximately $25.8 million, net of tax, at September 30, 2005. Market conditions during 2005, including the increasing value of the Czech currency as compared to the U.S. dollar, caused the value of the assets of U.E. to increase, providing an opportunity to sell the U.E. operations at a profit for the Company. As a result of the decision to sell its majority interest in U.E., the Company began presenting the Czech Republic operations, which are primarily comprised of U.E., as discontinued operations in June 2005. U.E. was the major component of the Company's International segment. With this change in presentation, the Company discontinued all reporting for an International segment.

The following is selected financial information of the discontinued operations for U.E.:

Item 1. **Financial Statements (Cont.)**

(Thousands)	Three Months Ended March 31, 2005
Operating Revenues	$55,487
Operating Expenses	37,872
Operating Income	17,615
Other Income	314
Interest Expense	(152)
Income before Income Taxes and Minority Interest	17,777
Income Tax Expense	8,670
Minority Interest, Net of Taxes	2,405
Income from Discontinued Operations	$6,702

Note 6 – Business Segment Information.

The Company has five reportable segments: Utility, Pipeline and Storage, Exploration and Production, Energy Marketing, and Timber. The division of the Company's operations into the reportable segments is based upon a combination of factors including differences in products and services, regulatory environment and geographic factors.

The data presented in the tables below reflect the reportable segments and reconciliations to consolidated amounts. As stated in the 2005 Form 10-K, the Company evaluates segment performance based on income before discontinued operations, extraordinary items and cumulative effects of changes in accounting (where applicable). When these items are not applicable, the Company evaluates performance based on net income. There have been no changes in the basis of segmentation nor in the basis of measuring segment profit or loss from those used in the Company's 2005 Form 10-K. There have been no material changes in the amount of assets for any operating segment from the amounts disclosed in the 2005 Form 10-K.

Quarter Ended March 31, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All O
Revenue from External Customers	$536,235	$39,346	$88,719	$206,061	$19,157	$889,518	$ 1
Intersegment Revenues	$ 5,681	$19,711	$ -	$ -	$ (23)	$ 25,369	$ 2
Segment Profit: Net Income	$ 28,654	$16,892	$25,845	$ 3,877	$2,242	$77,510	

Six Months Ended March 31, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All O
Revenue from External Customers	$967,714	$74,085	$170,806	$351,620	$36,066	$1,600,291	$1
Intersegment Revenues	$ 9,803	$41,006	$ -	$ -	$ -	$ 50,809	$6
Segment Profit: Net Income	$50,407	$32,742	$ 43,280	$ 4,864	$ 3,706	$ 134,999	$

Quarter Ended March 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All O
Revenue from External Customers	$485,647	$36,029	$70,319	$124,565	$18,971	$735,531	$
Intersegment Revenues	$ 5,693	$21,517	$ -	$ -	$ 1	$ 27,211	$3
Segment Profit (Loss): Income (Loss) from Continuing Operations	$ 28,882	$18,457	$11,230	$ 2,612	$ 2,893	$ 64,074	$

Six Months Ended March 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All O
Revenue from External Customers	$802,476	$68,474	$142,157	$188,059	$31,966	$1,233,132	$2
Intersegment Revenues	$ 9,998	$42,116	$ -	$ -	$ 1	$ 52,115	$4
Segment Profit (Loss): Income (Loss) from Continuing Operations	$ 46,954	$ 30,734	$ 25,153	$ 3,361	$ 3,646	$ 109,848	$1

Item 1. Financial Statements (Cont.)

Note 7 – Intangible Assets

The components of the Company's intangible assets were as follows (in thousands):

	At March 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets Subject to Amortization:			
Long-Term Transportation Contracts	$8,580	$(3,385)	$5,195
Long-Term Gas Purchase Contracts	31,864	(4,230)	27,634
Intangible Assets Not Subject to Amortization:			
Retirement Plan Intangible Asset	8,142	-	8,142
	$48,586	$ (7,615)	$40,971

Aggregate Amortization Expense: (Thousands)	
Three Months Ended March 31, 2006	$665
Three Months Ended March 31, 2005	$665
Six Months Ended March 31, 2006	$1,331
Six Months Ended March 31, 2005	$1,331

Amortization expense for the long-term transportation contracts is estimated to be $0.5 million for the remainder of 2006 and $1.1 million annually for 2007 and 2008. Amortization expense is estimated to be $0.5 million and $0.4 million for 2009 and 2010, respectively.

Amortization expense for the long-term gas purchase contracts is estimated to be $0.8 million for the remainder of 2006 and $1.6 million annually for 2007, 2008, 2009 and 2010.

Note 8 – Retirement Plan and Other Post-Retirement Benefits

Components of Net Periodic Benefit Cost (in thousands):

Three months ended March 31,

	Retirement Plan		Other Post-Re
	2006	2005	2006
Service Cost	$4,104	$3,429	$2,007
Interest Cost	10,049	10,520	6,701
Expected Return on Plan Assets	(12,486)	(12,386)	(5,576)
Amortization of Prior Service Cost	239	257	1
Amortization of Transition Amount	-	-	1,782
Amortization of Losses	5,777	2,618	5,850
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	1,907	2,723	2,634
Net Periodic Benefit Cost	$9,590	$7,161	$13,399

Item 1. Financial Statements (Concl.)

Six months ended March 31,

	Retirement Plan		Other Post-Retir
	2006	2005	2006
Service Cost	$8,208	$6,858	$ 4,015
Interest Cost	20,098	21,040	13,402
Expected Return on Plan Assets	(24,972)	(24,772)	(11,151)
Amortization of Prior Service Cost	478	514	2
Amortization of Transition Amount	-	-	3,564
Amortization of Losses	11,554	5,236	11,701
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	379	3,605	(51)
Net Periodic Benefit Cost	$15,745	$12,481	$21,482

(1) The Company’s policy is to record retirement plan and other post-retirement benefit costs in the Utility segment on a volumetric basis to reflect the fact that the Utility segment experiences higher throughput of natural gas in the winter months and lower throughput of natural gas in the summer months.

Employer Contributions. During the six months ended March 31, 2006, the Company contributed $10.5 million to its retirement plan and $26.6 million to its other post-retirement benefit plan. In April 2006, the Company funded $8.6 million to its retirement plan and $2.2 million to its other post-retirement benefit plan. The Company does not expect to make any contributions to the retirement plan during the remainder of the fiscal year. In the remainder of 2006, the Company expects to contribute in the range of $10.0 million to $12.0 million to its other post-retirement benefit plan.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Back to Table of Contents

CRITICAL ACCOUNTING POLICIES

For a complete discussion of critical accounting policies, refer to “Critical Accounting Policies” in Item 7 of the Company’s 2005 Form 10-K. There have been no material changes to that disclosure other than as set forth below. The information presented below updates and should be read in conjunction with the critical accounting policies in that Form 10-K.

At March 31, 2006, the Canadian oil and gas properties passed the quarterly ceiling tests but capitalized costs less accumulated depletion and related deferred income taxes were nearly equal to the ceiling. A downward revision to reserves or prices could result in an impairment of the Canadian oil and gas properties in the future.

RESULTS OF OPERATIONS

Earnings

The Company's earnings were $78.6 million for the quarter ended March 31, 2006 compared to earnings of $70.7 million for the quarter ended March 31, 2005. As previously discussed, the Company began presenting its Czech Republic operations as discontinued operations in June 2005. Prior year amounts have been reclassified to reflect this change in presentation. The Company's earnings from continuing operations were $78.6 million for the quarter ended March 31, 2006 compared to earnings from continuing operations of $64.0 million for the quarter ended March 31, 2005. The increase in earnings from continuing operations of $14.6 million is primarily the result of higher earnings in the Exploration and Production segment, as shown in the table below. The Pipeline and Storage segment's earnings for the quarter ended March 31, 2005 include a $2.6 million gain on the FERC approved sale of base gas by Supply Corporation's jointly-owned Ellisburg Storage Pool. The Exploration and Production segment's earnings for the quarter ended March 31, 2006 include a $5.1 million benefit to earnings resulting from an adjustment to a deferred income tax balance.

The Company's earnings were $136.0 million for the six months ended March 31, 2006 compared to earnings of $121.1 million for the six months ended March 31, 2005. The Company's earnings from continuing operations were $136.0 million for the six months ended March 31, 2006 compared to earnings from continuing operations of $108.8 million for the six months ended March 31, 2005. The increase in earnings from continuing operations of $27.2 million is primarily the result of higher earnings in the Utility, Pipeline and Storage, Exploration and Production, and Energy Marketing segments, as well as in Corporate operations, as shown in the table below. As mentioned above, earnings for the six months ended March 31, 2005 include a $2.6 million gain on the sale of base gas in the Pipeline and Storage segment and earnings for the six months ended March 31, 2006 include a $5.1 million deferred income tax benefit in the Exploration and Production segment.

Additional discussion of earnings in each of the business segments can be found in the business segment information that follows. Note that all amounts used in the earnings discussions are after tax amounts.

Earnings (Loss) by Segment

	Three Months Ended March 31,			Six
(Thousands)	2006	2005	Increase/ (Decrease)	2006
Utility	$28,654	$28,882	$(228)	$50,407
Pipeline and Storage	16,892	18,457	(1,565)	32,742
Exploration and Production	25,845	11,230	14,615	43,280
Energy Marketing	3,877	2,612	1,265	4,864
Timber	2,242	2,893	(651)	3,706
Total Reportable Segments	77,510	64,074	13,436	134,999
All Other	46	652	(606)	616
Corporate (1)	1,038	(745)	1,783	398
Total Earnings from Continuing Operations	78,594	63,981	14,613	136,013
Earnings from Discontinued Operations	-	6,702	(6,702)	-
Total Consolidated	$78,594	$70,683	$7,911	$136,013

(1) Includes earnings from the former International segment's activity other than the activity

included in Earnings from Discontinued Operations.

Utility

Utility Operating Revenues

	Three Months Ended March 31,			Six Mont March	
(Thousands)	2006	2005	Increase	2006	
Retail Sales Revenues:					
Residential	$422,495	$386,623	$35,872	$767,368	$64
Commercial	75,758	69,367	6,391	132,648	11
Industrial	6,272	4,566	1,706	10,724	
	504,525	460,556	43,969	910,740	75
Transportation	32,360	30,600	1,760	59,276	5
Other	5,031	184	4,847	7,501	
	$541,916	$491,340	$50,576	$977,517	$81

Utility ThroughputM

	Three Months Ended March 31,			Six Mont March	
(MMcf)	2006	2005	Increase/ (Decrease)	2006	
Retail Sales:					
Residential	26,807	32,559	(5,752)	46,331	5
Commercial	5,038	6,072	(1,034)	8,481	
Industrial	459	425	34	786	
	32,304	39,056	(6,752)	55,598	6
Transportation	22,119	22,465	(346)	36,461	3
	54,423	61,521	(7,098)	92,059	9

Degree Days

Three Months Ended March 31	Normal	2006	2005	Colde Normal
Buffalo	3,327	2,875	3,468	(13.6)
Erie	3,142	2,705	3,266	(13.9)

Six Months Ended March 31				
Buffalo	5,587	5,085	5,640	(9.0)
Erie	5,223	4,753	5,263	(9.0)

2006 Compared with 2005

Operating revenues for the Utility segment increased $50.6 million for the quarter ended March 31, 2006 as compared with the quarter ended March 31, 2005. The increase is attributable primarily to higher retail gas sales revenues. Retail gas sales revenues increased $44.0 million largely due to the recovery of higher gas costs (gas costs are recovered dollar for dollar in revenues), which more than offset the decrease in retail gas sales revenues resulting from lower volumes. The decrease in volumes reflects warmer weather for the period as well as lower average usage per customer stemming from customer conservation efforts. The impact of the New York rate case settlement, which became effective August 2005, was to increase operating revenues by $7.8 million. This increase consisted of a base rate increase, the implementation of a merchant function charge, the elimination of certain bill credits, and the elimination of the gross receipts tax surcharge. In the Pennsylvania jurisdiction, the impact of a base rate increase, which became effective in April 2005, was to increase operating revenues by $4.3 million.

Operating revenues for the Utility segment increased $165.0 million for the six months ended March 31, 2006 as compared with the six months ended March 31, 2005. The increase is primarily attributable to higher retail gas sales revenues. The increase in retail gas sales revenues was largely a function of the recovery of higher gas costs, which more than offset lower retail sales volumes, as shown above. The increase in transportation revenues was primarily due to an out-of-period adjustment of $3.9 million to correct the New York jurisdiction's calculation of the symmetrical sharing component of the Gas Adjustment rate. The adjustment resulted when it was determined that certain credits that had been included in the calculation should have been removed during the implementation of a previous rate case settlement. The symmetrical sharing component is a mechanism included in Distribution's New York rate settlement that shares with customers 90% of the difference between actual revenues received from large volume customers and the level of revenues that were projected to be received during the rate year. The impact of the New York rate case settlement, discussed above, was to increase operating revenues by $13.3 million. In the Pennsylvania jurisdiction, the impact of a base rate increase, which became effective in April 2005, was to increase operating revenues by $7.1 million.

The Utility segment's earnings for the quarter ended March 31, 2006 were $28.7 million, a decrease of $0.2 million when compared with the quarter ended March 31, 2005. In the New York jurisdiction, earnings increased by $1.3 million principally due to the rate case settlement in this jurisdiction that became effective in August 2005 ($5.1 million). This increase was partially offset by an increase in pension and post retirement expense ($1.5 million), higher bad debt expense ($1.2 million), higher interest expense ($0.9 million) and a decline in margin associated with lower average usage per customer ($0.5 million). In the Pennsylvania Division, earnings decreased by $1.5 million primarily due to the impact of warmer weather ($2.4 million), lower average usage per customer ($0.6 million), an increase in bad debt expense ($0.8 million) and a higher effective tax rate in this jurisdiction ($0.9 million). Partially offsetting these decreases, the rate case settlement in this jurisdiction, which became effective in April 2005, increased quarterly earnings by approximately $2.8 million. Lower pension and post retirement expense ($0.4 million) also increased earnings in the Pennsylvania jurisdiction.

The impact of weather variations on earnings in the New York jurisdiction is mitigated by that jurisdiction's WNC. The WNC in New York, which covers the eight-month period from October through May, has had a stabilizing effect on earnings for the New York rate jurisdiction. For the quarter ended March 31, 2006, the WNC preserved earnings of approximately $4.2 million, as weather was warmer than normal for the period. For the quarter ended March 31, 2005, the WNC reduced earnings by approximately $1.5 million, since weather for the period was colder than normal.

The Utility segment's earnings for the six months ended March 31, 2006 were $50.4 million, an increase of $3.4 million when compared with the earnings of $47.0 million for the six months ended March 31, 2005. In the New York jurisdiction, earnings increased by $3.0 million due primarily to the positive impact of the rate case settlement in this jurisdiction ($8.6 million), discussed above, and the impact of the symmetrical sharing adjustment ($2.6 million). This increase was partially offset by an increase in bad debt expense ($3.3 million), higher pension and post retirement expense ($2.1 million), higher interest expense ($1.5 million) and a decline in margin associated with lower average usage per customer ($0.8 million). For the Pennsylvania jurisdiction, earnings increased by $0.4 million. The rate case settlement in this jurisdiction, discussed above, increased earnings by approximately $4.6 million. In addition, earnings were increased slightly by lower pension and post retirement expense ($0.5 million). These increases were offset by the impacts to margin of warmer weather ($2.1 million) and lower average usage per customer ($1.0 million), as well as an increase in bad debt expense ($1.4 million).

For the six months ended March 31, 2006, the WNC preserved earnings of approximately $4.7 million, as the weather was warmer than normal. For the six months ended March 31, 2005, the WNC did not have a significant impact on earnings as the weather was close to normal.

Pipeline and Storage

Pipeline and Storage Operating Revenues

	Three Months Ended March 31,			Six Mo Ma
(Thousands)	2006	2005	Increase/ (Decrease)	2006
Firm Transportation	$31,738	$32,086	$(348)	$62,824
Interruptible Transportation	1,115	922	193	2,438
	32,853	33,008	(155)	65,262
Firm Storage Service	16,408	16,376	32	32,655
Other	9,796	8,162	1,634	17,174
	$59,057	$57,546	$1,511	$115,091

Pipeline and Storage Throughput

	Three Months Ended March 31,			Six Mo Ma
(MMcf)	2006	2005	Increase/ (Decrease)	2006
Firm Transportation	114,828	129,851	(15,023)	217,650
Interruptible Transportation	1,831	1,180	651	5,554
	116,659	131,031	(14,372)	223,204

2006 Compared with 2005

Operating revenues for the Pipeline and Storage segment increased $1.5 million for the quarter ended March 31, 2006 as compared with the quarter ended March 31, 2005. The increase was primarily due to higher revenues from unbundled pipeline sales reported as part of other revenues in the table above, due to higher natural gas prices. For the six months ended March 31, 2006, operating revenues for the Pipeline and Storage segment increased $4.5 million as compared with the six months ended March 31, 2005. The increase was primarily due to higher revenues from unbundled pipeline sales ($4.4 million), due to higher natural gas prices. The $1.8 million increase in transportation revenues was primarily due to additional contracts with customers and the renewal of contracts at higher rates, both of which reflect the increased demand for transportation services due to market conditions resulting from the effects of last fall's hurricane damage to production and pipeline infrastructure in the Gulf of Mexico. Also

contributing to the increase in transportation revenues was the addition of new contracts with customers due to the Interconnect Pressure Agreement with TransCanada Pipelines, Ltd. The Interconnect Pressure Agreement is an excess pressure agreement that allows for greater capacity on the Empire State Pipeline.

The Pipeline and Storage segment's earnings for the quarter ended March 31, 2006 were $16.9 million, a decrease of $1.6 million when compared with earnings of $18.5 million for the quarter ended March 31, 2005. The decrease can be attributed to the $2.6 million gain on the FERC approved sale of base gas during the quarter ended March 31, 2005 that did not recur in 2006, and higher operation and maintenance expense ($1.6 million), due primarily to higher pension expense ($1.0 million). Higher unbundled pipeline sales ($1.9 million) and lower depreciation expense ($0.7 million) partially offset these increases.

The Pipeline and Storage segment's earnings for the six months ended March 31, 2006 were $32.7 million, an increase of $2.0 million when compared with earnings of $30.7 million for the six months ended March 31, 2005. The major factors that contributed to the increase were higher revenues from unbundled pipeline sales ($2.8 million), higher transportation revenues ($1.2 million), a lower reserve for preliminary project costs associated with the Empire State Pipeline Connector project ($0.8 million), lower depreciation expense ($0.6 million), and lower interest expense ($0.4 million). These increases in earnings were offset by the $2.6 million gain on the FERC approved sale of base gas during the six months ended March 31, 2005 that did not recur in 2006, and higher pension expense ($0.8 million).

Exploration and Production

Exploration and Production Operating Revenues

	Three Months Ended March 31,			Six Mon Mar	
(Thousands)	2006	2005	Increase/ (Decrease)	2006	
Gas (after Hedging)	$49,432	$42,520	$6,912	$98,774	$
Oil (after Hedging)	36,262	25,624	10,638	65,656	
Gas Processing Plant	10,662	8,344	2,318	24,082	
Other	312	434	(122)	1,835	
Intrasegment Elimination (1)	(7,949)	(6,603)	(1,346)	(19,541)	(
	$88,719	$70,319	$18,400	$170,806	$1

(1) Represents the elimination of certain West Coast gas production included in "Gas (after sold to the gas processing plant shown in the table above. An elimination for the same do processing plant's Purchased Gas expense.

Production Volumes

	Three Months Ended March 31,			Six M Ma
	2006	2005	Increase/ (Decrease)	2006
Gas Production *(MMcf)*				
Gulf Coast	2,752	2,844	(92)	4,419
West Coast	933	986	(53)	1,951
Appalachia	1,246	1,137	109	2,499
Canada	1,761	2,160	(399)	3,672
	6,692	7,127	(435)	12,541
Oil Production *(Mbbl)*				
Gulf Coast	181	261	(80)	288
West Coast	639	634	5	1,324
Appalachia	12	9	3	22
Canada	68	78	(10)	155
	900	982	(82)	1,789

Average Prices

	Three Months Ended March 31,			Six
	2006	2005	Increase/ (Decrease)	2006
Average Gas Price/Mcf				
Gulf Coast	$8.47	$6.75	$1.72	$9.33
West Coast	$8.02	$6.20	$1.82	$9.62
Appalachia	$10.03	$6.76	$3.27	$11.83
Canada	$7.21	$5.52	$1.69	$9.06
Weighted Average	$8.37	$6.30	$2.07	$9.79
Weighted Average After Hedging	$7.39	$5.97	$1.42	$7.88
Average Oil Price/bbl				
Gulf Coast	$58.69	$46.42	$12.27	$58.39
West Coast	$53.65	$37.67	$15.98	$52.46
Appalachia	$60.28	$42.28	$18.00	$60.84
Canada	$48.63	$41.08	$7.55	$45.57
Weighted Average	$54.37	$40.31	$14.06	$52.92
Weighted Average After Hedging	$40.30	$26.10	$14.20	$36.70

2006 Compared with 2005

Operating revenues for the Exploration and Production segment increased $18.4 million for the quarter ended March 31, 2006 as compared with the quarter ended March 31, 2005. Oil production revenue after hedging increased $10.6 million due to a $14.20 per barrel increase in weighted average prices after hedging. Gas production revenue after hedging increased $6.9 million due to an increase in the weighted average price of gas after hedging ($1.42 per Mcf). This was offset slightly by an overall decrease in gas production of 435 MMcf, mostly due to a decline in Canadian production as a result of delays in drilling and gas processing plant constraints.

Operating revenues for the Exploration and Production segment increased $28.6 million for the six months ended March 31, 2006 as compared with the six months ended March 31, 2005. Oil production revenue after hedging increased $13.1 million due to a $10.48 per barrel increase in weighted average prices after hedging. This increase in prices was offset slightly by a decrease in production (214,000 barrels). Gas production revenue after hedging increased $13.5 million. An increase in the weighted average price of gas after hedging ($1.90 per Mcf) more than offset a decrease in gas production of 1,721 MMcf. The decrease in gas production occurred primarily in the Gulf Coast region (a 1,650 MMcf decline), which is partially attributable to last fall's hurricane damage and partially to the expected decline rates for the Company's production in this region.

The Exploration and Production segment's earnings for the quarter ended March 31, 2006 were $25.8 million, an increase of $14.6 million when compared with earnings of $11.2 million for the quarter ended March 31, 2005. The increase is primarily attributable to the increase in operating revenues, due to higher commodity prices of oil and natural gas, as discussed above ($12.0 million). In addition, a $5.1 million benefit to earnings resulting from an adjustment to a deferred income tax balance was recognized during the quarter ended March 31, 2006. Under GAAP, a company may recognize the benefit of certain expected future income tax deductions as a deferred tax asset only if it anticipates sufficient future taxable income to utilize those deductions. As a result of the rise in commodity prices, the Company increased its forecast of future taxable income in the Exploration and Production segment's Canadian division and, as a result, recorded a deferred tax asset for certain drilling costs that it now expects to deduct on future income tax returns. These increases were partially offset by higher lease operating costs ($1.4 million), higher general and administrative costs ($0.6 million) and higher depletion expense ($0.5 million). The increase in lease operating costs was primarily in the West Coast region due to higher steaming costs associated with heavy crude oil production in the California Midway-Sunset and North Lost Hills fields. The higher steaming costs were due to an increase in the price for natural gas purchased in the field and used in the steaming operations which averaged $7.72/Btu this quarter versus $5.62/Btu in the prior year's

quarter and an increase in the volume burned at the North Lost Hills field. Beginning in April, a scrubber facility in the Midway-Sunset field was in full operation and is burning waste gas rather than purchased gas to generate the steam for its thermal recovery project.* Depletion expense increased in spite of the drop in production due to a rise in the per unit depletion rate, which was caused by an increase in finding and development costs.

The Exploration and Production segment's earnings for the six months ended March 31, 2006 were $43.3 million, an increase of $18.1 million when compared with earnings of $25.2 million for the quarter ended March 31, 2005. As noted above, the increase is primarily attributable to the increase in operating revenues, due to higher commodity prices of oil and natural gas ($18.6 million) and the tax benefit of $5.1 million discussed above. Partially offsetting these increases were higher lease operating costs ($3.4 million), higher general and administrative costs ($1.4 million) and higher depreciation and depletion expense ($0.3 million). As discussed above, the increase in lease operating costs was primarily in the West Coast region due to higher steaming costs.

Energy Marketing

Energy Marketing Operating Revenues

	Three Months Ended March 31,			Six
(Thousands)	2006	2005	Increase/ (Decrease)	2006
Natural Gas (after Hedging)	$206,057	$124,560	$81,497	$351,580
Other	4	5	(1)	40
	$206,061	$124,565	$81,496	$351,620

Energy Marketing Volumes

	Three Months Ended March 31,			Six
	2006	2005	Increase	2006
Natural Gas - (MMcf)	17,332	15,184	2,148	27,306

2006 Compared with 2005

Operating revenues for the Energy Marketing segment increased $81.5 million and $163.6 million, respectively, for the quarter and six months ended March 31, 2006, as compared with the quarter and six months ended March 31, 2005. The increase for both the quarter and six months ended March 31, 2006 primarily reflects higher gas sales revenue due to an increase in the price of natural gas and, to a lesser extent, an increase in throughput. The increase in throughput was due to the addition of certain large commercial and industrial customers, which more than offset any decrease in throughput due to warmer weather and greater conservation by customers due to higher natural gas prices.

Earnings in the Energy Marketing segment increased $1.3 million and $1.5 million, respectively, for the quarter and six months ended March 31, 2006 as compared with the quarter and six months ended March 31, 2005. Despite warmer weather and greater conservation by customers, margins increased due to a number of factors, including higher volumes and the market flexibility associated with stored gas. The Energy Marketing segment's contracts for significant storage and transportation volumes provided operational flexibility resulting in increased sales throughput and earnings.

Timber

Timber Operating Revenues

	Three Months Ended March 31,			Six Mon Mar
(Thousands)	2006	2005	Increase/ (Decrease)	2006
Log Sales	$8,267	$8,768	$(501)	$14,523
Green Lumber Sales	1,968	1,863	105	3,430
Kiln Dry Lumber Sales	8,384	7,822	562	16,885
Other	515	519	(4)	1,228
Operating Revenues	$19,134	$18,972	$162	$36,066

Timber Board Feet

	Three Months Ended March 31,			Six Mon Mar
(Thousands)	2006	2005	Increase/ (Decrease)	2006

Log Sales	3,282	2,570	712	5,774
Green Lumber Sales	2,982	2,538	444	4,956
Kiln Dry Lumber Sales	4,512	3,897	615	8,998
	10,776	9,005	1,771	19,728

2006 Compared with 2005

Operating revenues for the Timber segment increased $0.2 million and $4.1 million, respectively, for the quarter and six months ended March 31, 2006, as compared with the quarter and six months ended March 31, 2005. For the quarter ended March 31, 2006, the increase can be attributed primarily to an increase in kiln dry lumber sales ($0.6 million and 615,000 board feet) due to a 22 percent increase in processing capacity for kiln dry lumber from the addition of two new kilns in February 2005. This increase was largely offset by a decline in cherry veneer log sales as a result of lower volumes of cherry veneer logs harvested because of unfavorable weather conditions. Although there was an overall increase in log sales volumes in the table above, most of the increase came from lower priced logs. Cherry veneer logs command the highest prices and have the largest impact on overall log sales revenue. For the six months ended March 31, 2006, higher revenues from kiln dry lumber sales of $2.8 million are primarily responsible for the increase. The increase in kiln dry lumber sales is attributable to the increased kiln processing capacity noted above. Additionally, log sales increased $0.9 million primarily due to an increase in cherry export log sales as a result of greater market demand.

Earnings in the Timber segment decreased $0.7 million for the quarter ended March 31, 2006 as compared with the quarter ended March 31, 2005. This decline primarily resulted from the impact of lower margins from cherry veneer log sales combined with an increase in cost of goods sold on lumber sales.

The Timber segment’s earnings increased $0.1 million for the six months ended March 31, 2006 as compared to the six months ended March 31, 2005. Higher revenues from kiln dry lumber sales and cherry export log sales were largely offset by an increase in cost of goods sold on lumber sales, resulting in a net increase to earnings of $0.5 million. This increase was offset by higher depletion expense ($0.3 million).

Corporate and All Other

2006 Compared with 2005

Corporate and All Other recorded earnings of $1.1 million for the quarter ended March 31, 2006 compared with a loss of $0.1 million for the quarter ended March 31, 2005. For the six months ended March 31, 2006, Corporate and All Other had earnings of $1.0 million compared with a loss of $1.0 million for the six months ended March 31, 2005. These improvements were principally due to an increase in interest income resulting from the investment of proceeds received from the sale of U.E. in July 2005.

CAPITAL RESOURCES AND LIQUIDITY

The Company’s primary source of cash during the six-month period ended March 31, 2006 consisted of cash provided by operating activities. This source of cash was supplemented by issuances of new shares of common stock as a result of stock option exercises. During the six months ended March 31, 2006, the common stock used to fulfill the requirements of the Company’s 401(k) plans and Direct Stock Purchase and Dividend Reinvestment Plan was obtained via open market purchases. During the three months ended March 31, 2006, the Company began repurchasing outstanding shares of its common stock under a share repurchase program, which is discussed below under Financing Cash Flow.

Operating Cash Flow

Internally generated cash from operating activities consists of net income available for common stock, adjusted for non-cash expenses, non-cash income and changes in operating assets and liabilities. Non-cash items include depreciation, depletion and amortization, deferred income taxes, income or loss from unconsolidated subsidiaries net of cash distributions, and minority interest in foreign subsidiaries.

Cash provided by operating activities in the Utility and the Pipeline and Storage segments may vary from period to period because of the impact of rate cases. In the Utility segment, supplier refunds, over- or under-recovered purchased gas costs and weather may also significantly impact cash flow. The impact of weather on cash flow is tempered in the Utility segment's New York rate jurisdiction by its WNC and in the Pipeline and Storage segment by Supply Corporation's straight fixed-variable rate design.

Because of the seasonal nature of the heating business in the Utility and Energy Marketing segments, revenues in these segments are relatively high during the heating season, primarily the first and second quarters of the fiscal year, and receivable balances historically increase during these periods from the balances receivable at September 30.

The storage gas inventory normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. For storage gas inventory accounted for under the LIFO method, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance Sheets under the caption "Other Accruals and Current Liabilities." Such reserve is reduced as the inventory is replenished.

Cash provided by operating activities in the Exploration and Production segment may vary from period to period as a result of changes in the commodity prices of natural gas and crude oil. The Company uses various derivative financial instruments, including price swap agreements and no cost collars in an attempt to manage this energy commodity price risk.

Net cash provided by operating activities totaled $243.2 million for the six months ended March 31, 2006, a decrease of $2.8 million compared with $246.0 million provided by operating activities for the six months ended March 31, 2005. The timing of gas cost recovery in the Utility segment along with the loss of positive cash flow from the Company's former Czech Republic operations, which were sold in July 2005, were the main reasons for this decrease. These decreases were mainly offset by higher oil and gas revenues in the Exploration and Production segment and a decrease in hedging collateral deposits at March 31, 2006 in the Exploration and Production and Energy Marketing segments. Hedging collateral deposits serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

Investing Cash Flow

Expenditures for Long-Lived Assets

The Company's expenditures for long-lived assets totaled $135.0 million during the six months ended March 31, 2006. The table below presents these expenditures:

Six Months Ended March 31, 2006 (in millions of dollars)		Total Expenditures for Long-Lived Assets
Utility		$25.4

Pipeline and Storage		10.3
Exploration and Production		96.3
Timber		0.8
Corporate and All Other		2.2
		$135.0

Utility

The majority of the Utility capital expenditures for the six months ended March 31, 2006 were made for replacement of mains and main extensions, as well as for the replacement of service lines.

Pipeline and Storag

The majority of the Pipeline and Storage capital expenditures for the six months ended March 31, 2006 were made for additions, improvements, and replacements to this segment's transmission and gas storage systems.

The Company continues to explore various opportunities to expand its capabilities to transport gas to the East Coast, either through the Supply Corporation or Empire systems or in partnership with others. In October 2005, Empire filed an application with the FERC for the authority to build and operate the Empire Connector project to expand its natural gas pipeline operations to serve new markets in New York and elsewhere in the Northeast by extending the Empire Pipeline. Assuming the proposed Millennium Pipeline is constructed, the Empire Connector will provide an upstream supply link for Phase I of the Millennium Pipeline and will transport Canadian and other natural gas supplies to downstream customers, including KeySpan Gas East Corporation, which has entered into precedent agreements to subscribe for at least 150 MDth per day of natural gas transportation service through the Empire State Pipeline and the Millennium Pipeline systems.* The Empire Connector will be designed to move up to approximately 250 MDth of natural gas per day.* Empire anticipates that FERC will provide a determination on this application by November 2006.* The targeted in-service date is November 2007.* The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral lines of credit.* As of March 31, 2006, the Company had incurred approximately $5.2 million in costs (all of which have been reserved) related to this project. Of this amount, $0.5 million and $1.2 million, respectively, were incurred during the quarter and six months ended March 31, 2006.

The Company also has plans to extend Supply Corporation's pipeline system from the Tuscarora storage field to the intersection of the proposed Millennium and Empire Connector pipelines (the Tuscarora Extension).* The Tuscarora Extension will be designed initially to move up to approximately 130 MDth of natural gas per day.* The project depends on market developments and its in-service date will be contingent upon the Millennium/Empire project timeline. The Company has not yet filed an application with the FERC for the authority to build and operate the Tuscarora Extension. The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral lines of credit.* There have been no costs incurred by the Company related to this project as of March 31, 2006.

Exploration and Production

The Exploration and Production segment capital expenditures for the six months ended March 31, 2006 included approximately $20.8 million for Canada, $45.7 million for the Gulf Coast region ($45.5 million for the off-shore program in the Gulf of Mexico), $19.5 million for the West Coast region and $10.3 million for the Appalachian region. The significant amount spent in the Gulf Coast region is related to high commodity prices, which has improved the economics of investment in the area, plus royalty relief. These amounts included approximately $21.5 million spent to develop proved undeveloped reserves.

Timber

The majority of the Timber segment capital expenditures for the six months ended March 31, 2006 were made for purchases of equipment for Highland's sawmill and kiln operations.

Corporate and All Other

The majority of the Corporate and All Other capital expenditures for the six months ended March 31, 2006 were for the construction of a distributed generation facility at the Company's corporate headquarters.

The Company continuously evaluates capital expenditures and investments in corporations, partnerships, and other business entities. The amounts are subject to modification for opportunities such as the acquisition of attractive oil and gas properties, timber or natural gas storage facilities and the expansion of transmission line capacities. While the majority of capital expenditures in the Utility segment are necessitated by the continued need for replacement and upgrading of mains and service lines, the magnitude of future capital expenditures or other investments in the Company's other business segments depends, to a large degree, upon market conditions.*

Financing Cash Flow

The Company did not have any outstanding short-term notes payable to banks or commercial paper at March 31, 2006. However, the Company continues to consider short-term debt (consisting of short-term notes payable to banks and commercial paper) an important source of cash for temporarily financing capital expenditures and investments in corporations and/or partnerships, gas-in-storage inventory, unrecovered purchased gas costs, margin calls on derivative financial instruments, exploration and development expenditures and other working capital needs. Fluctuations in these items can have a significant impact on the amount and timing of short-term debt. As for bank loans, the Company maintains a number of individual (bi-lateral) uncommitted or discretionary lines of credit with certain financial institutions for general corporate purposes. Borrowings under these lines of credit are made at competitive market rates. Each of these credit lines, which aggregate to $445.0 million, are revocable at the option of the financial institutions and are reviewed on an annual basis. The Company anticipates that these lines of credit will continue to be renewed.* The total amount available to be issued under the Company's commercial paper program is $200.0 million. The commercial paper program is backed by a syndicated committed credit facility which totals $300.0 million and extends through September 30, 2010. The Company plans to increase the size of its commercial paper program from $200.0 million to $300.0 million.*

Under the Company's committed credit facility, the Company has agreed that its debt to capitalization ratio will not exceed .65 at the last day of any fiscal quarter from September 30, 2005 through September 30, 2010. At March 31, 2006, the Company's debt to capitalization ratio (as calculated under the facility) was .45. The constraints specified in the committed credit facility would permit an additional $1.44 billion in short-term and/or long-term debt to be outstanding before the Company's debt to capitalization ratio would exceed .65. If a downgrade in any of the Company's credit ratings were to occur, access to the commercial paper markets might not be possible.* However, the Company expects that it could borrow under its uncommitted bank lines of credit or rely upon other liquidity sources, including cash provided by operations.*

Under the Company's existing indenture covenants, at March 31, 2006, the Company would have been permitted to issue up to a maximum of $926.0 million in additional long-term unsecured indebtedness at then-current market interest rates in addition to being able to issue new indebtedness to replace maturing debt. The Company's present liquidity position is believed to be adequate to satisfy known demands.*

The Company's 1974 indenture pursuant to which $399.0 million (or 36%) of the Company's long-term debt (as of March 31, 2006) was issued, contains a cross-default provision whereby the failure by the Company to perform certain obligations under other borrowing arrangements could trigger an obligation to repay the debt outstanding under the indenture. In particular, a repayment obligation could be triggered if the Company fails (i) to pay any scheduled principal or interest on any debt under any other indenture or agreement or (ii) to perform any other term in any other such indenture or agreement, and the effect of the failure causes, or would permit the holders of the debt to cause, the debt under such indenture or agreement to become due prior to its stated maturity, unless cured or waived.

The Company's $300.0 million committed credit facility also contains a cross-default provision whereby the failure by the Company or its significant subsidiaries to make payments under other borrowing arrangements, or the occurrence of certain events affecting those other borrowing arrangements, could trigger an obligation to repay any amounts outstanding under the committed credit facility. In particular, a repayment obligation could be triggered if (i) the Company or its significant subsidiaries fail to make a payment when due of any principal or interest on any other indebtedness aggregating $20.0 million or more or (ii) an event occurs that causes, or would permit the holders of any other indebtedness aggregating $20.0 million or more to cause, such indebtedness to become due prior to its stated maturity. As of March 31, 2006, the Company had no debt outstanding under the committed credit facility.

The Company has an effective registration statement on file with the SEC under which it has available capacity to issue an additional $550.0 million of debt and equity securities under the Securities Act of 1933. The Company may sell all or a portion of the remaining registered securities if warranted by market conditions and the Company's capital requirements. Any offer and sale of the above mentioned $550.0 million of debt and equity securities will be made only by means of a prospectus meeting the requirements of the Securities Act of 1933 and the rules and regulations thereunder.

The amounts and timing of the issuance and sale of debt or equity securities will depend on market conditions, indenture requirements, regulatory authorizations and the capital requirements of the Company.

On December 8, 2005, the Company's board of directors authorized the Company to implement a share repurchase program, whereby the Company may repurchase outstanding shares of common stock, up to an aggregate amount of 8 million shares in the open market or through privately negotiated transactions. For the quarter ended March 31, 2006, the Company repurchased 825,250 shares under this program, funded with cash provided by operating activities. In the future, it is expected that this share repurchase program will continue to be funded with cash provided by operating activities and/or through the use of the Company's bi-lateral lines of credit.* It is expected that open market repurchases will continue from time to time depending on market conditions.*

OFF-BALANCE SHEET ARRANGEMENTS

The Company has entered into certain off-balance sheet financing arrangements. These financing arrangements are primarily operating and capital leases. The Company's consolidated subsidiaries have operating leases, the majority of which are with the Utility and the Pipeline and Storage segments, having a remaining lease commitment of approximately $46.5 million. These leases have been entered into for the use of buildings, vehicles, construction tools, meters, computer equipment and other items and are accounted for as operating leases. The Company's unconsolidated subsidiaries, which are accounted for under the equity method, have capital leases of electric generating equipment having a remaining lease commitment of approximately $8.0 million. The Company has guaranteed 50% or $4.0 million of these capital lease commitments.

OTHER MATTERS

In addition to the legal proceedings disclosed in Part II, Item 1 of this report, the Company is involved in other litigation and regulatory matters arising in the normal course of business. These other matters may include, for example, negligence claims and tax, regulatory or other governmental audits, inspections, investigations or other proceedings. These matters may involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While these normal-course matters could have a material effect on earnings and cash flows in the quarterly and annual period in which they are resolved, they are not expected to change materially the Company’s present liquidity position, nor to have a material adverse effect on the financial condition of the Company.*

Market Risk Sensitive Instruments

For a complete discussion of market risk sensitive instruments, refer to “Market Risk Sensitive Instruments” in Item 7 of the Company’s 2005 Form 10-K. There have been no subsequent material changes to the Company’s exposure to market risk sensitive instruments.

Rate and Regulatory Matters

Energy Policy Act

On August 8, 2005, President Bush signed into law the Energy Policy Act, which, among other things, repealed PUHCA 1935 effective February 8, 2006. With repeal of PUHCA 1935, the Company is no longer subject to that act’s broad regulatory provisions, including provisions relating to the issuance of securities, sales and acquisitions of securities and utility assets, intra-company transactions and limitations on diversification. The Energy Policy Act includes PUHCA 2005, which, among other things, grants the FERC and state public utility regulatory commissions access to certain books and records of companies in holding company systems, provides (upon request of a state commission or holding company system) for FERC review of allocations of costs of non-power goods and administrative services in electric utility holding company systems, and modifies the jurisdiction of FERC over certain mergers and acquisitions involving public utilities or holding companies. On December 8, 2005, the FERC issued Order 667 to implement PUHCA 2005. The FERC clarified certain aspects of Order 667 in Order 667-A, issued on April 24, 2006. The Company will file a “notification of holding company status” with the FERC under Order 667-A. The Company also plans to file an “exemption notification” with the FERC, seeking exemption from the requirements of PUHCA 2005 and Order 667-A for certain subsidiaries of the Company. The Company is unable to predict at this time what the ultimate outcome of these or future legislative or regulatory changes will be.

Utility Operation

Base rate adjustments in both the New York and Pennsylvania jurisdictions do not reflect the recovery of purchased gas costs. Such costs are recovered through operation of the purchased gas adjustment clauses of the appropriate regulatory authorities.

New York Jurisdiction

On August 27, 2004, Distribution Corporation commenced a rate case by filing proposed tariff amendments and supporting testimony requesting approval to increase its annual revenues beginning October 1, 2004. Various parties opposed the filing. On April 15, 2005, Distribution Corporation, the parties and others executed an agreement settling all outstanding issues. In an order issued July 22, 2005, the NYPSC, approved the April 15, 2005 settlement agreement, substantially as filed, for an effective date of August 1, 2005. The settlement agreement provides for a rate increase of $21 million by means of the elimination of bill credits ($5.8 million) and an increase in base rates ($15.2 million). For the two-year term of the agreement and thereafter, the return on equity level above which earnings must be shared with rate payers will be 11.5%.

Pennsylvania Jurisdiction

On September 15, 2004, Distribution Corporation filed proposed tariff amendments with PaPUC to increase annual revenues by $22.8 million to cover increases in the cost of service to be effective November 14, 2004. The rate request was filed to address throughput reductions and increased operating costs such as uncollectibles and personnel expenses. Applying standard procedure, the PaPUC suspended Distribution Corporation’s tariff filing to perform an investigation and hold hearings. On February 16, 2005, the parties reached a settlement of all issues. The settlement provides for a base rate increase of $12.0 million and terminates the tracking of pension expenses versus the rate allowance. The settlement was approved by PaPUC on March 23, 2005, and the new rates went into effect on April 15, 2005.

Pipeline and Storage

On April 7, 2006, the NYPSC, PaPUC and Pennsylvania Office of Consumer Advocate filed a complaint and a motion for summary disposition against Supply Corporation with the FERC under Sections 5(a) and 13 of the Natural Gas Act. The complainants allege that Supply Corporation’s rates are unjust and unreasonable, and that Supply Corporation is permitted to retain more gas from shippers than is necessary for fuel and loss. As a result, the complainants allege, Supply Corporation has excess annual earnings of approximately $30 million to $35 million. In their complaint, the complainants ask FERC (i) to find that Supply Corporation’s rates are unjust and unreasonable, and (ii) to institute proceedings to determine the just and reasonable rates Supply Corporation will be authorized to charge prospectively. The complainants also ask FERC in their complaint (i) to determine whether Supply Corporation has the authority to make sales of gas retained from shippers, and (ii) if FERC concludes that Supply Corporation does not have such authority, to direct Supply Corporation to show cause why it should not be required to disgorge profits associated with such sales. In their motion for summary disposition, the complainants ask FERC (i) to find summarily that the rate at which Supply Corporation is permitted to retain gas from shippers for fuel and loss is unjust and unreasonable, (ii) to require Supply Corporation to make a compliance filing providing detailed information regarding its fuel and loss retention and use, and (iii) to establish just and reasonable fuel and loss percentages for Supply Corporation. Supply Corporation filed answers on April 27, 2006, opposing the complaint and the motion for summary disposition, asserting that its current rates are just and reasonable, and documenting its authority to sell retained gas. Supply Corporation will vigorously oppose these actions.*

On November 25, 2003, the FERC issued Order 2004. Order 2004 was clarified in Order 2004-A on April 16, 2004 and Order 2004-B on August 2, 2004. Order 2004, which went into effect September 22, 2004, regulates the conduct of transmission providers (such as Supply Corporation) with their “energy affiliates.” The FERC broadened the definition of “energy affiliates” to include any affiliate of a transmission provider if that affiliate engages in or is involved in transmission (gas or electric) transactions, or manages or controls transmission capacity, or buys, sells, trades or administers natural gas or electric energy or engages in financial transactions relating to the sale or transmission of natural gas or electricity. Supply Corporation’s principal energy affiliates are Seneca, NFR and, possibly, Distribution Corporation.* Order 2004 provides that companies may request waivers, which the Company has done with respect to Distribution Corporation and is awaiting rulings. Order 2004 also provides an exemption for local distribution companies that are affiliated with interstate pipelines (such as Distribution Corporation), but the exemption is limited, with very minor exceptions, to local distribution corporations that do not make any off-system sales. Distribution Corporation stopped making such off-system sales effective September 22, 2004, although it continues to make certain sales permitted by a prior FERC order; FERC has required Supply Corporation to provide arguments justifying the continued effectiveness of that order. Supply Corporation and Distribution Corporation would like to continue operating as they do, whether by waiver, amendment or further clarification of the new rules, or by complying with the requirements applicable if Distribution Corporation were an energy affiliate. Treating Distribution Corporation as an energy affiliate, without any waivers, would require changes in the way Supply Corporation and Distribution Corporation operate which would decrease efficiency, but probably would not increase capital or operating expenses to an extent that would be material to the financial condition of the Company.* Until there is further clarification from the FERC on the scope of these exemptions and rulings on the Company’s waiver requests, the Company is unable to predict the impact Order 2004 will have on the Company. As previously mentioned, Distribution Corporation stopped making off-system sales,

effective September 22, 2004. The Company does not expect that change to have a material effect on the Company’s results of operations, as margins resulting from off-system sales are minimal as a result of profit sharing with retail customers.*

Empire currently does not have a rate case on file with the NYPSC. Management will continue to monitor its financial position in the New York jurisdiction to determine the necessity of filing a rate case in the future. Among the issues that will be resolved in connection with Empire's FERC application to build the Empire Connector are the rates and terms of service that would become applicable to all of Empire's business, effective upon Empire accepting the FERC certificate and placing its new facilities into service (currently targeted for November 2007), when Empire would become an interstate pipeline subject to FERC regulation.*

Environmental Matters

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. The Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be $3.9 million.* This liability has been recorded on the Consolidated Balance Sheet at March 31, 2006. The Company expects to recover its environmental clean-up costs from a combination of rate recovery and insurance proceeds.* Other than as discussed in Note G of the Company's 2005 Form 10-K (referred to below), the Company is currently not aware of any material additional exposure to environmental liabilities. However, adverse changes in environmental regulations or other factors could impact the Company.*

For further discussion refer to Note G — Commitments and Contingencies under the heading "Environmental Matters" in Item 8 of the Company's 2005 Form 10-K, and to Part II, Item 1, "Legal Proceedings."

New Accounting Pronouncements

In March 2005, the FASB issued FIN 47, an interpretation of SFAS 143. FIN 47 provides additional guidance on the term "conditional asset retirement obligation" as used in SFAS 143, and in particular the standard clarifies when a Company must record a liability for a conditional asset retirement obligation. The Company is currently evaluating the impact of FIN 47, if any, on its consolidated financial statements. For further discussion of FIN 47 and its impact on the Company, refer to Item 1 at Note 1 — Summary of Significant Accounting Policies.

In May 2005, the FASB issued SFAS 154. SFAS 154 replaces APB 20 and SFAS 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company's financial condition and results of operations will only be impacted by SFAS 154 if there are any accounting changes or corrections of errors in the future. For further discussion of SFAS 154 and its impact on the Company, refer to Item 1 at Note 1 – Summary of Significant Accounting Policies.

Safe Harbor for Forward-Looking Statements

The Company is including the following cautionary statement in this Form 10-Q to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions and other statements which are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements. Certain statements contained in this report, including, without limitation, those which are designated with an asterisk ("*") and those which are identified by the use of the words "anticipates,"

"estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions, are "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995 and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The forward-looking statements contained herein are based on various assumptions, many of which are based, in turn, upon further assumptions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including, without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements:

1. Changes in laws and regulations to which the Company is subject, including changes in tax, environmental, safety and employment laws and regulations, and changes in laws and regulations relating to repeal of PUHCA 1935;

2. Changes in economic conditions, including economic disruptions caused by terrorist activities, acts of war or major accidents;

3. Changes in demographic patterns and weather conditions, including the occurrence of severe

4. Changes in the availability and/or price of natural gas or oil and the effect of such changes on the accounting treatment or valuation of derivative financial instruments or the Company's natural gas and oil reserves;

5. Impairments under the SEC's full cost ceiling test for natural gas and oil reserves;

6. Changes in the availability and/or price of derivative financial instruments;

7. Changes in the price differentials between various types of oil;

8. Failure of the price differential between heavy sour crude oil and light sweet crude oil to return to its historical norm;

9. Inability to obtain new customers or retain existing ones;

10. Significant changes in competitive factors affecting the Company;

11. Governmental/regulatory actions, initiatives and proceedings, including those involving acquisitions, financings, rate cases (which address, among other things, allowed rates of return, rate design and retained gas), affiliate relationships, industry structure, franchise renewal, and environmental/safety requirements;

12. Unanticipated impacts of restructuring initiatives in the natural gas and electric industries;

13. Significant changes from expectations in actual capital expenditures and operating expenses and unanticipated project delays or changes in project costs or plans, including changes in the plans of the sponsors of the proposed Millennium Pipeline with respect to that project;

14. The nature and projected profitability of pending and potential projects and other investments;

15. Occurrences affecting the Company's ability to obtain funds from operations, debt or equity to finance needed capital expenditures and other investments, including any downgrades in the Company's credit ratings;

16. Uncertainty of oil and gas reserve estimates;

17. Ability to successfully identify and finance acquisitions or other investments and ability to operate and integrate existing and any subsequently acquired business or properties;

18. Ability to successfully identify, drill for and produce economically viable natural gas and oil reserves;

19. Significant changes from expectations in the Company's actual production levels for natural gas or oil;

20. Regarding foreign operations, changes in trade and monetary policies, inflation and exchange rates, taxes, operating conditions, laws and regulations related to foreign operations, and political and governmental changes;

21. Significant changes in tax rates or policies or in rates of inflation or interest;

22. Significant changes in the Company's relationship with its employees or contractors and the potential adverse effects if labor disputes, grievances or shortages were to occur;

23. Changes in accounting principles or the application of such principles to the Company;

24. The cost and effects of legal and administrative claims against the Company;

25. Changes in actuarial assumptions and the return on assets with respect to the Company's retirement plan and post-retirement benefit plans;

26. Increasing health care costs and the resulting effect on health insurance premiums and on the obligation to provide post-retirement benefits; or

27. Increasing costs of insurance, changes in coverage and the ability to obtain insurance.

The Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Back to Table of Contents

Refer to the "Market Risk Sensitive Instruments" section in Item 2 – MD&A.

Item 4. Controls and Procedures

Back to Table of Contents

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Item 4. Controls and Procedures (Concl.)

Changes in Internal Controls Over Financial Reporting

The management of the Company maintains a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP. There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Back to Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

In an action instituted in the New York State Supreme Court, Kings County on February 18, 2003 against Distribution Corporation and Paul J. Hissin, an unaffiliated third party, plaintiff Donna Fordham-Coleman, as administratrix of the estate of Velma Arlene Fordham, alleges that Distribution Corporation's denial of natural gas service in November 2000 to the plaintiff's decedent, Velma Arlene Fordham, caused decedent's death in February 2001. The plaintiff seeks damages for wrongful death and pain and suffering, plus punitive damages. Distribution Corporation denied plaintiff's material allegations, asserted seven affirmative defenses and asserted a cross-claim against the co-defendant. Distribution Corporation believes, and has vigorously asserted, that plaintiff's allegations lack merit. The Court changed venue of the action to New York State Supreme Court, Erie County. Discovery closed in October 2005, and Distribution Corporation filed a motion for summary judgment in November 2005. On February 24, 2006, the Court granted Distribution Corporation's motion for summary judgment dismissing plaintiff's claims for wrongful death and punitive damages. The Court denied Distribution Corporation's motion for summary judgment to dismiss plaintiff's negligence claim seeking recovery for conscious pain and suffering. On March 15, 2006, the plaintiff appealed the Court's decision to the New York State Supreme Court, Appellate Division, Fourth Department. On March 29, 2006, Distribution Corporation filed a cross-appeal.

On December 22, 2003, the Pennsylvania Department of Environmental Protection (DEP) issued an order to Seneca to halt its timber harvesting operations on 21,000 acres in Cameron, Elk and McKean counties in Pennsylvania. The order asserted certain violations of DEP regulations concerning erosion, sedimentation and stream crossings. The order required Seneca to apply for certain permits, control erosion, submit plans for removal of water encroachments not included in permit applications, notify the DEP of additional current or planned timber harvesting operations, and grant the DEP access to timber acreage. On January 9, 2004, Seneca filed with the Pennsylvania Environmental Hearing Board (Hearing Board) a notice of appeal, objecting to each finding and order contained in the order, and asserting that the DEP's findings were factually incorrect, an arbitrary exercise of the DEP's functions and duties, and contrary to law. Also on January 9, 2004, Seneca filed with the Hearing Board a petition requesting a stay of operation of portions of the order. On January 16, 2004, the parties settled Seneca's request for a stay. Seneca resumed its timber harvesting operations pursuant to the terms of the settlement. The settlement of Seneca's request for a stay preserved various issues raised by the DEP's order for a hearing on the merits of Seneca's notice of appeal. The most substantial issue was whether Seneca is required to apply for a permit under Section 102.5(b) of Title 25 of the Pennsylvania Code, governing earth disturbance activities of greater than 25 acres. Seneca maintained that no permit is required because each of its individual logging sites disturbs less than 25 acres, and the law does not require aggregation of individual sites.

Seneca and the DEP have agreed to a final settlement of this matter. The final settlement provides in part that Seneca will submit to the DEP an Erosion and Sedimentation Control Plan ("E&S Plan") for each individual earth disturbance activity for which such a plan is required by Section 102.4 of Title 25 of the Pennsylvania Code. Generally, Seneca may proceed with any earth disturbance activity provided it has submitted a written E&S Plan to the DEP 15 business days prior to commencement of the proposed activity. Seneca is not required to apply for a permit under Section 102.5(b) of Title 25 of the Pennsylvania Code, governing earth disturbance activities of greater than 25 acres. Finally, under the terms of the final settlement, Seneca will pay a total of $9,000 in civil penalties and damages.

On April 7, 2006, the NYPSC, PaPUC and Pennsylvania Office of Consumer Advocate filed a complaint against Supply Corporation with the FERC under Section 5(a) of the Natural Gas Act and a

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motion for summary disposition against Supply Corporation under Section 13 of the Natural Gas Act. For a discussion of these matters, refer to Part I, Item 2 — MD&A of this report under the heading “Other Matters — Rate and Regulatory Matters.”

The Company believes, based on the information presently known, that the ultimate resolution of the Fordham case will not be material to the consolidated financial condition, results of operations, or cash flow of the Company.* No assurances can be given, however, as to the ultimate outcome of this matter, and it is possible that the outcome could be material to results of operations or cash flow for a particular quarter or annual period.* In addition, regarding the complaint filed against Supply Corporation at FERC, the Company believes that chances are remote that the complainants will succeed in challenging the authority of Supply Corporation to sell retained gas.* Nevertheless, the resolution of the complaint and the motion for summary disposition filed at FERC could have a material effect on the Company’s financial condition, results of operations or cash flow.*

For a discussion of various environmental and other matters, refer to Part I, Item 1 at Note 4 and Part I, Item 2 — MD&A of this report under the heading “Other Matters — Environmental Matters.”

In addition to the proceedings disclosed above, the Company is involved in other litigation and regulatory matters arising in the normal course of business. These other matters may include, for example, negligence claims and tax, regulatory or other governmental audits, inspections, investigations or other proceedings. These matters may involve state and federal taxes, safety, compliance with regulations, rate base, cost of service, and purchased gas cost issues, among other things. While these normal-course matters could have a material effect on earnings and cash flows in the quarterly and annual period in which they are resolved, they are not expected to change materially the Company’s present liquidity position, nor to have a material adverse effect on the financial condition of the Company.*

Item 1A. Risk Factors

Back to Table of Contents

The risk factors in Item 1A of the Company’s 2005 Form 10-K have not materially changed other than as set forth below. The information presented below updates and should be read in conjunction with the risk factors disclosed in that Form 10-K.

The nature of National Fuel’s operations presents inherent risks of loss that could adversely affect its results of operations, financial condition and cash flows.

National Fuel’s operations are subject to inherent hazards and risks such as: fires; natural disasters; explosions; formations with abnormal pressures; blowouts; collapses of wellbore casing or other tubulars; pipeline ruptures; spills; and other hazards and risks that may cause personal injury, death, property damage, environmental damage or business interruption losses. Additionally, National Fuel’s facilities, machinery, and equipment may be subject to sabotage. Any of these events could cause a loss of hydrocarbons, environmental pollution, personal injury or death claims, damage to National Fuel’s properties or damage to the properties of others. As protection against operational hazards, National

Fuel maintains insurance coverage against some, but not all, potential losses. In addition, many of the agreements that National Fuel executes with contractors provide for the division of responsibilities between the contractor and National Fuel, and National Fuel seeks to obtain an indemnification from the contractor for certain of these risks. National Fuel is not always able, however, to secure written agreements with its contractors that contain indemnification, and sometimes National Fuel is required to indemnify others.

Insurance or indemnification agreements when obtained may not adequately protect National Fuel against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, the failure of a contractor to meet its indemnification obligations, or the failure of an insurance company to pay valid claims could result in substantial losses to National Fuel. In addition, insurance may not be available, or if available may not be adequate, to cover any or all of these risks. It is also possible that insurance premiums or other costs may rise significantly in the future, so as to make such insurance prohibitively expensive.

Due to large insurance losses caused by Hurricanes Katrina and Rita, the insurance industry has significantly increased premiums for insurance on Gulf of Mexico properties, and has reduced the limits typically available for windstorm damage. As a result, National Fuel has determined that it is not economical to purchase insurance to fully cover its exposures in the Gulf of Mexico in the event of a named windstorm. National Fuel has procured named windstorm coverage in an amount equal to approximately three times the estimated physical damage loss sustained by National Fuel as a result of named windstorms during the 2005 hurricane season. No assurance can be given, however, that such amount will be sufficient to cover losses that may occur in the future.

Hazards and risks faced by National Fuel, and insurance and indemnification obtained or provided by National Fuel, may subject National Fuel to litigation or administrative proceedings from time to time. Such litigation or proceedings could result in substantial monetary judgments, fines or penalties against National Fuel or be resolved on unfavorable terms, the result of which could have a material adverse effect on National Fuel's results of operations, financial condition and cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Back to Table of Contents

On January 3, 2006, the Company issued a total of 2,100 unregistered shares of Company common stock to the seven non-employee directors of the Company serving on the Board of Directors, 300 shares to each such director. All of these unregistered shares were issued as partial consideration for the directors' services during the quarter ended March 31, 2006, pursuant to the Company's Retainer Policy for Non-Employee Directors. These transactions were exempt from registration by Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Share Repurchase Plans or Programs
Jan. 1 - 31, 2006	10,169	$32.88	-
Feb. 1 - 28, 2006	125,353	$32.20	115,800
Mar. 1 - 31, 2006	806,157	$32.23	709,450

Total	941,679	$32.23	825,250

[a] Represents (i) shares of common stock of the Company purchased on the open market with Company “matching contributions” for the accounts of participants in the Company’s 401(k) plans, (ii) shares of common stock of the Company tendered to the Company by holders of stock options or shares of restricted stock for the payment of option exercise prices or applicable withholding taxes, and (iii) shares of common stock of the Company purchased on the open market pursuant to the Company’s share repurchase program. Shares purchased other than through a publicly announced share repurchase program totaled 10,169 in January 2006, 9,553 in February 2006 and 96,707 in March 2006. Of the shares purchased other than through a publicly announced share repurchase program mentioned in the previous sentence, 31,023 shares were purchased for the Company’s 401(k) plans and 85,406 shares were purchased as a result of shares tendered to the Company by holders of stock options or shares of restricted stock.

[b] On December 8, 2005, the Company’s Board of Directors authorized the repurchase of up to eight million shares of the Company’s common stock. Repurchases may be made from time to time in the open market or through private transactions.

Item 4. Submission of Matters to a Vote of Security Holders

Back to Table of Contents

The Annual Meeting of Shareholders of National Fuel Gas Company was held on February 16, 2006. At that meeting, the shareholders elected directors, appointed an independent registered public accounting firm, and rejected a shareholder proposal to reduce the compensation of the Company’s non-employee directors.

The total votes were as follows:

		For	Withheld
(i)	Election of directors to serve for a three-year term:		
	- R. Don Cash	73,088,520	1,893,863
	- George L. Mazanec	73,062,016	1,920,367
	Election of directors to serve for a two-year term:		
	- John F. Riordan	73,617,335	1,365,048

Other directors whose term of office continued after the meeting:

Term expiring in 2007: Philip C. Ackerman, Craig G. Matthews, and Richard G. Reiten.

Term expiring in 2008: Robert T. Brady and Rolland E. Kidder.

	For	Against	Abstain

(ii)	Appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm	73,389,799	1,268,463	324,121
(iii)	Adoption of shareholder proposal to reduce the compensation of non-employee directors	5,198,024	48,371,311	1,946,254

Item 6. Exhibits

Back to Table of Contents

Exhibit Number	Description of Exhibit
10.1	Description of bonuses awarded to executive officer.
10.2	Description of performance goals for certain executive officers.
10.3	Noncompete and Restrictive Covenant Agreement, dated February 1, 2006,
10.4	Description of salaries of certain executive officers.
12	Statements regarding Computation of Ratios:

Item 6. Exhibits (Concl.)

	Ratio of Earnings to Fixed Charges for the Twelve Months En Ended September 30, 2001 through 2005.
31.1	Written statements of Chief Executive Officer pursuant to the Securities Exchange Act of 1934.
31.2	Written statements of Principal Financial Officer pursua under the Securities Exchange Act of 1934.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley
99	National Fuel Gas Company Consolidated Statement of Incom 2006 and 2005.

Signatures

Back to Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL FUEL GAS COMPANY
(Registrant)

/s/R. J. Tanski
R. J. Tanski
Treasurer and Principal Financial Offi

/s/K. M. Camiolo
K. M. Camiolo
Controller and Principal Accounting Of

Date: May 5, 2006

EXHIBIT INDEX
(Form 10-Q)

Exhibit 10.1	Description of bonuses awarded to executive officer.
Exhibit 10.2	Description of performance goals for certain executive officers.
Exhibit 10.3	Noncomplete and Restrictive Covenant Agreement, dated February 1, 200 between the Company and Dennis J. Seeley
Exhibit 10.4	Description of salaries of certain executive officers.
Exhibit 12	Statements regarding Computation of Ratios: Ratio of Earnings to Fixed Charges for the Twelve Months Ended March 31, 2006 and the Fiscal Years Ended September 30, 2001 through 2005.
Exhibit 31.1	Written statements of Chief Executive Officer pursuant to Rule 13a-14 Rule 15d-14(a) under the Securities Exchange Act of 1934.
Exhibit 31.2	Written statements of Principal Financial Officer pursuant to Rule 13 Rule 15d-14(a) under the Securities Exchange Act of 1934.
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 20
Exhibit 99	National Fuel Gas Company Consolidated Statements of Income for the Twelve Months Ended March 31, 2006 and 2005.

Exhibit 10.1

Description of bonuses awarded to executive officer

On January 19, 2006, the Compensation Committee (the “Committee”) of the Board of Directors of National Fuel Gas Company (the “Company”) approved a bonus of $57,688 for Dennis J. Seeley, who was then Vice President of the Company and President of National Fuel Gas Distribution Corporation. The bonus was based on Mr. Seeley’s level of achievement of certain performance goals which were established in fiscal 2005 but which extended into fiscal 2006. The Committee also approved a bonus of $155,757 for Mr. Seeley for the first four months of fiscal 2006. Mr. Seeley retired from all of his positions with the Company and its subsidiaries effective February 1, 2006.

Exhibit 10.2

Description of performance goals for certain executive officers

On January 31, 2006, Philip C. Ackerman, Chairman of the Board and Chief Executive Officer of National Fuel Gas Company (the "Company"), approved short-term incentive goals for fiscal year 2006 for executive officers David F. Smith, Ronald J. Tanski and James A. Beck. Mr. Smith is President and Chief Operating Officer of the Company, President of National Fuel Gas Supply Corporation ("Supply Corporation") and President of Empire State Pipeline ("Empire"). Mr. Tanski is Treasurer of the Company and President of National Fuel Gas Distribution Corporation ("Distribution Corporation"). Mr. Beck is President of Seneca Resources Corporation. These three officers will earn a bonus for fiscal year 2006 depending upon their performance relative to their goals. Bonus amounts pursuant to this arrangement can range from zero to 130% of salary, with a target bonus of 65% of salary. The Compensation Committee of the Board of Directors may approve other compensation or awards at its discretion.

Mr. Smith's goals relate to corporate earnings per share (weighted as 55% of the goal formula), customer service and safety (weighted 10%), oil and natural gas production volume (weighted 10%), and proved developed and undeveloped reserve quantities (weighted 25%).

Mr. Tanski's goals relate to corporate earnings per share (weighted as 30% of the goal formula), earnings per share of the Company's regulated subsidiaries (Supply Corporation, Empire and Distribution Corporation) (weighted 30%), safety (weighted 10%), customer service standards (weighted 10%), and various aspects of the Company's relations with investors and with analysts who cover the Company (weighted 20% in the aggregate).

Mr. Beck's goals relate to oil and natural gas production volume (weighted as 40% of the goal formula), reserve replacement (weighted 30%), and lease operating expense and general and administrative expense per Mcfe (weighted 30%).

NONCOMPETE AND RESTRICTIVE COVENANT AGREEMENT

THIS AGREEMENT (the "Agreement") is made by and between National Fuel Gas Company, a New Jersey corporation having offices at 6363 Main Street, Williamsville, New York 14221 ("National Fuel") and Mr. Dennis J. Seeley, 141 Gypsy Lane, East Aurora, New York, 14052 ("Mr. Seeley") as of February 1, 2006.

WHEREAS , National Fuel and Mr. Seeley (each a "party," collectively, the "parties") mutually agree that each party shall receive certain consideration, on the terms set out in this Agreement;

WHEREAS, Mr. Seeley has been employed by National Fuel Gas Company and/or its various subsidiaries from 1965 through January 31, 2006, and among other things, has worked on and provided advice and expertise on matters relating to (i) timber and sawmill operations, and (ii) exploration, production, gathering, transportation, distribution, purchasing, brokering, marketing and trading of, and construction and maintenance of facilities for, natural gas, electricity and other energy products or services;

WHEREAS, during the course of Mr. Seeley's employment with National Fuel, Mr. Seeley had access to and became acquainted with National Fuel's trade secrets and confidential and proprietary information and materials, including but not limited to investment plans and strategies;

WHEREAS, during the course of Mr. Seeley's employment with National Fuel, Mr. Seeley was aware that the confidentiality of National Fuel's trade secrets and confidential and proprietary information was required to be maintained by National Fuel's employees;

WHEREAS, during the course of Mr. Seeley's employment with National Fuel, Mr. Seeley was aware that National Fuel's oil and gas exploration and development activities, and other business strategies were subject to restricted use and disclosure;

WHEREAS, during the course of Mr. Seeley's employment with National Fuel, National Fuel took steps to protect its trade secrets and confidential and proprietary information;

WHEREAS, Mr. Seeley recognizes that National Fuel's business and goodwill are dependent upon National Fuel's trade secrets and confidential and proprietary information;

WHEREAS, National Fuel will sustain great loss and damage if Mr. Seeley discloses, utilizes or causes to be disclosed or utilized National Fuel's trade secrets and/or confidential and proprietary information to third parties or for Mr. Seeley's own benefit;

NOW THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

1. As used within this Agreement, the terms “Company,” “we,” “our” or “us“ collectively refer to National Fuel Gas Company and its subsidiary and affiliated companies, other related entities, and successors or assigns. As used within this Agreement, the terms “Mr. Seeley,” “employee,” “you” or “your” refers to Dennis J. Seeley.

2. You have voluntarily decided to apply for retirement, effective February 1, 2006.

3. The Company agrees to pay you by check mailed to your then-current home address or via direct deposit to an account so designated, in writing, by you, a lump sum of Four Hundred Forty Thousand Dollars ($440,000), less any and all applicable taxes and withholding. Said lump sum payment shall be made on or about February 15, 2006. In the event of your death prior to February 15, 2006 **,** this payment will be payable to your Estate when due. For the avoidance of doubt, no portion of this payment is intended to constitute any bonus for any fiscal year and none has been nor shall be included in the calculation of any pension benefits.

4. In consideration for the promises set forth in paragraph 3 of this Agreement, you hereby knowingly and voluntarily release and unconditionally waive any and all demands, claims and causes of action, of whatever kind or nature, which you ever had, now have or which you, your successors, assigns, heirs, executors or administrators can, shall or may have for any reason as of the date you execute this Agreement against the Company or any of the Company's predecessors, successors, assigns, executors, administrators, directors, officers, employees and agents (collectively "Releasees") regarding your employment and its termination, including, but not limited to:

   (a) all demands, claims and causes of action for wages, bonuses, severance pay, perquisites, or back wages;

   (b) all manner of action and actions, cause and causes of actions, suits, claims and demands whatsoever, in law or in equity, based on your 2005 Target Incentive Opportunity under the Performance Incentive Program

   (c) all demands, claims and causes of action under state or federal civil rights and anti-discrimination laws, regulations or orders, including Executive Order 11246, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990 and the New York Human Rights Law;

   (d) all demands, claims and causes of action that your employment or its termination violated any alleged contractual relationship with the Company or was in any way unreasonable, wrongful, or in violation of any Company policy; and

   (e) all demands, claims and causes of action for mental, physical or emotional distress or harm, or defamation relating in any way to your employment or its termination.

5. In conjunction with the provisions of paragraph 4 herein, the Company and you specifically acknowledge and agree that:

   (a) you do not waive any claim which may arise after the execution of this Agreement;

   (b) you do not waive any claim with respect to performance by the Company of its obligations under this Agreement;

   (c) you do not waive any right of indemnification by or contribution from the Company which arises under the provisions of paragraph 11 of this Agreement, under the Company's by-laws or under the corporate laws of New York, Pennsylvania or New Jersey regarding the relationship between a corporation and its officers;

   (d) but for this Agreement, you would not be entitled to the benefits set forth in paragraph 3 of this Agreement;

   (e) the Company has advised you to review the Agreement, and specifically the release contained in paragraph 4 herein, with your attorney prior to signing this Agreement;

   (f) you were given this Agreement on January 30, 2006, and you understand you may review this Agreement for up to twenty-one (21) days before being required to execute this Agreement. You and the Company agree that the time period for you to consider this Agreement before signing it will not be restarted if any changes, material or non-material, are made to the Agreement after the date you first received it. You and the Company also agree that no benefits provided under this Agreement shall be payable unless and until the time periods referenced herein and in subparagraph (g) hereof expire and this Agreement becomes effective;

   (g) you may terminate this Agreement at any time within seven (7) days after your execution of this Agreement. This Agreement shall not become effective until the time to terminate it has expired.

6. As a part of the consideration for the compensation provided in this Agreement and for the other covenants made by National Fuel in this Agreement, you agree to the following confidentiality provisions:

   (a) You agree that the contents of this Agreement are confidential and will not be disclosed to any third party, other than your attorney, your wife, tax advisor, financial advisor(s), the Internal Revenue Service, the New York State Tax Department or the tax authority of any state or locality in which you are, or may be, subject to income tax, unless you are compelled to do so by a court having jurisdiction over such matter (in which case you will notify the Company as soon as possible of the activity and cooperate with the Company in seeking relief from such compulsion) or as may be necessary in connection with the enforcement of this Agreement. Notwithstanding the previous sentence, you may disclose the provisions of this paragraph 6 and paragraphs 7 and 9 hereof to any prospective employer or any other person or entity for whom you propose to provide services;

(b) Notwithstanding anything to the contrary contained in this Agreement, or any other express or implied agreement, arrangement or understanding, the parties and their respective affiliates, employees, representatives and other agents may disclose to any and all persons the tax structure and any of the tax aspects of the transaction(s) contemplated by this Agreement, which are necessary to describe or support any United States federal income tax benefits that may result therefrom or any materials necessary to comply with United States federal or state securities laws. For the purposes of this provision, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of the transaction(s) and does not include information relating to the identity of the parties, their affiliates, agents or advisors;

(c) You hereby represent that you have returned to the Company any and all corporate documents, records or copies of the same, information or property in your possession of which you are aware, except those relating to either your own employment, such as payroll stubs and benefits statements, or your shareholdings in the Company. You agree to return to the Company any and all such documents, records, copies, information and property which are or become subject to your control in the future. The Company acknowledges receipt from you of corporate documents and information you left behind on the Company’s premises. Your performance of the obligations set forth in this paragraph 6(c) is a condition precedent to your receipt of any benefits under paragraph 3 of this Agreement; however, upon a change of control of the Company (within the meaning of Section 409A of the U.S. Internal Revenue Code as in effect on the date of this Agreement), your performance of this condition shall no longer be such a condition precedent, and any subsequent breach by you of this paragraph 6 (c) would render you subject only to the same remedies the Company would have for any other material breach of this Agreement;

(d) You shall hold in a fiduciary capacity for the benefit of National Fuel any and all of the Company’s trade secrets and confidential and proprietary information in your possession. You shall not, without the prior written consent of National Fuel, unless compelled pursuant to an order of a court or other body having jurisdiction over such matter (in which case you will notify the Company as soon as possible of the activity and cooperate with the Company in seeking relief from such compulsion), at any time, utilize or communicate or divulge to anyone other than the Company and those designated by it, any of the Company’s trade secrets and confidential and proprietary information;

(e) The prohibition against your use of the Company’s trade secrets and confidential and proprietary information, other than for the benefit of National Fuel, includes but is not limited to the exploitation of any products or services that embody or are derived from the Company’s trade secrets or confidential and proprietary information;

(f) You agree to comply with (i) any and all applicable laws and regulations regarding your actions and omissions while in possession of any material nonpublic information about the Company which you may have at any time; and (ii) any and all confidentiality agreements that the Company entered into with third parties, of which you were made aware during your employment by the Company, under which the Company promised that its Representatives (including you) would keep confidential certain information described in those confidentiality agreements;

(g) You represent, warrant and agree that you have no proprietary or ownership rights or title to any of the Company’s trade secrets or confidential and proprietary information and no legal right to use, disclose, disseminate, or publish any of the Company's trade secrets or confidential and proprietary information in any locality. You acknowledge that if you were to work for or advise any entity in connection with a potential acquisition of or merger with the Company, you would in the course of that work inevitably use or disclose some of the Company’s trade secrets or confidential and proprietary information;

(h) The Company's "trade secrets" and "confidential and proprietary information" include, but are not limited to, any and all memoranda, software, data bases, computer programs, interface systems, pricing and client information, records and “writings” as hereinafter defined pertaining to the Company’s methods or practices of doing business and marketing its services and products, whether or not developed or prepared by you during the term of your employment with the Company. As used in the preceding sentence, the term “writings” shall mean and include all works, expressed in words, numbers or other verbal or numerical symbols, regardless of the physical manner in which they are embodied, including, but not limited, to books, articles, manuscripts, memoranda, computer programs, computer software systems, maps, charts, diagrams, technical drawings, manuals, video and audio tape recordings, and photographs. Notwithstanding the foregoing, the Company's trade secrets and confidential and proprietary information shall mean only such information or material not generally known to the public (other than by act of you or your representatives in breach of this Agreement).

7. In order to protect and safeguard the Company's trade secrets and confidential information, you agree that, during the period beginning February 1, 2006 and ending January 31, 2009:

(a) you will not, directly or indirectly and without the prior written consent of National Fuel, engage in or be interested in (as owner, partner, shareholder, employee, director, agent, consultant or otherwise), any business which is a “competitor” of the Company, as hereafter defined, except as otherwise permitted under paragraph 7(c) below;

(b) for purposes of this Agreement, a “competitor” of the Company is any corporation, sole proprietorship, partnership, joint venture, syndicate, trust or any other form of organization or parent, subsidiary or division of any of the foregoing, which, during such period or the immediately preceding fiscal year of such entity, was engaged in (i) timber and sawmill operations, or (ii) the exploration, production, gathering, transportation, distribution, purchase, brokering, marketing, or trading of, and construction and maintenance of facilities for, natural gas, electricity or other energy products or services which are competitive to the Company's products or services, or in any energy related project that is competitive to the Company's products, services or projects, provided that such entity was engaged in such competitive business within 50 miles of the geographic area in which the Company is engaged in business;

(c) the terms of this paragraph 7 shall not apply to:

(i) your present or future investments in the securities of companies listed on a national securities exchange or traded on the over-the-counter market to the extent such investments do not exceed 2% of the total outstanding shares of such company,

(ii) your engagement in or interest in any business with the prior written consent of National Fuel.

(d) The parties acknowledge and agree that the foregoing restrictions contain reasonable limitations as to the time, geographical area, and scope of activity to be restrained and these restrictions do not impose any greater restraint than is necessary to protect the goodwill and other legitimate business interests of the Company.

8. In consideration for your promises set forth in this Agreement, the Company agrees that:

(a) any inquiries by prospective employers or third parties will be handled as per Company policy; that is, the dates of your employment and job title will be the only information released by the Company;

(b) the contents of this Agreement are confidential; the Company shall not disclose the contents of this Agreement to anyone other than the directors, officers, employees and agents of the Company or its affiliates who need to know except as required, in the opinion of counsel, to comply with applicable law, regulation or order;

(c) the Company hereby knowingly and voluntarily releases and unconditionally waives any and all demands, claims and causes of action against you, of whatever kind or nature, which the Company ever had, now has or which it or its successors can, shall or may have for any reason as of the date you execute this Agreement, except for claims for fraud or other intentional misconduct discovered by the Company's officers after the execution of this Agreement; the Company does not release or waive any claim which may arise after the execution of this Agreement; and

(d) the Company shall not publicly or privately disparage you, either personally or professionally; the parties agree that nothing in this paragraph shall be construed to prevent any officer of the Company or any subsidiary or affiliate from discussing your performance internally in the ordinary course of business.

9. In further consideration for the promises set forth in this Agreement, you agree that:

(a) you will not publicly or privately disparage the Company, or any of its subsidiaries, affiliates, directors, officers or employees including any aspect of their respective business, products, employees, management or Board of Directors, in any manner, including but not limited to in any way which could materially adversely affect the business of the Company or such subsidiaries or affiliates; and

(b) you will not, directly or indirectly, take any action with the intended purpose of interfering with, damaging or disrupting the assets or business operations or affairs of the Company or its subsidiaries or affiliates; without limiting the foregoing in any way, it shall be conclusively presumed that you have breached this subparagraph 9(b) if, without the prior written consent of National Fuel or other than at National Fuel's written request, you

(i) voluntarily participate in any of the following, collectively referred to as a "Proceeding": any rate case, claim, litigation, arbitration, mediation or administrative proceeding affecting the revenue, expenses, assets or liabilities of the Company other than any claim, litigation, arbitration, mediation or administrative proceeding that does not relate to a rate matter;

(ii) voluntarily render any assistance in the preparation or development of any position in a Proceeding; or

(iii) submit any shareholder proposal, motion or resolution to the Company to be discussed or voted upon by the Company's shareholders. You hereby grant the Secretary of National Fuel an irrevocable power of attorney to withdraw for all purposes any such shareholder proposal.

(c) you will not, directly or indirectly and without the prior written consent of National Fuel , work for, consult with, advise or represent (as employee, agent, consultant or otherwise), any business which is a "customer" of the Company, as hereafter defined, with respect to any matter or activity which would tend to reduce the quantity or price of services or commodities provided by the Company to that business;

(d) for purposes of this Agreement, a "customer" of the Company is any corporation, sole proprietorship, partnership, joint venture, syndicate, trust or any other form of organization or parent, subsidiary or division of any of the foregoing, which, during such period or the immediately preceding fiscal year of such entity, purchased commodities, goods or services from the Company; and

(e) you will not induce or otherwise entice, directly or indirectly, any employee or officer of the Company to leave the Company, nor shall you attempt to hire any of the Company's employees or officers.

10. You waive any and all rights to employment at the Company, agree not to knowingly apply for, solicit, seek or otherwise attempt to obtain employment with the Company, and further agree that the Company is not or will not be at any time under any obligation to employ you. You further agree that if you should apply for employment at the Company, the Company will have no obligation to process your employment application or to hire you and that the failure to process your employment application or to hire you shall not constitute a violation of any federal, state or local law, regulation or order. Nothing in this Agreement shall preclude you, however, from soliciting, seeking or otherwise attempting to obtain consulting work with the Company as an independent contractor, or from actually performing consulting services for the Company if retained by the Company, it being understood that the Company is not and will not be under any obligation to engage you as a consultant.

11. National Fuel shall indemnify you to the fullest extent permitted and in the manner provided by the laws of the State of New Jersey including, without limitation, the indemnification permitted by N.J.S. 14A:3-5(8), against all liabilities (including amounts paid or incurred in satisfaction of settlements, judgments, fines and penalties) and expenses (including, without limitation, attorneys' fees and disbursements) imposed upon or incurred by you in connection with any pending, threatened or completed civil, criminal, administrative or arbitrative action, suit or proceeding in which you may become involved by reason of your being or having been a director or officer of the Company, or of serving or having served at the request of the Company as a director, officer, trustee, employee or agent of, or in any other capacity with, another foreign or domestic corporation, or any partnership, joint venture, sole proprietorship, employee benefit plan, trust or other enterprise, whether or not for profit. During the pendency of any such proceeding, the Company shall, to the fullest extent permitted by law, promptly advance expenses (including, without limitation, attorneys' fees and disbursements) that are incurred, from time to time, in connection therewith by you, subject to the receipt by the Company of an undertaking of you as required by law. Unless otherwise required by applicable law at that time, this undertaking shall be in the form of a writing signed by you promising to immediately repay the advanced amounts if it shall ultimately be determined that you are not entitled to indemnification under this section or under applicable law at that time. The indemnification provided by this paragraph 11 shall extend to your estate or personal representative.

12. The parties agree that the legal invalidity of any provision of this Agreement shall not make this Agreement void or unenforceable, and that in such case this Agreement shall be construed so as to preserve as much as possible of the parties' respective interests which motivated them to execute this Agreement. It is also agreed that this Agreement shall be construed and enforced in accordance with the laws of the State of New York. The parties acknowledge that they have mutually negotiated all provisions of this Agreement with the assistance of counsel. The provisions of this Agreement shall be interpreted and construed in accordance with their fair meanings, and not strictly for or

against either party, regardless of which party may have drafted this Agreement or any specific provisions.

13. This Agreement constitutes the final, complete and exclusive agreement between the Company and you regarding your employment and its termination. You do not rely upon any oral promises in signing this Agreement, and the only promises you rely on are those set forth in writing herein. This Agreement may be modified or amended only by a written instrument signed by the Company and you.

14. This Agreement is personal to Mr. Seeley and without the prior written consent of National Fuel shall not be assignable by him other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Mr. Seeley's legal representatives.

15. This Agreement shall inure to the benefit of and be binding upon National Fuel and its successors.

IN WITNESS WHEREOF , each party has executed this Agreement as of the date indicated below.

DENNIS J. SEELEY

/s/ D. J. Seeley Date: 1/31/06

NATIONAL FUEL GAS COMPANY

By: /s/ P. C. Ackerman Date: 1/31/06
P. C. Ackerman
President

Exhibit 10.4

Description of salaries of certain executive officers

On February 15, 2006, the Compensation Committee of the Board of Directors of National Fuel Gas Company (the "Company") approved increases in the base salaries of David F. Smith and Ronald J. Tanski. Mr. Smith was elected President and Chief Operating Officer of the Company effective February 1, 2006. He also serves as President of National Fuel Gas Supply Corporation and President of Empire State Pipeline. His base salary increased from $450,000 to $525,000. Mr. Tanski was elected President of National Fuel Gas Distribution Corporation effective February 1, 2006. In addition, he serves as Treasurer and Principal Financial Officer of the Company. His base salary increased from $350,000 to $400,000. The base salary of the Company's Chairman of the Board and Chief Executive Officer, Philip C. Ackerman, is $825,000, and the base salary of James A. Beck, President of Seneca Resources Corporation, is $450,000. None of these executive officers and none of the other executive or non-executive officers of the Company or its subsidiaries are employed pursuant to employment agreements; instead, they are "at will" employees. The Compensation Committee may, among other things, adjust the base salaries of executive officers at its discretion.

	For the Twelve Months Ended March 31, 2006	2005
EARNINGS:		
Income from Continuing Operations	$180,717	$153,515
Plus Income Tax Expense	101,063	92,978
Less Investment Tax Credit (1)	(697)	(697
(Less Income) Plus Loss from Unconsolidated Subsidiaries (3)	51	796
Plus Distributions from Unconsolidated Subsidiaries	3,620	1,990
Plus Interest Expense on Long-Term Debt	72,917	73,244
Plus Other Interest Expense	7,955	9,069
Less Amortization of Loss on Reacquired Debt	(1,118)	(1,066
Plus (Less) Allowance for Borrowed Funds Used in Construction	267	201
Plus Rentals (2)	3,199	3,554
	$367,974	$333,584
FIXED CHARGES:		
Interest & Amortization of Premium and Discount of Funded Debt	$72,917	$73,244
Plus Other Interest Expense	7,955	9,069
Less Amortization of Loss on Reacquired Debt	(1,118)	(1,066
Plus (Less) Allowance for Borrowed Funds Used in Construction	267	201
Plus Rentals (2)	3,199	3,554
	$83,220	$85,002
RATIO OF EARNINGS TO FIXED CHARGES	**4.42**	**3.92**

(1) Investment Tax Credit is included in Other Income.
(2) Rentals shown above represent the portion of all rentals (other than delay rentals) deeme
(3) Fiscal 2002 and 2005 include the Impairment of Investment in Partnership of $15,167 and $

CERTIFICATION

I, P. C. Ackerman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Fuel Gas Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2006

/s/ P. C. Ackerman

P. C. Ackerman
Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, R. J. Tanski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Fuel Gas Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2006

/s/ R. J. Tanski

R. J. Tanski
Treasurer and Principal Financial Officer

Exhibit 32

NATIONAL FUEL GAS COMPANY

Certification Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

Each of the undersigned, P. C. ACKERMAN, the Chairman of the Board and Chief Executive Officer and R. J. TANSKI, the Treasurer and Principal Financial Officer of NATIONAL FUEL GAS COMPANY (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, as amended; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, each of the undersigned has executed this statement this 5th day of May, 2006.

/s/ P. C. Ackerman
Chairman of the Board and Chief
Executive Officer

/s/ R. J. Tanski
Treasurer and Principal Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99

NATIONAL FUEL GAS
CONSOLIDATED STATEMENTS OF
(UNAUDITED)

	Twelve Months Ended March 31
	2006
	(Thousands of Dolla
INCOME	
Operating Revenues	$ 2,289,160
Operating Expenses	
Purchased Gas	1,266,734
Operation and Maintenance	426,206
Property, Franchise and Other Taxes	69,425
Depreciation, Depletion and Amortization	179,751
	1,942,116
Loss on Sale of Timber Properties	-
Operating Income	347,044
Other Income (Expense):	
Income from Unconsolidated Subsidiaries	4,107
Impairment of Investment in Partnership	(4,158)
Interest Income	7,304
Other Income	8,355
Interest Expense on Long-Term Debt	(72,917)
Other Interest Expense	(7,955)
Income from Continuing Operations Before Income Taxes	281,780
Income Tax - Expense	101,063
Income from Continuing Operations	180,717
Discontinued Operations	
Income (Expense) from Operations, Net of Tax	(2,111)
Gain on Disposal, Net of Tax	25,774
	23,663
Net Income Available for Common Stock	$ 204,380
Earnings Per Common Share:	
Basic	
Income from Continuing Operations	$ 2.15
Income from Discontinued Operations	0.28
Net Income Available for Common Stock	$ 2.43
Diluted	
Income from Continuing Operations	$ 2.11
Income from Discontinued Operations	0.27

Net Income Available for Common Stock	$ 2.38	
Weighted Average Common Shares Outstanding:		
Used in **Basic** Calculation	84,116,896	
Used in **Diluted** Calculation	85,810,270	