NATIONAL FUEL GAS CO

FORM 10-Q
(Quarterly Report)

Filed 08/04/06 for the Period Ending 06/30/06

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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(Quarterly Report)

Filed 8/4/2006 For Period Ending 6/30/2006

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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 June 30, 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 July 31, 2006: **83,400,866** 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 disclosur
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
NTSB	National Transportation Safety Board

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 its capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Corporation for gas the customer receives in excess of amou 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 a temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which underlying variable (a price, interest rate, index rate, ex other variable) and a notional amount (number of units, bar feet, etc.). The terms also permit for the instrument or c

settled net, and no initial net investment is required to e financial instrument or contract. Examples include futures options, no cost collars and swaps.

GLOSSARY OF TERMS (Cont.)

Dth	Decatherm; one Dth of natural gas has a heating value of 1,0 British thermal units, approximately equal to the heating v 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
FIN 48	FASB Interpretation No. 48, Accounting for Uncertainty in In - an interpretation of SFAS 109.
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 custo 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 use 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 supplie service, and for which the customer does not pay unless uti
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 and Results of Operations
MDth	Thousand decatherms (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 of 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 ex 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 federall natural gas pipelines resulted in the separation (or "unbun gas commodity service from transportation service for whole 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 109	Statement of Financial Accounting Standards No. 109, Account Income Taxes
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 service
WNC	Weather normalization clause; a clause in utility rates whic customer rates to allow a utility to recover its normal ope calculated at normal temperatures. If temperatures during measured period are warmer than normal, customer rates are upward in order to recover projected operating costs. If t during the measured period are colder than normal, customer are adjusted downward so that only the projected operating be recovered.

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Part I. Financial Information

. 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

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Consolidated Statements of Income and Earnings

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

(Thousands of Dollars, Except Per Common Share Amounts)	Three Mo Jun 2006
INCOME	
Operating Revenues	$415,452

Operating Expenses	
Purchased Gas	184,635
Operation and Maintenance	96,117
Property, Franchise and Other Taxes	16,845
Depreciation, Depletion and Amortization	46,943
Impairment of Oil and Gas Producing Properties	62,371
	406,911
Operating Income	8,541
Other Income (Expense):	
Income from Unconsolidated Subsidiaries	215
Interest Income	2,203
Other Income	546
Interest Expense on Long-Term Debt	(18,135)
Other Interest Expense	(1,026)
Income (Loss) from Continuing Operations Before Income Taxes	(7,656)
Income Tax Expense (Benefit)	(7,767)
Income from Continuing Operations	111
Loss from Discontinued Operations, Net of Tax	-
Net Income Available for Common Stock	111
EARNINGS REINVESTED IN THE BUSINESS	
Balance at April 1	877,599
	877,710
Share Repurchases	44,766
Dividends on Common Stock (2006 - $0.30 per share; 2005 - $0.29 per share)	24,993
Balance at June 30	$807,951
Earnings Per Common Share:	
Basic:	
Income from Continuing Operations	$ -
Loss from Discontinued Operations	-
Net Income Available for Common Stock	$ -
Diluted:	
Income from Continuing Operations	$ -
Loss from Discontinued Operations	-
Net Income Available for Common Stock	$ -
Weighted Average Common Shares Outstanding:	
Used in Basic Calculation	84,013,556
Used in Diluted Calculation	86,016,131

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Statements of Income and Earnings

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

(Thousands of Dollars, Except Per Common Share Amounts)	Nine Mo Ju 2006
INCOME	
Operating Revenues	$2,017,189
Operating Expenses	
Purchased Gas	1,187,952
Operation and Maintenance	320,821
Property, Franchise and Other Taxes	54,147
Depreciation, Depletion and Amortization	134,267
Impairment of Oil and Gas Producing Properties	62,371
	1,759,558
Operating Income	257,631
Other Income (Expense):	
Income from Unconsolidated Subsidiaries	2,199
Interest Income	4,301
Other Income	1,535
Interest Expense on Long-Term Debt	(54,502)
Other Interest Expense	(4,266)
Income from Continuing Operations Before Income Taxes	206,898
Income Tax Expense	70,775
Income from Continuing Operations	136,123
Income from Discontinued Operations, Net of Tax	-
Net Income Available for Common Stock	136,123
EARNINGS REINVESTED IN THE BUSINESS	
Balance at October 1	813,020
	949,143
Share Repurchases	67,384
Dividends on Common Stock (2006 - $0.88; 2005 - $0.85)	73,808
Balance at June 30	$807,951
Earnings Per Common Share:	
Basic:	
Income from Continuing Operations	$1.62

Income from Discontinued Operations	-
Net Income Available for Common Stock	$1.62
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	84,231,490
Used in Diluted Calculation	86,150,927

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Balance Sheets

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	June 30, 2006
(Thousands of Dollars)	
ASSETS	
Property, Plant and Equipment	$4,638,247
Less - Accumulated Depreciation, Depletion and Amortization	1,753,147
	2,885,100
Current Assets	
Cash and Temporary Cash Investments	121,626
Hedging Collateral Deposits	14,684
Receivables - Net of Allowance for Uncollectible Accounts of $34,097 and $26,940, Respectively	233,150
Unbilled Utility Revenue	15,529
Gas Stored Underground	40,803
Materials and Supplies - at average cost	35,925
Unrecovered Purchased Gas Costs	-
Prepayments and Other Current Assets	43,681
Deferred Income Taxes	51,239
	556,637

Other Assets	
Recoverable Future Taxes	84,667
Unamortized Debt Expense	16,000
Other Regulatory Assets	60,134
Deferred Charges	5,715
Other Investments	87,291
Investments in Unconsolidated Subsidiaries	10,206
Goodwill	5,476
Intangible Assets	40,305
Fair Value of Derivative Financial Instruments	8,266
Other	5,728
	323,788
Total Assets	$3,765,525

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Balance Sheets

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	June 30, 2006
CAPITALIZATION AND LIABILITIES	
Capitalization:	
Comprehensive Shareholders' Equity	
Common Stock, $1 Par Value Authorized - 200,000,000 Shares; Issued and Outstanding - 83,309,093 Shares and 84,356,748 Shares, Respectively	$ 83,309
Paid in Capital	553,081
Earnings Reinvested in the Business	807,951
Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,444,341
Accumulated Other Comprehensive Loss	(102,611)
Total Comprehensive Shareholders' Equity	1,341,730
Long-Term Debt, Net of Current Portion	1,111,746

Total Capitalization	2,453,476
Current and Accrued Liabilities	
Notes Payable to Banks and Commercial Paper	-
Current Portion of Long-Term Debt	9,502
Accounts Payable	131,540
Amounts Payable to Customers	31,576
Dividends Payable	24,978
Other Accruals and Current Liabilities	104,350
Fair Value of Derivative Financial Instruments	75,239
	377,185
Deferred Credits	
Deferred Income Taxes	494,957
Taxes Refundable to Customers	11,073
Unamortized Investment Tax Credit	6,270
Cost of Removal Regulatory Liability	94,166
Other Regulatory Liabilities	58,376
Pension and Other Post-Retirement Liabilities	155,579
Asset Retirement Obligation	42,940
Other Deferred Credits	71,503
	934,864
Commitments and Contingencies	-
Total Capitalization and Liabilities	$3,765,525

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Consolidated Statements of Cash Flows

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National Fuel Gas Company
Consolidated Statements of Cash Flows
Unaudited)

(Thousands of Dollars)	Nine 2006
OPERATING ACTIVITIES	
Net Income Available for Common Stock	$136,123
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Impairment of Oil and Gas Producing Properties	62,371
Depreciation, Depletion and Amortization	134,267

Deferred Income Taxes	(17,430)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	2,452
Minority Interest in Foreign Subsidiaries	-
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(6,515)
Other	(6,493)
Change in:	
Hedging Collateral Deposits	63,100
Receivables and Unbilled Utility Revenue	(72,496)
Gas Stored Underground and Materials and Supplies	21,098
Unrecovered Purchased Gas Costs	14,817
Prepayments and Other Current Assets	21,800
Accounts Payable	(24,650)
Amounts Payable to Customers	30,418
Other Accruals and Current Liabilities	49,950
Other Assets	(15,753)
Other Liabilities	16,855
Net Cash Provided by Operating Activities	409,914
INVESTING ACTIVITIES	
Capital Expenditures	(218,658)
Net Proceeds from Sale of Oil and Gas Producing Properties	4
Other	(1,578)
Net Cash Used in Investing Activities	(220,232)
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	(76,540)
Reduction of Long-Term Debt	(7,157)
Dividends Paid on Common Stock	(73,275)
Dividends Paid to Minority Interest	-
Proceeds from Issuance of Common Stock	23,399
Net Cash Used in Financing Activities	(127,058)
Effect of Exchange Rates on Cash	1,395
Net Increase (Decrease) in Cash and Temporary Cash Investments	64,019
Cash and Temporary Cash Investments at October 1	57,607
Cash and Temporary Cash Investments at June 30	$121,626

See Notes to Condensed Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

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

(Thousands of Dollars)	Three Months June 30, 2006
Net Income Available for Common Stock	$111
Other Comprehensive Income (Loss), Before Tax:	
Foreign Currency Translation Adjustment	8,292
Unrealized Gain on Securities Available for Sale Arising During the Period	1,126
Unrealized Loss on Derivative Financial Instruments Arising During the Period	(2,340)
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	14,687
Other Comprehensive Income (Loss) Before Tax	21,765
Income Tax Benefit Related to Cumulative Translation Adjustment	-
Income Tax Expense (Benefit) Related to Unrealized Gain on Securities Available for Sale Arising During the Period	391
Income Tax Benefit Related to Unrealized Loss on Derivative Financial Instruments Arising During the Period	(931)
Reclassification Adjustment for Income Tax Benefit on Realized Losses on Derivative Financial Instruments In Net Income	5,668
Income Taxes - Net	5,128
Other Comprehensive Income (Loss)	16,637
Comprehensive Income	$16,748

(Thousands of Dollars)	Nine Months June 30, 2006
Net Income Available for Common Stock	$136,123
Other Comprehensive Income (Loss), Before Tax:	
Foreign Currency Translation Adjustment	7,556
Unrealized Gain on Securities Available for Sale Arising During the Period	3,388
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	60,275
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	78,412
Other Comprehensive Income (Loss) Before Tax	149,631
Income Tax Expense Related to Cumulative Translation Adjustment	-
Income Tax Expense Related to Unrealized Gain on	

Securities Available for Sale Arising During the Period	1,183
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) On Derivative Financial Instruments Arising During the Period	23,178
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 on Derivative Financial Instruments In Net Income	30,253
Income Taxes - Net	54,614
Other Comprehensive Income (Loss)	95,017
Comprehensive Income	$231,140

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Notes to Condensed 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 reporting 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 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 nine months ended June 30, 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 $50.0 million at June 30, 2006, is reduced to zero by September 30 as the inventory is replenished.

Property, Plant and Equipment. Oil and gas property acquisition, exploration and development costs are capitalized under the full-cost method of accounting. All costs directly associated with property acquisition, exploration and development activities are capitalized, up to certain specified limits. If capitalized costs exceed these limits at the end of any quarter, a permanent impairment is required to be charged to earnings in that quarter. The Company's capitalized costs exceeded the full-cost ceiling for the Company's Canadian properties at June 30, 2006. As such, the Company recognized an impairment of $62.4 million at June 30, 2006.

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

	At June 30, 2006	At S
Minimum Pension Liability Adjustment	$(107,844)	
Cumulative Foreign Currency Translation Adjustment	35,565	
Net Unrealized Loss on Derivative Financial Instruments	(38,083)	
Net Unrealized Gain on Securities Available for Sale	7,751	
Accumulated Other Comprehensive Loss	$(102,611)	

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 quarters ended June 30, 2006 and 2005, 171,429 and 657,769 stock options, respectively, were excluded as being antidilutive. For the nine months ended June 30, 2006 and 2005, 57,143 and 226,322 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 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 300,000 stock-based compensation awards granted during the quarter and nine months ended June 30, 2006. There were 57,000 and 700,000 stock options granted during the quarter and nine months ended June 30, 2005, respectively. Stock-based compensation expense for the quarters ended June 30, 2006 and June 30, 2005 totaled approximately $978,000 ($572,000 of which relates to the application of the non-substantive vesting period approach discussed below) and $101,000, respectively. Stock-based compensation expense for the nine months ended June 30, 2006 and June 30, 2005 was approximately $1,261,000 ($572,000 of which relates to the application of the non-substantive vesting period approach discussed below) and $416,000, 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 June 30, 2006 and June 30, 2005 was approximately $362,000 and $40,000, respectively. The total income tax benefit related to stock-based compensation expense during the nine months ended June 30, 2006 and June 30, 2005 was approximately $474,000 and $166,000, respectively. There were no capitalized stock-based compensation costs during the quarters ended June 30, 2006 and June 30, 2005.

Prior to the adoption of SFAS 123R, the Company followed the nominal vesting period approach under the disclosure requirements of SFAS 123 for determining the vesting period for awards with retirement eligible provisions, which recognized stock-based compensation expense over the nominal vesting period. As a result of the adoption of SFAS 123R, the Company currently applies the non-substantive vesting period approach for determining the vesting period of such awards. Under this approach, the retention of the award is not contingent on providing subsequent service and the vesting period would begin at the grant date and end at the retirement-eligible date. For the quarter and nine months ended June 30, 2006, the Company recognized an additional $572,000 ($372,000 net of tax) of stock-based compensation expense by applying the non-substantive vesting approach for awards granted in the quarter ended June 30, 2006. For the quarter ended June 30, 2005, stock-based compensation expense would have been $2,449,000 ($1,592,000 net of tax) for pro forma recognition purposes had the non-substantive vesting period approach been used. The pro forma stock-based compensation expense would remain unchanged under the non-substantive vesting period approach for the nine months ended June 30, 2005. Pro forma stock-based compensation expense following the nominal vesting period approach is shown in the table below.

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 nine months ended June 30, 2005:

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended June 30, 2005	Nine M Ju
Net Income, Available for Common Stock, as Reported	$19,156	
Add:		
Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax (1)	66	
Deduct:		
Total Stock-Based Employee Compensation Expense Determined Under Fair Value Based Method for all Awards, Net of Related Tax Effects	(2,073)	
Pro Forma Net Income Available For Common Stock	$17,149	
Earnings Per Common Share:		
Basic - As Reported	$0.23	
Basic - Pro Forma	$0.21	
Diluted - As Reported	$0.23	
Diluted - Pro Forma	$0.20	

(1) Stock-based compensation expense in 2005 represented compensation expense related to restricted stock awards. The pre-tax expense was $101,000 and $416,000, respectively, for the quarter and nine months ended June 30, 2005.

Stock Options

Transactions during the nine months ended June 30, 2006 were as follows (in thousands, except option prices and years):

Weighted

	Number of Options	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	
Granted	300	35.11	
Exercised	(1,037)	22.68	
Forfeited	-	-	
Options Outstanding at June 30, 2006	9,749	$ 24.34	
Options Exercisable at June 30, 2006	9,353	$ 24.01	

The total intrinsic value of stock options exercised during the quarters ended June 30, 2006 and June 30, 2005 totaled approximately $13.2 million and $4.9 million, respectively. The amount of cash received by the Company from the exercise of such stock options was approximately $17.7 million during the quarter ended June 30, 2006 and approximately $7.3 million during the quarter ended June 30, 2005. The total intrinsic value of stock options exercised during the nine months ended June 30, 2006 and June 30, 2005 totaled approximately $18.3 million and $13.4 million, respectively. For the nine months ended June 30, 2006 and June 30, 2005, the amount of cash received by the Company from the exercise of stock options was approximately $25.8 million and $15.5 million, respectively. The Company realizes tax benefits related to the exercise of stock options on a calendar 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 period of January 1, 2006 through June 30, 2006, the Company will realize a tax benefit of approximately $6.5 million in the quarter ended December 31, 2006. For stock options exercised during the period of January 1, 2005 through June 30, 2005, the Company realized a tax benefit of approximately $3.8 million in the quarter ended December 31, 2005. The weighted average grant date fair value of options granted during the quarters ended June 30, 2006 and June 30, 2005 is $6.67 per share and $4.28 per share, respectively. For the nine months ended June 30, 2006, 150,664 stock options became fully vested. The total fair value of these stock options was approximately $887,000. For the nine months ended June 30, 2005, 1,281,008 stock options became fully vested. The total fair value of these stock options was approximately $5.8 million. As of June 30, 2006, unrecognized compensation expense related to stock options totaled approximately $1.2 million, which will be recognized over a weighted average period of one year.

The fair value of options at the date of grant was estimated using a Binomial option-pricing model for options granted prior to October 1, 2005 and the Black-Scholes-Merton closed form model for options granted after September 30, 2005. The following weighted average assumptions were used in estimating the fair value of options at the date of grant:

	June 30, 2006	June 30, 2005
Risk Free Interest Rate	4.79%	4.04%
Expected Life (years)	6.8	6.6
Expected Volatility	19.29%	21.16%
Expected Dividend Yield (Quarterly)	0.97%	1.10%

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.

For grants prior to October 1, 2005, 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. For the grant during the quarter ended June 30, 2006, it was assumed that there would be no forfeitures, based on the vesting term and the number of grantees.

Restricted Share Awards

Transactions during the nine months ended June 30, 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
Granted	16
Vested	-
Forfeited	-
Restricted Share Awards Outstanding at June 30, 2006	48

As of June 30, 2006, unrecognized compensation expense related to restricted share awards totaled approximately $650,000, which will be recognized over a weighted average period of 2.1 years.

On June 20, 2006, a modification was made to a restricted share award involving one employee. The modification accelerated the vesting date of 4,000 shares from December 7, 2006 to July 1, 2006. The incremental compensation expense, totaling approximately $32,000, was included with the total stock-based compensation expense for the quarter and nine months ended June 30, 2006, as stated above.

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.

In June 2006, the FASB issued FIN 48, an interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes and reduces the diversity in current practice associated with the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return by defining a "more-likely-than-not" threshold regarding the sustainability of the position. The Company is required to adopt FIN 48 by the first quarter of fiscal 2008. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements.

Item 1. Financial Statements (Cont.)

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):

	Nine Mo Jun 2006
Operating Expenses:	
Current Income Taxes	
Federal	$68,914
State	17,079
Foreign	2,212
Deferred Income Taxes	
Federal	2,427
State	1,519
Foreign	(21,376)
	70,775
Other Income:	
Deferred Investment Tax Credit	(523)
Discontinued Operations	-

Total Income Taxes	$70,252

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

	Nine Mon June 2006
U.S.	$248,226
Foreign	(41,851)
	$206,375

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):

	Nine Mon June 2006
Income Tax Expense, Computed at Statutory Rate of 35%	$72,231
Increase (Reduction) in Taxes Resulting From:	
State Income Taxes	12,089
Dividend from Foreign Subsidiary	-
Foreign Tax Differential	(5,211) (1)
Tax on Unremitted Earnings	-
Reversal of Capital Loss Valuation Allowance	(2,877)
Miscellaneous	(5,980) (2)
Total Income Taxes	$70,252

(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.

(2) Includes a net reversal of $3.2 million relating to a tax contingency reserve.

Item 1. Financial Statements (Cont.)

Significant components of the Company's deferred tax liabilities (assets) were as follows (in thousands):

	At June 30, 2006	At S
Deferred Tax Liabilities:		
Property, Plant and Equipment	$577,695	
Other	39,459	
Total Deferred Tax Liabilities	617,154	

Deferred Tax Assets:	
Minimum Pension Liability Adjustment	(58,070)
Capital Loss Carryover	(9,812)
Unrealized Hedging Losses	(21,042)
Other	(84,512)
	(173,436)
Valuation Allowance	-
Total Deferred Tax Assets	(173,436)
Total Net Deferred Income Taxes	$443,718
Presented as Follows:	
Net Deferred Tax Asset - Current	$(51,239)
Net Deferred Tax Liability - Non-Current	494,957
Total Net Deferred Income Taxes	$443,718

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 June 30, 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 $84.7 million and $85.0 million at June 30, 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 $28.0 million existed at June 30, 2006, which expires if not utilized by September 30, 2008. Although realization is not assured, management determined during this quarter that it is more likely than not that the entire deferred tax asset associated with this carryover will be realized during the carryover period. As such, the valuation allowance of $2.877 million was reversed during the quarter.

Note 3 – Capitalization

Common Stock. During the nine months ended June 30, 2006, the Company issued 1,544,606 shares of common stock as a result of stock option exercises and 16,000 shares for restricted stock awards (non-vested stock as defined in SFAS 123R). The Company also issued 6,300 shares of common stock to the non-employee directors of the Company as partial consideration for the directors’ services during the nine months ended June 30, 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 nine months ended June 30, 2006, 330,211 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.

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 nine months ended June 30, 2006, the Company repurchased 2,284,350 shares under this program, funded with cash provided by operating activities. At June 30, 2006, the Company had made commitments to repurchase an additional 49,000 shares of common stock. These commitments were settled and recorded as a reduction of the Company's outstanding shares of common stock in July 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 June 30, 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 $3.8 million. This liability has been recorded on the Consolidated Balance Sheet at June 30, 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. 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 percent 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.:

(Thousands)	Three Months Ended June 30, 2005	Nine Mon Ended June 3 2005
Operating Revenues	$22,626	$122,0
Operating Expenses	25,626	99,2

Operating Income (Loss)	(3,000)	22,8
Other Income	918	2,0
Interest Expense	(186)	(5
Income (Loss) before Income Taxes and Minority Interest	(2,268)	24,3
Income Tax Expense	5,412	16,3
Minority Interest, Net of Taxes	(443)	2,8
Income (Loss) from Discontinued Operations	$(7,237)	$5,0

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 June 30, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Ot
Revenue from External Customers	$186,661	$30,750	$86,600	$94,747	$15,311	$414,069	$1,
Intersegment Revenues	$ 2,514	$20,298	$ -	$ -	$ 4	$22,816	$1,
Segment Profit (Loss):							
Net Income (Loss)	$ 827	$12,642	$(15,127)	$ 1,045	$ 1,529	$916	$ (

Nine Months Ended June 30, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Ot
Revenue from							

External Customers	$1,154,375	$104,835	$257,406	$446,367	$51,377	$2,014,360	$2
Intersegment Revenues	$ 12,317	$61,304	$ -	$ -	$ 4	$ 73,625	$7
Segment Profit (Loss):							
Net Income (Loss)	$ 51,234	$45,384	$28,152	$ 5,909	$5,235	$ 135,914	

Quarter Ended June 30, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Ot
Revenue from External Customers	$189,175	$29,642	$77,370	$88,048	$15,028	$399,263	$1,
Intersegment Revenues	$ 2,734	$20,956	$ -	$ -	$ -	$23,690	$1,
Segment Profit (Loss):							
Income (Loss) from Continuing Operations	$ (1,684)	$10,843	$13,830	$ 1,548	$ 555	$25,092	$

Nine Months Ended June 30, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Ot
Revenue from External Customers	$991,651	$98,117	$219,527	$276,106	$46,994	$1,632,395	$4
Intersegment Revenues	$ 12,732	$63,071	$ -	$ -	$ 1	$ 75,804	$ 6
Segment Profit (Loss):							
Income (Loss) from Continuing Operations	$ 45,269	$41,577	$38,984	$ 4,909	$4,201	$ 134,940	$1

Note 7 — Intangible Assets

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

	At June 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets Subject to Amortization			
Long-Term Transportation Contracts	$8,580	$(3,653)	$4,927
Long-Term Gas Purchase Contracts	31,864	(4,628)	27,236
Intangible Assets Not Subject to Amortization			
Retirement Plan Intangible Asset	8,142	-	8,142
	$48,586	$ (8,281)	$40,305
Aggregate Amortization Expense (Thousands)			
Three Months Ended June 30, 2006	$666		
Three Months Ended June 30, 2005	$666		
Nine Months Ended June 30, 2006	$1,997		
Nine Months Ended June 30, 2005	$1,997		

Amortization expense for the long-term transportation contracts is estimated to be $0.3 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 $0.4 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 June 30,

	Retirement Plan		Other Post-
	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)	(2,232)	1,500	(3,726)
Net Periodic Benefit Cost	$5,451	$5,938	$7,039

Item 1. Financial Statements (Cont.)

Nine months ended June 30,

	Retirement Plan		Other Post-Re
	2006	2005	2006
Service Cost	$12,312	$10,285	$6,022
Interest Cost	30,147	31,559	20,103
Expected Return on Plan Assets	(37,457)	(37,159)	(16,727)
Amortization of Prior Service Cost	718	772	3
Amortization of Transition Amount	-	-	5,345
Amortization of Losses	17,331	7,855	17,552
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	(1,853)	5,060	(3,777)
Net Periodic Benefit Cost	$21,198	$18,372	$28,521

(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 nine months ended June 30, 2006, the Company contributed $20.9 million to its retirement plan and $36.8 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 $2.2 million to its other post-retirement benefit plan.

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

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

OVERVIEW

The Company is a diversified energy company consisting of five reportable business segments. For the quarter and nine months ended June 30, 2006 compared to the quarter and nine months ended June 30, 2005, the Company has experienced an overall decrease in earnings ($19.0 million and $4.2 million, respectively) primarily due to the Exploration and Production segment recording an after-tax impairment charge of $39.5 million related to its Canadian oil and gas assets during the quarter ended June 30, 2006, which is discussed below under Critical Accounting Policies. The Company's earnings are discussed further in the Results of Operations section that follows.

From a capital resources and liquidity perspective, the Company spent $218.7 million on capital expenditures during the nine months ended June 30, 2006, with approximately 73% being spent in the Exploration and Production segment. This is in line with the Company's expectations. The Company is still pursuing its Empire Connector project to expand its natural gas pipeline operations. In July 2006, Empire revised the planned in-service date for the Empire Connector to extend beyond November 2007, as originally reported. The new targeted in-service date is November 2008, or sooner if feasible.* On July 20, 2006, FERC issued a Preliminary Determination regarding the non-environmental aspects of Empire's application for FERC approval, which is discussed further in the Capital Resources and Liquidity section that follows. There are no other significant changes in the status of the project and the Company continues to await FERC approval to build and operate the project. The Company also began repurchasing outstanding shares of common stock during the quarter ended March 31, 2006 under a share repurchase program authorized by the Company's board of directors. The program authorizes the Company to repurchase up to an aggregate amount of 8 million shares. Through June 30, 2006, the Company had repurchased 2,284,350 shares. These matters are discussed further in the Capital Resources and Liquidity section that follows.

Lastly, on April 7, 2006, the NYPSC, PaPUC and Pennsylvania Office of Consumer Advocate filed a complaint and motion for summary disposition against Supply Corporation with the FERC. 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 it needs for fuel and loss. It also asks FERC to determine whether Supply Corporation has the authority to make sales of gas retained from shippers (which are referred to under "Results of Operations" as "unbundled pipeline sales"). The Company believes that Supply Corporation's rates are fair, reasonable and in the public interest and that it is authorized to make the sales in question. This matter is discussed more fully in the Rate and Regulatory Matters section that follows.

CRITICAL ACCOUNTING POLICIES

For a complete discussion of critical accounting policies, refer to "Critical Accounting Policies" in Item 7 of the 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.

The Company, in its Exploration and Production segment, follows the full cost method of accounting for determining the book value of its oil and natural gas properties. In accordance with this methodology, the Company is required to perform a quarterly ceiling test. Under the ceiling test, which is performed on a country-by-country basis, the present value of future revenues from the Company's oil and gas reserves based on current market prices (the "ceiling") is compared with the book value of those reserves at the balance sheet date. If the book value of the reserves in any country exceeds the ceiling, a non-cash charge must be recorded reduce the book value of the reserves to the calculated ceiling. As disclosed in the Company's March 31, 2006 Form 10-Q, at March 31, 2006, the Canadian oil and gas properties passed the quarterly ceiling test but the book value of the Canadian reserves was nearly equal to the ceiling. Because of the decline in the price of natural gas since March 31, 2006, the book value of the Company's Canadian oil and gas properties exceeded the ceiling at June 30, 2006. Consequently, SECI recorded an impairment charge of $62.4 million ($39.5 million after-tax) during the quarter ended June 30, 2006. Further decreases in the price of natural gas, absent the addition of new reserves, could result in future impairments.* For a more complete discussion of the full cost method of accounting, refer to "Oil and Gas Exploration and Development Costs" under "Critical Accounting Policies" in Item 7 of the Company's 2005 Form 10-K.

RESULTS OF OPERATIONS

Earnings

The Company's earnings were $0.1 million for the quarter ended June 30, 2006 compared to earnings of $19.2 million for the quarter ended June 30, 2005. As previously discussed, the Company began presenting its Czech Republic operations as discontinued operations in June 2005. The Company's earnings from continuing operations were $0.1 million for the quarter ended June 30, 2006 compared to earnings from continuing operations of $26.4 million for the quarter ended June 30, 2005. The decrease in earnings from continuing operations of $26.3 million is primarily the result of lower earnings in the Exploration and Production segment offset somewhat by higher earnings in the Utility, Pipeline and Storage, and Timber segments, as shown in the table below. Earnings for the quarter ended June 30, 2006 include a $62.4 million impairment charge ($39.5 million after-tax) for the Exploration and Production segment's Canadian oil and gas producing properties under the full cost method of accounting using natural gas pricing at June 30, 2006, which happened to be lower than the pricing at March 31, 2006, the last ceiling test measurement date. The Exploration and Production segment also recognized a $6.1 million benefit to earnings related to income taxes recognized during the quarter ended June 30, 2006.

The Company's earnings were $136.1 million for the nine months ended June 30, 2006 compared to earnings of $140.3 million for the nine months ended June 30, 2005. The Company's earnings from continuing operations were $136.1 million for the nine months ended June 30, 2006 compared to earnings from continuing operations of $135.2 million for the nine months ended June 30, 2005. The increase in earnings from continuing operations of $0.9 million is primarily the result of higher earnings in the Utility, Pipeline and Storage, Energy Marketing, and Timber segments, largely offset by lower earnings in the Exploration and Production segment, as shown in the table below. Earnings for the nine months ended June 30, 2006 include a $62.4 million impairment charge ($39.5 million after-tax) for the Company's Canadian oil and gas producing properties in the Exploration and Production segment, as noted above, and a $11.2 million benefit to earnings related to income taxes, also in the Exploration and Production segment. In addition, earnings for the nine months ended June 30, 2005 include a $2.6 million gain on the sale of base gas in the Pipeline and Storage 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 June 30,			Nin
(Thousands)	2006	2005	Increase/ (Decrease)	2006
Utility	$827	$(1,684)	$2,511	$51,234
Pipeline and Storage	12,642	10,843	1,799	45,384
Exploration and Production	(15,127)	3,830	(28,957)	28,152
Energy Marketing	1,045	1,548	(503)	5,909
Timber	1,529	555	974	5,235
Total Reportable Segments	916	25,092	(24,176)	135,914
All Other	(212)	270	(482)	404
Corporate (1)	(593)	1,031	(1,624)	(195)
Total Earnings from Continuing Operations	$111	$26,393	$(26,282)	$136,123
Earnings from Discontinued Operations	-	(7,237)	7,237	-
Total Consolidated	$111	$19,156	$(19,045)	$136,123

(1) Includes earnings from the former International segment's activity other than the activity from the Czech Republic operations included in Earnings from Discontinued Operations.

Utility

Utility Operating Revenues

	Three Months Ended	Nine Mon

(Thousands)	June 30, 2006	2005	Increase/ (Decrease)	June 2006	2
Retail Sales Revenues:					
Residential	$144,690	$152,581	$(7,891)	$912,058	$
Commercial	22,362	23,676	(1,314)	155,010	
Industrial	1,648	1,510	138	12,372	
	168,700	177,767	(9,067)	1,079,440	
Transportation	16,930	17,986	(1,056)	76,205	
Other	3,545	(3,844)	7,389	11,047	
	$189,175	$191,909	$(2,734)	$1,166,692	$1,

Utility Throughput

(MMcf)	Three Months Ended June 30, 2006	2005	Increase/ (Decrease)	Nine Mon Jun 2006	2
Retail Sales:					
Residential	8,740	10,698	(1,958)	55,071	
Commercial	1,459	1,814	(355)	9,940	
Industrial	114	120	(6)	900	
	10,313	12,632	(2,319)	65,911	
Transportation	12,185	13,776	(1,591)	48,646	
	22,498	26,408	(3,910)	114,557	

Degree Days

Three Months Ended June 30	Normal	2006	2005	Pe (Norma
Buffalo	927	731	911	(21.
Erie	885	812	952	(8.
Nine Months Ended June 30				
Buffalo	6,514	5,816	6,551	(10.
Erie	6,108	5,565	6,215	(8.

2006 Compared with 2005

Operating revenues for the Utility segment decreased $2.7 million for the quarter ended June 30, 2006 as compared with the quarter ended June 30, 2005. The decrease for the quarter is primarily attributable to lower retail gas sales revenue, offset partially by higher other operating revenues. The $9.1 million decrease in retail gas sales revenues was largely a function of lower throughput volumes that reflect warmer weather as well as lower average usage per customer stemming from customer conservation efforts. The impact of the decrease in volumes more than offset the impact of higher gas costs (gas costs are recovered dollar for dollar in revenues). The impact of the decrease in throughput more than offset the positive impact of the New York rate case settlement that became effective August 2005, the impact of which was to increase operating revenues by $3.6 million (of which $3.5 million is reflected in other operating revenues). The rate case settlement 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 addition, two out-of-period regulatory adjustments recorded during the quarter ended June 30, 2005, which did not recur in 2006, also increased operating revenues. The first adjustment related to the final settlement with the Staff of the NYPSC of the earnings sharing liability for the fiscal 2001 to 2003 time period. As a result of that settlement, the New York rate jurisdiction recorded additional earnings sharing expense (as an offset to other operating revenues) of $0.9 million. The second adjustment related to a regulatory liability recorded for previous over-collections of New York State gross receipts tax. In preparing for the implementation of the recent settlement agreement in New York, the Company determined that it needed to adjust that regulatory liability by $2.7 million (recorded as a reduction of other operating revenues) related to fiscal years 2004 and prior. In the Pennsylvania jurisdiction, the impact of a base rate increase, which became effective in mid-April 2005, was to increase operating revenues by $0.4 million.

Operating revenues for the Utility segment increased $162.3 million for the nine months ended June 30, 2006 as compared with the nine months ended June 30, 2005. The increase is primarily attributable to higher retail gas sales revenues. The increase in retail gas sales revenues of $142.1 million was largely a function of the recovery of higher gas costs, which more than offset the revenue effect of lower retail sales volumes, as shown in the table 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 $16.9 million (of which $11.1 million is an increase to other operating revenues). In the Pennsylvania jurisdiction, the impact of the base rate increase, which became effective in mid-April 2005, was to increase operating revenue by $7.5 million.

The Utility segment's earnings for the quarter ended June 30, 2006 were $0.8 million, an increase of $2.5 million when compared with the loss of $1.7 million for the quarter ended June 30, 2005. In the New York jurisdiction, earnings increased by $3.9 million principally due to the rate case settlement in this jurisdiction that became effective in August 2005 ($2.4 million). In addition, two out-of-period regulatory adjustments recorded during the quarter ended June 30, 2005, which did not recur in 2006, also contributed to the earnings increase. The first adjustment related to the final settlement with the Staff of the NYPSC of the earnings sharing liability for the fiscal 2001 to 2003 time period. As a result of that settlement, the New York rate jurisdiction recorded additional earnings sharing expense of $0.6 million. The second adjustment related to a regulatory liability recorded for previous over-collections of New York State gross receipts tax. In preparing for the implementation of the recent settlement agreement in New York, the Company determined that it needed to adjust that regulatory liability, including accrued interest, by $3.5 million ($0.6 million of that adjustment related to the first six months of fiscal 2005 and $2.9 million related to fiscal years 2004 and prior). The increase in earnings due to the New York rate case settlement and the impact of the out-of-period adjustments recorded in 2005 was partially offset by a decline in margin associated with lower average usage per customer ($2.5 million). In the Pennsylvania rate jurisdiction, earnings decreased $1.4 million primarily due to the impact of warmer weather ($0.8 million) and lower average usage per customer ($0.8 million). These decreases were partially offset by the impact of the rate case settlement in this jurisdiction that became effective in mid-April 2005 ($0.3 million).

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 jurisdiction. For the quarter ended June 30, 2006 the WNC preserved earnings of approximately $1.5 million, as the weather was warmer than normal. For the quarter ended June 30, 2005 the WNC did not have a significant impact on earnings as the weather was close to normal.

The Utility segment's earnings for the nine months ended June 30, 2006 were $51.2 million, an increase of $5.9 million when compared with the earnings of $45.3 million for the nine months ended June 30, 2005. In the New York rate jurisdiction, earnings increased by $6.9 million due primarily to the positive

impact of the rate case settlement in this jurisdiction ($10.9 million), discussed above, the impact of the symmetrical sharing adjustment ($2.9 million), and the two out-of-period regulatory adjustments ($4.1 million), also discussed above. These increases were partially offset by an increase in bad debt expense ($3.1 million), an increase in pension expense ($2.1 million), a decline in margin associated with lower average usage per customer ($3.2 million) and higher interest expense ($1.7 million). In the Pennsylvania rate jurisdiction, earnings decreased by $1.0 million principally due to the impacts on margin of warmer weather ($3.1 million), lower average usage per customer ($0.7 million) and a higher effective tax rate ($0.6 million). In addition, earnings decreased due to higher bad debt expense ($1.3 million). These decreases were partially offset by the impact of the rate case settlement in this jurisdiction ($4.9 million).

For the nine months ended June 30, 2006 the WNC preserved earnings of approximately $6.2 million, as the weather was warmer than normal. For the nine months ended June 30, 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 June 30,			Nine M Ju	
(Thousands)	2006	2005	Increase/ (Decrease)	2006	
Firm Transportation	$27,756	$28,349	$(593)	$90,579	
Interruptible Transportation	1,132	1,121	11	3,571	
	28,888	29,470	(582)	94,150	
Firm Storage Service	17,149	16,297	852	49,804	
Other	5,011	4,831	180	22,185	
	$51,048	$50,598	$450	$166,139	$

Pipeline and Storage Throughput

	Three Months Ended June 30,			Nine M Ju	
(MMcf)	2006	2005	Increase/ (Decrease)	2006	
Firm Transportation	70,620	70,944	(324)	288,270	
Interruptible Transportation	2,220	7,162	(4,942)	7,774	
	72,840	78,106	(5,266)	296,044	

2006 Compared with 2005

Operating revenues for the Pipeline and Storage segment increased $0.5 million for the quarter ended June 30, 2006 as compared with the quarter ended June 30, 2005. The increase was primarily due to higher firm storage revenues ($0.9 million) due to the renewal of storage contracts at higher rates. In addition, there were increased revenues from unbundled pipeline sales ($0.2 million), reported as part of other revenues in the table above, due to higher volumes. The increase was offset by a $0.6 million decrease in transportation revenue due to a rate reduction in firm gathering charges and the Utility segment's cancellation of a portion of its firm transportation capacity based on lower usage in its service territory. Supply Corporation believes it will be able to remarket this capacity as transportation and/or storage service.*

For the nine months ended June 30, 2005, operating revenues for the Pipeline and Storage segment increased $5.0 million as compared with the nine months ended June 30, 2005. This increase was primarily due to higher revenues from unbundled pipeline sales of $4.5 million, reported as part of

other revenues in the table above, due to higher natural gas prices during the nine months ended June 30, 2006 compared to the same period last year. In addition, firm and interruptible transportation revenue increased by $0.6 million each ($1.2 million in total) 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. Storage revenues increased by $1.0 million due to the renewal of storage contracts at higher rates. These increases were offset by a $0.6 million decrease in cashout revenues included in other revenues in the table above. Cashout revenues are completely offset by purchased gas expense.

Earnings in the Pipeline and Storage segment for the quarter ended June 30, 2006 increased $1.8 million as compared with the quarter ended June 30, 2005. The increase can be attributed to lower operation and maintenance expenses ($0.9 million). The decrease in the operation and maintenance expenses was largely due to decreased pension costs ($0.6 million) and a decrease in preliminary survey costs related to the Empire Connector Project ($0.2 million). The decrease in pension costs stems from the 2005 write-off of a regulatory asset for pensions that did not recur in 2006.

The Pipeline and Storage segment's earnings for the nine months ended June 30, 2006 were $45.4 million, an increase of $3.8 million when compared with the nine months ended June 30, 2005. The main factors contributing to this increase were higher revenues from unbundled pipeline sales ($2.9 million), higher transportation revenues ($0.8 million), higher storage service revenues ($0.7 million), and lower operation and maintenance expense ($0.5 million) due mostly to decreases in preliminary survey costs related to the Empire Connector Project. In addition, interest expense decreased by $0.5 million due to lower debt balances. The earnings increase was partially offset by the $2.6 million gain on the FERC approved sale of base gas during the nine months ended June 30, 2005 that did not recur in 2006.

Exploration and Production

Exploration and Production Operating Revenues

	Three Months Ended June 30,			Nine Mon June	
(Thousands)	2006	2005	Increase/ (Decrease)	2006	20
Gas (after Hedging)	$42,786	$47,117	$(4,331)	$141,560	$13

Oil (after Hedging)	41,282	27,666	13,616	106,938	8
Gas Processing Plant	8,904	8,894	10	32,986	2
Other	(406)	760	(1,166)	1,429	
Intrasegment Elimination (1)	(5,966)	(7,067)	1,101	(25,507)	(2
	$86,600	$77,370	$9,230	$257,406	$21

(1) Represents the elimination of certain West Coast gas production revenue included in “Gas (after Hedging)” in the table above that was sold to the gas processing plant shown in the table above. An elimination for the same dollar amount was made to reduce the gas processing plant’s Purchased Gas expense.

Production Volumes	Three Months Ended June 30,			Nin
	2006	2005	Increase/ (Decrease)	2006
Gas Production *(MMcf)*				
Gulf Coast	2,109	3,365	(1,256)	6,529
West Coast	983	975	8	2,933
Appalachia	1,267	1,156	111	3,766
Canada	2,158	2,134	24	5,830
	6,517	7,630	(1,113)	19,058
Oil Production *(Mbbl)*				
Gulf Coast	192	251	(59)	479
West Coast	638	630	8	1,962
Appalachia	19	11	8	41
Canada	66	75	(9)	221
	915	967	(52)	2,703

Average Prices

	Three Months Ended June 30,			Nine
	2006	2005	Increase/ (Decrease)	2006
Average Gas Price/Mcf				
Gulf Coast	$6.97	$6.92	$0.05	$8.56
West Coast	$6.06	$6.87	$(0.81)	$8.42
Appalachia	$7.26	$6.97	$0.29	$10.29
Canada	$5.54	$6.08	$(0.54)	$7.75
Weighted Average	$6.41	$6.69	$(0.28)	$8.64
Weighted Average After Hedging	$6.57	$6.18	$0.39	$7.43
Average Oil Price/bbl				
Gulf Coast	$67.52	$49.83	$17.69	$62.04
West Coast	$61.51	$42.57	$18.94	$55.40
Appalachia	$63.15	$50.95	$12.20	$61.92

Canada	$57.88	$41.66	$16.22	$49.25
Weighted Average	$62.54	$44.48	$18.06	$56.17
Weighted Average After Hedging	$45.13	$28.62	$16.51	$39.56

2006 Compared with 2005

Operating revenues for the Exploration and Production segment increased $9.2 million for the quarter ended June 30, 2006 as compared with the quarter ended June 30, 2005. Oil production revenue after hedging increased $13.6 million due primarily to higher weighted average prices after hedging ($16.51 per barrel). Gas production revenue after hedging decreased $4.3 million due to a 1,113 MMcf decrease in production, offset slightly by higher weighted average prices after hedging ($0.39 per Mcf). Most of the decrease in gas production occurred in the Gulf Coast region (a 1,256 MMcf decline), which is consistent with the expected decline rates for the Company's production in this region and partially attributable to last fall's hurricane damage.

Operating revenues for the Exploration and Production segment increased $37.9 million for the nine months ended June 30, 2006 as compared with the nine months ended June 30, 2005. Oil production revenue after hedging increased $26.8 million due to a $12.56 per barrel increase in weighted average prices after hedging. This increase was offset slightly by a decrease in production (266,000 barrels). Gas production revenue after hedging increased $9.2 million. An increase in the weighted

average price of gas after hedging ($1.38 per Mcf) more than offset a decrease in gas production of 2,833 MMcf. The decrease in gas production occurred primarily in the Gulf Cost region (a 2,904 MMcf decline), which is partly attributable to last fall's hurricane damage and partly attributable to the expected decline rates for the Company's production in this region.

The Exploration and Production segment's loss for the quarter ended June 30, 2006 was $15.1 million, a decrease of $28.9 million when compared with earnings of $13.8 million for the quarter ended June 30, 2005. The decrease for the quarter is due primarily to impairment charges of $39.5 million on this segment's Canadian oil and gas producing properties, as previously discussed, as well as higher depletion expense of $1.7 million. The increase in depletion expense resulted mainly from higher finding and development costs. Partially offsetting these decreases were higher oil and gas revenues of $6.0 million, discussed above, a $6.1 million benefit to earnings related to income taxes and higher interest income ($0.7 million). This benefit resulted from the reversal of a valuation allowance ($2.9 million) associated with the capital loss carryforward that resulted from the 2003 sale of certain of Seneca's oil properties. During the quarter, the Company made the determination that it expects to be in a position to fully utilize the loss carryforward and so a valuation allowance was no longer necessary. A tax benefit of $3.2 million also resulted from the favorable resolution of certain open tax issues.

The Exploration and Production segment's earnings for the nine months ended June 30, 2006 were $28.2 million, a decrease of $10.8 million when compared with earnings of $39.0 million for the nine months ended June 30, 2005. As noted above, the decrease is primarily the result of the impairment charges of $39.5 million on this segment's Canadian oil and gas producing properties. Further contributing to the decrease were higher lease operating expenses ($3.1 million) and higher depletion expense ($2.0 million). The increase in lease operating expenses 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 are due to the higher commodity price of natural gas, primarily in the second quarter of fiscal 2006, compared to the second quarter of fiscal 2005. The increase in depletion expense was mainly due to higher finding and development costs. Higher oil and gas revenues of $23.3 million and the $6.1 million impact of tax benefits recorded in the quarter ended June 30, 2006, as discussed above, partially offset these decreases. In addition, a $5.1 million benefit to earnings was realized in the quarter ended March 31, 2006 for an adjustment to a deferred income tax balance. 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.

Energy Marketing

Energy Marketing Operating Revenues

	Three Months Ended June 30,			Nine
(Thousands)	2006	2005	(Decrease)	2006
Natural Gas (after Hedging)	$94,516	$87,983	$6,533	$446,095
Other	231	65	166	272
	$94,747	$88,048	$6,699	$446,367

Energy Marketing Volumes

	Three Months Ended June 30,			Nine
	2006	2005	Increase/ (Decrease)	2006
Natural Gas - (MMcf)	11,190	10,925	265	38,496

2006 Compared with 2005

Operating revenues for the Energy Marketing segment increased $6.7 million and $170.3 million, respectively, for the quarter and nine months ended June 30, 2006, as compared with the quarter and nine months ended June 30, 2005. The increase for both the quarter and nine months ended June 30, 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.

The Energy Marketing segment's earnings for the quarter ended June 30, 2006 were $1.0 million, a decrease of $0.5 million when compared with earnings of $1.5 million for the quarter ended June 30, 2005. The decrease reflects an increase in operation expense due to credits recorded in the prior year quarter that did not recur and, to a lesser extent, a decrease in gross margin for the quarter.

The Energy Marketing segment's earnings for the nine months ended June 30, 2006 were $5.9 million, an increase of $1.0 million when compared with earnings of $4.9 million for the nine months ended June 30, 2005. Despite warmer weather and greater conservation by customers, margins increased due to a number of factors, including higher volumes and the marketing 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. The increase in gross margin more than offset an increase in operation expense.

Timber

Timber Operating Revenues

	Three Months Ended June 30,			Nine Mo Jun	
(Thousands)	2006	2005	Increase/ (Decrease)	2006	2
Log Sales	$4,063	$4,370	$(307)	$18,586	
Green Lumber Sales	2,097	2,424	(327)	5,527	
Kiln Dry Lumber Sales	8,733	7,919	814	25,618	
Other	422	315	107	1,650	
Operating Revenues	$15,315	$15,028	$287	$51,381	

Timber Board Feet

	Three Months Ended June 30,			Nine Mo Jun	
(Thousands)	2006	2005	Increase/ (Decrease)	2006	2
Log Sales	1,767	1,619	148	7,540	
Green Lumber Sales	3,126	3,475	(349)	8,082	
Kiln Dry Lumber Sales	4,240	4,110	130	13,239	
	9,133	9,204	(71)	28,861	

2006 Compared with 2005

Operating revenues for the Timber segment increased $0.3 million for the quarter ended June 30, 2006 as compared with the quarter ended June 30, 2005. The increase for the quarter can largely be attributed to higher kiln dry lumber sales of $0.8 million primarily due to an increase in the market price of kiln dry cherry lumber. This increase was offset by a decline in both log and green lumber sales revenue. The decrease in log sales revenue is due to a decline in both cherry veneer and cherry export log volumes, which have the highest margin in the overall mix of harvested timber and have the largest impact

on overall log sales revenue. While there was an overall increase in log volumes of 148,000 board feet, cherry veneer and cherry export log volumes declined by 110,000 board feet. The decline in green lumber sales revenue primarily reflects a decline in processing volumes, particularly from poplar veneer green lumber sales which experienced a 478,000 board foot decline.

Operating revenues for the Timber segment increased $4.4 million for the nine months ended June 30, 2006 as compared with the nine months ended June 30, 2005. This increase can be attributed to higher kiln dry lumber sales revenue of $3.6 million due to an increase in cherry lumber sales volumes (2.5 million board feet) as a result of an increase in processing capacity from the addition of two new kilns in February 2005. Higher log sales revenue of $0.6

million, the majority being cherry export log sales as a result of greater market demand, also contributed to the increase.

The Timber segment's earnings for the quarter ended June 30, 2006 were $1.5 million, an increase of $0.9 million when compared with earnings of $0.6 million for the quarter ended June 30, 2005. The increase is largely attributable to the impact of lower operating costs ($0.4 million) and a decline in depletion expense ($0.3 million). During the quarter ended June 30, 2006, the Timber segment changed its accounting procedures to properly include certain costs associated with lumber production in inventory. The impact of this change is reflected in operating costs. Slightly higher revenues due to an increase in cherry kiln dry lumber sales also contributed to the increase.

The Timber segment's earnings for the nine months ended June 30, 2006 were $5.2 million, an increase of $1.0 million when compared with earnings of $4.2 million for the nine months ended June 30, 2005. Higher revenues from kiln dry lumber sales and cherry export log sales largely contributed to this increase. The impact of the increase in revenues was partially offset by increases in cost of good sold on lumber and log sales.

Corporate and All Other

2006 Compared with 2005

Corporate and All Other recorded a loss of $0.8 million for the quarter ended June 30, 2006 compared with earnings of $1.3 million for the quarter ended June 30, 2005. Earnings for the quarter ended June 30, 2005 benefited from $1.3 million of reimbursed project costs that did not recur in 2006. For the nine months ended June 30, 2006 compared with the nine months ended June 30, 2005, Corporate and All Other earnings decreased $0.1 million. An increase in interest income during 2006 resulting from the investment of proceeds received from the sale of U.E. in July 2005 offset the earnings decrease resulting from the non-recurrence of the earnings benefit in 2005 associated with reimbursed project development costs.

Interest Income

Interest income increased $1.7 million and $2.5 million, respectively, for the quarter and nine months ended June 30, 2006 as compared with the quarter and nine months ended June 30, 2005. These increases are reflective of an overall increase in the Company's cash position compared to the prior year. The Company's cash position in 2006 has been stronger primarily because of the investment of proceeds received from the sale of U.E. in July 2005 combined with higher cash flow from operations in the Exploration and Production segment.

Interest Charges

Other interest charges decreased $3.5 million and $4.6 million, respectively, for the quarter and nine months ended June 30, 2006 as compared with the quarter and nine months ended June 30, 2005. These decreases resulted primarily from a regulatory true-up adjustment recorded in the quarter ended June 30, 2005 in the Utility segment's New York rate jurisdiction related to a regulatory liability recorded for previous over-collections of New York State gross receipts tax. No such adjustment was recorded in the current fiscal year.

Income Tax Expense (Benefit)

The Company's effective income tax rate for the quarter ended June 30, 2006 was approximately 101%, up from approximately 37% for the quarter ended June 30, 2005. While the Company experienced a loss of $7.7 million for the quarter ended June 30, 2006, it recognized a tax benefit of $7.8 million. The primary reason for the increase in the effective income tax rate was the income tax benefit of $6.1 million recognized in the Exploration and Production segment at June 30, 2006, as discussed above.

CAPITAL RESOURCES AND LIQUIDITY

The Company's primary source of cash during the nine-month period ended June 30, 2006 consisted of cash provided by operating activities. This source of cash was supplemented by issues of new shares of common stock as a result of the exercise of stock options. During the nine months ended June 30, 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 quarter 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, impairment of oil and gas producing properties, 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 fiscal 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 $409.9 million for the nine months ended June 30, 2006, an increase of $75.5 million compared with $334.4 million provided by operating activities for the nine months ended June 30, 2005. Higher oil and gas revenues in the Exploration and Production segment and a decrease in hedging collateral deposits at June 30, 2006 in the Exploration and Production and Energy Marketing segments were the primary reasons for this increase. Hedging collateral deposits serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars. These increases were partially offset by the loss of positive cash flow from the Company's former Czech Republic operations, which were sold in July 2005.

Investing Cash Flow

Expenditures for Long-Lived Assets

The Company's expenditures for long-lived assets totaled $218.7 million during the nine months ended June 30, 2006. The table below presents these expenditures:

Nine Months Ended June 30, 2006 *(in millions of dollars)*	Total Expenditures for Long-Lived Assets
Utility	$39.4
Pipeline and Storage	15.4
Exploration and Production	160.3
Timber	1.1
All Other and Corporate	2.5
	$218.7

Utility

The majority of the Utility capital expenditures for the nine months ended June 30, 2006 were made for replacement of mains and main extensions, as well as for the replacement of service lines.

Pipeline and Storage

The majority of the Pipeline and Storage capital expenditures for the nine months ended June 30, 2006 were made for additions, improvements, and replacements to this segment's transmission and 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. The application also asks that Empire's existing business and facilities be brought under FERC jurisdiction, and that FERC approve rates for Empire's existing and proposed services. Assuming the proposed Millennium Pipeline is constructed, the Empire Connector will provide an upstream supply link for 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.* In July 2006, Empire revised the planned in-service date for the Empire Connector to extend beyond its original November 2007 target. The new targeted in-service date is November 2008, or sooner if feasible.* FERC issued on July 20, 2006 a preliminary determination regarding non-environmental aspects of the application, in response to which Empire will file a request for rehearing on various issues by August 21, 2006. Empire anticipates that FERC will issue a final certificate authorizing construction and operation of the project on or about November 2006, after which Empire will have to decide whether it will accept the final approval on the terms contained therein.* 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 June 30, 2006, the Company had incurred approximately $5.4 million in costs (all of which have been reserved) related to this project. Of this amount, $0.3 million and $1.4 million, respectively, were incurred during the quarter and nine months ended June 30, 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 June 30, 2006.

Exploration and Production

The Exploration and Production segment capital expenditures for the nine months ended June 30, 2006 included approximately $34.7 million for Canada, $79.3 million for the Gulf Coast region ($78.7 million for the off-shore program in the Gulf of Mexico), $28.4 million for the West Coast region and $17.9 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 projected royalty relief. These amounts included approximately $38.3 million spent to develop proved undeveloped reserves.

Estimated capital expenditures in 2006 for the Exploration and Production segment have been increased from $155.0 million to $207.0 million.* Estimated capital expenditures for Canada remained unchanged at $46.0 million.* Estimated capital expenditures for the Gulf Coast region have been increased from $58.0 million to $90.0 million.* Estimated capital expenditures for the West Coast region have been increased from $28.0 million to $44.0 million and estimated capital expenditures for the Appalachian region have been increased from $23.0 million to $27.0 million.* The increase in the Gulf Coast region is due to an increase in drilling and completion activity, higher working interests on new wells and facilities construction for new wells. The increase in the West Coast region is due to the acquisition of reserves and the addition of new wells and facilities construction for those wells.

Timber

The majority of the Timber segment capital expenditures for the nine months ended June 30, 2006 were made for purchases of equipment for Highland's sawmill and kiln operations.

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 June 30, 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 June 30, 2006, the Company’s debt to capitalization ratio (as calculated under the facility) was .46. The constraints specified in the committed credit facility would permit an

additional $1.37 billion in short-term and/or long-term debt to be outstanding (further limited by the indenture covenants discussed below) 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 June 30, 2006, the Company would have been permitted to issue up to a maximum of $871 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 June 30, 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 June 30, 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. As of June 30, 2006, the Company has repurchased 2,284,350 shares under this program, funded with cash provided by operating activities. During the quarter ended June 30, 2006, the Company repurchased 1,459,100 shares. 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 $44.4 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 $7.5 million. The Company has guaranteed 50% or $3.8 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. On June 15, 2006, the Company filed a “notification of holding company status” with the FERC under Order 667-A. Also on that date, the Company filed an “exemption request” with the FERC, requesting exemption from the requirements of Order 667-A regarding FERC access to books and records and record retention. The Company is unable to predict at this time what the ultimate outcome of these or future filings or legislative or regulatory changes will be.

Utility Operation

Base rate adjustments in both the New York and Pennsylvania rate 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 is 11.5%.

Pennsylvania Jurisdiction

On June 1, 2006, Distribution Corporation filed proposed tariff amendments with PaPUC to increase annual revenues by $25.9 million to cover increases in the cost of service to be effective July 30, 2006. The rate request was filed to address increased costs associated with Distribution Corporation’s ongoing construction program as well as increases in operating costs, particularly uncollectible accounts. Following standard regulatory procedure, the PaPUC issued an order on July 20, 2006 instituting a rate proceeding and suspending the proposed tariff amendments until March 2, 2007.*

On June 8, 2006, the NTSB issued safety recommendations to Distribution Corporation as a result of an investigation of a natural gas explosion that occurred on Distribution Corporation’s system in Dubois, Pennsylvania in August 2004. The explosion destroyed a residence, resulting in the death of two people who lived there, and damaged a number of other houses in the immediate vicinity.

The NTSB and Distribution Corporation differ in their assessment of the probable cause of the explosion. The NTSB determined that the probable cause was the fracture of a defective “butt-fusion joint” which had joined two sections of plastic pipe, and the failure of Distribution Corporation to have an adequate program to inspect butt-fusion joints and replace those joints not meeting its inspection criteria. Distribution Corporation had submitted to the NTSB a proposed determination of probable cause that was substantially different, namely, that the probable cause was the improper excavation and backfill operations of a third party working in the vicinity of Distribution Corporation’s pipeline. Distribution Corporation also had raised issues concerning the testing standards employed in the NTSB investigation. Distribution Corporation is presently reviewing alternatives by which to seek reviews of the NTSB’s findings and conclusions to ensure that the NTSB considered all relevant evidence, including the report of Distribution Corporation’s third-party plastic pipe expert and other relevant evidence, in reaching its determination of probable cause.

The NTSB’s safety recommendations to Distribution Corporation involved revisions to its butt-fusion procedures for joining plastic pipe, and revisions to its procedures for qualifying personnel who perform plastic fusions. Although not required by law to do so, Distribution Corporation is presently implementing those recommendations.

The NTSB also issued safety recommendations to the PaPUC and certain other parties. The recommendation to the PaPUC was to require an analysis of the integrity of butt-fusion joints in Distribution Corporation’s system and replacement of those joints that are determined to have unacceptable characteristics. Distribution Corporation is working cooperatively with the PaPUC staff to permit the PaPUC to undertake the analysis recommended by the NTSB. Specifically, Distribution has agreed to the following:

(i) Distribution Corporation will uncover a limited number of butt-fusions at three locations designated by the

PaPUC;

(ii) in a 30-day period commencing July 6, 2006, Distribution Corporation will attempt to uncover additional butt-fusions throughout its Pennsylvania service area as it uncovers facilities for other purposes; when a butt-fusion is uncovered, Distribution Corporation will notify the designated PaPUC representative to permit inspection of the quality of the fusion.

Distribution Corporation also agreed to meet with the PaPUC following the end of the 30-day period to discuss further procedures to facilitate the analysis. At this time, Distribution Corporation is unable to predict the outcome of the analysis or of any negotiations or proceedings that may result from it. Distribution Corporation's response to the actions of the PaPUC will depend on its assessment of the validity of the PaPUC's analysis and conclusions.

Without admitting liability, Distribution Corporation has settled all significant third-party claims against it related to the explosion, for amounts that are immaterial in the aggregate to the Company. Distribution Corporation has been committed to providing safe and reliable service throughout its service territory and firmly believes, based on information presently known, that its system continues to be safe and reliable. According to the Plastics Pipe Institute, plastic pipe today accounts for over 90% of the pipe installed for the natural gas distribution industry in the United States and Canada. Distribution Corporation, along with many other natural gas utilities operating in the United States, has relied extensively upon the use of plastic pipe in its natural gas distribution system since the 1970s.

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 asked 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. Following another round of responses filed by the parties in May, FERC issued on June 7, 2006, an "Order Setting Complaint for Hearing, Suspending Hearing for Settlement Procedures, and Denying Motion for Summary Disposition." Supply Corporation moved on June 9 for reconsideration and an extension of time. On June 23, 2006, FERC issued an "Order Granting Reconsideration in Part and Granting Extension of Time." Read together, those two FERC Orders provide:

(i) the complainants' motion for summary disposition was denied;

(ii) the complaint was set for hearing and an investigation into Supply Corporation’s rates initiated; Supply Corporation was required to file a cost and revenue study by July 24, 2006;

(iii) the complaint was referred to a settlement Administrative Law Judge, who must report by August 22, 2006 to FERC and FERC’s Chief Administrative Law Judge on the status of the settlement discussions;

(iv) based on that report, the Chief Administrative Law Judge will either provide the parties with additional time to continue their settlement discussions, or assign the case to a presiding Administrative Law Judge (a different person than the settlement judge) for a trial-type evidentiary hearing; if settlement discussions continue, the settlement judge must continue to report status at least every 60 days;

(v) if settlement procedures fail, the Chief Administrative Law Judge will designate a presiding judge who must, within 15 days after being designated, convene a prehearing conference to establish a procedural schedule, and must issue an initial decision within 12 months after commencement of the hearing procedures; among other things, the presiding judge is authorized “to determine whether it may be appropriate to phase the proceeding and first issue an initial decision to address the fuel retention issue raised in the Motion for Summary Disposition (Phase I) and then later issue a separate initial decision to address the other issues (Phase II).”

On June 13, 2006, FERC designated a settlement judge and scheduled an initial settlement conference, which was held on June 23, 2006. A second settlement conference was scheduled for, and held on, July 13, 2006. On July 17, the settlement judge issued an order scheduling the next settlement conference for August 7, 2006, and reporting that the parties had agreed that the complainants would make a formal settlement offer by July 27, to which Supply Corporation would respond by August 3, 2006. All discussions and offers within the FERC settlement process are confidential and privileged, although any settlement reached will be publicly submitted to FERC for approval.

On July 24, 2006, Supply Corporation publicly filed at FERC the required cost and revenue study. Supply Corporation also filed in early July a request for rehearing of the portion of the June 7 Order which authorizes the presiding judge, if one is designated, to phase the proceeding and issue a separate initial decision on fuel retention without addressing Supply Corporation’s overall costs and revenues.

This matter will be resolved by either (i) a settlement which would include the effective date of any rate changes, or (ii) the hearing process described above, in the course of which the presiding judge would issue recommended decision(s) which would be considered by FERC.* In that event, FERC would issue an order that would either be consistent or inconsistent with any recommended decision, after which any new rates would go into effect.*

Supply Corporation is engaging in settlement discussions in good faith. If this matter goes to hearing, Supply Corporation will vigorously oppose the complaint.*

On November 25, 2003, the FERC issued Order 2004. Order 2004 was clarified in Order 2004-A on April 16, 2004, Order 2004-B on August 2, 2004 and Order 2004-C on December 21, 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 energy affiliates are Seneca and NFR. 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 companies that do not make any off-system sales. Distribution Corporation stopped

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

making most 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.* Distribution Corporation has continued making certain off-system sales permitted by a prior FERC order; FERC required Supply Corporation to provide arguments justifying the continued effectiveness of that order. Order 2004 also provides that companies may request waivers, which Supply Corporation did with respect to its relationship with Distribution Corporation. On July 20, 2006, FERC issued an order granting Supply Corporation's request for waiver and clarification of the new rules, subject to a requirement that Supply Corporation must file by August 21, 2006 for FERC's approval a limited amendment to its proposed Compliance Plan regarding the relationship between Supply Corporation and Distribution Corporation. The order approved Distribution Corporation's continued sales of gas pursuant to the prior FERC order, and concluded that, so long as Distribution Corporation refrains from making other off-system sales of gas, Supply Corporation will not have to treat Distribution Corporation as an energy affiliate. Compliance with Order 2004 should not increase capital or operating expenses to an extent that would be material to the financial condition of the Company.* Future periodic reports will not include any discussion of the Company's compliance with Order 2004 unless changed circumstances warrant.

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 2008, or sooner if feasible), 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 $3.8 million.* This liability has been recorded on the Consolidated Balance Sheet at June 30, 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 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.

In June 2006, the FASB issued FIN 48, an interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes and reduces the diversity in current practice associated with the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return by defining a “more-likely-than-not” threshold regarding the sustainability of the position. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements. For further discussion of FIN 48 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 weather;

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

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

Item 4. Controls and Procedures

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Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of 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.

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 June 30, 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

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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. A trial date has been scheduled for January 15, 2007 (although it is possible that the Court may change that date or that a trial may become unnecessary, based on the progress or outcome of the pending appeals).

Item 1. Legal Proceedings (Concl.)

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 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.”

On June 8, 2006, the NTSB issued safety recommendations to Distribution Corporation, the PaPUC and certain others as a result of its investigation of a natural gas explosion that occurred on Distribution Corporation’s system in Dubois, Pennsylvania in August 2004. For a discussion of this matter, 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 and the NTSB matter 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 these matters, 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 rate aspects of the complaint 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 matters 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 1 A. Risk Factors

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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.

National Fuel’s need to comply with comprehensive, complex, and sometimes unpredictable government regulations may increase its costs and limit its revenue growth, which may result in reduced earnings.

While National Fuel generally refers to its Utility segment and its Pipeline and Storage segment as its “regulated segments,” there are many governmental regulations that have an impact on almost every aspect of National Fuel’s businesses. Existing statutes and regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to the Company, which may affect its business in ways that the Company cannot predict.

In its Utility segment, the operations of Distribution Corporation are subject to the jurisdiction of the NYPSC and the PaPUC. The NYPSC and the PaPUC, among other things, approve the rates that Distribution Corporation may charge to its utility customers. Those approved rates also impact the returns that Distribution Corporation may earn on the assets that are dedicated to those operations. If Distribution Corporation is required in a rate proceeding to reduce the rates it charges its utility customers, or if Distribution Corporation is unable to obtain approval for rate increases from these regulators, particularly when necessary to cover increased costs (including costs that may be incurred in connection with governmental investigations or proceedings or mandated infrastructure inspection, maintenance or replacement programs), Distribution Corporation's revenue growth will be limited and its earnings may decrease.

In addition to their historical methods of utility regulation, both the PaPUC and NYPSC have sought to establish competitive markets in which customers may purchase supplies of gas from marketers, rather than from utility companies. In June 1999, the Governor of Pennsylvania signed into law the Natural Gas Choice and Competition Act. The act revised the Public Utility Code relating to the restructuring of the natural gas industry. The purpose of the law was to permit consumer choice of natural gas suppliers. To a certain degree, the early programs instituted to comply with the Act have not been overly successful, and many residential customers currently continue to purchase natural gas from the utility companies. In October 2005 the PaPUC concluded that "effective competition" does not exist in the retail natural gas supply market statewide. The PaPUC has reconvened a stakeholder group to explore ways to increase the participation of retail customers in choice programs. In New York, in August 2004, the NYPSC issued its Statement of Policy on Further Steps Toward Competition in Retail Energy Markets. This policy statement has a similar goal of encouraging customer choice of alternative natural gas providers. In 2005, the NYPSC stepped up its efforts to encourage customer choice at the retail residential level. These new forms of regulation may increase Distribution Corporation's cost of doing business, put an additional portion of its business at regulatory risk, and create uncertainty for the future, all of which may make it more difficult to manage Distribution Corporation's business profitably.

In its Pipeline and Storage segment, National Fuel is subject to the jurisdiction of the FERC with respect to Supply Corporation, and to the jurisdiction of the NYPSC with respect to Empire. These regulatory commissions, among other things, approve the rates that Supply Corporation may charge to its natural gas transportation and storage customers. Those approved rates also impact the returns that Supply Corporation may earn on the assets that are dedicated to those operations. State commissions can also petition the FERC to investigate whether Supply Corporation's rates are still just and reasonable, and if not, to reduce those rates prospectively. If Supply Corporation is required in a rate proceeding to reduce the rates it charges its natural gas transportation and storage customers, or if Supply Corporation is unable to obtain approval for rate increases, particularly when necessary to cover increased costs, Supply Corporation's revenue growth will be limited and its earnings may decrease.

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, claims for personal injury, death, property damage or business interruption, or governmental investigations, recommendations, claims, fines or penalties. 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 imposition of fines, penalties or mandated programs by governmental authorities, 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

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On April 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 June 30, 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
Apr. 1 - 30, 2006	32,504	$32.50	16,600
May 1 - 31, 2006	631,305	$34.45	515,400
June 1 - 30, 2006	1,031,512	$34.33	927,100
Total	1,695,321	$34.34	1,459,100

(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 publicly announced share repurchase program. Shares purchased other than through a publicly announced share repurchase program totaled 15,904 in April 2006, 115,905 in May 2006 and 104,412 in June 2006 (a three month total of 236,221). Of those shares, 29,821 were purchased for the Company's 401 (k) plans and 206,400 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 6. Exhibits

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(a) Exhibits

Exhibit Number	Description of Exhibit
10.1	Description of assignment of interests in certain life insur
10.2	Description of long-term performance incentives under the Na Gas Company Performance Incentive Program.
10.3	Description of agreement between the Company and P. C. Acker regarding death benefit.
10.4	Retirement Agreement between the Company and J. A. Beck.
10.5	Contract for Consulting Services between the Company and J.
12	Statements regarding Computation of Ratios:
	Ratio of Earnings to Fixed Charges for the Twelve Months E 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

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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: August 4, 2006

EXHIBIT INDEX
(Form 10-Q)

Exhibit 10.1	Description of assignment of interests in certain life insurance poli
Exhibit 10.2	Description of long-term performance incentives under the Natinal Fue Gas Company Performance Incentive Program.
Exhibit 10.3	Description of agreement between the Company and P.C. Ackerman regarding death benefit.
Exhibit 10.4	Retirement Agreement between the Company and J.A. Beck.
Exhibit 10.5	Contract for Consulting Services between the Company and J.A. Beck.
Exhibit 12	Statements regarding Computation of Ratios: Ratio of Earnings to Fixed Charges for the Twelve Months Ended June 30, 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 Statement of Income for the Twelve Months Ended June 30, 2006 and 2005.

Exhibit 10.1

Description of assignment of interests in certain life insurance policies

National Fuel Gas Company (the "Company") and its Chairman and Chief Executive Officer, Philip C. Ackerman, are parties to an Amended and Restated Split Dollar Insurance and Death Benefit Agreement, dated September 17, 1997, as amended by Amendment Number 1 thereto, dated March 23, 1999 (as amended, the "Agreement"). The Agreement recognizes that Mr. Ackerman, by an irrevocable trust agreement, assigned to a trust all of his interest in two life insurance policies insuring his life. On April 27, 2006, the trustee assigned all of the trust's rights in one policy to the Company, in partial prepayment of the amount due to the Company on termination of the Agreement. The policy has an approximate current cash surrender value of $388,262. The Company acknowledged receipt of the policy as partial prepayment of the amount it is entitled to receive from the trust under the Agreement and agreed to credit approximately $388,262, without interest, against such amount when it becomes due.

Exhibit 10.2

Description of long-term performance incentives under the National Fuel Gas Company Performance Incentive Program

On May 10, 2006, the Compensation Committee (the “Committee”) of the Board of Directors of National Fuel Gas Company (the “Company”) approved long-term performance incentives under the National Fuel Gas Company Performance Incentive Program (the “Program”). The Committee established levels of performance at which 50%, 100%, 150% and 200% of the Target Incentive will be payable, as set forth below. For performance levels between established levels, a portion of the Target Incentive will be payable as determined by mathematical interpolation.

The Committee designated a Performance Period of October 1, 2005 to September 30, 2008. The Performance Condition is the Company’s total return on capital as compared to that of a group of peer companies. Payment will be made in accordance with the Program if the Company achieves performance as detailed below:

National Fuel Rank as a Percentile of Peer Group	Percentage of Target Incentive Paid
Less than 45.01%	0%
45.01%	50.00%
60.00%	100.00%
75.00%	150.00%
100.00%	200.00%

For the October 1, 2005 to September 30, 2008 Performance Period, the Committee approved the following Target Incentives for the following executive officers of the Company: P. C. Ackerman, $650,000; D. F. Smith, $375,000; R. J. Tanski, $250,000; A. M. Cellino, $85,000; J. R. Pustulka, $85,000; J. D. Ramsdell, $85,000; P. M. Ciprich, $85,000; K. M. Camiolo, $30,000; and D. L. DeCarolis, $30,000.

Exhibit 10.3

Description of agreement between the Company and P. C. Ackerman regarding death benefit

On June 8, 2006, the Board of Directors of National Fuel Gas Company (the “Company”) approved the terms of an agreement between the Company and its Chairman and Chief Executive Officer, Philip C. Ackerman. Under the terms of the agreement, the Company will pay a death benefit to Mr. Ackerman if he dies before his 70th birthday. The amount of the death benefit will equal (a) two times the sum of (i) Mr. Ackerman’s last annual salary plus (ii) his last annual bonus, less (b) the death benefit payable to Mr. Ackerman under that certain Amended and Restated Split Dollar Insurance and Death Benefit Agreement between the Company and Mr. Ackerman, dated September 17, 1997, as amended by Amendment Number 1 thereto, dated March 23, 1999 (as amended, the “Split Dollar Agreement”). Currently the amount of the death benefit payable under the agreement approved by the Board of Directors on June 8, 2006 is estimated to be $2,353,991.

If Mr. Ackerman is living on his 70th birthday, the Company’s agreement to pay a death benefit terminates, and the Company will make a cash payment to Mr. Ackerman in the amount of $968,905. This amount represents the difference between the previously expected cash surrender value at age 70 of two insurance policies underlying the Split Dollar Agreement (one of which such policies was transferred to the Company on April 27, 2006, as disclosed previously), less the expected cash surrender value at age 70 of the remaining insurance policy.

Exhibit 10.4

RETIREMENT AGREEMENT

THIS RETIREMENT AGREEMENT (the "Agreement") is made by and among Seneca Resources Corporation, a Pennsylvania corporation having offices at 1201 Louisiana St. Suite 400, Houston, Texas 77002-5604, ("Seneca"), National Fuel Gas Company, a New Jersey corporation having offices at 6363 Main Street, Williamsville, New York 14221 ("National Fuel") and Mr. James A. Beck, 4112 Ruskin Street, Houston, Texas 77005 ("Mr. Beck") as of July 1, 2006.

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

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. Beck," "employee," "you" or "your" refers to James A. Beck.

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

3. Consistent with your decision to retire, you hereby resign, effective July 1, 2006, any and all positions as an officer, director, employee or equivalent of any Company entity. Your separation from employment is by mutual agreement between you and the Company. Your employment with the Company will terminate on June 30, 2006.

4. The Company agrees to pay you, minus all applicable taxes and withholdings, your regular pay and benefits up to and including June 30, 2006.

5. (a) You are entitled to certain accrued pension benefits, effective July 1, 2006, as provided under the terms of the National Fuel Gas Company Retirement Plan (the "Retirement Plan"), payable upon such dates and in such amounts determined in accordance with the terms and conditions of the Retirement Plan. Notwithstanding the foregoing, the benefit for the month of July 2006, only, may be paid at any time during the month of July 2006 and is dependent upon your timely providing the Retirement Plan Administrator with a benefit option choice under the Retirement Plan.

   (b) You are entitled to certain supplemental pension benefits, effective July 1, 2006, as provided under the terms of the National Fuel Gas Company Executive Retirement Plan (the "ERP") payable upon such dates and in such amounts determined in accordance with the terms and conditions of the ERP. Payments of your ERP benefit will begin on the first day such payments can be made without triggering the additional taxes which would be required if such payments were to

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be deemed "deferred compensation" for purposes of Section 409A of the Internal Revenue Code.

6. 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 sixty-five thousand dollars ($465,000), less any and all applicable taxes and withholding. Said lump sum payment shall be made on or about September 15, 2006. In the event of your death prior to September 15, 2006 **,** this payment will be payable to your Estate when due. None of this payment is intended to constitute a bonus or other compensation that would be included in the calculation of any of your pension benefits described in paragraph 5 of this Agreement.

7. The Company will pay to your tax advisor for reasonable assistance to you in tax planning and preparing and filing your income tax returns for tax year 2006, up to a maximum amount of eight thousand dollars ($8,000).

8. (a) Beginning July 1, 2006 and ending June 30, 2009, family medical coverage under the Company's Executive Medical Plan (which includes the basic medical coverage applicable to non-executive supervisory employees of National Fuel Gas Distribution Corporation), Prescription Drug Plan and Dental Plan will be made available to you and your spouse Denise Beck at your expense at the same monthly cost as paid by an active Company executive, as that monthly cost is modified for all active Company executives from time to time. As of July 1, 2006, that amount is $238 per month. You authorize the Company to withhold the then-current monthly contribution from your monthly Retirement Plan benefit beginning July 1, 2006 and ending on June 1, 2009. The provision of these additional health care benefits will satisfy the Company's responsibility under COBRA regulations to provide 18 months of COBRA continuation coverage under the Company Executive Medical, Prescription Drug and Dental Plans.

   (b) Beginning July 1, 2009, family medical coverage under the Company's non-executive medical and prescription drug plan to the same extent, if any, and in the same form, if any, as it is then being provided to non-executive supervisory employees of National Fuel Gas Distribution Corporation, will be made available to you and your spouse Denise Beck at your expense at the same monthly cost as then paid by an active non-executive supervisory employee of National Fuel Gas Distribution

Corporation, as that monthly cost is modified for all such employees from time to time. As of July 1, 2006, that amount is $88 per month. You authorize the Company to withhold the then-current monthly contribution from your monthly Retirement Plan benefit beginning July 1, 2009.

(c) When you and your spouse Denise Beck each attain age 65, you will each enroll in Medicare Parts A and B, provide copies of your Medicare Cards evidencing such coverage to National Fuel's Director of Human Resources, and at your own expense pay the premiums for that coverage, which will be primary over all medical coverage provided by the Company under either paragraph 8(a), 8(b) or 8(d).

(d) If you predecease your spouse Denise Beck, she can elect to continue to receive any medical and prescription drug insurance that was in effect for you under paragraph 8(b) and 8(c) above at the time of your death, to the same extent, if any, and in the same form, if any, as it is then being provided to non-executive supervisory employees of National Fuel Gas Distribution Corporation, except that her continuing coverage shall be on a single life basis, at the same monthly cost as then paid by a single active non-executive supervisory employee of National Fuel Gas Distribution Corporation, as that monthly cost is modified for all such employees from time to time. You both each hereby authorize the Company to withhold the then-current monthly contribution from any monthly pension benefit she continues to receive after your death.

9. You are also entitled to various benefits accrued under the Company's Deferred Compensation Plan, Tophat Plan, Employee Stock Ownership Plan, Tax-Deferred Savings Plan for Non-Union Employees, 1993 Award and Option Plan, and the 1997 Award and Option Plan. Payments of benefits under these plans will be available or begin no earlier than the first day such payments can be made without triggering the additional taxes which would be required if such payments were to be deemed "deferred compensation" for purposes of Section 409A of the Internal Revenue Code. Except as provided in the preceding sentence, this Agreement is not intended to modify or waive any of the rights you have under those benefit programs as an employee who resigns voluntarily effective July 1, 2006, nor to create any new such rights.

10. (a) You and National Fuel agree that 4,000 shares of Restricted Stock awarded to you pursuant to the 1993 Award and Option Plan, as defined in National Fuel's January 31, 2000 award letter to you, are hereby modified so as to vest, notwithstanding your resignation, on July 1, 2006, unless National Fuel terminates these awards as described in paragraph 10(b) only for conduct or action occurring or first discovered by any National Fuel officer after the execution of this Agreement.

(b) National Fuel and you acknowledge and agree that Section 20 of the National Fuel Gas Company 1993 Award and Option Plans presently gives National Fuel the right to forfeit any unexercised, unearned or unpaid Awards under that plan (including Restricted Stock) if you perform any act or engage in any activity which in the opinion of the Compensation Committee of the National Fuel Gas Company Board of Directors is inimical to the best interests of National Fuel or if you engage in certain competitive activity. National Fuel and you further agree that you will be considered to have engaged in conduct that constitutes grounds for National Fuel to exercise its right to forfeit unexercised, unearned or unpaid Awards under that plan (including Restricted Stock) if you breach this Agreement or the Contract for Consulting Services among the parties signed concurrently herewith (the "Consulting Contract").

11. In consideration for the promises set forth in paragraphs 6, 7, 8 and 10 of this Agreement, you hereby knowingly and voluntarily release, unconditionally waive and forever

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discharge the Company and Seneca, their successors and assigns, heirs, executors and administrators, of and from all, and all manner of action and actions, cause and causes of actions, suits, debts, dues, sums of money, accounts, reckoning, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims and demands whatsoever, in law or in equity, based on the Employment Continuation and Noncompetition Agreement, dated December 11, 1998 and entered into among Mr. Beck, Seneca and National Fuel.

12. In further consideration for the promises set forth in paragraphs 6, 7, 8 and 10 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, benefits (including benefits based on your 2005 Target Incentive Opportunity under the Performance Incentive Program), bonuses, severance pay, accrued vacation, perquisites, or back wages, benefits or bonuses other than those set forth in this Agreement or in any benefit plan, program or policy of the Company not specifically referred to in this Agreement;

(b) 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, the New York Human Rights Law and the Texas Commission on Human Rights Act;

(c) 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

(d) 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.

13. In conjunction with the provisions of paragraph 12 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 19 of this Agreement, under the Company’s by-laws or under the corporate laws of New York 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 paragraphs 6, 7, 8 and 10 of this Agreement;

(e) the Company has advised you to review the Agreement, and specifically the release contained in paragraph 11 herein, with your attorney prior to signing this Agreement;

(f) you were given this Agreement on June 1, 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, other than the accrued pension benefits provided under the Retirement Plan and the ERP, no benefits provided under this Agreement shall be payable unless and until the time periods referenced herein and in paragraph (e) hereof expire and this Agreement becomes effective.

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

14. 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; provided, however, that you may do those things that are specifically authorized by the Consulting Contract:

(a) You agree that the contents of this Agreement are confidential until made public by National Fuel as required by law, and until then will not be disclosed to any third party, other than your attorney, your wife, tax advisor, financial advisor(s), the Internal Revenue Service, 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 14 and paragraphs 15 and 17 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 13(c) is a condition precedent to your receipt of any benefits under paragraphs 6, 7, 8 and 10 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 14(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, the specific projects on which you work or worked for the Company as a consultant or employee, any information, ideas, conclusions, progress of or regarding such projects, any other information obtained in the course of your consultations, and 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).

(i) The parties agree that the inclusion of any confidentiality requirement or other restriction in this Agreement or in the Consulting Contract, or any unsigned draft thereof, shall not be construed as either (1) an admission that a written agreement is necessary to protect the Company’s trade secrets and confidential and proprietary information, or (2) a waiver of any rights the Company may have at common law or otherwise if this Agreement does not become or remain effective, regarding protection of the Company’s trade secrets and confidential and proprietary information.

15. In order to protect and safeguard the Company's trade secrets and confidential information, you agree that, during the period beginning July 1, 2006 and ending June 30, 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 15(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 the exploration, production, gathering, processing, transportation, distribution, purchase, brokering, marketing, or trading of natural gas, oil, 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 15 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; the Consulting Contract constitutes National Fuel's prior written consent regarding the activities expressly permitted by the Consulting Contract,

(iii) Offshore areas outside the Exclusive Project Area, as defined in the Consulting Contract, nor to Competitors' onshore activities affecting lands and leases in excess of 50 miles from Company's exploration and production operations.

(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.

16. 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 until made public by National Fuel as required by law, and until then 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.

17. 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 17(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,

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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.

18. 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.

19. 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

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or incurred by you in connection with any pending, threatened or completed civil, criminal, administrative or arbitrative action, suit or proceeding ("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 19 shall extend to your estate or personal representative.

20. This Agreement is made subject to approval and ratification by the Board of Directors of National Fuel Gas Company of this Agreement and the Consulting Contract, to whom such agreements will be presented and favorably recommended by management at a meeting of that Board scheduled for June 8, 2006.

21. Any breach of the Consulting Contract shall also be considered a breach of this Agreement.

22. 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.

23. This Agreement constitutes the final, complete and exclusive agreement between Seneca 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 Seneca, National Fuel and you.

24. This Agreement is personal to Mr. Beck 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. During his life Mr. Beck may also make inter vivos transfers of some or all of his rights under this Agreement to members of his family or entities established for

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their benefit, but Mr. Beck shall remain fully responsible for performance of all his obligations under this Agreement, and the quantity and nature of all obligations of the Company and Seneca under this Agreement shall be interpreted as though such transfer had not occurred. This Agreement shall inure to the benefit of and be enforceable by Mr. Beck's legal representatives.

25. This Agreement shall inure to the benefit of and be binding upon National Fuel, Seneca and their successors.

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

NATIONAL FUEL GAS COMPANY

By: /s/ P. C. Ackerman Date: 6/20/06
P. C. Ackerman
Chief Executive Officer

SENECA RESOURCES CORPORATION

By: /s/ P. C. Ackerman Date: 6/20/06
P. C. Ackerman
Chairman

JAMES A. BECK

/s/ James A. Beck Date: 6/20/06

DENISE E. BECK
(MRS. JAMES A. BECK)
(only with respect to Paragraph 8)

/s/ Denise E. Beck Date: 6/20/06

CONTRACT FOR CONSULTING SERVICES

This Contract sets forth the terms under which **James A. Beck ("Beck"),** whose address is 4112 Ruskin Street, Houston, Texas 77005, shall provide offshore geological and geophysical consulting services and other reasonable services that may be requested by **Seneca Resources Corporation ("Seneca")** , a Pennsylvania corporation with an office at 1201 Louisiana St., Suite 400, Houston, Texas 77002-5604, which is a wholly-owned subsidiary of **National Fuel Gas Company ("NFG"),** a New Jersey corporation with an office at 6363 Main Street, Williamsville, NY 14221. Except as otherwise specifically stated, "National Fuel" means NFG and all its direct and indirect subsidiaries.

1. EFFECTIVE DATE . This Contract shall be effective from and after July 1, 2006 if it has been approved by the Board of Directors of NFG whether before or after such date,

2. SERVICES AND TERM . For a period of three (3) years beginning on the effective date, Beck shall personally provide to National Fuel geological and geophysical consulting services, including consultation on well placement, well design and prospect evaluation, relating to offshore oil and gas exploration and production, and such other personal services that are reasonably related thereto as requested orally or in writing by Seneca or another NFG subsidiary. The amount of consulting to be requested and performed will be no more than one thousand (1000) hours in each consecutive twelve-month period beginning on the effective date nor more than 100 hours in any calendar month, and Beck shall submit monthly statements to Seneca showing the number of hours of work performed for Seneca or another NFG subsidiary under this provision 2 and the amount of any expenses and disbursements to be reimbursed hereunder, all in accordance with the terms of this Contract. In the event Beck fails or refuses to perform consulting services as reasonably requested by National Fuel (including any failure because of death or disability), then National Fuel may in its sole discretion terminate this Contract upon thirty (30) days' notice to Beck, if he has not cured such failure or refusal within that thirty-day period. Unless and until such failure or refusal is cured within that thirty-day period, National Fuel shall

not be obligated to make any payment which is payable after notice of termination is given. If this Contract is so terminated, then:

(a) National Fuel shall not be obligated to make any payments which are payable thereafter, other than for (i) work performed under provision 4 before the notice of termination was given, and (ii) expenses reasonably incurred under provision 6 before the notice of termination was given; and

(b) the obligations in provisions 11, 13, and 16 shall survive any such termination.

3. ANNUAL FEE . As consideration for such services, Seneca shall pay or cause other subsidiaries of NFG to pay Beck an annual fee of $200,000, payable in monthly increments of one-twelfth (1/12) of the annual fee.

4. ADDITIONAL FEES . In addition, Seneca or another subsidiary of NFG may request that Beck provide onshore geological and geophysical consulting services. In the event that Beck has available time and performs such services, Seneca or another subsidiary of NFG shall pay Beck an additional fee of $200 per hour for each hour of requested onshore services performed. During periods of such additional services, Beck shall submit monthly statements to Seneca showing the number of hours of work performed for Seneca or another NFG subsidiary under this provision 4, the charges therefor, and the amount of any expenses and disbursements to be reimbursed hereunder, all in accordance with the terms of this Contract.

5. SERVICES FOR OTHER ENTITIES .

(a) Subject to provision 2, Beck may perform similar services as provided for hereunder for third parties relating to areas other than that portion of the Gulf of Mexico identified as the "Exclusive Project Area" on the plat included as an exhibit in the Consulting Agreement between Seneca and F.F. Foster and Associates dated as of December 1, 2005, (the "Foster Agreement"). However, until July 1, 2009, Beck shall not accept employment from, nor provide contract services to, any party if such employment or services could reasonably be construed to be in competition with NFG or any of its subsidiaries. Notwithstanding the foregoing, Beck shall not be deemed to be in violation of this Agreement by providing evaluation and analysis of proposed, ongoing or completed exploration or drilling operations on onshore property controlled exclusively by others than Seneca or NFG.

(b) In the event that Beck independently generates or acquires rights to sell or farm-out a prospect or a portion thereof, separate from his work under this Contract, Seneca shall have a first right of refusal to acquire all or a portion of the prospect or interest to be sold or farmed-out, on terms at least as favorable as those offered and/or sold to third parties. If Seneca or NFG decline to participate in acquiring a prospect or interest in a prospect recommended by Beck, either independently or under this contract, Beck shall be free to sell such prospect or interest to any third party without further obligation hereunder. However, in the event that such prospect or interest is presented under the Foster Agreement, such sale or farm-out shall be controlled by the terms of the Foster Agreement.

6. EXPENSES . In addition to the fees for services rendered, Seneca or another NFG subsidiary shall reimburse Beck's out of pocket expenses incurred in connection with performance of services hereunder. Beck shall not incur expenses in excess of Two Hundred and No/00 Dollars ($200.00) in any day without Seneca's prior written approval.

7. LANDMARK . In order to maximize the efficiency of Beck's consulting services, Seneca agrees to pay the tuition and costs of a one (1) week Landmark school in 3D seismic interpretation in Houston, Texas.

8. COMPUTER . To provide for continuous availability of data related to Beck's offshore consulting services, Beck shall be entitled to keep the laptop computer that he is using in his current employment, provided that he purge all NFG and subsidiaries' data from that computer that does not relate directly to NFG's and its subsidiaries' offshore operations.

9. INDEPENDENT CONTRACTOR . It is understood and agreed that, in performing all work hereunder, Beck shall be an independent contractor, responsible for accomplishing the results contracted for under this Contract, and, as such, shall control the detail, manner and means of providing consulting services pursuant to this Contract. Accordingly, Beck shall not be required to work any particular schedule, but shall use his best efforts to meet Seneca's deadlines. Further, Beck shall not, within reason, be required to work at any particular location. However, Seneca shall provide reasonable and sufficient temporary office space and clerical and office services support when Beck's presence is required at any of National Fuel's offices in North America. Neither party shall in any way represent that it is an employer or employee of the other party. As an independent contractor, Beck is not authorized to make any contract, agreement, warranty or representation on behalf of Seneca or National Fuel, unless specifically authorized in writing by the Chief Executive Officer, Chief Operating Officer or President of NFG to do so.

10. PROHIBITION AGAINST SUBCONTRACTING . Beck shall not subcontract out any of the work to be performed by him under this Contract without the prior written consent of Seneca.

11. INDEMNITY .

(a) Beck will indemnify and hold National Fuel harmless from and against any and all loss, damage, injury, suits, penalties, costs, liabilities and expenses (including, but not limited to, legal expenses) arising out of any claim for loss of or damage to property, including property of National Fuel or Beck, liability to, injury to, or death of any person, including Beck, or an employee of National Fuel or Beck, caused by the reckless, intentionally tortious or grossly negligent acts or omissions of Beck, or his officers, employees, subcontractors or other agents, including but not limited to such acts or omissions which fail to comply with federal, state and local laws, ordinances and regulations, both foreign and domestic, applicable to services to be performed hereunder and all other applicable local, state and federal laws, ordinances and regulations, both foreign and domestic. For purposes of this provision 11 only, “National Fuel” shall

include National Fuel Gas Company and all of its direct and indirect subsidiaries, along with any director, officer or employee of these entities.

(b) Seneca will indemnify and hold Beck harmless from and against any and all loss, damage, injury, suits, penalties, costs, liabilities and expenses (including, but not limited to, legal expenses) arising out of any claim related to the services performed under this Contract for loss of or damage to property, including property of National Fuel or Beck, liability to, injury to, or death of any person, including Beck, or an employee of National Fuel or Beck, unless caused by the reckless, grossly negligent or intentionally tortious acts or omissions of Beck, or his officers, employees, subcontractors or other agents, including but not limited to such acts or omissions which fail to comply with federal, state and local laws, ordinances and regulations, both foreign and domestic, applicable to services to be performed hereunder and all other applicable local, state and federal laws, ordinances and regulations, both foreign and domestic.

12. INSURANCE. Seneca shall carry statutory workers’ compensation insurance coverage, commercial general liability insurance coverage and executive risk insurance coverage in an amount not less than $5,000,000. Seneca shall have Beck named as additional insured (with the exception of the workers’ compensation policy) under the above insurance policies in connection with any claims arising out of the services provided under this Contract. Each insurance policy provided by Seneca shall contain a waiver of the right of subrogation, and the coverage will be provided (except as otherwise described in the immediately following sentence) on a primary non-contributing basis and the limits will be exhausted before any other insurance is to apply. The commercial general liability insurance policy will also contain a severability of interest clause, so that each party shall be treated separately under that policy. The coverage provided by Seneca will, however, be on a secondary non-contributing basis excess of any other applicable primary auto insurance policies carried by Beck or his Assignee (as defined in provision 20) and the limits of any such primary auto insurance will be exhausted before the coverage provided by Seneca hereunder is to apply.

Seneca shall maintain this insurance at all times during performance of this Contract.

13. CONFIDENTIALITY.

(a) In performing his obligations under this Contract, Beck and his employees, officers, members and agents, if any, shall maintain all information gathered, developed or communicated to Beck by National Fuel or any of their directors, officers, employees or agents, in connection with the work performed hereunder in a confidential manner, whether or not identified as a trade secret or as proprietary and confidential by National Fuel. Beck agrees that Beck and his employees, officers, members and agents, if any, will not duplicate, distribute, disclose, or otherwise provide such information, or National Fuel’s trade secrets or proprietary and confidential information to anyone without prior written authorization of a Seneca officer. The obligations created by this paragraph shall survive the termination of this Contract.

(b) National Fuel’s “trade secrets” and “confidential and proprietary information” include information and material concerning National Fuel which is not generally known to the public, including but not limited to, any and all memoranda, software, data bases, computer programs, interface systems, pricing and client information, the specific projects on which Beck is working or has worked for National Fuel, any information, ideas, conclusions, progress of or regarding such projects, any other information obtained in the course of Beck’s employment or consultations, and records pertaining to National Fuel’s methods or practices of doing business and marketing its services and products, whether or not developed or prepared by Beck during the term of his employment with National Fuel or in connection with his providing consulting service to National Fuel. National Fuel’s trade secrets and confidential and proprietary information also include “writing” or “writings” which shall mean and include all works, expressed in words, numbers or other verbal or numerical symbols, regardless of the physical manner in which they

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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, whether or not developed or prepared by Beck during the term of his employment with National Fuel or in connection with his providing consulting services to National Fuel. National Fuel’s trade secrets and confidential and proprietary information do not include any information or material which is or becomes generally known to the public (other than by act of Beck or his representatives in breach of this Contract).

(c) The confidentiality obligation contained in this provision 13 shall continue until the first to occur of the following:

(i) the confidentiality obligation is terminated by written notice from NFG;

(ii) one (1) year after termination of Beck’s consulting services under this Contract with respect to information regarding the Gulf of Mexico offshore and New York;

(iii) two (2) years after termination of Beck’s consulting services under this Contract with respect to information regarding on shore other than Appalachia; or

(iv) three (3) years after termination of Beck’s consulting services under this Contract with respect to information regarding Pennsylvania.

14. BOARD APPROVAL . This Contract is made subject to approval and ratification by the Board of Directors of National Fuel Gas Company of this Agreement and the Retirement Agreement among the parties which is being executed concurrently herewith, to whom such agreements will be presented and

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favorably recommended by management at a meeting of that Board scheduled for June 8, 2006.

15. COMMUNICATIONS . All notices under this Contract shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, to the appropriate party at the addresses specified below or at such other addresses as either party shall have furnished to the other in writing in accordance herewith. However, communications regarding specific wells, prospects, and other day to day services may be communicated to Barry McMahan or such other party designated by Dave Smith. Notices and communications shall be effective when actually received by the addressee.

(a) With respect to Beck:

James A. Beck
4112 Ruskin Street
Houston, Texas 77005

(b) With respect to Seneca and NFG:

David F. Smith, Chief Operating Officer
National Fuel Gas Company
6363 Main Street
Williamsville, NY 14221

16. AUDIT. Seneca shall have the right, upon reasonable notice, to examine and audit all of Beck's billings and all of the backup support data for those billings, and all of Beck's records showing compliance with applicable laws, rules, regulations and orders related to this Contract. Beck shall make available said information to Seneca, upon request, at the offices of National Fuel.

17. SOCIAL SECURITY AND FAIR LABOR STANDARDS. Beck covenants and agrees that he is bound by and will observe and perform all duties required under the Social Security Act and the United States Fair Labor Standards Act, and all other applicable local, state, and federal laws, ordinances, and regulations.

18. EQUAL EMPLOYMENT OPPORTUNITY. The Equal Opportunity clause in Section 202, Paragraphs 1 through 7 of Executive Order 11246, as amended;

and Section 503 of the Rehabilitation Act of 1973, 29 U.S.C. §793, as amended; and Section 402 of the Vietnam Era Veterans Readjustment Assistance Act of 1974, 38 U.S.C. §§42l1-12; and the Americans with Disabilities Act of 1990, 42 U.S.C. §12101, et. seq., as amended, relating to equal employment opportunity; and the implementing Rules and Regulations of the Office of Federal Contracts Compliance Programs as set forth in 41 C.F.R. Chapter 60 are incorporated herein by specific reference.

19. NON-WAIVER. Failure of either party to act or exercise its rights under this Contract upon the breach of any of the terms hereof by the other party shall not be construed as a waiver of such a breach or prevent said party from thereafter enforcing strict compliance with any or all of their terms hereof.

20. NON-ASSIGNABILITY. The obligations of Beck hereunder are personal and cannot be assigned or delegated to subcontractors or employees except as provided in this provision 20. Beck may assign this Contract to a limited liability company or other entity wholly owned by Beck ("Assignee"), effective upon notice to Seneca signed by both Beck and the Assignee, which notice must include:

(a) the full legal name, address and state of organization of the Assignee;

(b) evidence of Beck's sole ownership of the Assignee; and

(c) the Assignee's commitments that (i) the Assignee assumes all rights and obligations under this Contract, and (ii) all the Assignee's services under this Contract must be performed by Beck individually unless Seneca expressly consents otherwise in writing.

Upon the effective date of such an assignment, Beck shall individually be relieved of all direct obligations under this Contract, which shall become the direct obligations of the Assignee (although Beck as an officer/employee of Assignee will continue to comply and help Assignee comply with the confidentiality provisions of provision 13 of this Contract). Neither Seneca nor

NFG may assign this Contract, other than as part of a merger or the acquisition of Seneca or NFG by an unrelated third party, without the express written consent of Beck. Said consent shall not be unreasonably withheld. During his life Beck may also make inter vivos transfers of some or all of his rights under this Contract to members of his family or entities established for their benefit, but Beck shall remain fully responsible for performance of all his obligations under this Contract, and the quantity and nature of all obligations of Beck under this Contract shall be interpreted as though such transfer had not occurred.

21. GOVERNING LAW. This Contract shall be governed by the laws of the State of Texas without giving effect to the

conflict of laws provisions thereof.

22. SEVERABILITY. If any clause, sentence, paragraph, provision or other part hereof shall be adjudged by any court of competent jurisdiction to be invalid, the remainder hereof shall be interpreted so as to achieve as closely as possible the intent of the parties as originally expressed in this Contract.

23. CAPTIONS AND HEADINGS. The captions and headings herein are for convenience only and are not to be construed as a part of this Contract, nor shall the same be construed as defining or limiting in any way the scope or intent of the provisions hereof.

24. ENTIRE AGREEMENT. This Contract contains and states the entire agreement of the parties hereto and supersedes and cancels all prior written and oral agreements and understandings with respect to the subject matter of this Contract. Any modification to this Contract must be agreed upon in writing and signed by both parties.

25. BINDING CONSIDERATION. Beck understands, represents, warrants, and agrees that the consideration provided under this Contract is in addition to anything of value to which he is entitled.

26. BINDING AGREEMENT. This Contract is and shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, executors, administrators and assigns. Beck represents, warrants and agrees

that he has read, understands and intends to be bound by this Contract and its recitals, terms, conditions and representations.

27. NO BENEFITS. Included in the fees payable under provision 3 hereof is an amount available to Beck for the payment by Beck for the purchase of life, medical and disability insurance and other National Fuel compensation benefits that might otherwise be required of National Fuel by law, rule, order or regulation of any governmental agency or authority if Beck were an employee. However, although compensation has been included for such benefits, Beck may elect not to purchase such benefits. Beck hereby waives any claims that such benefits should be furnished by National Fuel.

28. SAFETY. Beck shall take all necessary and advisable precautions for the safety of persons and property in, on or about National Fuel's property as may be required or appropriate by the conditions and progress of the work, and shall conform with National Fuel's published policies and safety rules.

29. CROSS-DEFAULT. Any breach of this Contract shall also be considered a breach of the Retirement Agreement among the parties of even date herewith.

30. ARBITRATION. ANY DISPUTE, CONTROVERSY, OR CLAIM ARISING OUT OF OR RELATING TO THIS CONTRACT OR THE BREACH OR VALIDITY THEREOF ("DISPUTE") SHALL BE REFERRED TO AND FINALLY SETTLED BY FINAL AND BINDING ARBITRATION IN HOUSTON, TEXAS. THE TERM "CONTRACT" INCLUDES THE CONTRACT ITSELF AND ALL EXHIBITS AND ATTACHMENTS. THE PARTIES AGREE TO APPLY TEXAS LAW, BUT IGNORE ANY CONFLICTS OF LAW THAT WOULD REFER TO THE LAW OF ANOTHER JURISDICTION. UPON THE REQUEST OF ANY PARTY, WHETHER MADE BEFORE OR AFTER THE INSTITUTION OF ANY LEGAL PROCEEDINGS, ANY DISPUTE SHALL BE RESOLVED BY BINDING ARBITRATION BY THREE ARBITRATORS. THE PARTIES AGREE TO USE THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION AND, TO THE MAXIMUM EXTENT POSSIBLE, THE FEDERAL ARBITRATION ACT (TITLE 9 OF THE UNITED STATES

CODE). IF THE FEDERAL ARBITRATION ACT DOES NOT APPLY, THE PARTIES SELECT THE ARBITRATION LAW OF THE STATE HAVING THE MOST SIGNIFICANT CONTACTS WITH THE DISPUTE AS DETERMINED BY THE ARBITRATORS. THE TRANSACTIONS CONTEMPLATED BY THIS CONTRACT ARE TRANSACTIONS INVOLVING OR RELATED TO COMMERCE. IN ANY ARBITRATION, EACH PARTY SHALL DESIGNATE ONE ARBITRATOR WITHIN TEN (10) DAYS AFTER ONE PARTY PROVIDES THE OTHER WITH WRITTEN NOTICE OF AN INTENTION TO ARBITRATE AND THOSE TWO ARBITRATORS SHALL SELECT A THIRD, BUT, IF THEY CANNOT AGREE, THE ADMINISTRATOR OF THE AMERICAN ARBITRATION ASSOCIATION SHALL APPOINT THE THIRD ARBITRATOR AND, SHOULD ANY PARTY FAIL TO APPOINT AN ARBITRATOR, THEN SUCH ADMINISTRATOR SHALL DO SO. THE ARBITRATORS SHALL BASE THEIR DECISION ON THE APPLICABLE LAW, INCLUDING ANY LAWS RELATED TO STATUTES OF LIMITATION. THE ARBITRATORS SHALL NOT HAVE THE AUTHORITY TO AWARD, AND THE TRIBUNAL SHALL NOT AWARD, ANY DAMAGES OR COMPENSATION FOR PUNITIVE OR EXEMPLARY DAMAGES. THE ARBITRATORS SHALL HAVE NO AUTHORITY TO AWARD, AND THE TRIBUNAL SHALL NOT AWARD, ANY ATTORNEY'S FEES, EXPERT WITNESS, OR OTHER SUCH FEES OR COSTS.

IN WITNESS WHEREOF, the parties have executed this Contract.

	National Fuel Gas Company	**Seneca Resources Corporation**
/s/ James A. Beck	By: /s/ P. C. Ackerman	By: /s/ P. C. Ackerman
James A. Beck	P. C. Ackerman	P. C. Ackerman
	Chief Executive Officer	Chairman

	For the Twelve Months Ended June 30, 2006	2005
EARNINGS:		
Income from Continuing Operations	$154,435	$153,515
Plus Income Tax Expense	77,744	92,978
Less Investment Tax Credit (1)	(697)	(697
(Less Income) Plus Loss from Unconsolidated Subsidiaries (3)	511	796
Plus Distributions from Unconsolidated Subsidiaries	5,101	1,990
Plus Interest Expense on Long-Term Debt	72,757	73,244
Plus Other Interest Expense	4,424	9,069
Less Amortization of Loss on Reacquired Debt	(1,118)	(1,066
Plus (Less) Allowance for Borrowed Funds Used in Construction	309	201
Plus Rentals (2)	2,994	3,554
	$316,460	$333,584
FIXED CHARGES:		
Interest & Amortization of Premium and Discount of Funded Debt	$72,757	$73,244
Plus Other Interest Expense	4,424	9,069
Less Amortization of Loss on Reacquired Debt	(1,118)	(1,066
Plus (Less) Allowance for Borrowed Funds Used in Construction	309	201
Plus Rentals (2)	2,994	3,554
	$79,366	$85,002
RATIO OF EARNINGS TO FIXED CHARGES	**3.99**	**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 $

Exhibit 31.1

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: August 4, 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: August 4, 2006

/s/ R. J. Tanski

R. J. Tanski
Treasurer and Principal Financial Officer

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 June 30, 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 4th day of August, 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 June 30	
	2006	
	(Thousands of Dolla	
INCOME		
Operating Revenues	$ 2,304,253	
Operating Expenses		
Purchased Gas	1,270,268	
Operation and Maintenance	427,789	
Property, Franchise and Other Taxes	69,672	
Depreciation, Depletion and Amortization	181,596	
Impairment of Oil and Gas Producing Properties	62,371	
	2,011,696	
Operating Income	292,557	
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	3,647	
Impairment of Investment in Partnership	(4,158)	
Other Income	17,314	
Interest Expense on Long-Term Debt	(72,757)	
Other Interest Expense	(4,424)	
Income from Continuing Operations Before Income Taxes	232,179	
Income Tax Expense	77,744	
Income from Continuing Operations	154,435	
Income (Loss) from Discontinued Operations	30,900	
Net Income Available for Common Stock	$ 185,335	
Earnings Per Common Share:		
Basic		
Income from Continuing Operations	$ 1.83	
Income (Loss) from Discontinued Operations	0.37	
Net Income Available for Common Stock	$ 2.20	
Diluted		
Income from Continuing Operations	$ 1.79	
Income (Loss) from Discontinued Operations	0.36	
Net Income Available for Common Stock	$ 2.15	
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	84,205,652	

	===================	==
Used in Diluted Calculation	86,063,076	
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