



**NATIONAL FUEL GAS
DISTRIBUTION CORPORATION
PENNSYLVANIA PUBLIC UTILITY COMMISSION
DOCKET NO. R-00061493**

**Information Submitted Pursuant to Pa. PUC Regulation
Regarding Filing of Rate Changes**

**Tariff Gas Pa. P.U.C. No. 9
Volume VII**

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
REVENUE REQUIREMENTS INTERROGATORIES

1. Please supply copies of the following documents for the Company and , if applicable, its parent:

- a. Most recent Annual Report to shareholders (including any statistical supplements);
- b. Most recent SEC Form 10K
- c. All SEC Form 10Q reports issued within last year.

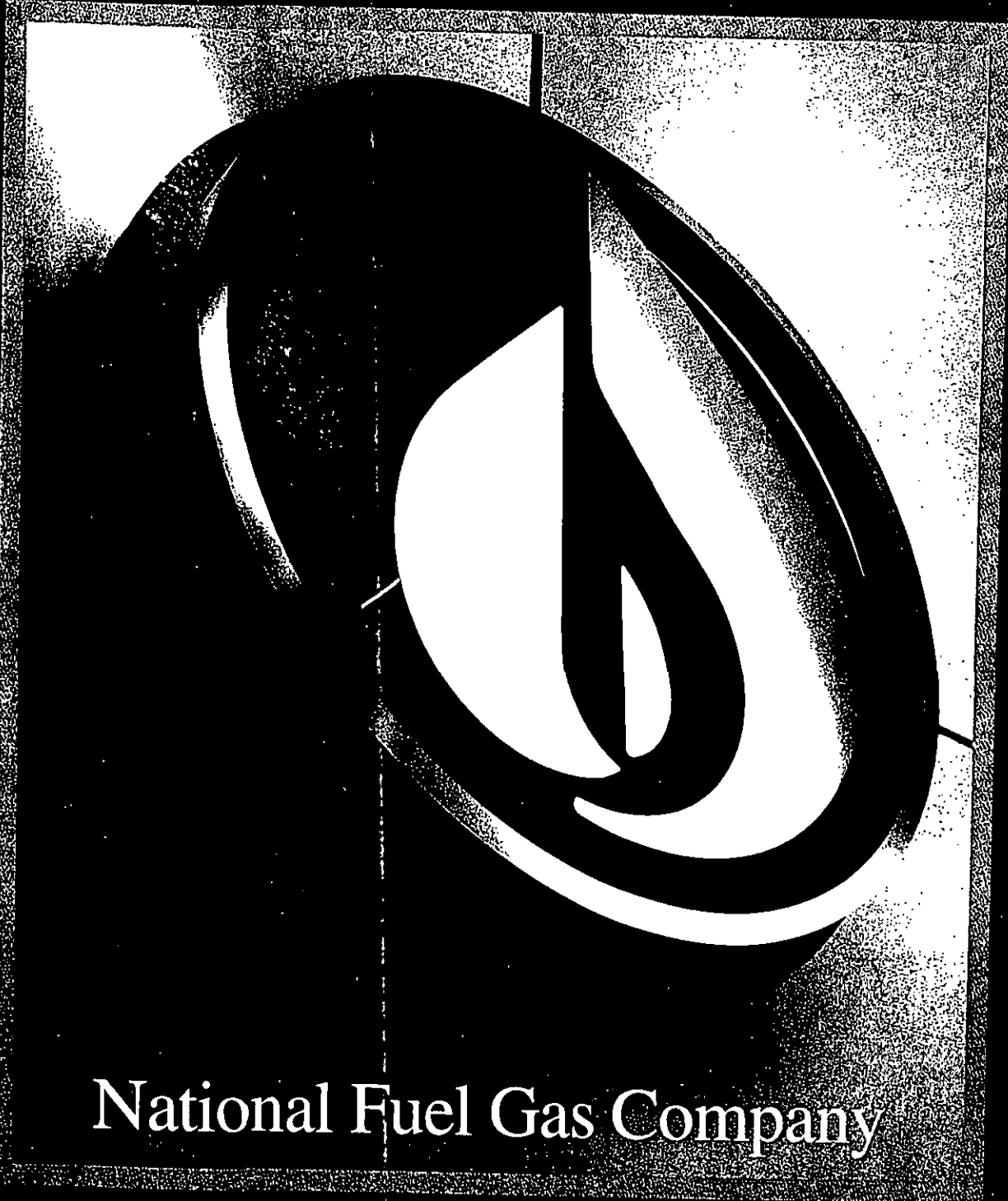
a. Please see Exhibit 403 for National Fuel Gas Company's 2005 Annual Report and Form 10-K. The statistical supplement for the 2005 Annual Report is attached.

b. Please see Exhibit 403 for National Fuel Gas Company's 2005 Annual Report and Form 10-K.

c. Attached are National Fuel Gas Company's March 31, 2005, June 30, 2005 December 31, 2005 and March 31, 2006 SEC Form 10-Q.

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National Fuel Gas Company

Strong. Balanced. Reliable.

A company cannot prosper for more than a century by focusing only on today. We have built a healthy, robust organization that performs soundly during times of economic prosperity, yet remains nimble enough to generate results when faced with economic adversity. Our strategic asset base has been built with an eye toward the long-term view rather than one that is shortsighted. This vision has served us well, as has our ability to resist the temptation to become something that we are not. More importantly, we have assembled a team of dedicated, capable employees whose integrity and honesty continue to define our Company, and who remain steadfastly committed to those who depend upon us for their energy needs. We are confident in who we are: a strong, balanced, and reliable energy provider. We are proud of the results we have delivered to both our investors and customers.

Corporate Profile

National Fuel Gas Company, incorporated in 1902, is a diversified energy company with its headquarters in Williamsville, New York. The Company's \$3.7 billion in assets is distributed among five principal business segments: Exploration and Production, Pipeline and Storage, Utility, Timber, and Energy Marketing. National Fuel's history dates from the earliest days of the natural gas and oil industry in the United States, and the Company has been responsible for many industry firsts. Today, the Company continues to be managed in the same innovative and entrepreneurial spirit, and takes pride in its 103-year tradition of delivering service and value.

Exploration and Production

Seneca Resources Corporation explores for, develops, and purchases natural gas and oil reserves in California, the Appalachian region, the Gulf Coast region of Texas, Louisiana and Alabama, and the western provinces of Canada. Currently, Seneca's exploration emphasis is centered on drilling for new reserves in Canada and the Gulf of Mexico, while development drilling continues to expand in the Appalachian region and in California.

Pipeline and Storage

National Fuel Gas Supply Corporation and Empire State Pipeline provide natural gas transportation and storage services to affiliated and nonaffiliated companies through an integrated system of 2,972 miles of pipeline and 32 underground natural gas storage fields (including

four storage fields co-owned with nonaffiliated companies). This system is located within an area bounded by the Canadian border at the Niagara River, southwestern Pennsylvania and central New York, just north of Syracuse.

Utility

National Fuel Gas Distribution Corporation sells or transports natural gas to approximately 731,000 customers through a local distribution system located in western New York and northwestern Pennsylvania. The principal metropolitan areas served by this system include Buffalo, Niagara Falls and Jamestown in New York, and Erie and Sharon in Pennsylvania.

Timber

Highland Forest Resources, Inc. and the Northeast Division of Seneca Resources Corporation carry out the Timber segment operations for the Company. Highland operates two sawmills in northwestern Pennsylvania. This segment markets timber from its New York and Pennsylvania land holdings.

Energy Marketing

National Fuel Resources, Inc. markets natural gas to industrial, commercial, public authority and residential end-users in western and central New York and northwestern Pennsylvania, offering competitively priced energy and energy management services to its customers.

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This report is not a representation or prospectus with regard to the Company's securities and is not furnished in connection with any proposed sales or offer to sell or buy any stock or securities. Data contained herein with respect to any particular year should be considered in conjunction with the notes and comments appearing in the Company's annual report to shareholders for that year.

Consolidated Statements of Income and Earnings Reinvested in the Business

Year Ended September 30

(Thousands of Dollars, Except Per Common Share Amounts)

	2005*	2004	2003	2002	2001
Income					
Operating Revenues	\$1,923,549	\$1,907,968	\$1,921,573	\$1,369,869	\$1,962,874
Operating Expenses					
Purchased Gas	959,827	949,452	963,567	462,857	1,002,466
Operation and Maintenance	404,517	385,519	361,898	372,063	348,270
Property, Franchise and Other Taxes	69,076	68,978	79,692	69,837	81,571
Depreciation, Depletion and Amortization	179,767	174,289	181,329	168,745	163,239
Impairment of Oil and Gas Producing Properties	-	-	42,774	-	180,781
	1,613,187	1,578,238	1,629,260	1,073,502	1,776,327
Gain (Loss) on Sale of Timber Properties	-	(1,252)	168,787	-	-
Gain (Loss) on Sale of Oil and Gas Producing Properties	-	4,645	(58,472)	-	-
Operating Income	310,362	333,123	402,628	296,367	186,547
Other Income (Expense):					
Income from Unconsolidated Subsidiaries	3,362	805	535	224	1,794
Impairment of Investment in Partnership	(4,158)	-	-	(15,167)	-
Interest Income	6,496	1,771	2,204	2,593	4,010
Other Income	12,744	2,908	2,427	3,184	5,337
Interest Expense on Long-Term Debt	(73,244)	(82,989)	(91,381)	(88,646)	(78,297)
Other Interest Expense	(9,069)	(6,763)	(11,196)	(15,109)	(25,294)
Income from Continuing Operations Before Income Taxes	246,493	248,855	305,217	183,446	94,097
Income Tax Expense	92,978	94,590	124,150	69,944	33,434
Income from Continuing Operations	153,515	154,265	181,067	113,502	60,663
Discontinued Operations:					
Income from Operations, Net of Tax	10,199	12,321	6,769	4,180	4,836
Gain on Disposal, Net of Tax	25,774	-	-	-	-
Income from Discontinued Operations	35,973	12,321	6,769	4,180	4,836
Income Before Cumulative Effect of Changes in Accounting	189,488	166,586	187,836	117,682	65,499
Cumulative Effect of Changes in Accounting	-	-	(8,892)	-	-
Net Income Available for Common Stock	189,488	166,586	178,944	117,682	65,499
Earnings Reinvested in the Business					
Balance at Beginning of Year	718,926	642,690	549,397	513,488	525,847
	908,414	809,276	728,341	631,170	591,346
Dividends on Common Stock	95,394	90,350	85,651	81,773	77,858
Balance at End of Year	\$813,020	\$718,926	\$642,690	\$549,397	\$513,488
Earnings Per Common Share:					
Basic:					
Income from Continuing Operations	\$1.84	\$1.88	\$2.24	\$1.42	\$0.77
Income from Discontinued Operations	0.43	0.15	0.08	0.05	0.06
Cumulative Effect of Changes in Accounting	-	-	(0.11)	-	-
Net Income Available for Common Stock	\$2.27	\$2.03	\$2.21	\$1.47	\$0.83
Diluted:					
Income from Continuing Operations	\$1.81	\$1.86	\$2.23	\$1.41	\$0.76
Income from Discontinued Operations	0.42	0.15	0.08	0.05	0.06
Cumulative Effect of Changes in Accounting	-	-	(0.11)	-	-
Net Income Available for Common Stock	\$2.23	\$2.01	\$2.20	\$1.46	\$0.82
Weighted Average Common Shares Outstanding					
Used in Basic Calculation	83,541,627	82,045,535	80,808,794	79,821,430	79,053,444
Used in Diluted Calculation	85,029,131	82,900,438	81,357,896	80,534,453	80,361,258

* Note: All Czech Republic operations have been reported as discontinued operations. Any remaining international activity has been included in corporate operations. Prior year amounts have been reclassified to reflect this change in presentation.

Consolidated Balance Sheets

At September 30 (Thousands of Dollars)	2005*	2004	2003	2002	2001
ASSETS					
Property, Plant and Equipment	\$4,423,255	\$4,602,779	\$4,657,343	\$4,512,651	\$4,273,716
Less - Accumulated Depreciation, Depletion and Amortization	1,583,955	1,596,015	1,666,295	1,667,906	1,493,003
	2,839,300	3,006,764	2,991,048	2,844,745	2,780,713
Current Assets					
Cash and Temporary Cash Investments	57,607	57,541	49,960	21,864	36,227
Hedging Collateral Deposits	77,784	8,612	1,461	352	-
Receivables - Net	155,064	129,825	136,604	95,510	131,379
Unbilled Utility Revenue	20,465	18,574	20,155	21,918	25,375
Gas Stored Underground	64,529	68,511	89,640	77,250	83,231
Materials and Supplies - at average cost	33,267	35,516	27,707	25,573	33,710
Unrecovered Purchased Gas Costs	14,817	7,532	28,692	12,431	4,113
Prepayments and Other Current Assets	65,469	35,364	72,708	57,347	46,855
Deferred Income Taxes	83,774	43,105	2,439	11,861	-
Fair Value of Derivative Financial Instruments	-	23	1,698	3,807	37,585
	572,776	404,603	431,064	327,913	398,475
Other Assets					
Recoverable Future Taxes	85,000	83,847	84,818	82,385	86,586
Unamortized Debt Expense	17,567	19,573	22,119	20,635	19,796
Other Regulatory Assets	47,028	32,958	30,448	26,104	23,253
Deferred Charges	4,474	3,411	7,528	5,914	8,440
Other Investments	80,394	72,556	64,025	65,090	62,924
Investments in Unconsolidated Subsidiaries	12,658	16,444	16,425	16,753	31,768
Goodwill	5,476	5,476	5,476	8,255	8,804
Intangible Assets	42,302	45,994	49,664	11,451	-
Other	15,677	25,977	22,799	19,918	31,807
	310,576	306,236	303,302	256,505	273,378
Total Assets	\$3,722,652	\$3,717,603	\$3,725,414	\$3,429,163	\$3,452,566
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Comprehensive Shareholders' Equity					
Common Stock, \$1 Par Value	\$84,357	\$82,990	\$81,438	\$80,265	\$79,406
Paid In Capital	529,834	506,560	478,799	446,832	430,618
Earnings Reinvested in the Business	813,020	718,926	642,690	549,397	513,488
Total Common Shareholders' Equity Before Items of Other Comprehensive Loss	1,427,211	1,308,476	1,202,927	1,076,494	1,023,512
Accumulated Other Comprehensive Loss	(197,628)	(54,775)	(65,537)	(69,636)	(20,857)
Total Comprehensive Shareholders' Equity	1,229,583	1,253,701	1,137,390	1,006,858	1,002,655
Long-Term Debt, Net of Current Portion	1,119,012	1,133,317	1,147,779	1,145,341	1,046,694
Total Capitalization	2,348,595	2,387,018	2,285,169	2,152,199	2,049,349
Minority Interest in Foreign Subsidiaries	-	37,048	33,281	28,785	22,324
Current and Accrued Liabilities					
Notes Payable to Banks and Commercial Paper	-	156,800	118,200	265,386	489,673
Current Portion of Long-Term Debt	9,393	14,260	241,731	160,564	109,435
Accounts Payable	155,485	115,979	118,563	100,886	123,246
Amounts Payable to Customers	1,158	3,154	692	-	51,223
Dividends Payable	24,445	23,210	21,952	20,830	20,031
Other Accruals and Current Liabilities	60,404	46,952	46,533	40,458	52,756
Fair Value of Derivative Financial Instruments	209,072	95,099	17,928	31,204	17,081
	459,957	455,454	565,599	619,328	863,445
Deferred Credits					
Deferred Income Taxes	489,720	501,200	425,721	368,081	340,224
Taxes Refundable to Customers	11,009	11,065	13,519	15,596	16,865
Unamortized Investment Tax Credit	6,798	7,498	8,199	8,897	9,599
Cost of Removal Regulatory Liability	90,396	82,020	76,782	-	-
Other Regulatory Liabilities	66,339	66,488	62,843	67,455	68,957
Pension and Other Post-Retirement Benefit Liabilities	143,687	70,410	143,687	91,444	24,441
Asset Retirement Obligation	41,411	32,292	27,493	-	-
Other Deferred Credits	64,742	67,110	83,121	77,378	57,362
	914,100	838,083	841,365	628,851	517,448
Commitments and Contingencies	-	-	-	-	-
Total Capitalization and Liabilities	\$3,722,652	\$3,717,603	\$3,725,414	\$3,429,163	\$3,452,566

* Note: Certain prior year amounts have been reclassified to conform with current year presentation.

Consolidated Statements of Cash Flows

Year Ended September 30 (Thousands of Dollars)	2005*	2004	2003	2002	2001
Operating Activities					
Net Income Available for Common Stock	\$189,488	\$166,586	\$178,944	\$117,682	\$65,499
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities					
Gain on Sale of Discontinued Operations	(27,386)	-	-	-	-
(Gain) Loss on Sale of Timber Properties	-	1,252	(168,787)	-	-
(Gain) Loss on Sale of Oil and Gas Producing Properties	-	(4,645)	58,472	-	-
Impairment of Oil and Gas Producing Properties	-	-	42,774	-	180,781
Depreciation, Depletion and Amortization	193,144	189,538	195,226	180,668	174,914
Deferred Income Taxes	40,388	40,329	78,369	62,013	(55,849)
Cumulative Effect of Changes in Accounting	-	-	8,892	-	-
(Income) Loss from Unconsolidated Subsidiaries, Net of Cash Distributions	(1,372)	(19)	703	361	(1,199)
Impairment of Investment in Partnership	4,158	-	-	15,167	-
Minority Interest in Foreign Subsidiaries	2,645	1,933	785	730	1,342
Other	7,390	9,839	11,289	9,842	6,553
Change in:					
Hedging Collateral Deposits	(69,172)	(7,151)	(1,109)	(352)	-
Receivables and Unbilled Utility Revenue	(31,246)	4,840	(28,382)	40,786	(2,277)
Gas Stored Underground and Materials and Supplies	1,934	13,662	(13,826)	8,717	(37,054)
Unrecovered Purchased Gas Costs	(7,285)	21,160	(16,261)	(8,318)	25,568
Prepayments and Other Current Assets	(30,390)	37,390	(12,628)	(1,737)	(399)
Accounts Payable	48,089	(5,134)	13,699	(24,025)	20,419
Amounts Payable to Customers	(1,996)	2,462	692	(51,223)	41,640
Other Accruals and Current Liabilities	16,085	2,082	9,343	(27,332)	13,969
Other Assets	(13,461)	(2,525)	(9,343)	11,869	(32,167)
Other Liabilities	(3,667)	(34,450)	(23,124)	10,350	12,287
Net Cash Provided by Operating Activities	317,346	437,149	325,728	345,198	414,027
Investing Activities					
Capital Expenditures	(219,530)	(172,341)	(152,251)	(232,368)	(292,706)
Investment in Subsidiaries, Net of Cash Acquired	-	-	(228,814)	-	(90,567)
Investment in Partnerships	-	-	(375)	(536)	(1,830)
Net Proceeds from Sale of Foreign Subsidiary	111,619	-	-	-	-
Net Proceeds from Sale of Timber Properties	-	-	186,014	-	-
Net Proceeds from Sale of Oil and Gas Producing Properties	1,349	7,162	78,531	22,068	2,069
Other	3,238	1,974	12,065	5,012	(4,892)
Net Cash Used in Investing Activities	(103,324)	(163,205)	(104,830)	(205,824)	(387,926)
Financing Activities					
Change in Notes Payable to Banks and Commercial Paper	(115,359)	38,600	(147,622)	(224,845)	(143,397)
Net Proceeds from Issuance of Long-Term Debt	-	-	248,513	243,844	210,221
Reduction of Long-Term Debt	(13,317)	(243,085)	(227,826)	(104,212)	(23,052)
Proceeds from Issuance of Common Stock	20,279	23,763	17,019	10,915	11,545
Dividends Paid on Common Stock	(94,159)	(89,092)	(84,530)	(80,974)	(76,671)
Dividends Paid to Minority Interest	(12,676)	-	-	-	-
Net Cash Used in Financing Activities	(215,232)	(269,814)	(194,446)	(155,272)	(21,354)
Effect of Exchange Rates on Cash	1,276	3,451	1,644	1,535	(645)
Net Increase (Decrease) in Cash and Temporary Cash Investments	66	7,581	28,096	(14,363)	4,102
Cash and Temporary Cash Investments at Beginning of Year	57,541	49,960	21,864	36,227	32,125
Cash and Temporary Cash Investments at End of Year	\$57,607	\$57,541	\$49,960	\$21,864	\$36,227
Supplemental Disclosure of Cash Flow Information					
Cash Paid For:					
Interest	\$84,455	\$90,705	\$104,452	\$100,397	\$104,491
Income Taxes	\$83,542	\$30,214	\$56,146	\$29,985	\$77,662

* Note: Certain prior year amounts have been reclassified to conform with current year presentation.

Consolidated Statements of Comprehensive Income

<i>Year Ended September 30 (Thousands of Dollars)</i>	2005	2004	2003	2002	2001
Net Income Available for Common Stock	\$189,488	\$166,586	\$178,944	\$117,682	\$65,499
Other Comprehensive Income (Loss), Before Tax:					
Minimum Pension Liability Adjustment	(83,379)	56,612	(86,170)	(52,977)	-
Foreign Currency Translation Adjustment	14,286	21,466	54,472	24,278	(7,158)
Reclassification Adjustment for Realized Foreign Currency Translation Gain in Net Income	(37,793)	-	(9,607)	-	-
Unrealized Gain/(Loss) on Securities Available for Sale Arising During the Period	2,891	3,629	2,419	(2,086)	(712)
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	(651)	-	-	-	-
Unrealized Gain/(Loss) on Derivative Financial Instruments Arising During the Period	(206,847)	(129,934)	(47,777)	(42,584)	58,355
Reclassification Adjustment for Realized (Gain)/Loss on Derivative Financial Instruments in Net Income	97,689	49,142	69,809	(20,063)	83,218
Other Comprehensive Income (Loss), Before Tax	(213,804)	915	(16,854)	(93,432)	133,703
Income Tax Expense (Benefit) Related to Minimum Pension Liability Adjustment	(29,183)	19,814	(30,159)	(18,542)	-
Income Tax Expense Related to Foreign Currency Translation Adjustment	112	-	-	-	-
Reclassification Adjustment for Income Tax Expense on Foreign Currency Translation Adjustment in Net Income	(112)	-	-	-	-
Income Tax Expense/(Benefit) Related to Unrealized Gain/(Loss) on Securities Available for Sale Arising During the Period	1,012	1,270	847	(730)	(249)
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	(228)	-	-	-	-
Income Tax Expense/(Benefit) Related to Unrealized Gain/(Loss) on Derivative Financial Instruments Arising During the Period	(79,059)	(49,113)	(18,594)	(17,341)	23,053
Reclassification Adjustment for Income Tax (Expense)/Benefit on Realized (Gain)/Loss on Derivative Financial Instruments in Net Income	36,507	18,182	26,953	(8,040)	32,032
Income Taxes - Net	(70,951)	(9,847)	(20,953)	(44,653)	54,836
Other Comprehensive Income (Loss), Before Cumulative Effect	(142,853)	10,762	4,099	(48,779)	78,867
Cumulative Effect of Change in Accounting, Net of Tax	-	-	-	-	(69,767)
Other Comprehensive Income (Loss), After Cumulative Effect	(142,853)	10,762	4,099	(48,779)	9,100
Comprehensive Income	\$46,635	\$177,348	\$183,043	\$68,903	\$74,599

Geographic Information

<i>Year Ended September 30 (Thousands of Dollars)</i>	2005	2004	2003	2002	2001
Revenues from External Customers ⁽¹⁾ :					
United States	\$1,860,684	\$1,867,335	\$1,819,152	\$1,293,927	\$1,888,906
Canada	62,865	40,633	102,421	75,942	73,968
Total Revenues from External Customers	\$1,923,549	\$1,907,968	\$1,921,573	\$1,369,869	\$1,962,874

<i>At September 30 (Thousands of Dollars)</i>	2005	2004	2003	2002	2001
Long-Lived Assets:					
United States	\$2,976,680	\$2,941,779	\$2,958,000	\$2,627,010	\$2,612,623
Canada	171,196	143,042	116,655	258,196	253,507
Assets of Discontinued Operations	-	228,179	219,695	216,044	187,961
Total Long-Lived Assets	\$3,149,876	\$3,313,000	\$3,294,350	\$3,101,250	\$3,054,109

(1) Revenue is based upon the country in which the sale originates.

Security Ratings

<i>At September 30, 2005</i>	Standard & Poor's	Moody's	Fitch
Long-Term Debt	BBB+	A-3	A-
Commercial Paper	A-2	P-2	F-2

Schedule of Business Segment Information

Year Ended September 30 (Thousands of Dollars)	2005	2004	2003	2002	2001
Operating Revenues					
Utility	\$1,117,067	\$1,152,641	\$1,162,983	\$794,221	\$1,234,647
Pipeline and Storage	215,859	209,707	201,420	167,384	171,091
Exploration and Production	293,425	293,698	305,314	310,980	355,005
Energy Marketing	329,714	284,349	304,660	151,257	259,206
Timber	61,286	55,970	56,226	47,407	44,914
Total Reportable Segments	2,017,351	1,996,365	2,030,603	1,471,249	2,064,863
All Other	13,354	13,695	3,366	10,135	18,322
Intersegment Eliminations ⁽¹⁾	(107,156)	(102,092)	(112,396)	(111,515)	(120,311)
Total Consolidated	\$1,923,549	\$1,907,968	\$1,921,573	\$1,369,869	\$1,962,874
Depreciation, Depletion & Amortization					
Utility	\$40,159	\$39,101	\$38,186	\$37,412	\$36,607
Pipeline and Storage	38,050	37,345	35,940	23,626	23,746
Exploration and Production	90,912	89,943	99,292	103,946	98,408
Energy Marketing	41	102	117	161	212
Timber	6,601	6,277	7,543	3,429	3,186
Total Reportable Segments	175,763	172,768	181,078	168,574	162,159
All Other	3,537	1,071	238	115	119
Corporate	467	450	13	56	961
Total Consolidated	\$179,767	\$174,289	\$181,329	\$168,745	\$163,239
Significant Items					
Pipeline and Storage - Impairment of Investment in Partnership	\$ -	\$ -	\$ -	\$15,167	\$ -
All Other - Impairment of Investment in Partnership	\$4,158	\$ -	\$ -	\$ -	\$ -
Exploration and Production - Impairment of Oil and Gas Producing Properties	\$ -	\$ -	\$42,774	\$ -	\$180,781
Exploration and Production - (Gain) Loss on Sale of Oil and Gas Producing Properties	\$ -	\$(4,645)	\$58,472	\$ -	\$ -
Timber - (Gain) Loss on Sale of Timber Properties	\$ -	\$1,252	\$(168,787)	\$ -	\$ -
Operating Income (Loss)					
Utility	\$80,389	\$98,642	\$120,345	\$109,591	\$129,081
Pipeline and Storage ⁽²⁾	96,178	88,748	89,465	71,864	77,086
Exploration and Production ⁽³⁾	123,208	132,053	3,377	96,339	(14,221)
Energy Marketing	7,288	8,749	8,279	12,989	(4,368)
Timber ⁽⁴⁾	9,556	10,802	187,258	16,437	15,675
Total Reportable Segments	316,619	338,994	408,724	307,220	203,253
All Other ⁽⁵⁾	(1,996)	2,367	265	(1,309)	(7,792)
Corporate	(4,261)	(8,238)	(6,361)	(9,544)	(8,914)
Total Consolidated	\$310,362	\$333,123	\$402,628	\$296,367	\$186,547
Income from Unconsolidated Subsidiaries (in All Other segment)	\$3,362	\$805	\$535	\$224	\$1,794
Interest Income					
Utility	\$4,111	\$552	\$1,630	\$1,614	\$1,722
Pipeline and Storage	76	217	77	55	52
Exploration and Production	4,661	1,831	1,119	987	2,154
Energy Marketing	783	521	692	609	608
Timber	438	312	319	303	349
Total Reportable Segments	10,069	3,433	3,837	3,568	4,885
All Other	19	15	25	44	580
Corporate & Intersegment Eliminations	(3,592)	(1,677)	(1,658)	(1,019)	(1,455)
Total Consolidated	\$6,496	\$1,771	\$2,204	\$2,593	\$4,010

(1) Represents primarily Pipeline and Storage revenue from the Utility segment.

(2) 2002 includes impairment of Independence Pipeline of \$15.2 million pretax.

(3) 2004 includes an adjustment to reduce the 2003 loss on sale of oil and gas producing properties by \$4.6 million pretax; 2003 includes impairment of oil and gas producing properties of \$42.8 million pretax and loss on sale of oil and gas producing properties of \$58.5 million pretax; 2001 includes impairment of oil and gas producing properties of \$180.8 million pretax.

(4) 2004 includes an adjustment to reduce the 2003 gain on sale of timber properties by \$1.3 million pretax; 2003 includes gain on sale of timber properties of \$168.8 million pretax.

(5) 2005 includes impairment of an investment in a partnership of \$4.2 million pretax.

Schedule of Business Segment Information (continued)

Year Ended September 30 (Thousands of Dollars)	2005	2004	2003	2002	2001
Interest Expense					
Utility	\$22,900	\$21,945	\$29,122	\$30,790	\$27,489
Pipeline and Storage	7,128	10,933	14,000	10,424	12,131
Exploration and Production	48,856	50,642	53,326	55,367	56,291
Energy Marketing	11	33	33	76	1,649
Timber	2,764	2,218	2,507	2,896	3,830
Total Reportable Segments	81,659	85,771	98,988	99,553	101,390
All Other	1,726	919	521	420	692
Corporate & Intersegment Eliminations	(1,072)	3,062	3,068	3,782	1,509
Total Consolidated	\$82,313	\$89,752	\$102,577	\$103,755	\$103,591
Income Tax Expense (Benefit)					
Utility	\$23,102	\$31,393	\$36,857	\$31,657	\$42,985
Pipeline and Storage	39,068	30,968	30,863	18,148	29,091
Exploration and Production	28,353	28,899	(17,537)	15,108	(36,075)
Energy Marketing	3,210	3,964	3,350	5,103	(1,660)
Timber	2,271	3,320	72,692	4,476	4,566
Total Reportable Segments	96,004	98,544	126,225	74,492	38,907
All Other	(1,425)	829	279	(473)	(2,281)
Corporate	(1,601)	(4,783)	(2,354)	(4,075)	(3,192)
Total Consolidated	\$92,978	\$94,590	\$124,150	\$69,944	\$33,434
Segment Profit (Loss): Income (Loss) from Continuing Operations					
Utility	\$39,197	\$46,718	\$56,808	\$49,505	\$60,707
Pipeline and Storage ⁽¹⁾	60,454	47,726	45,230	29,715	40,377
Exploration and Production ⁽²⁾	50,659	54,344	(31,293)	26,851	(32,284)
Energy Marketing	5,077	5,535	5,868	8,642	(3,432)
Timber ⁽³⁾	5,032	5,637	112,450	9,689	7,715
Total Reportable Segments	160,419	159,960	189,063	124,402	73,083
All Other ⁽⁴⁾	(2,616)	1,530	193	(885)	(4,277)
Corporate	(4,288)	(7,225)	(8,189)	(10,015)	(8,143)
Total Consolidated	\$153,515	\$154,265	\$181,067	\$113,502	\$60,663
Capital Expenditures					
Utility	\$50,071	\$55,449	\$49,944	\$51,550	\$42,374
Pipeline and Storage	21,099	23,196	18,175	29,793	24,998
Exploration and Production	122,450	77,654	75,837	114,602	205,852
Energy Marketing	58	10	164	51	116
Timber	18,894	2,823	3,493	25,574	3,694
Total Reportable Segments	212,572	159,132	147,613	221,570	277,034
All Other	463	200	256	6,554	87
Corporate & Intersegment Eliminations ⁽⁵⁾	6,495	13,009	4,382	4,244	15,585
Total Consolidated	\$219,530	\$172,341	\$152,251	\$232,368	\$292,706

(1) 2002 includes impairment of Independence Pipeline of \$9.9 million after tax.

(2) 2004 includes an adjustment to reduce the 2003 loss on sale of oil and gas producing properties by \$4.6 million after tax; 2003 includes impairment of oil and gas producing properties of \$28.9 million after tax and loss on sale of oil and gas producing properties of \$39.6 million after tax; 2001 includes impairment of oil and gas producing properties of \$104.0 million after tax.

(3) 2004 includes an adjustment to reduce the 2003 gain on sale of timber properties by \$0.8 million after tax; 2003 includes gain on sale of timber properties of \$102.2 million after tax.

(4) 2005 includes impairment of an investment in a partnership of \$2.7 million after tax.

(5) Includes capital expenditures of discontinued operations: \$5,877 for 2005, \$7,498 for 2004, \$2,499 for 2003, \$4,244 for 2002, and \$15,585 for 2001.

Schedule of Business Segment Information (continued)

Year Ended September 30 (Thousands of Dollars)	2005	2004	2003	2002	2001
Investment in Subsidiaries, Net of Cash Acquired					
Utility	\$ -	\$ -	\$ -	\$ -	\$ -
Pipeline and Storage	-	-	181,152	-	-
Exploration and Production	-	-	-	-	90,567
Energy Marketing	-	-	-	-	-
Timber	-	-	-	-	-
Total Reportable Segments	-	-	181,152	-	90,567
All Other	-	-	47,662	-	-
Corporate & Intersegment Eliminations	-	-	-	-	-
Total Consolidated	\$ -	\$ -	\$228,814	\$ -	\$90,567
Segment Assets (At September 30)					
Utility	\$1,394,019	\$1,355,964	\$1,384,058	\$1,248,593	\$1,279,188
Pipeline and Storage	789,704	783,145	815,939	531,890	551,121
Exploration and Production	1,211,081	1,078,217	1,002,718	1,191,848	1,199,561
Energy Marketing	91,999	68,599	54,993	51,640	70,437
Timber	161,648	140,992	125,684	128,880	115,024
Total Reportable Segments	3,648,451	3,426,917	3,383,392	3,152,851	3,215,331
All Other	72,839	77,013	78,441	34,523	28,978
Corporate & Intersegment Eliminations ⁽¹⁾	1,362	213,673	263,581	241,789	208,257
Total Consolidated	\$3,722,652	\$3,717,603	\$3,725,414	\$3,429,163	\$3,452,566

(1) 2004, 2003, 2002, and 2001 include assets of the former International segment of \$268.1 million, \$247.7 million, \$241.5 million, and \$206.4 million, respectively, the majority of which have been discontinued with the sale of United Energy.

Selected Financial Ratios

Year Ended September 30	2005 ⁽¹⁾	2004 ⁽²⁾	2003 ⁽³⁾	2002 ⁽⁴⁾	2001 ⁽⁵⁾
Embedded Cost of Long-Term Debt ⁽⁶⁾	6.4%	6.4%	6.5%	7.0%	7.0%
Capitalization Ratios:					
Comprehensive Shareholders' Equity to Total Capitalization	52.4%	52.5%	49.8%	46.8%	48.9%
Long-Term Debt to Total Capitalization	47.6%	47.5%	50.2%	53.2%	51.1%
Comprehensive Shareholders' Equity to Total Capitalization Plus Short-Term Debt	52.1%	49.0%	43.0%	39.1%	37.9%
Long-Term Debt to Total Capitalization Plus Short-Term Debt	47.5%	44.3%	43.4%	44.4%	39.5%
Short-Term Debt to Total Capitalization Plus Short-Term Debt	0.4%	6.7%	13.6%	16.5%	22.6%
Effective Federal Income Tax Rate (Includes Taxes from Discontinued Operations)	35.6%	35.8%	41.7%	38.0%	36.2%
Accumulated Depreciation (% of Average Depreciable Assets) ⁽⁷⁾	38.4%	39.3%	40.9%	43.5%	43.0%
Depreciation Charge (% of Average Depreciable Assets) ⁽⁷⁾	4.4%	4.3%	4.5%	4.4%	4.7%
Capitalization as Defined by the Company					
Capitalization:					
Comprehensive Shareholders' Equity	\$1,229,583	\$1,253,701	\$1,137,390	\$1,006,858	\$1,002,655
Long-Term Debt, Net of Current Portion	1,119,012	1,133,317	1,147,779	1,145,341	1,046,694
Total Capitalization	\$2,348,595	\$2,387,018	\$2,285,169	\$2,152,199	\$2,049,349
Short-Term Debt:					
Notes Payable to Banks and Commercial Paper	\$ -	\$156,800	\$118,200	\$265,386	\$489,673
Current Portion of Long-Term Debt	9,393	14,260	241,731	160,564	109,435
Total Short-Term Debt	\$9,393	\$171,060	\$359,931	\$425,950	\$599,108
Total Capitalization Plus Short-Term Debt	\$2,357,988	\$2,558,078	\$2,645,100	\$2,578,149	\$2,648,457

(1) Includes a \$25.8 million gain and income from discontinued operations of \$10.2 million both related to the sale of Czech Assets and an impairment of an investment in a partnership of \$2.7 million after tax, where applicable.

(2) Includes an adjustment to the loss on sale of oil and gas producing properties of \$4.6 million after tax and an adjustment to the gain on sale of timber properties of (\$0.8) million after tax, where applicable.

(3) Includes gain on sale of timber properties of \$102.2 million after tax, loss on sale of oil and gas assets of (\$39.6) million after tax, impairment of oil and gas assets of (\$28.9) million after tax and cumulative effects of changes in accounting of (\$8.9) million, where applicable.

(4) Includes impairment of Independence Pipeline of (\$9.9) million after tax, where applicable.

(5) Includes impairment of oil and gas producing properties of (\$104.0) million after tax, where applicable.

(6) The Embedded Cost of Long-Term Debt is the weighted average interest rate on all long-term debt outstanding at the year ended September 30.

(7) Certain amounts for 2001-2004 have been restated to reflect the presentation of Czech Republic Assets as discontinued operations in 2005.

Common Stock Data

Year Ended September 30	2005 ⁽¹⁾	2004 ⁽²⁾	2003 ⁽³⁾	2002 ⁽⁴⁾	2001 ⁽⁵⁾
Number of Common Shareholders at Year End	18,369	19,063	19,217	20,004	20,345
Shares Outstanding at Year End	84,356,748	82,990,340	81,438,290	80,264,734	79,406,105
Average Daily Volume Traded (Trailing 12 Months)	322,887	223,600	221,021	180,675	222,308
Return on Average Common Equity ⁽⁶⁾	15.3%	13.9%	16.7%	11.7%	6.6%
Book Value Per Common Share	\$14.58	\$15.11	\$13.97	\$12.54	\$12.63
Market Price Range					
High	\$36.00	\$28.43	\$27.51	\$25.70	\$32.25
Low	\$26.20	\$21.71	\$17.95	\$15.61	\$21.96
Close	\$34.20	\$28.33	\$22.85	\$19.87	\$23.03
Market/Book Value at Year End	234.60%	187.5%	163.6%	158.5%	182.3%
Price/Diluted Earnings Ratio	15.3	14.1	10.4	13.6	28.1
Dividends					
Declared Per Share	\$1.14	\$1.10	\$1.06	\$1.03	\$0.99
Paid Per Share	\$1.13	\$1.09	\$1.05	\$1.02	\$0.97
Rate at Year End	\$1.16	\$1.12	\$1.08	\$1.04	\$1.01
Payout Ratio on Dividends Paid	50.7%	54.2%	47.7%	69.8%	118.3%
Yield at Year End	3.4%	3.9%	4.7%	5.2%	4.4%
Dividends to Book Value at Year End	8.0%	7.4%	7.7%	8.3%	8.0%
Diluted Earnings Per Share	\$2.23	\$2.01	\$2.20	\$1.46	\$0.82

(1) Includes a \$25.8 million gain and income from discontinued operations of \$10.2 million both related to the sale of Czech Assets and an impairment of an investment in a partnership of \$2.7 million after tax, where applicable.

(2) Includes an adjustment to the loss on sale of oil and gas producing properties of \$4.6 million after tax and an adjustment to the gain on sale of timber properties of (\$0.8) million after tax, where applicable.

(3) Includes gain on sale of timber properties of \$102.2 million after tax, loss on sale of oil and gas assets of (\$39.6) million after tax, impairment of oil and gas assets of (\$28.9) million after tax and cumulative effect of changes in accounting of (\$8.9) million, where applicable.

(4) Includes impairment of Independence Pipeline of (\$9.9) million after tax, where applicable.

(5) Includes impairment of oil and gas producing properties of (\$104.0) million after tax, where applicable.

(6) Calculated using average Total Comprehensive Shareholders' Equity.

Research Coverage*

The following firms provided equity investment research coverage of National Fuel Gas Company in fiscal 2005:

A.G. Edwards
 Edward Jones
 Howard Weil
 John S. Herold
 Lehman Brothers
 Citigroup Research
 UBS

* Note: National Fuel Gas Company is followed by analysts at the firms listed above. Please note that any opinions, estimates or forecasts regarding National Fuel Gas Company's performance made by these analysts are theirs alone and do not represent opinions, forecasts or predictions of National Fuel Gas Company or its management. National Fuel Gas Company does not by its reference above or distribution imply its endorsement of or concurrence with such information, conclusions or recommendations.

EXPLORATION AND PRODUCTION

In 2005, for the second year in a row we achieved our forecasted oil and gas production goals with 52.4 Bcfe, despite the Gulf Coast weather catastrophes.



The Company's Exploration and Production operations are carried out through Seneca Resources Corporation.

Gas and Oil Reserves

Year Ended September 30	2005	2004	2003	2002	2001
Gas Reserves (MMcf)					
Beginning of Year	224,784	251,117	258,221	322,380	301,667
Extensions and Discoveries	27,475	22,341	28,023	36,805	51,641
Revisions of Previous Estimates	15,239	(15,268)	(1,052)	(44,784)	(22,847)
Production	(29,179)	(33,013)	(33,805)	(41,454)	(41,004)
Sales of Minerals In Place	(179)	(393)	(270)	(14,726)	(6,346)
Purchases of Minerals In Place and Other	-	-	-	-	39,269
End of Year	238,140	224,784	251,117	258,221	322,380
Reserve Replacement Ratio ⁽¹⁾	1.46	0.21	0.80	(0.19)	1.66
Oil Reserves (Mbbbl)					
Beginning of Year	65,213	69,764	99,717	115,328	119,697
Extensions and Discoveries	366	218	879	2,023	4,549
Revisions of Previous Estimates	(1,331)	63	(4,661)	(9,362)	(3,659)
Production	(3,869)	(4,528)	(6,737)	(7,662)	(7,857)
Sales of Minerals In Place	(122)	(304)	(19,434)	(610)	(765)
Purchases of Minerals In Place and Other	-	-	-	-	3,363
End of Year	60,257	65,213	69,764	99,717	115,328
Reserve Replacement Ratio ⁽¹⁾	(0.24)	0.06	(0.56)	(0.96)	0.54
Total Gas & Oil Reserves (MMcfe)					
Beginning of Year	616,062	669,700	856,523	1,014,348	1,019,849
Extensions and Discoveries	29,671	23,650	33,297	48,943	78,935
Revisions of Previous Estimates	7,253	(14,890)	(29,018)	(100,956)	(44,801)
Production	(52,393)	(60,181)	(74,227)	(87,426)	(88,146)
Sales of Minerals In Place	(911)	(2,217)	(116,875)	(18,386)	(10,936)
Purchases of Minerals In Place and Other	-	-	-	-	59,447
End of Year	599,682	616,062	669,700	856,523	1,014,348
Reserve Replacement Ratio ⁽¹⁾	0.70	0.15	0.06	(0.59)	1.06

(1) Reserve Replacement Ratio equals the sum of Extensions and Discoveries plus Revisions of Previous Estimates divided by the sum of Production plus Sales of Minerals in Place.

Net Undeveloped Acreage

At September 30	2005	2004	2003	2002	2001
Region					
Gulf Coast	94,251	115,909	137,817	204,947	281,408
West Coast	-	-	860	2,257	2,257
Appalachia	454,513	440,004	414,710	374,380	385,585
Canada	254,794	316,820	336,538	700,811	929,460
Total Net Undeveloped Acreage	803,558	872,733	889,925	1,282,395	1,598,710

Operating Revenues

Year Ended September 30 (Thousands of Dollars)	2005	2004	2003	2002	2001
Gas (after Hedging)	\$181,713	\$167,127	\$150,982	\$148,467	\$171,045
Oil (after Hedging)	107,801	119,564	147,101	152,746	169,613
Gas Processing Plant	36,350	28,614	28,879	16,995	39,986
Other	(2,733)	1,815	1,308	6,627	17,700
Intrasegment Elimination ⁽¹⁾	(29,706)	(23,422)	(22,956)	(13,855)	(43,339)
Total Operating Revenues	\$293,425	\$293,698	\$305,314	\$310,980	\$355,005

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

Gas Production (MMcf)

Year Ended September 30	2005	2004	2003	2002	2001
Region					
Gulf Coast	12,468	17,596	18,441	25,776	30,663
West Coast	4,052	4,057	4,467	4,889	4,383
Appalachia	4,650	5,132	5,123	4,402	4,142
Canada	8,009	6,228	5,774	6,387	1,816
Total Gas Production	29,179	33,013	33,805	41,454	41,004

Oil Production (Mbbbl)

Year Ended September 30	2005	2004	2003	2002	2001
Region					
Gulf Coast	989	1,534	1,473	1,815	1,914
West Coast	2,544	2,650	2,872	3,004	2,875
Appalachia	36	20	10	9	7
Canada	300	324	2,382	2,834	3,061
Total Oil Production	3,869	4,528	6,737	7,662	7,857

Total Production (MMcfe)

Year Ended September 30	2005	2004	2003	2002	2001
Total Gas & Oil Production	52,393	60,181	74,227	87,426	88,146

Net Well Completions

Year Ended September 30	2005			2004			2003			2002			2001		
	Productive	Dry	Success Ratio	Productive	Dry	Success Ratio	Productive	Dry	Success Ratio	Productive	Dry	Success Ratio	Productive	Dry	Success Ratio
Region															
Gulf Coast	1.53	0.47	0.77	0.65	0.50	0.57	3.35	-	1.00	1.58	3.67	0.30	7.47	1.93	0.79
West Coast	116.97	0.00	1.00	49.00	-	1.00	30.97	-	1.00	47.99	2.00	0.96	86.96	1.00	0.99
Appalachia	48.00	5.00	0.91	41.00	3.00	0.93	61.00	0.10	1.00	30.00	1.10	0.99	26.00	3.00	0.90
Canada	24.64	2.00	0.93	63.35	6.08	0.91	22.16	7.50	0.75	33.90	11.90	0.74	71.14	13.75	0.84
Total Well Completions	191.14	7.47	0.96	154.00	9.58	0.94	117.48	7.60	0.94	113.47	18.67	0.86	191.57	19.68	0.91

Producing Wells

At September 30	2005		2004		2003		2002		2001	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Region										
Gulf Coast	68	35	66	35	69	35	76	42	104	46
West Coast	1,248	1,240	1,155	1,146	1,119	1,108	1,103	1,092	976	899
Appalachia	2,026	1,943	1,943	1,862	1,905	1,817	1,865	1,773	1,834	1,745
Canada	251	177	226	158	202	145	828	705	1,167	954
Total	3,593	3,395	3,390	3,201	3,295	3,105	3,872	3,612	4,081	3,644

Gas Prices (Average Price per Mcf)

Year Ended September 30	2005	2004	2003	2002	2001
Region					
Gulf Coast	\$7.05	\$5.61	\$5.41	\$2.89	\$4.93
West Coast	6.85	5.54	5.01	2.86	10.18
Appalachia	7.60	5.91	5.07	3.74	5.03
Canada	6.15	4.87	4.67	2.29	2.41
Weighted Average	\$6.86	\$5.51	\$5.18	\$2.88	\$5.39
Weighted Average After Hedging	\$6.23	\$5.06	\$4.47	\$3.58	\$4.17

Oil Prices (Average Price per Barrel)

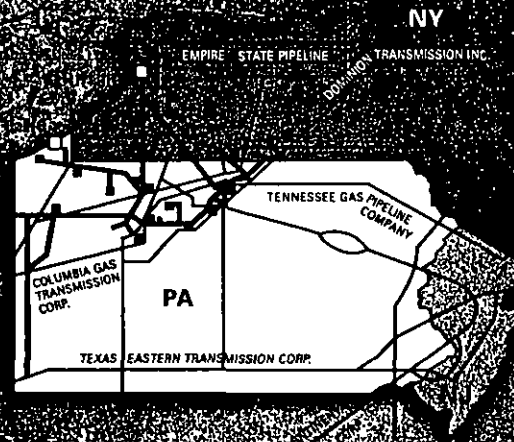
Year Ended September 30	2005	2004	2003	2002	2001
Region					
Gulf Coast	\$49.78	\$35.31	\$29.17	\$22.83	\$27.47
West Coast	42.91	31.89	26.12	19.94	24.06
Appalachia	48.28	31.30	28.77	23.76	28.51
Canada	42.97	30.94	26.41	19.94	24.29
Weighted Average	\$44.72	\$32.98	\$26.90	\$20.63	\$24.99
Weighted Average After Hedging	\$27.86	\$26.40	\$21.84	\$19.94	\$21.59

Exploration and Production Costs

Year Ended September 30 (Dollars per Mcf equivalent)	2005	2004	2003	2002	2001
Lifting	\$0.98	\$0.80	\$0.97	\$0.84	\$0.73
Depreciation, Depletion & Amortization ⁽¹⁾	1.72	1.47	1.30	1.16	1.08
General and Administrative ⁽²⁾	0.41	0.38	0.29	0.40	0.25
General and Administrative Reconciliation (Thousands of Dollars):					
Exploration & Production General and Administrative	\$21,512	\$23,033	\$21,640	\$35,253	\$22,437
Exploration & Production O&M	74,386	71,432	88,520	100,369	76,101
All Other O&M	330,131	314,087	273,378	271,694	272,169
Total Consolidated O&M	\$404,517	\$385,519	\$361,898	\$372,063	\$348,270

(1) Depreciation, Depletion & Amortization costs are sourced from Note N of National Fuel Gas Company Form 10-K which include only oil and gas production-related costs.

(2) General and Administrative cost per Mcf equivalent equals the fiscal year Exploration & Production General and Administrative cost divided by the Total Gas & Oil Production (MMcf) in that same fiscal year.



Our strategic location played a significant role in bringing Canadian gas to various pipeline transmission companies when the Gulf Coast supplies were hampered by the hurricanes, resulting in a nearly 3 Bcf increase in our transportation volumes.

The Company's Pipeline and Storage operations are conducted through National Fuel Gas Supply Corporation and Empire State Pipeline.

Regulation

National Fuel Gas Supply Corporation's operations are regulated at the federal level by the Federal Energy Regulatory Commission (FERC). The Empire State Pipeline's operations are regulated at the state level by the State of New York Public Service Commission (PSC).

FERC Overview

The FERC is an independent regulatory agency within the Department of Energy, responsible for regulating interstate activities in the natural gas, electric, hydro and oil pipeline industries. The FERC is composed of up to five commissioners, including a chair, appointed by the President and confirmed by the Senate for a five-year term.

Current Commissioners

(As of September 30, 2005)

	Term Began	Term Expires	Background
Joseph T. Kelliher, <i>Chair</i>	2003	2007	Former Senior Policy Advisor to former Secretary of Energy, Spencer Abraham.
Nora Mead Brownell	2001	2006	Former member of the Pennsylvania Public Utility Commission.
Suedeem G. Kelly	2003	2009	Former Professor of Law at the University of New Mexico School of Law.

Summary of General Rate Increases

National Fuel Gas Supply Corporation

Case:	Filing Date	Effective Date	Test Period Ended	Revenue Increase (Decrease) (\$ Millions)		Rate of Return (%)				Rate Base (\$ Millions)	
				Requested	Granted	Total Rate Base		Equity		Requested	Granted
						Requested	Granted	Requested	Granted		
RP95-031 ⁽¹⁾	10-31-94	6-01-95	03-95	21.0	6.0	10.31	9.59 ⁽²⁾	12.60	11.30 ⁽²⁾	429.0	427.0

(1) Reflects the merger of Penn-York Energy Corporation into National Fuel Gas Supply Corporation as approved by the FERC on January 19, 1994 at Docket No. CP92-508.

(2) Not specified in the FERC-approved settlement agreement - based upon Company calculations.

Revenues, Volumes and Revenue Rates*

Year Ended September 30	2005	2004	2003	2002	2001
Operating Revenues (Thousands of Dollars)					
Firm Transportation:					
Affiliated	\$48,705	\$52,187	\$53,884	\$52,200	\$54,643
Nonaffiliated	68,441	68,256	55,624	35,882	36,968
Total Firm Transportation	\$117,146	\$120,443	\$109,508	\$88,082	\$91,611
Interruptible Transportation	4,413	3,084	3,944	3,315	1,917
Total Transportation	\$121,559	\$123,527	\$113,452	\$91,397	\$93,528
Affiliated Storage	31,596	32,262	33,299	33,326	32,677
Nonaffiliated Storage	33,991	31,720	29,960	29,414	29,522
Total Storage	65,587	63,982	63,259	62,740	62,229
Other	28,713	22,198	24,709	13,247	15,334
Total Operating Revenues	\$215,859	\$209,707	\$201,420	\$167,384	\$171,091
Volumes (MMcf)					
Firm Transportation:					
Affiliated	113,242	116,768	131,763	112,164	125,858
Nonaffiliated	244,343	222,223	209,162	178,343	178,325
Total Firm Transportation	357,585	338,991	340,925	290,507	304,183
Interruptible Transportation	14,794	12,692	10,004	7,315	17,372
Total Volumes	372,379	351,683	350,929	297,822	321,555
Average Revenues per Mcf					
Firm Transportation - Nonaffiliated	\$0.28	\$0.31	\$0.27	\$0.20	\$0.21
Interruptible Transportation	\$0.30	\$0.24	\$0.39	\$0.45	\$0.11

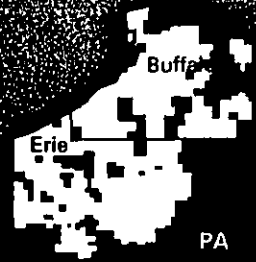
Transmission Statistics*

At September 30	2005	2004	2003	2002	2001
Compressor Stations					
Number	15	15	14	14	14
Horsepower	39,606	39,606	39,326	39,326	39,051
Pipeline Mileage	2,972	3,014	3,040	2,910	2,989

Storage Statistics*

At September 30	2005	2004	2003	2002	2001
Storage Services - Bcf					
Firm Service - Affiliated	30.4	30.0	32.2	33.1	34.1
Firm Service - Nonaffiliated	36.0	35.7	29.8	31.6	30.6
Operational Capacity	7.0	7.0	7.0	7.0	7.0
Total Available Working Capacity - Bcf	73.4	72.7	69.0	71.7	71.7
Leased Storage Capacity	-	-	-	1.0	1.0
Total Capacity - Bcf	73.4	72.7	69.0	72.7	72.7
Underground Areas	32	32	32	32	31
Compressor Stations					
Number	15	15	15	15	15
Horsepower	35,475	35,700	35,700	35,700	35,700

* Note: All data provided pertains to National Fuel Gas Supply Corporation.



UNION

This past year, the Utility invested \$50 million for upgrades and improvements to its extensive pipeline system. This is one of the most significant ways we can demonstrate our commitment to safety and reliably deliver natural gas to our 731,000 customers.

The Company's Utility operations are carried out by National Fuel Gas Distribution Corporation.

Regulation

The Company's Utility operations are regulated at the state level by the State of New York Public Service Commission (PSC) and the Pennsylvania Public Utility Commission (PaPUC).

PSC Overview

There are five commission seats. Each Commissioner is appointed by the Governor and confirmed by the State Senate for a term of six years and remains in office until a new Commissioner is appointed. The Chairman is appointed by the Governor. The PSC is, by law, bipartisan. All of the current Commissioners were appointed by Governor George E. Pataki. The PSC staff consists of approximately 557 employees.

Current Commissioners

(As of September 30, 2005)

	Term Began	Term Expires	Background
William M. Flynn, Esq., <i>Chairman</i>	2003	2009	Former President of the New York State Energy Research and Development Authority (NYSERDA).
Thomas J. Dunleavy	1996	2001	Former Deputy Commissioner of the New York City Department of Information Technology and Telecommunications.
Leonard A. Weiss	1999	2004	Former Presiding Justice, Appellate Division of the New York State Supreme Court.
Neal N. Galvin	1999	2005	Retired President and Chief Executive Officer of Callanan Industries, Inc. Former Chairman and Chief Executive Officer of Oldcastle New York State Materials Group.
Patricia L. Acampora	2005	2009	Former Assemblywoman in the New York State Legislature representing the 1st Assembly District on Long Island.

PaPUC Overview

The PaPUC consists of up to five members, each appointed by the Governor and confirmed by the State Senate for a term of five years. The Chairman is designated by the Governor. Wendell F. Holland was appointed Chairman by Governor Edward G. Rendell. All remaining Commissioners were also appointed by Governor Rendell, with the exception of Kim Pizzigrilli, who was appointed by former Governor Thomas J. Ridge. The PaPUC is served by a staff of approximately 520 employees, divided into eleven offices and bureaus.

Current Commissioners

(As of September 30, 2005)

	Term Began	Term Expires	Background
Wendell F. Holland, <i>Chairman</i>	2003	2008	PaPUC Commissioner since September 2003. Retired judge and serving his second non-consecutive term as Commissioner of the PaPUC
James H. Cawley, <i>Vice Chairman</i>	2005	2010	Former PaPUC Commissioner (1979-1985), and former Majority Counsel to the Pennsylvania Senate Consumer Affairs Committee and Chief Counsel to the Senate Majority Floor Leader.
Kim Pizzigrilli	2002	2007	Former Secretary of the Commonwealth. Currently serving on the Natural Gas Committee of the National Association of Regulatory Utility Commissioners.
Terrance J. Fitzpatrick	2005	2009	Attorney formerly practicing utility and environmental law in private practice. Assisted with drafting the Electricity Generation Customer Choice and Competition Act. Serving his second non-consecutive term as Commissioner of the PaPUC.
Bill Shane	2005	2006	Former Chief Administrative Law Judge, Commissioner and Chairman with the PaPUC and former counsel to major natural gas producers.

Summary of General Rate Increases

NFG-3-1
Witness: Bauer
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National Fuel Gas Distribution Corporation

	Filing Date	Effective Date	Test Period Ended	Revenue Increase (Decrease)		Rate of Return (%)				Rate Base (\$ Millions)		
				Requested	Granted	Total Rate Base		Equity		Requested	Granted	
New York Division												
Case: 04-G-1047 ⁽¹⁾	8-27-04	8-01-05	3-04	60.9	21.0	9.10	N/A	11.88	N/A	686.1	N/A	
00-G-1858 ⁽²⁾	N/A	10-01-03	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A	N/A	
00-G-1495 ⁽³⁾	N/A	10-01-00	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A	N/A	
98-G-1291 ⁽⁴⁾	N/A	10-01-98	N/A	N/A	(7.2)	N/A	N/A	N/A	N/A	N/A	N/A	
95-G-1009 ⁽⁵⁾	9-29-97	10-01-97	9-98	7.2	7.2	N/A	N/A	N/A	N/A	N/A	N/A	
95-G-1009 ⁽⁵⁾	11-09-95	10-01-96	9-97	28.9	7.2	9.56	N/A	11.50	N/A	630.7	N/A	
94-G-0885	10-21-94	9-20-95	7-96	56.5	14.2	10.44	9.10	12.85	10.40	628.3	574.0	
Pennsylvania Division												
Case: R-00049656 ⁽⁶⁾	9-15-04	6-15-05	5-04	22.8	12.0	9.16	N/A	11.88	N/A	279.2	N/A	
R-038168 ⁽⁷⁾⁽⁸⁾	4-16-03	1-15-04	9-03	16.5	3.5	9.96	N/A	12.75	N/A	262.5	N/A	
R-953299 ⁽⁷⁾	3-15-95	9-27-95	11-95	22.0	6.0	10.98	N/A	13.25	N/A	230.6	N/A	

N/A - Not Applicable

- (1) A two-year rate plan that runs from August 1, 2005 through July 31, 2007. Earnings above 11.5% on a cumulative basis are to be shared equally between shareholders and ratepayers. The plan provides that customers will receive a bill credit of \$16.25 million in the first year and up to \$16.25 million in the second year, related to the overcollection of Gross Receipts Tax.
- (2) Extends most of the features of the previous rate plan (00-G-1495). Specific changes include the following: Earnings above an 11% return on equity are to be shared equally between shareholders and ratepayers. The \$5.0 million bill credit continues unless the Company can demonstrate that it is no longer justified. Increases the amount of pension and post retirement benefits recognized in existing rates by \$8.0 million. Continues deferral of pension and post retirement benefit expenses above the amount recognized in rates.
- (3) The three-year rate plan that ran from October 1, 2000 through September 30, 2003 has been extended through September 30, 2004. Earnings above an 11.0% return on a cumulative basis are to be shared equally between shareholders and ratepayers. The plan provides that customers will receive a bill credit of \$17.6 million in the first year, of which \$7.6 million relates to customers' share of earnings accumulated under previous settlements. The credit will be reduced to \$5.0 million in the second year, and in the third and subsequent years the credit will remain at \$5.0 million unless the Company can demonstrate that it is no longer justified.
- (4) A two-year rate plan which runs through September 30, 2000. An allowed return on equity of 12%, above which 50% of additional earnings are shared equally between shareholders and customers, is retained from the previous settlement (see note 5). The rate plan also called for a \$7.2 million generic restructuring reserve to be recorded in fiscal 1999.
- (5) Settlement provided for annual base rate increase of \$7.2 million in each fiscal year beginning October 1, 1996 and 1997 with no specified rate of return on equity. Earnings above a 12% return on equity (excluding certain items determined on a cumulative basis over three years ending 9/30/98) are shared equally between shareholders and customers.
- (6) The PaPUC adopted a Settlement Agreement in this proceeding. The settlement, among other things, provided for a \$12.0 million annual operating revenue increase. The effective date of the increase in rates was April 15, 2005.
- (7) Settlement - only revenue increase specified.
- (8) On December 18, 2003, the PaPUC adopted a Settlement Agreement in this proceeding. The settlement, among other things, provided for a \$3.5 million annual operating revenue increase. The effective date of the increase in rates was January 15, 2004. The agreement also provides for a mechanism to track differences between actual pension expenses and pension expenses reflected in rates.

Degree Days

Year Ended September 30	2005	2004	2003	2002	2001
Buffalo, NY					
Normal	6,692	6,729	6,815	6,847	6,865
Actual	6,587	6,572	7,137	5,808	6,648
Percent Colder (Warmer) than Normal	(1.6)%	(2.3)%	4.7%	(15.2)%	(3.2)%
Erie, PA					
Normal	6,243	6,277	6,135	6,146	6,179
Actual	6,247	6,086	6,769	5,334	6,351
Percent Colder (Warmer) than Normal	0.1%	(3.0)%	10.3%	(13.2)%	2.8%

Source of Utility Gas Supply (MMcf)

Year Ended September 30	2005	2004	2003	2002	2001
Long-Term Contract	57,287	54,596	57,832	62,805	74,255
Spot Purchases	20,449	42,411	57,188	39,650	40,274
Appalachian	8,545	8,361	7,953	7,324	2,771
Total Utility Gas Supply	86,281	105,368	122,973	109,779	117,300
Storage Change - Net (Into) or Out	1,429	3,995	(1,294)	356	(5,356)
Used In Operations, Shrinkage and Other	(7,436)	(7,402)	(9,517)	(8,691)	(7,758)
Total Gas Available for Utility Sales	80,274	101,961	112,162	101,444	104,186

Volumes* by Industrial Category (MMcf)

<i>Year Ended September 30</i>	2005
Primary Metal	9,869
Food	4,117
Fabricated Metal Products	2,821
Chemical & Allied	2,195
Power Generation	2,156
Lumber and Wood Products (excluding furniture)	1,653
Electronic & Other Electrical Equipment	1,605
Transportation Equipment	1,114
Total Volumes 8 Largest Industrial Categories	25,530
Total Industrial	32,724
Total Utility Volumes	140,044
Percent of 8 Largest Industrial Categories to:	
Total Industrial Volumes	78.0%
Total Utility Volumes	18.2%

Volumes* by Commercial Category (MMcf)

<i>Year Ended September 30</i>	2005
Educational Services	6,289
Retail Trade	4,773
Health Services	3,957
Real Estate	2,435
Justice, Public Order and Safety	1,282
Sanitary Services	869
Personal Services	820
Social Services	763
Total Volumes 8 Largest Commercial Categories	21,188
Total Commercial	34,308
Total Utility Volumes	140,044
Percent of 8 Largest Commercial Categories to:	
Total Commercial Volumes	61.8%
Total Utility Volumes	15.1%

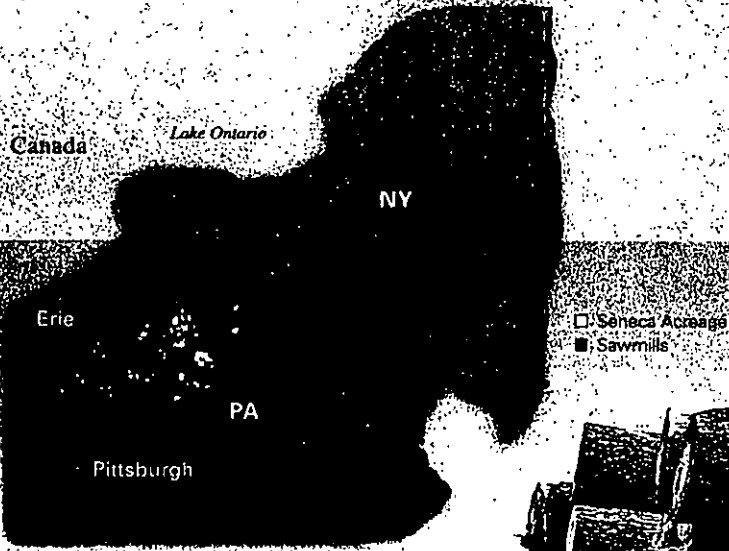
* Sales and transportation volumes

Revenues, Volumes and Customers

<i>Year Ended September 30</i>	2005	2004	2003	2002	2001
Operating Revenues (Thousands of Dollars)					
Residential Sales	\$868,292	\$808,740	\$801,984	\$538,345	\$875,050
Commercial Sales	145,393	137,092	137,905	86,963	154,266
Industrial Sales	13,998	17,454	23,263	18,332	29,110
Off-System Sales	-	106,841	107,220	68,606	84,078
Total Sales	1,027,683	1,070,127	1,070,372	712,246	1,142,504
Transportation	83,669	80,563	86,374	83,267	89,037
Other	5,715	1,951	6,237	(1,292)	3,106
Total Operating Revenues	\$1,117,067	\$1,152,641	\$1,162,983	\$794,221	\$1,234,647
Volumes (MMcf)					
Residential Sales	66,903	70,109	76,449	64,639	73,530
Commercial Sales	11,984	12,752	14,177	11,549	13,831
Industrial Sales	1,387	2,261	3,537	3,715	4,089
Off-System Sales	-	16,839	17,999	21,541	12,736
Total Sales Volumes	80,274	101,961	112,162	101,444	104,186
Transportation	59,770	60,565	64,232	61,909	66,283
Total Volumes	140,044	162,526	176,394	163,353	170,469
Pipeline Mileage	14,784	14,781	14,773	14,783	14,778
Average Revenue per Mcf					
Residential	\$12.98	\$11.54	\$10.49	\$8.33	\$11.90
Commercial	12.13	10.75	9.73	7.53	11.15
Industrial	10.09	7.72	6.58	4.93	7.12
Off-System	-	6.34	5.96	3.18	6.60
Transportation	1.40	1.33	1.34	1.34	1.34
Average Number of Customers					
Residential	681,713	683,253	684,175	683,166	683,526
Commercial	47,979	47,843	47,982	47,811	47,722
Industrial	1,203	1,211	1,231	1,241	1,249
Total Average Number of Customers	730,895	732,307	733,388	732,218	732,497
Average Number of Transportation Customers					
Aggregator Programs	54,443	51,479	51,559	49,887	52,311
Other	1,819	1,852	1,822	1,842	1,829
Residential Customer Statistics					
Average Mcf per Customer	105	109	119	101	115
Average Annual Bill	\$1,364	\$1,262	\$1,251	\$838	\$1,366
Househeating Customers - Percent	97%	97%	97%	96%	96%

TIMBER

Our timber business helps us further diversify our revenues, adding another layer of protection against potential earnings volatility. As a real, tangible asset, it has the added benefit of biological growth.



Highland Forest Resources, Inc. and the Northeast Division of Seneca Resources Corporation carry out the Timber segment operation for the Company.

Revenues

Year Ended September 30	2005	2004	2003	2002	2001
Operating Revenues (Thousands of Dollars)	\$61,286	\$55,970	\$56,226	\$47,407	\$44,914

Production

Year Ended September 30	2005	2004	2003	2002	2001
Production (Thousands of Board Feet*)					
Log Sales	7,601	6,848	8,764	8,174	8,839
Green Lumber Sales	10,489	9,552	11,913	12,878	10,332
Kiln Dry Lumber Sales	15,491	15,020	13,300	10,794	8,804
Total	33,581	31,420	33,977	31,846	27,975

* Note: A Board Foot is a piece of lumber measuring approximately 12" wide x 12" long x 1" thick.

Acreage

At September 30	2005	2004	2003	2002	2001
Acreage	100,400	87,400	8,700	155,000	151,577

Total Estimated Inventory

At September 30	2005	2004	2003	2002	2001
Board Feet (Thousands)	386,000	326,800	329,600	600,000	575,000

ENERGY MARKETING

Our Energy Marketing segment retained its long-standing position as the largest marketer on the Company's Utility system.

The Company's Energy Marketing operations are supported by National Fuel Resources

Canada

Lake Erie

NY

Buffalo

Rochester

Syracuse

Erie

PA

■ National Fuel Resources Marketing Area

Volume 19, Number 1
Spring 2005
\$5.00
ISSN 1547-122X

Principal Officers

National Fuel Gas Company

Philip C. Ackerman Chairman of the Board, President and Chief Executive Officer	Karen M. Camiolo Controller and Principal Accounting Officer
Dennis J. Seeley Vice President	Anna Marie Cellino Secretary
David F. Smith Vice President	Paula M. Ciprich General Counsel
Ronald J. Tanski Treasurer and Principal Financial Officer	

Principal Officers of Principal Subsidiaries

National Fuel Gas Distribution Corporation

Philip C. Ackerman Chairman of the Board	Carl M. Carlotti Vice President
Dennis J. Seeley President	Bruce D. Heine Vice President
Anna Marie Cellino Senior Vice President and Secretary	Jay W. Lesch Vice President
Ronald J. Tanski Senior Vice President and Treasurer	Steven Wagner Vice President
James D. Ramsdell Senior Vice President	Karen M. Camiolo Controller

National Fuel Gas Supply Corporation

Philip C. Ackerman Chairman of the Board	Ronald J. Tanski Treasurer and Secretary
David F. Smith President	Karen M. Camiolo Controller
John R. Pustulka Senior Vice President	

Seneca Resources Corporation

Philip C. Ackerman Chairman of the Board	Thomas L. Atkins Treasurer
James A. Beck President	Donald P. Butler Secretary
Barry L. McMahan Senior Vice President	

National Fuel Resources, Inc.

Donna L. DeCarolis
President

Highland Forest Resources, Inc.

Philip C. Ackerman Chairman of the Board	Thomas L. Atkins Treasurer
James A. Beck President	Donald P. Butler Secretary

Directors

Philip C. Ackerman^{6, 10}

Chairman of the Board of Directors of the Company since January 2002. Chief Executive Officer since October 2001, and President since July 1999. Chairman and President of certain subsidiaries of the Company. Board member since 1994.

Robert T. Brady^{3, 5, 8}

Chairman, President and Chief Executive Officer of Moog Inc. Director of Astronics Corporation, M&T Bank Corporation and Seneca Foods Corporation. Chairman of the Buffalo Niagara Partnership. Board member since 1995.

R. Don Cash^{1, 3, 7}

Chairman Emeritus and Director of Questar Corporation. Former Chairman, Chief Executive Officer and President of Questar Corporation. Director of Zions Bancorporation, Associated Electric and Gas Insurance Services Limited, and TODCO (The Offshore Drilling Company). Board member since 2003.

Rolland E. Kidder¹

Executive Director of the Robert H. Jackson Center, Inc. in Jamestown, N.Y. Former Chairman and President of Kidder Exploration, Inc. Former Trustee of the New York Power Authority. Board member since 2002.

Craig G. Matthews^{2, 9}

Former President and Chief Executive Officer of NUI Corporation. Former Vice Chairman and Chief Operating Officer of KeySpan Corporation. Director of Amerada Hess Corporation. Board member since February 2005.

George L. Mazanec^{1, 4, 5, 9}

Former Vice Chairman of PanEnergy Corporation (now part of Duke Energy Corporation). Director of Dynegy Inc. Director of the Northern Trust Bank of Texas, NA, and Associated Electric and Gas Insurance Services Limited. Former Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C. Board member since 1996.

Richard G. Reiten^{1, 7}

Director and former Chairman and Chief Executive Officer of Northwest Natural Gas Company. Director of Associated Electric and Gas Insurance Services Limited, BlueCross BlueShield of Oregon, and The Regence Group. Board member since 2004.

John F. Riordan^{5, 7}

President and Chief Executive Officer of the Gas Technology Institute. Director of Nicor, Inc. Former President and Chief Executive Officer of MIDCON Corporation. Board member since 2000.

- 1 Member of Audit Committee
- 2 Chairman, Audit Committee
- 3 Member of Compensation Committee
- 4 Chairman, Compensation Committee
- 5 Member of Executive Committee
- 6 Chairman, Executive Committee
- 7 Member of Nominating/Corporate Governance Committee
- 8 Chairman, Nominating/Corporate Governance Committee
- 9 Member of Finance Committee
- 10 Chairman, Finance Committee



National Fuel

National Fuel Gas Company
6363 Main Street, Williamsville, New York 14221
(716) 957-7000
www.nationalfuelgas.com

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2005

Commission File Number 1-3880

NATIONAL FUEL GAS COMPANY

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of
incorporation or organization)

13-1086010

(I.R.S. Employer
Identification No.)

6363 Main Street

Williamsville, New York

(Address of principal executive offices)

14221

(Zip Code)

(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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

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

Common stock, \$1 par value, outstanding at April 30, 2005:
83,553,146 shares.

NATIONAL FUEL GAS COMPANY

DIRECT SUBSIDIARIES: National Fuel Gas Distribution Corporation
National Fuel Gas Supply Corporation
Seneca Resources Corporation
Highland Forest Resources, Inc.
Leidy Hub, Inc.
Data-Track Account Services, Inc.
National Fuel Resources, Inc.
Horizon Energy Development, Inc.
Horizon LFG, Inc.
Horizon Power, Inc.

GLOSSARY OF TERMS

Frequently used abbreviations or acronyms used in this report:

National Fuel Gas Companies

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, the Company, or the Registrant	National Fuel Gas Company and its subsidiaries
NFR	National Fuel Resources, Inc.
Seneca	Seneca Resources Corporation
Seneca Energy	Seneca Energy II, LLC
Supply Corporation	National Fuel Gas Supply Corporation

Regulatory Agencies

FERC	Federal Energy Regulatory Commission
NYPSC	State of New York Public Service Commission
PaPUC	Pennsylvania Public Utility Commission

GLOSSARY OF TERMS (Cont'd)

SEC Securities and Exchange Commission

Other

APB 25 Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees

Bbl Barrel

CZK Czech korunas

Exchange Act Securities Exchange Act of 1934, as amended

GAAP Accounting principles generally accepted in the United States of America

Holding Company Act Public Utility Holding Company Act of 1935, as amended

LIFO Last-in, first-out

Mbbl Thousand barrels

Mcf Thousand cubic feet

MD&A Management's Discussion and Analysis of Financial Condition and Results of Operations

MMcf Million cubic feet

SFAS Statement of Financial Accounting Standards

SFAS 123 Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation

SFAS 123R Statement of Financial Accounting Standards No. 123R, Share-Based Payment

SFAS 133 Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities

WNC Weather normalization clause

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- 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 InformationNFG-3-1
Witness: Bauer
Page 34**Item 1. Financial Statements**

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

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended March 31,	
	2005	2004
INCOME		
Operating Revenues	\$791,329	\$801,678
Operating Expenses		
Purchased Gas	440,254	445,909
Fuel Used in Heat and Electric Generation	26,192	24,053
Operation and Maintenance	116,482	119,683
Property, Franchise and Other Taxes	20,774	20,165
Depreciation, Depletion and Amortization	49,345	47,958
	653,047	657,768
Adjustment of Loss on Sale of Oil and Gas Producing Properties	-	4,645
Operating Income	138,282	148,555
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	455	13
Other Income	6,159	987
Interest Expense on Long-Term Debt	(18,471)	(21,303)
Other Interest Expense	(1,936)	(1,370)
Income Before Income Taxes and Minority Interest in Foreign Subsidiaries	124,489	126,882
Income Tax Expense	51,401	47,973
Minority Interest in Foreign Subsidiaries	2,405	1,854
Net Income Available for Common Stock	70,683	77,055
EARNINGS REINVESTED IN THE BUSINESS		
Balance at December 31	746,090	669,894
	816,773	746,949
Dividends on Common Stock (2005 - \$0.28; 2004 - \$0.27)	23,364	22,094
Balance at March 31	793,409	\$724,855
Earnings Per Common Share:		
Basic	\$0.85	\$0.94
Diluted	\$0.83	\$0.93
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	83,313,191	81,796,698
Used in Diluted Calculation	84,770,068	82,985,451

See Notes to Consolidated Financial Statements

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Witness: Bauer
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Consolidated Statements of Income and Earnings
Reinvested in the Business
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)	Six Months Ended March 31,	
	2005	2004
INCOME		
Operating Revenues	\$1,335,587	\$1,334,191
Operating Expenses		
Purchased Gas	696,410	696,686
Fuel Used in Heat and Electric Generation	48,403	45,109
Operation and Maintenance	217,328	219,865
Property, Franchise and Other Taxes	38,942	38,387
Depreciation, Depletion and Amortization	96,285	94,416
	1,097,368	1,094,463
Adjustment of Loss on Sale of Oil and Gas Producing Properties	-	4,645
Operating Income	238,219	244,373
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	1,239	96
Other Income	7,809	3,018
Interest Expense on Long-Term Debt	(37,015)	(44,272)
Other Interest Expense	(4,354)	(3,735)
Income Before Income Taxes and Minority Interest in Foreign Subsidiaries	205,898	199,480
Income Tax Expense	81,436	69,540
Minority Interest in Foreign Subsidiaries	3,342	3,671
Net Income Available for Common Stock	121,120	126,269
EARNINGS REINVESTED IN THE BUSINESS		
Balance at October 1	718,926	642,690
	840,046	768,959
Dividends on Common Stock (2005 - \$0.56; 2004 - \$0.54)	46,637	44,104
Balance at March 31	793,409	\$724,855
Earnings Per Common Share:		
Basic	\$1.46	\$1.55
Diluted	\$1.43	\$1.53
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	83,231,435	81,683,750
Used in Diluted Calculation	84,711,134	82,612,639

See Notes to Consolidated Financial Statements

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	March 31, 2005	September 30, 2004
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$4,761,063	\$4,602,779
Less - Accumulated Depreciation, Depletion and Amortization	1,701,260	1,596,015
	<u>3,059,803</u>	<u>3,006,764</u>
Current Assets		
Cash and Temporary Cash Investments	123,081	66,153
Receivables – Net of Allowance for Uncollectible Accounts of \$25,387 and \$17,440, Respectively	317,869	129,825
Unbilled Utility Revenue	60,687	18,574
Gas Stored Underground	18,384	68,511
Materials and Supplies - at average cost	55,598	43,922
Unrecovered Purchased Gas Costs	-	7,532
Prepayments	55,885	38,760
Fair Value of Derivative Financial Instruments	-	23
	<u>631,504</u>	<u>373,300</u>
Other Assets		
Recoverable Future Taxes	83,847	83,847
Unamortized Debt Expense	18,581	19,573
Other Regulatory Assets	63,452	66,862
Deferred Charges	2,426	3,411
Other Investments	76,357	72,556
Investments in Unconsolidated Subsidiaries	16,163	16,444
Goodwill	5,476	5,476
Intangible Assets	44,663	45,994
Other	23,907	17,571
	<u>334,872</u>	<u>331,734</u>
Total Assets	<u>\$4,026,179</u>	<u>\$3,711,798</u>

See Notes to Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
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Consolidated Balance Sheets
(Unaudited)

	March 31, 2005	September 30, 2004
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding - 83,508,614 Shares and 82,990,340 Shares, Respectively	\$83,509	\$ 82,990
Paid in Capital	512,669	506,560
Earnings Reinvested in the Business	793,409	718,926
Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,389,587	1,308,476
Accumulated Other Comprehensive Loss	(59,185)	(54,775)
Total Comprehensive Shareholders' Equity	1,330,402	1,253,701
Long-Term Debt, Net of Current Portion	1,126,401	1,133,317
Total Capitalization	2,456,803	2,387,018
Minority Interest in Foreign Subsidiaries	43,883	37,048
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	113,200	156,800
Current Portion of Long-Term Debt	14,793	14,260
Accounts Payable	165,596	115,979
Amounts Payable to Customers	28,496	3,154
Other Accruals and Current Liabilities	254,481	91,164
Fair Value of Derivative Financial Instruments	141,053	95,099
	717,619	476,456
Deferred Credits		
Accumulated Deferred Income Taxes	439,700	458,095
Taxes Refundable to Customers	11,065	11,065
Unamortized Investment Tax Credit	7,147	7,498
Cost of Removal Regulatory Liability	84,467	82,020
Other Regulatory Liabilities	69,095	67,669
Pension Liability	91,706	91,587
Asset Retirement Obligation	33,318	32,292
Other Deferred Credits	71,376	61,050
	807,874	811,276
Commitments and Contingencies		
	-	-
Total Capitalization and Liabilities	\$4,026,179	\$3,711,798

See Notes to Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
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Consolidated Statements of Cash Flows
(Unaudited)

(Thousands of Dollars)	Six Months Ended March 31,	
	2005	2004
OPERATING ACTIVITIES		
Net Income Available for Common Stock	\$121,120	\$126,269
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Adjustment of Loss on Sale of Oil and Gas Producing Properties	-	(4,645)
Depreciation, Depletion and Amortization	96,285	94,416
Deferred Income Taxes	(3,982)	(13,635)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	282	645
Minority Interest in Foreign Subsidiaries	3,342	3,671
Other	(7,124)	(1,931)
Change in:		
Receivables and Unbilled Utility Revenue	(228,969)	(185,242)
Gas Stored Underground and Materials and Supplies	38,862	74,100
Unrecovered Purchased Gas Costs	7,532	21,199
Prepayments	(17,063)	(2,199)
Accounts Payable	47,541	14,949
Amounts Payable to Customers	25,342	18,379
Other Accruals and Current Liabilities	163,077	167,706
Other Assets	(5,506)	6,911
Other Liabilities	16,239	(33,849)
Net Cash Provided by Operating Activities	256,978	286,744
INVESTING ACTIVITIES		
Capital Expenditures	(114,624)	(88,888)
Net Proceeds from Sale of Oil and Gas Producing Properties	85	5,041
Other	2,450	2,063
Net Cash Used in Investing Activities	(112,089)	(81,784)
FINANCING ACTIVITIES		
Change in Notes Payable to Banks and Commercial Paper	(43,600)	(5,400)
Reduction of Long-Term Debt	(7,314)	(135,861)
Dividends Paid on Common Stock	(46,483)	(43,962)
Proceeds from Issuance of Common Stock	6,301	8,076
Net Cash Used in Financing Activities	(91,096)	(177,147)
Effect of Exchange Rates on Cash	3,135	365
Net Increase in Cash and Temporary Cash Investments	56,928	28,178
Cash and Temporary Cash Investments at October 1	66,153	51,421
Cash and Temporary Cash Investments at March 31	\$123,081	\$79,599

See Notes to Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

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

(Thousands of Dollars)	Three Months Ended March 31,	
	2005	2004
Net Income Available for Common Stock	\$70,683	\$77,055
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	(8,084)	(7,147)
Unrealized Gain on Securities Available for Sale Arising During the Period	222	1,071
Unrealized Loss on Derivative Financial Instruments Arising During the Period	(100,334)	(24,696)
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	(652)	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	17,645	11,058
Other Comprehensive Loss, Before Tax	(91,203)	(19,714)
Income Tax Expense Related to Cumulative Translation Adjustment	363	-
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	159	375
Income Tax Benefit Related to Unrealized Loss on Derivative Financial Instruments Arising During the Period	(38,380)	(9,545)
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	(228)	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	6,671	4,105
Income Taxes – Net	(31,415)	(5,065)
Other Comprehensive Loss	(59,788)	(14,649)
Comprehensive Income	\$10,895	\$62,406

See Notes to Consolidated Financial Statements

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

(Thousands of Dollars)	Six Months Ended March 31,	
	2005	2004
Net Income Available for Common Stock	\$121,120	\$126,269
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	22,900	8,799
Unrealized Gain on Securities Available for Sale Arising During the Period	1,351	2,392
Unrealized Loss on Derivative Financial Instruments Arising During the Period	(80,232)	(42,312)
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	(652)	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	35,841	16,795
Other Comprehensive Loss, Before Tax	(20,792)	(14,326)
Income Tax Expense Related to Cumulative Translation Adjustment	363	-
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	554	837
Income Tax Benefit Related to Unrealized Loss on Derivative Financial Instruments Arising During the Period	(30,653)	(15,886)
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	(228)	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	13,582	6,499
Income Taxes – Net	(16,382)	(8,550)
Other Comprehensive Loss	(4,410)	(5,776)
Comprehensive Income	\$116,710	\$120,493

See Notes to Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

National Fuel Gas Company
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Summary of Significant Accounting Policies

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

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the 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, 2004, 2003 and 2002 that are included in the Company's 2004 Form 10-K. The 2005 consolidated financial statements will be examined by the Company's independent registered public accounting firm after the end of the fiscal year.

The earnings for the six months ended March 31, 2005 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2005. Most of the business of the Utility, International, 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, International, 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.

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 \$112.3 million at March 31, 2005, is reduced to zero by September 30 as the inventory is replenished.

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

Item 1. Financial Statements (Cont.)

	<u>At March 31, 2005</u>	<u>At September 30, 2004</u>
Minimum Pension Liability Adjustment	\$(53,648)	\$(53,648)
Cumulative Foreign Currency Translation Adjustment	74,053	51,516
Net Unrealized Loss on Derivative Financial Instruments	(84,053)	(56,733)
Net Unrealized Gain on Securities Available for Sale	<u>4,463</u>	<u>4,090</u>
Accumulated Other Comprehensive Loss	<u>\$(59,185)</u>	<u>\$(54,775)</u>

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 March 31, 2005 and 2004, 21,434 and 2,324,100 stock options, respectively, were excluded as being antidilutive. For the six months ended March 31, 2005 and 2004, 10,599 and 4,466,722 stock options, respectively, were excluded as being antidilutive.

Stock-Based Compensation. The Company accounts for stock-based compensation for options granted using the intrinsic value method specified by APB 25 and related interpretations. Under that method, no compensation expense was recognized for options granted under the plans for the quarter and six months ended March 31, 2005 and 2004, other than for the Company's restricted stock awards. Had compensation expense been determined based on fair value at the grant dates, which is the accounting treatment specified by SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts below:

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended March 31,		Six Months Ended March 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net Income Available for Common Stock as Reported	\$70,683	\$77,055	\$121,120	\$126,269
Add:				
Stock-Based Compensation Expense Included in Reported Net Income, Net of Tax	98	158	205	325
Deduct:				
Stock-Based Compensation Expense Determined Based on Fair Value At the Grant Dates, Net of Tax	<u>(317)</u>	<u>(637)</u>	<u>(680)</u>	<u>(1,356)</u>
Pro Forma Net Income Available For Common Stock	<u>\$70,464</u>	<u>\$76,576</u>	<u>\$120,645</u>	<u>\$125,238</u>

Item 1. Financial Statements (Cont.)

Earnings Per Common Share:

Basic – As Reported	\$0.85	\$0.94	\$1.46	\$1.55
Basic – Pro Forma	\$0.85	\$0.94	\$1.45	\$1.53
Diluted – As Reported	\$0.83	\$0.93	\$1.43	\$1.53
Diluted – Pro Forma	\$0.83	\$0.92	\$1.42	\$1.52

New Accounting Pronouncements. In December 2004, the Financial Accounting Standards Board issued SFAS 123R. SFAS 123R replaces SFAS 123 and supercedes APB 25. The Company currently follows APB 25 in accounting for stock-based compensation, as disclosed above. SFAS 123R addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This standard focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Under this standard, companies are required to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The Company will adopt this standard during the first quarter of fiscal 2006. In accordance with SFAS 123R, the Company will use the modified version of prospective application. Under modified prospective application, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for the Company's disclosure under SFAS 123. The Company will not restate any prior periods as a result of adopting SFAS 123R. The Company does not believe that adoption of SFAS 123R will have a material impact on its financial condition and results of operations, as highlighted by the disclosures above under "Stock-Based Compensation".

Note 2 – Adjustment of Loss on Sale of Oil and Gas Producing Properties

During the quarter ended March 31, 2004, the Company recorded a \$4.6 million earnings benefit related to the Company's 2003 sale of Canadian oil properties. When the Company closed that transaction in September 2003, the initial proceeds it received were subject to adjustment based on actual working capital and the resolution of certain income tax matters. During the quarter ended March 31, 2004, the Company resolved those items with the buyer and, as a result, received an additional \$4.6 million (U. S. dollars) of sales proceeds, which it recorded in the Adjustment of Loss on Sale of Oil and Gas Producing Properties line on the income statement.

Note 3 - Income Taxes

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

Item 1. Financial Statements (Cont.)

	Six Months Ended March 31,	
	2005	2004
Operating Expenses:		
Current Income Taxes		
Federal	\$62,850	\$61,455
State	16,882	16,696
Foreign	5,686	5,024
Deferred Income Taxes		
Federal	(5,938)	(10,068)
State	(2,228)	(2,094)
Foreign	4,184	(1,473)
	<u>81,436</u>	<u>69,540</u>
Other Income:		
Deferred Investment Tax Credit	(348)	(348)
Minority Interest in Foreign Subsidiaries	(1,142)	(130)
Total Income Taxes	<u>\$79,946</u>	<u>\$69,062</u>

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

	Six Months Ended March 31,	
	2005	2004
U.S.	\$170,680	\$164,635
Foreign	30,386	30,696
	<u>\$201,066</u>	<u>\$195,331</u>

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

	Six Months Ended March 31,	
	2005	2004
Income Tax Expense, Computed at Statutory Rate of 35%	\$70,373	\$68,366
Increase (Reduction) in Taxes Resulting From:		
State Income Taxes	9,525	9,491
Dividend from Foreign Subsidiary	3,837	-
Foreign Tax Differential	(1,952)	(2,149)
Foreign Tax Rate Reduction ⁽¹⁾	-	(5,174)
Miscellaneous	(1,837)	(1,472)
Total Income Taxes	<u>\$79,946</u>	<u>\$69,062</u>

Item 1. Financial Statements (Cont.)

⁽¹⁾ During the quarter ended December 31, 2003, legislation was enacted in the Czech Republic which reduces the corporate statutory income tax rate from 31% to 24% over a three year period.

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

	At March 31, 2005	At September 30, 2004
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$568,724	\$568,114
Other	39,666	37,051
Total Deferred Tax Liabilities	608,390	605,165
Deferred Tax Assets:		
Minimum Pension Liability Adjustment	(28,887)	(28,887)
Capital Loss Carryover	(10,671)	(12,546)
Unrealized Hedging Losses	(50,760)	(33,890)
Other	(81,249)	(74,624)
	(171,567)	(149,947)
Valuation Allowance	2,877	2,877
Total Deferred Tax Assets	(168,690)	(147,070)
Total Net Deferred Income Taxes	\$439,700	\$458,095

The Company has undistributed earnings of foreign subsidiaries that relate to its operations in the Czech Republic. With the exception of the anticipated dividend discussed below, these earnings are considered to be permanently reinvested outside the United States and, accordingly, no U.S. income taxes have been provided thereon. In the event such earnings are distributed, the Company may be subject to U.S. income taxes and foreign withholding taxes, net of allowable foreign tax credits or deductions. At March 31, 2005, undistributed earnings considered to be permanently reinvested and the related positive cumulative translation adjustment aggregate \$39.1 million after adjustment for the anticipated foreign dividend.

The Company recorded a tax liability of \$4.2 million during the quarter ended March 31, 2005 relating to an anticipated dividend of \$80 million to be received during the current fiscal year from a foreign subsidiary. The tax is recorded at a rate of 5.25% in accordance with the applicable provisions of the American Jobs Creation Act of 2004. A portion of this tax amounting to \$0.4 million is included in Other Comprehensive Loss.

A capital loss carryover of \$30.5 million existed at March 31, 2005, which expires if not utilized by September 30, 2008. Although realization is not assured, management estimates that a portion of the deferred tax asset associated with this carryover will be realized during the carryover period, and a valuation allowance is recorded for the remaining portion. Adjustments to the valuation allowance may be necessary in the future if estimates of capital gain income are revised.

Note 4 - Capitalization

Common Stock. During the six months ended March 31, 2005, the Company issued 519,332 shares of common stock under the Company's stock option and director compensation plans.

On March 29, 2005, 643,000 stock options were granted at an exercise price of \$28.155 per share.

Item 1. Financial Statements (Cont.)

Note 5 - Commitments and Contingencies

Environmental Matters. The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. At March 31, 2005, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$22.3 million. This liability has been recorded on the Consolidated Balance Sheet at March 31, 2005. In April 2005, the Company entered into a transfer agreement for environmental obligations related to a manufactured gas plant site in New York. Under the terms of the agreement, the Company will pay \$12.7 million to settle its remaining environmental obligations related to this site. This amount was included in the \$22.3 million liability at March 31, 2005. Other than as discussed in Note G of the Company's 2004 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 2004 Form 10-K.

Other. The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.

Note 6 - Business Segment Information.

The Company has six reportable segments: Utility, Pipeline and Storage, Exploration and Production, International, 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. 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 2004 Form 10-K. There have been no material changes in the amount of assets for any operating segment from the amounts disclosed in the Company's 2004 Form 10-K.

Item 1. Financial Statements (Cont.)

Quarter Ended March 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$485,647	\$36,029	\$70,319	\$55,487	\$124,565	\$18,971	\$791,018	\$ 311	\$ -	\$791,329
Intersegment Revenues	\$ 5,693	\$21,517	\$ -	\$ -	\$ -	\$ 1	\$ 27,211	\$3,263	\$(30,474)	\$ -
Segment Profit (Loss):										
Net Income	\$ 28,882	\$18,457	\$11,230	\$ 5,159	\$ 2,612	\$ 2,893	\$ 69,233	\$ 652	\$ 798	\$ 70,683

Six Months Ended March 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$802,476	\$68,474	\$142,157	\$99,462	\$188,059	\$31,966	\$1,332,594	\$2,993	\$ -	\$1,335,587
Intersegment Revenues	\$ 9,998	\$42,116	\$ -	\$ -	\$ -	\$ 1	\$ 52,115	\$4,343	\$(56,458)	\$ -
Segment Profit (Loss):										
Net Income	\$ 46,954	\$30,734	\$ 25,153	\$ 9,329	\$ 3,361	\$ 3,646	\$ 119,177	\$1,252	\$ 691	\$ 121,120

Quarter Ended March 31, 2004 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$502,440	\$35,120	\$79,750	\$48,453	\$116,403	\$15,222	\$797,388	\$4,290	\$ -	\$801,678
Intersegment Revenues	\$ 5,914	\$22,459	\$ -	\$ -	\$ -	\$ -	\$ 28,373	\$ -	\$(28,373)	\$ -
Segment Profit (Loss):										
Net Income	\$ 33,123	\$13,676	\$18,735	\$ 6,555	\$ 3,541	\$ 1,917	\$ 77,547	\$ 405	\$(897)	\$ 77,055

Six Months Ended March 31, 2004 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	International	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$823,146	\$62,868	\$148,602	\$90,600	\$173,356	\$28,551	\$1,327,123	\$7,068	\$ -	\$1,334,191
Intersegment Revenues	\$ 10,428	\$44,729	\$ -	\$ -	\$ -	\$ 2	\$ 55,159	\$ -	\$(55,159)	\$ -
Segment Profit (Loss):										
Net Income	\$ 49,604	\$24,170	\$ 29,243	\$14,593	\$ 4,347	\$ 3,220	\$ 125,177	\$ 957	\$ 135	\$ 126,269

Item 1. Financial Statements (Cont.)

Note 7 - Intangible Assets

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

	At March 31, 2005			At September 30, 2004
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Intangible Assets Subject to Amortization				
Long-Term Transportation Contracts	\$8,580	\$(2,316)	\$6,264	\$ 6,798
Long-Term Gas Purchase Contracts	31,864	(2,636)	29,228	30,025
Intangible Assets Not Subject to Amortization				
Retirement Plan Intangible Asset	9,171	-	9,171	9,171
	<u>\$49,615</u>	<u>\$(4,952)</u>	<u>\$44,663</u>	<u>\$45,994</u>

Aggregate Amortization Expense (Thousands)

Three Months Ended March 31, 2005	\$665
Three Months Ended March 31, 2004	\$666
Six Months Ended March 31, 2005	\$1,331
Six Months Ended March 31, 2004	\$1,236

Amortization expense for the long-term transportation contracts is estimated to be \$0.5 million for the remainder of 2005 and \$1.1 million annually for 2006, 2007, and 2008. Amortization in 2009 is estimated to be \$0.5 million.

Amortization expense for the long-term gas purchase contracts is estimated to be \$0.8 million for the remainder of 2005 and \$1.6 million annually for 2006, 2007, 2008 and 2009.

Note 8 – Retirement Plan and Other Post-Retirement Benefits

Components of Net Periodic Benefit Cost (in thousands):

Three months ended March 31,

	<u>Retirement Plan</u>		<u>Other Post-Retirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service Cost	\$3,429	\$3,649	\$1,538	\$1,649
Interest Cost	10,520	10,141	6,446	6,885
Expected Return on Plan Assets	(12,386)	(12,070)	(4,715)	(3,453)
Amortization of Prior Service Cost	257	276	1	1
Amortization of Transition Amount	-	-	1,782	1,782
Amortization of Losses	2,618	2,360	3,116	5,381
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	<u>2,723</u>	<u>3,893</u>	<u>5,948</u>	<u>1,491</u>
Net Periodic Benefit Cost	<u>\$7,161</u>	<u>\$8,249</u>	<u>\$14,116</u>	<u>\$13,736</u>

Item 1. Financial Statements (Concl.)

Six months ended March 31,

	<u>Retirement Plan</u>		<u>Other Post-Retirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service Cost	6,858	\$7,299	\$3,076	\$3,298
Interest Cost	21,040	20,282	12,892	13,770
Expected Return on Plan Assets	(24,772)	(24,141)	(9,430)	(6,906)
Amortization of Prior Service Cost	514	552	2	2
Amortization of Transition Amount	-	-	3,564	3,564
Amortization of Losses	5,236	4,719	6,232	10,763
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	<u>3,605</u>	<u>614</u>	<u>5,235</u>	<u>(4,146)</u>
Net Periodic Benefit Cost	<u>\$12,481</u>	<u>\$9,325</u>	<u>\$21,571</u>	<u>\$20,345</u>

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

Employer Contributions. During the six months ended March 31, 2005, the Company contributed \$26.3 million to its post-retirement benefit plan and \$18.4 million to its retirement plan. In the remainder of 2005, the Company expects to contribute in the range of \$8.0 million to \$12.0 million to its retirement plan and to contribute an additional \$13.0 million to its post-retirement benefit plan.

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

CRITICAL ACCOUNTING POLICIES

For a complete discussion of critical accounting policies, refer to "Critical Accounting Policies" in Item 7 of the Company's 2004 Form 10-K. There have been no subsequent changes to that disclosure.

RESULTS OF OPERATIONS

Earnings

The Company's earnings were \$70.7 million for the quarter ended March 31, 2005 compared to earnings of \$77.1 million for the quarter ended March 31, 2004. The decrease in earnings of \$6.4 million is primarily the result of lower earnings in the Utility, Exploration and Production, International and Energy Marketing segments, partially offset by higher earnings in the Pipeline & Storage, and Timber segments, as shown in the table below. The International segment's earnings for the quarter ended March 31, 2005 include a \$3.8 million charge for U.S. taxes on the estimated \$80 million dividend expected to be repatriated from the Company's subsidiary in the Czech Republic. The Pipeline & Storage segment's earnings for the quarter ended March 31, 2005 include a \$2.6 million gain on the FERC approved sale of base gas by Supply Corporation's jointly-owned Ellisburg Storage Pool. Earnings for the quarter ended March 31, 2004 include the earnings impact of \$6.4 million of expense, allocated among all segments, associated with the settlement of a pension obligation. Also, the Exploration and Production segment's earnings for the quarter ended March 31, 2004 include a \$4.6 million benefit related to the Company's September 2003 sale of Canadian oil properties.

The Company's earnings were \$121.1 million for the six months ended March 31, 2005 compared to earnings of \$126.3 million for the six months ended March 31, 2004. The decrease in earnings of \$5.2 million is primarily the result of lower earnings in the Utility, International, Exploration and Production, and Energy Marketing segments, offset by higher earnings in the Pipeline & Storage, and Timber segments, as shown in the table below. As mentioned above, earnings for the six months ended March 31, 2005 include a \$3.8 million charge for U.S. taxes in the International segment and a \$2.6 million gain on the sale of base gas in the Pipeline and Storage segment. Also, earnings in the International segment for the six months ended March 31, 2004 include a \$5.2 million reduction to deferred income tax expense resulting from a change in the statutory income tax rate in the Czech Republic. Earnings for the six months ended March 31, 2004 include the earnings impact of \$6.4 million of expense allocated among all segments associated with the settlement of a pension obligation. Also, the Exploration and Production segment's earnings for the six months ended March 31, 2004 include a \$4.6 million benefit related to the Company's September 2003 sale of Canadian oil properties.

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

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Utility	\$28,882	\$33,123	\$(4,241)	\$46,954	\$49,604	\$(2,650)
Pipeline and Storage	18,457	13,676	4,781	30,734	24,170	6,564
Exploration and Production	11,230	18,735	(7,505)	25,153	29,243	(4,090)
International	5,159	6,555	(1,396)	9,329	14,593	(5,264)
Energy Marketing	2,612	3,541	(929)	3,361	4,347	(986)
Timber	2,893	1,917	976	3,646	3,220	426
Total Reportable Segments	69,233	77,547	(8,314)	119,177	125,177	(6,000)
All Other	652	405	247	1,252	957	295
Corporate	798	(897)	1,695	691	135	556
Total Consolidated	\$70,683	\$77,055	\$(6,372)	\$121,120	\$126,269	\$(5,149)

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

Utility

Utility Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Retail Sales Revenues:						
Residential	\$386,623	\$377,241	\$9,382	\$641,689	\$603,472	\$38,217
Commercial	69,367	68,946	421	111,150	106,284	4,866
Industrial	4,566	5,705	(1,139)	6,710	10,000	(3,290)
	460,556	451,892	8,664	759,549	719,756	39,793
Off-System Sales	-	28,298	(28,298)	-	63,202	(63,202)
Transportation	30,600	30,164	436	51,559	50,480	1,079
Other	184	(2,000)	2,184	1,366	136	1,230
	\$491,340	\$508,354	\$(17,014)	\$812,474	\$833,574	\$(21,100)

Utility Throughput

(MMcf)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Retail Sales:						
Residential	32,559	34,459	(1,900)	52,428	54,893	(2,465)
Commercial	6,072	6,607	(535)	9,526	10,207	(681)
Industrial	425	658	(233)	601	1,253	(652)
	39,056	41,724	(2,668)	62,555	66,353	(3,798)
Off-System Sales	-	4,190	(4,190)	-	10,104	(10,104)
Transportation	22,465	23,075	(610)	36,568	37,674	(1,106)
	61,521	68,989	(7,468)	99,123	114,131	(15,008)

Degree Days

Three Months Ended March 31	Normal	2005	2004	Percent Colder (Warmer) Than	
				Normal	Prior Year
Buffalo	3,327	3,468	3,463	4.2	0.1
Erie	3,142	3,266	3,283	3.9	(0.5)
Six Months Ended March 31					
Buffalo	5,587	5,640	5,590	0.9	0.9
Erie	5,223	5,263	5,205	0.8	1.1

2005 Compared with 2004

Operating revenues for the Utility segment decreased \$17.0 million for the quarter ended March 31, 2005 as compared with the quarter ended March 31, 2004. The decrease is attributable primarily to lower off-system sales revenues, offset partially by higher retail gas sales revenues. Off-system sales decreased \$28.3 million for the quarter ended March 31, 2005 as compared with the quarter ended March 31, 2004. Effective September 22, 2004, Distribution Corporation stopped making off-system sales as a result of the FERC's Order 2004, "Standards of Conduct for Transmission Providers," as discussed more fully in the Rate Matters section below. As a result of this decision, Distribution Corporation most likely will not have any off-system sales in 2005.* However, due to profit sharing with retail customers, the margins resulting from off-system sales have been minimal and there should be no material impact to margins in 2005.* Retail gas sales revenues increased \$8.7 million largely due to the recovery of higher gas costs (gas costs are recovered dollar for dollar in revenues), which more than offset the decrease in retail gas

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

sales revenues resulting from lower volumes. The decrease in volumes reflects lower average usage per customer stemming from customer conservation efforts.

Operating revenues for the Utility segment decreased \$21.1 million for the six months ended March 31, 2005 as compared with the six months ended March 31, 2004. The decrease is primarily attributable to lower off-system sales revenues, offset partially by higher retail sales revenues. Off-system sales decreased \$63.2 million for the six months ended March 31, 2005 as compared with the six months ended March 31, 2004 as a result of the FERC's Order 2004 as noted above. Partially offsetting this decrease, the increase in retail gas sales revenues was largely a function of the recovery of higher gas costs, which more than offset lower retail sales volumes, as shown above.

The Utility segment's earnings for the quarter ended March 31, 2005 were \$28.9 million, a decrease of \$4.2 million when compared with the quarter ended March 31, 2004. In the New York jurisdiction, earnings decreased by \$2.2 million principally due to a decline in margin associated with lower average usage per customer (\$3.4 million) as well as an increase in bad debt expense (\$0.7 million). Somewhat offsetting these decreases is a \$1.2 million charge associated with the settlement of a pension obligation that was recorded for the quarter ended March 31, 2004. That charge did not recur in 2005. In the Pennsylvania Division, earnings decreased by \$2.0 million primarily due to a decline in margin associated with lower average usage per customer (\$1.4 million), higher pension and post retirement expense (\$0.8 million), and an increase in bad debt expense (\$0.4 million). Offsetting these decreases, Pennsylvania earnings were positively impacted by \$1.0 million of expense recorded in the quarter ended March 31, 2004 associated with the settlement of a pension obligation. That expense did not recur in 2005.

The impact of weather variations on earnings in the New York jurisdiction is mitigated by that jurisdiction's WNC. The WNC in New York, which covers the eight-month period from October through May, has had a stabilizing effect on earnings for the New York rate jurisdiction. For the quarters ended March 31, 2005 and 2004, the WNC reduced earnings by approximately \$1.5 million and \$0.5 million, respectively, since those quarters were colder than normal. In periods of warmer than normal weather, the WNC benefits Distribution Corporation.

The Utility segment's earnings for the six months ended March 31, 2005 were \$47.0 million, a decrease of \$2.6 million when compared with the earnings of \$49.6 million for the six months ended March 31, 2004. In the New York jurisdiction, earnings increased by \$0.9 million. While earnings decreased due to a decline in margin associated with lower average usage per customer (\$4.0 million), this decrease was offset by \$1.2 million charge associated with the settlement of a pension obligation recorded in the quarter ended March 31, 2004, which did not recur in 2005, as well as a decrease in interest expense (\$1.2 million). The decline in interest expense is due primarily to lower debt balances. Another factor offsetting the decrease in margin was a decrease in pension and post-retirement expense of \$0.7 million. For the Pennsylvania jurisdiction, earnings decreased by \$3.5 million mostly due to a decline in margin associated with lower average usage per customer (\$1.4 million) as well as an increase in pension and post retirement expense (\$2.8 million). The 2003 Settlement Agreement with the PaPUC provided for a one-time credit to pension expense which the Company recognized during the quarter ended December 31, 2003. Partially offsetting these decreases was \$1.0 million of expense associated with the settlement of a pension obligation recognized in the quarter ended March 31, 2004, as referenced above. That expense did not recur in 2005.

For the six months ended March 31, 2005 and March 31, 2004, the WNC did not have a significant impact on earnings as the weather was close to normal.

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

Pipeline and Storage

Pipeline and Storage Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Firm Transportation	\$32,086	\$32,773	\$(687)	\$61,616	\$63,264	\$(1,648)
Interruptible Transportation	922	733	189	1,848	1,538	310
	33,008	33,506	(498)	63,464	64,802	(1,338)
Firm Storage Service	16,376	16,074	302	32,471	31,831	640
Other	8,162	7,999	163	14,655	10,964	3,691
	\$57,546	\$57,579	\$(33)	\$110,590	\$107,597	\$2,993

Pipeline and Storage Throughput

(MMcf)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Firm Transportation	129,851	129,444	407	213,593	218,211	(4,618)
Interruptible Transportation	1,180	1,861	(681)	2,842	3,896	(1,054)
	131,031	131,305	(274)	216,435	222,107	(5,672)

2005 Compared with 2004

Operating revenues for the Pipeline and Storage segment remained relatively unchanged for the quarter ended March 31, 2005 as compared with the quarter ended March 31, 2004. For the six months ended March 31, 2005, operating revenues for the Pipeline and Storage segment increased \$3.0 million as compared with the six months ended March 31, 2004. Higher revenues from unbundled pipeline sales (\$2.9 million), reported as part of other revenues in the table above, were the primary factor contributing to the increase. Higher cashout revenues of \$0.6 million, reported as part of other revenues in the table above, also contributed to the increase. Cashout revenues represent a cash resolution of a gas imbalance whereby a customer pays Supply Corporation for gas the customer receives in excess of amounts delivered into Supply Corporation's system by the customer's shipper. Cashout revenues are completely offset by purchased gas expense. The decrease in transportation revenues of \$1.3 million largely reflects lower rates charged for firm gathering services and the Utility segment's cancellation of a portion of its firm transportation capacity in April 2004. Firm gathering rates are adjusted annually in January and will increase or decrease depending on the level of interruptible gathering revenues collected in the preceding calendar year. The Utility segment's decision to cancel a portion of its firm transportation capacity was based on lower usage in its service territory. Supply Corporation has not been able to remarket this capacity to date.

The Pipeline and Storage segment's earnings for the quarter ended March 31, 2005 were \$18.5 million, an increase of \$4.8 million when compared with earnings of \$13.7 million for the quarter ended March 31, 2004. The main factors in this increase were the \$2.6 million gain on the sale of base gas during the quarter ended March 31, 2005 by Supply Corporation's jointly-owned Ellisburg Storage Pool which was approved by the FERC as well as \$2.0 million of expense associated with the settlement of a pension obligation recognized in the quarter ended March 31, 2004. That expense did not recur in 2005. Lower pension expense (\$1.2 million) and lower interest expense (\$0.7 million) were partially offset by a reserve for preliminary project costs incurred during the quarter ended March 31, 2005 associated with the Empire State Pipeline Connector project (\$0.5 million).

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

The Pipeline and Storage segment's earnings for the six months ended March 31, 2005 were \$30.7 million, an increase of \$6.5 million when compared with earnings of \$24.2 million for the six months ended March 31, 2004. The major factors contributing to the increase were higher revenues from unbundled pipeline sales (\$1.9 million), the sale of Ellisburg base gas noted above (\$2.6 million), the expense recognized in the quarter ended March 31, 2004 that did not recur in 2005 associated with the settlement of a pension obligation (\$2.0 million), and lower interest expense (\$1.6 million). Partially offsetting these increases was a reserve for preliminary project costs incurred for the six months ended March 31, 2005 associated with the Empire State Pipeline Connector project (\$1.6 million).

The sale of Ellisburg base gas, which amounted to 660 MMcf, will open up 660 MMcf of space for ongoing storage service. At current rates between \$1.49 and \$1.70 per Mcf, it is expected that future storage service revenues may increase by approximately \$1.0 million per year with almost no increase in operating expenses associated with the higher revenues.* The additional storage space has already been contracted for, effective April 1, 2005.

Exploration and Production

Exploration and Production Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Gas (after Hedging)	\$42,520	\$46,487	\$(3,967)	\$85,264	\$86,292	\$(1,028)
Oil (after Hedging)	25,624	30,936	(5,312)	52,520	58,655	(6,135)
Gas Processing Plant	8,344	7,286	1,058	17,048	13,629	3,419
Other	434	600	(166)	1,187	766	421
Intrasegment Elimination ⁽¹⁾	(6,603)	(5,559)	(1,044)	(13,862)	(10,740)	(3,122)
	\$70,319	\$79,750	\$(9,431)	\$142,157	\$148,602	\$(6,445)

⁽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 March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Gas Production (MMcf)						
Gulf Coast	2,844	4,823	(1,979)	6,069	9,487	(3,418)
West Coast	986	1,004	(18)	2,025	2,000	25
Appalachia	1,137	1,335	(198)	2,343	2,685	(342)
Canada	2,160	1,613	547	3,825	3,296	529
	7,127	8,775	(1,648)	14,262	17,468	(3,206)
Oil Production (Mbbbl)						
Gulf Coast	261	412	(151)	550	789	(239)
West Coast	634	680	(46)	1,287	1,362	(75)
Appalachia	9	4	5	12	11	1
Canada	78	81	(3)	154	164	(10)
	982	1,177	(195)	2,003	2,326	(323)

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

Average Prices

	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Average Gas Price/Mcf						
Gulf Coast	\$6.75	\$5.76	\$0.99	\$6.61	\$5.26	\$1.35
West Coast	\$6.20	\$5.42	\$0.78	\$6.38	\$5.22	\$1.16
Appalachia	\$6.76	\$6.27	\$0.49	\$7.26	\$5.71	\$1.55
Canada	\$5.52	\$4.99	\$0.53	\$5.49	\$4.78	\$0.71
Weighted Average	\$6.30	\$5.66	\$0.64	\$6.38	\$5.24	\$1.14
Weighted Average After Hedging	\$5.97	\$5.30	\$0.67	\$5.98	\$4.94	\$1.04
Average Oil Price/bbl						
Gulf Coast	\$46.42	\$33.81	\$12.61	\$46.77	\$31.75	\$15.02
West Coast	\$37.67	\$30.80	\$6.87	\$37.40	\$28.68	\$8.72
Appalachia	\$42.28	\$30.21	\$12.07	\$42.85	\$28.32	\$14.53
Canada	\$41.08	\$29.84	\$11.24	\$39.78	\$28.01	\$11.77
Weighted Average	\$40.31	\$31.79	\$8.52	\$40.19	\$29.67	\$10.52
Weighted Average After Hedging	\$26.10	\$26.30	\$(0.20)	\$26.22	\$25.22	\$1.00

2005 Compared with 2004

Operating revenues for the Exploration and Production segment decreased \$9.4 million for the quarter ended March 31, 2005 as compared with the quarter ended March 31, 2004. Oil production revenue after hedging decreased \$5.3 million due to a 195,000 barrel decline in production, particularly in the Gulf Coast of Mexico region where production decreased by approximately 151,000 barrels, and slightly lower weighted average prices after hedging (\$0.20 per barrel). Gas production revenue after hedging decreased \$4.0 million due to an overall decrease in gas production of 1,648 MMcf, which was partially offset by increases in the weighted average price of gas after hedging (\$0.67 per Mcf). Most of the decrease in gas production occurred in the Gulf Coast region (a 1,979 MMcf decline), which is consistent with the expected decline rates for the Company's production in this region.

Operating revenues for the Exploration and Production segment decreased \$6.4 million for the six months ended March 31, 2005 as compared with the six months ended March 31, 2004. Oil production revenue after hedging decreased \$6.1 million due to a 323,000 barrel decline in production offset partly by higher weighted average prices after hedging (\$1.00 per barrel). The majority of the decrease can be attributed to the Gulf Coast region oil production decline of approximately 239,000 barrels. Gas production revenue after hedging decreased \$1.0 million. Decreases in gas production of 3,206 MMcf more than offset increases in the weighted average price of gas after hedging (\$1.04 per Mcf). The decrease in gas production occurred primarily in the Gulf Coast region (a 3,418 MMcf decline), which is consistent with the expected decline rates for the Company's production in this region.

As shown above, this segment's weighted average oil prices after hedging were \$26.10 and \$26.22, respectively, during the quarter and six months ended March 31, 2005. These prices reflect the lesser value of the West Coast's heavy sour crude oil, which represents the bulk of the company's oil production as compared to the generally quoted price for light sweet crude, which is in the \$50.00 range. While prices of light sweet crude oil increased significantly during the quarter and six months ended March 31, 2005, prices for West Coast heavy sour crude oil did not increase as dramatically due to oversupply and refinery constraint issues. Historically, the prices of light sweet crude oil and heavy sour crude oil have largely moved in tandem, meaning that the price differential between light sweet crude oil and heavy sour crude oil has not changed significantly. The Company's hedge effectiveness tests for the derivative financial instruments used in the Exploration and Production segment, as required by SFAS 133, have assumed that the differential between these two types of oil will return to their historical norms. However, if the current price differential continues, it is possible that these assumptions would change and that some of the derivative financial instruments used to hedge West Coast oil production may become ineffective.* To the extent that derivative financial instruments would ever be deemed to be ineffective, gains or losses from the derivative financial instruments would be marked-to-market on the income statement without regard to an underlying physical transaction.

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

The Exploration and Production segment's earnings for the quarter ended March 31, 2005 were \$11.2 million, a decrease of \$7.5 million when compared with earnings of \$18.7 million for the quarter ended March 31, 2004. The decrease is partially attributable to declining oil and gas production as discussed above (\$6.0 million), as well as the non-recurrence of a \$4.6 million benefit related to the Company's September 2003 sale of Canadian oil properties located in Southeast Saskatchewan, which was recorded in the quarter ended March 31, 2004. When the Southeast Saskatchewan transaction closed, the initial proceeds received were subject to an adjustment based on actual working capital and the resolution of certain income tax matters. During the quarter ended March 31, 2004, those items were resolved with the buyer and, as a result, the Company received an additional \$4.6 million (U.S. dollars) of sales proceeds, which is recorded in the Adjustment of Loss on Sale of Oil and Gas Producing Properties line on the income statement. Partially offsetting these decreases was the non-recurrence of the expense associated with settlement of a pension obligation in the quarter ended March 31, 2004 (\$0.9 million).

The Exploration and Production segment's earnings for the six months ended March 31, 2005 were \$25.2 million, a decrease of \$4.0 million when compared with earnings of \$29.2 million for the quarter ended March 31, 2004. As noted above, the decrease is a result of a decrease in oil and gas revenues caused by a decline in production (\$4.7 million) and the non-recurrence of a \$4.6 million earnings benefit recognized in the quarter ended March 31, 2004 related to the Company's fiscal 2003 sale of Canadian oil properties, as discussed above. Partially offsetting these decreases was the non-recurrence of the expense associated with the settlement of a pension obligation in the quarter ended March 31, 2004 (\$0.9 million), lower depreciation and depletion expense (\$1.1 million), lower interest expense (\$0.8 million) and higher interest income (\$0.8 million).

International

International Operating Revenues

	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
<i>(Thousands)</i>						
Heating	\$42,803	\$38,129	\$4,674	\$75,699	\$69,310	\$6,389
Electricity	11,448	9,102	2,346	21,375	19,163	2,212
Other	1,236	1,222	14	2,388	2,127	261
	\$55,487	\$48,453	\$7,034	\$99,462	\$90,600	\$8,862

International Heating and Electric Volumes

	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	(Decrease)
Heating Sales (Gigajoules) ⁽¹⁾	3,513,871	3,673,873	(160,002)	6,359,341	6,744,165	(384,824)
Electricity Sales (megawatt hours)	270,197	266,169	4,028	535,005	581,921	(46,916)

⁽¹⁾ Gigajoules = one billion joules. A joule is a unit of energy.

2005 Compared with 2004

Operating revenues for the International segment increased \$7.0 million and \$8.9 million, respectively, for the quarter and six months ended March 31, 2005 as compared with the quarter and six months ended March 31, 2004. For the quarter ended March 31, 2005 compared with the quarter ended March 31, 2004, heat revenues in CZKs were down due to lower throughput. However, this decrease was offset by higher electric revenues in CZKs. The increase in electric revenues resulted from a combination of higher volumes and prices. Since the combination of heat and electric revenues in CZKs was relatively static, the increase in revenues as measured in U.S. dollars can be attributed to an increase in the value of the CZK as compared to the U.S. dollar. For the six months ended March 31, 2005 compared with

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the six months ended March 31, 2004, both heat and electric revenues as measured in CZKs, were down due to lower volumes as a result of warmer weather. However, the increase in the value of the CZK as compared to the U.S. dollar more than offset this impact.

The International segment's earnings for the quarter ended March 31, 2005 were \$5.2 million, a decrease of \$1.4 million when compared with earnings of \$6.6 million for the quarter ended March 31, 2004. The decrease can be attributed to a \$3.8 million charge for U.S. taxes on the estimated \$80 million dividend to be repatriated from United Energy, a subsidiary of the Company in the Czech Republic. Under the American Jobs Creation Act of 2004, qualifying dividends received from foreign affiliates are eligible for a one-time substantially reduced tax rate of 5.25%, thus the repatriation tax was recognized in the quarter ended March 31, 2005 consistent with management's intention to make such a repatriation during the current fiscal year. The total repatriation tax recorded was \$4.2 million, of which \$3.8 million was recorded to the income statement and \$0.4 million was recorded to Other Comprehensive Loss. The repatriation tax was partly offset by an increase in the value of the CZK as compared to the U.S. dollar, which increased earnings by \$1.4 million.

The International segment's earnings for the six months ended March 31, 2005 were \$9.3 million, a decrease of \$5.3 million when compared with earnings of \$14.6 million for the six months ended March 31, 2004. The decrease can partly be attributed to a \$5.2 million benefit to deferred income tax expense resulting from a change in the statutory income tax rate in the Czech Republic recognized during 2004 that did not recur in 2005. The government in the Czech Republic enacted legislation that gradually reduces the corporate statutory income tax from 31% to 24% (the reduction is phased in over a three-year period). In accordance with GAAP, the full \$5.2 million benefit resulting from the change in the income tax rate was reflected as a reduction to deferred income tax expense in December 2003. Also contributing to the earnings decrease was the charge of \$3.8 million for U.S. taxes on the estimated dividend to be repatriated, as discussed above. Partially offsetting these earnings decreases, an increase in the value of the CZK compared to the U.S. dollar increased earnings by approximately \$2.0 million.

Energy Marketing

Energy Marketing Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Natural Gas (after Hedging)	\$124,560	\$116,399	\$8,161	\$188,050	\$173,327	\$14,723
Other	5	4	1	9	29	(20)
	\$124,565	\$116,403	\$8,162	\$188,059	\$173,356	\$14,703

Energy Marketing Volumes

	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Natural Gas – (MMcf)	15,184	16,429	(1,245)	23,191	25,990	(2,799)

2005 Compared with 2004

Operating revenues for the Energy Marketing segment increased \$8.2 million and \$14.7 million, respectively, for the quarter and six months ended March 31, 2005, as compared with the quarter and six months ended March 31, 2004. The increase for both the quarter and six month ended March 31, 2005 primarily reflects higher gas sales revenue due to an increase in the price of natural gas, offset in part by lower throughput.

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Earnings in the Energy Marketing segment decreased \$0.9 million and \$1.0 million, respectively, for the quarter and six months ended March 31, 2005 as compared with the quarter and six months ended March 31, 2004. The decrease primarily reflects lower margins caused by lower throughput and a reduction in the benefit of storage gas.

Timber

Timber Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Log Sales	\$8,768	\$6,225	\$2,543	\$13,644	\$12,399	\$1,245
Green Lumber Sales	1,863	1,508	355	3,309	3,119	190
Kiln Dry Lumber Sales	7,822	7,164	658	14,096	12,532	1,564
Other	519	325	194	918	503	415
Operating Revenues	\$18,972	\$15,222	\$3,750	\$31,967	\$28,553	\$3,414

Timber Board Feet

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Log Sales	2,570	1,992	578	4,315	3,816	499
Green Lumber Sales	2,538	2,528	10	4,702	5,198	(496)
Kiln Dry Lumber Sales	3,897	3,976	(79)	7,263	7,085	178
	9,005	8,496	509	16,280	16,099	181

2005 Compared with 2004

Operating revenues for the Timber segment increased \$3.8 million and \$3.4 million, respectively, for the quarter and six months ended March 31, 2005, as compared with the quarter and six months ended March 31, 2004. For the quarter ended March 31, 2005, the increase can be attributed primarily to an increase in cherry veneer log sales of \$2.5 million (384,000 board feet). The increase in log sales can be attributed to more favorable weather conditions experienced in the quarter ended March 31, 2005, which allowed more opportunity for harvesting. For the six months ended March 31, 2005, the operating revenue increase can be attributed to an increase in cherry veneer log sales and an increase in kiln dry lumber sales. Cherry veneer log sales increased \$1.4 million (200,000 board feet), due mainly to the favorable weather conditions experienced in the quarter ended March 31, 2005. The increase in kiln dry lumber sales resulted from processing more cherry lumber volumes.

Earnings in the Timber segment increased \$1.0 million and \$0.4 million, respectively, for the quarter and six months ended March 31, 2005, as compared with the quarter and six months ended March 31, 2004. These increases primarily resulted from higher cherry veneer log sales.

Interest Charges

Interest on long-term debt decreased \$2.8 million and \$7.3 million, respectively, for the quarter and six months ended March 31, 2005 as compared with the quarter and six months ended March 31, 2004. For both the quarter and six month periods, the decrease can be attributed primarily to lower average amounts of long-term debt outstanding.

Other interest charges increased \$0.6 million for both the quarter and six months ended March 31, 2005 as compared with the quarter and six months ended March 31, 2004. These increases resulted primarily from an increase in weighted average interest rates.

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CAPITAL RESOURCES AND LIQUIDITY

The Company's primary source of cash during the six-month period ended March 31, 2005 consisted of cash provided by operating activities. This source of cash was supplemented by issuances of common stock under the Company's stock option plans. During the six months ended March 31, 2005, issuances of common stock under the Company's 401(k) plans and Direct Stock Purchase and Dividend Reinvestment Plan were made via open market purchases.

Operating Cash Flow

Internally generated cash from operating activities consists of net income available for common stock, adjusted for non-cash expenses, non-cash income and changes in operating assets and liabilities. *Non-cash items include depreciation, depletion and amortization, deferred income taxes, income or loss from unconsolidated subsidiaries net of cash distributions, adjustment of loss on sale of oil and gas producing properties, 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, Energy Marketing and International segments, revenues in these segments are relatively high during the heating season, primarily the first and second quarters of the fiscal year, and receivable balances historically increase during these periods from the balances receivable at September 30.

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

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

Net cash provided by operating activities totaled \$257.0 million for the six months ended March 31, 2005, a decrease of \$29.7 million compared with \$286.7 million provided by operating activities for the six months ended March 31, 2004. Higher working capital requirements in the Utility segment was the main reason for this decrease. *Partially offsetting this decrease, the Corporate operation experienced a significant cash outflow in January 2004 due to a \$23.0 million lump sum payment to a participant of the Company's nonqualified defined benefit plan under a provision of an agreement previously entered into between the Company and the participant. No such cash outflow occurred during the quarter ended March 31, 2005.*

Investing Cash Flow

Expenditures for Long-Lived Assets

Expenditures for long-lived assets include additions to property, plant and equipment.

The Company's expenditures for long-lived assets totaled \$114.6 million during the six months ended March 31, 2005. The table below presents these expenditures:

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Six Months Ended March 31, 2005 <i>(in millions of dollars)</i>	
	Total Expenditures for Long-Lived Assets
Utility	\$22.3
Pipeline and Storage	8.2
Exploration and Production	61.9
International	3.3
Timber	18.7
All Other and Corporate	0.2
	\$114.6

Utility

The majority of the Utility capital expenditures for the six months ended March 31, 2005 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 six months ended March 31, 2005 were made for additions, improvements, and replacements to this segment's transmission and gas storage systems.

The Company is pursuing a project to expand its natural gas pipeline operations to serve new markets in New York and elsewhere in the Northeast by extending the Empire State Pipeline.* This proposed extension project would provide an upstream supply link for Phase I of the Millennium Pipeline and will transport Canadian and other natural gas supplies to downstream customers, including Key Span Gas East Corporation, which has entered into a precedent agreement to be a major shipper, subject to the satisfaction of various conditions.* The pipeline extension will be designed to move at least 250 MMcf of natural gas per day.* The preliminary estimate of the cost for developing the Empire extension project is \$140 million and the targeted in-service date is in calendar 2007.* As of March 31, 2005, the Company had incurred approximately \$3.1 million in costs (all of which have been reserved) related to this project. Of this amount, \$0.8 million and \$2.5 million, respectively, were incurred during the quarter and six months ended March 31, 2005.

The Company completed a FERC approved sale of base gas from Supply Corporation's jointly-owned Ellisburg Storage Pool in March 2005 for \$4.6 million in sales proceeds. As a result of the sale, property, plant, and equipment was reduced by \$0.7 million for the cost basis of the gas and a \$3.9 million gain on the sale (\$2.6 million after tax) was recognized by the Company in the quarter-ended March 31, 2005. The proceeds of this sale are included in Other Investing Activities on the Consolidated Statement of Cash Flows for the six months ended March 31, 2005. The gain is included in Other Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities.

Exploration and Production

The Exploration and Production segment capital expenditures for the six months ended March 31, 2005 included approximately \$18.7 million for Canada, \$25.2 million for the Gulf Coast region (\$24.6 million for the off-shore program in the Gulf of Mexico), \$15.1 million for the West Coast region and \$2.9 million for the Appalachian region. These amounts included approximately \$6.7 million spent to develop proved undeveloped reserves.

Estimated capital expenditures in 2005 for the Exploration and Production segment have been increased from \$93.0 million to \$112.0 million.* Estimated capital expenditures for Canada have been increased from \$32.0 million to \$41.0 million.* Estimated capital expenditures for the Gulf Coast region have been increased from \$29.0 million to \$35.0 million.* Estimated capital expenditures for the West

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Coast region have been increased from \$20.0 million to \$24.0 million and estimated capital expenditures for the Appalachian region remains unchanged at \$12.0 million.* Drilling success in Canada, specifically the Sukunka region, and in the Gulf Coast region are the main reasons for this increase.

International

The majority of the International segment capital expenditures for the six months ended March 31, 2005 were concentrated in improvements and replacements within the district heating and power generation plants in the Czech Republic.

Timber

The majority of the Timber segment capital expenditures for the six months ended March 31, 2005 were made for the purchase of land and timber rights in Elk County, Pennsylvania in January 2005. The land and timber, consisting of approximately 12,324 acres, was purchased for approximately \$17.6 million. The remaining \$1.1 million of capital expenditures for the six months ended March 31, 2005 was made for purchases of equipment for Highland's sawmill and kiln operations.

The Company continuously evaluates capital expenditures and investments in corporations and other entities. The amounts are subject to modification for opportunities such as the acquisition of attractive oil and gas properties, timber or 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

Consolidated short-term debt decreased \$43.6 million during the six months ended March 31, 2005. 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, 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. At March 31, 2005, the Company had outstanding short-term notes payable to banks and commercial paper of \$76.8 million and \$36.4 million, respectively. The Company has SEC authorization under the Holding Company Act to borrow and have outstanding as much as \$750.0 million of short-term debt at any time through December 31, 2005. The Company plans to file with the SEC during the summer of 2005 an application under the Holding Company Act for authority, among other things, to issue short-term debt securities, long-term debt securities and equity securities during the period commencing January 1, 2006 and ending December 31, 2008.* 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 \$400.0 million, are revocable at the option of the financial institution 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 totaling \$220.0 million. Of that amount, \$110.0 million is committed to the Company through September 25, 2005 and another \$110.0 million is committed to the Company through September 30, 2005. The Company anticipates that it will be able to replace this facility at or before its maturity.*

Under the Company's committed credit facility, the Company has agreed that its debt to capitalization ratio will not, at the last day of any fiscal quarter, exceed .60. At March 31, 2005, the Company's debt to capitalization ratio (as calculated under the facility) was .49. The constraints specified in the committed credit facility would permit an additional \$741.2 million in short-term and/or long-term debt to be outstanding before the Company's debt to capitalization ratio would exceed .60. If a downgrade

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in any of the Company's credit ratings were to occur, access to the commercial paper markets might not be possible.* However, the Company expects that it could borrow under its uncommitted bank lines of credit or rely upon other liquidity sources, including cash provided by operations.*

Under the Company's existing indenture covenants, at March 31, 2005, the Company would have been permitted to issue up to a maximum of \$837.0 million in additional long-term unsecured indebtedness at then-current market interest rates (further limited by the debt to capitalization ratio constraints noted in the previous paragraph) 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 35%) of the Company's long-term debt (as of March 31, 2005) 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 to become due prior to its stated maturity, unless cured or waived.

The Company's \$220.0 million committed credit facility also contains a cross-default provision whereby the failure by the Company or its significant subsidiaries to make payments under other borrowing arrangements, or the occurrence of certain events affecting those other borrowing arrangements, could trigger an obligation to repay any amounts outstanding under the committed credit facility. In particular, a repayment obligation could be triggered if (i) the Company or its significant subsidiaries fail to make a payment when due of any principal or interest on any other indebtedness aggregating \$20.0 million or more or (ii) an event occurs that causes, or would permit the holders of any other indebtedness aggregating \$20.0 million or more to cause, such indebtedness to become due prior to its stated maturity. As of March 31, 2005, the Company had no debt outstanding under the committed credit facility.

The Company also has authorization from the SEC, under the Holding Company Act, to issue long-term debt securities and equity securities in an aggregate amount of up to \$1.5 billion during the order's authorization period, which commenced in November 2002 and extends to December 31, 2005. 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, and within the authorization granted by the SEC under the Holding Company Act. 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.

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 having a remaining lease commitment of approximately \$55.6 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 \$10.1 million. The Company has guaranteed 50% or \$5.1 million of these capital lease commitments.

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OTHER MATTERS

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor 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 2004 Form 10-K. There have been no subsequent material changes to the Company's exposure to market risk sensitive instruments.

Rate Matters

Utility Operation

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

New York Jurisdiction

On October 11, 2000, the NYPSC approved a settlement agreement (Agreement) between Distribution Corporation, Staff of the Department of Public Service, the New York State Consumer Protection Board and Multiple Intervenors (an advocate for large commercial and industrial customers) (collectively, "Parties") that established rates for the three-year period ending September 30, 2003. For a complete discussion of this Agreement, refer to "Rate Matters" in Item 7 of the Company's 2004 Form 10-K. On July 25, 2003, the Parties and other interests executed a settlement agreement ("Settlement") to extend the terms of the Agreement and Distribution Corporation's restructuring plan one year commencing October 1, 2003. The Settlement was approved by the NYPSC in an order issued on September 18, 2003. As approved, the Settlement continued existing base rates, but reduced the level above which earnings are shared 50/50 with customers from the previous 11.5% return on equity to 11.0%. In addition, the Settlement increased the combined pension and other post employment benefit expense by \$8.0 million, without a corresponding increase in revenues. Most other features of Distribution Corporation's service remained largely unchanged.

In April 2004 Distribution Corporation commenced confidential settlement negotiations with the NYPSC and other parties concerning, among other things, its revenue requirement for the year ending September 30, 2005. Those settlement discussions failed to produce an agreement prior to the expiration of the Settlement. On August 27, 2004, Distribution Corporation filed proposed tariff amendments and supporting testimony designed to increase its annual revenues by \$41.3 million beginning October 1, 2004. Parties filed responsive testimony recommending a base rate decrease, among other things. Thereafter the Parties and other interests commenced settlement negotiations. On April 15, 2005, Distribution Corporation, the Parties and others executed an agreement settling all outstanding issues. The settlement agreement provides for a rate increase of \$21 million by means of the elimination of bill credits (\$5.2 million) and an increase in base rates (\$15.8 million). For the two-year term of the plan and thereafter, the level above which earnings must be shared with rate payers will be increased from 11.0% to 11.5%. If approved by the NYPSC, rates under the settlement agreement would become effective on August 1, 2005. Distribution Corporation is unable to ascertain the outcome of the rate proceeding at this time. The existing base rates and certain other provisions of the Settlement that expired on September 30, 2004 will continue to be in effect until the NYPSC issues an order concerning the April 15, 2005 settlement agreement.

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On June 1, 2004, Distribution Corporation submitted a filing to the NYPSC supporting the removal of a \$5 million annual bill credit originally established under the terms of the Agreement. The filing requested removal of the bill credit effective October 1, 2004. On September 28, 2004, the NYPSC issued an order rejecting Distribution Corporation's request for the stated reason that Distribution Corporation's earnings were adequate, in the NYPSC's opinion, without removal of the bill credit. Distribution filed a petition for rehearing with respect to the NYPSC's order and the NYPSC has not yet acted on the petition.

In another order issued on September 28, 2004, the NYPSC directed the continuation, with modification, of four programs under the July 25, 2003 Settlement that were scheduled to expire on September 30, 2004. The effect of the NYPSC's order was to unilaterally extend the terms of the Settlement without Distribution Corporation's consent. Although the NYPSC's order stated that it provided for funding of the programs, Distribution Corporation petitioned Supreme Court, Albany County for an injunction to allow the programs to expire on their own terms. Distribution Corporation's petition was partially successful, and the proceeding remains pending.

Pennsylvania Jurisdiction

On September 15, 2004, Distribution Corporation filed proposed tariff amendments with PaPUC to increase annual revenues by \$22.8 million to cover increases in the cost of service to be effective November 14, 2004. The rate request was filed to address throughput reductions and increased operating costs such as uncollectibles and personnel expenses. Applying standard procedure, the PaPUC suspended Distribution Corporation's tariff filing to perform an investigation and hold hearings. On February 16, 2005, the parties reached a settlement of all issues. The settlement was submitted to the Administrative Law Judge, who, on March 2, 2005 issued a decision recommending adoption of the settlement. The settlement provides for a base rate increase of \$12.0 million and terminates the tracking of pension expenses versus the rate allowance. The settlement was approved by the PaPUC on March 23, 2005, and the new rates went into effect on April 15, 2005.

Pipeline and Storage

Supply Corporation currently does not have a rate case on file with the FERC. Management will continue to monitor Supply Corporation's financial position to determine the necessity of filing a rate case in the future.

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

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predict the impact Order 2004 will have on the Company. As previously mentioned, Distribution Corporation stopped making off-system sales, effective September 22, 2004. The Company does not expect that change to have a material effect on the Company's results of operations, as margins resulting from off-system sales are minimal as a result of profit sharing with retail customers.*

Empire currently does not have a rate case on file with the NYPSC. Management will continue to monitor Empire's financial position in the New York jurisdiction to determine the necessity of filing a rate case in the future.

Environmental Matters

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. At March 31, 2005, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$22.3 million. This liability has been recorded on the Consolidated Balance Sheet at March 31, 2005. In April 2005, the Company entered into a transfer agreement for environmental obligations related to a former manufactured gas plant site in New York. Under the terms of the agreement, the Company will pay \$12.7 million to settle its remaining environmental obligations related to this site. This amount was included in the \$22.3 million liability at March 31, 2005. 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 2004 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 2004 Form 10-K, and to Part II, Item 1; "Legal Proceedings."

New Accounting Pronouncements

In December 2004, the FASB issued SFAS 123R, "Share Based Payment". SFAS 123R replaces SFAS 123 and supercedes APB 25. The Company currently follows APB 25 in accounting for stock-based compensation, as disclosed above. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Company does not believe that adoption of SFAS 123R will have a material impact on its financial condition and results of operations.* For further discussion of SFAS 123R 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

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

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 economic conditions, including economic disruptions caused by terrorist activities or acts of war;
2. Changes in demographic patterns and weather conditions, including the occurrence of severe weather;
3. Changes in the 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;
4. Changes in the availability and/or price of derivative financial instruments;
5. Changes in the availability and/or price of natural gas, oil and coal;
6. Inability to obtain new customers or retain existing ones;
7. Significant changes in competitive factors affecting the Company;
8. 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;
9. Unanticipated impacts of restructuring initiatives in the natural gas and electric industries;
10. Significant changes from expectations in actual capital expenditures and operating expenses and unanticipated project delays or changes in project costs;
11. The nature and projected profitability of pending and potential projects and other investments;
12. 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;
13. Uncertainty of oil and gas reserve estimates;
14. Ability to successfully identify and finance acquisitions and ability to operate and integrate existing and any subsequently acquired business or properties;
15. Ability to successfully identify, drill for and produce economically viable natural gas and oil reserves;
16. Significant changes from expectations in the Company's actual production levels for natural gas or oil;
17. 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;

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

18. Significant changes in tax rates or policies or in rates of inflation or interest;
19. 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;
20. Changes in accounting principles or the application of such principles to the Company;
21. Changes in laws and regulations to which the Company is subject, including tax, environmental, safety and employment laws and regulations;
22. The cost and effects of legal and administrative claims against the Company;
23. Changes in actuarial assumptions and the return on assets with respect to the Company's retirement plan and post-retirement benefits;
24. Increasing health care costs and the resulting effect on health insurance premiums and on the obligation to provide post-retirement benefits; or
25. 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

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

Item 4. Controls and Procedures

The following information includes the evaluation of disclosure controls and procedures by the Company's Chief Executive Officer and Principal Financial Officer, along with any significant changes in internal controls of the Company.

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 Securities Exchange Act of 1934 (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 under the Exchange Act is recorded, processed, summarized and reported within required time periods. 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 Company maintains a system of internal control over financial reporting that is designed to provide reasonable assurance that the Company's transactions are properly authorized, the Company's assets are safeguarded against unauthorized or improper use, and the Company's transactions are properly recorded and reported to permit preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America. There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report 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

In an action instituted in the New York State Supreme Court, Chautauqua County on January 31, 2000 against Seneca, NFR and "National Fuel Gas Corporation," Donald J. and Margaret Ortel and Brian and Judith Rapp, "individually and on behalf of all those similarly situated," allege, in an amended complaint which adds National Fuel Gas Company as a party defendant that (a) Seneca underpaid royalties due under leases operated by it, and (b) Seneca's co-defendants (i) fraudulently participated in and concealed such alleged underpayment, and (ii) induced Seneca's alleged breach of such leases. Plaintiffs seek an accounting, declaratory and related injunctive relief, and compensatory and exemplary damages. Defendants have denied each of plaintiffs' material substantive allegations and set up twenty-five affirmative defenses in separate verified answers.

A motion was made by plaintiffs on July 15, 2002 to certify a class comprising all persons presently and formerly entitled to receive royalties on the sale of natural gas produced and sold from wells operated in New York by Seneca (and its predecessor Empire Exploration, Inc). On December 23, 2002, the court granted certification of the proposed class, as modified to exclude those leaseholders whose leases provide for calculation of royalties based upon a flat fee, or flat fee per cubic foot of gas produced. The court's order states that there are approximately 749 potential class members. Discovery is proceeding on the merits of the claims.

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. Plaintiff seeks damages for wrongful death and pain and suffering, plus punitive damages. Distribution Corporation has denied plaintiff's material allegations, set up seven affirmative defenses in separate verified answers and filed a cross-claim against the co-defendant. Distribution Corporation believes and will vigorously assert that plaintiff's allegations lack merit. The Court changed venue of the action to New York State Supreme Court, Erie County. The litigation is in the early stages of discovery.

On December 22, 2003, the Pennsylvania Department of Environmental Protection (DEP) issued an order to Seneca to halt its timber harvesting operations on 21,000 acres in Cameron, Elk and McKean counties in Pennsylvania. The order asserts certain violations of DEP regulations concerning erosion, sedimentation and stream crossings. The order requires Seneca to apply for certain permits, control erosion, submit plans for removal of water encroachments not included in permit applications, notify the DEP of additional current or planned timber harvesting operations, and grant the DEP access to timber acreage. On January 9, 2004, Seneca filed with the Pennsylvania Environmental Hearing Board (Hearing Board) a notice of appeal, objecting to each finding and order contained in the order, and asserting that the DEP's findings are factually incorrect, an arbitrary exercise of the DEP's functions and duties, and contrary to law. Also on January 9, 2004, Seneca filed with the Hearing Board a petition requesting a stay of operation of portions of the order. On January 20, 2004, the parties settled Seneca's request for a stay. Seneca has resumed its timber harvesting operations pursuant to the terms of the settlement. The settlement preserves various issues raised by the DEP's order for a hearing on the merits of Seneca's notice of appeal. Seneca is actively pursuing its appeal, which it expects to be litigated.* The most substantial question in the appeal involves whether Seneca is required to apply for a permit under Section 102.5(b) of Title 25 of the Pennsylvania Code, governing earth disturbance activities of greater than 25 acres. The DEP takes the position that Seneca must aggregate the acreage of all of its logging sites across its entire 21,000 acre tract for purposes of determining whether its earth disturbing activities meet the 25 acres threshold. Seneca maintains that no permit is required, because the law does not require aggregation and each of its individual logging sites disturbs less than 25 acres.

Item 1. Legal Proceedings (Concl.)

The Company believes, based on the information presently known, that the ultimate resolution of these matters, individually or in the aggregate, 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 outcomes of these matters, and it is possible that the outcomes, individually or in the aggregate, could be material to results of operations or cash flow for a particular quarter or annual period.*

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

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.*

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

On January 3, 2005, the Company issued a total of 1,958 unregistered shares of Company common stock to the seven non-employee directors of the Company then serving on the Board of Directors: 158 shares to Bernard S. Lee, Ph.D., whose service as a director came to an end on February 17, 2005, and 300 shares to each of the other six non-employee directors. On February 17, 2005, the Company issued 141 unregistered shares of Company common stock to Craig G. Matthews, who was elected to the Board as a non-employee director of the Company on that date. All of these unregistered shares were issued as partial consideration for the directors' services during the quarter ended March 31, 2005, 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	Maximum Number of Shares that May Yet Be Purchased Under Share Repurchase Plans or Programs
Jan. 1 - 31, 2005	16,742	\$27.11	—	—
Feb. 1 - 28, 2005	45,075	\$28.36	—	—
Mar. 1 - 31, 2005	204,271	\$28.98	—	—
Total	266,088	\$28.76	—	—

^(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, and (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 and/or applicable withholding taxes.

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

The Annual Meeting of Shareholders of National Fuel Gas Company was held on February 17, 2005. At that meeting, the shareholders elected directors, appointed independent accountants, approved amendments to the Company's Restated Certificate of Incorporation, and rejected a shareholder proposal to limit future retirement benefits for executive officers.

The total votes were as follows:

	<u>For</u>	<u>Withheld</u>
(i) Election of directors to serve for a three-year term:		
- Robert T. Brady	64,641,101	8,531,206
- Rolland E. Kidder	59,832,197	13,340,110
Election of directors to serve for a two-year term:		
- Craig G. Matthews	71,898,897	1,273,410
- Richard G. Reiten	71,909,518	1,262,789

Other directors whose term of office continued after the meeting:

Term expiring in 2006: R. Don Cash, George L. Mazanec, and John F. Riordan.

Term expiring in 2007: Phillip C. Ackerman.

	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
(ii) Appointment of PricewaterhouseCoopers LLP as independent accountants	71,937,468	957,515	277,324	-
(iii) Approval of amendments to the Company's Restated Certificate of Incorporation	34,770,816	21,582,111	866,713	15,952,667
(iv) Adoption of shareholder proposal to limit future retirement benefits for executive officers	7,365,900	47,768,223	2,085,517	15,952,667

Item 6. Exhibits

(a) Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1	Description of performance goals for certain executive officers.
10.2	<i>Administrative Rules of the Compensation Committee of the Board of Directors of National Fuel Gas Company, as amended and restated effective March 9, 2005.</i>
12	Statements regarding Computation of Ratios: Ratio of Earnings to Fixed Charges for the Twelve Months Ended March 31, 2005 and the Fiscal Years Ended September 30, 2000 through 2004.
31.1	Written statements of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Written statements of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	National Fuel Gas Company Consolidated Statement of Income for the Twelve Months Ended March 31, 2005 and 2004.

SIGNATURES

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 Officer

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

Date: May 10, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2005

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
(State or other jurisdiction of
incorporation or organization)

13-1086010
(I.R.S. Employer
Identification No.)

6363 Main Street
Williamsville, New York
(Address of principal executive offices)

14221
(Zip Code)

(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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 under the Exchange Act.) YES NO

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, 2005:
84,144,571 shares.

NATIONAL FUEL GAS COMPANY (Company or Registrant)

DIRECT SUBSIDIARIES: National Fuel Gas Distribution Corporation
National Fuel Gas Supply Corporation
Seneca Resources Corporation
Highland Forest Resources, Inc.
Leidy Hub, Inc.
Data-Track Account Services, Inc.
National Fuel Resources, Inc.
Horizon Energy Development, Inc.
Horizon LFG, Inc.
Horizon Power, Inc.

GLOSSARY OF TERMS

Frequently used abbreviations or acronyms used in this report:

National Fuel Gas Companies

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, the Company, or the Registrant	National Fuel Gas Company and its subsidiaries
NFR	National Fuel Resources, 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

GLOSSARY OF TERMS (Cont'd)

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SEC	Securities and Exchange Commission
<i>Other</i>	
2004 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2004
APB 20	Accounting Principles Board Opinion No. 20, Accounting Changes
APB 25	Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees
Bbl	Barrel
CZK	Czech korunas (the currency denomination in the Czech Republic)
Energy Policy Act	Energy Policy Act of 2005
Exchange Act	Securities Exchange Act of 1934, as amended
FIN 47	FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations - an interpretation of SFAS 143
GAAP	Accounting principles generally accepted in the United States of America
Holding Company Act	Public Utility Holding Company Act of 1935, as amended
LIFO	Last-in, first-out
Mbbl	Thousand barrels
Mcf	Thousand cubic feet
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMcf	Million cubic feet
SFAS	Statement of Financial Accounting Standards
SFAS 3	Reporting Accounting Changes in Interim Financial Statements
SFAS 123	Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation
SFAS 123R	Statement of Financial Accounting Standards No. 123R, Share-Based Payment
SFAS 133	Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities
SFAS 143	Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations
SFAS 154	Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections
WNC	Weather normalization clause

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. 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

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Item 1. Financial Statements

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

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended	
	June 30,	
	2005	2004
INCOME		
Operating Revenues	\$400,359	\$396,884
Operating Expenses		
Purchased Gas	181,100	174,907
Operation and Maintenance	94,534	86,362
Property, Franchise and Other Taxes	16,598	17,080
Depreciation, Depletion and Amortization	45,099	43,601
	337,331	321,950
Adjustment of Gain on Sale of Timber Properties	-	(1,252)
Operating Income	63,028	73,682
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	675	306
Other Income	1,094	799
Interest Expense on Long-Term Debt	(18,294)	(20,190)
Other Interest Expense	(4,557)	(1,095)
Income from Continuing Operations Before		
Income Taxes	41,946	53,502
Income Tax Expense	15,553	20,681
Income from Continuing Operations	26,393	32,821
Loss from Discontinued Operations, Net of Tax	(7,237)	(258)
Net Income Available for Common Stock	19,156	32,563
EARNINGS REINVESTED IN THE BUSINESS		
Balance at April 1	793,409	724,855
	812,565	757,418
Dividends on Common Stock (2005 - \$0.29 per share; 2004 - \$0.28 per share)	24,312	23,036
Balance at June 30	\$788,253	\$734,382
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$0.32	\$0.40
Loss from Discontinued Operations	(0.09)	-
Net Income Available for Common Stock	\$0.23	\$0.40
Diluted:		
Income from Continuing Operations	\$0.31	\$0.39
Loss from Discontinued Operations	(0.08)	-
Net Income Available for Common Stock	\$0.23	\$0.39
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	83,568,251	82,178,424
Used in Diluted Calculation	84,897,466	83,119,373

See Notes to Condensed Consolidated Financial Statements

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

(Thousands of Dollars, Except Per Common Share Amounts)	Nine Months Ended June 30,	
	2005	2004
INCOME		
Operating Revenues	\$1,636,484	\$1,640,474
Operating Expenses		
Purchased Gas	877,510	871,593
Operation and Maintenance	297,549	293,370
Property, Franchise and Other Taxes	53,551	53,795
Depreciation, Depletion and Amortization	132,438	130,350
	1,361,048	1,349,108
Adjustment of Gain on Sale of Timber Properties	-	(1,252)
Adjustment of Loss on Sale of Oil and Gas Producing Properties	-	4,645
Operating Income	275,436	294,759
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	1,914	403
Other Income	7,762	3,422
Interest Expense on Long-Term Debt	(54,989)	(63,990)
Other Interest Expense	(8,911)	(4,830)
Income from Continuing Operations Before Income Taxes	221,212	229,764
Income Tax Expense	86,009	89,331
Income from Continuing Operations	135,203	140,433
Income from Discontinued Operations, Net of Tax	5,073	18,399
Net Income Available for Common Stock	140,276	158,832
EARNINGS REINVESTED IN THE BUSINESS		
Balance at October 1	718,926	642,690
Dividends on Common Stock (2005 - \$0.85; 2004 - \$0.82)	859,202	801,522
(70,949)	70,949	67,140
Balance at June 30	\$788,253	\$734,382
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$1.62	\$1.72
Income from Discontinued Operations	0.06	0.22
Net Income Available for Common Stock	\$1.68	\$1.94
Diluted:		
Income from Continuing Operations	\$1.59	\$1.70
Income from Discontinued Operations	0.06	0.22
Net Income Available for Common Stock	\$1.65	\$1.92
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	83,343,711	81,848,043
Used in Diluted Calculation	84,771,403	82,717,332

See Notes to Condensed Consolidated Financial Statements

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	June 30, 2005	September 30, 2004
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$4,351,718	\$4,602,779
Less - Accumulated Depreciation, Depletion and Amortization	1,533,840	1,596,015
Net Property, Plant, and Equipment of Discontinued Operations Held for Sale	223,707	-
	3,041,585	3,006,764
Current Assets		
Cash and Temporary Cash Investments	62,072	66,153
Receivables - Net of Allowance for Uncollectible Accounts of \$20,181 and \$17,440, Respectively	221,408	129,825
Unbilled Utility Revenue	14,562	18,574
Gas Stored Underground	28,641	68,511
Materials and Supplies - at average cost	48,885	43,922
Unrecovered Purchased Gas Costs	-	7,532
Prepayments	51,230	38,760
Fair Value of Derivative Financial Instruments	-	23
Current Assets of Discontinued Operations Held for Sale	14,530	-
	441,328	373,300
Other Assets		
Recoverable Future Taxes	83,847	83,847
Unamortized Debt Expense	18,074	19,573
Other Regulatory Assets	71,175	66,862
Deferred Charges	4,481	3,411
Other Investments	78,142	72,556
Investments in Unconsolidated Subsidiaries	15,818	16,444
Goodwill	5,476	5,476
Intangible Assets	43,997	45,994
Other	15,966	17,571
Other Assets of Discontinued Operations Held for Sale	309	-
	337,285	331,734
Total Assets	\$3,820,198	\$3,711,798

See Notes to Condensed Consolidated Financial Statements

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	June 30, 2005	September 30, 2004
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued and Outstanding - 83,898,311 Shares and 82,990,340 Shares, Respectively	\$ 83,898	\$ 82,990
Paid in Capital	518,621	506,560
Earnings Reinvested in the Business	788,253	718,926
Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,390,772	1,308,476
Accumulated Other Comprehensive Loss	(65,013)	(54,775)
Total Comprehensive Shareholders' Equity	1,325,759	1,253,701
Long-Term Debt, Net of Current Portion	1,121,354	1,133,317
Long-Term Debt of Discontinued Operations Held for Sale, Net of Current Portion	1,258	-
Total Capitalization	2,448,371	2,387,018
Minority Interest in Discontinued Operations Held for Sale	27,923	37,048
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	12,700	156,800
Current Portion of Long-Term Debt	9,400	14,260
Accounts Payable	130,856	115,979
Amounts Payable to Customers	40,646	3,154
Other Accruals and Current Liabilities	160,861	91,164
Fair Value of Derivative Financial Instruments	126,331	95,099
Current Liabilities of Discontinued Operations Held for Sale	56,143	-
	536,937	476,456
Deferred Credits		
Accumulated Deferred Income Taxes	425,882	458,095
Taxes Refundable to Customers	11,065	11,065
Unamortized Investment Tax Credit	6,972	7,498
Cost of Removal Regulatory Liability	85,925	82,020
Other Regulatory Liabilities	72,388	67,669
Pension Liability	91,706	91,587
Asset Retirement Obligation	33,965	32,292
Other Deferred Credits	54,736	61,050
Deferred Credits of Discontinued Operations Held for Sale	24,328	-
	806,967	811,276
Commitments and Contingencies	-	-
Total Capitalization and Liabilities	\$3,820,198	\$3,711,798

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
Page 81National Fuel Gas Company
Consolidated Statement of Cash Flows
(Unaudited)

(Thousands of Dollars)	Nine Months Ended June 30,	
	2005	2004
OPERATING ACTIVITIES		
Net Income Available for Common Stock	\$140,276	\$158,832
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Adjustment of Gain on Sale of Timber Properties	-	1,252
Adjustment of Loss on Sale of Oil and Gas Producing Properties	-	(4,645)
Depreciation, Depletion and Amortization	145,814	141,768
Deferred Income Taxes	1,994	(8,993)
(Income) Loss from Unconsolidated Subsidiaries, Net of Cash Distributions	(374)	361
Minority Interest in Foreign Subsidiaries	2,899	3,378
Other	(9,342)	(148)
Change in:		
Receivables and Unbilled Utility Revenue	(91,223)	(73,998)
Gas Stored Underground and Materials and Supplies	30,687	55,917
Unrecovered Purchased Gas Costs	7,532	27,616
Prepayments	(12,503)	13,619
Accounts Payable	23,886	(3,094)
Amounts Payable to Customers	37,492	21,561
Other Accruals and Current Liabilities	72,972	122,000
Other Assets	(9,066)	(21,194)
Other Liabilities	1,867	(25,997)
Net Cash Provided by Operating Activities	342,911	408,235
INVESTING ACTIVITIES		
Capital Expenditures	(157,401)	(122,295)
Net Proceeds from Sale of Oil and Gas Producing Properties	90	5,062
Other	4,001	2,073
Net Cash Used in Investing Activities	(153,310)	(115,160)
FINANCING ACTIVITIES		
Change in Notes Payable to Banks and Commercial Paper	(107,243)	(78,300)
Reduction of Long-Term Debt	(10,740)	(139,441)
Dividends Paid on Common Stock	(69,847)	(66,056)
Dividends Paid to Minority Interest	(12,676)	-
Proceeds from Issuance of Common Stock	12,499	14,597
Net Cash Used in Financing Activities	(188,007)	(269,200)
Effect of Exchange Rates on Cash	(40)	1,616
Net Increase in Cash and Temporary Cash Investments	1,554	25,491
Cash and Temporary Cash Investments at October 1	66,153	51,421
Cash and Temporary Cash Investments at June 30	\$67,707⁽¹⁾	\$76,912

⁽¹⁾ Includes \$5,635 of cash and temporary investments included in Current Assets of Discontinued Operations Held for Sale on the Consolidated Balance Sheet at June 30, 2005.

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

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

(Thousands of Dollars)	Three Months Ended June 30,	
	2005	2004
Net Income Available for Common Stock	\$19,156	\$32,563
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	(15,717)	1,665
Unrealized Gain on Securities Available for Sale Arising During the Period	134	767
Unrealized Loss on Derivative Financial Instruments Arising During the Period	(4,153)	(26,111)
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	19,220	15,088
Other Comprehensive Loss Before Tax	(516)	(8,591)
Income Tax Benefit Related to Cumulative Translation Adjustment	(251)	-
Income Tax Expense (Benefit) Related to Unrealized Gain on Securities Available for Sale Arising During the Period	(35)	268
Income Tax Benefit Related to Unrealized Loss on Derivative Financial Instruments Arising During the Period	(1,665)	(9,912)
Reclassification Adjustment for Income Tax Benefit on Realized Losses on Derivative Financial Instruments In Net Income	7,263	5,085
Income Taxes – Net	5,312	(4,559)
Other Comprehensive Loss	(5,828)	(4,032)
Comprehensive Income	\$13,328	\$28,531

(Thousands of Dollars)	Nine Months Ended June 30,	
	2005	2004
Net Income Available for Common Stock	\$140,276	\$158,832
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	7,183	10,464
Unrealized Gain on Securities Available for Sale Arising During the Period	1,484	3,160
Unrealized Loss on Derivative Financial Instruments Arising During the Period	(84,385)	(68,423)
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	(652)	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	55,062	31,883
Other Comprehensive Loss Before Tax	(21,308)	(22,916)
Income Tax Expense Related to Cumulative Translation Adjustment	112	-
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	519	1,106
Income Tax Benefit Related to Unrealized Loss on Derivative Financial Instruments Arising During the Period	(32,318)	(25,799)
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	(228)	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses on Derivative Financial Instruments In Net Income	20,845	11,585
Income Taxes – Net	(11,070)	(13,108)
Other Comprehensive Loss	(10,238)	(9,808)
Comprehensive Income	\$130,038	\$149,024

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

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, 2004, 2003 and 2002 that are included in the 2004 Form 10-K. The 2005 consolidated financial statements will be examined by the Company's independent accountants after the end of the fiscal year.

The earnings for the nine months ended June 30, 2005 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2005. 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 in those segments 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.

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 \$44.5 million at June 30, 2005, is reduced to zero by September 30 as the inventory is replenished.

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

	<u>At June 30, 2005</u>	<u>At September 30, 2004</u>
Minimum Pension Liability Adjustment	\$(53,648)	\$(53,648)
Cumulative Foreign Currency Translation Adjustment	58,587	51,516
Net Unrealized Loss on Derivative Financial Instruments	(74,583)	(56,733)
Net Unrealized Gain on Securities Available for Sale	4,631	4,090
Accumulated Other Comprehensive Loss	<u>\$(65,013)</u>	<u>\$(54,775)</u>

Item 1: Financial Statements (Cont.)

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, 2005 and 2004, 657,769 and 2,690,547 stock options, respectively, were excluded as being antidilutive. For the nine months ended June 30, 2005 and 2004, 226,322 and 4,417,138 stock options, respectively, were excluded as being antidilutive.

Stock-Based Compensation. The Company accounts for stock-based compensation for options granted using the intrinsic value method specified by APB 25 and related interpretations. Under that method, no compensation expense was recognized for options granted under the plans for the quarter and nine months ended June 30, 2005 and 2004. However, in accordance with APB 25, the Company records compensation expense for the market value of restricted stock on the date of award over the periods during which the vesting restrictions exist. Had compensation expense associated with stock options been determined based on fair value at the grant dates, which is the accounting treatment specified by SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts below:

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net Income Available for Common Stock as Reported	\$19,156	\$32,563	\$140,276	\$158,832
Add:				
Stock-Based Compensation Expense Included in Reported Net Income, Net of Tax	66	109	270	435
Deduct:				
Stock-Based Compensation Expense Determined Based on Fair Value At the Grant Dates, Net of Tax	<u>(2,073)</u>	<u>(431)</u>	<u>(2,752)</u>	<u>(1,789)</u>
Pro Forma Net Income Available For Common Stock	<u>\$17,149</u>	<u>\$32,241</u>	<u>\$137,794</u>	<u>\$157,478</u>
Earnings Per Common Share:				
Basic – As Reported	\$0.23	\$0.40	\$1.68	\$1.94
Basic – Pro Forma	\$0.21	\$0.39	\$1.65	\$1.92
Diluted – As Reported	\$0.23	\$0.39	\$1.65	\$1.92
Diluted – Pro Forma	\$0.20	\$0.39	\$1.63	\$1.90

Item 1. Financial Statements (Cont.)

New Accounting Pronouncements. In December 2004, the FASB issued SFAS 123R. SFAS 123R replaces SFAS 123 and supercedes APB 25. The Company currently follows APB 25 in accounting for stock-based compensation, as disclosed above. SFAS 123R addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This standard focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Under this standard, companies are required to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The Company will adopt this standard during the first quarter of fiscal 2006. In accordance with SFAS 123R, the Company will use the modified version of prospective application. Under modified prospective application, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for the Company's disclosure under SFAS 123. The Company will not restate any prior periods as a result of adopting SFAS 123R. The Company does not believe that adoption of SFAS 123R will have a material impact on its financial condition and results of operations because substantially all of the Company's options will be vested by September 30, 2005.

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, if any, on its consolidated financial statements.

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

Note 2 – Adjustment of Loss on Sale of Oil and Gas Producing Properties

During the quarter ended March 31, 2004, the Company recorded a \$4.6 million earnings benefit related to the Company's 2003 sale of Canadian oil properties. When the Company completed that transaction in September 2003, the initial proceeds it received were subject to adjustment based on actual working capital and the resolution of certain income tax matters. During the quarter ended March 31, 2004, the Company resolved those items with the buyer and, as a result, received an additional \$4.6 million (U. S. dollars) of sales proceeds, which it recorded in the Adjustment of Loss on Sale of Oil and Gas Producing Properties line on the income statement.

Note 3 – Adjustment of Gain on Sale of Timber Properties

During the quarter ended June 30, 2004, the Company received final timber cruise information (inventory) on the 70,000 acres of timber properties sold in 2003. Based on that information, the Company determined that property records pertaining to \$1.3 million (\$0.8 million after tax) of timber property were not properly shown as having been transferred to the purchaser. As a result, the Company removed those assets from its property records and adjusted the previously recognized gain downward by recognizing a pre-tax loss of \$1.3 million. The Company recorded this adjustment in the Adjustment of Gain on Sale of Timber Properties line on the income statement.

Item 1. Financial Statements (Cont.)

Note 4 - Income Taxes

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

	Nine Months Ended June 30,	
	2005	2004
Operating Expenses:		
Current Income Taxes		
Federal	\$71,088	\$72,472
State	19,872	22,285
Foreign	1,568	131
Deferred Income Taxes		
Federal	(7,937)	(5,468)
State	(2,718)	(3,948)
Foreign	4,136	3,859
	86,009	89,331
Other Income:		
Deferred Investment Tax Credit	(523)	(523)
Taxes on Discontinued Operations Held for Sale	15,383	1,039
Total Income Taxes	\$100,869	\$89,847

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

	Nine Months Ended June 30,	
	2005	2004
U.S.	\$206,737	\$214,330
Foreign	34,408	34,349
	\$241,145	\$248,679

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 Months Ended June 30,	
	2005	2004
Income Tax Expense, Computed at Statutory Rate of 35%	\$84,401	\$87,038
Increase (Reduction) in Taxes Resulting From:		
State Income Taxes	11,150	11,919
Dividend from Foreign Subsidiary	3,708	-
Foreign Tax Differential	(1,122)	(1,806)
Foreign Tax Rate Reduction ⁽¹⁾	-	(5,174)
Tax on Unremitted Earnings	6,000	-
Miscellaneous	(3,268)	(2,130)
Total Income Taxes	\$100,869	\$89,847

⁽¹⁾ During the quarter ended December 31, 2003, legislation was enacted in the Czech Republic which reduces the corporate statutory income tax rate from 31% to 24% over a three-year period.

Item 1. Financial Statements (Cont.)

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

	At June 30, 2005	At September 30, 2004
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$581,750	\$568,114
Other	36,587	37,051
Total Deferred Tax Liabilities	618,337	605,165
Deferred Tax Assets:		
Minimum Pension Liability Adjustment	(28,887)	(28,887)
Capital Loss Carryover	(10,030)	(12,546)
Unrealized Hedging Losses	(45,072)	(33,890)
Other	(87,666)	(74,624)
	(171,655)	(149,947)
Valuation Allowance	2,746	2,877
Total Deferred Tax Assets	(168,909)	(147,070)
Less Deferred Income Taxes Included in Deferred Credits of Discontinued Operations Held for Sale	(23,546)	-
Total Net Deferred Income Taxes	\$425,882	\$458,095

The Company has undistributed earnings of foreign subsidiaries that relate to its operations in the Czech Republic. Due to the pending sale of the Czech assets as of June 30, 2005, these earnings are no longer considered to be permanently reinvested outside the United States and, accordingly, U.S. income taxes of \$6 million have been provided thereon. The \$6 million deferred tax, which is included in Income from Discontinued Operations, will be reversed in the fourth quarter as a result of the sale of the Czech assets occurring in such quarter.

The Company recorded a tax liability of \$3.8 million relating to a dividend of \$72.8 million received from a foreign subsidiary. The tax was recorded at a rate of 5.25% in accordance with the applicable provisions of the American Jobs Creation Act of 2004. A portion of this tax amounting to \$0.1 million is included in Other Comprehensive Loss. The remainder of this tax is included in Income from Discontinued Operations.

A capital loss carryover of \$28.7 million existed at June 30, 2005, which expires if not utilized by September 30, 2008. Although realization is not assured, management estimates that a portion of the deferred tax asset associated with this carryover will be realized during the carryover period, and a valuation allowance is recorded for the remaining portion. Adjustments to the valuation allowance may be necessary in the future if estimates of capital gain income are revised.

Note 5 – Capitalization

Common Stock. During the nine months ended June 30, 2005, the Company issued 907,971 shares of common stock under the Company's stock option and director compensation plans.

On March 29, 2005, 643,000 stock options were granted at an exercise price of \$28.155 per share.

On June 3, 2005, 57,000 stock options were granted at an exercise price of \$28.565 per share.

Item 1. Financial Statements (Cont.)

Note 6 – 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, 2005, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$8.1 million. This liability has been recorded on the Consolidated Balance Sheet at June 30, 2005.*

During the quarter ended June 30, 2005, the Company entered into a transfer agreement for environmental obligations related to a former manufactured gas plant site in New York. Under the terms of the agreement, the Company paid \$12.7 million during the quarter ended June 30, 2005 to settle its remaining environmental obligations related to this site. As a result, the environmental liability for this site has been reduced to zero at June 30, 2005.

During the quarter ended June 30, 2005, the Company reached a settlement agreement for environmental obligations related to another former manufactured gas plant site. The Company paid \$4.4 million in August 2005 under the terms of the settlement agreement, and the Company will continue to be responsible for future ongoing maintenance of the site. The \$4.4 million that was paid in August 2005 and the estimated obligation for ongoing maintenance of the site are included in the \$8.1 million liability at June 30, 2005.

Other than as discussed in Note G of the 2004 Form 10-K, the Company is currently not aware of any material additional exposure to environmental liabilities. However, changes in environmental regulations or other factors could adversely impact the Company. With regard to the payments made to settle environmental obligations for the two former manufactured gas plant sites discussed above, the Company expects to recover these clean-up costs from a combination of insurance proceeds and rate recovery.

For further discussion refer to Note G – Commitments and Contingencies under the heading "Environmental Matters" in Item 8 of the 2004 Form 10-K.

Other. *The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.*

Note 7 – Discontinued Operations

On July 18, 2005, the Company completed the sale of its majority 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 will result in a gain of approximately \$25.0 million. The gain will be recorded in the fourth quarter of 2005. Current market conditions, 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. in June 2005, the Company has presented the Czech Republic operations, which are primarily comprised of U.E., as discontinued operations at June 30, 2005. U.E. was the major component of the Company's International segment. With this change in presentation, the Company has discontinued all reporting for an International segment, as explained further in Note 8 – Business Segment Information. The assets

Item 1. Financial Statements (Cont.)

and liabilities of U.E. are identified on the consolidated balance sheet as assets or liabilities from discontinued operations held for sale.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
<i>(Thousands)</i>				
Operating Revenues	\$22,626	\$22,122	\$122,088	\$112,723
Operating Expenses	25,626	23,480	99,276	90,787
Operating Income (Loss)	(3,000)	(1,358)	22,812	21,936
Other Income	918	1,279	2,059	1,674
Interest Expense	(186)	(189)	(507)	(661)
Income (Loss) before Income Taxes and Minority Interest	(2,268)	(268)	24,364	22,949
Income Tax Expense	5,412	282	16,392	1,172
Minority Interest, Net of Taxes	(443)	(292)	2,899	3,378
Income (Loss) from Discontinued Operations	\$(7,237)	\$(258)	\$5,073	\$18,399

Note 8 – 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 disclosed in Note 7 - Discontinued Operations, the Company completed the sale of its majority interest in U.E., a district heating and electric generation business in the Czech Republic, on July 18, 2005. As a result of the decision to sell its majority interest in U.E. in June 2005, the Company has discontinued all reporting for an International segment and previous period segment information has been restated to reflect this change. All Czech Republic operations, which are primarily comprised of U.E., have been reported as discontinued operations. Any remaining international activity has been included in corporate operations. As stated in the 2004 Form 10-K, the Company evaluates segment performance based on income before discontinued operations, extraordinary items and cumulative effects of changes in accounting (when applicable). When these items are not applicable, the Company evaluates performance based on net income. There have been no material changes in the amount of assets for any operating segment from the amounts disclosed in the 2004 Form 10-K. The assets of U.E., which reflected substantially all of the former International segment assets, have been disclosed on the face of the balance sheet at June 30, 2005 as assets of discontinued operations held for sale. With the completion of the sale of U.E. in July 2005, these assets were removed from the Company's balance sheet.

Item 1. Financial Statements (Cont.)

Quarter Ended June 30, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$189,175	\$29,642	\$77,370	\$88,048	\$15,028	\$399,263	\$1,096	\$ -	\$400,359
Intersegment Revenues	\$ 2,734	\$20,956	\$ -	\$ -	\$ -	\$ 23,690	\$1,782	\$ (25,472)	\$ -
Segment Profit: Income (Loss) from Continuing Operations	\$ (1,684)	\$10,843	\$13,830	\$ 1,548	\$ 555	\$ 25,092	\$ 270	\$ 1,031	\$ 26,393

Nine Months Ended June 30, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$991,651	\$98,117	\$219,527	\$276,106	\$46,994	\$1,632,395	\$4,089	\$ -	\$1,636,484
Intersegment Revenues	\$ 12,732	\$63,071	\$ -	\$ -	\$ 1	\$ 75,804	\$ 6,125	\$ (81,929)	\$ -
Segment Profit: Income (Loss) from Continuing Operations	\$ 45,269	\$41,577	\$ 38,984	\$ 4,909	\$ 4,201	\$ 134,940	\$ 1,522	\$ (1,259)	\$ 135,203

Quarter Ended June 30, 2004 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$206,492	\$29,553	\$76,992	\$67,376	\$13,071	\$393,484	\$3,400	\$ -	\$396,884
Intersegment Revenues	\$ 3,059	\$20,895	\$ -	\$ -	\$ -	\$ 23,954	\$ -	\$ (23,954)	\$ -
Segment Profit: Income (Loss) from Continuing Operations	\$4,167	\$12,063	\$14,822	\$ 1,241	\$ 652	\$ 32,945	\$ 394	\$ (518)	\$ 32,821

Nine Months Ended June 30, 2004 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$1,029,638	\$92,420	\$225,594	\$240,732	\$41,622	\$1,630,006	\$10,468	\$ -	\$1,640,474
Intersegment Revenues	\$ 13,487	\$65,625	\$ -	\$ -	\$ 2	\$ 79,114	\$ -	\$ (79,114)	\$ -
Segment Profit: Income (Loss) from Continuing Operations	\$ 53,772	\$36,233	\$ 44,065	\$ 5,588	\$ 3,871	\$ 143,529	\$ 1,350	\$ (4,446)	\$ 140,433

Item 1. Financial Statements (Cont.)

Note 9 - Intangible Assets

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

	At June 30, 2005			At September 30, 2004
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Intangible Assets Subject to Amortization				
Long-Term Transportation Contracts	\$8,580	\$(2,584)	\$5,996	\$ 6,798
Long-Term Gas Purchase Contracts	31,864	(3,034)	28,830	30,025
Intangible Assets Not Subject to Amortization				
Retirement Plan Intangible Asset	9,171	-	9,171	9,171
	<u>\$49,615</u>	<u>\$ (5,618)</u>	<u>\$43,997</u>	<u>\$45,994</u>

Aggregate Amortization Expense (Thousands)

Three Months Ended June 30, 2005	\$666
Three Months Ended June 30, 2004	\$666
Nine Months Ended June 30, 2005	\$1,997
Nine Months Ended June 30, 2004	\$1,902

Amortization expense for the long-term transportation contracts is estimated to be \$0.3 million for the remainder of 2005 and \$1.1 million annually for 2006, 2007, and 2008. Amortization in 2009 is estimated to be \$0.5 million.

Amortization expense for the long-term gas purchase contracts is estimated to be \$0.4 million for the remainder of 2005 and \$1.6 million annually for 2006, 2007, 2008 and 2009.

Note 10 - Retirement Plan and Other Post-Retirement Benefits

Components of Net Periodic Benefit Cost (in thousands):

Three months ended June 30,

	Retirement Plan		Other Post-Retirement Benefits	
	2005	2004	2005	2004
Service Cost	\$3,429	\$3,649	\$1,538	\$1,649
Interest Cost	10,520	10,141	6,446	6,885
Expected Return on Plan Assets	(12,386)	(12,070)	(4,715)	(3,453)
Amortization of Prior Service Cost	257	276	1	1
Amortization of Transition Amount	-	-	1,782	1,782
Amortization of Losses	2,618	2,360	3,116	5,381
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	<u>1,500</u>	<u>435</u>	<u>(963)</u>	<u>(4,706)</u>
Net Periodic Benefit Cost	<u>\$5,938</u>	<u>\$4,791</u>	<u>\$7,205</u>	<u>\$7,539</u>

Item 1. Financial Statements (Cont.)

Nine months ended June 30,

	<u>Retirement Plan</u>		<u>Other Post-Retirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service Cost	\$10,285	\$10,948	\$4,614	\$4,948
Interest Cost	31,559	30,424	19,338	20,656
Expected Return on Plan Assets	(37,159)	(36,211)	(14,145)	(10,360)
Amortization of Prior Service Cost	772	827	3	3
Amortization of Transition Amount	-	-	5,346	5,345
Amortization of Losses	7,855	7,078	9,348	16,144
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	5,060	1,049	4,272	(7,179)
Net Periodic Benefit Cost	\$18,372	\$14,115	\$28,776	\$29,557

(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, 2005, the Company contributed \$36.3 million to its post-retirement benefit plan and \$26.1 million to its retirement plan. In the remainder of 2005, the Company expects to contribute an additional \$3.0 million to \$4.0 million to its post-retirement benefit plan. The Company does not expect to make any additional contributions to its retirement plan during the remainder of 2005.

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

CRITICAL ACCOUNTING POLICIES

For a complete discussion of critical accounting policies, refer to "Critical Accounting Policies" in Item 7 of the 2004 Form 10-K. There have been no subsequent changes to that disclosure.

RESULTS OF OPERATIONS

Earnings

The Company's earnings were \$19.2 million for the quarter ended June 30, 2005 compared to earnings of \$32.6 million for the quarter ended June 30, 2004. The Company's earnings were \$140.3 million for the nine months ended June 30, 2005 compared to earnings of \$158.8 million for the nine months ended June 30, 2004. The following paragraphs will discuss these fluctuations in terms of earnings from continuing operations and earnings from discontinued operations. The quarter ended June 30, 2005 is the first quarter in which the Company is reporting earnings from discontinued operations. The decision to report discontinued operations stems from the fact that the Company decided to sell its majority interest in U.E., a district heating and electric generation business in the Czech Republic in June 2005. The Company subsequently completed the sale on July 18, 2005. Current market conditions, 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 determined it appropriate to present the Czech Republic operations, which are primarily comprised of U.E., as discontinued operations at June 30, 2005. The Company also determined it appropriate to discontinue all reporting for an International segment since the Czech Republic operations represented substantially all of the activity in that segment. Any remaining international activity has been included in corporate operations for all periods presented below.

Quarter Ended June 30, 2005 Compared with Quarter Ended June 30, 2004

The Company's earnings from continuing operations were \$26.4 million for the quarter ended June 30, 2005 compared to earnings from continuing operations of \$32.8 million for the quarter ended June 30, 2004. The decrease is primarily the result of lower earnings in the Utility, Pipeline and Storage, and Exploration and Production segments, partially offset by slightly higher earnings in the Energy Marketing segment, as shown in the table below. Earnings in the Timber segment did not change significantly from the prior year. However, it should be noted that the Timber segment earnings for the quarter ended June 30, 2004 were reduced by a \$0.8 million adjustment to the Company's August 2003 sale of timber properties.

The Company recognized a loss from discontinued operations of \$7.2 million for the quarter ended June 30, 2005, \$7.0 million higher than the \$0.2 million loss from discontinued operations for the quarter ended June 30, 2004. For the quarter ended June 30, 2005, the loss from discontinued operations includes \$6.0 million of previously unrecorded deferred income tax expense related to U.E.

Nine Months Ended June 30, 2005 Compared with Nine Months Ended June 30, 2004

The Company's earnings from continuing operations were \$135.2 million for the nine months ended June 30, 2005 compared to earnings from continuing operations of \$140.4 million for the nine months ended June 30, 2004. The decrease of \$5.2 million is primarily the result of lower earnings in the Utility, Exploration and Production, and Energy Marketing segments, partially offset by higher earnings in the Pipeline and Storage and Timber segments, as shown in the table below. As mentioned above, Timber segment earnings for the nine months ended June 30, 2004 were reduced by \$0.8 million related to an adjustment to the Company's August 2003 sale of timber properties. In addition, the Pipeline & Storage segment's earnings for the nine months ended June 30, 2005 include a \$2.6 million gain on the FERC approved sale of base gas by Supply Corporation's jointly-owned Ellsberg Storage Pool. Earnings for the nine months ended June 30, 2004 include the earnings impact of \$6.4 million of expense, allocated among all segments, associated with the settlement of a pension obligation. Also, the Exploration and Production segment's earnings for the nine months ended June 30, 2004 include a \$4.6 million benefit related to the Company's September 2003 sale of Canadian oil properties.

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

The Company's earnings from discontinued operations were \$5.1 million for the nine months ended June 30, 2005, a decrease of \$13.3 million as compared to earnings from discontinued operations of \$18.4 million for the nine months ended June 30, 2004. As mentioned above, the earnings from discontinued operations for the nine months ended June 30, 2005 include \$6.0 million of previously unrecorded deferred income tax expense related to U.E. In addition, the earnings from discontinued operations for the nine months ended June 30, 2005 include a \$3.7 million charge for U.S. taxes on the \$72.8 million dividend repatriated from the Company's operations in the Czech Republic. Earnings from discontinued operations for the nine months ended June 30, 2004 include a \$5.2 million reduction to deferred income tax expense resulting from a change in the statutory income tax rate in the Czech Republic, which also contributed to the decline in earnings from discontinued operations for the nine months ended June 30, 2005.

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

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Utility	\$(1,684)	\$4,167	\$(5,851)	\$45,269	\$53,772	\$(8,503)
Pipeline and Storage	10,843	12,063	(1,220)	41,577	36,233	5,344
Exploration and Production	13,830	14,822	(992)	38,984	44,065	(5,081)
Energy Marketing	1,548	1,241	307	4,909	5,588	(679)
Timber	555	652	(97)	4,201	3,871	330
Total Reportable Segments	25,092	32,945	(7,853)	134,940	143,529	(8,589)
All Other Corporate ⁽¹⁾	270	394	(124)	1,522	1,350	172
	1,031	(518)	1,549	(1,259)	(4,446)	3,187
Total Earnings from Continuing Operations	\$26,393	\$32,821	\$(6,428)	\$135,203	\$140,433	\$(5,230)
Earnings from Discontinued Operations	(7,237)	(258)	(6,979)	5,073	18,399	(13,326)
Total Consolidated	\$19,156	\$32,563	\$(13,407)	\$140,276	\$158,832	\$(18,556)

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

Utility

Utility Operating Revenues

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Retail Sales Revenues:						
Residential	\$152,581	\$136,324	\$16,257	\$794,269	\$739,797	\$54,472
Commercial	23,676	20,846	2,830	134,826	127,130	7,696
Industrial	1,510	5,701	(4,191)	8,220	15,701	(7,481)
	177,767	162,871	14,896	937,315	882,628	54,687
Off-System Sales	-	28,034	(28,034)	-	91,236	(91,236)
Transportation	17,986	17,605	381	69,545	68,084	1,461
Other	(3,844)	1,041	(4,885)	(2,477)	1,177	(3,654)
	\$191,909	\$209,551	\$(17,642)	\$1,004,383	\$1,043,125	\$(38,742)

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

Utility Throughput

(MMcf)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Retail Sales:						
Residential	10,698	10,899	(201)	63,125	65,791	(2,666)
Commercial	1,814	1,812	2	11,340	12,019	(679)
Industrial	120	797	(677)	721	2,050	(1,329)
	12,632	13,508	(876)	75,186	79,860	(4,674)
Off-System Sales	-	4,151	(4,151)	-	14,254	(14,254)
Transportation	13,776	13,923	(147)	50,345	51,597	(1,252)
	26,408	31,582	(5,174)	125,531	145,711	(20,180)

Degree Days

Three Months Ended June 30	Normal	2005	2004	Percent Colder (Warmer) Than	
				Normal	Prior Year
Buffalo	927	911	884	(1.7)	3.1
Erie	885	952	786	7.6	21.1
Nine Months Ended June 30					
Buffalo	6,514	6,551	6,474	0.6	1.2
Erie	6,108	6,215	5,991	1.8	3.7

2005 Compared with 2004

Operating revenues for the Utility segment decreased \$17.6 million for the quarter ended June 30, 2005 as compared with the quarter ended June 30, 2004. The decrease for the quarter was primarily the result of the absence of any off-system sales revenues in 2005 and lower other operating revenues, offset partially by higher retail gas sales revenues. Off-system sales decreased \$28.0 million for the quarter ended June 30, 2005 as compared with the quarter ended June 30, 2004. Effective September 22, 2004, Distribution Corporation stopped making off-system sales as a result of the FERC's Order 2004, "Standards of Conduct for Transmission Providers," as discussed more fully in the Rate Matters section below. As a result of this decision, Distribution Corporation most likely will not have any off-system sales in 2005.* However, due to profit sharing with retail customers, the margins that had resulted from off-system sales were minimal and; accordingly, the Company does not expect any material impact to margins in 2005.* Other operating revenues decreased \$4.9 million due primarily to two out-of-period regulatory adjustments recorded during the quarter ended June 30, 2005. 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 related to fiscal years 2004 and prior. These out-of-period adjustments are considered immaterial to the quarter ended June 30, 2005 and inconsequential to all applicable prior periods. Retail gas revenues increased \$14.9 million largely due to the recovery of higher gas costs (gas costs are recovered dollar for dollar in revenues). This increase was partially offset by a decrease in retail industrial sales revenue, due to production declines of certain large volume industrial customers. Also contributing to the increase, in the Pennsylvania rate jurisdiction, were the impacts of colder than normal weather and a base rate increase. On April 15, 2005, Distribution Corporation implemented the March 23, 2005 Settlement Agreement with the Staff of the PaPUC and other parties, which among other things, provided for a \$12.0 million annual base rate increase in revenues. For the quarter ended June 30, 2005, the base rate adjustment contributed \$1.6 million to revenues.

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

Operating revenues for the Utility segment decreased \$38.7 million for the nine months ended June 30, 2005 as compared with the nine months ended June 30, 2004. The decrease for the nine months was primarily the result of the absence of any off-system sales revenues in 2005 and lower other operating revenues, offset partially by higher retail sales revenues. Off-system sales decreased \$91.2 million for the nine months ended June 30, 2005 as compared with the nine months ended June 30, 2004 as a result of the FERC's Order 2004, as noted above. Other operating revenues decreased \$3.7 million due primarily to two out-of-period regulatory adjustments recorded during the quarter ended June 30, 2005, as noted above. Partially offsetting these decreases, the increase in retail gas sales revenues was largely a function of the recovery of higher gas costs, which more than offset lower retail sales volumes, as shown above.

The Utility segment experienced a loss of \$1.7 million for the quarter ended June 30, 2005, a decrease of \$5.9 million when compared with the quarter ended June 30, 2004. In the New York jurisdiction, earnings decreased by \$7.2 million principally due to two out-of-period regulatory adjustments recorded during the quarter ended June 30, 2005. 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 (after tax), (\$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 earnings decrease in New York also was caused by higher pension expense (\$0.1 million), higher post-retirement expenses (\$0.2 million) and higher bad debt expense (\$0.3 million). In the Pennsylvania rate jurisdiction, earnings increased \$1.3 million primarily due to increased margin associated with the impact of a base rate increase (\$1.0 million), as noted above.

The Utility segment's earnings for the nine months ended June 30, 2005 were \$45.3 million, a decrease of \$8.5 million when compared with the earnings of \$53.8 million for the nine months ended June 30, 2004. In the New York rate jurisdiction, earnings decreased by \$6.3 million principally due to a \$4.9 million decrease in margin on retail sales and transportation services, resulting from lower average usage per customer. The two out-of-period regulatory adjustments noted above (\$4.1 million) also contributed to the decrease. These decreases were partially offset by a \$1.2 million charge associated with the settlement of a pension obligation recorded in the quarter ended March 31, 2004, which did not recur in 2005. For the Pennsylvania rate jurisdiction, earnings decreased by \$2.2 million principally due to a \$3.0 million increase in operation and maintenance expense. The increase in operation and maintenance expense was due to an increase in pension and other post-retirement expenses (\$2.7 million) and higher bad debt expense (\$0.7 million). The increase in pension and other post-retirement expenses is largely related to the 2003 Settlement Agreement with the PaPUC, which provided for a one-time credit to pension expense recorded by the Company during the quarter ended December 31, 2003. Partially offsetting these decreases was \$1.0 million of expense associated with the settlement of a pension obligation recognized in the quarter ended March 31, 2004. That expense did not recur in 2005. Margin in the Pennsylvania rate jurisdiction remained flat as decreased usage per customer (\$2.2 million) was offset by the impact of colder than normal weather (\$1.1 million) and a base rate increase (\$1.0 million), effective April 15, 2005, in conjunction with the March 23, 2005 Settlement Agreement with the PaPUC, as noted above.

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

Pipeline and Storage

Pipeline and Storage Operating Revenues

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Firm Transportation	\$28,349	\$28,929	\$(580)	\$89,966	\$92,194	\$(2,228)
Interruptible Transportation	1,121	785	336	2,969	2,323	646
	29,470	29,714	(244)	92,935	94,517	(1,582)
Firm Storage Service	16,297	15,961	336	48,767	47,774	993
Other	4,831	4,773	58	19,486	15,754	3,732
	\$50,598	\$50,448	\$150	\$161,188	\$158,045	\$3,143

Pipeline and Storage Throughput

(MMcf)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Firm Transportation	70,944	66,140	4,804	284,537	284,351	186
Interruptible Transportation	7,162	6,995	167	10,004	10,891	(887)
	78,106	73,135	4,971	294,541	295,242	(701)

2005 Compared with 2004

Operating revenues for the Pipeline and Storage segment were relatively unchanged for the quarter ended June 30, 2005 as compared with the quarter ended June 30, 2004. For the nine months ended June 30, 2005, operating revenues for the Pipeline and Storage segment increased \$3.1 million as compared with the nine months ended June 30, 2004. This increase was primarily due to higher revenues from unbundled pipeline sales of \$2.7 million, reported as part of other revenues in the table above. Higher cashout revenues of \$0.7 million, also reported as part of other revenues in the table above, also contributed to the increase. Cashout revenues represent a cash resolution of a gas imbalance whereby a customer pays Supply Corporation for gas the customer receives in excess of amounts delivered into Supply Corporation's system by the customer's shipper. Cashout revenues are completely offset by purchased gas expense. In addition, increased firm storage revenues of \$1.0 million also contributed to the increase in revenues. Offsetting these increases, the decrease in transportation revenues of \$1.6 million largely reflects the Utility segment's cancellation of a portion of its firm transportation capacity in April 2004. The Utility segment's decision to cancel a portion of its firm transportation capacity was based on lower usage in its service territory. Supply Corporation has only been able to remarket approximately twenty percent of this capacity to date.

Earnings in the Pipeline and Storage segment for the quarter ended June 30, 2005 decreased \$1.2 million as compared with the quarter ended June 30, 2004. The decrease can be attributed to higher operation and maintenance expenses (\$0.9 million) and a reserve for preliminary project costs incurred during the quarter ended June 30, 2005 associated with the Empire State Pipeline Connector project (\$0.3 million). Lower interest expense (\$0.5 million) partially offset these increases.

The Pipeline and Storage segment's earnings for the nine months ended June 30, 2005 were \$41.6 million, an increase of \$5.3 million when compared with the nine months ended June 30, 2004. The main factors contributing to this increase were higher revenues from unbundled pipeline sales (\$1.8 million), lower interest expense (\$2.1 million), \$2.0 million of expense that did not recur in 2005 associated with the settlement of a pension obligation recognized in the quarter ended March 31, 2004,

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

as well as the \$2.6 million gain on the FERC approved sale of base gas during the quarter ended March 31, 2005. A reserve for preliminary project costs incurred for the nine months ended June 30, 2005 associated with the Empire State Pipeline Connector project (\$1.9 million) partially offset these increases.

The sale of Ellisburg base gas, which amounted to 660 MMcf, will open up 660 MMcf of space for ongoing storage service. At current rates between \$1.49 and \$1.70 per Mcf, it is expected that future storage service revenues may increase by approximately \$1.0 million per year with almost no increase in operating expenses associated with the higher revenues.* The additional storage space has already been contracted for, effective April 1, 2005, resulting in approximately \$0.3 million of additional storage revenues for the quarter ended June 30, 2005 over the prior period.

Exploration and Production

Exploration and Production Operating Revenues

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Gas (after Hedging)	\$47,117	\$43,947	\$3,170	\$132,381	\$130,240	\$2,141
Oil (after Hedging)	27,666	31,354	(3,688)	80,185	90,009	(9,824)
Gas Processing Plant	8,894	6,980	1,914	25,943	20,609	5,334
Other	760	842	(82)	1,947	1,607	340
Intrasegment Elimination ⁽¹⁾	(7,067)	(6,131)	(936)	(20,929)	(16,871)	(4,058)
	\$77,370	\$76,992	\$378	\$219,527	\$225,594	\$(6,067)

⁽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,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Gas Production (MMcf)						
Gulf Coast	3,365	4,563	(1,198)	9,433	14,050	(4,617)
West Coast	975	1,018	(43)	3,000	3,018	(18)
Appalachia	1,156	1,208	(52)	3,499	3,894	(395)
Canada	2,134	1,578	556	5,959	4,874	1,085
	7,630	8,367	(737)	21,891	25,836	(3,945)
Oil Production (Mbbbl)						
Gulf Coast	251	395	(144)	801	1,184	(383)
West Coast	630	651	(21)	1,916	2,012	(96)
Appalachia	11	4	7	23	15	8
Canada	75	89	(14)	229	253	(24)
	967	1,139	(172)	2,969	3,464	(495)

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Average Prices

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Average Gas Price/Mcf						
Gulf Coast	\$6.92	\$6.06	\$0.86	\$6.72	\$5.52	\$1.20
West Coast	\$6.87	\$5.87	\$1.00	\$6.54	\$5.44	\$1.10
Appalachia	\$6.97	\$6.23	\$0.74	\$7.16	\$5.88	\$1.28
Canada	\$6.08	\$5.02	\$1.06	\$5.70	\$4.86	\$0.84
Weighted Average	\$6.69	\$5.87	\$0.82	\$6.49	\$5.44	\$1.05
Weighted Average After Hedging	\$6.18	\$5.25	\$0.93	\$6.05	\$5.04	\$1.01
Average Oil Price/bbl						
Gulf Coast	\$49.83	\$36.80	\$13.03	\$47.73	\$33.43	\$14.30
West Coast	\$42.57	\$33.56	\$9.01	\$39.10	\$30.26	\$8.84
Appalachia	\$50.95	\$32.55	\$18.40	\$46.71	\$29.50	\$17.21
Canada	\$41.66	\$32.25	\$9.41	\$40.39	\$29.50	\$10.89
Weighted Average	\$44.48	\$34.58	\$9.90	\$41.59	\$31.28	\$10.31
Weighted Average After Hedging	\$28.62	\$27.53	\$1.09	\$27.00	\$25.98	\$1.02

2005 Compared with 2004

Operating revenues for the Exploration and Production segment increased \$0.4 million for the quarter ended June 30, 2005 as compared with the quarter ended June 30, 2004. Oil production revenue after hedging decreased \$3.7 million due primarily to a 172,000 barrel decline in production, particularly in the Gulf Coast of Mexico region where production decreased by approximately 144,000 barrels, offset partly by higher weighted average prices after hedging (\$1.09 per barrel). Gas production revenue after hedging increased \$3.2 million due to higher weighted average prices after hedging (\$0.93 per Mcf), offset partly by a 737 MMcf decrease in production. Most of the decrease in gas production occurred in the Gulf Coast region (a 1,198 MMcf decline), which is consistent with the expected decline rates for the Company's production in this region. This decline was partially offset by an increase in Canadian gas production, primarily due to production from the Sukunka 60-E well, in which the Company has a 20% working interest.

Operating revenues for the Exploration and Production segment decreased \$6.1 million for the nine months ended June 30, 2005 as compared with the nine months ended June 30, 2004. Oil production revenue after hedging decreased \$9.8 million due to a 495,000 barrel decline in production offset partly by higher weighted average prices after hedging (\$1.02 per barrel). The majority of the decrease can be attributed to the Gulf Coast region oil production decline of approximately 383,000 barrels. Gas production revenue after hedging increased \$2.1 million. Increases in the weighted average price of gas after hedging (\$1.01 per Mcf) more than offset an overall decrease in gas production of 3,945 MMcf. The decrease in gas production occurred primarily in the Gulf Coast region (a 4,617 MMcf decline), which is consistent with the expected decline rates for the Company's production in this region. This decline was partially offset by an increase in Canadian gas production, primarily due to production from the Sukunka 60-E well, in which the Company has a 20% working interest.

As shown above, this segment's weighted average oil prices after hedging were \$28.62 and \$27.00, respectively, during the quarter and nine months ended June 30, 2005. While these prices reflect the impact of hedging, they also reflect the lesser value of the West Coast's heavy sour crude oil, which represents the bulk of the Company's oil production as compared to the more widely publicized West Texas Intermediate (WTI) price of light sweet crude, which is in the \$50 - \$60 range. While prices of light sweet crude oil increased significantly during the nine months ended June 30, 2005, prices for West Coast heavy sour crude oil did not increase as dramatically due to oversupply and refinery constraint issues. Historically, the prices of light sweet crude oil and heavy sour crude oil have largely

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moved in tandem, meaning that the price differential between light sweet crude oil and heavy sour crude oil has historically not changed significantly. The Company's hedge effectiveness tests for the derivative financial instruments used in the Exploration and Production segment, as required by SFAS 133, have assumed that the differential between these two types of oil will return to their historical norms. During the quarter ended June 30, 2005 the price differential between these two types of oil did decrease. However, if the current price differential does not continue to decline to its historical norm, it is possible that these assumptions would change and that some of the derivative financial instruments used to hedge West Coast oil production may become ineffective.* To the extent that derivative financial instruments would ever be deemed to be ineffective, gains or losses from the derivative financial instruments from that point forward would be marked-to-market on the income statement without regard to an underlying physical transaction (i.e., there would be timing differences between when gains or losses from derivative financial instruments are recorded and when the revenues from the anticipated production is recorded).

The Exploration and Production segment's earnings for the quarter ended June 30, 2005 were \$13.8 million, a decrease of \$1.0 million when compared with a earnings of \$14.8 million for the quarter ended June 30, 2004. The decrease for the quarter is due primarily to higher lease operating expenses (\$0.8 million) and general and administrative expenses (\$0.8 million). The increase in lease operating expenses is principally attributable to the Sukunka wells in Canada (which are generally more expensive to operate than the Company's other properties) and higher fuel costs in the West division.

The Exploration and Production segment's earnings for the nine months ended June 30, 2005 were \$39.0 million, a decrease of \$5.1 million when compared with earnings of \$44.1 million for the nine months ended June 30, 2004. As noted above, the decrease is a result of the decrease in oil and gas revenues caused by an overall decline in production (\$5.0 million) as well as an increase in lease operating expense (\$1.1 million). Also contributing to the decrease is the non-recurrence of a \$4.6 million earnings benefit recognized in the quarter ended March 31, 2004 related to the Company's September 2003 sale of Canadian oil properties located in Southeast Saskatchewan. When the Southeast Saskatchewan transaction closed, the initial proceeds received were subject to an adjustment based on actual working capital and the resolution of certain income tax matters. During the quarter ended March 31, 2004, those items were resolved with the buyer and, as a result, the Company received an additional \$4.6 million (U.S. dollars) of sales proceeds, which is recorded in the Adjustment of Loss on Sale of Oil and Gas Producing Properties line on the income statement. Partially offsetting these decreases was the non-recurrence of the expense associated with the settlement of a pension obligation in the quarter ended March 31, 2004 (\$0.9 million), lower depreciation and depletion expense (\$0.8 million), lower interest expense (\$1.1 million), and higher interest income (\$1.4 million).

Energy Marketing

Energy Marketing Operating Revenues

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Natural Gas (after Hedging)	\$87,983	\$67,374	\$20,609	\$276,032	\$240,701	\$35,331
Other	65	2	63	74	31	43
	\$88,048	\$67,376	\$20,672	\$276,106	\$240,732	\$35,374

Energy Marketing Volumes

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Natural Gas - (MMcf)	10,925	9,918	1,007	34,115	35,908	(1,793)

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2005 Compared with 2004

Operating revenues for the Energy Marketing segment increased \$20.7 million and \$35.4 million, respectively, for the quarter and nine months ended June 30, 2005, as compared with the quarter and nine months ended June 30, 2004. These increases primarily reflect an increase in the price of natural gas over the prior year periods. For the quarter ended June 30, 2005, volumes are up over the prior year's quarter due to the addition of customers in the lower margin wholesale and industrial customer classes. For the nine months ended June 30, 2005, volumes are down over the prior year period due to the loss of customers in the lower margin wholesale customer class during the six months ended March 31, 2005.

The Energy Marketing segment's earnings for the quarter ended June 30, 2005 were \$1.5 million, an increase of \$0.3 million when compared with earnings of \$1.2 million for the quarter ended June 30, 2004. Despite higher operating revenues and volumes, margins did not increase significantly due to low margins in the wholesale and industrial customer classes.

The Energy Marketing segment's earnings for the nine months ended June 30, 2005 were \$4.9 million, a decrease of \$0.7 million when compared with earnings of \$5.6 million for the nine months ended June 30, 2004. The decrease primarily reflects lower margins caused by a reduction in the benefit of storage gas and, to a lesser extent, lower throughput.

Timber

Timber Operating Revenues

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Log Sales	\$4,370	\$4,434	\$(64)	\$18,014	\$16,833	\$1,181
Green Lumber Sales	2,424	1,345	1,079	5,734	4,464	1,270
Kiln Dry Lumber Sales	7,919	7,115	804	22,015	19,647	2,368
Other	315	177	138	1,232	680	552
Operating Revenues	\$15,028	\$13,071	\$1,957	\$46,995	\$41,624	\$5,371

Timber Board Feet

(Thousands)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2005	2004	Increase/ (Decrease)	2005	2004	Increase/ (Decrease)
Log Sales	1,619	1,392	227	5,934	5,208	726
Green Lumber Sales	3,475	1,956	1,519	8,179	7,154	1,025
Kiln Dry Lumber Sales	4,110	3,824	286	11,373	10,909	464
	9,204	7,172	2,032	25,486	23,271	2,215

2005 Compared with 2004

Operating revenues for the Timber segment increased \$2.0 million for the quarter ended June 30, 2005 as compared with the quarter ended June 30, 2004. The increase for the quarter can largely be attributed to higher green lumber sales of \$1.1 million as well as higher kiln dry lumber sales of \$0.8 million.

Operating revenues for the Timber segment increased \$5.4 million for the nine months ended June 30, 2005 as compared with the nine months ended June 30, 2004. This increase can be attributed to an increase in kiln dry lumber sales of \$2.4 million due to an increase in processing cherry lumber volumes as well as higher log sales of \$1.2 million (the majority being cherry veneer due to favorable

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weather conditions). Green lumber sales also increased by \$1.3 million largely due to increased sales in maple green lumber.

The Timber segment's earnings for the quarter ended June 30, 2005 were \$0.6 million, a decrease of \$0.1 million when compared with earnings of \$0.7 million for the quarter ended June 30, 2004. The decrease is partially due to increases in cost of good sold as a result of the higher cost basis of trees harvested. Offsetting this decrease is a \$0.8 million adjustment to the Company's August 2003 sale of timber properties during the quarter ended June 30, 2004 discussed above. The Company received final timber cruise information of the properties it sold and, based on that information, determined that property records pertaining to \$1.3 million (\$0.8 million after tax) of timber property were not properly shown as having been transferred to the purchaser. As a result, the Company removed those assets from its property records and adjusted the previously recognized gain downward by recognizing a pre tax loss of \$1.3 million in the quarter ended June 30, 2004. No such expense was incurred in 2005.

The Timber segment's earnings for the nine months ended June 30, 2005 were \$4.2 million, an increase of \$0.3 million when compared with earnings of \$3.9 million for the nine months ended June 30, 2004. Increases in cost of good sold during 2005 due to a larger amount of timber being harvested on purchased stumpage that has a higher cost basis than other raw material sources, were more than offset by the favorable earnings impact associated with the non-recurrence of the \$0.8 million after tax loss recorded in 2004 related to the Company's fiscal 2003 sale of timber properties, as discussed above.

Interest Charges

Interest on long-term debt decreased \$1.9 million and \$9.0 million, respectively, for the quarter and nine months ended June 30, 2005 as compared with the quarter and nine months ended June 30, 2004. For both the quarter and nine-month periods, the decrease can be attributed primarily to lower average amounts of long-term debt outstanding.

Other interest charges increased \$3.5 million and \$4.1 million, respectively, for the quarter and nine months ended June 30, 2005 as compared with the quarter and nine months ended June 30, 2004. These increases resulted primarily from a regulatory true-up adjustment 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.

CAPITAL RESOURCES AND LIQUIDITY

The Company's primary source of cash during the nine-month period ended June 30, 2005 was cash provided by operating activities. This source of cash was supplemented by issuances of common stock under the Company's stock option plans. During the nine months ended June 30, 2005, issuances of common stock under the Company's 401(k) plans and Direct Stock Purchase and Dividend Reinvestment Plan were made via open market purchases.

Operating Cash Flow

Internally generated cash from operating activities consists of net income available for common stock, adjusted for non-cash expenses, non-cash income, and changes in operating assets and liabilities. Non-cash items include depreciation, depletion and amortization, deferred income taxes, income or loss from unconsolidated subsidiaries net of cash distributions, adjustment of loss on sale of oil and gas producing properties, adjustment of gain on sale of timber properties, 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.

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

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

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

Net cash provided by operating activities totaled \$342.9 million for the nine months ended June 30, 2005, a decrease of \$65.3 million compared with \$408.2 million provided by operating activities for the nine months ended June 30, 2004. Most of this decrease occurred in the Utility, Exploration and Production, and Energy Marketing segments. In the Utility segment, the decrease was largely attributable to gas cost recovery timing differences. In the Exploration and Production segment, lower oil and gas sales and higher lease operating expenses contributed to a decrease in cash from operations. Higher working capital requirements was the main reason for the decrease in the Energy Marketing segment. Partially offsetting this decrease, the Corporate operation experienced a significant cash outflow in January 2004 due to a \$23.0 million lump sum payment to a participant of the Company's nonqualified defined benefit plan under a provision of an agreement previously entered into between the Company and the participant. No such cash outflow occurred during the nine months ended June 30, 2005.

Investing Cash Flow

Expenditures for Long-Lived Assets

Expenditures for long-lived assets include additions to property, plant and equipment.

The Company's expenditures for long-lived assets totaled \$153.2 million during the nine months ended June 30, 2005. The table below presents these expenditures:

Nine Months Ended June 30, 2005 (In millions of dollars)	
	Total Expenditures for Long-Lived Assets
Utility	\$35.0
Pipeline and Storage	13.1
Exploration and Production	86.1
Timber	18.7
All Other and Corporate	0.3
Total Expenditures from Continuing Operations	\$153.2

Utility

The majority of the Utility capital expenditures for the nine months ended June 30, 2005 were made for replacement of mains and main extensions, as well as for the replacement of service lines.

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Pipeline and Storage

The majority of the Pipeline and Storage capital expenditures for the nine months ended June 30, 2005 were made for additions, improvements, and replacements to this segment's transmission and storage systems.

The Company is pursuing a project to expand its natural gas pipeline operations to serve new markets in New York and elsewhere in the Northeast by extending the Empire State Pipeline.* This proposed extension project would provide an upstream supply link for Phase I of the Millennium Pipeline and will transport Canadian and other natural gas supplies to downstream customers, including Key Span Gas East Corporation, which has entered into a precedent agreement to be a major shipper, subject to the satisfaction of various conditions.* The pipeline extension will be designed to move at least 250 MMcf of natural gas per day.* The preliminary estimate of the cost for developing the Empire extension project is \$145 million and the targeted in-service date is in calendar 2007.* As of June 30, 2005, the Company had incurred approximately \$3.6 million in costs (all of which have been reserved) related to this project. Of this amount, \$0.5 million and \$3.0 million, respectively, were incurred during the quarter and nine months ended June 30, 2005.

The Company completed a FERC approved sale of base gas from Supply Corporation's jointly-owned Ellisburg Storage Pool in March 2005 for \$4.6 million in sales proceeds. As a result of the sale, property, plant, and equipment was reduced by \$0.7 million for the cost basis of the gas and a \$3.9 million gain on the sale (\$2.6 million after tax) was recognized by the Company in the quarter-ended March 31, 2005. The proceeds of this sale are included in Other Investing Activities on the Consolidated Statement of Cash Flows for the nine months ended June 30, 2005. The gain is included in Other Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities.

Exploration and Production

The Exploration and Production segment capital expenditures for the nine months ended June 30, 2005 included approximately \$26.9 million (U.S. Dollar equivalent) for Canada, \$31.7 million for the Gulf Coast region (\$30.7 million for the off-shore program in the Gulf of Mexico), \$21.3 million for the West Coast region and \$6.2 million for the Appalachian region. These amounts included approximately \$11.7 million spent to develop proved undeveloped reserves.

Estimated capital expenditures in 2005 for the Exploration and Production segment have been increased from \$112.0 million to \$139.0 million.* Estimated capital expenditures for Canada remains unchanged at \$41.0 million.* Estimated capital expenditures for the Gulf Coast region have been increased from \$35.0 million to \$56.0 million.* Estimated capital expenditures for the West Coast region have been increased from \$24.0 million to \$27.0 million and estimated capital expenditures for the Appalachian region have been increased from \$12.0 million to \$15.0 million.* Drilling success in the Gulf Coast region is the main reason for this increase.

Timber

The majority of the Timber segment capital expenditures for the nine months ended June 30, 2005 were made for the purchase of land and timber rights in Elk County, Pennsylvania in January 2005. The land and timber, consisting of approximately 12,324 acres, was purchased for approximately \$17.6 million. The remaining \$1.1 million of capital expenditures for the nine months ended June 30, 2005 was made for purchases of equipment for Highland's sawmill and kiln operations.

The Company continuously evaluates capital expenditures and investments in corporations and other entities. The amounts are subject to modification for opportunities such as the acquisition of attractive oil and gas properties, timber or 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.*

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Financing Cash Flow

Consolidated short-term debt decreased \$107.2 million during the nine months ended June 30, 2005. 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, 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. At June 30, 2005, the Company had outstanding short-term notes payable to banks of \$49.6 million. There was no outstanding commercial paper at June 30, 2005. The Company has SEC authorization under the Holding Company Act, to borrow and have outstanding as much as \$750.0 million of short-term debt at any time through December 31, 2005. On June 23, 2005, the Company filed with the SEC an application under the Holding Company Act, for authority, among other things, to issue short-term debt securities, long-term debt securities and equity securities during the period commencing January 1, 2006 and ending December 31, 2008.* The Company has not yet determined whether it will continue to pursue that application, as the recently enacted Energy Policy Act of 2005 (Energy Policy Act) (discussed below under Other Matters, Rate and Regulatory Matters) would permit the Company to continue to rely on its current authorization. In particular, the Energy Policy Act provides that nothing in that act or in the Holding Company Act prohibits a person from engaging in or continuing to engage in activities or transactions in which it is legally engaged or authorized to engage on the date of enactment of the Energy Policy Act, if that person continues to comply with the terms (other than an expiration date or termination date) of any such authorization. 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 \$380.0 million, are revocable at the option of the financial institution 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 totaling \$220.0 million. Of that amount, \$110.0 million is committed to the Company through September 25, 2005 and another \$110.0 million is committed to the Company through September 30, 2005. The Company anticipates that it will be able to replace this facility at or before its maturity.*

Under the Company's committed credit facility, the Company has agreed that its debt to capitalization ratio will not, at the last day of any fiscal quarter, exceed .60 from October 1, 2004 through September 30, 2005. The Company is currently in the process of negotiating a new committed credit facility and expects this to be finalized before the end of the current fiscal year.* At June 30, 2005, the Company's debt to capitalization ratio (as calculated under the facility) was .47. The constraints specified in the committed credit facility would permit an additional \$802.0 million in short-term and/or long-term debt to be outstanding before the Company's debt to capitalization ratio would exceed .60. 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, 2005, the Company would have been permitted to issue up to a maximum of \$832.0 million in additional long-term unsecured indebtedness at then-current market interest rates (further limited by the debt to capitalization ratio constraints noted in the previous paragraph) 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 35%) of the Company's long-term debt (as of June 30, 2005) 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

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the effect of the failure causes, or would permit the holders of the debt to cause, the debt to become due prior to its stated maturity, unless cured or waived.

The Company's \$220.0 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, 2005, the Company had no debt outstanding under the committed credit facility.

The Company also has authorization from the SEC, under the Holding Company Act, to issue long-term debt securities and equity securities in an aggregate amount of up to \$1.5 billion during the order's authorization period, which commenced in November 2002 and extends to December 31, 2005. The Energy Policy Act (discussed below under Rate and Regulatory Matters) provides that nothing in that act or in the Holding Company Act prohibits a person from engaging in or continuing to engage in activities or transactions in which it is legally engaged or authorized to engage on the date of enactment of the Energy Policy Act, if that person continues to comply with the terms (other than an expiration date or termination date) of any such authorization. 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, and within the authorization granted by the SEC under the Holding Company Act. 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.

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 having a remaining lease commitment of approximately \$51.9 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 \$9.6 million. The Company has guaranteed 50% or \$4.8 million of these capital lease commitments.

OTHER MATTERS

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.

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Market Risk Sensitive Instruments

For a complete discussion of market risk sensitive instruments, refer to "Market Risk Sensitive Instruments" in Item 7 of the 2004 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, repeals the Holding Company Act effective February 8, 2006. With repeal of the Holding Company Act, the Company will no longer be subject to that act's broad regulatory provisions, including provisions relating to issuance of securities, sales and acquisitions of securities and utility assets, intra-company transactions and limitations on diversification. However, the Energy Policy Act gives the FERC and state public utility regulatory commissions greater access to the books and records of companies in holding company systems. In addition, it is possible that some state legislatures will enact new laws designed to give state public utilities commissions certain regulatory powers over holding companies similar to those now exercised by the SEC. The Company is unable to predict at this time what the ultimate outcome of these or future legislative or regulatory changes will be.

Utility Operation

Base rate adjustments in both the New York and Pennsylvania 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

In April 2004, Distribution Corporation commenced confidential settlement negotiations with the NYPSC and other parties concerning, among other things, its revenue requirement for the year ending September 30, 2005. Those settlement discussions failed to produce an agreement prior to the expiration of Distribution Corporation's then-current rate plan. For a complete discussion of this prior rate plan, refer to "Rate Matters" in Item 7 of the 2004 Form 10-K. On August 27, 2004, Distribution Corporation filed proposed tariff amendments and supporting testimony designed to increase its annual revenues by \$41.3 million beginning October 1, 2004. Parties filed responsive testimony recommending a base rate decrease, among other things. Thereafter the Parties and other interests commenced settlement negotiations. On April 15, 2005, Distribution Corporation, the Parties and others executed an agreement settling all outstanding issues. 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 plan and thereafter, the return on equity level above which earnings must be shared with rate payers will be increased from 11.0% to 11.5%. In an order issued on July 22, 2005, the NYPSC, approved the April 15, 2005 rate plan, substantially as filed, for an effective date of August 1, 2005. In response to the NYPSC's decision, Distribution Corporation agreed to withdraw its petition for rehearing of a prior NYPSC order rejecting the Company's request for the removal of a \$5 million annual bill credit, effectively closing the proceeding.

In another order issued on September 28, 2004, the NYPSC directed the continuation, with modification, of four programs under the July 25, 2003 Settlement that were scheduled to expire on September 30, 2004. The effect of the NYPSC's order was to unilaterally extend the terms of the Settlement without Distribution Corporation's consent. Although the NYPSC's order stated that it provided for funding of the programs, Distribution Corporation petitioned Supreme Court, Albany County for an injunction to allow the programs to expire on their own terms. Distribution Corporation's petition and the actions before Supreme Court, Albany County were partially successful. A Notice of Appeal was filed by Distribution Corporation seeking review of certain procedural arguments that were rejected by the trial court. That action remains pending at this time.

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Pennsylvania Jurisdiction

On September 15, 2004, Distribution Corporation filed proposed tariff amendments with the PaPUC to increase annual revenues by \$22.8 million to cover increases in the cost of service to be effective November 14, 2004. The rate request was filed to address throughput reductions and increased operating costs such as uncollectibles and personnel expenses. Applying standard procedure, the PaPUC suspended Distribution Corporation's tariff filing to perform an investigation and hold hearings. On February 16, 2005, the parties reached a settlement of all issues. The settlement was submitted to the Administrative Law Judge, who, on March 2, 2005 issued a decision recommending adoption of the settlement. The settlement provides for a base rate increase of \$12.0 million and terminates the tracking of pension expenses versus the rate allowance. The settlement was approved by the PaPUC on March 23, 2005, and the new rates went into effect on April 15, 2005.

Pipeline and Storage

Supply Corporation currently does not have a rate case on file with the FERC. Management will continue to monitor Supply Corporation's financial position to determine the necessity of filing a rate case in the future.

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

Empire currently does not have a rate case on file with the NYPSC. Management will continue to monitor Empire's financial position in the New York rate jurisdiction to determine the necessity of filing a rate case in the future.

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

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

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, 2005, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$8.1 million. This liability has been recorded on the Consolidated Balance Sheet at June 30, 2005. In April 2005, the Company entered into a transfer agreement for environmental obligations related to a former manufactured gas plant site in New York. Under the terms of the agreement, the Company paid \$12.7 million during the quarter ended June 30, 2005 to settle its remaining environmental obligations related to this site. As a result, the environmental liability for this site has been reduced to zero at June 30, 2005. During the quarter ended June 30, 2005, the Company also reached a settlement agreement for environmental obligations related to another former manufactured gas plant site. The Company paid \$4.4 million in August 2005 under the terms of the settlement agreement, and the Company will continue to be responsible for future ongoing maintenance of the site. The \$4.4 million that was paid in August 2005 and the estimated obligation for ongoing maintenance of the site are included in the \$8.1 million liability at June 30, 2005. 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 2004 Form 10-K, the Company is currently not aware of any material additional exposure to environmental liabilities. However, changes in environmental regulations or other factors could adversely impact the Company.*

For further discussion refer to Note G - Commitments and Contingencies under the heading "Environmental Matters" in Item 8 of the 2004 Form 10-K, and to Part II, Item 1, "Legal Proceedings."

New Accounting Pronouncements

In December 2004, the FASB issued SFAS 123R. SFAS 123R replaces SFAS 123 and supercedes APB 25. The Company currently follows APB 25 in accounting for stock-based compensation, as disclosed above. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Company does not believe that adoption of SFAS 123R will have a material impact on its financial condition and results of operations.* For further discussion of SFAS 123R and its impact on the Company, refer to Item 1 at Note 1 - Summary of Significant Accounting Policies.

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

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

Safe Harbor for Forward-Looking Statements

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

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

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 tax, environmental, safety and employment laws and regulations, and repeal of the Holding Company Act;
2. Changes in economic conditions, including economic disruptions caused by terrorist activities or acts of war;
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;
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;

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

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 benefits;
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

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

Item 4. Controls and Procedures

The following information includes the evaluation of disclosure controls and procedures by the Company's Chief Executive Officer and Principal Financial Officer, along with any significant changes in internal controls of the Company and the current effort to assess the Company's internal control over financial reporting.

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 under the Exchange Act is recorded, processed, summarized and reported within required time periods. The Company's management, including the Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Item 4. Controls and Procedures (Concl.)

Internal controls over financial reporting

The Company maintains a system of internal control over financial reporting that is designed to provide reasonable assurance that the Company's transactions are properly authorized, the Company's assets are safeguarded against unauthorized or improper use, and the Company's transactions are properly recorded and reported to permit preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America. There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is currently undergoing a comprehensive effort to ensure compliance with Sarbanes-Oxley Act of 2002 – Section 404, "Management Assessment of Internal Controls" that takes effect for the Company as of September 30, 2005. This effort includes documentation of the Company's internal control over financial reporting under the direction of senior management. In the course of its ongoing evaluation, management has identified certain areas of the internal control over financial reporting requiring improvement, which the Company is addressing. Management routinely reviews potential internal control issues with the Company's Audit Committee. The Company continues to believe that it will be compliant with the requirements of the Sarbanes – Oxley Act of 2002 – Section 404 at September 30, 2005.*

Part II. Other Information

Item 1. Legal Proceedings

In an action instituted in the New York State Supreme Court, Chautauqua County on January 31, 2000 against Seneca, NFR and "National Fuel Gas Corporation," Donald J. and Margaret Ortel and Brian and Judith Rapp, "individually and on behalf of all those similarly situated", allege, in an amended complaint which adds National Fuel Gas Company as a party defendant that (a) Seneca underpaid royalties due under leases operated by it, and (b) Seneca's co-defendants (i) fraudulently participated in and concealed such alleged underpayment, and (ii) induced Seneca's alleged breach of such leases. Plaintiffs seek an accounting, declaratory and related injunctive relief, and compensatory and exemplary damages. Defendants have denied each of plaintiffs' material substantive allegations and set up twenty-five affirmative defenses in separate verified answers.

A motion was made by plaintiffs on July 15, 2002 to certify a class comprising all persons presently and formerly entitled to receive royalties on the sale of natural gas produced and sold from wells operated in New York by Seneca (and its predecessor Empire Exploration, Inc). On December 23, 2002, the court granted certification of the proposed class, as modified to exclude those leaseholders whose leases provide for calculation of royalties based upon a flat fee, or flat fee per cubic foot of gas produced. The court's order states that there are approximately 749 potential class members. Discovery closed on July 31, 2005, and the plaintiffs thereafter filed a formal demand for a jury trial and a "Note of Issue and Statement of Readiness" to proceed to trial. A trial date has not been set.

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. Plaintiff seeks damages for wrongful death and pain and suffering, plus punitive damages. Distribution Corporation has denied plaintiff's material allegations, set up seven affirmative defenses in separate verified answers and filed a cross-claim against the co-defendant. Distribution Corporation believes and will vigorously assert that plaintiff's allegations lack merit. The Court changed venue of the action to New York State Supreme Court, Erie County. The litigation is in the discovery stage.

Item 1. Legal Proceedings (Concl.)

On December 22, 2003, the Pennsylvania Department of Environmental Protection (DEP) issued an order to Seneca to halt its timber harvesting operations on 21,000 acres in Cameron, Elk and McKean counties in Pennsylvania. The order asserts certain violations of DEP regulations concerning erosion, sedimentation and stream crossings. The order requires Seneca to apply for certain permits, control erosion, submit plans for removal of water encroachments not included in permit applications, notify the DEP of additional current or planned timber harvesting operations, and grant the DEP access to timber acreage. On January 9, 2004, Seneca filed with the Pennsylvania Environmental Hearing Board (Hearing Board) a notice of appeal, objecting to each finding and order contained in the order, and asserting that the DEP's findings are factually incorrect, an arbitrary exercise of the DEP's functions and duties, and contrary to law. Also on January 9, 2004, Seneca filed with the Hearing Board a petition requesting a stay of operation of portions of the order. On January 20, 2004, the parties settled Seneca's request for a stay. Seneca has resumed its timber harvesting operations pursuant to the terms of the settlement. The settlement preserves various issues raised by the DEP's order for a hearing on the merits of Seneca's notice of appeal. Seneca is engaged in settlement negotiations as it continues to litigate this matter.* The most substantial question in the appeal involves whether Seneca is required to apply for a permit under Section 102.5(b) of Title 25 of the Pennsylvania Code, governing earth disturbance activities of greater than 25 acres. The DEP takes the position that Seneca must aggregate the acreage of all of its logging sites across its entire 21,000 acre tract for purposes of determining whether its earth disturbing activities meet the 25 acres threshold. Seneca maintains that no permit is required, because the law does not require aggregation and each of its individual logging sites disturbs less than 25 acres.

The Company believes, based on the information presently known, that the ultimate resolution of these matters, individually or in the aggregate, 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 outcomes of these matters, and it is possible that the outcomes, individually or in the aggregate, could be material to the Company's results of operations or cash flow for a particular quarter or annual period.*

For a discussion of various environmental matters, refer to Part I, Item 1 at Note 6 and Part I, Item 2 - MD&A of this report under the heading "Environmental Matters."

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.*

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

On April 1, 2005, the Company issued a total of 2,100 unregistered shares of Company common stock to the seven non-employee directors of the Company, 300 shares to each such director. All of these shares were issued as partial consideration for the directors' services during the quarter ended June 30, 2005, 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (Concl.)

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	Maximum Number of Shares that May Yet Be Purchased Under Share Repurchase Plans or Programs
Apr. 1 - 30, 2005	61,412	\$28.40	-	-
May 1 - 31, 2005	13,354	\$27.14	-	-
June 1 - 30, 2005	178,692	\$28.80	-	-
Total	253,458	\$28.61	-	-

^(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, and (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 and/or applicable withholding taxes.

Item 6. Exhibits

(a) Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
12	Statements regarding Computation of Ratios: Ratio of Earnings to Fixed Charges for the Twelve Months Ended June 30, 2005 and the Fiscal Years Ended September 30, 2000 through 2004.
31.1	Written statements of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Written statements of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	National Fuel Gas Company Consolidated Statement of Income for the Twelve Months Ended June 30, 2005 and 2004.

SIGNATURES

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 Officer

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

Date: August 9, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2005

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

(State or other jurisdiction of
incorporation or organization)

13-1086010

(I.R.S. Employer
Identification No.)

6363 Main Street

Williamsville, New York

(Address of principal executive offices)

14221

(Zip Code)

(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 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 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

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 January 31, 2006: 84,509,054 shares.

GLOSSARY OF TERMS

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Witness: Bauer
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Frequently used abbreviations or acronyms used in this report:

National Fuel Gas Companies

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
Seneca	Seneca Resources Corporation
Seneca Energy	Seneca Energy II, LLC
Supply Corporation	National Fuel Gas Supply Corporation
The Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries as appropriate in the context of the disclosure
U.E.	United Energy, a.s.

Regulatory Agencies

FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
NYPSC	State of New York Public Service Commission
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission

Other

2005 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2005
APB 20	Accounting Principles Board Opinion No. 20, Accounting Changes
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 length by 12 inches in width by one inch in thickness.
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Supply Corporation for gas the customer receives in excess of amounts delivered into Supply Corporation's system by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying (a price, interest rate, index rate, exchange rate, or other variable) and notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, options, no cost collars and swaps.

GLOSSARY OF TERMS (Cont.)

Dth	Dekatherm; one Dth of natural gas has a heating value of 1,000,000 British thermal units, approximately equal to the heating value of 1 Mcf of natural gas.
Energy Policy Act	Energy Policy Act of 2005
Exchange Act	Securities Exchange Act of 1934, as amended
Expenditures for long-lived assets	Includes capital expenditures, stock acquisitions and/or investments in partnerships.
FIN 47	FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations - an interpretation of SFAS 143
Firm transportation and/or storage	The transportation and/or storage service that a supplier of such service is obligated by contract to provide and for which the customer is obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United States of America
Goodwill	An intangible asset representing the difference between the fair value of a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes, often times through the use of <i>derivative financial instruments</i> .
Hub	Location where pipelines intersect enabling the trading, transportation, storage, exchange, lending and borrowing of natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service, and for which the customer does not pay unless utilized.
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 dekatherms (of natural gas)
MMcf	Million cubic feet (of natural gas)
Order 667	An order issued by FERC entitled "Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the 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 customer to sign a service agreement after specified events (called "conditions precedent") happen, usually within a specified time.
Proved developed reserves	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
Proved undeveloped reserves	Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required to make these reserves productive.
PUHCA 1935	Public Utility Holding Company Act of 1935, as amended.
PUHCA 2005	Public Utility Holding Company Act of 2005
Reserves	The unproduced but recoverable oil and/or gas in place in a formation which has been proven by production.
Restructuring	Generally referring to partial "deregulation" of the utility industry by statutory or regulatory process. Restructuring of federally regulated pipelines separate (or "unbundled") gas commodity service from transportation service for wholesale and large-volume retail markets. State restructuring programs attempt to extend the same process to retail mass markets.
SFAS	<i>Statement of Financial Accounting Standards</i>

GLOSSARY OF TERMS (Concl.)

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

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• 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

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Item 1. Financial Statements

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

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended	
	December 31,	
	2005	2004
INCOME		
Operating Revenues	\$710,756	\$500,283
Operating Expenses		
Purchased Gas	436,778	256,156
Operation and Maintenance	103,628	92,623
Property, Franchise and Other Taxes	17,181	17,056
Depreciation, Depletion and Amortization	43,046	42,709
	600,633	408,544
Operating Income	110,123	91,739
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	1,264	785
Interest Income	1,134	272
Other Income	741	552
Interest Expense on Long-Term Debt	(18,218)	(18,376)
Other Interest Expense	(1,775)	(2,417)
Income from Continuing Operations Before		
Income Taxes	93,269	72,555
Income Tax Expense	35,850	27,725
Income from Continuing Operations	57,419	44,830
Income from Discontinued Operations, Net of Tax	-	5,608
Net Income Available for Common Stock	57,419	50,438
EARNINGS REINVESTED IN THE BUSINESS		
Balance at October 1	813,020	718,926
	870,439	769,364
Dividends on Common Stock (2005 - \$0.29; 2004 - \$0.28)	24,488	23,274
Balance at December 31	\$845,951	\$746,090
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$0.68	\$0.54
Income from Discontinued Operations	-	0.07
Net Income Available for Common Stock	\$0.68	\$0.61
Diluted:		
Income from Continuing Operations	\$0.67	\$0.53
Income from Discontinued Operations	-	0.07
Net Income Available for Common Stock	\$0.67	\$0.60
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	84,422,717	83,150,086
Used in Diluted Calculation	86,256,862	84,638,106

See Notes to Condensed Consolidated Financial Statements

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	December 31, 2005	September 30, 2005
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$4,471,581	\$4,423,255
Less - Accumulated Depreciation, Depletion and Amortization	1,602,254	1,583,955
	<u>2,869,327</u>	<u>2,839,300</u>
Current Assets		
Cash and Temporary Cash Investments	64,464	57,607
Hedging Collateral Deposits	38,691	77,784
Receivables - Net of Allowance for Uncollectible Accounts of \$33,279 and \$26,940, Respectively	289,229	155,064
Unbilled Utility Revenue	97,932	20,465
Gas Stored Underground	60,040	64,529
Materials and Supplies - at average cost	32,063	33,267
Unrecovered Purchased Gas Costs	28,552	14,817
Prepayments and Other Current Assets	53,697	65,469
Deferred Income Taxes	47,635	83,774
Fair Value of Derivative Financial Instruments	797	-
	<u>713,100</u>	<u>572,776</u>
Other Assets		
Recoverable Future Taxes	85,000	85,000
Unamortized Debt Expense	17,025	17,567
Other Regulatory Assets	50,790	47,028
Deferred Charges	3,864	4,474
Other Investments	82,336	80,394
Investments in Unconsolidated Subsidiaries	10,771	12,658
Goodwill	5,476	5,476
Intangible Assets	41,637	42,302
Other	10,609	15,677
	<u>307,508</u>	<u>310,576</u>
Total Assets	<u>\$3,889,935</u>	<u>\$3,722,652</u>

See Notes to Condensed Consolidated Financial Statements

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	December 31, 2005	September 30, 2005
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares;		
Issued And Outstanding - 84,498,511 Shares		
And 84,356,748 Shares, Respectively	\$ 84,499	\$ 84,357
Paid in Capital	538,907	529,834
Earnings Reinvested in the Business	845,951	813,020
Total Common Shareholder Equity Before		
Items of Other Comprehensive Loss	1,469,357	1,427,211
Accumulated Other Comprehensive Loss	(148,064)	(197,628)
Total Comprehensive Shareholders' Equity	1,321,293	1,229,583
Long-Term Debt, Net of Current Portion	1,116,779	1,119,012
Total Capitalization	2,438,072	2,348,595
Current and Accrued Liabilities		
Notes Payable to Banks and		
Commercial Paper	74,800	-
Current Portion of Long-Term Debt	9,516	9,393
Accounts Payable	212,067	155,485
Amounts Payable to Customers	1,031	1,158
Dividends Payable	24,488	24,445
Other Accruals and Current Liabilities	58,788	60,404
Fair Value of Derivative Financial Instruments	127,428	209,072
	508,118	459,957
Deferred Credits		
Deferred Income Taxes	500,982	489,720
Taxes Refundable to Customers	11,066	11,009
Unamortized Investment Tax Credit	6,621	6,796
Cost of Removal Regulatory Liability	91,724	90,396
Other Regulatory Liabilities	64,360	66,339
Pension and Other Post-Retirement Benefit Liabilities	153,242	143,687
Asset Retirement Obligation	41,647	41,411
Other Deferred Credits	74,103	64,742
	943,745	914,100
Commitments and Contingencies		
	-	-
Total Capitalization and Liabilities	\$3,889,935	\$3,722,652

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
Page 124National Fuel Gas Company
Consolidated Statements of Cash Flows
(Unaudited)

(Thousands of Dollars)	Three Months Ended December 31,	
	2005	2004
OPERATING ACTIVITIES		
Net Income Available for Common Stock	\$57,419	\$50,438
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	43,046	46,940
Deferred Income Taxes	16,653	(1,864)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	1,887	715
Minority Interest in Foreign Subsidiaries	-	937
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(6,439)	-
Other	3,159	2,684
Change in:		
Hedging Collateral Deposits	39,093	973
Receivables and Unbilled Utility Revenue	(211,491)	(132,963)
Gas Stored Underground and Materials and Supplies	5,692	12,824
Unrecovered Purchased Gas Costs	(13,735)	636
Prepayments and Other Current Assets	17,075	6,946
Accounts Payable	56,580	43,950
Amounts Payable to Customers	(127)	7,640
Other Accruals and Current Liabilities	(554)	14,605
Other Assets	(3,083)	(13,894)
Other Liabilities	15,394	18,560
Net Cash Provided by Operating Activities	20,569	59,127
INVESTING ACTIVITIES		
Capital Expenditures	(70,368)	(40,022)
Other	(745)	(1,046)
Net Cash Used in Investing Activities	(71,113)	(41,068)
FINANCING ACTIVITIES		
Change in Notes Payable to Banks and Commercial Paper	74,800	13,300
Excess Tax Benefits Associated with Stock-Based Compensation Awards	6,439	-
Reduction of Long-Term Debt	(2,110)	(3,509)
Dividends Paid on Common Stock	(24,445)	(23,210)
Net Proceeds from Issuance of Common Stock	2,570	3,452
Net Cash Provided by (Used in) Financing Activities	57,254	(9,967)
Effect of Exchange Rates on Cash	147	5,339
Net Increase in Cash and Temporary Cash Investments	6,857	13,431
Cash and Temporary Cash Investments at October 1	57,607	57,541
Cash and Temporary Cash Investments at December 31	\$64,464	\$70,972

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
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Consolidated Statements of Comprehensive Income
(Unaudited)

(Thousands of Dollars)	Three Months Ended December 31,	
	2005	2004
Net Income Available for Common Stock	\$57,419	\$50,438
Other Comprehensive Income, Before Tax:		
Foreign Currency Translation Adjustment	255	30,984
Unrealized Gain on Securities Available for Sale Arising During the Period	1,142	1,129
Unrealized Gain on Derivative Financial Instruments Arising During the Period	40,997	20,102
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	37,931	18,196
Other Comprehensive Income, Before Tax	80,325	70,411
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	400	395
Income Tax Expense Related to Unrealized Gain on Derivative Financial Instruments Arising During the Period	15,776	7,727
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	14,585	6,911
Income Taxes – Net	30,761	15,033
Other Comprehensive Income	49,564	55,378
Comprehensive Income	\$106,983	\$105,816

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

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 accounting principles generally accepted in the United States of America 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.

Reclassification. Certain prior years amounts have been reclassified to conform with current year presentation.

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

The earnings for the three months ended December 31, 2005 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 in those segments 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 \$18.4 million at December 31, 2005, is reduced to zero by September 30 of each year as the inventory is replenished.

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

Item 1. Financial Statements (Cont.)

	<u>At December 31, 2005</u>	<u>At September 30, 2005</u>
Minimum Pension Liability Adjustment	\$(107,844)	\$(107,844)
Cumulative Foreign Currency Translation Adjustment	28,264	28,009
Net Unrealized Loss on Derivative Financial Instruments	(74,772)	(123,339)
Net Unrealized Gain on Securities Available for Sale	6,288	5,546
Accumulated Other Comprehensive Loss	<u>\$(148,064)</u>	<u>\$(197,628)</u>

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 reflect 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 diluted 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 Statement 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 December 31, 2005 and December 31, 2004, there were no stock options excluded as being antidilutive.

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. 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 no stock-based compensation awards during the quarters ended December 31, 2005 and December 31, 2004. Stock-based compensation expense for the quarters ended December 31, 2005 and December 31, 2004

Item 1. Financial Statements (Cont.)

totaled approximately \$149,000 and \$164,000, respectively, and 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 December 31, 2005 and December 31, 2004 was approximately \$59,000 and \$65,000, respectively. There were no capitalized stock based compensation costs during the quarters ended December 31, 2005 and December 31, 2004.

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 quarter ended December 31, 2004:

	Three Months Ended December 31, 2004
(In thousands, except per common share amounts)	
Net Income, Available for Common Stock, As Reported	\$ 50,438
Add: Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax	106
Deduct: Total Stock-Based Employee Compensation Expense Determined Under Fair Value Based Method for all Awards, Net of Related Tax Effects	(362)
Pro Forma Net Income Available for Common Stock	\$ 50,182
Earnings Per Common Share:	
Basic-As Reported	\$ 0.61
Basic-Pro Forma	\$ 0.60
Diluted-As Reported	\$ 0.60
Diluted-Pro Forma	\$ 0.59

Stock Options

Transactions during the quarter ended December 31, 2005 were as follows (in thousands, except option prices and years):

Item 1. Financial Statements (Cont.)

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
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	4.38	\$ 79,699
Options Exercisable at December 31, 2005	10,669	\$ 23.82	4.38	\$ 78,595

The total intrinsic value of stock options exercised during the quarters ended December 31, 2005 and December 31, 2004 totaled approximately \$1.9 million and \$2.9 million, respectively. The amount of cash received by the Company from the exercise of such stock options was approximately \$2.7 million during the quarter ended December 31, 2005 and approximately \$3.7 million during the quarter ended December 31, 2004. The tax benefit realized by the Company from the exercise of such stock options during the quarters ended December 31, 2005 and December 31, 2004 was \$0.9 million and \$1.1 million, respectively. No stock options were granted or became fully vested during the quarters ended December 31, 2005 and December 31, 2004. As of December 31, 2005, unrecognized compensation expense related to stock options totaled approximately \$0.2 million, which will be recognized over a weighted average period of 1.3 years.

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

	Three Months Ended December 31,	
	2005	2004
Risk Free Interest Rate	4.04%	4.81%
Expected Life (years)	6.6	5.7
Expected Volatility	21.2%	21.9%
Expected Dividend Yield (Quarterly)	1.10%	1.06%

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

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

Item 1. Financial Statements (Cont.)

Restricted Share Awards

Transactions during the quarter ended December 31, 2005 were as follows (in thousands, except fair values):

	Number of Restricted Share Awards	Weighted Average Fair Value per Award
Restricted Share Awards Outstanding at September 30, 2005	65	\$ 24.46
Granted	—	—
Vested	(8)	23.75
Forfeited	—	—
Restricted Share Awards Outstanding at December 31, 2005	57	\$ 24.56

As of December 31, 2005, unrecognized compensation expense related to restricted share awards totaled approximately \$0.2 million, which will be recognized over a weighted average period of 1.1 years.

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

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

Note 2 - Income Taxes

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

Item 1. Financial Statements (Cont.)

	Three Months Ended December 31,	
	2005	2004
Operating Expenses:		
Current Income Taxes		
Federal	\$14,311	\$23,742
State	4,814	6,525
Foreign	72	68
Deferred Income Taxes		
Federal	10,870	(2,182)
State	1,695	(960)
Foreign	4,088	532
	<u>35,850</u>	<u>27,725</u>
Other Income:		
Deferred Investment Tax Credit	(174)	(174)
Discontinued Operations	-	1,968
Total Income Taxes	<u>\$35,676</u>	<u>\$29,519</u>

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

	Three Months Ended December 31,	
	2005	2004
U.S.	\$79,630	\$68,582
Foreign	13,465	11,375
	<u>\$93,095</u>	<u>\$79,957</u>

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):

	Three Months Ended December 31,	
	2005	2004
Income Tax Expense, Computed at Statutory Rate of 35%	\$32,583	\$27,985
Increase (Reduction) in Taxes Resulting From:		
State Income Taxes	4,231	3,617
Foreign Tax Differential	(557)	(1,399)
Miscellaneous	(581)	(684)
Total Income Taxes	<u>\$35,676</u>	<u>\$29,519</u>

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

Item 1. Financial Statements (Cont.)

	At December 31, 2005	At September 30, 2005
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$577,306	\$567,850
Other	54,509	52,436
Total Deferred Tax Liabilities	631,815	620,286
Deferred Tax Assets:		
Minimum Pension Liability Adjustment	(58,070)	(58,069)
Capital Loss Carryover	(8,459)	(9,145)
Unrealized Hedging Losses	(44,897)	(75,657)
Other	(69,919)	(74,346)
	(181,345)	(217,217)
Valuation Allowance	2,877	2,877
Total Deferred Tax Assets	(178,468)	(214,340)
Total Net Deferred Income Taxes	\$453,347	\$405,946
Presented as Follows:		
Net Deferred Tax Asset – Current	(47,635)	(83,774)
Net Deferred Tax Liability – Non-Current	500,982	489,720
Total Net Deferred Income Taxes	\$453,347	\$405,946

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 December 31, 2005 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 \$85.0 million at December 31, 2005 and September 30, 2005.

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 \$24.2 million existed at December 31, 2005, which expires if not utilized by September 30, 2008. Although realization is not assured, management estimates that a portion of the deferred tax asset associated with this carryover will be realized during the carryover period, and a valuation allowance is recorded for the remaining portion. Adjustments to the valuation allowance may be necessary in the future if estimates of capital gain income are revised.

Note 3 - Capitalization

Common Stock. During the three months ended December 31, 2005, the Company issued 141,763 shares of common stock under the Company's stock option and director compensation plans.

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 December 31, 2005, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$3.7 million. This liability has been recorded on the Consolidated Balance Sheet at December 31, 2005. The Company expects to recover its environmental clean-up costs from a

Item 1. Financial Statements (Cont.)

combination of insurance proceeds and rate recovery. Other than as discussed in Note G of the Company's 2005 Form 10-K, 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 litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.

Note 5 – Discontinued Operations

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

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

<i>(Thousands)</i>	Three Months Ended December 31, 2004
Operating Revenues	\$43,975
Operating Expenses	35,777
Operating Income	8,198
Other Income	826
Interest Expense	(169)
Income before Income Taxes and Minority Interest	8,855
Income Tax Expense	2,310
Minority Interest, Net of Taxes	937
Income from Discontinued Operations	\$5,608

Note 6 – Business Segment Information

The Company has five reportable segments: Utility, Pipeline and Storage, Exploration and Production, Energy Marketing, and Timber. The breakdown of the Company's 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 (when 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 2005 Form 10-K. There have been no

Item 1. Financial Statements (Cont.)

material changes in the amount of assets for any operating segment from the amounts disclosed in the 2005 Form 10-K.

Quarter Ended December 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$431,479	\$34,738	\$82,087	\$145,560	\$16,908	\$710,772	\$(16)	\$ -	\$710,756
Intersegment Revenues	\$4,121	\$21,296	\$ -	\$ -	\$23	\$25,440	\$4,527	\$(29,967)	\$ -
Segment Profit (Loss): Net Income (Loss)	\$21,753	\$15,850	\$17,435	\$987	\$1,464	\$57,489	\$570	\$(640)	\$57,419

Quarter Ended December 31, 2004 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$316,829	\$32,445	\$71,838	\$63,494	\$12,995	\$497,601	\$2,682	\$ -	\$500,283
Intersegment Revenues	\$4,305	\$20,599	\$ -	\$ -	\$ -	\$24,904	\$1,080	\$(25,984)	\$ -
Segment Profit (Loss): Income (Loss) from Continuing Operations	\$18,072	\$12,277	\$13,923	\$750	\$753	\$45,775	\$600	\$(1,545)	\$44,830

Item 1. Financial Statements (Cont.)

Note 7 - Intangible Assets

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

	At December 31, 2005			At September 30, 2005
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Intangible Assets Subject to Amortization				
Long-Term Transportation Contracts	\$8,580	\$(3,118)	\$5,462	\$5,729
Long-Term Gas Purchase Contracts	31,864	(3,831)	28,033	28,431
Intangible Assets Not Subject to Amortization				
Retirement Plan Intangible Asset	8,142	-	8,142	8,142
	<u>\$48,586</u>	<u>\$(6,949)</u>	<u>\$41,637</u>	<u>\$42,302</u>

Aggregate Amortization Expense (Thousands)

Three Months Ended December 31, 2005	\$666
Three Months Ended December 31, 2004	\$666

Amortization expense for the transportation contracts is estimated to be \$0.8 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 \$1.2 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 December 31,

	Retirement Plan		Other Post-Retirement Benefits	
	2005	2004	2005	2004
Service Cost	\$4,104	\$3,429	\$2,007	\$1,538
Interest Cost	10,049	10,520	6,701	6,446
Expected Return on Plan Assets	(12,486)	(12,386)	(5,576)	(4,715)
Amortization of Prior Service Cost	239	257	1	1
Amortization of Transition Amount	-	-	1,782	1,782
Amortization of Losses	5,777	2,618	5,850	3,116
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	<u>(1,528)</u>	<u>883</u>	<u>(2,684)</u>	<u>(713)</u>
Net Periodic Benefit Cost	<u>\$6,155</u>	<u>\$5,321</u>	<u>\$8,081</u>	<u>\$7,455</u>

(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.

Item 1. Financial Statements (Concl.)

Employer Contributions. During the three months ended December 31, 2005, the Company contributed \$1.8 million to its retirement plan and \$7.8 million to its post-retirement benefit plan. In the remainder of 2006, the Company expects to contribute in the range of \$13.0 million to \$18.0 million to its retirement plan and to contribute in the range of \$25.0 million to \$32.0 million to its post-retirement benefit plan.

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

CRITICAL ACCOUNTING POLICIES

For a complete discussion of critical accounting policies, refer to "Critical Accounting Policies" in Item 7 of the Company's 2005 Form 10-K. There have been no subsequent changes to that disclosure.

RESULTS OF OPERATIONS

Earnings

The Company's earnings were \$57.4 million for the quarter ended December 31, 2005 compared to earnings of \$50.4 million for the quarter ended December 31, 2004. As previously discussed, the Company began presenting its Czech Republic operations as discontinued operations in June 2005. Prior year amounts have been reclassified to reflect this change in presentation. The Company's earnings from continuing operations were \$57.4 million for the quarter ended December 31, 2005 compared to earnings from continuing operations of \$44.8 million for the quarter ended December 31, 2004. The increase in earnings from continuing operations of \$12.6 million is primarily the result of higher earnings in the Utility, Pipeline and Storage, and Exploration and Production segments. 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 December 31 (Thousands)	2005	2004	Increase (Decrease)
Utility	\$21,753	\$18,072	\$3,681
Pipeline and Storage	15,850	12,277	3,573
Exploration and Production	17,435	13,923	3,512
Energy Marketing	987	750	237
Timber	1,464	753	711
Total Reportable Segments	57,489	45,775	11,714
All Other	570	600	(30)
Corporate ⁽¹⁾	(640)	(1,545)	905
Total Earnings from Continuing Operations	57,419	44,830	12,589
Earnings from Discontinued Operations	-	5,608	(5,608)
Total Consolidated	\$57,419	\$ 50,438	\$6,981

⁽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 December 31 (Thousands)	2005	2004	Increase (Decrease)
Retail Sales Revenues:			
Residential	\$344,873	\$255,066	\$89,807
Commercial	56,890	41,783	15,107
Industrial	4,452	2,143	2,309
	406,215	298,992	107,223
Transportation	26,916	20,960	5,956
Other	2,469	1,182	1,287
	\$435,600	\$321,134	\$ 114,466

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

Utility Throughput

Three Months Ended December 31 (MMcf)	2005	2004	Increase (Decrease)
Retail Sales:			
Residential	19,524	19,869	(345)
Commercial	3,443	3,454	(11)
Industrial	327	176	151
	23,294	23,499	(205)
Transportation	14,342	14,103	239
	37,636	37,602	34

Degree Days

Three Months Ended December 31	Normal	2005	2004	Percent Colder (Warmer) Than	
				Normal	Prior Year
Buffalo	2,260	2,210	2,172	(2.2)	1.7
Erie	2,081	2,048	1,997	(1.6)	2.6

2005 Compared with 2004

Operating revenues for the Utility segment increased \$114.5 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. The \$107.2 million increase in retail gas sales was primarily the result of the recovery of higher gas costs (gas costs are recovered dollar for dollar in revenues). 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 adjustment related to fiscal years 2002 through 2005. The impact of the New York rate case settlement, which became effective in August 2005, was to increase operating revenues by \$7.4 million. This increase consisted of a base rate increase, the implementation of a merchant function charge, the elimination of certain bill credits, and the elimination of the gross receipts tax surcharge. In the Pennsylvania jurisdiction, the impact of a base rate increase, which became effective in April 2005, was to increase operating revenues by \$2.7 million.

The Utility segment's earnings for the quarter ended December 31, 2005 were \$21.7 million, an increase of \$3.7 million when compared with the quarter ended December 31, 2004. In the New York jurisdiction, earnings increased \$1.8 million. The increased earnings in the New York jurisdiction largely related to the symmetrical sharing adjustment discussed above (\$2.6 million). The positive impact to revenues of the New York rate case settlement (\$4.8 million) was mostly offset by lower usage per customer account (\$1.9 million), higher bad debt expense (\$2.1 million), higher pension expense (\$0.6 million), and higher interest expense (\$0.6 million). In the Pennsylvania jurisdiction, earnings increased \$1.9 million. Increased earnings in the Pennsylvania jurisdiction resulted primarily from a base rate increase first implemented in April 2005 (\$1.8 million). This increase more than offset slightly higher bad debt expense (\$0.6 million).

The impact of weather variations on earnings in the New York jurisdiction is mitigated by that jurisdiction's weather normalization clause (WNC). The WNC in New York, which covers the eight-month period from October through May, has had a stabilizing effect on earnings for the New York rate jurisdiction. For the quarters ended December 31, 2005 and December 31, 2004, the WNC preserved \$0.5 million and \$1.3 million of earnings, respectively, since it was warmer than normal. In periods of colder than normal weather, the WNC benefits Distribution Corporation's New York customers.

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

Pipeline and Storage

Pipeline and Storage Operating Revenues

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Firm Transportation	\$31,086	\$29,531	\$1,555
Interruptible Transportation	1,323	926	397
	32,409	30,457	1,952
Firm Storage Service	16,248	16,094	154
Other	7,377	6,493	884
	\$56,034	\$53,044	\$ 2,990

Pipeline and Storage Throughput

Three Months Ended December 31 (MMcf)	2005	2004	Increase (Decrease)
Firm Transportation	102,822	83,742	19,080
Interruptible Transportation	3,723	1,662	2,061
	106,545	85,404	21,141

2005 Compared with 2004

Operating revenues for the Pipeline and Storage segment increased \$3.0 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. The \$2.0 million increase in transportation revenues was primarily due to additional contracts with customers and the renewal of contracts at higher rates, both of which reflect the increased demand for transportation services due to market conditions resulting from the effects of last fall's hurricane damage to production and pipeline infrastructure in the Gulf of Mexico. The \$0.9 million increase in other operating revenues was primarily due to higher revenues from unbundled pipeline sales due to higher natural gas prices (\$1.4 million), offset by a decrease in cashout revenues (\$0.7 million). Cashout revenues are completely offset by purchased gas expense and consequently have no impact on earnings.

Earnings in the Pipeline and Storage segment increased \$3.6 million from \$12.3 million for the quarter ended December 31, 2004 to \$15.9 million for the quarter ended December 31, 2005. The major factors contributing to the increase were higher transportation revenues (\$1.3 million) and higher revenues from unbundled pipeline sales (\$0.9 million), both noted above, as well as lower operating expenses (\$1.1 million). Operating expenses decreased primarily due to a lower reserve for preliminary project costs associated with the Empire State Pipeline Expansion project (\$0.7 million) and the impact of lower pension expense (\$0.2 million).

Exploration and Production

Exploration and Production Operating Revenues

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Gas (after Hedging)	\$49,341	\$42,744	\$6,597
Oil (after Hedging)	29,395	26,896	2,499
Gas Processing Plant	13,419	8,704	4,715
Other	1,524	753	771
Intrasegment Elimination ⁽¹⁾	(11,592)	(7,259)	(4,333)
	\$82,087	\$71,838	\$ 10,249

⁽¹⁾ Represents the elimination of certain West Coast gas production 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.

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Production Volumes

Three Months Ended December 31	2005	2004	Increase (Decrease)
Gas Production (MMcf)			
Gulf Coast	1,667	3,225	(1,558)
West Coast	1,018	1,039	(21)
Appalachia	1,253	1,206	47
Canada	1,911	1,665	246
	5,849	7,135	(1,286)
Oil Production (Mbbbl)			
Gulf Coast	107	289	(182)
West Coast	685	653	32
Appalachia	10	3	7
Canada	87	76	11
	889	1,021	(132)

Average Prices

Three Months Ended December 31	2005	2004	Increase (Decrease)
Average Gas Price/Mcf			
Gulf Coast	\$10.74	\$6.50	\$4.24
West Coast	\$11.08	\$6.55	\$4.53
Appalachia	\$13.62	\$7.73	\$5.89
Canada	\$10.76	\$5.45	\$5.31
Weighted Average	\$11.42	\$6.47	\$4.95
Weighted Average After Hedging	\$8.44	\$5.99	\$2.45
Average Oil Price/Bbl			
Gulf Coast	\$57.90	\$47.08	\$10.82
West Coast	\$51.34	\$37.14	\$14.20
Appalachia	\$61.53	\$44.33	\$17.20
Canada	\$43.18	\$38.43	\$4.75
Weighted Average	\$51.45	\$40.08	\$11.37
Weighted Average After Hedging	\$33.07	\$26.35	\$6.72

2005 Compared with 2004

Operating revenues for the Exploration and Production segment increased \$10.2 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. Gas production revenue after hedging increased \$6.6 million. An increase in the weighted average price of gas after hedging (\$2.45 per Mcf) more than offset an overall decrease in gas production. Oil production revenue after hedging increased \$2.5 million. An increase in the weighted average price of oil after hedging (\$6.72 per bbl) more than offset an overall decrease in oil production of 132,000 barrels. Most of the decrease in gas and oil production occurred in the Gulf Coast (a 1,558 MMcf decline in gas production and a 182,000 bbl decline in oil production), which is consistent with this region's expected delays in production volumes due largely to the impact of last fall's hurricane damage to pipeline infrastructure in the Gulf of Mexico. Currently, Seneca has approximately 87% of its pre hurricane Gulf of Mexico production back on line. The remaining 13% continues to wait on pipeline and facilities repair. These repairs may be completed within the next six months.*

The Exploration and Production segment's earnings for the quarter ended December 31, 2005 were \$17.4 million compared with earnings of \$13.9 million for the quarter ended December 31, 2004. The increase is attributable to the positive impact of higher natural gas and crude oil revenues, as discussed above (\$5.9 million positive contribution to earnings). Partially offsetting this increase, the Exploration and Production segment experienced higher lease operating costs (\$2.0 million), primarily in

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the West Coast region due to higher steaming costs associated with heavy crude oil production in the California Midway-Sunset field.

Energy Marketing

Energy Marketing Operating Revenues

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Natural Gas (after Hedging)	\$145,523	\$63,489	\$82,034
Other	37	5	32
	\$145,560	\$63,494	\$ 82,066

Energy Marketing Volumes

Three Months Ended December 31	2005	2004	Increase (Decrease)
Natural Gas – (MMcf)	9,975	8,007	1,968

2005 Compared with 2004

Operating revenues for the Energy Marketing segment increased \$82.1 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. This increase 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 Energy Marketing segment's earnings increased \$0.2 million from \$0.8 million for the quarter ended December 31, 2004 to \$1.0 million for the quarter ended December 31, 2005. The major factors contributing to the increase were higher gross margin (\$0.5 million) resulting from higher throughput offset by an increase in operating expenses (\$0.3 million).

Timber

Timber Operating Revenues

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Log Sales	\$6,256	\$4,876	\$1,380
Green Lumber Sales	1,462	1,446	16
Kiln Dry Lumber Sales	8,500	6,274	2,226
Other	713	399	314
Operating Revenues	\$16,931	\$12,995	\$3,936

Timber Board Feet

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Log Sales	2,491	1,745	746
Green Lumber Sales	1,974	2,164	(190)
Kiln Dry Lumber Sales	4,486	3,366	1,120
	8,951	7,275	1,676

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2005 Compared with 2004

Operating revenues for the Timber segment increased \$3.9 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. Higher revenues from kiln dry lumber sales (\$2.2 million and 1.1 million board feet) are partially responsible for the increase due to an increase in processing capacity for kiln dry lumber. The increase in capacity resulted from the addition of two new kilns in February 2005. Higher log sales of \$1.4 million also contributed to the increase in revenues. Favorable weather conditions allowed for the harvesting of greater volumes of timber and the accompanying cherry veneer logs, which have the highest price in the harvested timber mix.

The Timber segment's earnings for the quarter ended December 31, 2005 were \$1.5 million, an increase of \$0.7 million when compared with earnings of \$0.8 million for the quarter ended December 31, 2004. The increase was principally due to higher margins from lumber and log sales (\$1.2 million). This was partially offset by higher depletion expense (\$0.3 million).

Corporate and All Other

2005 Compared with 2004

Corporate and All Other recorded a loss of \$0.1 million for the quarter ended December 31, 2005 compared with a loss of \$0.9 million for the quarter ended December 31, 2004. This improvement was principally due to an increase in interest income resulting from the investment of proceeds received from the sale of U.E. in July 2005.

CAPITAL RESOURCES AND LIQUIDITY

The Company's primary source of cash during the three-month period ended December 31, 2005 consisted of short-term borrowings and cash provided by operating activities. This source of cash was supplemented by issuances of common stock under the Company's stock plans. During the three months ended December 31, 2005, 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.

Operating Cash Flow

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

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

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

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

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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 \$20.6 million for the three months ended December 31, 2005, a decrease of \$38.5 million compared with the \$59.1 million provided by operating activities for the three months ended December 31, 2004. This decrease can be attributed to the timing of gas cost recovery in the Utility segment. It also can be attributed to the timing of federal tax payments and reflects the fact that the Company no longer has positive cash flow from its former Czech Republic operations, which were sold in July 2005. These decreases were partially offset by higher oil and gas revenues in the Exploration and Production segment and a decrease in hedging collateral deposits for the quarter ended December 31, 2005 in the Exploration and Production and Energy Marketing segments. Hedging collateral deposits serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

Investing Cash Flow

Expenditures for Long-Lived Assets

The Company's expenditures for long-lived assets totaled \$70.4 million during the three months ended December 31, 2005. The table below presents these expenditures:

Three Months Ended December 31, 2005 (in millions of dollars)	
	Total Expenditures for Long-Lived Assets
Utility	\$12.4
Pipeline and Storage	6.2
Exploration and Production	50.9
Timber	0.5
Corporate and All Other	0.4
	\$70.4

Utility

The majority of the Utility capital expenditures for the three months ended December 31, 2005 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 three months ended December 31, 2005 were made for additions, improvements, and replacements to this segment's transmission and gas storage systems.

The Company continues to explore various opportunities to expand its capabilities to transport gas to the East Coast, either through the Supply Corporation or Empire systems or in partnership with others. In October 2005, Empire filed an application with the FERC for the authority to build and operate the Empire Connector project to expand its natural gas pipeline operations to serve new markets in New

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

York and elsewhere in the Northeast by extending the Empire Pipeline.* Assuming the proposed Millennium Pipeline is constructed, the Empire Connector will provide an upstream supply link for Phase I of the Millennium Pipeline and will transport Canadian and other natural gas supplies to downstream customers, including KeySpan Gas East Corporation, which has entered into precedent agreements to subscribe for at least 150 MDth per day of natural gas transportation service through the Empire State Pipeline and the Millennium Pipeline systems.* The Empire Connector will be designed to move up to approximately 250 MDth of natural gas per day.* Empire anticipates that FERC will provide a determination on this application by November 2006.* The targeted in-service date is November 2007.* The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral lines of credit.* As of December 31, 2005, the Company had incurred approximately \$4.7 million in costs (all of which have been reserved) related to this project. Of this amount, \$0.7 million and \$1.7 million were incurred during the quarters ended December 31, 2005 and December 31, 2004, respectively.

The Company also 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 targeted in-service date is late in calendar 2007 or early in calendar 2008.* The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral lines of credit.* The Tuscarora Extension is contingent on market developments, and the Company has not yet filed an application with the FERC for the authority to build and operate it. There have been no costs incurred by the Company related to this project as of December 31, 2005.

Exploration and Production

The Exploration and Production segment capital expenditures for the three months ended December 31, 2005 included approximately \$12.1 million for Canada, \$24.0 million for the Gulf Coast region (\$24.0 million for the off-shore program in the Gulf of Mexico), \$9.4 million for the West Coast region and \$5.4 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. These amounts included approximately \$8.0 million spent to develop proved undeveloped reserves.

Timber

The majority of the Timber segment capital expenditures for the three months ended December 31, 2005 were made for purchases of equipment for Highland's sawmill and kiln operations.

Corporate and All Other

~~The majority of the Corporate and All Other capital expenditures for the three months ended December 31, 2005 were for the construction of a distributed generation facility at the Company's corporate headquarters.~~

The Company continuously evaluates capital expenditures and investments in corporations, partnerships, and other business entities. The amounts are subject to modification for opportunities such as the acquisition of attractive oil and gas properties, timber or natural gas storage facilities and the expansion of natural gas 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

Consolidated short-term debt increased \$74.8 million during the three months ended December 31, 2005. The Company continues to consider short-term debt (consisting of short-term notes payable to

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

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. At December 31, 2005, the Company had outstanding short-term notes payable to banks of \$74.8 million. There was no outstanding commercial paper at December 31, 2005. The Company had SEC authorization under PUHCA 1935 to borrow and have outstanding as much as \$750.0 million of short-term debt at any time through February 8, 2006. PUHCA 1935 was repealed effective February 8, 2006, and as of that date the Company no longer needs authorization from the SEC under that act to issue 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 \$420.0 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 December 31, 2005, the Company's debt to capitalization ratio (as calculated under the facility) was .48. The constraints specified in the committed credit facility would permit an additional \$1.25 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 December 31, 2005, the Company would have been permitted to issue up to a maximum of \$837.0 million in additional long-term unsecured indebtedness at then-current market interest rates in addition to being able to issue new indebtedness to replace maturing debt. The Company's present liquidity position is believed to be adequate to satisfy known demands.*

The Company's 1974 indenture, pursuant to which \$399.0 million (or 35%) of the Company's long-term debt (as of December 31, 2005) 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 any of its significant subsidiaries fails 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 December 31, 2005, the Company had no debt outstanding under the committed credit facility.

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The Company also had authorization from the SEC, under PUHCA 1935 to issue long-term debt securities and equity securities in an aggregate amount of up to \$1.5 billion during the period from November 2002 through February 8, 2006. As a result of the repeal of PUHCA 1935 (effective February 8, 2006), the Company no longer needs authorization under that act to issue long-term debt securities and equity securities. 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. It is expected that this share repurchase program will be funded with cash provided by operating activities and/or through the use of the Company's bi-lateral lines of credit.* Currently, no shares have been repurchased under this program, but it is expected that open market repurchases will begin in February 2006 and 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 \$49.8 million. These leases have been entered into for the use of buildings, vehicles, construction tools, meters, computer equipment and other items and are accounted for as operating leases. The Company's unconsolidated subsidiaries, which are accounted for under the equity method, have capital leases of electric generating equipment having a remaining lease commitment of approximately \$8.4 million. The Company has guaranteed 50% or \$4.2 million of these capital lease commitments.

OTHER MATTERS

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor 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

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

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, pursuant to PUHCA 2005, the FERC issued Order 667. As required by Order 667, the Company will file a "Notification of Holding Company Status" with the FERC by March 10, 2006. Certain subsidiaries of the Company may be eligible for exemption from the requirements of PUHCA 2005 and Order 667. The Company is in the process of evaluating that matter and may file appropriate exemption notifications with the FERC. The Company is unable to predict at this time what the ultimate outcome of these or future legislative or regulatory changes will be. The Company is still in the process of analyzing the effect of the Energy Policy Act on the Company, including the effects of any related proceeding at the state level and new regulations at the federal level.

Utility Operation

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

New York Jurisdiction

On August 27, 2004, Distribution Corporation filed proposed tariff amendments and supporting testimony designed to increase its annual revenues by \$41.3 million beginning October 1, 2004. Parties, including the NYPSC Staff, the New York State Consumer Protection Board, Multiple Intervenors (an advocate for large commercial and industrial customers), natural gas marketers and others, filed responsive testimony recommending a base rate decrease, among other things. Thereafter, the Parties and other interests commenced settlement negotiations. On April 15, 2005, Distribution Corporation, the Parties and others executed an agreement settling all outstanding issues. In an order issued July 22, 2005, the NYPSC, approved the April 15, 2005 settlement agreement, substantially as filed, for an effective date of August 1, 2005. The settlement agreement provides for a rate increase of \$21 million by means of the elimination of bill credits (\$5.8 million) and an increase in base rates (\$15.2 million). For the two-year term of the agreement and thereafter, the return on equity level above which earnings must be shared with rate payers will be 11.5%.

Pennsylvania Jurisdiction

On September 15, 2004, Distribution Corporation filed proposed tariff amendments with PaPUC to increase annual revenues by \$22.8 million to cover increases in the cost of service to be effective November 14, 2004. The rate request was filed to address throughput reductions and increased operating costs such as uncollectibles and personnel expenses. Applying standard procedure, the PaPUC suspended Distribution Corporation's tariff filing to perform an investigation and hold hearings. On February 16, 2005, the parties reached a settlement of all issues. The settlement was submitted to the Administrative Law Judge, who, on March 2, 2005 issued a decision recommending adoption of the settlement. The settlement provides for a base rate increase of \$12.0 million and terminates the tracking of pension expenses versus the rate allowance. The settlement was approved by PaPUC on March 23, 2005, and the new rates went into effect on April 15, 2005.

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

Pipeline and Storage

Supply Corporation currently does not have a rate case on file with the FERC. Management will continue to monitor Supply Corporation's financial position to determine the necessity of filing a rate case in the future.

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

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

Environmental Matters

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. The Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal site will be \$3.7 million.* This liability has been recorded on the Consolidated Balance Sheet at December 31, 2005. 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 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.*

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

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

New Accounting Pronouncements

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

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

Safe Harbor for Forward-Looking Statements

The Company is including the following cautionary statement in this Form 10-Q to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions and other statements which are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements. Certain statements contained in this report, including, without limitation, those which are designated with an asterisk ("*") and those which are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions, are "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995 and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The forward-looking statements contained herein are based on various assumptions, many of which are based, in turn, upon further assumptions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including, without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements:

1. Changes in laws and regulations to which the Company is subject, including changes in tax, environmental, safety and employment laws and regulations, and changes in laws and regulations relating to repeal of the Holding Company Act;
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, such as hurricanes;
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;

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

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;

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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 December 31, 2005 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

In an action instituted in the New York State Supreme Court, Chautauqua County on January 31, 2000 against Seneca, NFR and "National Fuel Gas Corporation," Donald J. and Margaret Ortel and Brian and Judith Rapp, "individually and on behalf of all those similarly situated," allege, in an amended complaint which adds National Fuel Gas Company as a party defendant that (a) Seneca underpaid royalties due under leases operated by it, and (b) Seneca's co-defendants (i) fraudulently participated in and concealed such alleged underpayment, and (ii) induced Seneca's alleged breach of such leases. Plaintiffs seek an accounting, declaratory and related injunctive relief, and compensatory and exemplary damages. Defendants have denied each of plaintiffs' material substantive allegations and set up twenty-five affirmative defenses in separate verified answers.

A motion was made by plaintiffs on July 15, 2002 to certify a class comprising all persons presently and formerly entitled to receive royalties on the sale of natural gas produced and sold from wells operated in New York by Seneca (and its predecessor Empire Exploration, Inc). On December 23, **Item 1. Legal Proceedings (Cont.)**

2002, the court granted certification of the proposed class, as modified to exclude those leaseholders whose leases provide for calculation of royalties based upon a flat fee, or flat fee per cubic foot of gas produced. The court's order states that there are approximately 749 potential class members. Discovery closed on July 31, 2005, and the plaintiffs thereafter filed a formal demand for a jury trial and a "Note of Issue and Statement of Readiness" to proceed to trial. A trial date has not been set.

On October 13, 2005, the Company and the attorneys for the class entered into a Stipulation of Settlement, under which (i) the class would be expanded for purposes of settlement to include similarly situated persons entitled to royalties on natural gas production in Pennsylvania, (ii) the Company would pay \$2.25 million to the plaintiffs to settle all damages, interest, legal fees and costs, and (iii) the Company would comply with various procedures set out in the Stipulation regarding the marketing of natural gas produced and the calculation of royalties. A fairness hearing was held on December 19, 2005, at which no interested parties objected to the settlement. On January 27, 2006, the judge issued an order approving the settlement as fair, reasonable and adequate. The Company's balance sheets at December 31, 2005 and September 30, 2005 include a liability for the \$2.25 million settlement. Subsequent periodic filings will not include any further discussion of this matter.

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 has denied plaintiff's material allegations, set up seven affirmative defenses in separate verified answers and filed a cross-claim against the co-defendant. Distribution Corporation believes, and will vigorously assert, that plaintiff's allegations lack merit. The Court changed venue of the action to New York State Supreme Court, Erie County. Discovery has closed. Distribution Corporation filed a motion for summary judgment and is awaiting the Court's decision on that motion. A trial date has been scheduled for February 27, 2006.

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

The Company believes, based on the information presently known, that the ultimate resolution of these matters, individually or in the aggregate, 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 outcomes of these matters, and it is possible that the outcomes, individually or in the aggregate, could be material to results of operations or cash flow for a particular quarter or annual period.*

Item 1. Legal Proceedings (Concl.)

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 "Environmental Matters."

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.*

Item 1A. Risk Factors

For a complete discussion of risk factors, refer to "Risk Factors" in Item 1A of the 2005 Form 10-K. There have been no subsequent material changes to that disclosure.

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

On October 16, 2005 the Company issued a total of 2,100 unregistered shares of Company common stock to the seven non-employee directors of the Company then 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 December 31, 2005, 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	Maximum Number of Shares that May Yet Be Purchased Under Share Repurchase Plans or Programs ^(b)
Oct. 1-31, 2005	11,675	\$32.68	-	-
Nov. 1-30, 2005	11,268	\$29.83	-	-
Dec. 1-31, 2005	47,953	\$32.05	-	8,000,000
Total	70,896	\$31.80	-	8,000,000

^(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, and (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 and/or applicable withholding taxes.

^(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

(a) Exhibits

Exhibit

<u>Number</u>	<u>Description of Exhibit</u>
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10	Material Contracts:
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Item 6. Exhibits (Concl.)

10.1	National Fuel Gas Company Tophat Plan, dated December 7, 2005.
10.2	Description of performance goals for Chief Executive Officer under the Company's Annual At Risk Compensation Incentive Program.
12	Statements regarding Computation of Ratios: <i>Ratio of Earnings to Fixed Charges for the Twelve Months Ended December 31, 2005 and the Fiscal Years Ended September 30, 2001 through 2005.</i>
31.1	Written statements of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Written statements of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	National Fuel Gas Company Consolidated Statement of Income for the Twelve Months Ended December 31, 2005 and 2004.

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 Officer

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

Date: February 9, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from ___ to ___

Commission File Number 1-3880

NATIONAL FUEL GAS COMPANY

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of
incorporation or organization)

13-1086010

(I.R.S. Employer
Identification No.)

6363 Main Street

Williamsville, New York

(Address of principal executive offices)

14221

(Zip Code)

(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 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 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

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

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

GLOSSARY OF TERMS

Frequently used abbreviations or acronyms:

National Fuel Gas Companies

Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries as appropriate in the context of the disclosure
Data-Track	Data-Track Account Services, Inc.
Distribution Corporation	National Fuel Gas Distribution Corporation
Empire	Empire State Pipeline
ESNE	Energy Systems North East, LLC
Highland	Highland Forest Resources, Inc.
Horizon	Horizon Energy Development, Inc.
Horizon LFG	Horizon LFG, Inc.
Horizon Power	Horizon Power, Inc.
Leidy Hub	Leidy Hub, Inc.
Model City	Model City Energy, LLC
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
SECI	Seneca Energy Canada Inc.
Seneca	Seneca Resources Corporation
Seneca Energy	Seneca Energy II, LLC
Supply Corporation	National Fuel Gas Supply Corporation
U.E.	United Energy, a.s.

Regulatory Agencies

FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
NYPSC	State of New York Public Service Commission
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission

Other

2005 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2005
APB 20	Accounting Principles Board Opinion No. 20, Accounting Changes
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 length by 12 inches in width by one inch in thickness.
Btu	British thermal unit; the amount of heat needed to raise the temperature of one pound of water one degree Fahrenheit.
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Supply Corporation for gas the customer receives in excess of amounts delivered into Supply Corporation's system by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying variable (a price, interest rate, index rate, exchange rate, or other variable) and a notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net, and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, options, no cost collars and swaps.

GLOSSARY OF TERMS (Cont.)

Dth	Dekatherm; one Dth of natural gas has a heating value of 1,000,000 British thermal units, approximately equal to the heating value of 1 Mcf 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 investments in partnerships.
FIN 47	FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations - an interpretation of SFAS 143
Firm transportation and/or storage	The transportation and/or storage service that a supplier of such service is obligated by contract to provide and for which the customer is obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United States of America
Goodwill	An intangible asset representing the difference between the fair value of a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes, often times through the use of derivative financial instruments.
Hub	Location where pipelines intersect enabling the trading, transportation, storage, exchange, lending and borrowing of natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service, and for which the customer does not pay unless utilized.
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 dekatherms (of natural gas)
MMcf	Million cubic feet (of natural gas)
Order 667-A	An order issued by FERC to clarify Order 667 entitled "Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the 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 customer to sign a service agreement after specified events (called "conditions precedent") happen, usually within a specified time.
Proved developed reserves	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
Proved undeveloped reserves	Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is 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 formation which has been proven by production.
Restructuring	Generally referring to partial "deregulation" of the utility industry by statutory or regulatory process. Restructuring of federally regulated natural gas pipelines resulted in the separation (or "unbundling") of gas commodity service from transportation service for wholesale and large-volume retail markets. State restructuring programs attempt to extend the same process to retail mass markets.
SFAS	Statement of Financial Accounting Standards

GLOSSARY OF TERMS (Concl.)

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

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

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended March 31,	
	2006	2005
INCOME		
Operating Revenues	\$890,981	\$735,842
Operating Expenses		
Purchased Gas	566,540	440,254
Operation and Maintenance	121,076	110,392
Property, Franchise and Other Taxes	20,120	19,897
Depreciation, Depletion and Amortization	44,278	44,632
	752,014	615,175
Operating Income	138,967	120,667
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	720	455
Interest Income	965	1,018
Other Income	248	4,827
Interest Expense on Long-Term Debt	(18,149)	(18,319)
Other Interest Expense	(1,465)	(1,936)
Income from Continuing Operations Before Income Taxes	121,286	106,712
Income Tax Expense	42,692	42,731
Income from Continuing Operations	78,594	63,981
Income from Discontinued Operations, Net of Tax	-	6,702
Net Income Available for Common Stock	78,594	70,683
EARNINGS REINVESTED IN THE BUSINESS		
Balance at December 31	845,951	746,090
	924,545	816,773
Share Repurchases	22,619	-
Dividends on Common Stock (2006 - \$0.29; 2005 - \$0.28)	24,327	23,364
Balance at March 31	\$877,599	\$793,409
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$0.93	\$0.77
Income from Discontinued Operations	-	0.08
Net Income Available for Common Stock	\$0.93	\$0.85
Diluted:		
Income from Continuing Operations	\$0.91	\$0.75
Income from Discontinued Operations	-	0.08
Net Income Available for Common Stock	\$0.91	\$0.83
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	84,346,733	83,313,191
Used in Diluted Calculation	86,253,597	84,770,068

See Notes to Condensed Consolidated Financial Statements

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

(Thousands of Dollars, Except Per Common Share Amounts)	Six Months Ended March 31,	
	2006	2005
INCOME		
Operating Revenues	\$1,601,737	\$1,236,126
Operating Expenses		
Purchased Gas	1,003,317	696,410
Operation and Maintenance	224,704	203,015
Property, Franchise and Other Taxes	37,302	36,953
Depreciation, Depletion and Amortization	87,324	87,340
	1,352,647	1,023,718
Operating Income	249,090	212,408
Other Income (Expense):		
Income from Unconsolidated Subsidiaries	1,985	1,239
Interest Income	2,098	1,290
Other Income	989	5,378
Interest Expense on Long-Term Debt	(36,367)	(36,694)
Other Interest Expense	(3,240)	(4,354)
Income from Continuing Operations Before Income Taxes	214,555	179,267
Income Tax Expense	78,542	70,457
Income from Continuing Operations	136,013	108,810
Income from Discontinued Operations, Net of Tax	-	12,310
Net Income Available for Common Stock	136,013	121,120
EARNINGS REINVESTED IN THE BUSINESS		
Balance at October 1	813,020	718,926
	949,033	840,046
Share Repurchases	22,619	-
Dividends on Common Stock (2006 - \$0.58; 2005 - \$0.56)	48,815	46,637
Balance at March 31	\$877,599	\$793,409
Earnings Per Common Share:		
Basic:		
Income from Continuing Operations	\$1.61	\$1.31
Income from Discontinued Operations	-	0.15
Net Income Available for Common Stock	\$1.61	\$1.46
Diluted:		
Income from Continuing Operations	\$1.58	\$1.28
Income from Discontinued Operations	-	0.15
Net Income Available for Common Stock	\$1.58	\$1.43
Weighted Average Common Shares Outstanding:		
Used in Basic Calculation	84,385,140	83,231,435
Used in Diluted Calculation	86,256,515	84,711,134

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
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Consolidated Balance Sheets
(Unaudited)

	March 31, 2006	September 30, 2005
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	\$4,535,882	\$4,423,255
Less - Accumulated Depreciation, Depletion and Amortization	1,639,493	1,583,955
	<u>2,896,389</u>	<u>2,839,300</u>
Current Assets		
Cash and Temporary Cash Investments	98,099	57,607
Hedging Collateral Deposits	16,890	77,784
Receivables -- Net of Allowance for Uncollectible Accounts of \$43,409 and \$26,940, Respectively	358,026	155,064
Unbilled Utility Revenue	67,074	20,465
Gas Stored Underground	31,883	64,529
Materials and Supplies - at average cost	32,425	33,267
Unrecovered Purchased Gas Costs	-	14,817
Prepayments and Other Current Assets	41,096	65,469
Deferred Income Taxes	49,546	83,774
Fair Value of Derivative Financial Instruments	5,895	-
	<u>700,934</u>	<u>572,776</u>
Other Assets		
Recoverable Future Taxes	84,834	85,000
Unamortized Debt Expense	16,516	17,567
Other Regulatory Assets	56,713	47,028
Deferred Charges	8,086	4,474
Other Investments	85,349	80,394
Investments in Unconsolidated Subsidiaries	11,491	12,658
Goodwill	5,476	5,476
Intangible Assets	40,971	42,302
Other	6,808	15,677
	<u>316,244</u>	<u>310,576</u>
Total Assets	<u>\$3,913,567</u>	<u>\$3,722,652</u>

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

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National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

	March 31, 2006	September 30, 2005
(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders' Equity		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares; Issued And Outstanding - 83,919,742 Shares and 84,356,748 Shares, Respectively	\$83,920	\$ 84,357
Paid in Capital	540,388	529,834
Earnings Reinvested in the Business	877,599	813,020
Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,501,907	1,427,211
Accumulated Other Comprehensive Loss	(119,248)	(197,628)
Total Comprehensive Shareholders' Equity	1,382,659	1,229,583
Long-Term Debt, Net of Current Portion	1,114,371	1,119,012
Total Capitalization	2,497,030	2,348,595
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	-	-
Current Portion of Long-Term Debt	9,505	9,393
Accounts Payable	145,438	155,485
Amounts Payable to Customers	12,650	1,158
Dividends Payable	24,327	24,445
Other Accruals and Current Liabilities	193,249	60,404
Fair Value of Derivative Financial Instruments	87,962	209,072
	473,131	459,957
Deferred Credits		
Deferred Income Taxes	503,147	489,720
Taxes Refundable to Customers	11,070	11,009
Unamortized Investment Tax Credit	6,445	6,796
Cost of Removal Regulatory Liability	93,092	90,396
Other Regulatory Liabilities	58,886	66,339
Pension and Other Post-Retirement Benefit Liabilities	155,582	143,687
Asset Retirement Obligation	42,216	41,411
Other Deferred Credits	72,968	64,742
	943,406	914,100
Commitments and Contingencies		
	-	-
Total Capitalization and Liabilities	\$3,913,567	\$3,722,652

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
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Consolidated Statements of Cash Flows
(Unaudited)

(Thousands of Dollars)	Six Months Ended March 31,	
	2006	2005
OPERATING ACTIVITIES		
Net Income Available for Common Stock	\$136,013	\$121,120
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	87,324	96,285
Deferred Income Taxes	(1,435)	(3,982)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	1,166	282
Minority Interest in Foreign Subsidiaries	-	3,342
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(6,515)	-
Other	(5,297)	(7,124)
Change in:		
Hedging Collateral Deposits	60,894	(10,962)
Receivables and Unbilled Utility Revenue	(249,466)	(228,969)
Gas Stored Underground and Materials and Supplies	33,486	43,628
Unrecovered Purchased Gas Costs	14,817	7,532
Prepayments and Other Current Assets	24,372	(745)
Accounts Payable	(9,951)	47,541
Amounts Payable to Customers	11,492	25,342
Other Accruals and Current Liabilities	139,020	153,928
Other Assets	(11,837)	(13,191)
Other Liabilities	19,107	11,989
Net Cash Provided by Operating Activities	243,190	246,016
INVESTING ACTIVITIES		
Capital Expenditures	(134,961)	(114,624)
Net Proceeds from Sale of Oil and Gas Producing Properties	4	85
Other	(1,396)	2,450
Net Cash Used in Investing Activities	(136,353)	(112,089)
FINANCING ACTIVITIES		
Change in Notes Payable to Banks and Commercial Paper	-	(43,600)
Excess Tax Benefits Associated with Stock-Based Compensation Awards	6,515	-
Shares Repurchased under Repurchase Plan	(26,577)	-
Reduction of Long-Term Debt	(4,529)	(7,314)
Dividends Paid on Common Stock	(48,933)	(46,483)
Net Proceeds from Issuance of Common Stock	7,164	6,301
Net Cash Used in Financing Activities	(66,360)	(91,096)
Effect of Exchange Rates on Cash	15	3,135
Net Increase in Cash and Temporary Cash Investments	40,492	45,966
Cash and Temporary Cash Investments at October 1	57,607	57,541
Cash and Temporary Cash Investments at March 31	\$98,099	\$103,507

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)NFG-3-1
Witness: Bauer
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Consolidated Statements of Comprehensive Income
(Unaudited)

(Thousands of Dollars)	Three Months Ended March 31,	
	2006	2005
<u>Net Income Available for Common Stock</u>	<u>\$78,594</u>	<u>\$70,683</u>
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	(991)	(8,084)
Unrealized Gain on Securities Available for Sale Arising During the Period	1,121	222
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	21,618	(100,334)
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	-	(652)
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	25,794	17,645
<u>Other Comprehensive Income (Loss), Before Tax</u>	<u>47,542</u>	<u>(91,203)</u>
Income Tax Expense Related to Cumulative Translation Adjustment	-	363
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	392	159
Income Tax Benefit Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	8,334	(38,380)
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	-	(228)
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	10,000	6,671
<u>Income Taxes – Net</u>	<u>18,726</u>	<u>(31,415)</u>
<u>Other Comprehensive Income (Loss)</u>	<u>28,816</u>	<u>(59,788)</u>
<u>Comprehensive Income</u>	<u>\$107,410</u>	<u>\$10,895</u>

See Notes to Condensed Consolidated Financial Statements

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

(Thousands of Dollars)	Six Months Ended March 31,	
	2006	2005
Net Income Available for Common Stock	\$136,013	\$121,120
Other Comprehensive Income (Loss), Before Tax:		
Foreign Currency Translation Adjustment	(736)	22,900
Unrealized Gain on Securities Available for Sale Arising During the Period	2,263	1,351
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	62,615	(80,232)
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	-	(652)
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	63,725	35,841
Other Comprehensive Income (Loss), Before Tax	127,867	(20,792)
Income Tax Expense Related to Cumulative Translation Adjustment	-	363
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	791	554
Income Tax Benefit Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	24,110	(30,653)
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	-	(228)
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	24,586	13,582
Income Taxes – Net	49,487	(16,382)
Other Comprehensive Income (Loss)	78,380	(4,410)
Comprehensive Income	\$214,393	\$116,710

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

National Fuel Gas Company
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Summary of Significant Accounting Policies

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

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the 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 Company's 2005 Form 10-K. The consolidated financial statements for the year ended September 30, 2006 will be audited by the Company's independent registered public accounting firm after the end of the fiscal year.

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

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

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

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

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

Item 1. Financial Statements (Cont.)

	<u>At March 31, 2006</u>	<u>At September 30, 2005</u>
Minimum Pension Liability Adjustment	\$(107,844)	\$(107,844)
Cumulative Foreign Currency Translation Adjustment	27,273	28,009
Net Unrealized Loss on Derivative Financial Instruments	(45,695)	(123,339)
Net Unrealized Gain on Securities Available for Sale	<u>7,018</u>	<u>5,546</u>
Accumulated Other Comprehensive Loss	<u>\$(119,248)</u>	<u>\$(197,628)</u>

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

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

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

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

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

Item 1. Financial Statements (Cont.)

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

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

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended March 31, <u>2005</u>	Six Months Ended March 31, <u>2005</u>
Net Income, Available for Common Stock, as Reported	\$70,683	\$121,120
Add:		
Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax ⁽¹⁾	98	205
Deduct:		
Total Stock-Based Employee Compensation Expense Determined Under Fair Value Based Method for all Awards, Net of Related Tax Effects	<u>(317)</u>	<u>(680)</u>
<i>Pro Forma</i> Net Income Available For Common Stock	<u>\$70,464</u>	<u>\$120,645</u>
Earnings Per Common Share:		
Basic – As Reported	\$0.85	\$1.46
Basic – Pro Forma	\$0.85	\$1.45
Diluted – As Reported	\$0.83	\$1.43
Diluted – Pro Forma	\$0.83	\$1.42

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

Item 1. Financial Statements (Cont.)

Stock Options

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
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	4.19	\$ 92,807
Options Exercisable at March 31, 2006	10,339	\$ 23.87	4.15	\$ 91,494

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

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

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

Item 1. Financial Statements (Cont.)

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

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

Restricted Share Awards

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

	Number of Restricted Share Awards	Weighted Average Fair Value per Award
Restricted Share Awards Outstanding at September 30, 2005	65	\$ 24.46
Granted	—	—
Vested	(8)	23.75
Forfeited	—	—
Restricted Share Awards Outstanding at December 31, 2005	57	24.56
Granted	—	—
Vested	(25)	24.50
Forfeited	—	—
Restricted Share Awards Outstanding at March 31, 2006	32	\$ 24.60

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

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

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

Note 2 - Income Taxes

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

Item 1. Financial Statements (Cont.)

	Six Months Ended March 31,	
	2006	2005
Operating Expenses:		
Current Income Taxes		
Federal	\$62,466	\$59,024
State	15,181	16,882
Foreign	2,328	127
Deferred Income Taxes		
Federal	(1,433)	(5,938)
State	(223)	(2,228)
Foreign	223	2,590
	<u>78,542</u>	<u>70,457</u>
Other Income:		
Deferred Investment Tax Credit	(348)	(348)
Discontinued Operations	-	9,837
Total Income Taxes	<u>\$78,194</u>	<u>\$79,946</u>

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

	Six Months Ended March 31,	
	2006	2005
U.S.	\$195,503	\$170,680
Foreign	18,704	30,386
	<u>\$214,207</u>	<u>\$201,066</u>

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

	Six Months Ended March 31,	
	2006	2005
Income Tax Expense, Computed at Statutory Rate of 35%	\$74,972	\$70,373
Increase (Reduction) in Taxes Resulting From:		
State Income Taxes	9,723	9,525
Dividend from Foreign Subsidiary	-	3,837
Foreign Tax Differential	(4,704) ⁽¹⁾	(1,952)
Miscellaneous	(1,797)	(1,837)
Total Income Taxes	<u>\$78,194</u>	<u>\$79,946</u>

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

Item 1. Financial Statements (Cont.)

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

	At March 31, 2006	At September 30, 2005
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$578,038	\$567,850
Other	39,692	52,436
Total Deferred Tax Liabilities	617,730	620,286
Deferred Tax Assets:		
Minimum Pension Liability Adjustment	(58,070)	(58,069)
Capital Loss Carryover	(7,196)	(9,145)
Unrealized Hedging Losses	(26,170)	(75,657)
Other	(75,570)	(74,346)
	(167,006)	(217,217)
Valuation Allowance	2,877	2,877
Total Deferred Tax Assets	(164,129)	(214,340)
Total Net Deferred Income Taxes	\$453,601	\$405,946
Presented as Follows:		
Net Deferred Tax Asset – Current	(49,546)	(83,774)
Net Deferred Tax Liability – Non-Current	503,147	489,720
Total Net Deferred Income Taxes	\$453,601	\$405,946

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

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

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

Note 3 - Capitalization

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

Item 1. Financial Statements (Cont.)

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

Note 4 - Commitments and Contingencies

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

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

Note 5 – Discontinued Operations

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

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

Item 1. Financial Statements (Cont.)

<i>(Thousands)</i>	Three Months Ended March 31, 2005	Six Months Ended March 31, 2005
Operating Revenues	\$55,487	\$99,462
Operating Expenses	37,872	73,651
Operating Income	17,615	25,811
Other Income	314	1,141
Interest Expense	(152)	(321)
Income before Income Taxes and Minority Interest	17,777	26,631
Income Tax Expense	8,670	10,979
Minority Interest, Net of Taxes	2,405	3,342
Income from Discontinued Operations	\$6,702	\$12,310

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.

Item 1. Financial Statements (Cont.)

Quarter Ended March 31, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$536,235	\$39,346	\$88,719	\$206,061	\$19,157	\$889,518	\$ 1,075	\$ 388	\$890,981
Intersegment Revenues	\$ 5,681	\$19,711	\$ -	\$ -	\$ (23)	\$ 25,369	\$2,057	\$ (27,426)	\$ -
Segment Profit: Net Income	\$ 28,654	\$16,892	\$25,845	\$ 3,877	\$ 2,242	\$ 77,510	\$ 46	\$ 1,038	\$ 78,594

Six Months Ended March 31, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$967,714	\$74,085	\$170,806	\$351,620	\$36,066	\$1,600,291	\$1,058	\$ 388	\$1,601,737
Intersegment Revenues	\$ 9,803	\$41,006	\$ -	\$ -	\$ -	\$ 50,809	\$6,584	\$ (57,393)	\$ -
Segment Profit: Net Income	\$ 50,407	\$32,742	\$ 43,280	\$ 4,864	\$ 3,706	\$ 134,999	\$616	\$ 398	\$ 136,013

Quarter Ended March 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$485,647	\$36,029	\$70,319	\$124,565	\$18,971	\$735,531	\$ 311	\$ -	\$735,842
Intersegment Revenues	\$ 5,693	\$21,517	\$ -	\$ -	\$ 1	\$ 27,211	\$3,263	\$ (30,474)	\$ -
Segment Profit (Loss): Income (Loss) from Continuing Operations	\$ 28,882	\$18,457	\$11,230	\$ 2,612	\$ 2,893	\$ 64,074	\$ 652	\$ (745)	\$ 63,981

Six Months Ended March 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$802,476	\$68,474	\$142,157	\$188,059	\$31,966	\$1,233,132	\$2,994	\$ -	\$1,236,126
Intersegment Revenues	\$ 9,998	\$42,116	\$ -	\$ -	\$ 1	\$ 52,115	\$4,342	\$ (56,457)	\$ -
Segment Profit (Loss): Income (Loss) from Continuing Operations	\$ 46,954	\$30,734	\$ 25,153	\$ 3,361	\$ 3,646	\$ 109,848	\$1,252	\$ (2,290)	\$ 108,810

Item 1. Financial Statements (Cont.)

Note 7 - Intangible Assets

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

	At March 31, 2006			At September 30, 2005
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Intangible Assets Subject to Amortization:				
Long-Term Transportation Contracts	\$8,580	\$(3,385)	\$5,195	\$5,729
Long-Term Gas Purchase Contracts	31,864	(4,230)	27,634	28,431
Intangible Assets Not Subject to Amortization:				
Retirement Plan Intangible Asset	8,142	-	8,142	8,142
	<u>\$48,586</u>	<u>\$(7,615)</u>	<u>\$40,971</u>	<u>\$42,302</u>

Aggregate Amortization Expense:
 (Thousands)

Three Months Ended March 31, 2006	\$665
Three Months Ended March 31, 2005	\$665
Six Months Ended March 31, 2006	\$1,331
Six Months Ended March 31, 2005	\$1,331

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

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

Note 8 – Retirement Plan and Other Post-Retirement Benefits

Components of Net Periodic Benefit Cost (in thousands):

Three months ended March 31,

	<u>Retirement Plan</u>		<u>Other Post-Retirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Service Cost	\$4,104	\$3,429	\$2,007	\$1,538
Interest Cost	10,049	10,520	6,701	6,446
Expected Return on Plan Assets	(12,486)	(12,386)	(5,576)	(4,715)
Amortization of Prior Service Cost	239	257	1	1
Amortization of Transition Amount	-	-	1,782	1,782
Amortization of Losses	5,777	2,618	5,850	3,116
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) ⁽¹⁾	<u>1,907</u>	<u>2,723</u>	<u>2,634</u>	<u>5,948</u>
Net Periodic Benefit Cost	<u>\$9,590</u>	<u>\$7,161</u>	<u>\$13,399</u>	<u>\$14,116</u>

Item 1. Financial Statements (Concl.)

Six months ended March 31,

	<u>Retirement Plan</u>		<u>Other Post-Retirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Service Cost	\$8,208	\$6,858	\$4,015	\$3,076
Interest Cost	20,098	21,040	13,402	12,892
Expected Return on Plan Assets	(24,972)	(24,772)	(11,151)	(9,430)
Amortization of Prior Service Cost	478	514	2	2
Amortization of Transition Amount	-	-	3,564	3,564
Amortization of Losses	11,554	5,236	11,701	6,232
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) ⁽¹⁾	379	3,605	(51)	5,235
Net Periodic Benefit Cost	\$15,745	\$12,481	\$21,482	\$21,571

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

RESULTS OF OPERATIONS

Earnings

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

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

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

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

Earnings (Loss) by Segment

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Utility	\$28,654	\$28,882	\$(228)	\$50,407	\$46,954	\$3,453
Pipeline and Storage	16,892	18,457	(1,565)	32,742	30,734	2,008
Exploration and Production	25,845	11,230	14,615	43,280	25,153	18,127
Energy Marketing	3,877	2,612	1,265	4,864	3,361	1,503
Timber	2,242	2,893	(651)	3,706	3,646	60
Total Reportable Segments	77,510	64,074	13,436	134,999	109,848	25,151
All Other	46	652	(606)	616	1,252	(636)
Corporate ⁽¹⁾	1,038	(745)	1,783	398	(2,290)	2,688
Total Earnings from Continuing Operations	78,594	63,981	14,613	136,013	108,810	27,203
Earnings from Discontinued Operations	-	6,702	(6,702)	-	12,310	(12,310)
Total Consolidated	\$78,594	\$70,683	\$7,911	\$136,013	\$121,120	\$14,893

⁽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

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase	2006	2005	Increase
Retail Sales Revenues:						
Residential	\$422,495	\$386,623	\$35,872	\$767,368	\$641,689	\$125,679
Commercial	75,758	69,367	6,391	132,648	111,150	21,498
Industrial	6,272	4,566	1,706	10,724	6,710	4,014
	504,525	460,556	43,969	910,740	759,549	151,191
Transportation	32,360	30,600	1,760	59,276	51,559	7,717
Other	5,031	184	4,847	7,501	1,366	6,135
	\$541,916	\$491,340	\$50,576	\$977,517	\$812,474	\$165,043

Utility Throughput

(MMcf)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Retail Sales:						
Residential	26,807	32,559	(5,752)	46,331	52,428	(6,097)
Commercial	5,038	6,072	(1,034)	8,481	9,526	(1,045)
Industrial	459	425	34	786	601	185
	32,304	39,056	(6,752)	55,598	62,555	(6,957)
Transportation	22,119	22,465	(346)	36,461	36,568	(107)
	54,423	61,521	(7,098)	92,059	99,123	(7,064)

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

Degree Days

Three Months Ended March 31	Normal	2006	2005	Percent Colder (Warmer) Than	
				Normal	Prior Year
Buffalo	3,327	2,875	3,468	(13.6)	(17.1)
Erie	3,142	2,705	3,266	(13.9)	(17.2)
Six Months Ended March 31					
Buffalo	5,587	5,085	5,640	(9.0)	(9.8)
Erie	5,223	4,753	5,263	(9.0)	(9.7)

2006 Compared with 2005

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

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

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

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

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normal for the period. For the quarter ended March 31, 2005, the WNC reduced earnings by approximately \$1.5 million, since weather for the period was colder than normal.

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

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

Pipeline and Storage

Pipeline and Storage Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Firm Transportation	\$31,738	\$32,086	\$(348)	\$62,824	\$61,616	\$1,208
Interruptible Transportation	1,115	922	193	2,438	1,848	590
	32,853	33,008	(155)	65,262	63,464	1,798
Firm Storage Service	16,408	16,376	32	32,655	32,471	184
Other	9,796	8,162	1,634	17,174	14,655	2,519
	\$59,057	\$57,546	\$1,511	\$115,091	\$110,590	\$4,501

Pipeline and Storage Throughput

(MMcf)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Firm Transportation	114,828	129,851	(15,023)	217,650	213,593	4,057
Interruptible Transportation	1,831	1,180	651	5,554	2,842	2,712
	116,659	131,031	(14,372)	223,204	216,435	6,769

2006 Compared with 2005

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

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

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

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

Exploration and Production

Exploration and Production Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Gas (after Hedging)	\$49,432	\$42,520	\$6,912	\$98,774	\$85,264	\$13,510
Oil (after Hedging)	36,262	25,624	10,638	65,656	52,520	13,136
Gas Processing Plant	10,662	8,344	2,318	24,082	17,048	7,034
Other	312	434	(122)	1,835	1,187	648
Intrasegment Elimination ⁽¹⁾	(7,949)	(6,603)	(1,346)	(19,541)	(13,862)	(5,679)
	\$88,719	\$70,319	\$18,400	\$170,806	\$142,157	\$28,649

⁽¹⁾ Represents the elimination of certain West Coast gas production 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 March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Gas Production (MMcf)						
Gulf Coast	2,752	2,844	(92)	4,419	6,069	(1,650)
West Coast	933	986	(53)	1,951	2,025	(74)
Appalachia	1,246	1,137	109	2,499	2,343	156
Canada	1,761	2,160	(399)	3,672	3,825	(153)
	6,692	7,127	(435)	12,541	14,262	(1,721)
Oil Production (Mbbbl)						
Gulf Coast	181	261	(80)	288	550	(262)
West Coast	639	634	5	1,324	1,287	37
Appalachia	12	9	3	22	12	10
Canada	68	78	(10)	155	154	1
	900	982	(82)	1,789	2,003	(214)

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Average Prices

	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Average Gas Price/Mcf						
Gulf Coast	\$8.47	\$6.75	\$1.72	\$9.33	\$6.61	\$2.72
West Coast	\$8.02	\$6.20	\$1.82	\$9.62	\$6.38	\$3.24
Appalachia	\$10.03	\$6.76	\$3.27	\$11.83	\$7.26	\$4.57
Canada	\$7.21	\$5.52	\$1.69	\$9.06	\$5.49	\$3.57
Weighted Average	\$8.37	\$6.30	\$2.07	\$9.79	\$6.38	\$3.41
Weighted Average After Hedging	\$7.39	\$5.97	\$1.42	\$7.88	\$5.98	\$1.90
Average Oil Price/bbl						
Gulf Coast	\$58.69	\$46.42	\$12.27	\$58.39	\$46.77	\$11.62
West Coast	\$53.65	\$37.67	\$15.98	\$52.46	\$37.40	\$15.06
Appalachia	\$60.28	\$42.28	\$18.00	\$60.84	\$42.85	\$17.99
Canada	\$48.63	\$41.08	\$7.55	\$45.57	\$39.78	\$5.79
Weighted Average	\$54.37	\$40.31	\$14.06	\$52.92	\$40.19	\$12.73
Weighted Average After Hedging	\$40.30	\$26.10	\$14.20	\$36.70	\$26.22	\$10.48

2006 Compared with 2005

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

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

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

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

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

Energy Marketing

Energy Marketing Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Natural Gas (after Hedging)	\$206,057	\$124,560	\$81,497	\$351,580	\$188,050	\$163,530
Other	4	5	(1)	40	9	31
	\$206,061	\$124,565	\$81,496	\$351,620	\$188,059	\$163,561

Energy Marketing Volumes

	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase	2006	2005	Increase
Natural Gas - (MMcf)	17,332	15,184	2,148	27,306	23,191	4,115

2006 Compared with 2005

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

Earnings in the Energy Marketing segment increased \$1.3 million and \$1.5 million, respectively, for the quarter and six months ended March 31, 2006 as compared with the quarter and six months ended March 31, 2005. Despite warmer weather and greater conservation by customers, margins increased due to a number of factors, including higher volumes and the 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.

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Timber

Timber Operating Revenues

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Log Sales	\$8,267	\$8,768	\$(501)	\$14,523	\$13,644	\$879
Green Lumber Sales	1,968	1,863	105	3,430	3,309	121
Kiln Dry Lumber Sales	8,384	7,822	562	16,885	14,096	2,789
Other	515	519	(4)	1,228	918	310
Operating Revenues	\$19,134	\$18,972	\$162	\$36,066	\$31,967	\$4,099

Timber Board Feet

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Log Sales	3,282	2,570	712	5,774	4,315	1,459
Green Lumber Sales	2,982	2,538	444	4,956	4,702	254
Kiln Dry Lumber Sales	4,512	3,897	615	8,998	7,263	1,735
	10,776	9,005	1,771	19,728	16,280	3,448

2006 Compared with 2005

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

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

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

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Corporate and All Other

2006 Compared with 2005

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

CAPITAL RESOURCES AND LIQUIDITY

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

Operating Cash Flow

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

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

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

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

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

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

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deposits serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

Investing Cash Flow

Expenditures for Long-Lived Assets

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

Six Months Ended March 31, 2006 <i>(in millions of dollars)</i>	
	Total Expenditures for Long-Lived Assets
Utility	\$25.4
Pipeline and Storage	10.3
Exploration and Production	96.3
Timber	0.8
Corporate and All Other	2.2
	\$135.0

Utility

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

Pipeline and Storage

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

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

The Company also has plans to extend Supply Corporation's pipeline system from the Tuscarora storage field to the intersection of the proposed Millennium and Empire Connector pipelines (the Tuscarora Extension).* The Tuscarora Extension will be designed initially to move up to approximately 130 MDth of natural gas per day.* The project depends on market developments and its in-service date will be contingent upon the Millennium/Empire project timeline. The Company has not yet filed an application with the FERC for the authority to build and operate the Tuscarora Extension. The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral

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lines of credit.* There have been no costs incurred by the Company related to this project as of March 31, 2006.

Exploration and Production

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

Timber

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

Corporate and All Other

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

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

Financing Cash Flow

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

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

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

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

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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

OTHER MATTERS

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

Market Risk Sensitive Instruments

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

Rate and Regulatory Matters

Energy Policy Act

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

Utility Operation

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

New York Jurisdiction

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

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

Pennsylvania Jurisdiction

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

Pipeline and Storage

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

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

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

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

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

Environmental Matters

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

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

New Accounting Pronouncements

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

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

Safe Harbor for Forward-Looking Statements

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

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

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

1. Changes in laws and regulations to which the Company is subject, including changes in tax, environmental, safety and employment laws and regulations, and changes in laws and regulations relating to repeal of PUHCA 1935;
2. Changes in economic conditions, including economic disruptions caused by terrorist activities, acts of war or major accidents;
3. Changes in demographic patterns and weather conditions; including the occurrence of severe
4. Changes in the availability and/or price of natural gas or oil and the effect of such changes on the accounting treatment or valuation of derivative financial instruments or the Company's natural gas and oil reserves;
5. Impairments under the SEC's full cost ceiling test for natural gas and oil reserves;
6. Changes in the availability and/or price of derivative financial instruments;
7. Changes in the price differentials between various types of oil;
8. Failure of the price differential between heavy sour crude oil and light sweet crude oil to return to its historical norm;
9. Inability to obtain new customers or retain existing ones;
10. Significant changes in competitive factors affecting the Company;
11. Governmental/regulatory actions, initiatives and proceedings, including those involving acquisitions, financings, rate cases (which address, among other things, allowed rates of return, rate design and retained gas), affiliate relationships, industry structure, franchise renewal, and environmental/safety requirements;
12. Unanticipated impacts of restructuring initiatives in the natural gas and electric industries;
13. Significant changes from expectations in actual capital expenditures and operating expenses and unanticipated project delays or changes in project costs or plans, including changes in the plans of the sponsors of the proposed Millennium Pipeline with respect to that project;
14. The nature and projected profitability of pending and potential projects and other investments;
15. Occurrences affecting the Company's ability to obtain funds from operations, debt or equity to finance needed capital expenditures and other investments, including any downgrades in the Company's credit ratings;
16. Uncertainty of oil and gas reserve estimates;

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Item 4. Controls and Procedures (Concl.)

Changes in Internal Controls Over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

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

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

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

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."

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

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

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

Item 1A. Risk Factors

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

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

National Fuel's operations are subject to inherent hazards and risks such as: fires; natural disasters; explosions; formations with abnormal pressures; blowouts; collapses of wellbore casing or other tubulars; pipeline ruptures; spills; and other hazards and risks that may cause personal injury, death, property damage, environmental damage or business interruption losses. Additionally, National Fuel's facilities, machinery, and equipment may be subject to sabotage. Any of these events could cause a loss of hydrocarbons, environmental pollution, personal injury or death claims, damage to National Fuel's properties or damage to the properties of others. As protection against operational hazards, National Fuel maintains insurance coverage against some, but not all, potential losses. In addition, many of the agreements that National Fuel executes with contractors provide for the division of responsibilities between the contractor and National Fuel, and National Fuel seeks to obtain an indemnification from the contractor for certain of these risks. National Fuel is not always able, however, to secure written agreements with its contractors that contain indemnification, and sometimes National Fuel is required to indemnify others.

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

Item 1A. Risk Factors (Concl.)

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

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ^(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Share Repurchase Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Share Repurchase Plans or Programs ^(b)
Jan. 1 - 31, 2006	10,169	\$32.88	-	8,000,000
Feb. 1 - 28, 2006	125,353	\$32.20	115,800	7,884,200
Mar. 1 - 31, 2006	806,157	\$32.23	709,450	7,174,750
Total	941,679	\$32.23	825,250	7,174,750

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

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

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

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

The total votes were as follows:

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

Other directors whose term of office continued after the meeting:

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

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

	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
(ii) Appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm	73,389,799	1,268,463	324,121	-
(iii) Adoption of shareholder proposal to reduce the compensation of non-employee directors	5,198,024	48,371,311	1,946,254	19,466,794

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1	Description of bonuses awarded to executive officer.
10.2	Description of performance goals for certain executive officers.
10.3	Noncompete and Restrictive Covenant Agreement, dated February 1, 2006, between the Company and Dennis J. Seeley.
10.4	Description of salaries of certain executive officers.
12	Statements regarding Computation of Ratios:

Item 6. Exhibits (Concl.)

- Ratio of Earnings to Fixed Charges for the Twelve Months Ended March 31, 2006 and the Fiscal Years Ended September 30, 2001 through 2005.
- 31.1 Written statements of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
- 31.2 Written statements of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99 National Fuel Gas Company Consolidated Statement of Income for the Twelve Months Ended March 31, 2006 and 2005.

SIGNATURES

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 Officer

/s/ K. M. Camiolo

K. M. Camiolo

Controller and Principal Accounting Officer

Date: May 5, 2006

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
II. REVENUE REQUIREMENT INTERROGATORIES
GAS UTILITIES

1. Please supply copies of the Company's balance sheets for each quarter for the last two years.

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See pages 2 through 7 for the quarterly detailed balance sheets of National Fuel Gas Distribution Corporation at December 31, 2005 and 2004, September 30, 2005 and 2004, June 2005 and 2004, and March 2006, 2005 and 2004.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
BALANCE SHEET AS OF

	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>
Assets				
Property Plant and Equipment				
Gas Plant In Service	1,408,512,433.47	1,421,878,154.35	1,429,678,924.18	1,439,433,906.90
Completed Construction Not Classified	-	-	-	-
Construction Work In Progress	9,655,890.40	5,595,034.01	9,723,181.28	6,754,628.06
Non Utility	80,137.38	80,802.33	80,802.33	80,802.33
Total Property Plant and Equipment	1,418,248,461.25	1,427,553,990.70	1,439,482,907.80	1,446,269,337.30
Less: Reserve For Deprec, Depl & Amort	439,251,631.70	445,700,841.92	450,998,825.82	456,569,878.04
Net Property Plant and Equipment	978,996,829.55	981,853,148.77	988,484,081.97	989,699,459.25
Current Assets				
Cash	8,760,807.24	5,409,083.30	5,001,129.95	6,532,160.42
Temporary Cash Investments	43,745.77	83,843.15	84,036.72	84,182.99
Notes Receivable	87,424.21	85,543.70	349,713.65	316,247.15
Notes Receivable - Associate Companies	-	-	-	-
Accounts Receivable - Associate Companies	7,192,471.76	9,122,383.00	6,632,165.72	8,140,523.97
Accounts Receivable - Customers	211,672,596.68	141,143,097.69	72,765,834.32	130,406,238.16
Accounts Receivable - Others	4,901,074.24	7,419,061.02	4,332,983.69	4,143,446.54
Gas Stored Underground - Current	6,205,589.37	14,044,407.05	46,586,200.57	19,812,511.26
Unbilled Revenue	54,298,585.77	17,769,597.98	18,574,608.24	84,834,729.11
Materials & Supplies	6,498,005.09	6,993,596.41	7,015,880.04	7,193,137.90
Prepayments	11,439,716.93	8,249,839.13	10,337,300.60	10,392,371.56
Total Current Assets	311,100,017.06	210,320,452.43	171,679,853.50	271,855,549.06
Other Assets				
Other Investments	0.21	0.21	0.21	0.21
Deferred Gas Costs	(10,476,667.59)	(20,060,121.68)	8,161,100.21	(2,268,566.99)
Accumulated Deferred Income Taxes	31,004.68	31,004.68	31,004.68	31,004.68
Recoverable of Future Taxes	75,705,592.00	75,705,592.00	75,068,490.00	75,068,490.00
Unamortized Debt Expense	5,957,353.13	5,781,810.71	5,746,375.61	5,640,886.85
Other Regulatory Assets	(1,719,186.93)	(2,174,623.61)	(9,058,962.04)	(10,035,689.97)
Other Deferred Debits	12,712,520.31	19,155,331.83	13,602,528.58	18,182,471.38
Total Other Assets	82,210,615.81	78,438,994.14	93,550,537.25	86,618,596.16
Total Assets	1,372,307,462.41	1,270,612,595.34	1,253,714,472.72	1,348,173,604.47

Liabilities & Stockholders Equity	3/31/04	6/30/04	9/30/04	12/31/04
Common Capital Stock				
Shares Issued & Outstanding	59,170,600.00	59,170,600.00	59,170,600.00	59,170,600.00
Premium on Capital Stock	68,500.00	68,500.00	68,500.00	68,500.00
Donations Received	121,599,684.37	121,599,684.37	121,599,684.37	121,599,684.37
Total Common Capital Stock	180,838,784.37	180,838,784.37	180,838,784.37	180,838,784.37
Retained Earnings				
Retained Earnings Balance as of Oct 1 st	367,961,938.36	367,961,938.36	367,961,938.36	381,224,859.88
Net Income or Loss (-)	51,088,836.86	54,584,017.00	49,662,921.52	17,239,099.09
Less: Dividends	18,200,000.00	27,300,000.00	36,400,000.00	9,100,000.00
Total Retained Earnings	400,850,775.22	395,245,955.36	381,224,859.88	389,363,958.97
Total Stockholders Equity	581,689,559.59	576,084,739.73	562,063,644.25	570,202,743.34
Long Term Debt				
Advance From Associate Companies	218,310,000.00	218,310,000.00	218,310,000.00	218,310,000.00
Other Long Term Debt	52,571.74	35,415.65	17,894.99	2.01
Total Long Term Debt	218,362,571.74	218,345,415.65	218,327,894.99	218,310,002.01
Total Capitalization	800,052,131.33	794,430,155.38	780,391,539.24	788,512,745.35
Current & Accrued Liabilities				
Notes Payable - Associate Companies	100,800,000.00	85,100,000.00	145,100,000.00	172,900,000.00
Accounts Payable - Associate Companies	14,530,278.11	14,589,166.79	15,981,745.60	15,270,688.32
Accounts Payable - Others	62,493,385.78	49,576,208.55	37,145,949.04	70,319,274.02
Customer Deposits	8,106,405.76	7,885,505.18	8,017,870.65	9,101,152.19
Federal Income Taxes	30,392,077.43	25,779,485.43	(4,624,048.07)	7,450,379.93
Other Accrued Taxes	5,549,418.29	5,307,469.15	(2,815,000.79)	516,867.40
Dividends Declared	9,100,000.00	9,100,000.00	9,100,000.00	9,100,000.00
Tax Collections Payable	1,800,174.76	297,036.46	433,807.87	1,776,205.80
Customer Advances	1,654,707.24	1,698,684.89	464,089.98	468,822.91
Accrued Interest	69,345.15	107,732.82	(56,838.20)	6,790.68
Other Accruals	3,716,076.43	19,473,344.19	13,412,969.58	12,720,912.76
Supplier Refunds Payable	67,429.77	81,948.89	92,117.83	254,311.89
Reserve For Gas Replacement	92,938,229.16	35,937,603.25	(0.02)	8,492,081.68
Total Current & Accrued Liabilities	331,217,527.88	254,934,185.60	222,252,663.47	308,377,487.58
Operating Reserves				
Accumulated Deferred Income Taxes	173,401,131.67	169,776,411.32	202,929,075.67	196,662,423.87
Accumulated Deferred Investment Tax Credit	7,619,007.95	7,449,396.86	7,279,785.77	7,110,174.68
Other Deferred Credits	59,973,535.85	43,392,779.59	38,919,647.56	46,578,409.59
Reserve For Injuries & Damages	44,127.73	629,666.59	1,941,761.01	932,363.40
Total Operating Reserves	241,037,803.20	221,248,254.36	251,070,270.01	251,283,371.54
Total Liabilities	572,255,331.08	476,182,439.96	473,322,933.48	559,660,859.12
Total Liabilities & Equity	1,372,307,462.41	1,270,612,595.34	1,253,714,472.72	1,348,173,604.47

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
BALANCE SHEET AS OF

Assets	3/31/05	6/30/05	9/30/05	12/31/05
Property Plant and Equipment				
Gas Plant In Service	1,448,428,684.39	1,457,485,659.22	1,465,582,197.69	1,473,551,126.73
Completed Construction Not Classified	-	-	-	-
Construction Work In Progress	6,276,990.34	6,670,183.08	10,382,592.86	9,831,180.06
Non Utility	80,802.33	80,802.33	80,802.33	80,802.33
Total Property Plant and Equipment	1,454,786,477.07	1,464,236,644.64	1,476,045,592.89	1,483,463,109.13
Less: Reserve For Deprec, Depl & Amort	464,291,650.89	471,225,544.07	478,188,955.70	483,360,859.40
Net Property Plant and Equipment	990,494,826.17	993,011,100.56	997,856,637.18	1,000,102,249.72
Current Assets				
Cash	9,876,622.46	4,918,735.77	4,020,587.48	15,844,274.49
Temporary Cash Investments	8,741,343.76	41,390.88	40,374.55	40,445.07
Notes Receivable	307,264.36	275,098.82	252,563.48	319,126.10
Notes Receivable - Associate Companies	-	-	-	-
Accounts Receivable - Associate Companies	7,399,723.15	6,260,124.98	6,384,015.06	12,244,994.85
Accounts Receivable - Customers	234,657,297.32	160,055,107.33	62,006,784.03	165,449,750.22
Accounts Receivable - Others	5,238,599.98	4,748,217.90	5,307,454.91	13,932,449.95
Gas Stored Underground - Current	5,561,496.74	13,250,322.58	35,886,732.85	18,872,609.59
Unbilled Revenue	60,687,577.78	14,562,077.36	20,464,576.05	97,932,084.97
Materials & Supplies	7,357,588.40	7,357,063.69	6,820,601.50	7,071,696.50
Prepayments	11,827,632.25	8,401,949.36	10,501,306.54	10,753,693.27
Total Current Assets	351,655,146.20	219,870,088.67	151,684,996.45	342,461,125.01
Other Assets				
Other Investments	0.21	-	-	-
Deferred Gas Costs	(27,092,453.46)	(37,639,945.48)	14,816,869.92	27,593,236.75
Accumulated Deferred Income Taxes	31,004.68	31,004.68	31,004.68	31,004.68
Recoverable of Future Taxes	75,068,490.00	75,068,490.00	79,586,737.00	79,586,737.00
Unamortized Debt Expense	5,535,399.46	5,429,910.70	5,324,421.98	5,218,933.22
Other Regulatory Assets	(22,009,292.06)	(19,780,899.54)	(14,273,728.08)	(5,431,302.45)
Other Deferred Debits	18,076,527.42	15,686,245.27	4,255,183.53	1,245,805.51
Total Other Assets	49,609,676.25	38,794,805.63	89,740,489.03	108,244,414.71
Total Assets	1,391,759,648.62	1,251,675,994.86	1,239,282,122.66	1,450,807,789.44

Liabilities & Stockholders Equity	3/31/05	6/30/05	9/30/05	12/31/05
Common Capital Stock				
Shares Issued & Outstanding	59,170,600.00	59,170,600.00	59,170,600.00	59,170,600.00
Premium on Capital Stock	68,500.00	68,500.00	68,500.00	68,500.00
Donations Received	121,599,684.37	121,599,684.37	121,599,684.37	122,015,127.37
Total Common Capital Stock	180,838,784.37	180,838,784.37	180,838,784.37	181,254,227.37
Retained Earnings				
Retained Earnings Balance as of Oct 1 st	381,224,859.88	381,224,859.88	381,224,859.88	379,811,922.72
Net Income or Loss (-)	46,121,290.91	48,207,882.50	34,987,062.84	22,351,432.82
Less: Dividends	18,200,000.00	27,300,000.00	36,400,000.00	9,100,000.00
Total Retained Earnings	409,146,150.79	402,132,742.38	379,811,922.72	393,063,355.54
Total Stockholders Equity	589,984,935.16	582,971,526.75	560,650,707.09	574,317,582.91
Long Term Debt				
Advance From Associate Companies	218,310,000.00	218,310,000.00	218,310,000.00	218,310,000.00
Other Long Term Debt	14.30	-	-	-
Total Long Term Debt	218,310,014.30	218,310,000.00	218,310,000.00	218,310,000.00
Total Capitalization	808,294,949.46	801,281,526.75	778,960,707.09	792,627,582.91
Current & Accrued Liabilities				
Notes Payable - Associate Companies	102,600,000.00	71,000,000.00	142,300,000.00	251,500,000.00
Accounts Payable - Associate Companies	14,334,219.57	15,170,531.44	16,007,078.36	20,045,509.58
Accounts Payable - Others	61,166,647.97	54,577,202.33	67,256,577.48	111,336,876.21
Customer Deposits	9,256,039.96	11,553,798.77	11,859,496.18	10,343,578.01
Federal Income Taxes	29,554,065.93	17,211,414.93	(17,559,030.07)	(10,739,866.07)
Other Accrued Taxes	4,916,805.00	724,464.15	(7,261,949.44)	(6,215,522.40)
Dividends Declared	9,100,000.00	9,100,000.00	9,100,000.00	9,100,000.00
Tax Collections Payable	3,477,987.59	919,480.48	72,650.70	3,498,951.76
Customer Advances	385,734.50	395,706.10	474,978.68	531,100.71
Accrued Interest	75,878.49	139,689.67	5,061.05	105,090.41
Other Accruals	6,722,256.66	9,222,906.67	4,937,413.44	6,736,392.60
Supplier Refunds Payable	28,418.27	1,087,180.34	1,157,994.73	1,031,230.18
Reserve For Gas Replacement	112,335,309.62	44,514,656.42	(0.02)	18,363,101.69
Total Current & Accrued Liabilities	353,953,363.56	235,617,031.30	228,350,271.09	415,636,442.68
Operating Reserves				
Accumulated Deferred Income Taxes	184,589,266.07	185,210,324.78	211,566,955.85	214,993,328.08
Accumulated Deferred Investment Tax Credit	6,940,563.59	6,770,952.50	6,601,341.41	6,431,730.32
Other Deferred Credits	36,765,817.08	21,847,940.99	10,117,179.29	17,242,932.05
Reserve For Injuries & Damages	1,215,688.86	948,218.54	3,685,667.93	3,875,773.40
Total Operating Reserves	229,511,335.60	214,777,436.81	231,971,144.48	242,543,763.85
Total Liabilities	583,464,699.16	450,394,468.11	460,321,415.57	658,180,206.53
Total Liabilities & Equity	1,391,759,648.62	1,251,675,994.86	1,239,282,122.66	1,450,807,789.44

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
BALANCE SHEET AS OF

3/31/06

Assets

Property Plant and Equipment

Gas Plant in Service	1,487,620,246.04
Completed Construction Not Classified	-
Construction Work In Progress	6,135,524.94
Non Utility	80,802.33
Total Property Plant and Equipment	1,493,838,573.32
Less: Reserve For Deprec, Depl & Amort	491,014,995.73
Net Property Plant and Equipment	1,002,821,577.58

Current Assets

Cash	8,205,181.79
Temporary Cash Investments	40,539.03
Notes Receivable	292,011.81
Notes Receivable - Associate Companies	-
Accounts Receivable - Associate Companies	7,462,341.64
Accounts Receivable - Customers	244,094,363.79
Accounts Receivable - Others	14,780,576.62
Gas Stored Underground - Current	9,559,513.81
Unbilled Revenue	67,074,367.08
Materials & Supplies	7,440,176.56
Prepayments	12,928,184.73
Total Current Assets	371,877,256.86

Other Assets

Other Investments	-
Deferred Gas Costs	(12,044,541.58)
Accumulated Deferred Income Taxes	31,004.68
Recoverable of Future Taxes	79,586,737.00
Unamortized Debt Expense	5,113,444.47
Other Regulatory Assets	4,499,272.67
Other Deferred Debits	5,265,006.74
Total Other Assets	82,450,923.98

Total Assets

1,457,149,758.42

<u>Liabilities & Stockholders Equity</u>	<u>3/31/06</u>
Common Capital Stock	
Shares Issued & Outstanding	59,170,600.00
Premium on Capital Stock	68,500.00
Donations Received	122,047,954.62
Total Common Capital Stock	181,287,054.62
Retained Earnings	
Retained Earnings Balance as of Oct 1 st	379,811,922.72
Net Income or Loss (-)	50,406,740.09
Less: Dividends	34,867,000.00
Total Retained Earnings	395,351,662.81
Total Stockholders Equity	576,638,717.43
Long Term Debt	
Advance From Associate Companies	218,310,000.00
Other Long Term Debt	-
Total Long Term Debt	218,310,000.00
Total Capitalization	794,948,717.43
Current & Accrued Liabilities	
Notes Payable - Associate Companies	158,100,000.00
Accounts Payable - Associate Companies	14,291,437.23
Accounts Payable - Others	65,900,360.78
Customer Deposits	10,766,791.06
Federal Income Taxes	20,909,934.93
Other Accrued Taxes	1,693,903.59
Dividends Declared	25,767,000.00
Tax Collections Payable	3,904,503.19
Customer Advances	508,406.63
Accrued Interest	196,899.35
Other Accruals	14,179,423.97
Supplier Refunds Payable	605,864.74
Reserve For Gas Replacement	121,814,686.57
Total Current & Accrued Liabilities	438,639,212.05
Operating Reserves	
Accumulated Deferred Income Taxes	196,166,113.03
Accumulated Deferred Investment Tax Credit	6,262,119.23
Other Deferred Credits	16,400,324.17
Reserve For Injuries & Damages	4,733,272.51
Total Operating Reserves	223,561,828.94
Total Liabilities	662,201,040.99
Total Liabilities & Equity	1,457,149,758.42

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
III. RATE OF RETURN INTERROGATORIES
ALL UTILITIES

5. Please provide a a workpaper showing the derivation of the Company's current AFUDC rate.

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See page 2.

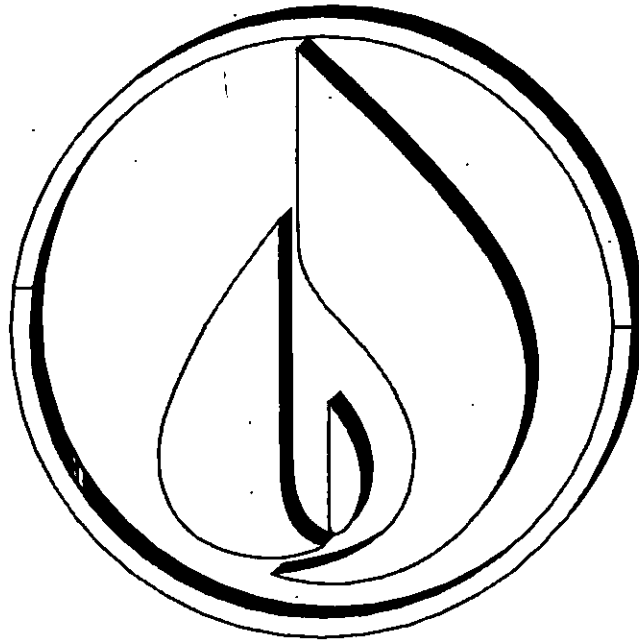
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
 CALCULATION FOR
 ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION
 RATES ON A CALENDAR YEAR BASIS

	Estimate for Calendar 2005	Actual for Calendar 2005	Estimate for Calendar 2006
S = Average Short Term Debt (Schedule I)	\$662,448	\$709,203	\$709,203
s = Short Term Debt Interest Rate (Schedule I)	2.20%	3.92%	3.92%
D = Long Term Debt (Prior Year End)	\$1,096,272,000	\$1,096,272,000	\$1,096,222,000
d = Long Term Debt Interest Rate (Weighted Average)	6.42%	6.42%	6.42%
P = Preferred Stock (Prior Year End)	\$0	\$0	\$0
p = Preferred Stock Cost Rate (Weighted Average)	0.00%	0.00%	0.00%
C = Common Equity B4 Accum. Other Comprehensive Income (Prior Year End)	\$1,339,281,831	\$1,339,281,831	\$1,469,356,777
c = Common Equity Cost Rate	11.09%	9.54%	9.54%
W = Average Balance in CWIP (13 Month Average) (Schedule II)	\$3,609,386	\$5,318,665	\$5,318,665
 Ai = Gross Allowance For Borrowed Funds Used During Construction Rate Ai = $s(S/W) + (d(D/(D+P+C))) * (1-(S/W))$	 Ai = 2.77%	 3.03%	 2.90%
 Ae = Allowance For Other Funds Used During Construction Rate Ae = $[(1-S/W)] * [(p*(P/(D+P+C))) + (c*(C/(D+P+C))]$	 Ae = 4.98%	 4.55%	 4.74%
	<u>7.75%</u>	<u>7.58%</u>	<u>7.64%</u>
	Ai = 2.763%	3.027%	2.901%
	Ae = 4.979%	4.546%	4.735%
	7.742%	7.573%	7.636%

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
REVENUE REQUIREMENTS INTERROGATORIES

6. Please supply copies of all presentations by the Company's, and, if applicable, it's parent management to securities analysts during the past two years. This would include presentations of financial projections.

Please see attached.



National Fuel Gas

June 2004 Meetings

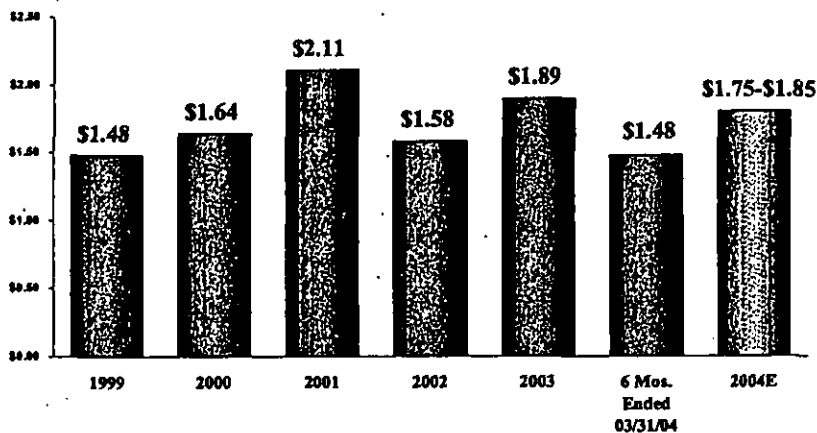
Safe Harbor

NOTE: This presentation contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements concerning plans, objectives, goals, projections, strategies and future events or performance, other statements that are not statements of historical fact, and statements identified by words such as "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects" or words of similar meaning. While National Fuel's expectations, beliefs and projections are made in good faith and are believed to have a reasonable basis, actual results may differ materially. You may refer to National Fuel's most recent Form 10-Q for a listing of important risk factors you should consider. In addition, this presentation contains certain non-GAAP financial measures. For slides that contain non-GAAP financial measures, slides containing the most directly comparable GAAP financial measures are provided at the end of this presentation, followed by reconciliations.



1

National Fuel Gas Company Diluted Earnings Per Share *

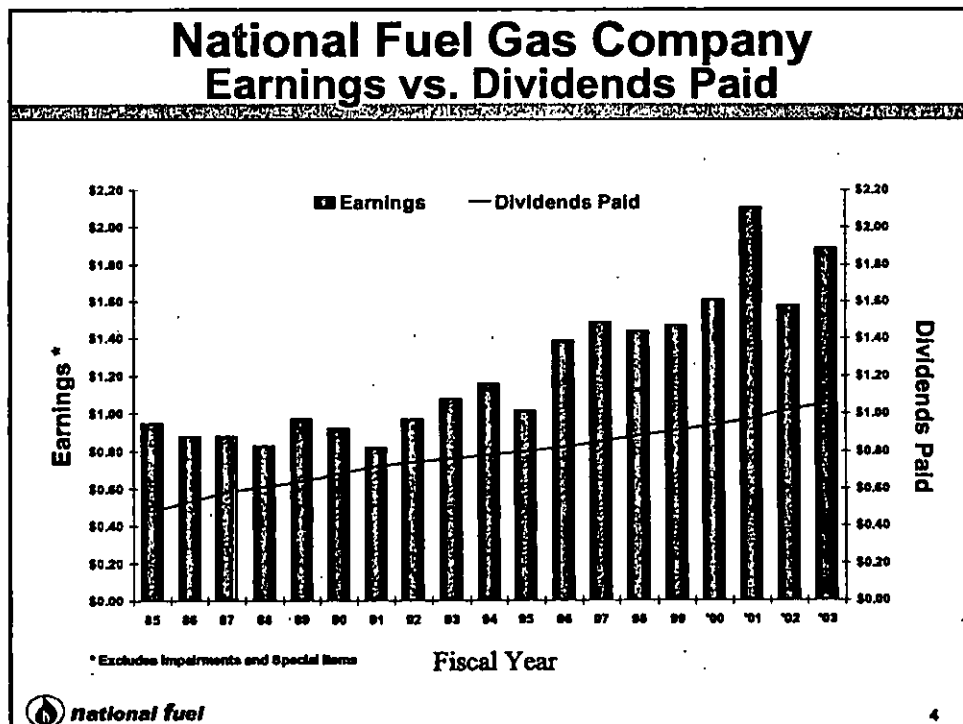
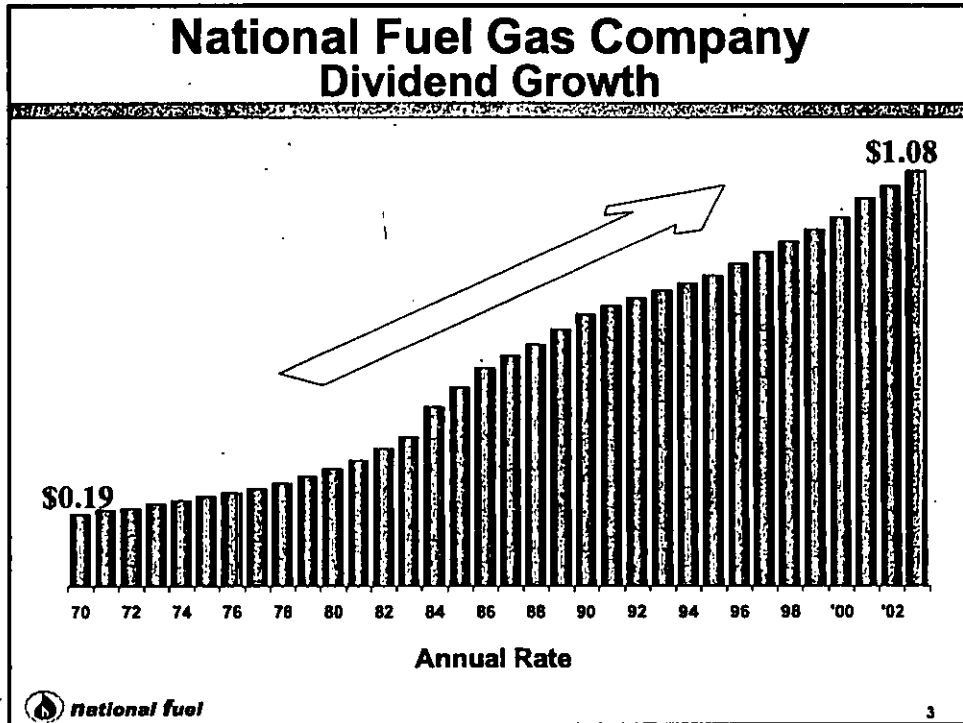


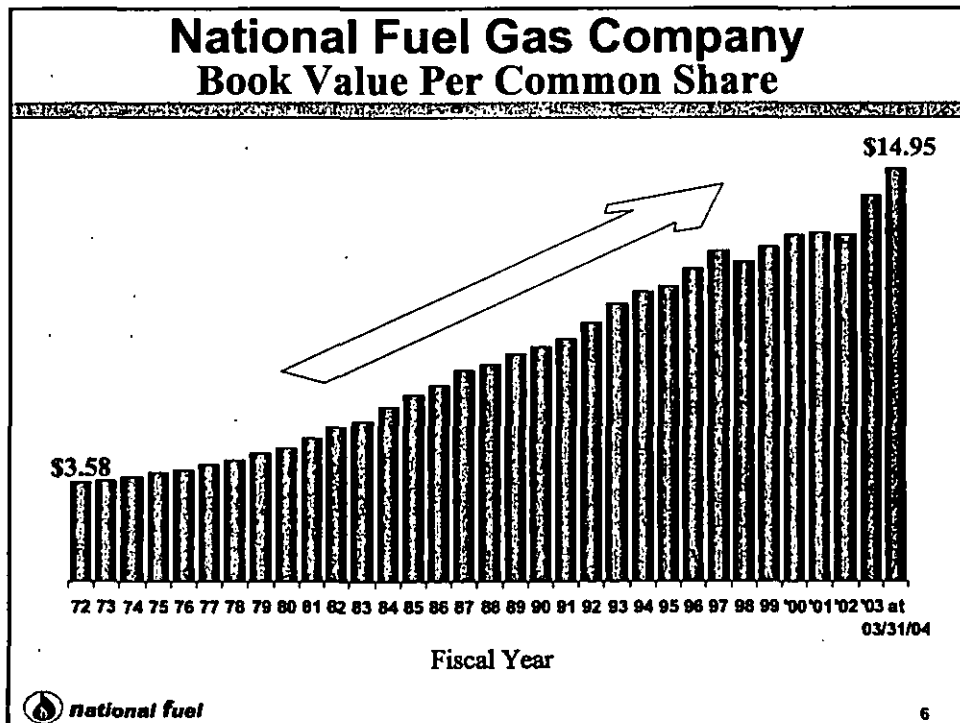
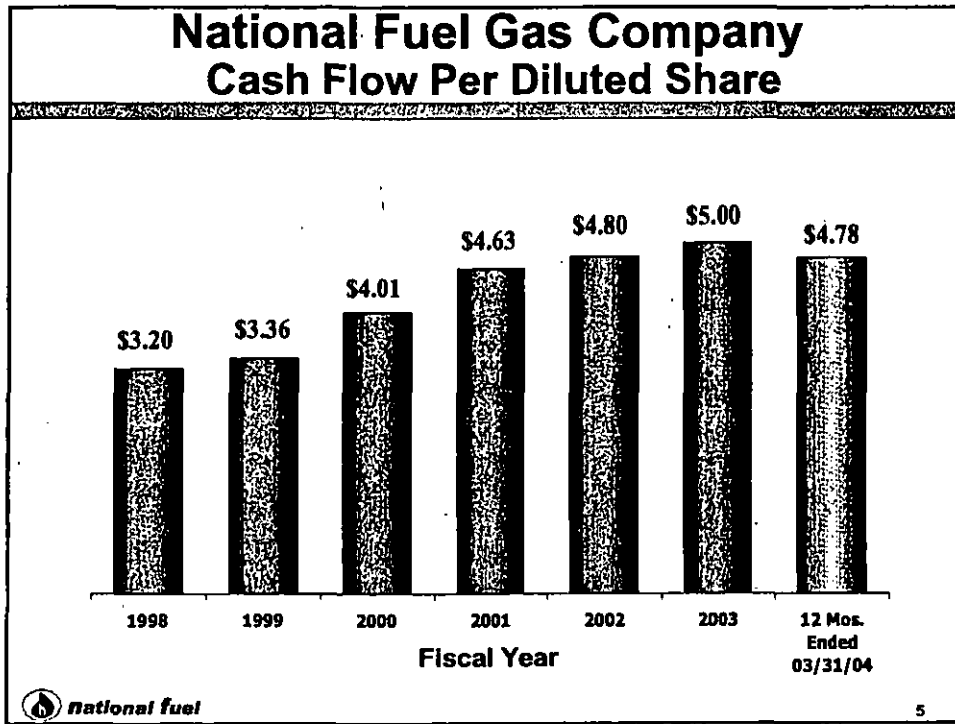
* Excludes Special Items

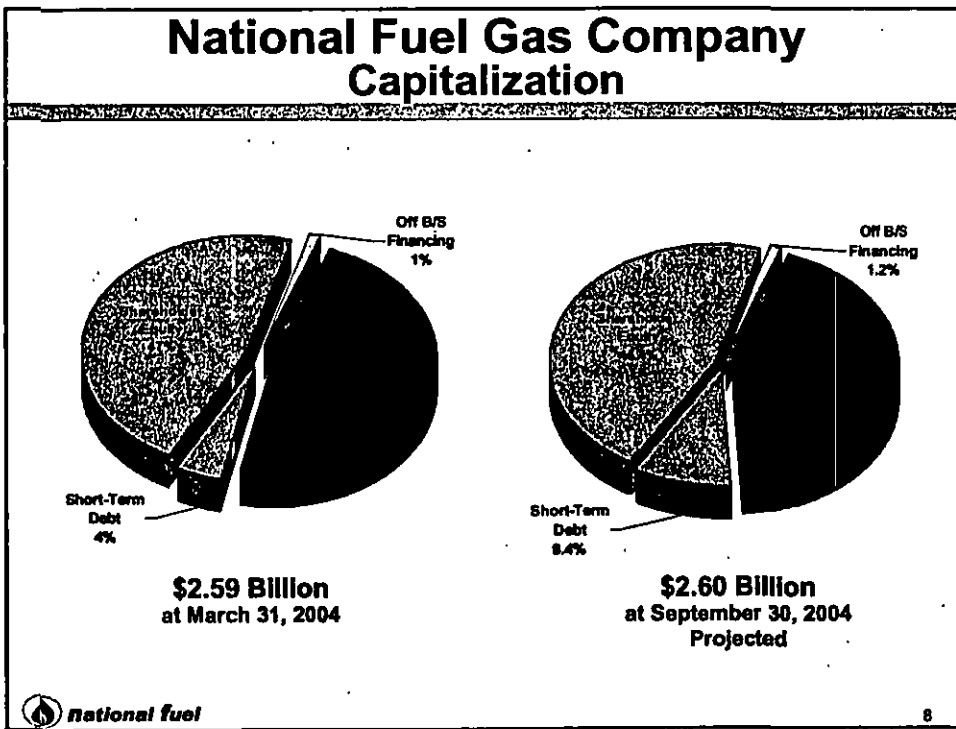
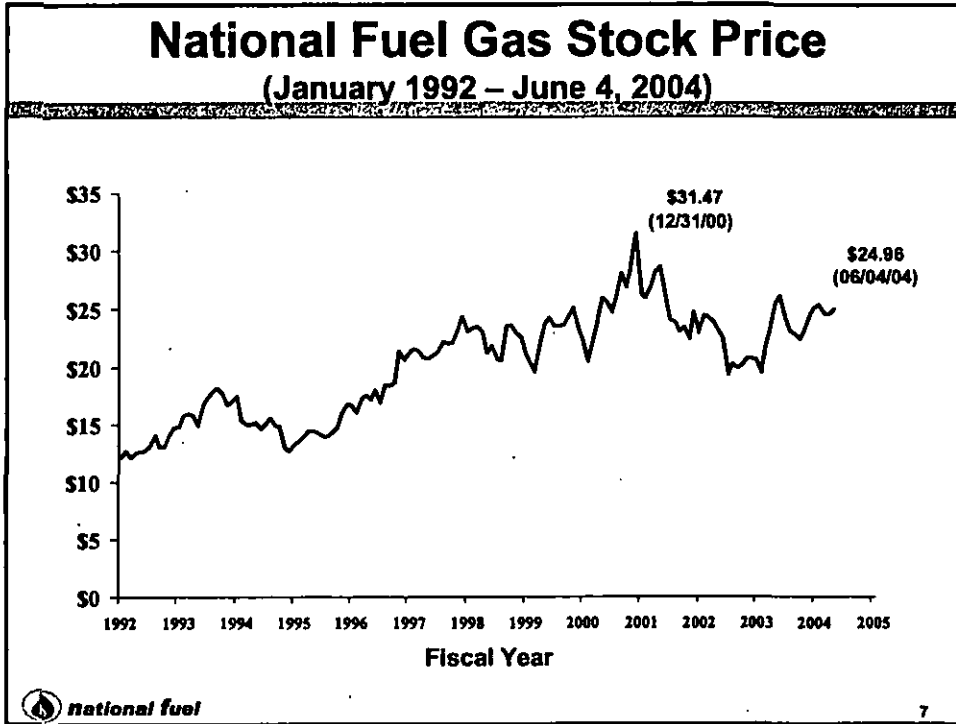
Fiscal Year

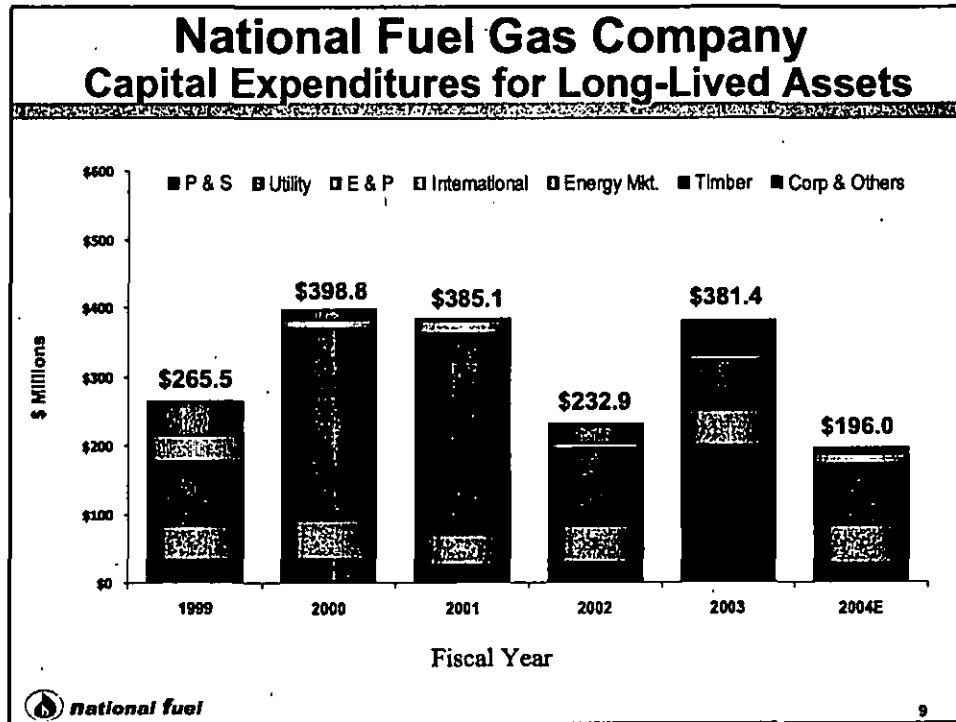


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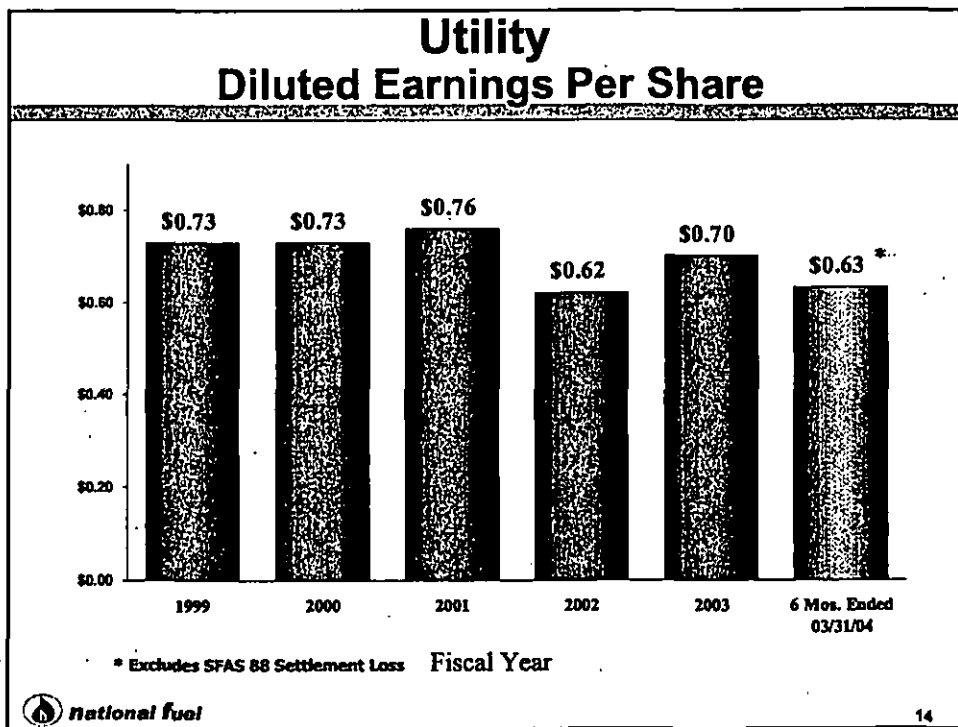
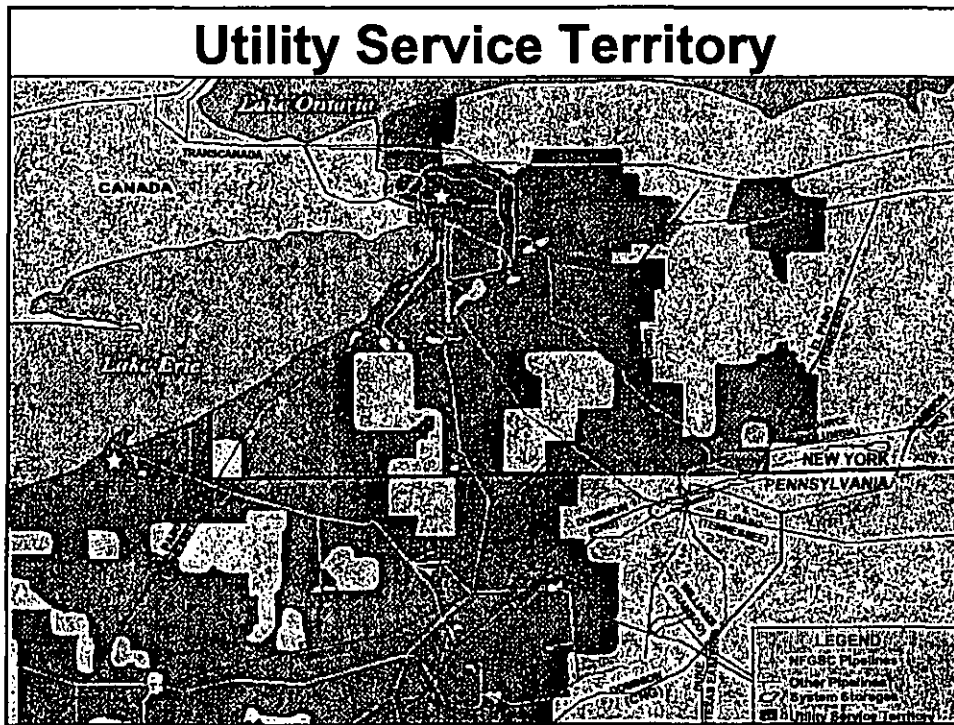
- ### National Fuel Gas Company Lines Of Credit
- **Bilateral Credit Facilities (6 Banks)
Aggregate of \$400 MM**
 - **Commercial Paper Program (3 Dealers) backed
by Committed Credit Facility Totaling \$220.0 MM**
 - **Of the \$220.0 MM Committed Facility:**
 - ❖ **\$110.0 MM is Committed Through September 26, 2004**
 - ❖ **\$110.0 MM is Committed Through September 30, 2005**
- national fuel 10

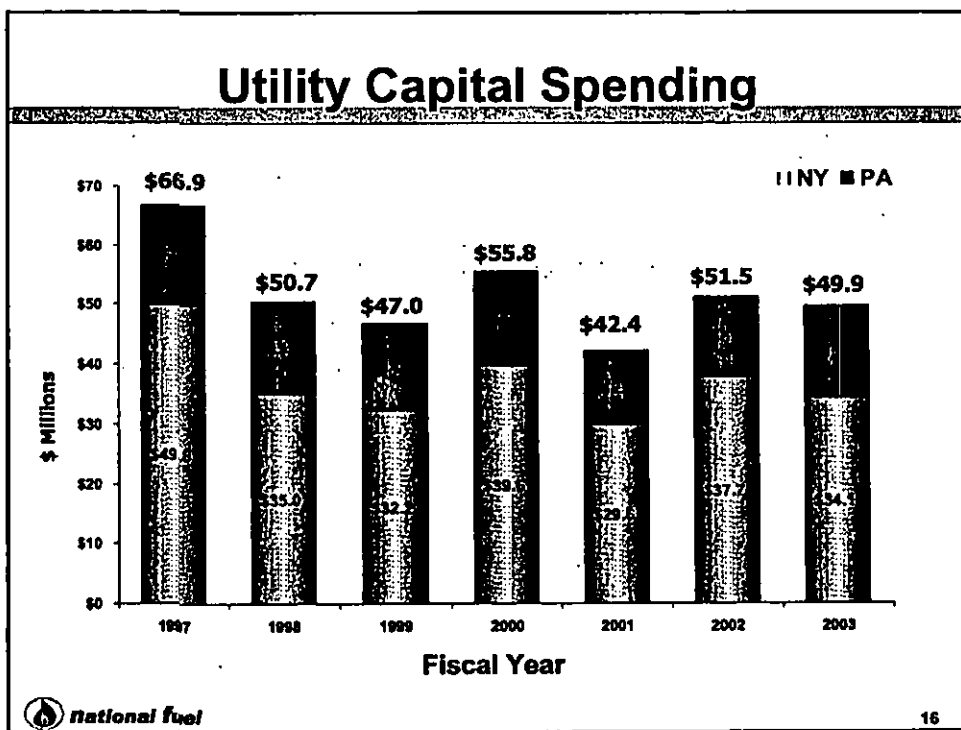
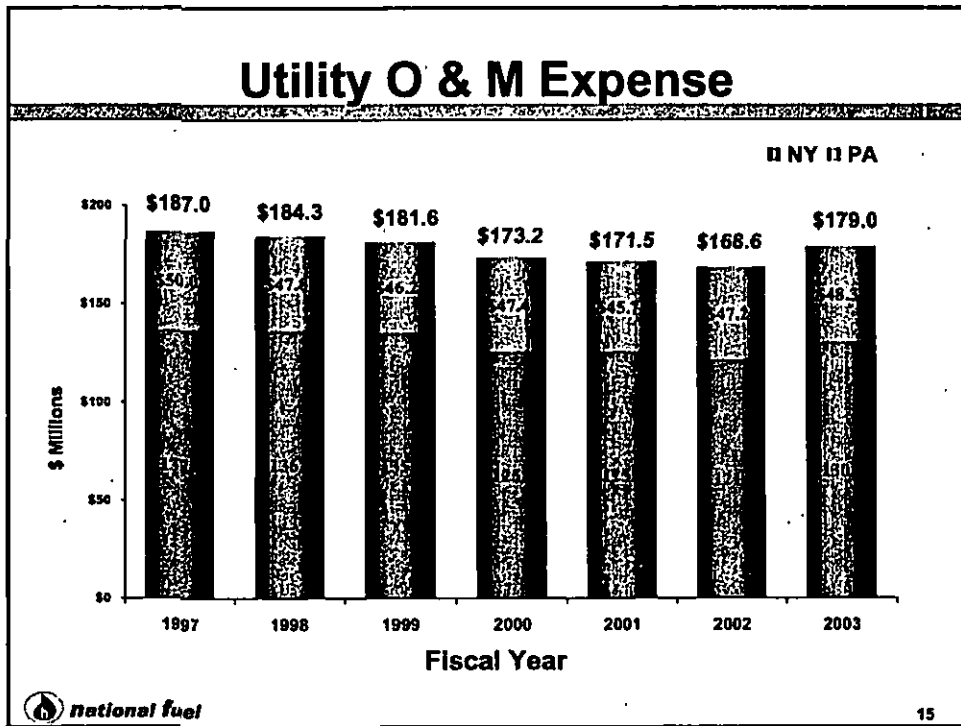
National Fuel Gas Company Capital Markets Financing		
Maturity Date	Description	Principal Amount (\$000)
August 2004	6.82% Medium-Term Note	\$100,000
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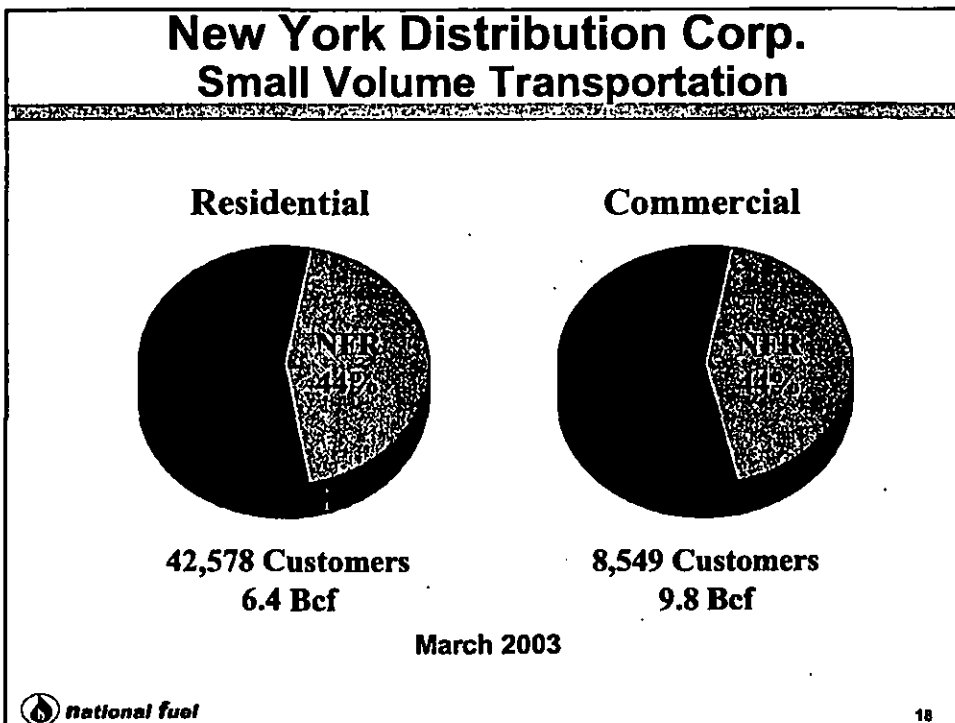
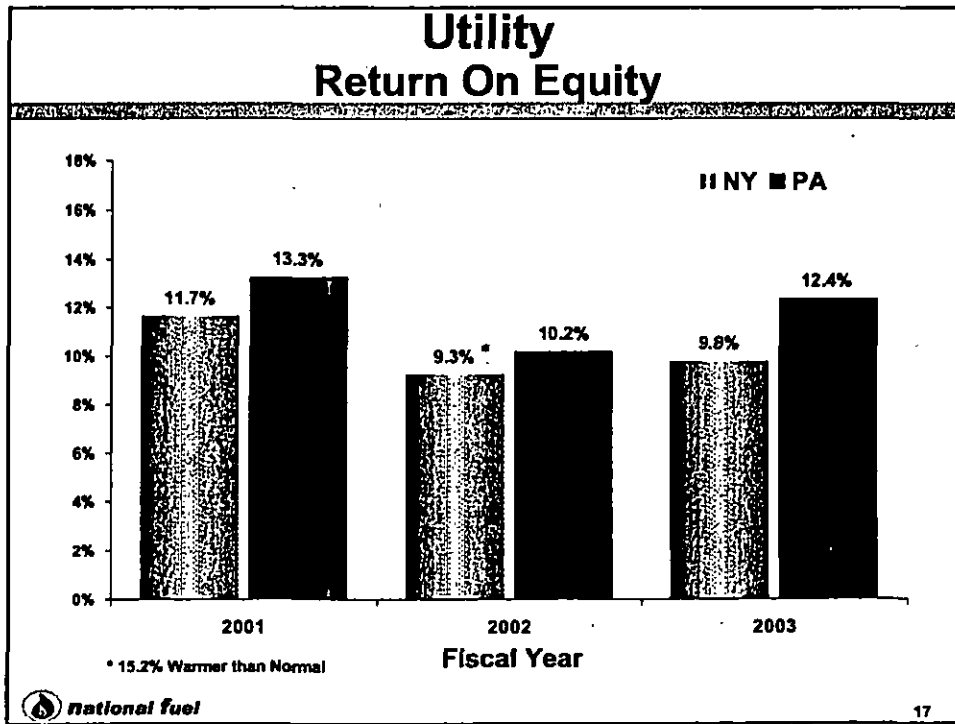
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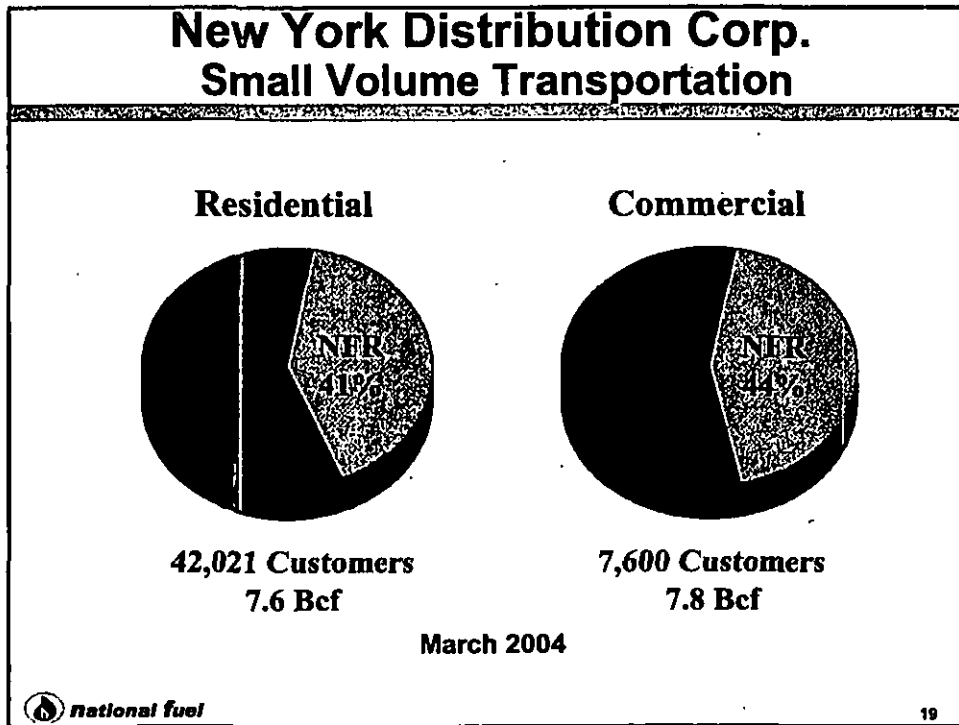
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Long-Term Debt	BBB+	A-3	A-
Outlook	Stable	Negative	Stable
Commercial Paper	A-2	P-2	F-2


 12









- ### Utility Regulatory Rate Mechanisms
- **New York**
 - ❖ Weather Normalization Clause
 - ❖ 90/10 Symmetrical Sharing of Revenue Variance for Large Industrial Customers
 - ✓ \$25 Million In Rates for This Class
 - ❖ Trackers for:
 - ✓ Gas Costs
 - ✓ Pension
 - ✓ Post Retirement Benefits
 - ❖ 85/15 (Company) Sharing with Customers, Profits from Off-System Sales of Gas & Release of Upstream Pipeline Capacity
-  20

Utility Regulatory Rate Mechanisms

➤ Pennsylvania

❖ Trackers for:

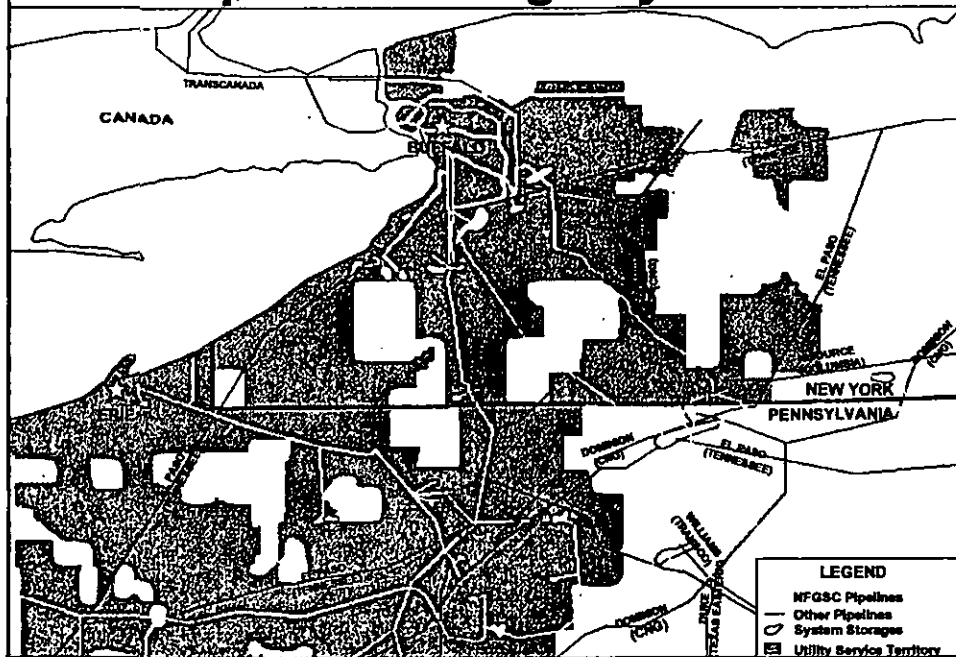
- ✓ Gas Costs
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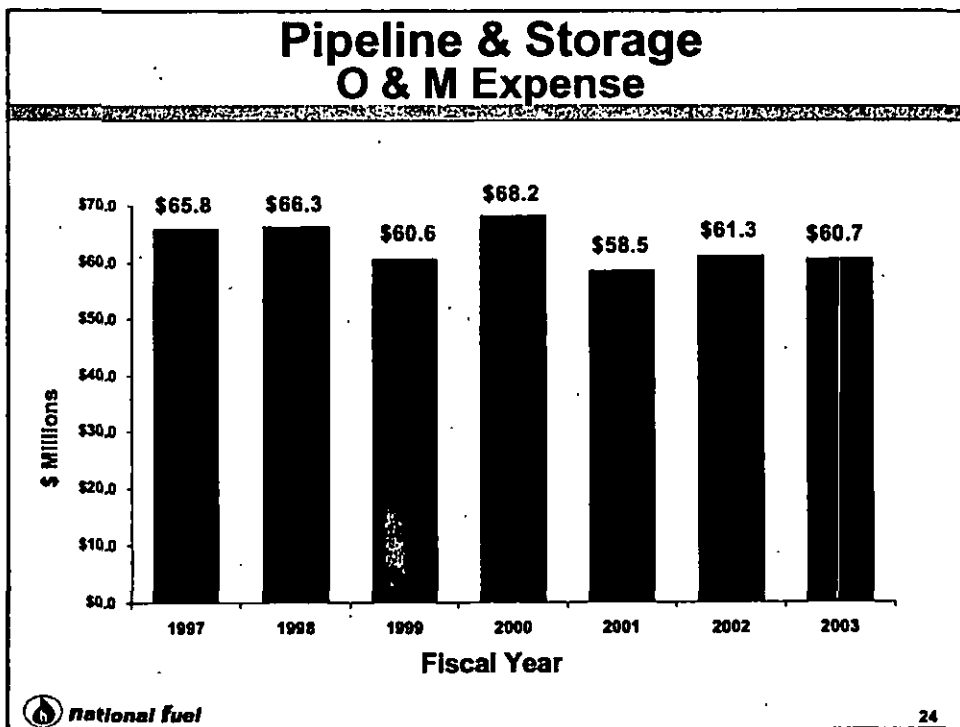
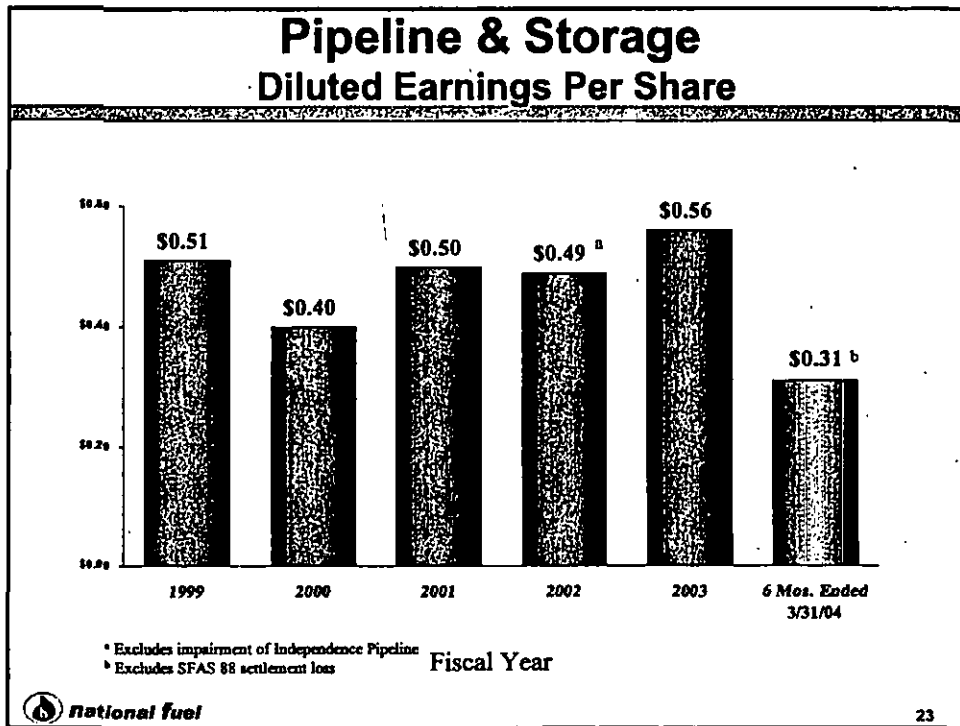
- ❖ 75/25 (Company) Sharing with Customers, Profits from Off-System Sales of Gas & Release of Upstream Pipeline Capacity

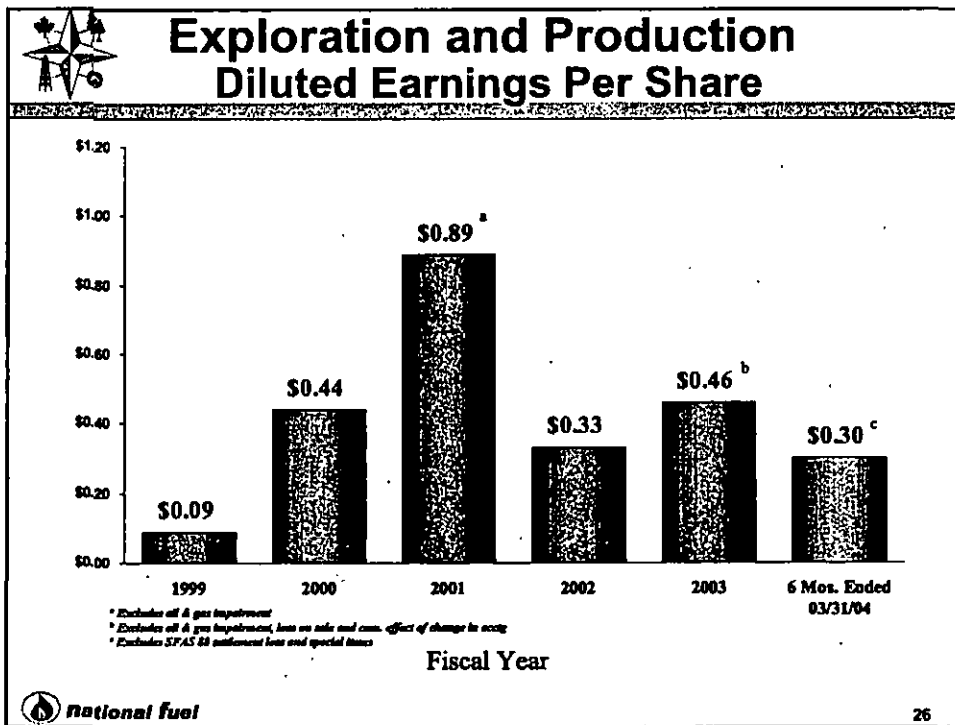
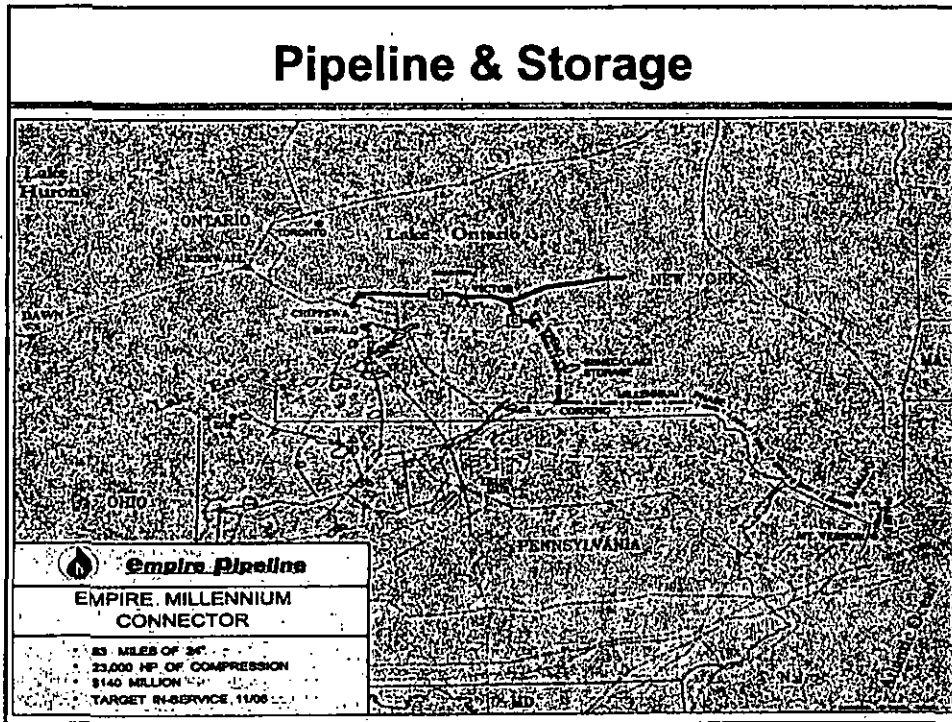



21

Pipeline/Storage System








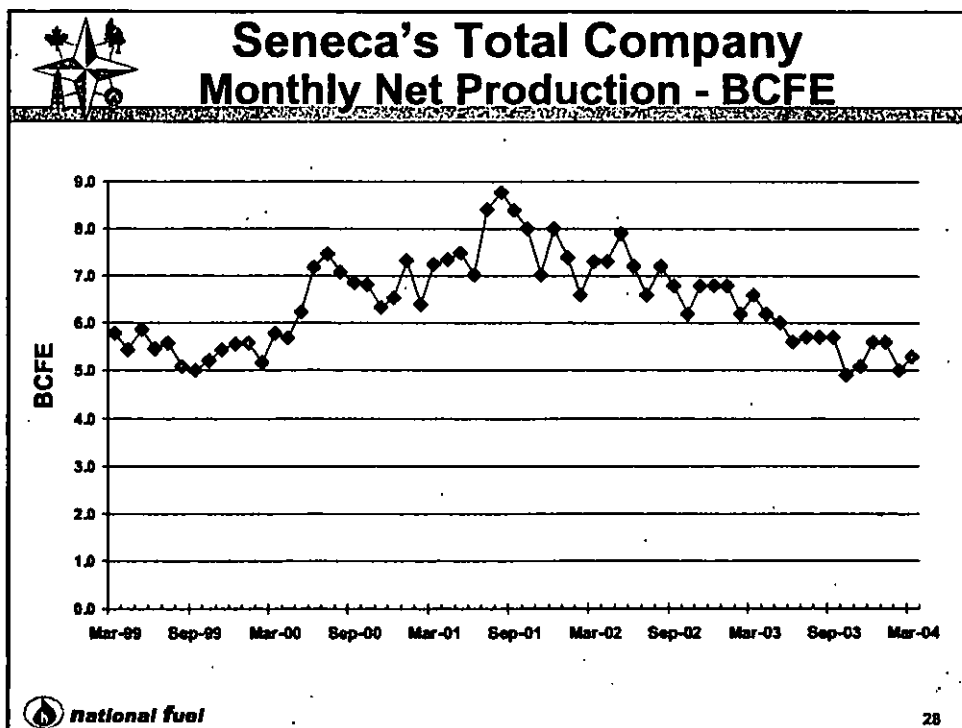


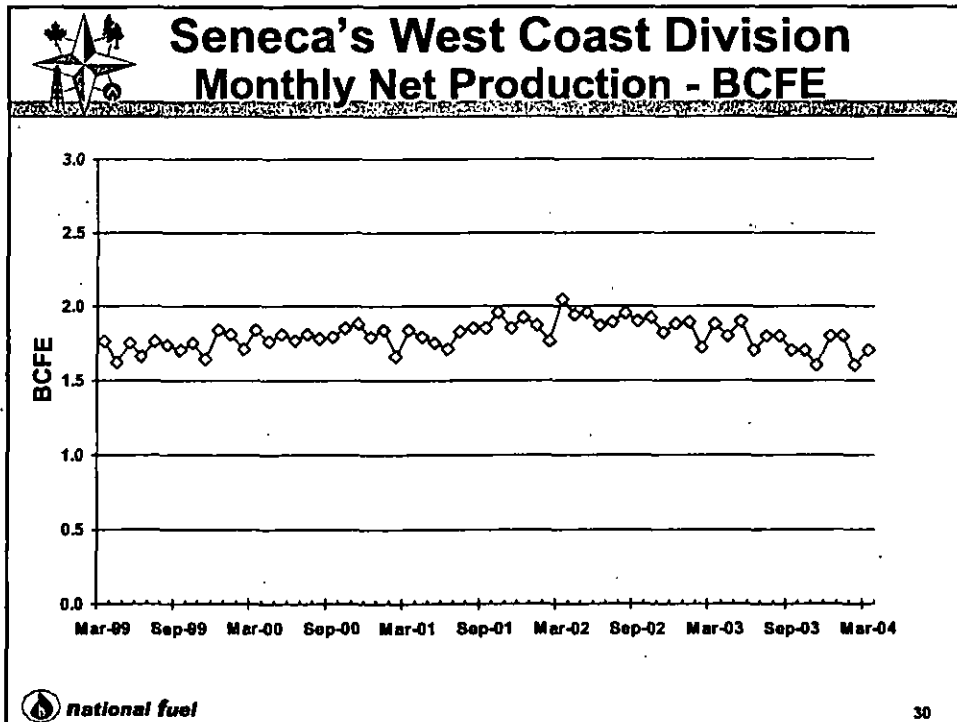
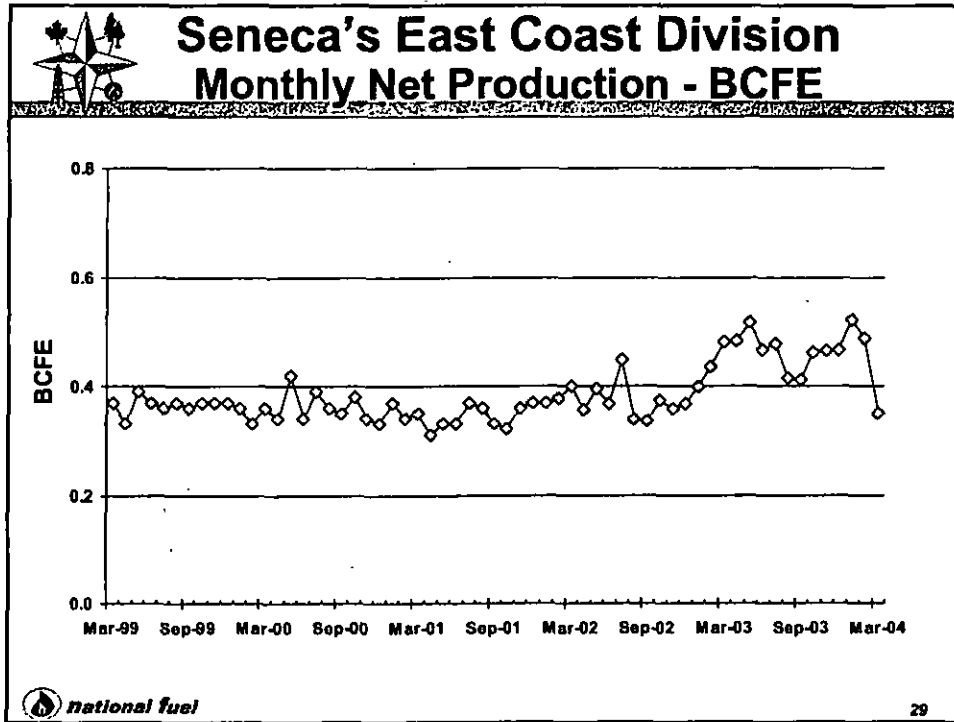
Seneca's Results for 1st 6 Months Fiscal 2004

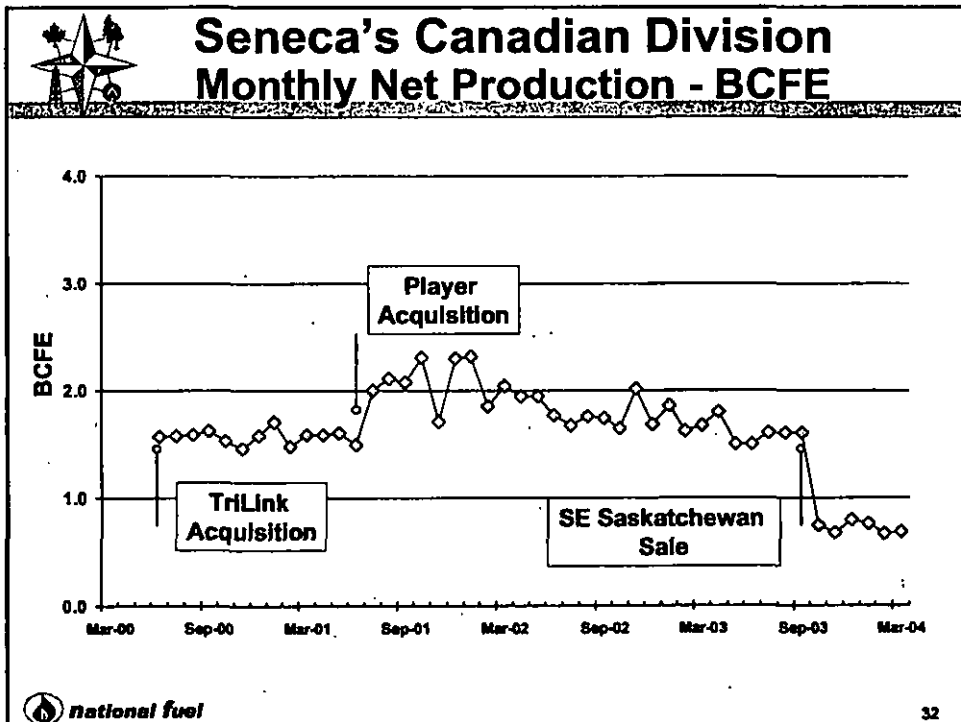
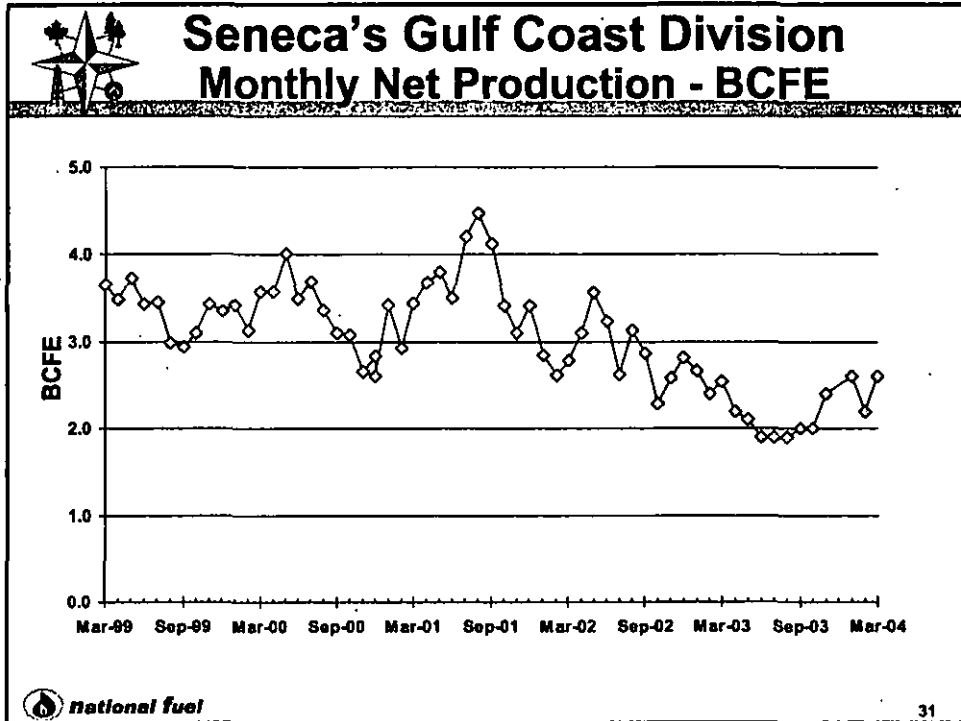
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- Revenue:** **\$148.6 MM**
- Net Income:** **\$ 29.2 MM**
- Net Income from Non-recurring Items:** **\$ 3.8 MM**
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- ❖ **Expenses/Mcfe** **2nd Quarter**

G&A	0.39
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 27






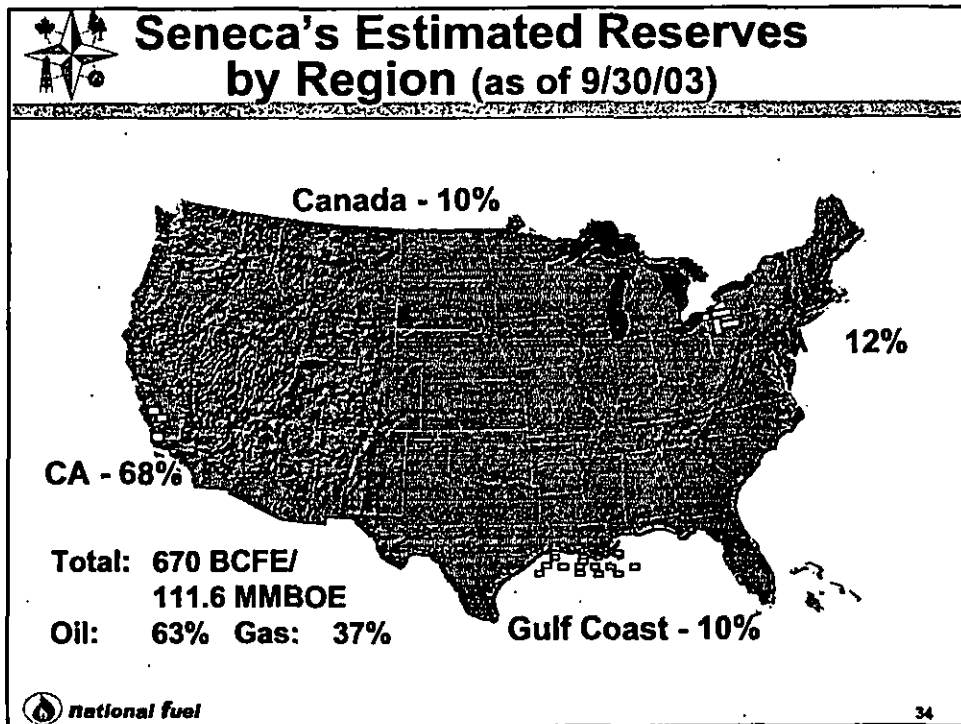


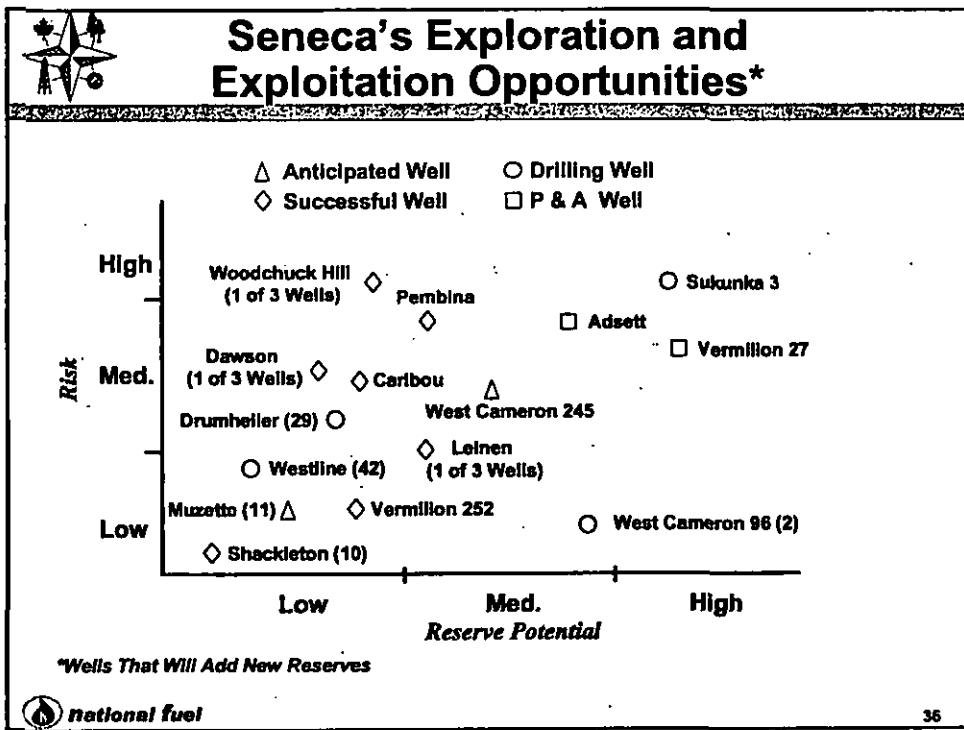
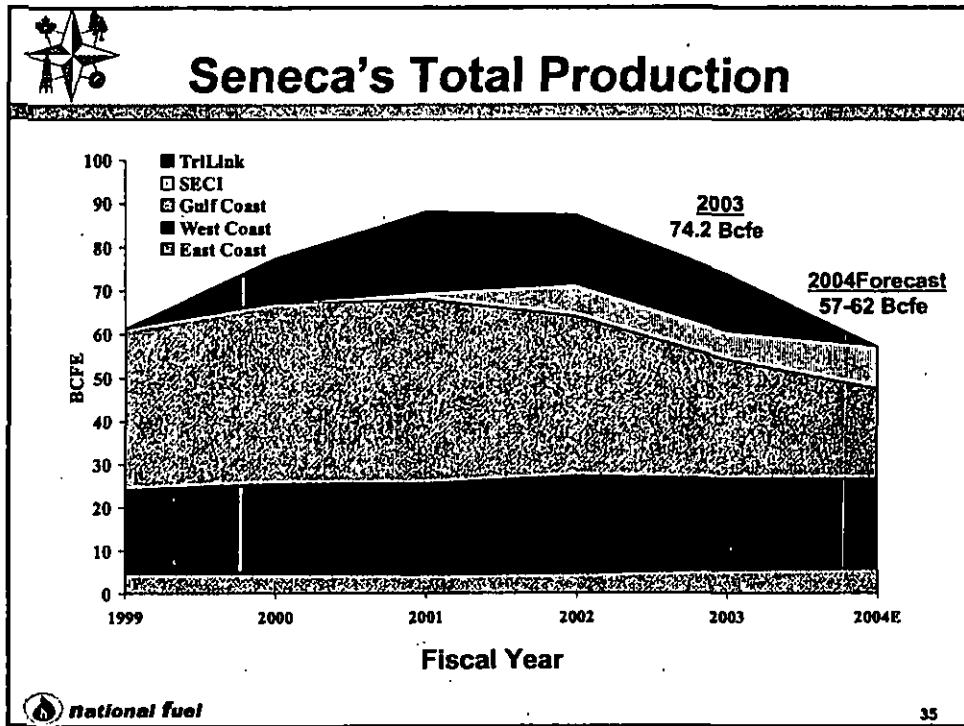
	<u>Reserves (BCFE)</u>	<u>% PDP</u>
East	82.0	100%
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Gulf	68.0	59%
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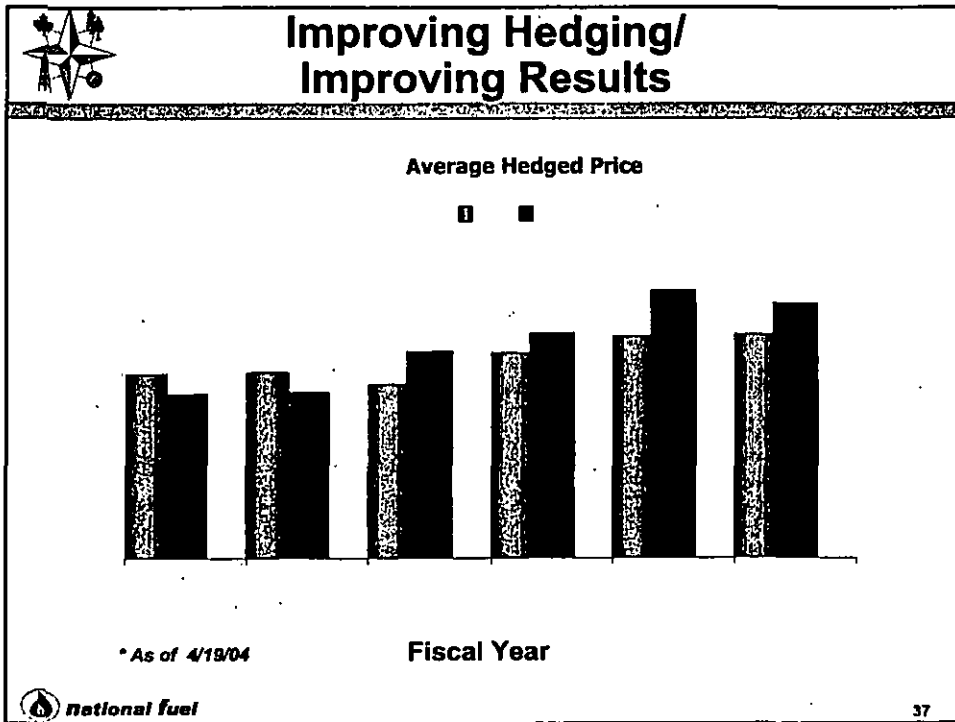
Total Reserves: 669.7 BCFE
% of Reserves PDP: 70%
% of Reserves PUD: 25%

All Seneca Reserves are Audited by R.E. Davis & Assoc.

 **national fuel** 33





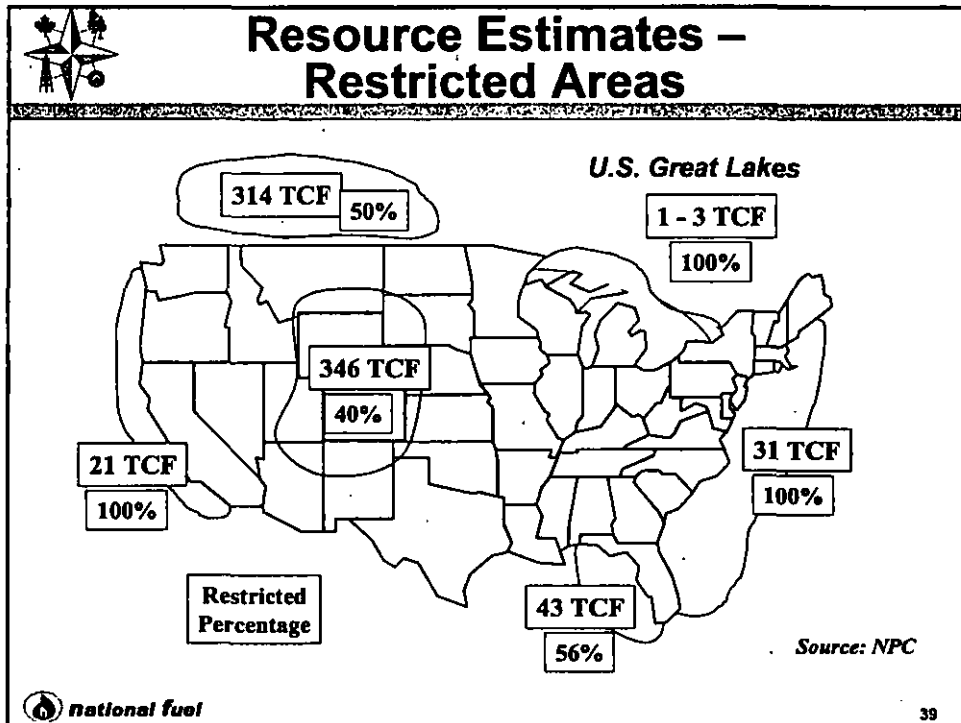


Seneca's Fiscal Outlook

- ❖ Production on Target for 2004: 57 – 62 BCFE
- ❖ Continue Hedging Program to Mitigate Commodity Price Volatility
- ❖ Continued Focus on Long Life Reserves


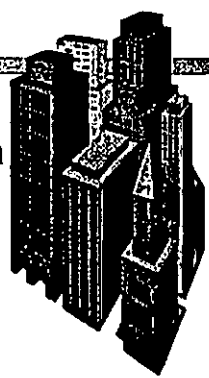
national fuel

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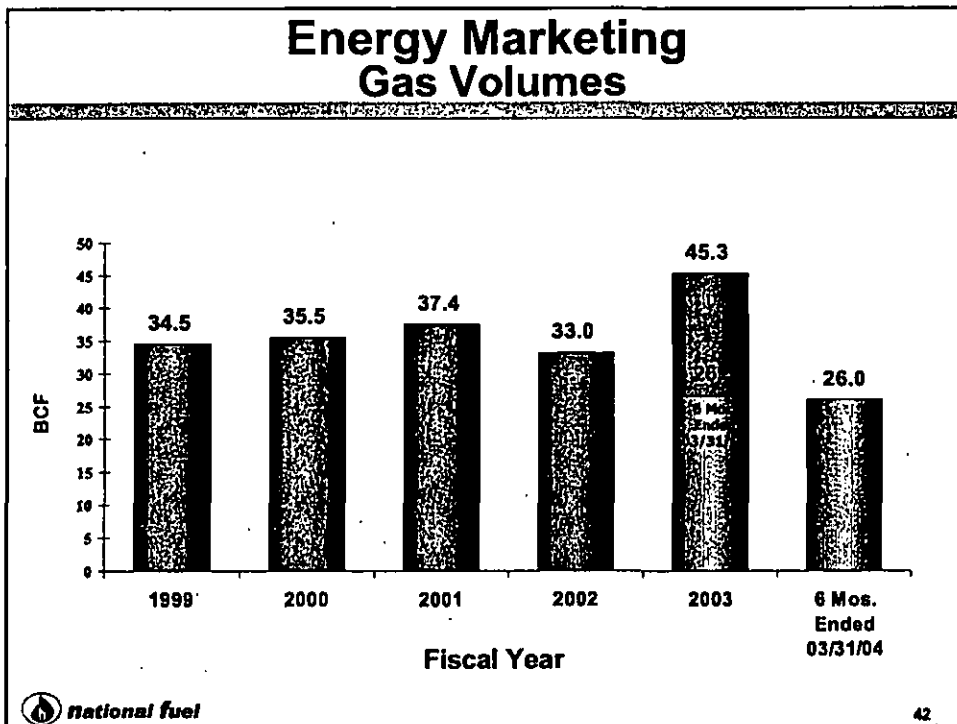
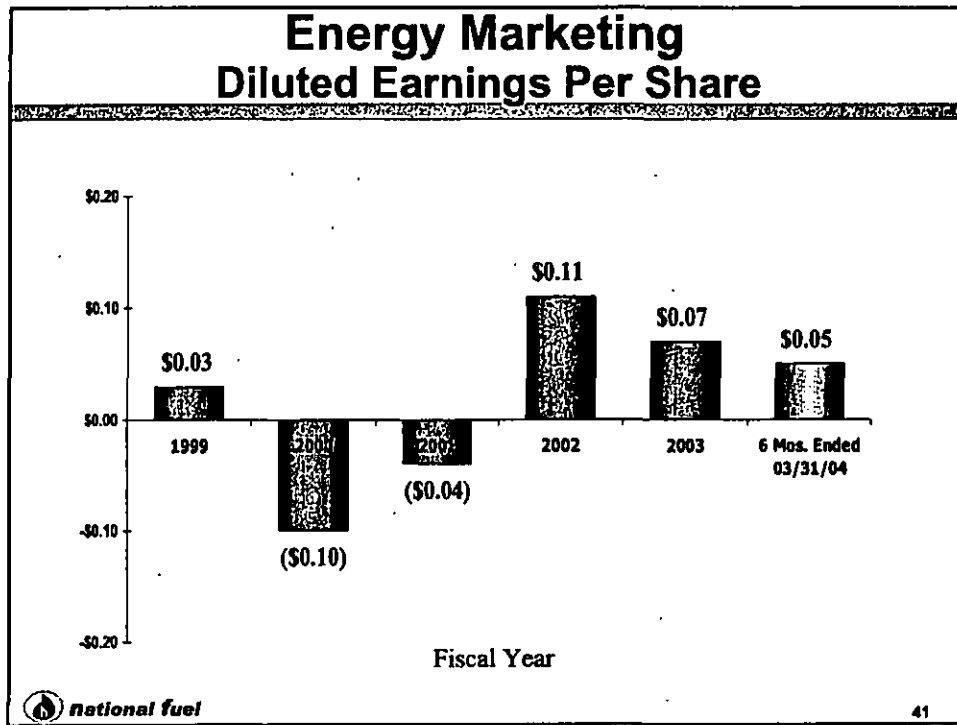
Non-Regulated Marketing

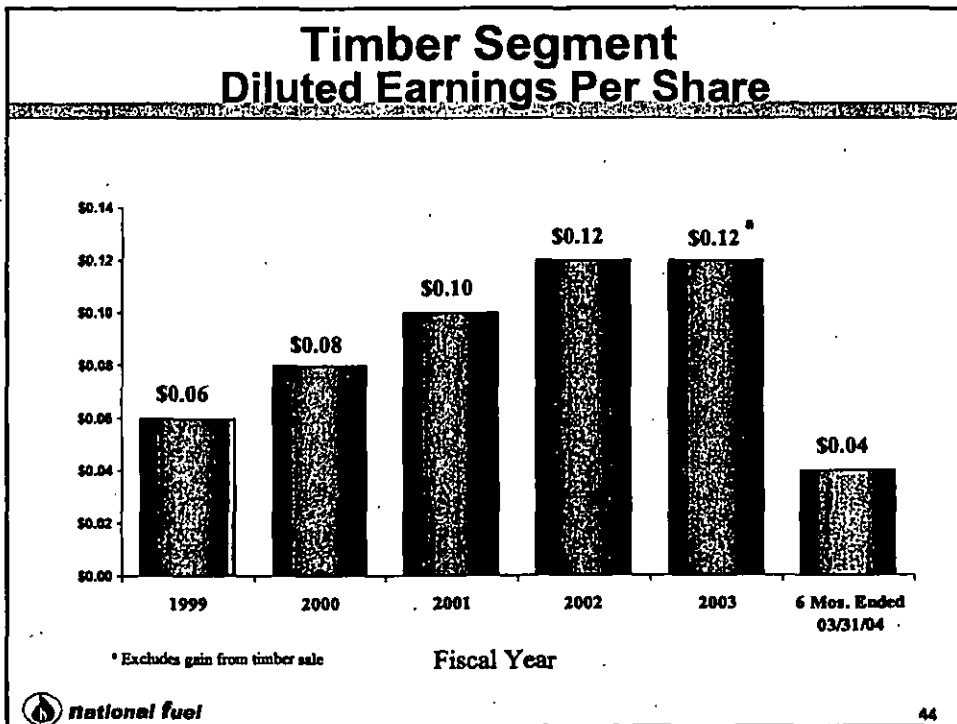
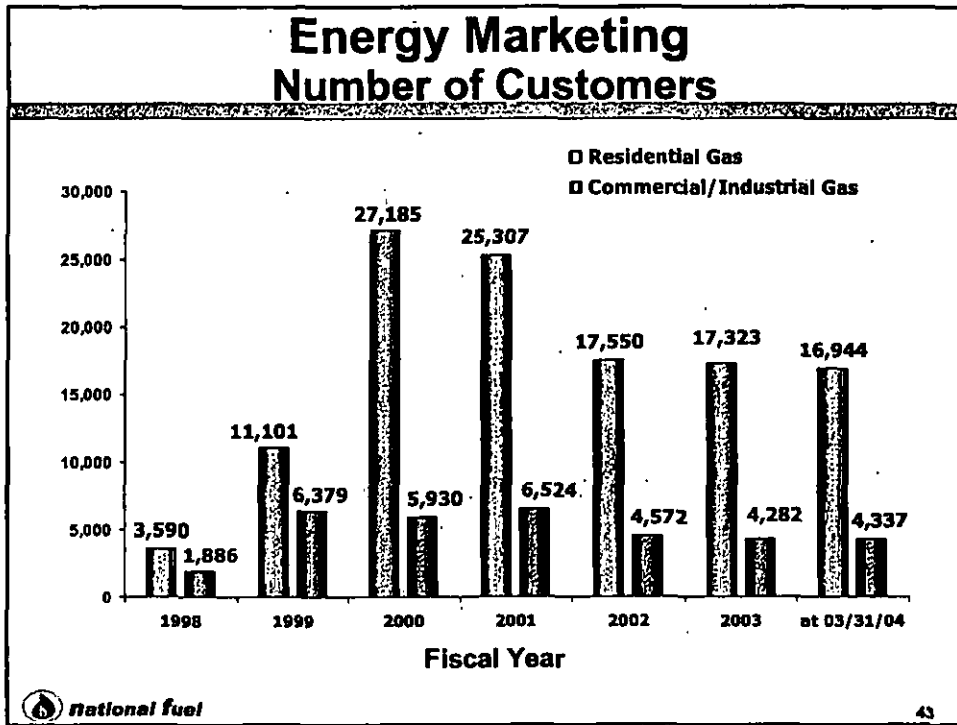
- ❖ Largest Marketer on Distribution
- ❖ Retail Markets
 - Industrial Customers
 - Commercial Customers
 - Residential Customers
- ❖ Regional Wholesale Gas Marketing

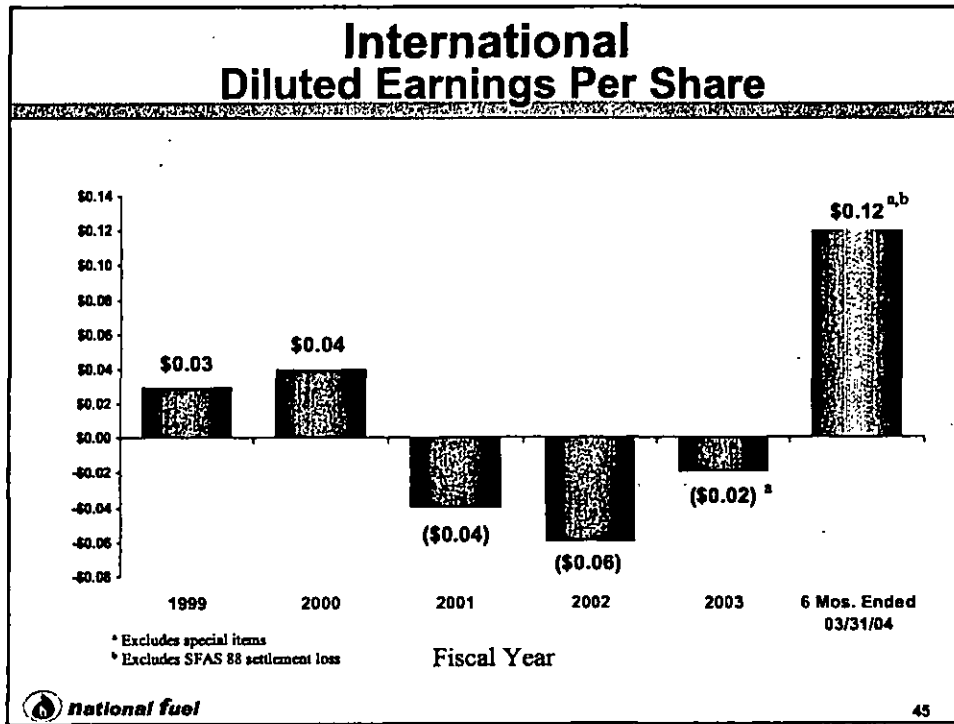


national fuel

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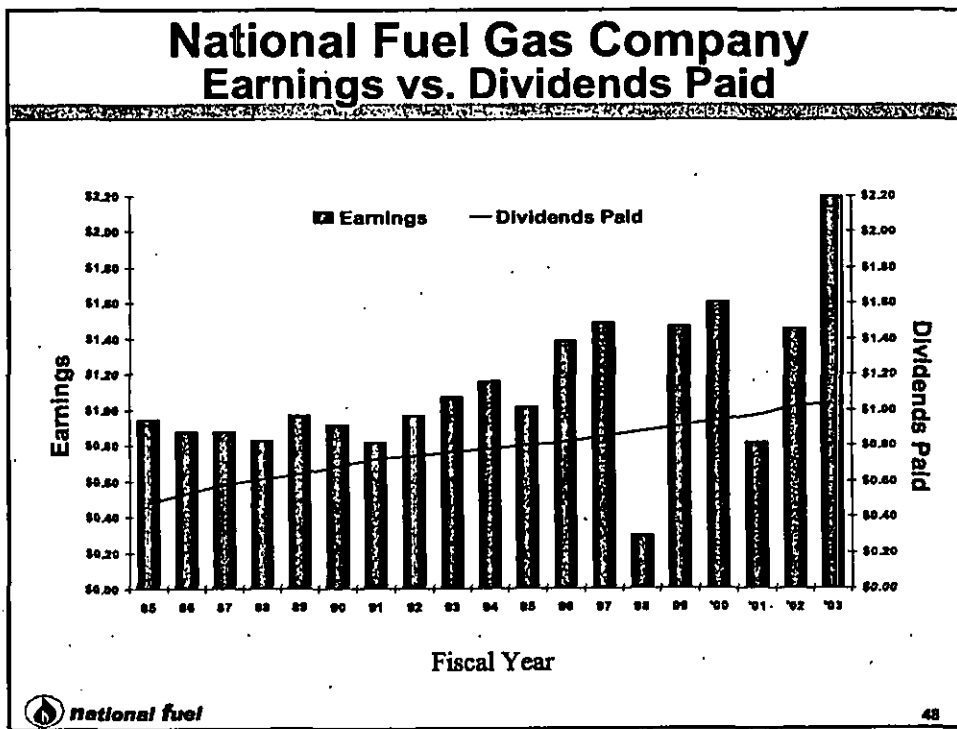
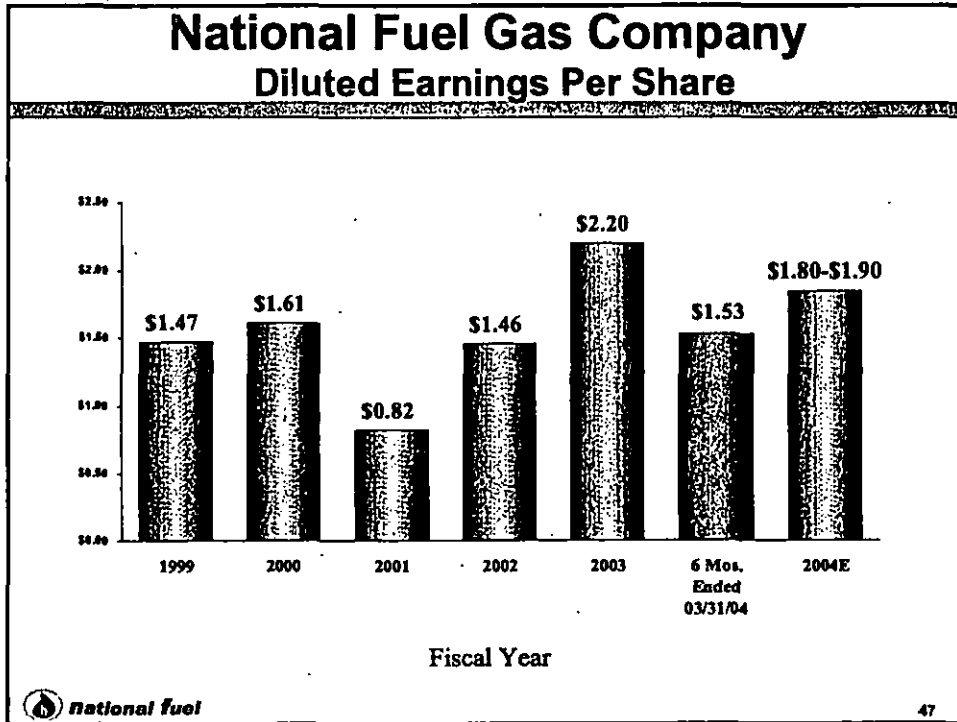


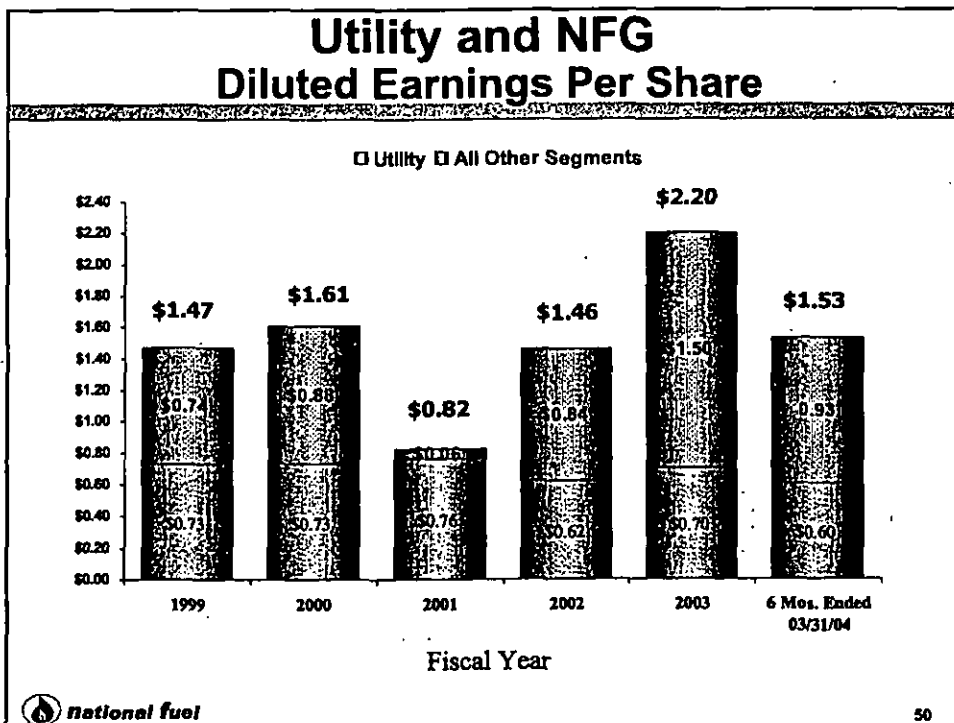
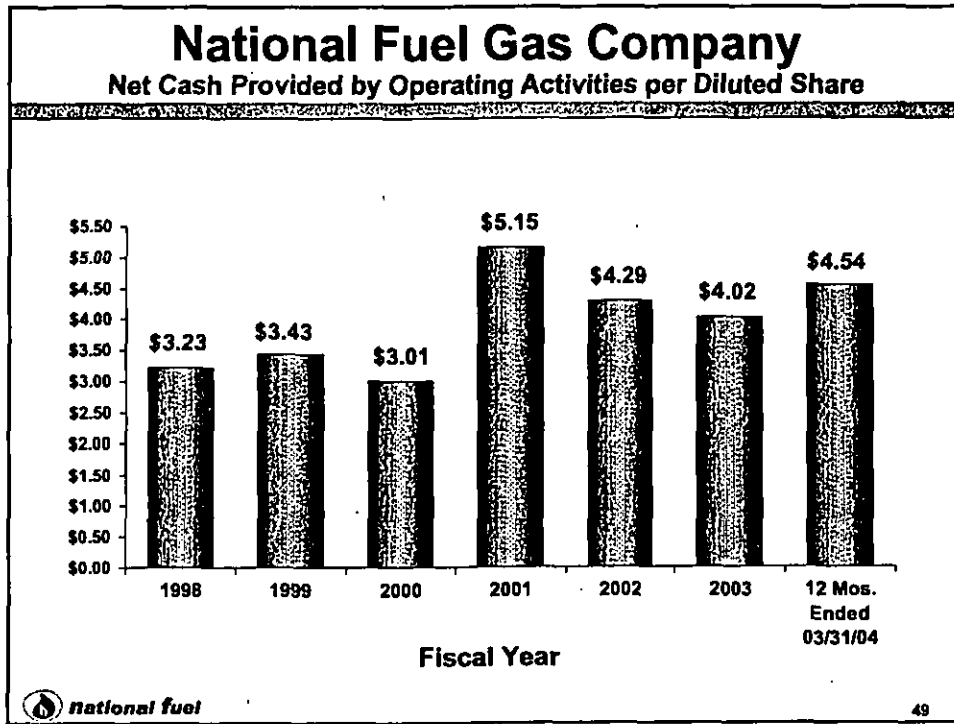


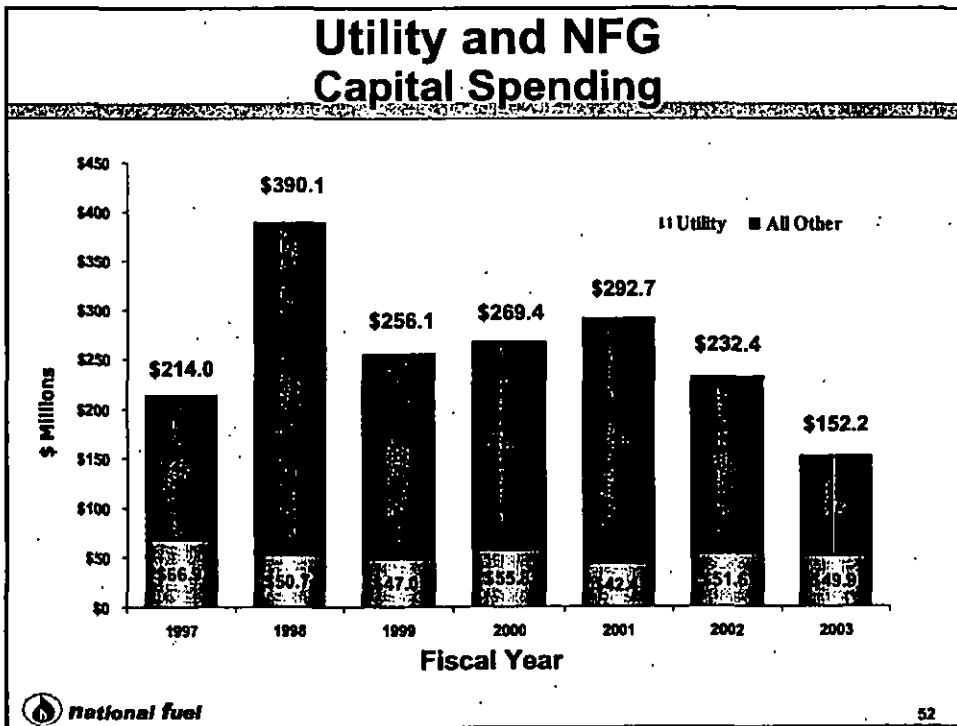
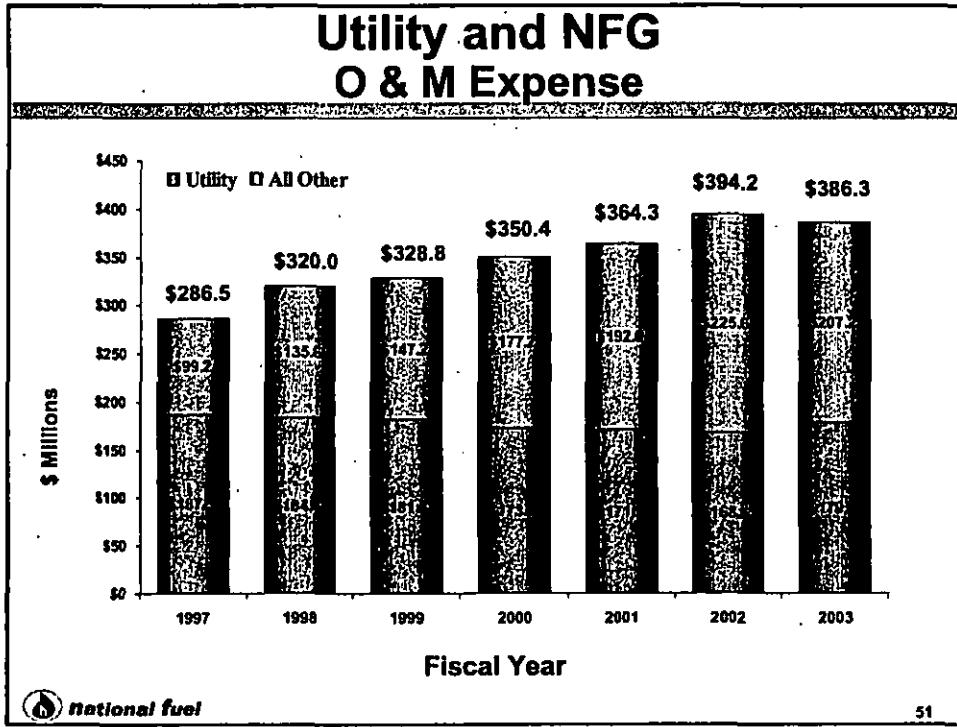


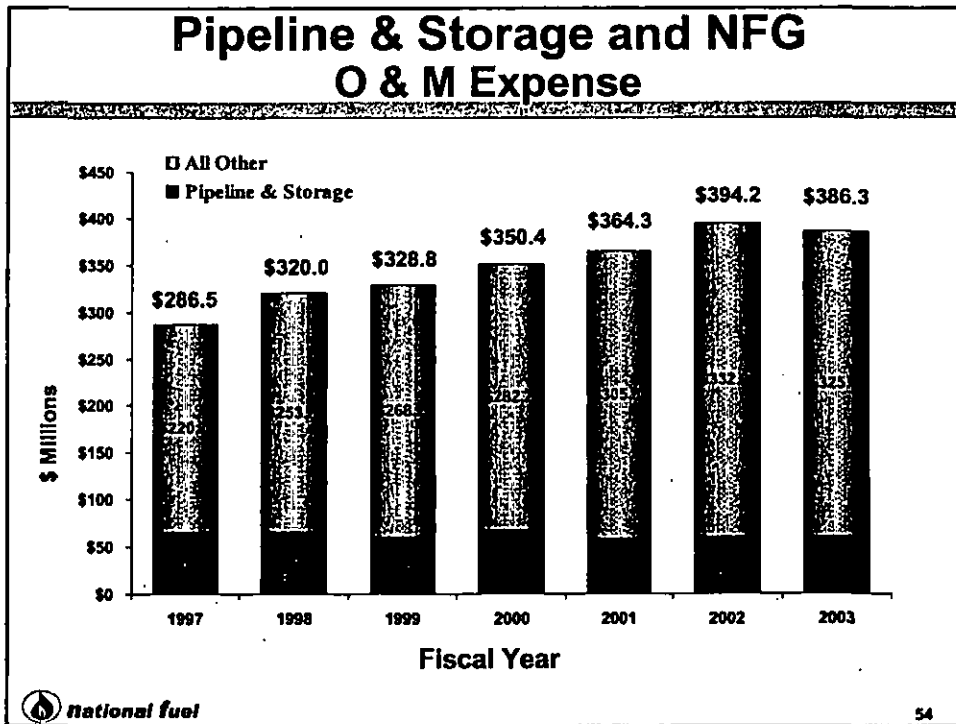
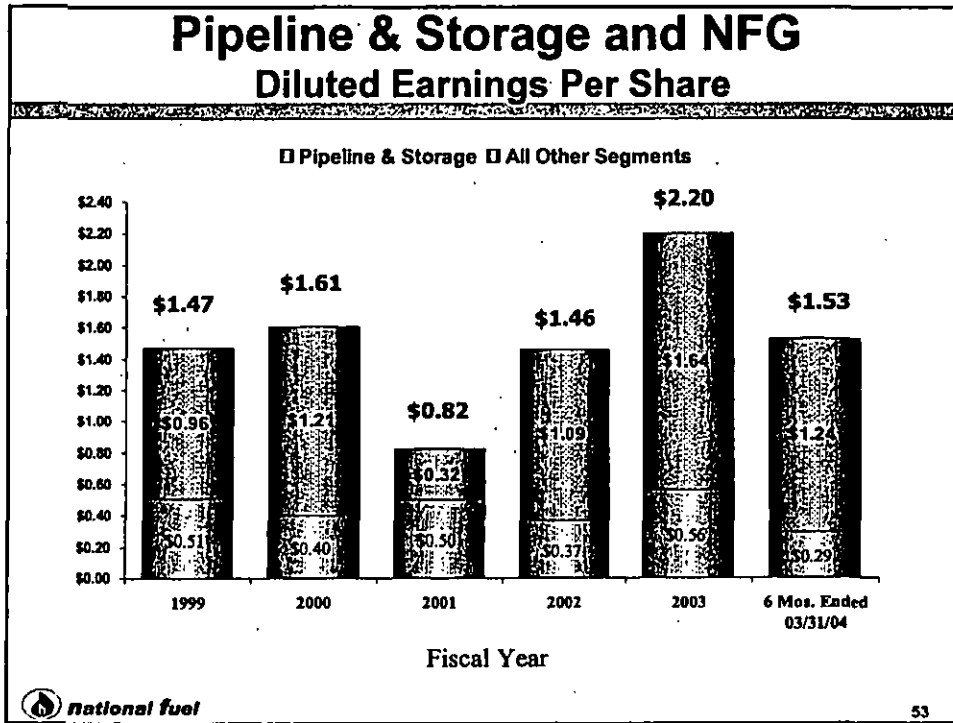
Comparable GAAP Financial Measure Slides And Reconciliations

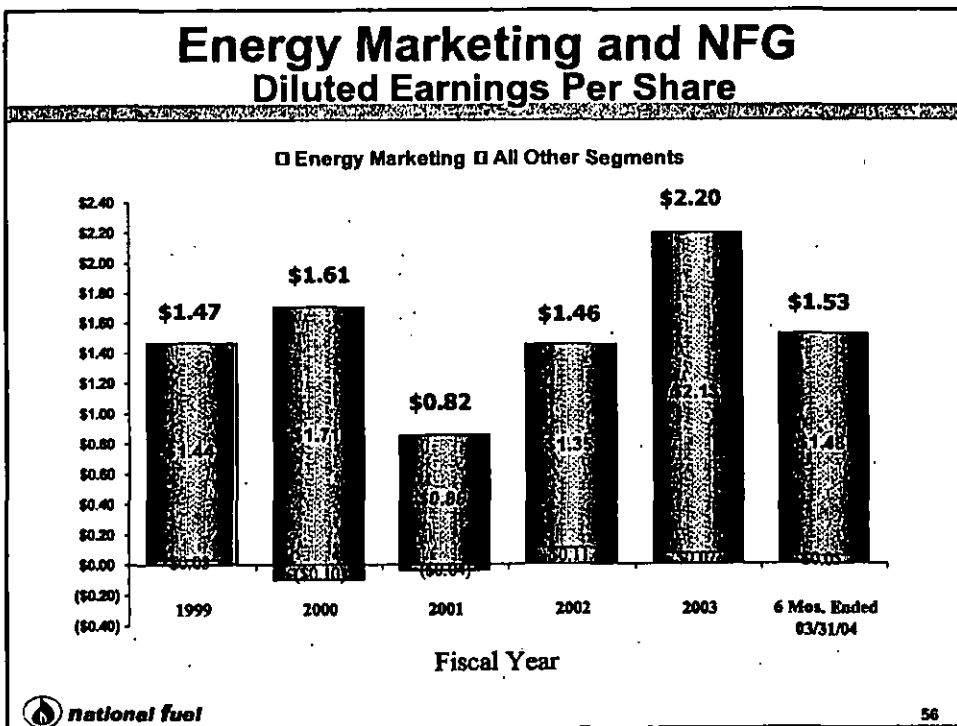
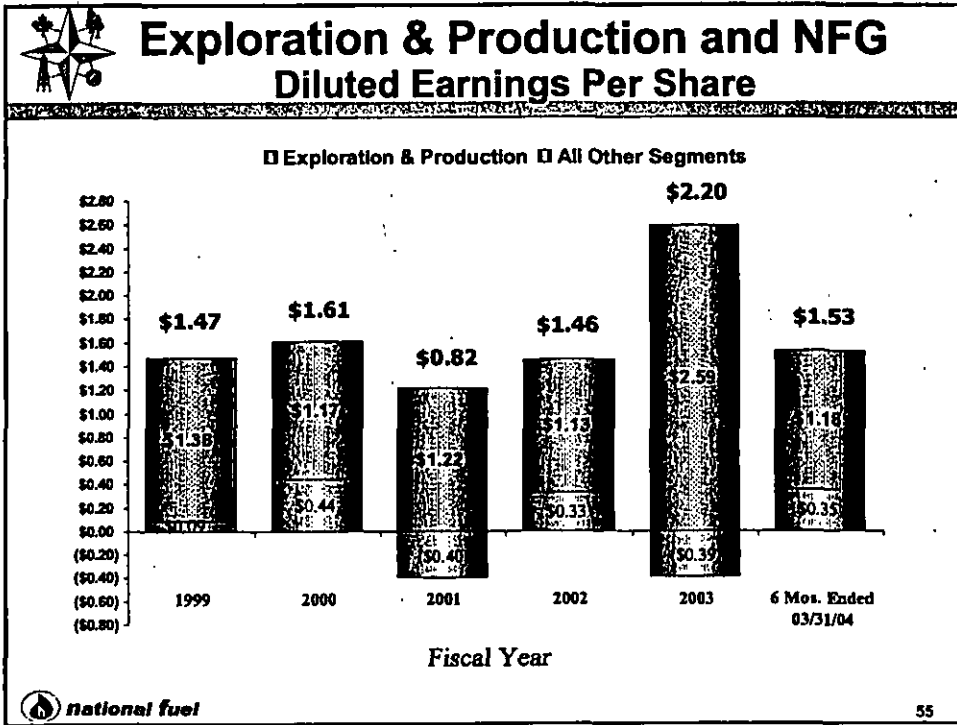
national fuel 46

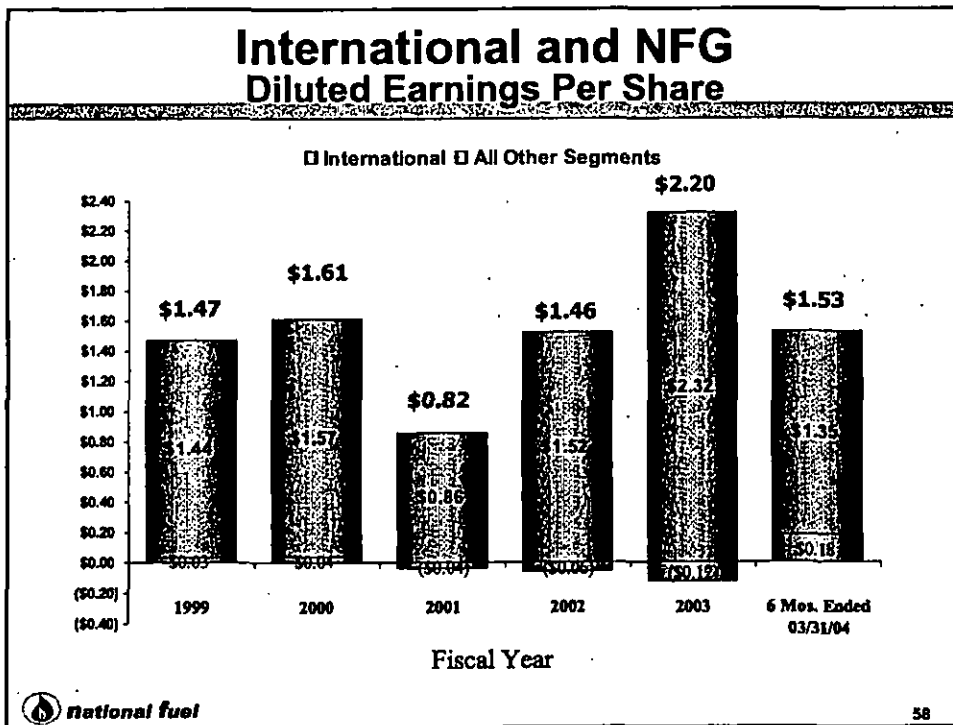
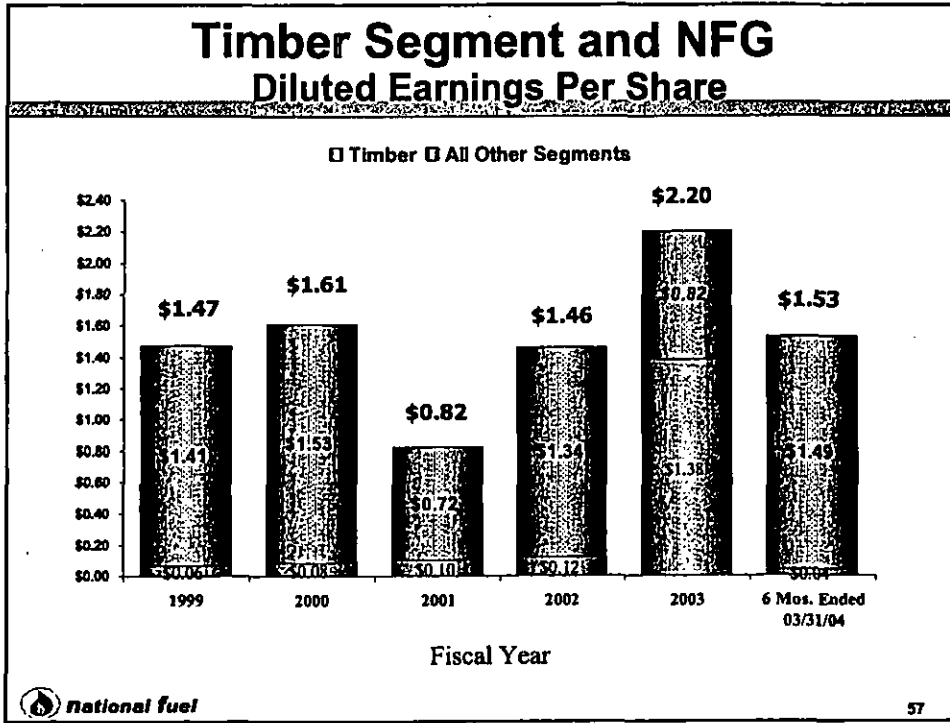


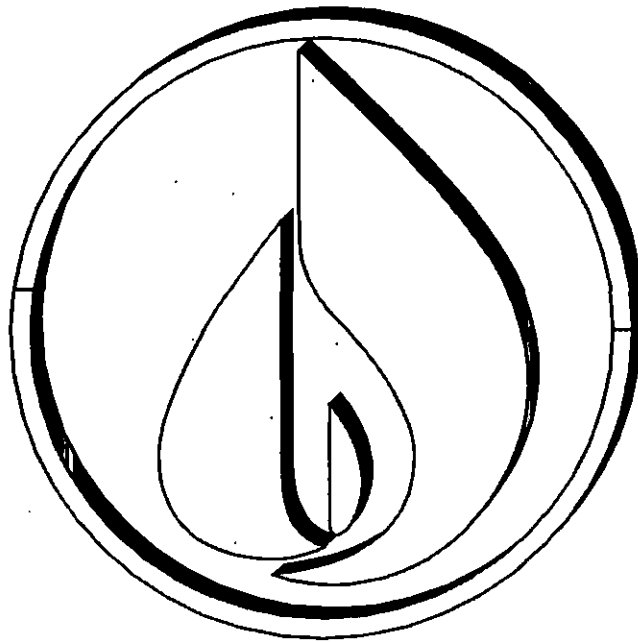












National Fuel Gas

**June 2004
Boston Meetings**

Safe Harbor

NOTE: This presentation contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements concerning plans, objectives, goals, projections, strategies and future events or performance, other statements that are not statements of historical fact, and statements identified by words such as "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects" or words of similar meaning. While National Fuel's expectations, beliefs and projections are made in good faith and are believed to have a reasonable basis, actual results may differ materially. You may refer to National Fuel's most recent Form 10-Q for a listing of important risk factors you should consider. In addition, this presentation contains certain non-GAAP financial measures. For slides that contain non-GAAP financial measures, slides containing the most directly comparable GAAP financial measures are provided at the end of this presentation, followed by reconciliations.



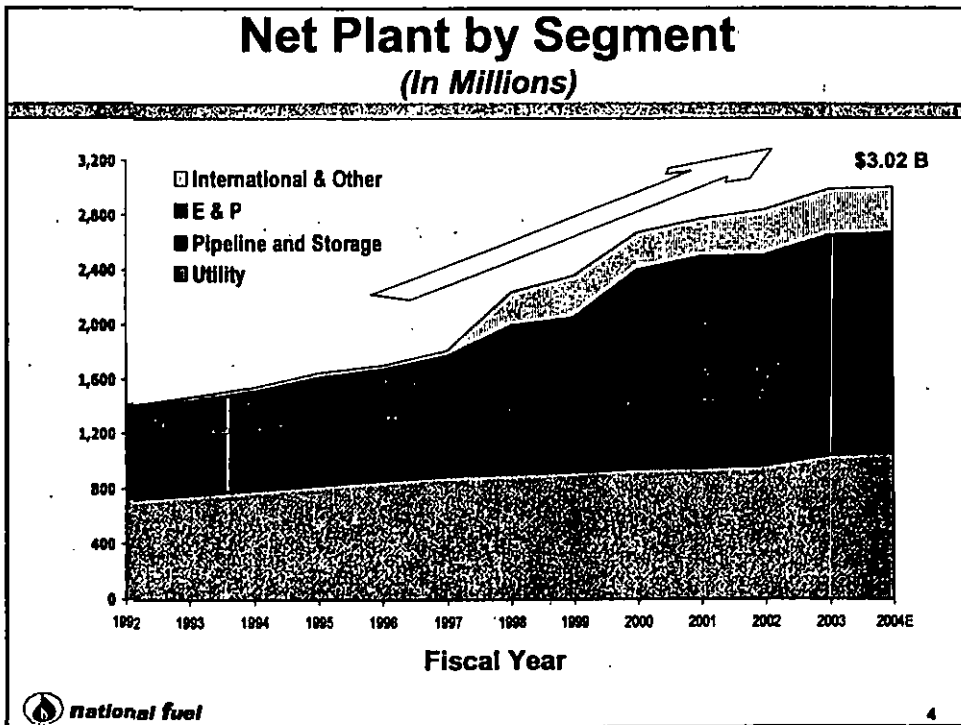
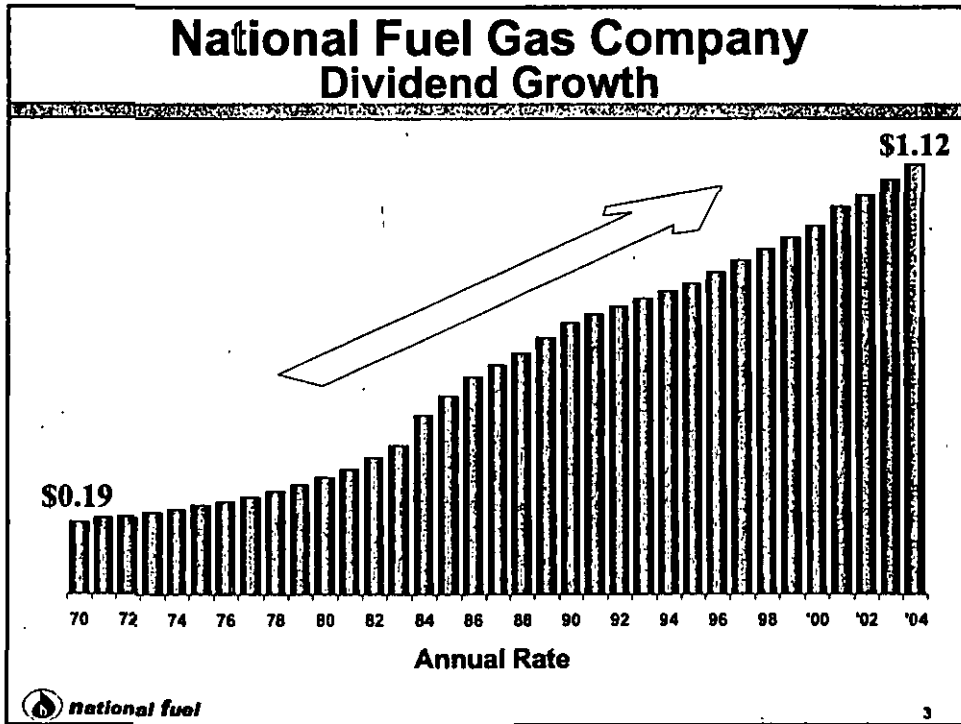
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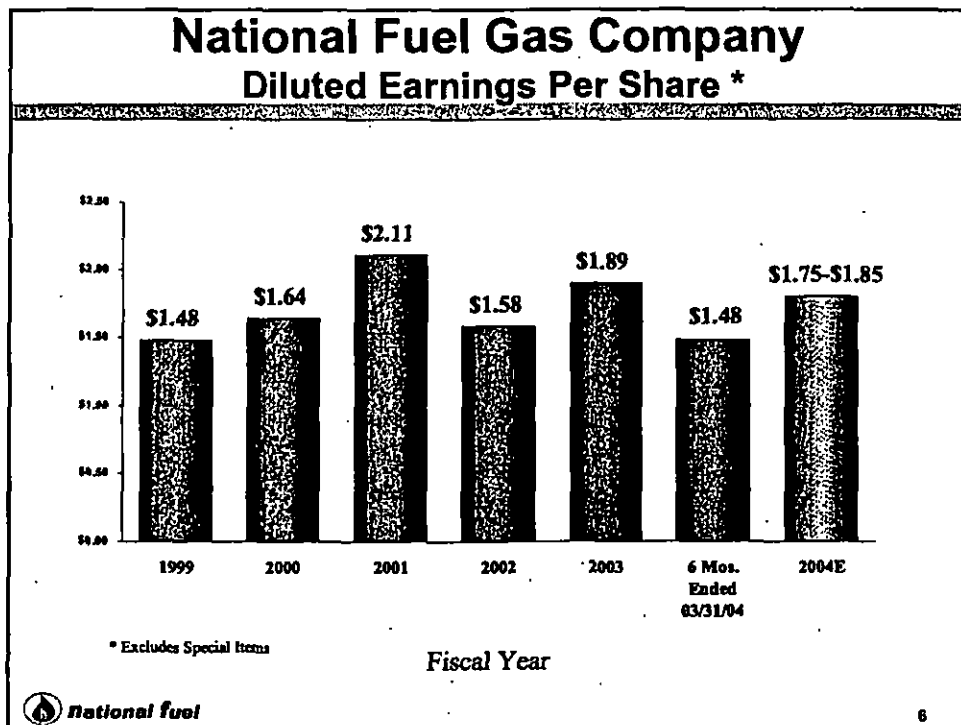
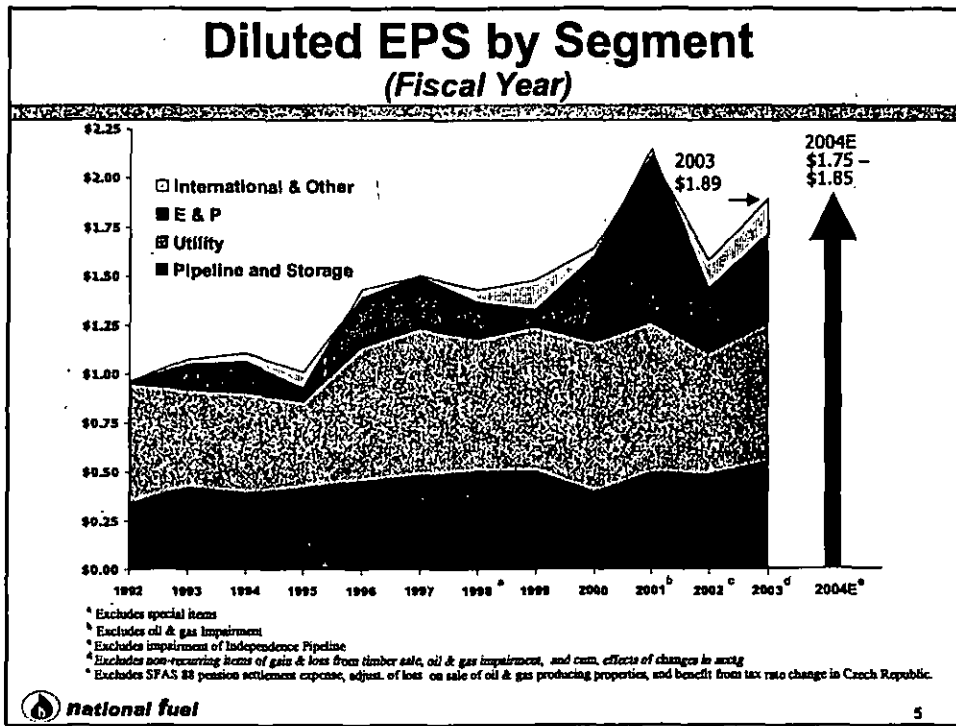
National Fuel Gas Company

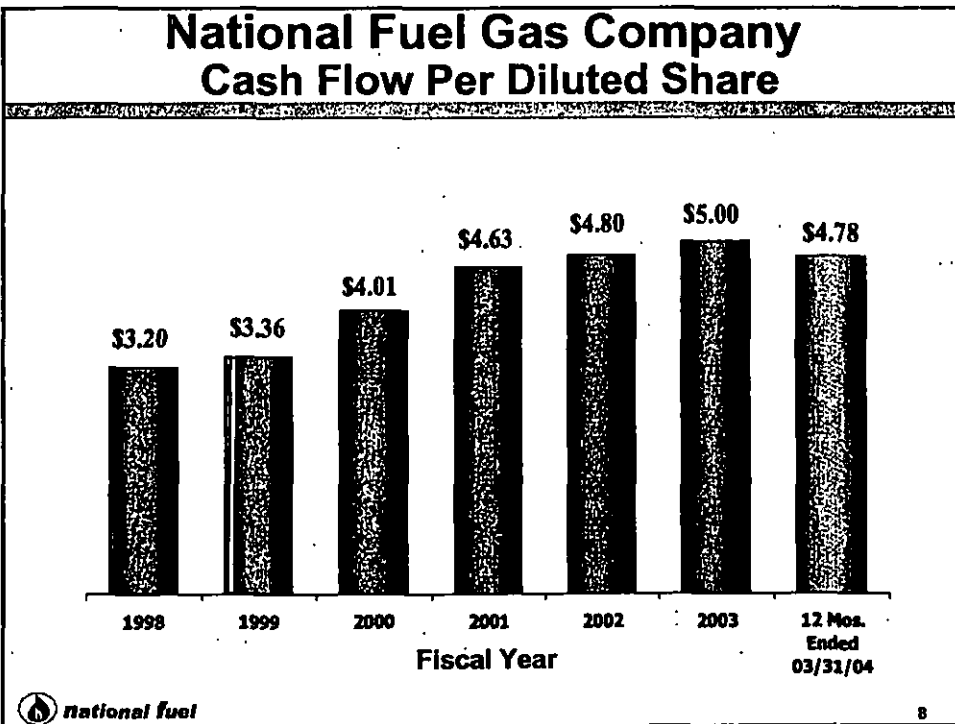
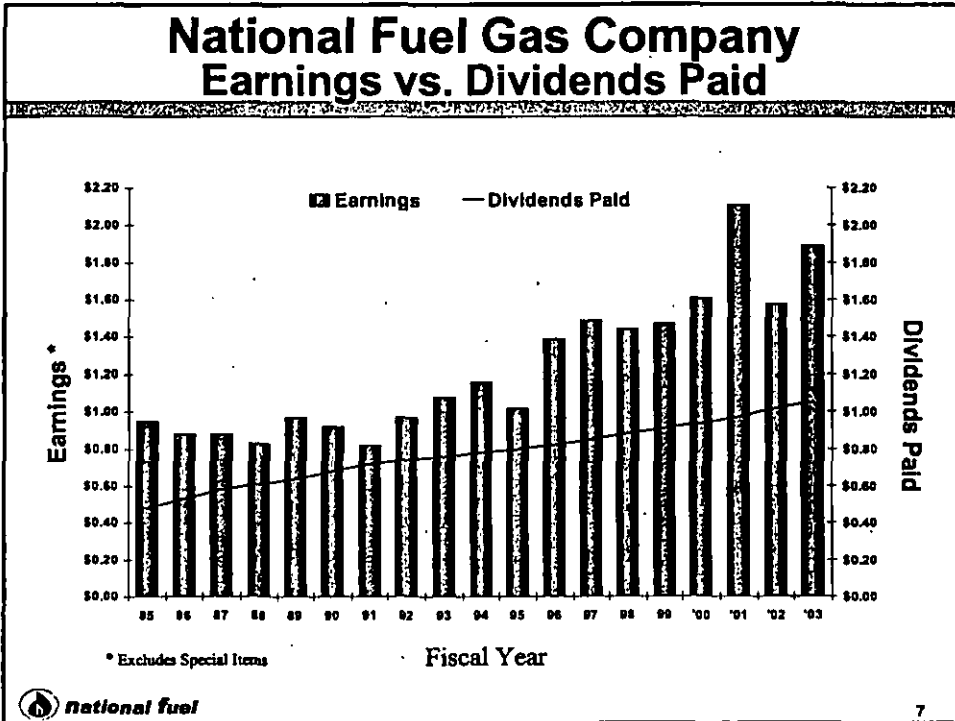
Corporate Objective
**Grow shareholder value
through timely
investments in the energy
industry**

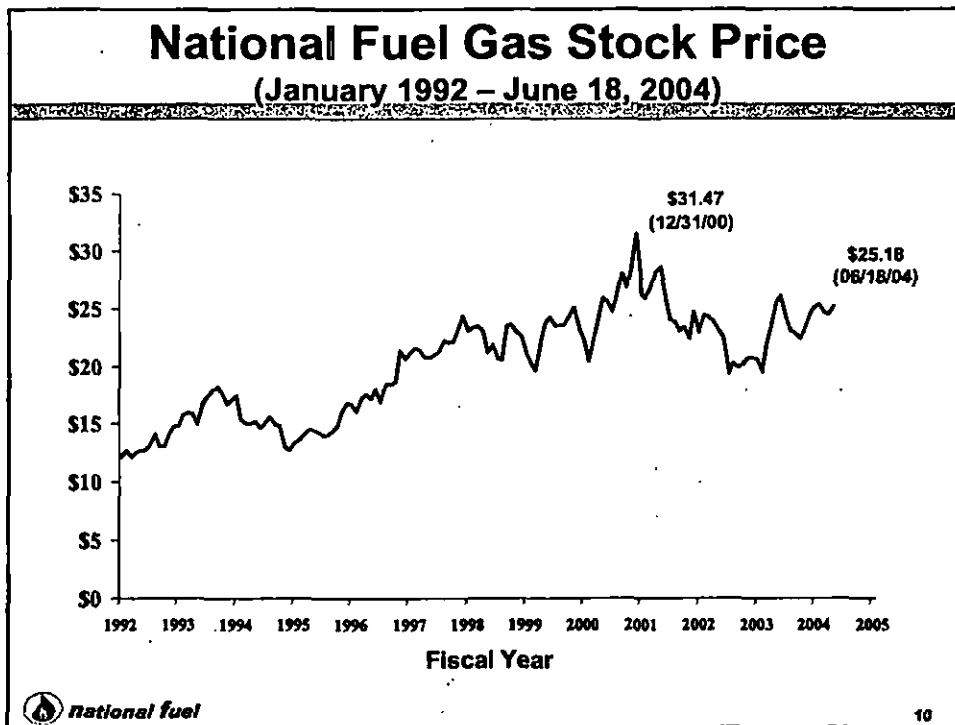
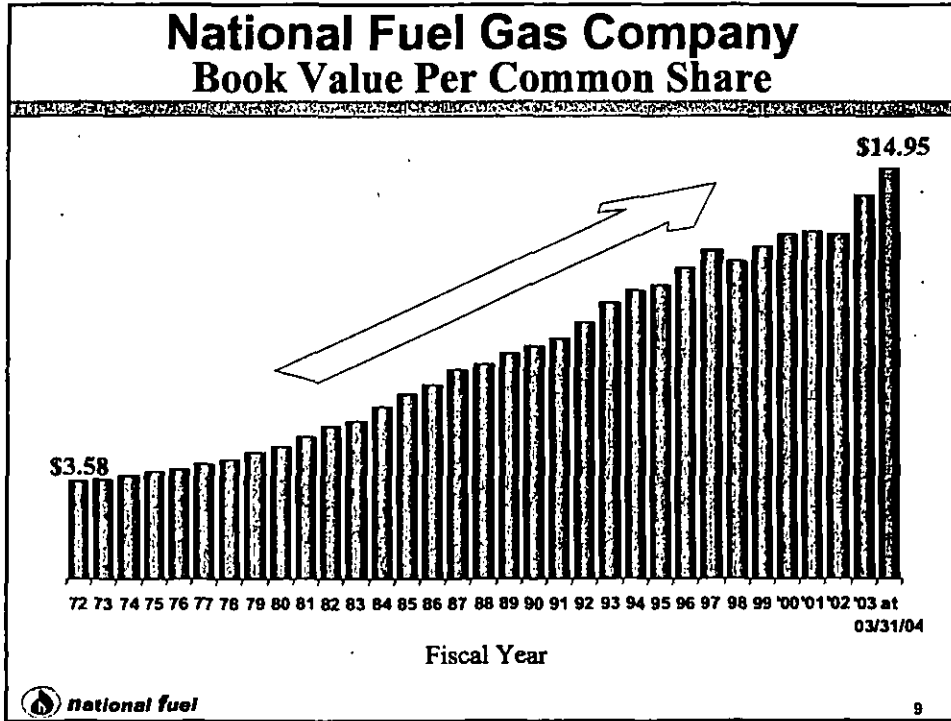


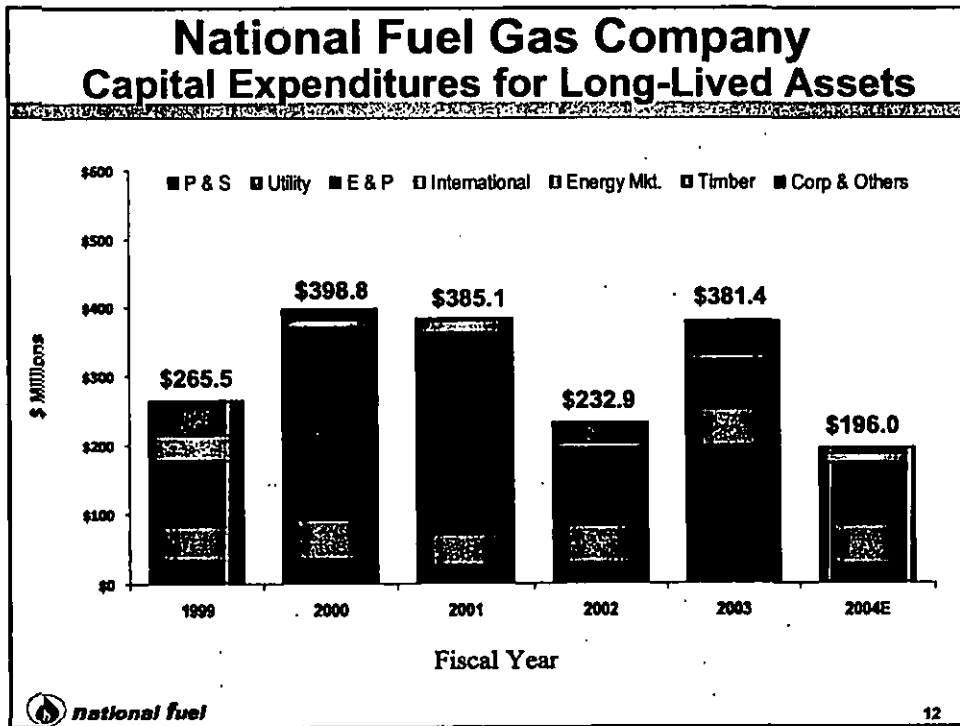
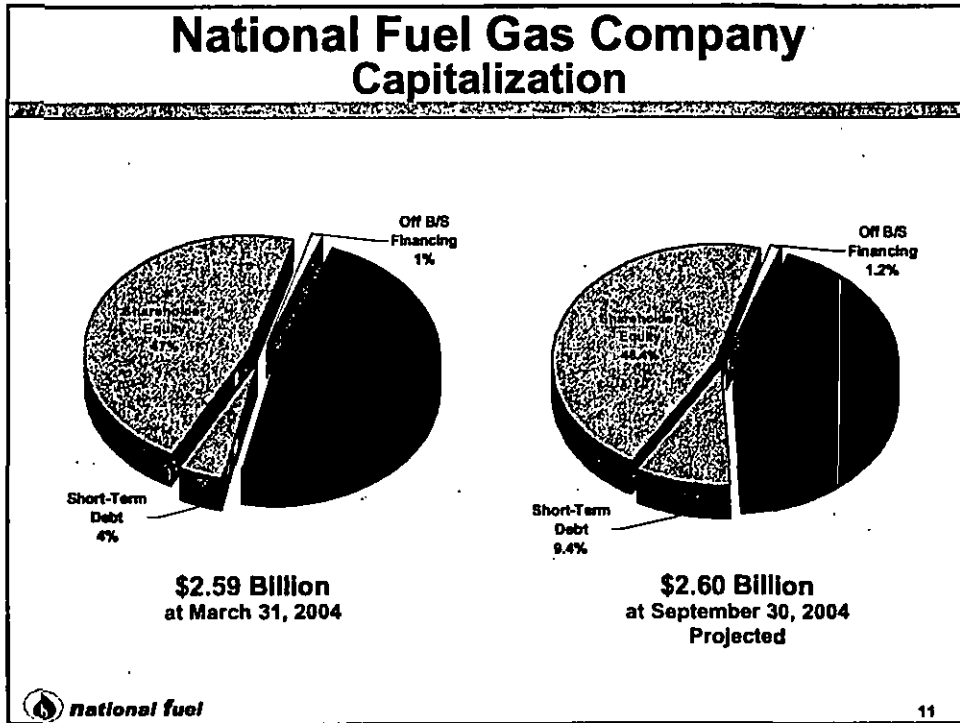
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National Fuel Gas Company Lines Of Credit

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13


National Fuel Gas Company Capital Markets Financing

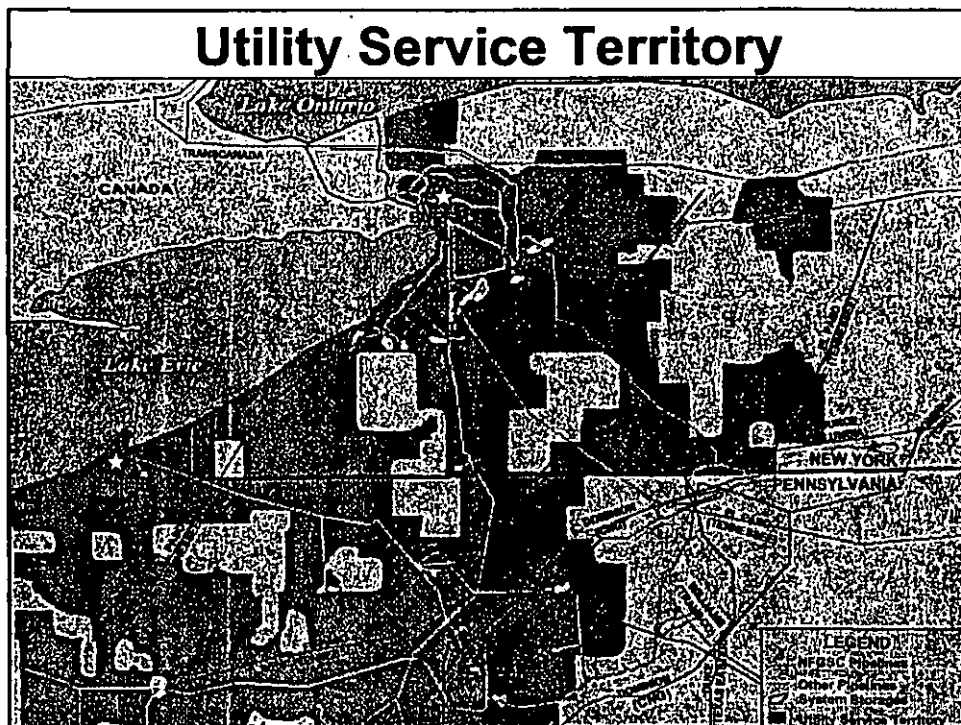
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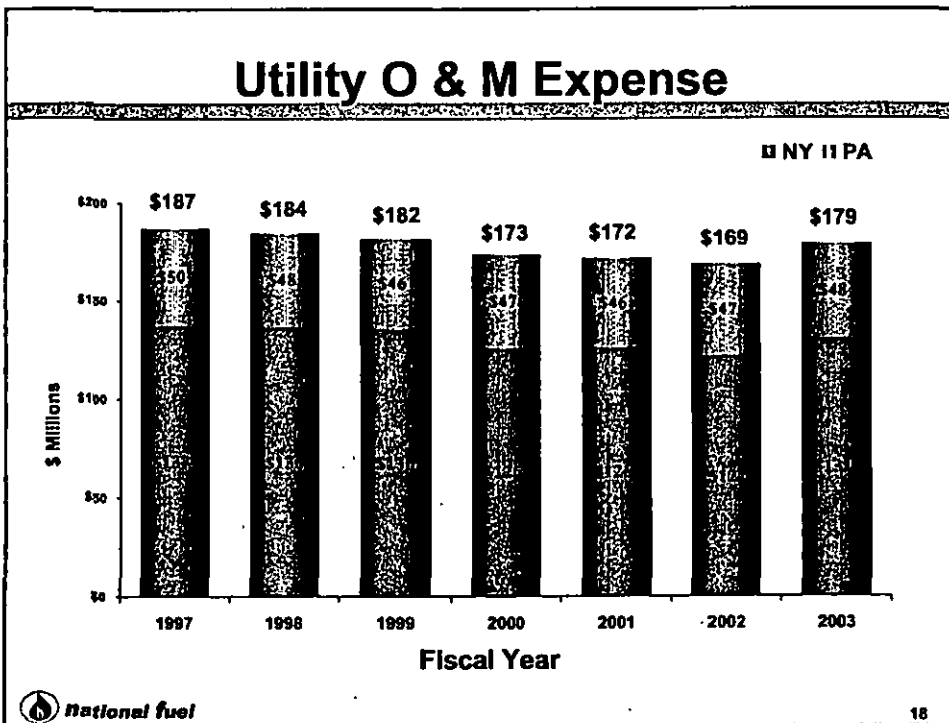
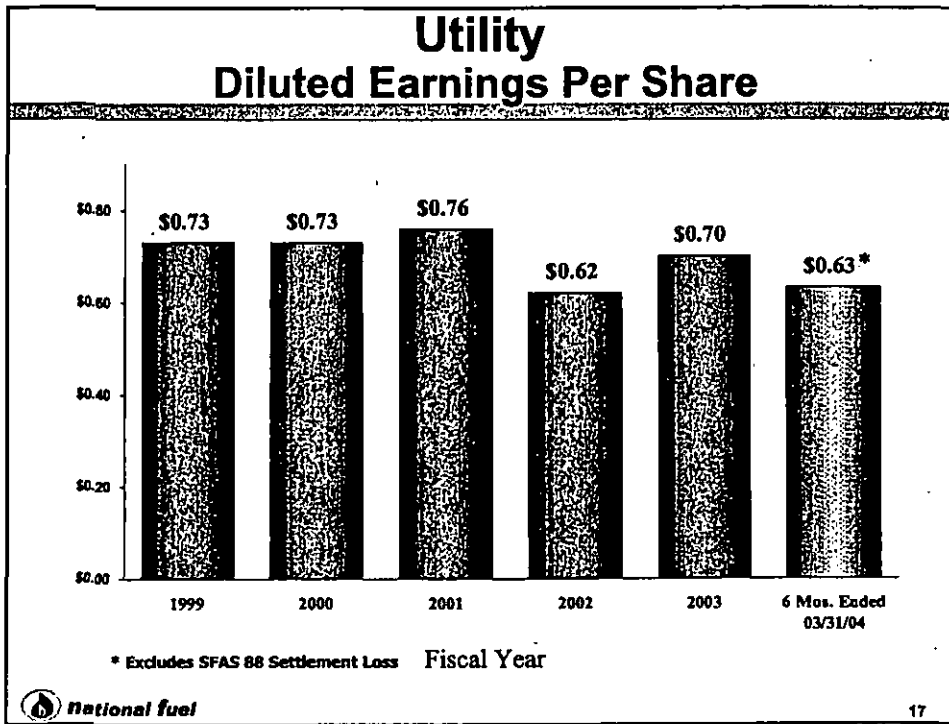


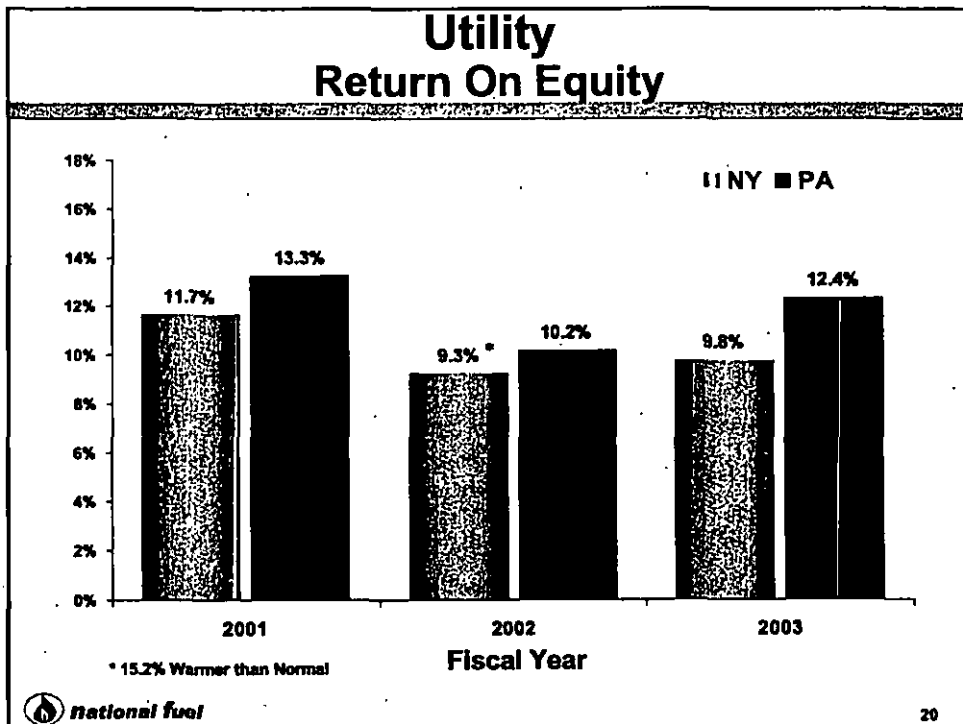
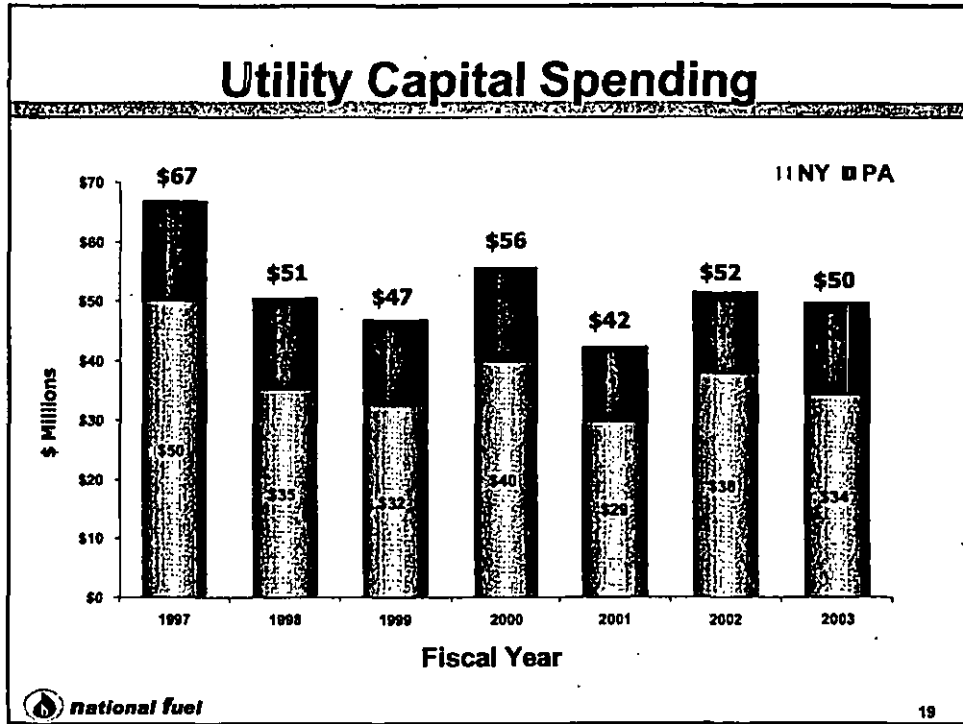
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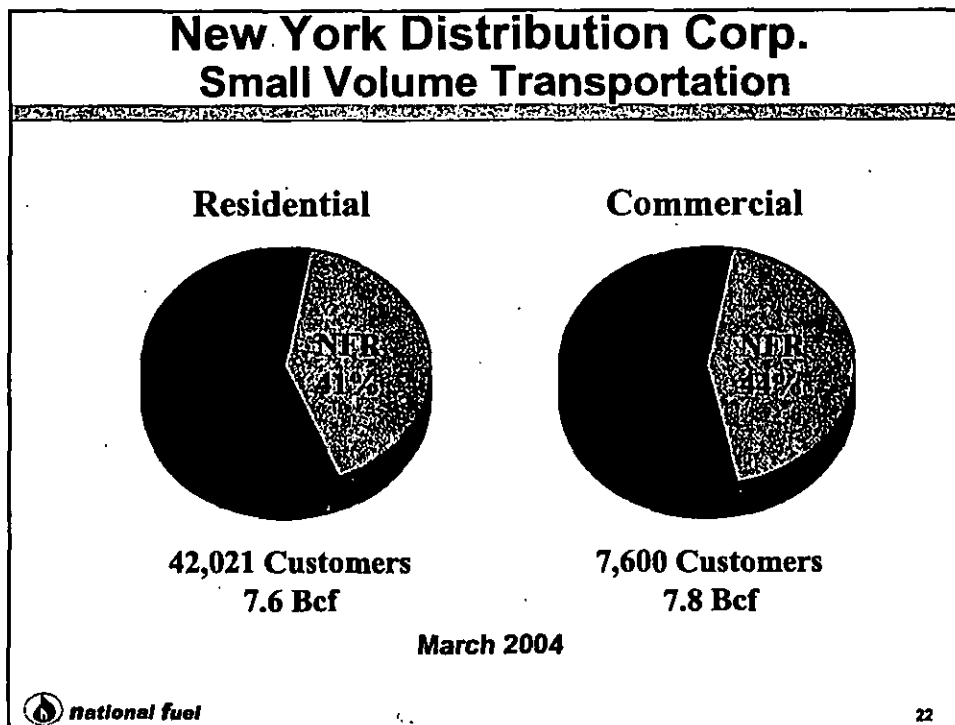
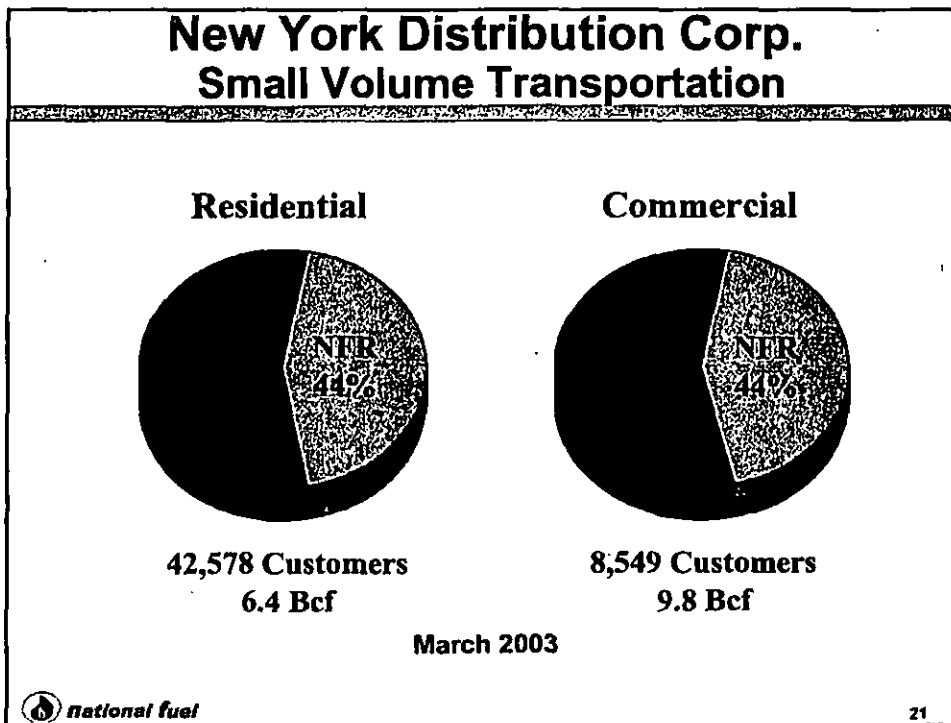
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 15









Utility Regulatory Rate Mechanisms

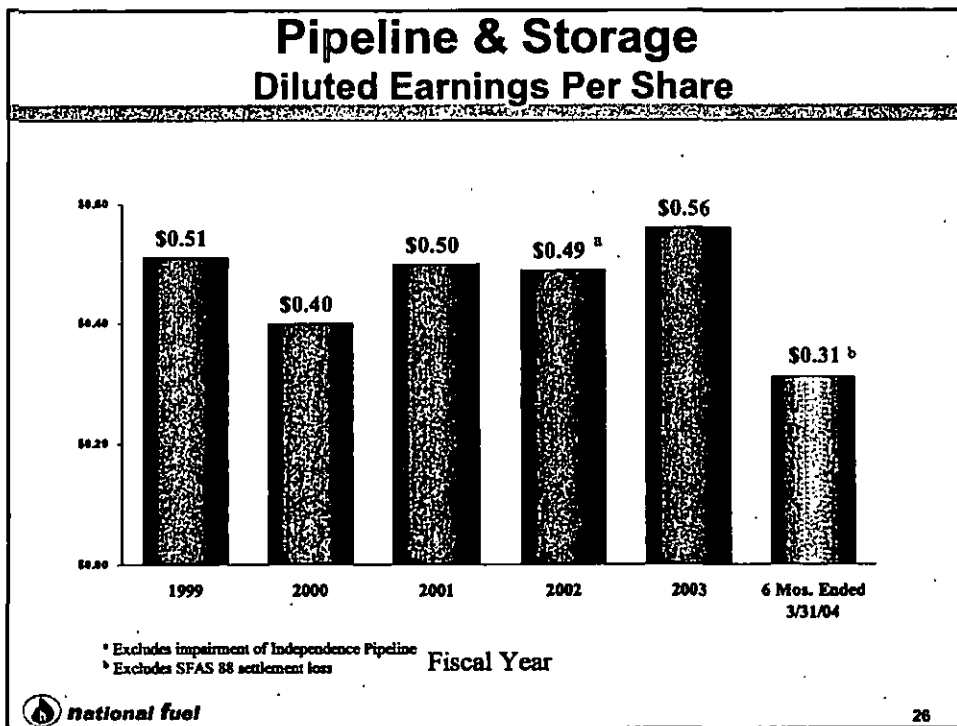
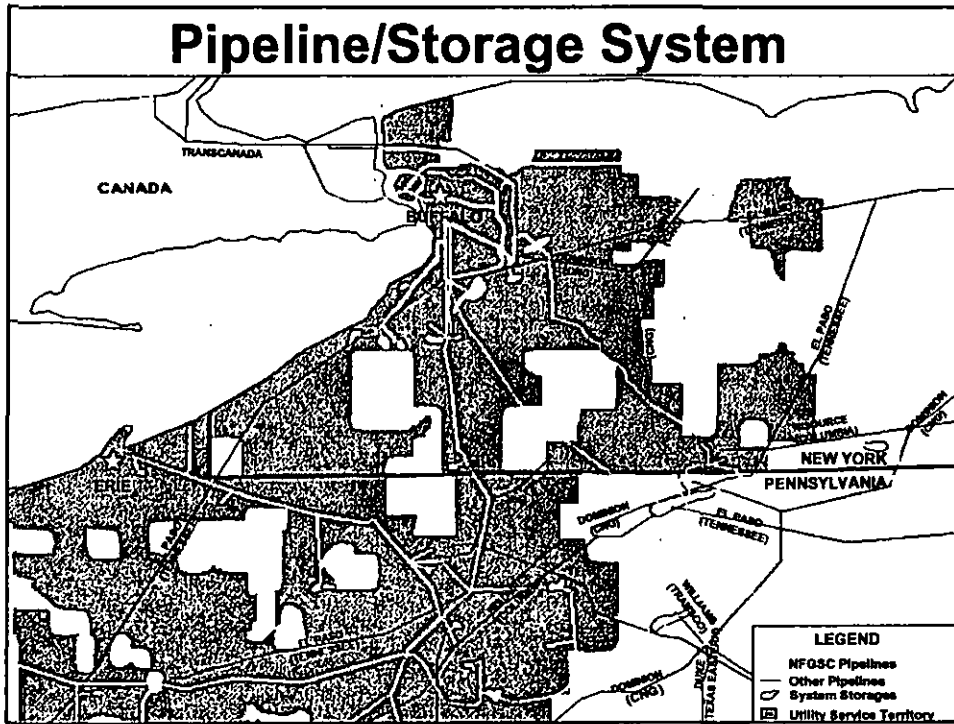
➤ New York

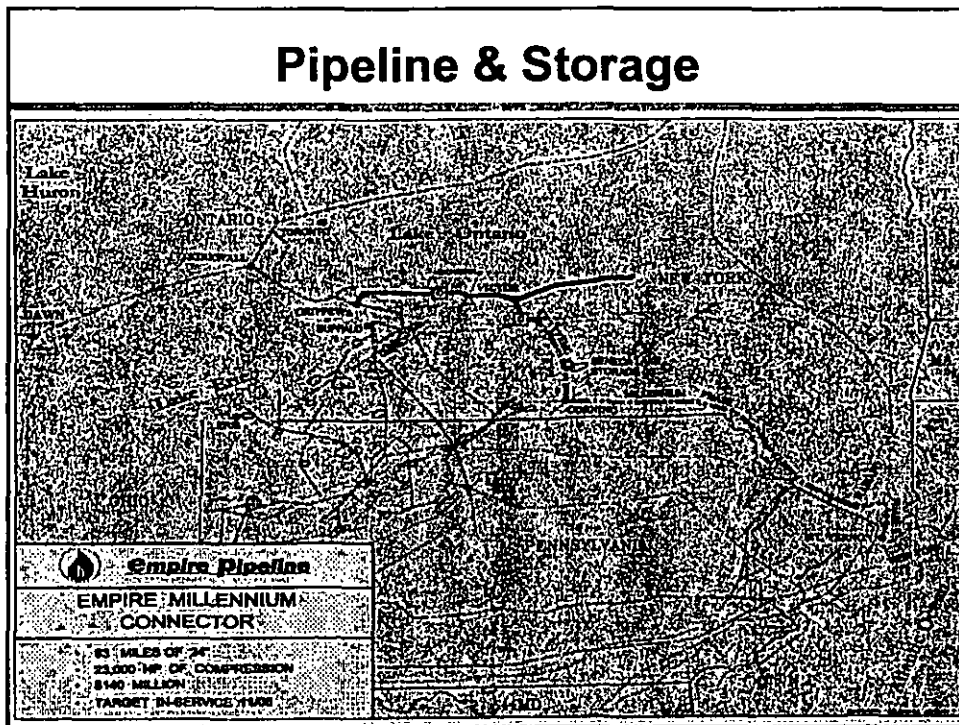
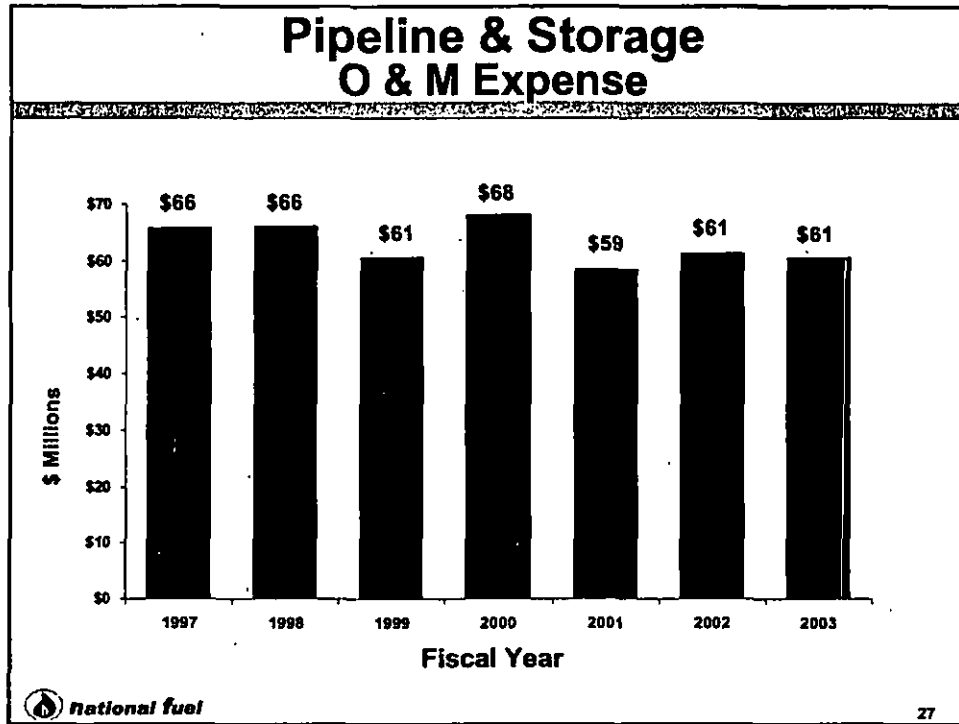
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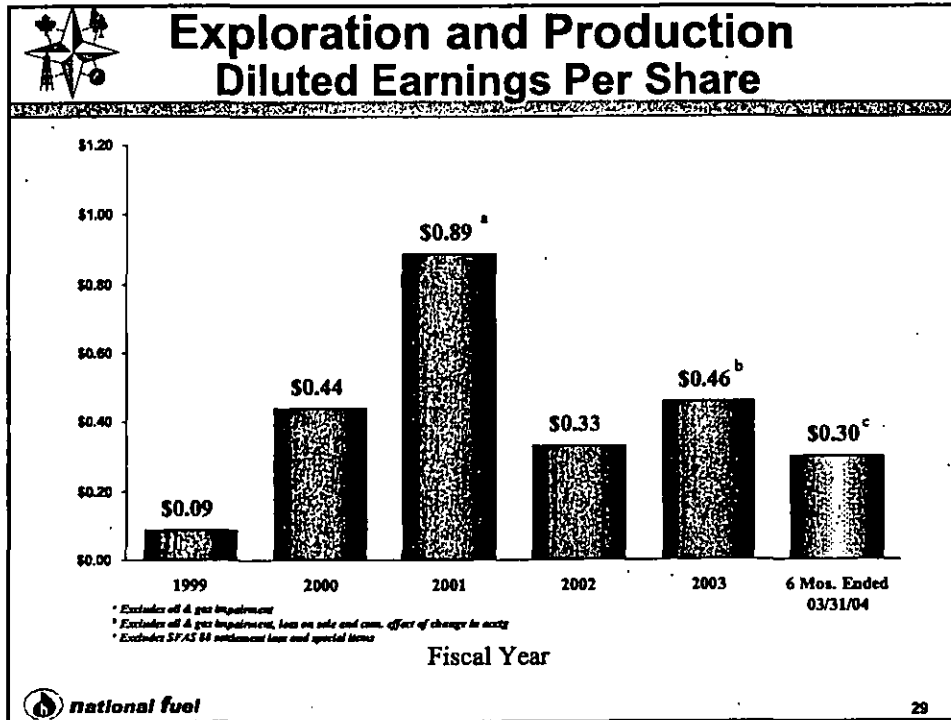
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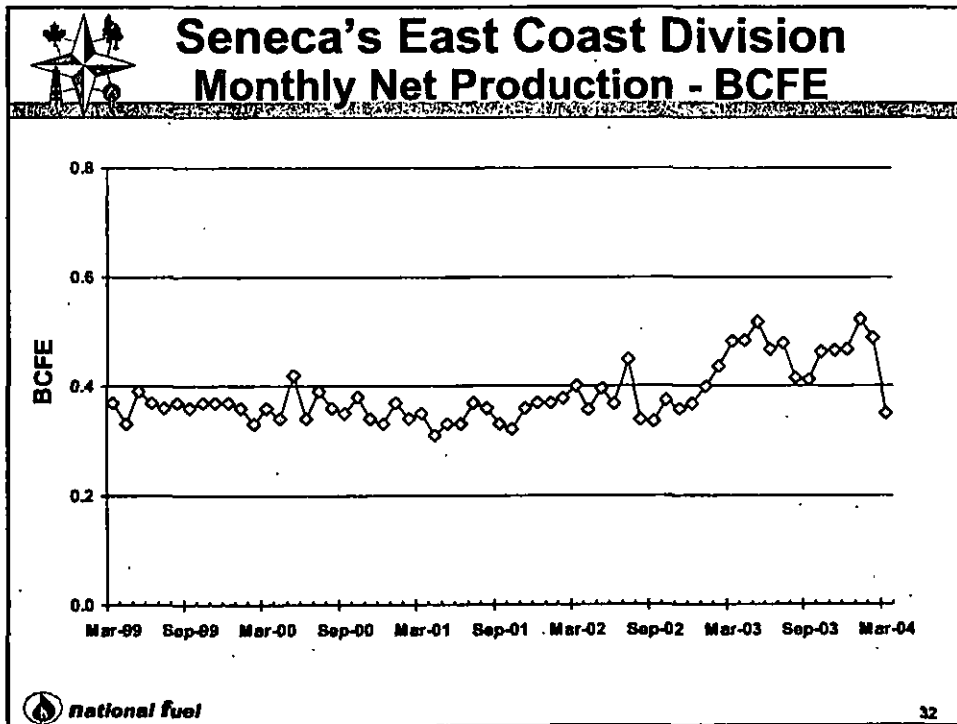
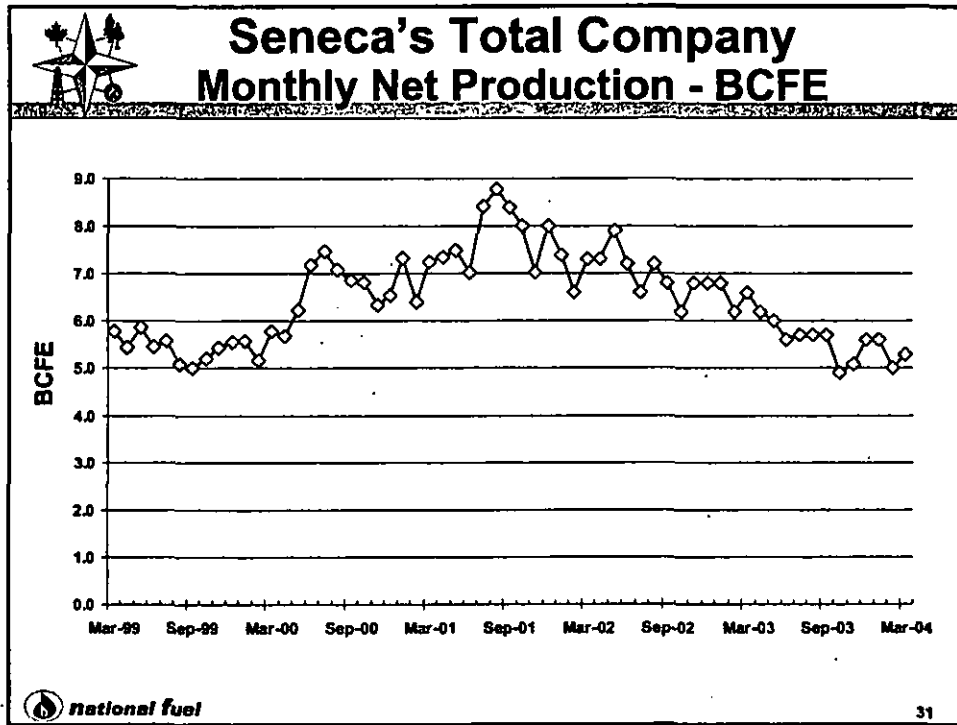


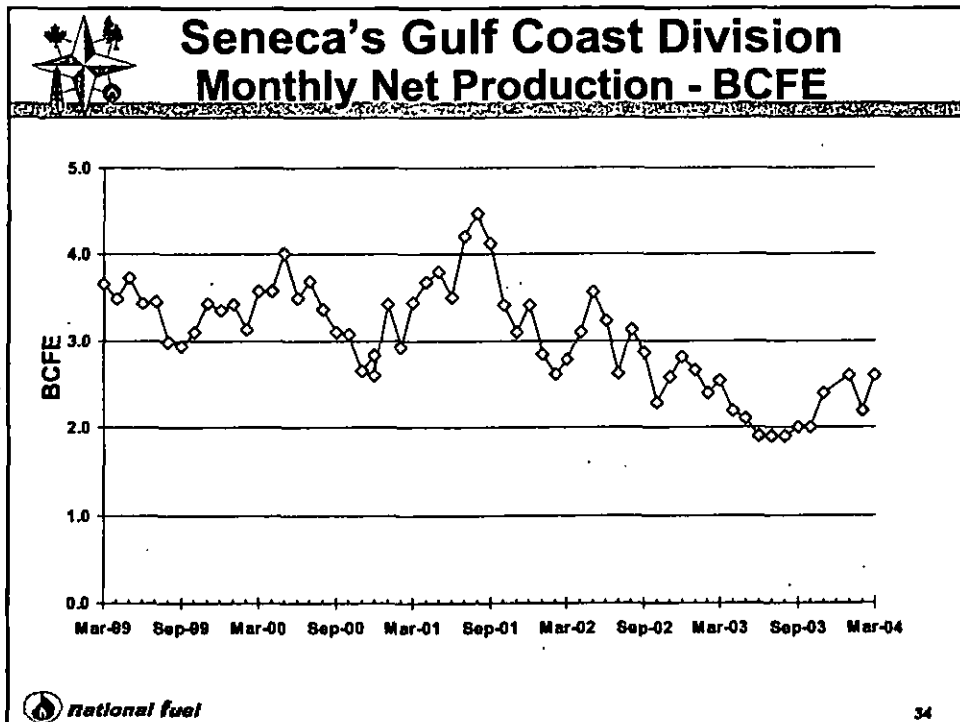
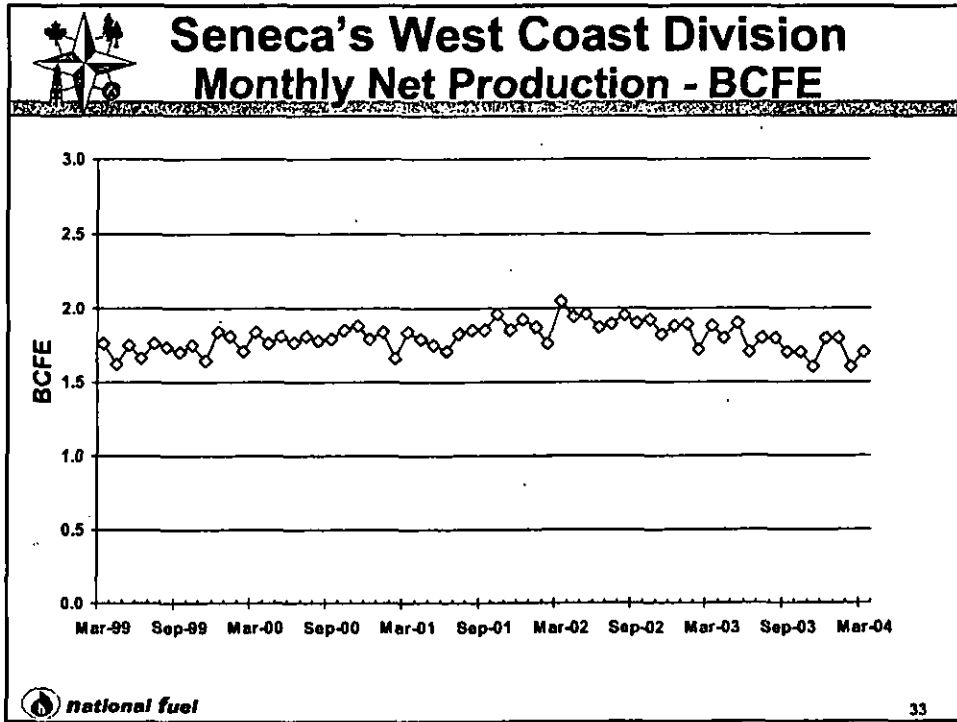


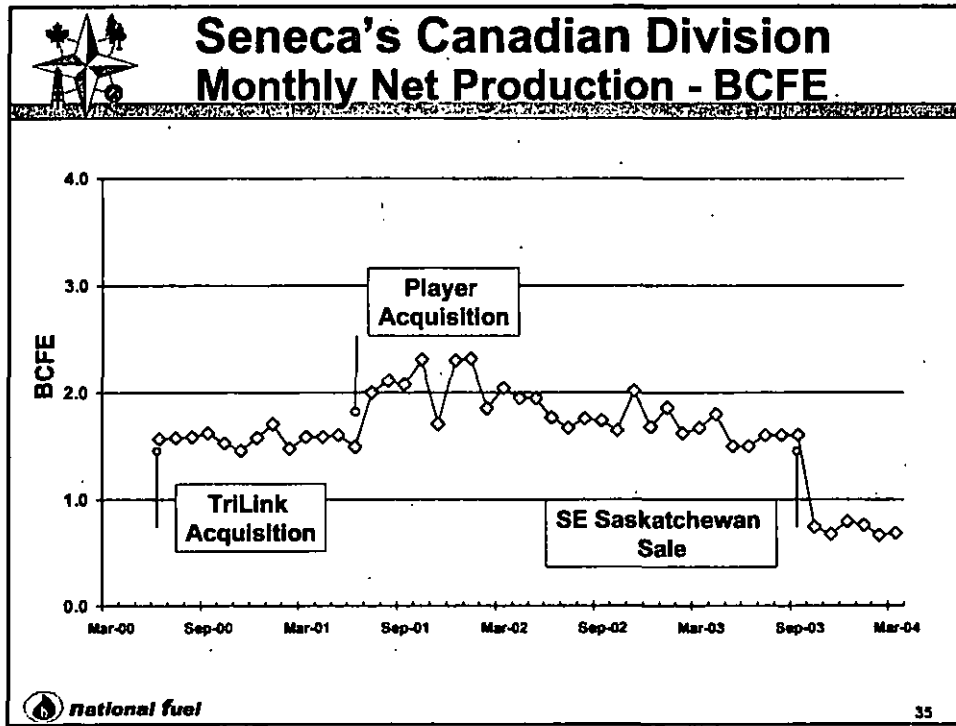
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national fuel 30







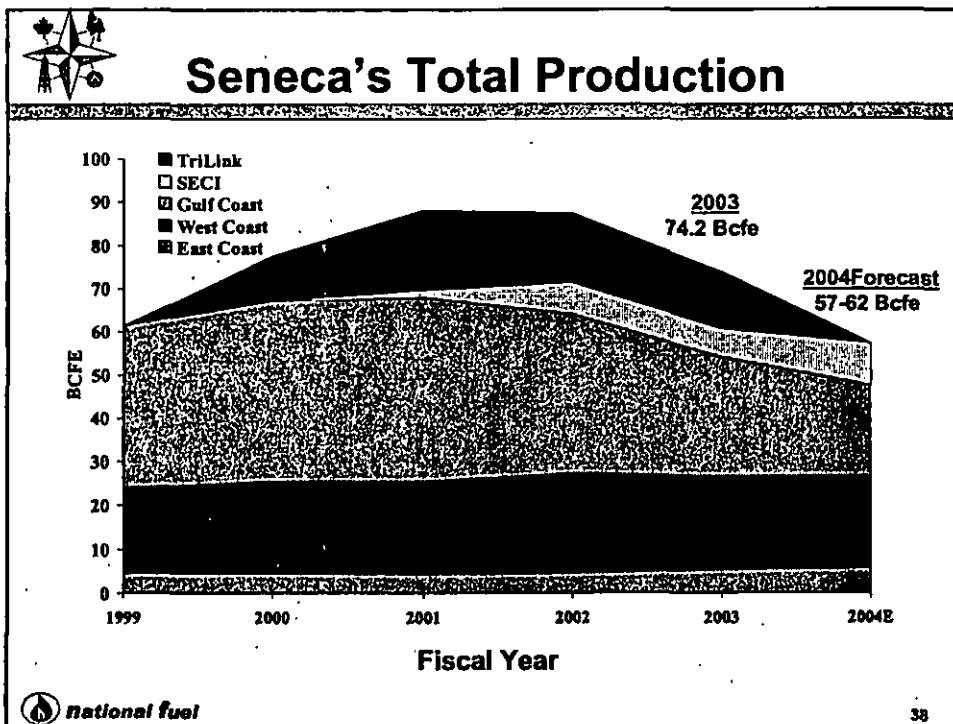
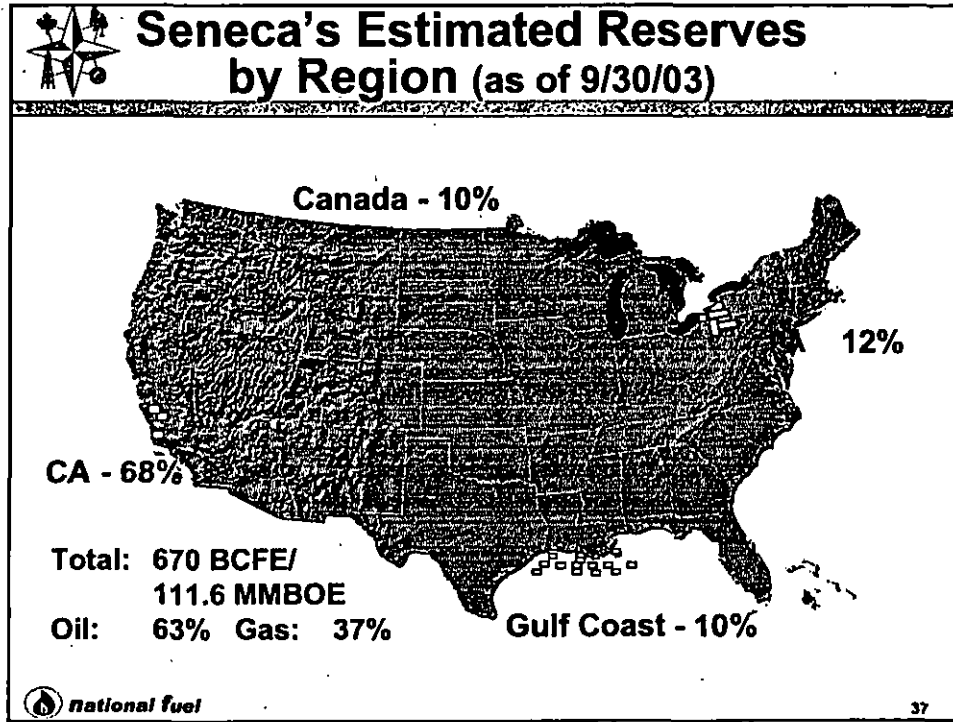
Exploration and Production Total Reserves by Division (9/30/03)

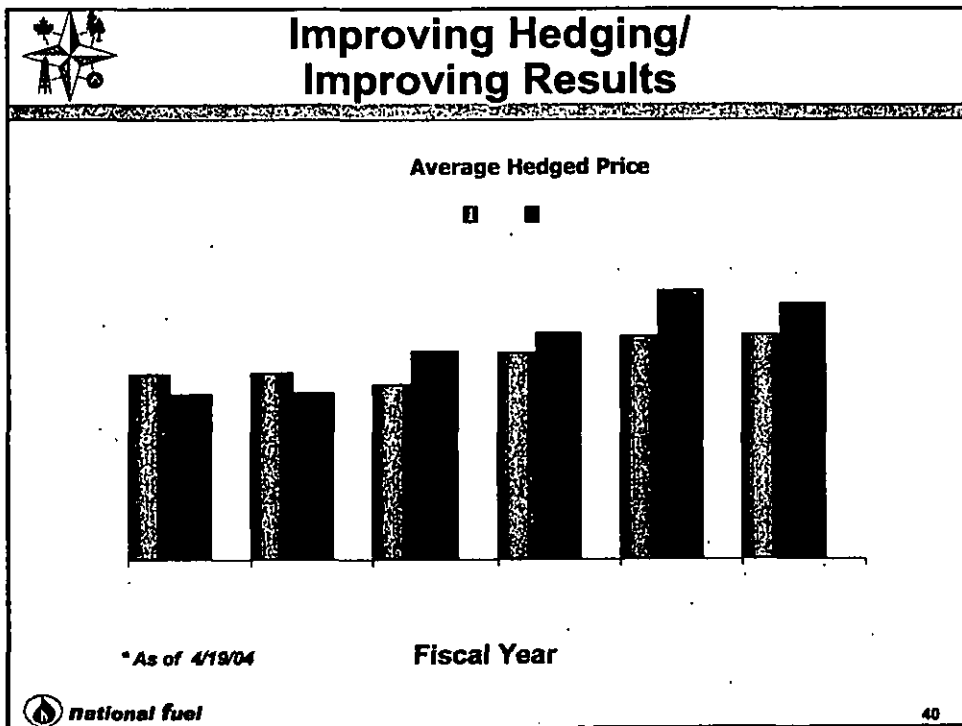
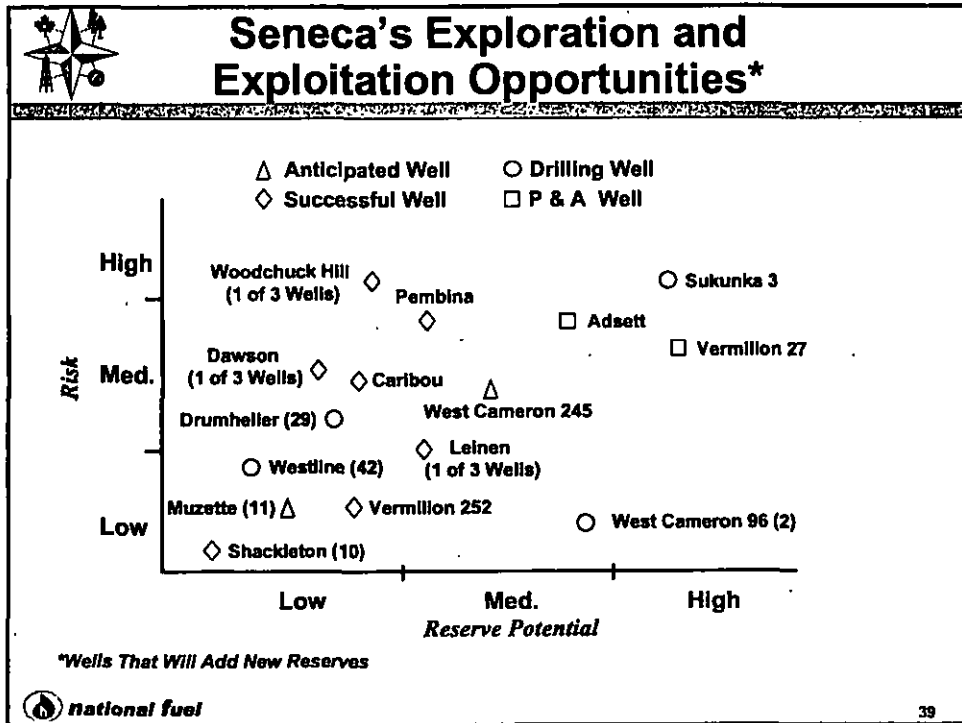
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% of Reserves PDP: 70%
% of Reserves PUD: 25%

All Seneca Reserves are Audited by R.E. Davis & Assoc.

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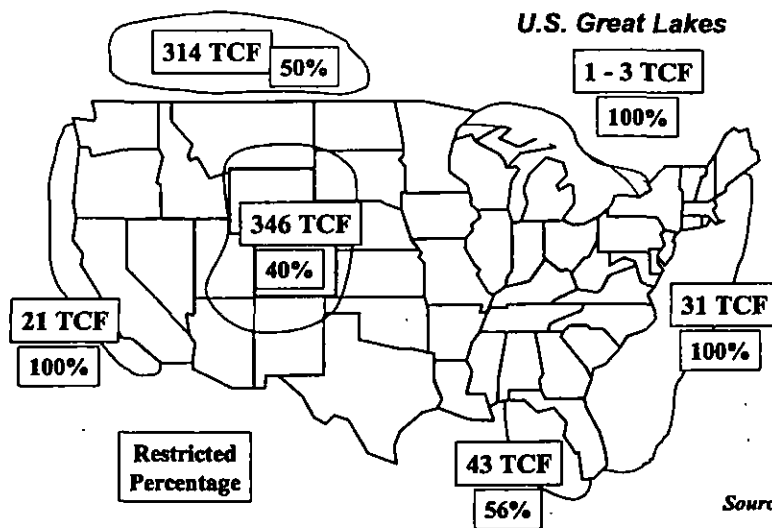


Seneca's Fiscal Outlook

- ❖ Production on Target for 2004: 57 – 62 BCFE
- ❖ Continue Hedging Program to Mitigate Commodity Price Volatility
- ❖ Continued Focus on Long Life Reserves



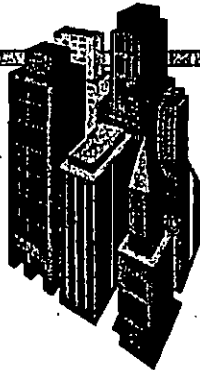


Resource Estimates – Restricted Areas

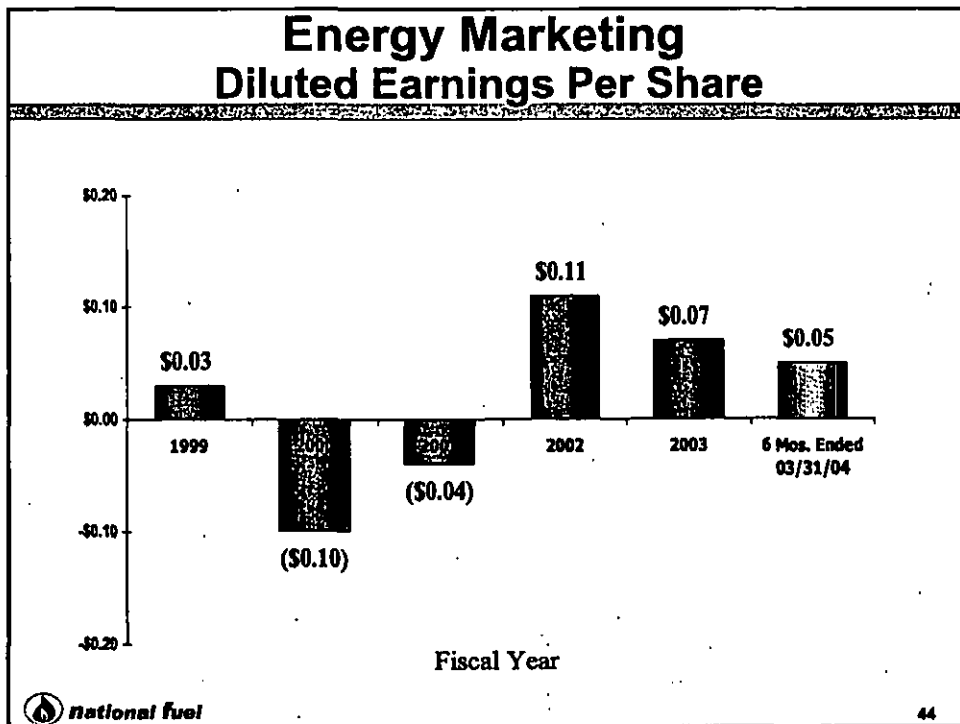


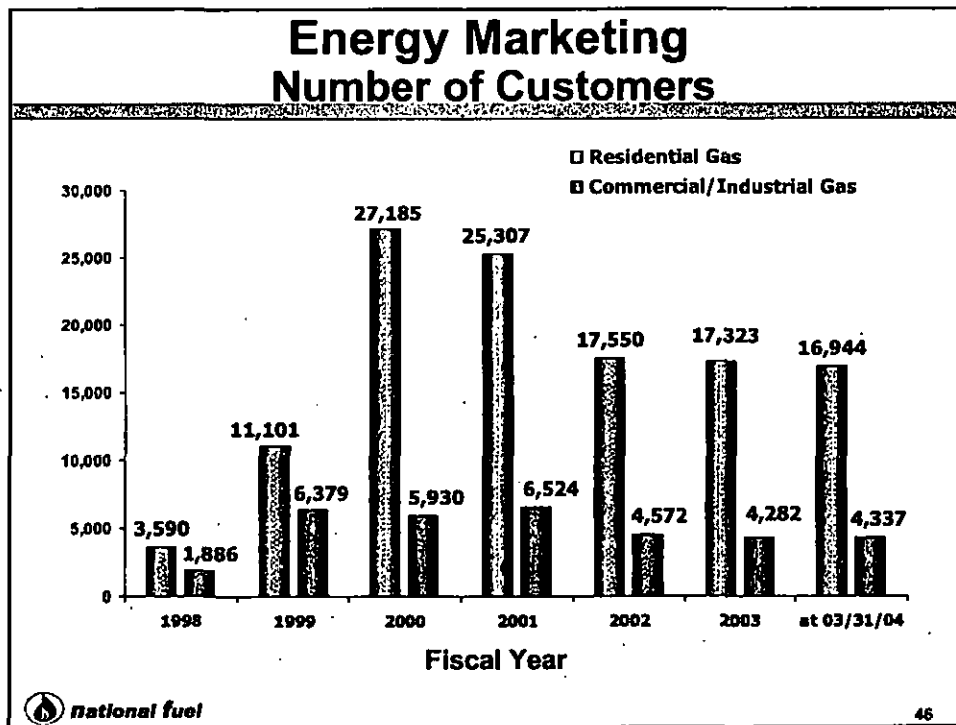
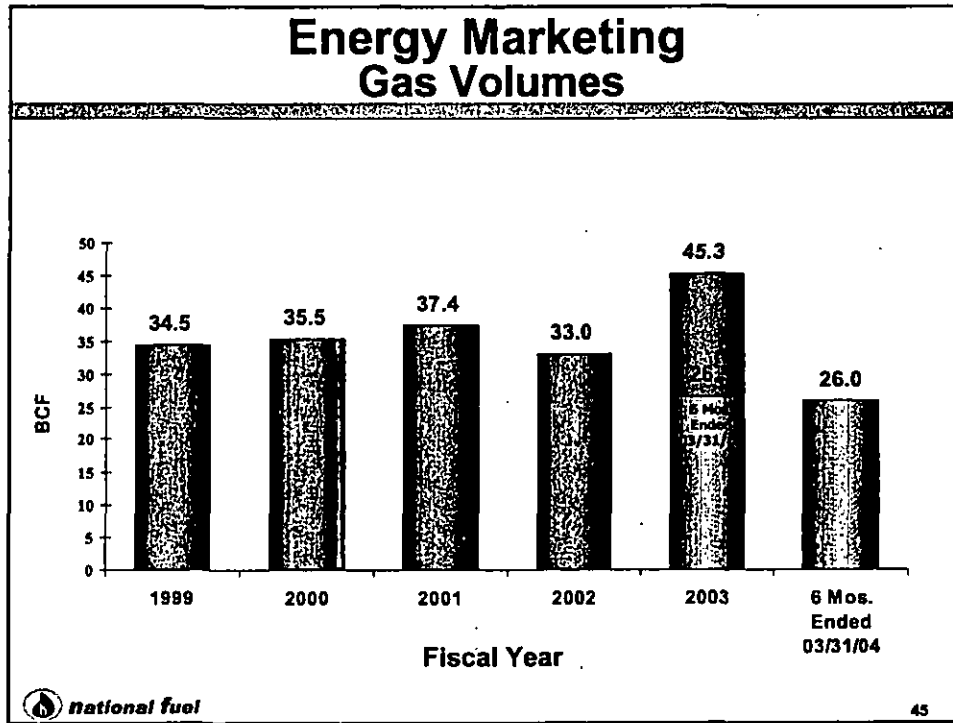
Non-Regulated Marketing

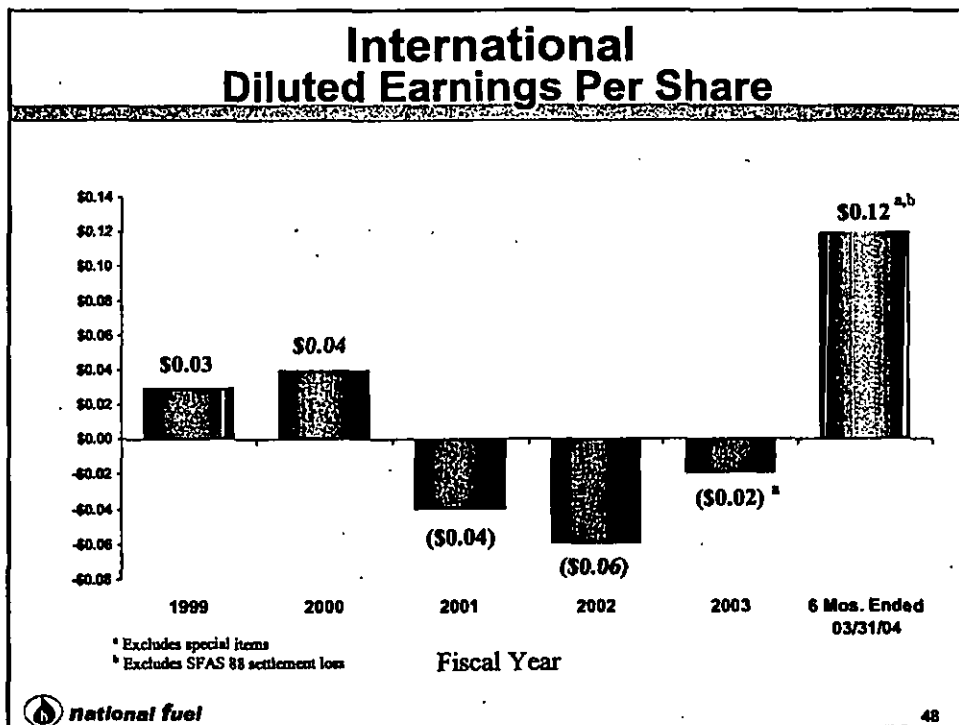
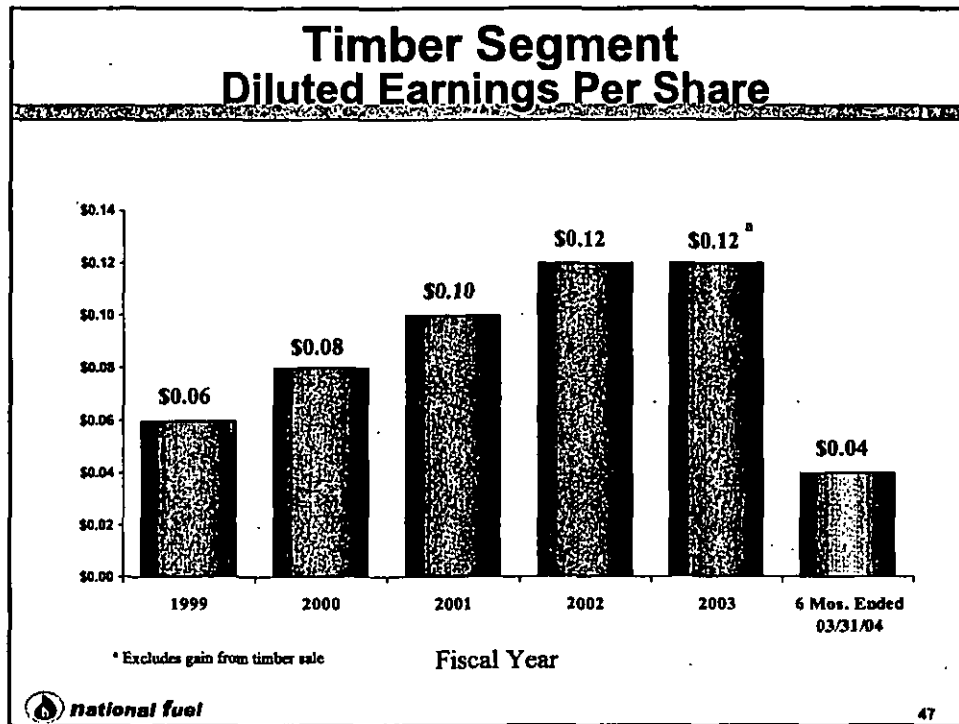
- ❖ Largest Marketer on Distribution
- ❖ Retail Markets
 - Industrial Customers
 - Commercial Customers
 - Residential Customers
- ❖ Regional Wholesale Gas Marketing



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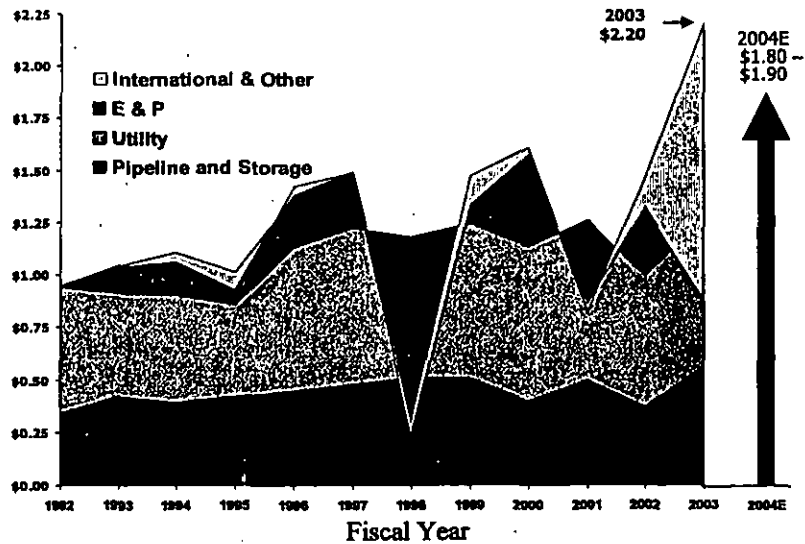


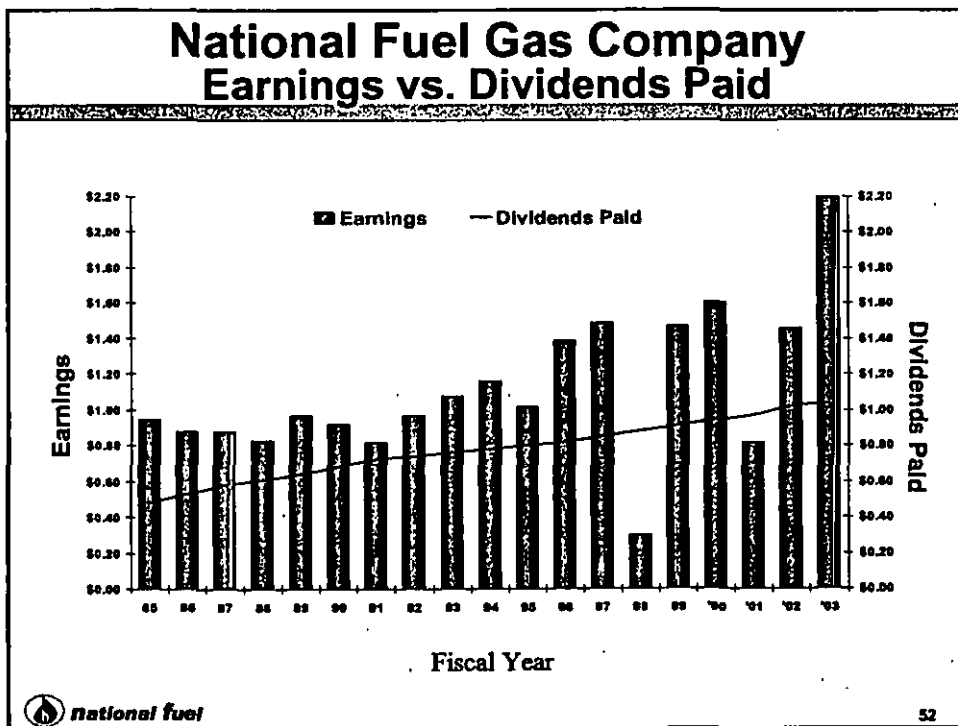
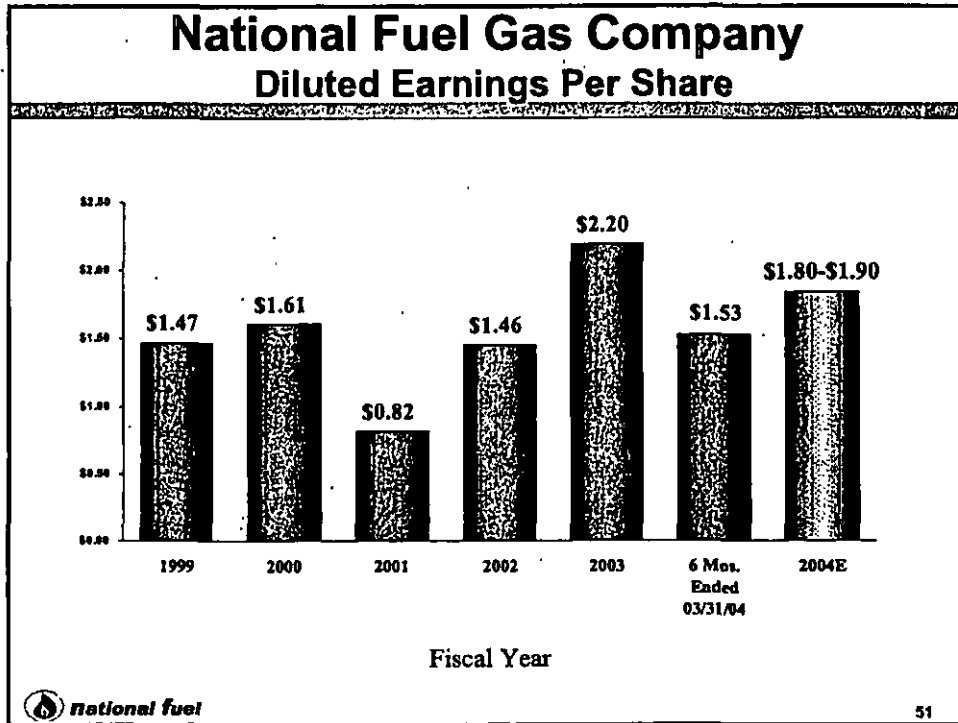


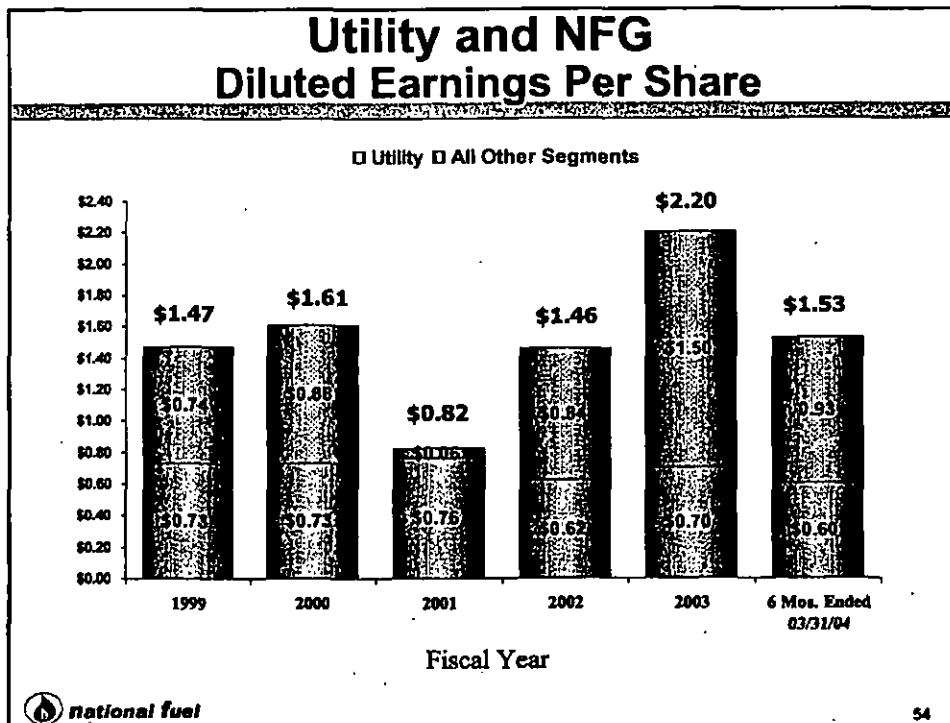
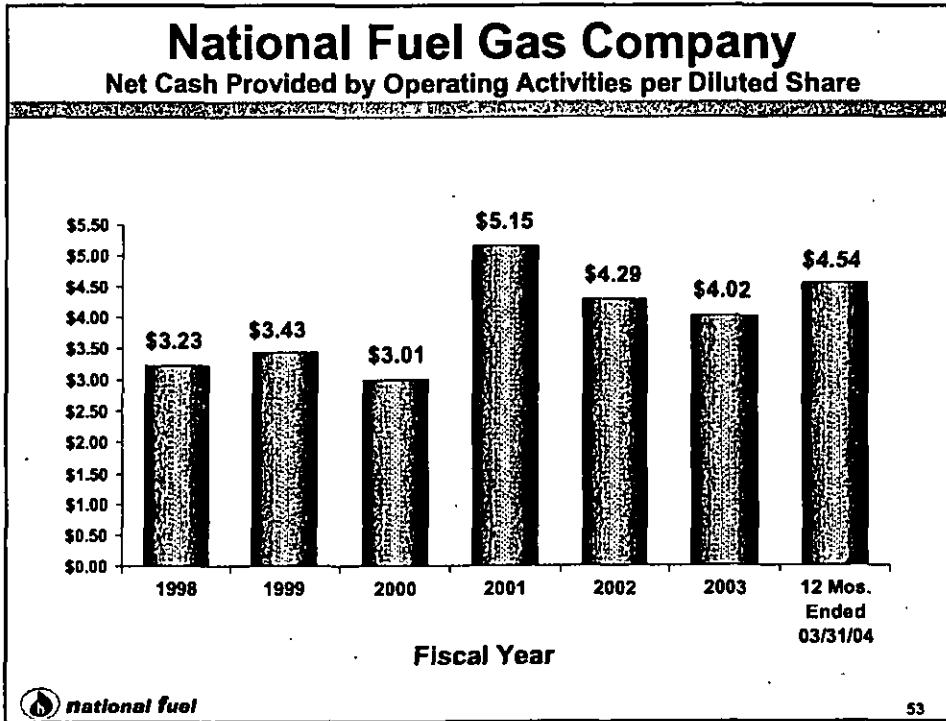


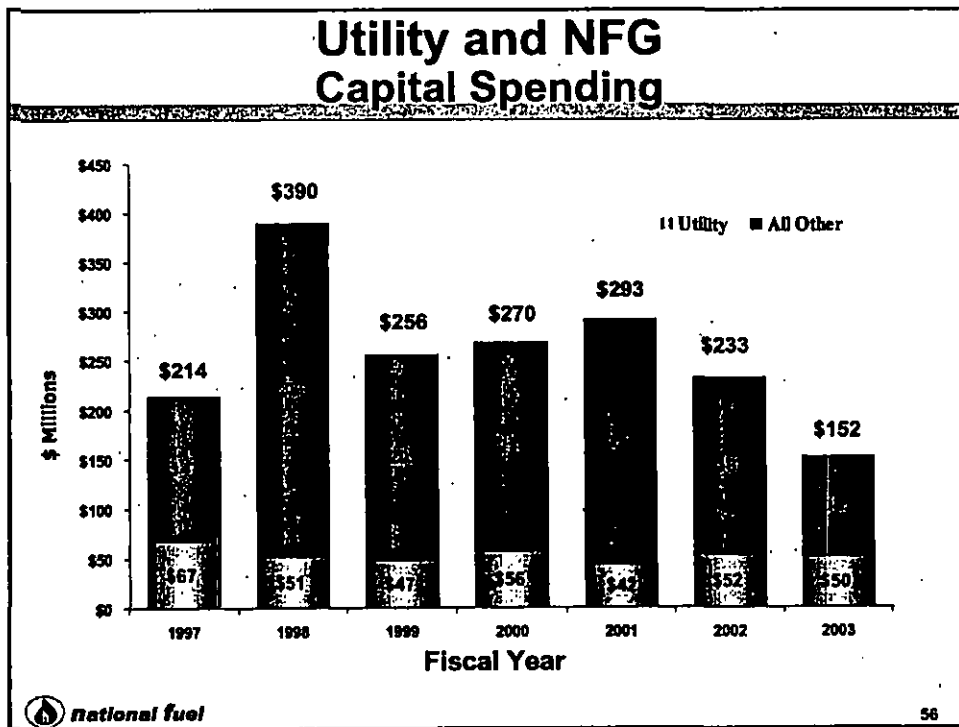
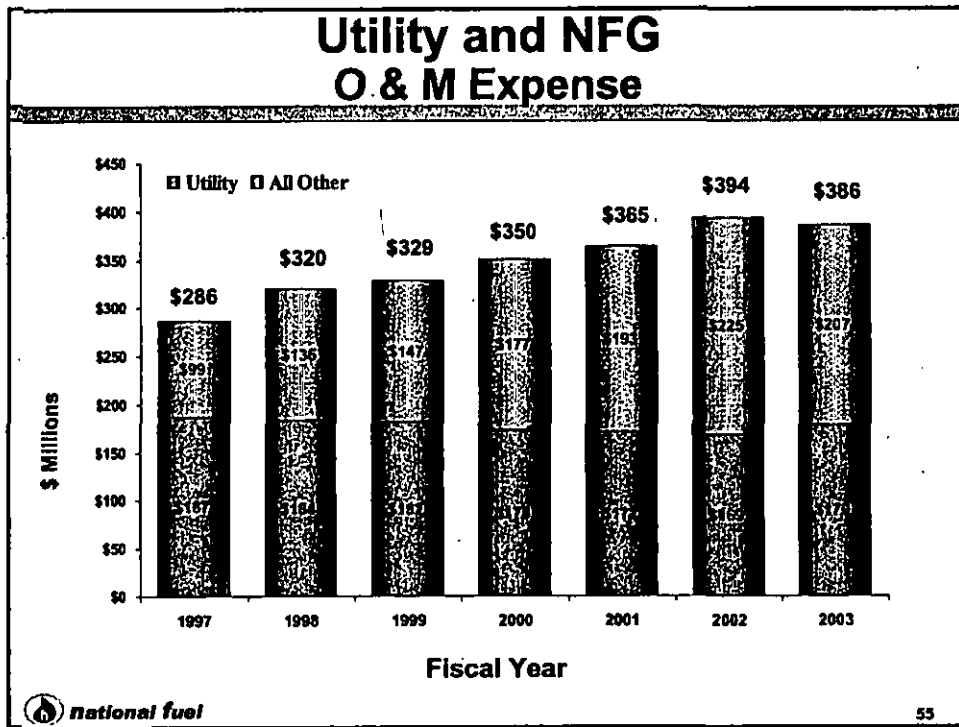
Comparable GAAP Financial Measure Slides And Reconciliations

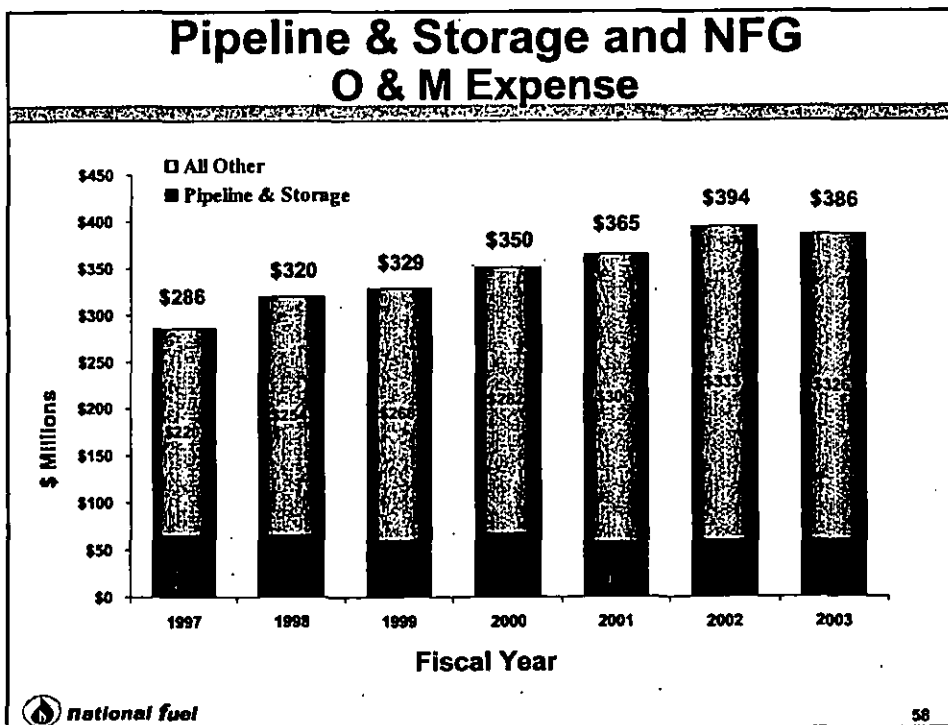
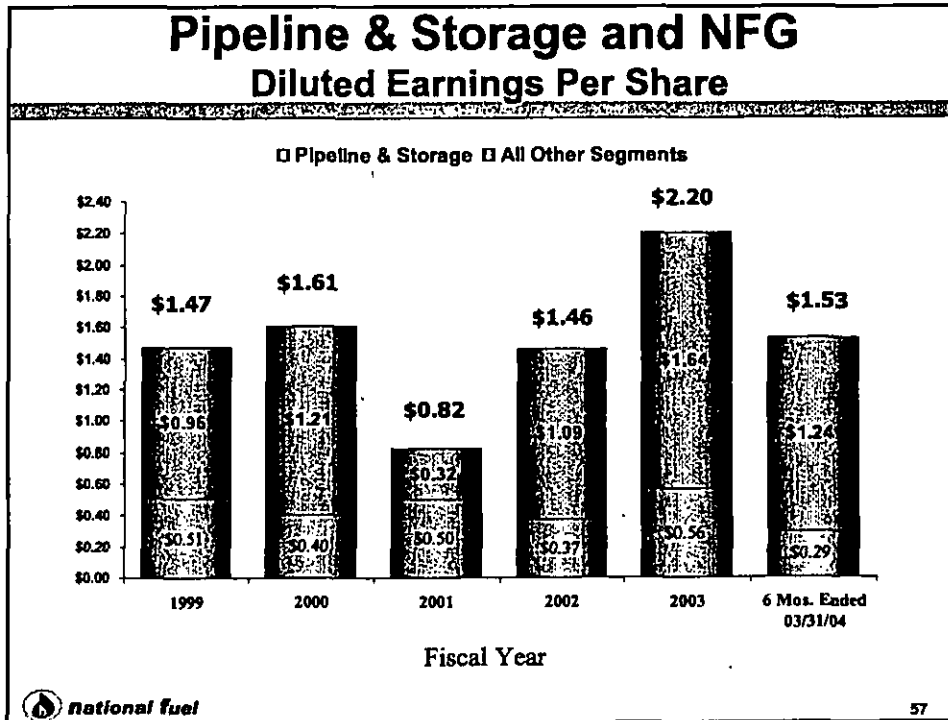
Diluted EPS by Segment (Fiscal Year)

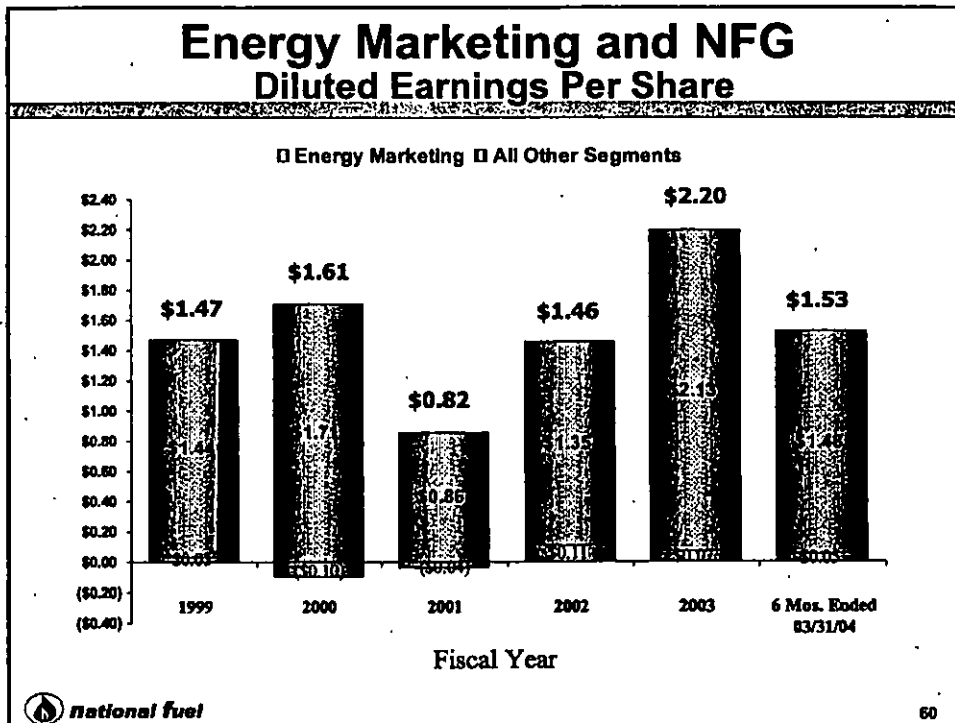
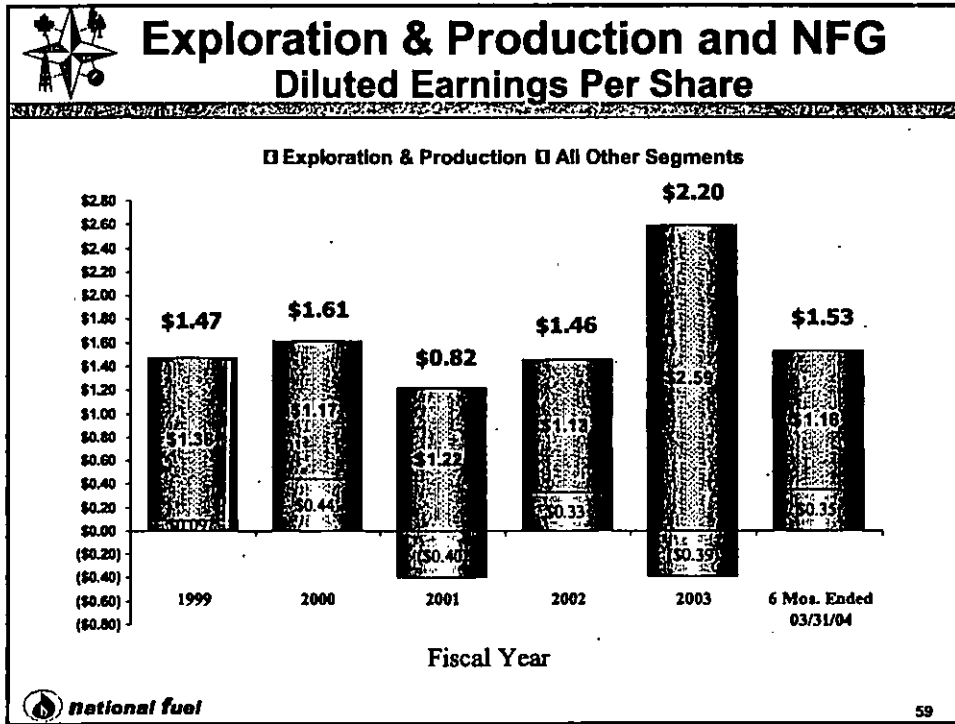


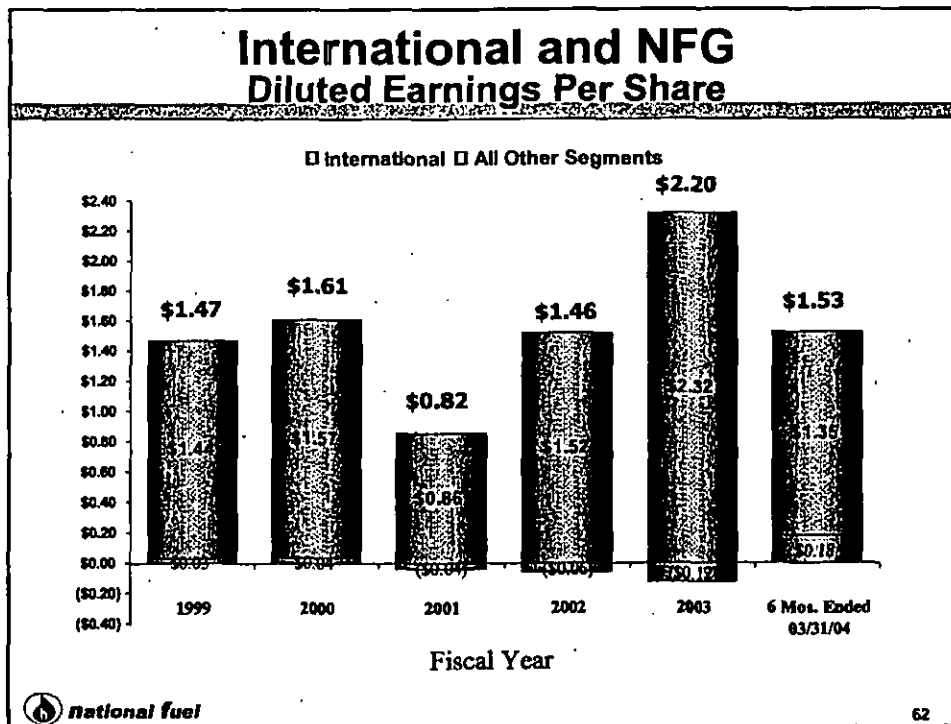
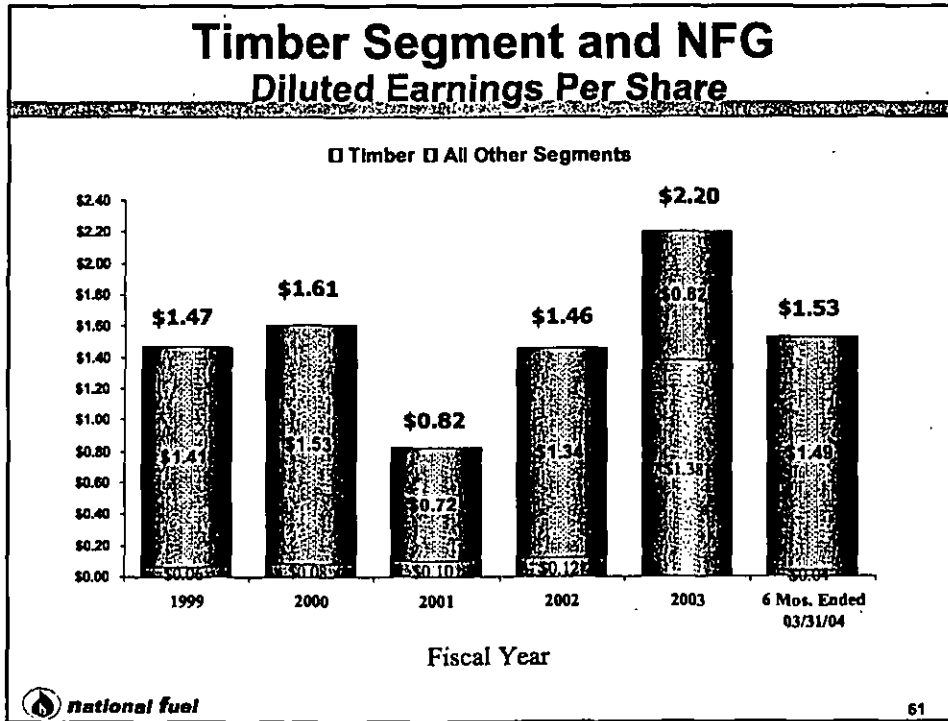


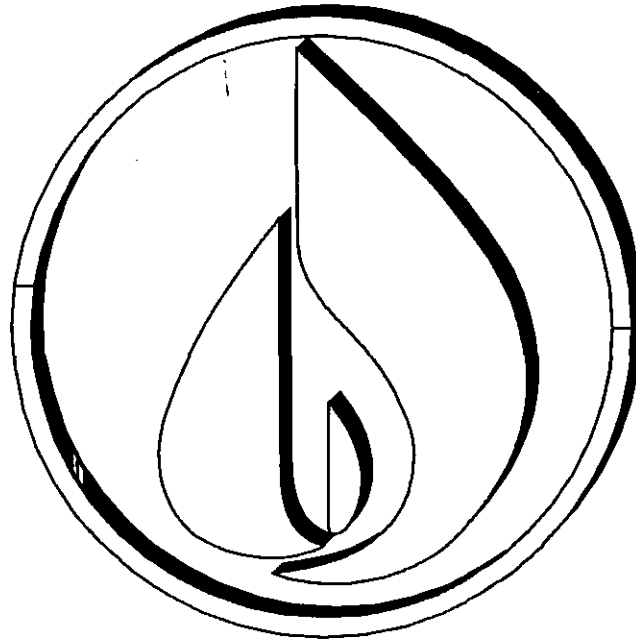












National Fuel Gas

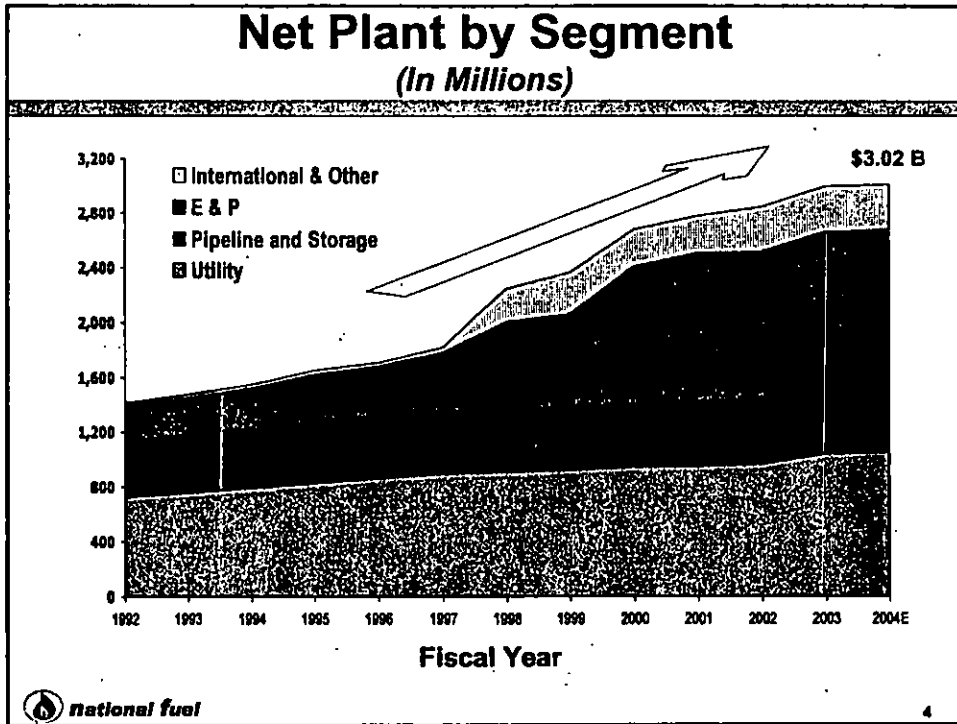
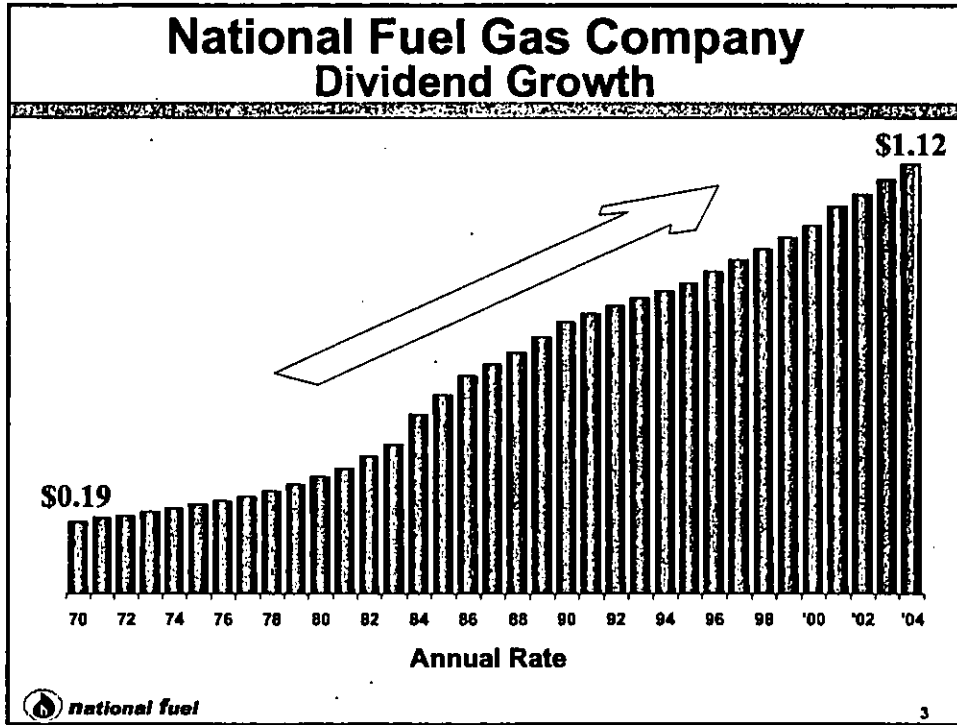
**INGAA Securities Analyst Conference
Calgary Alberta, Canada
July 2004**

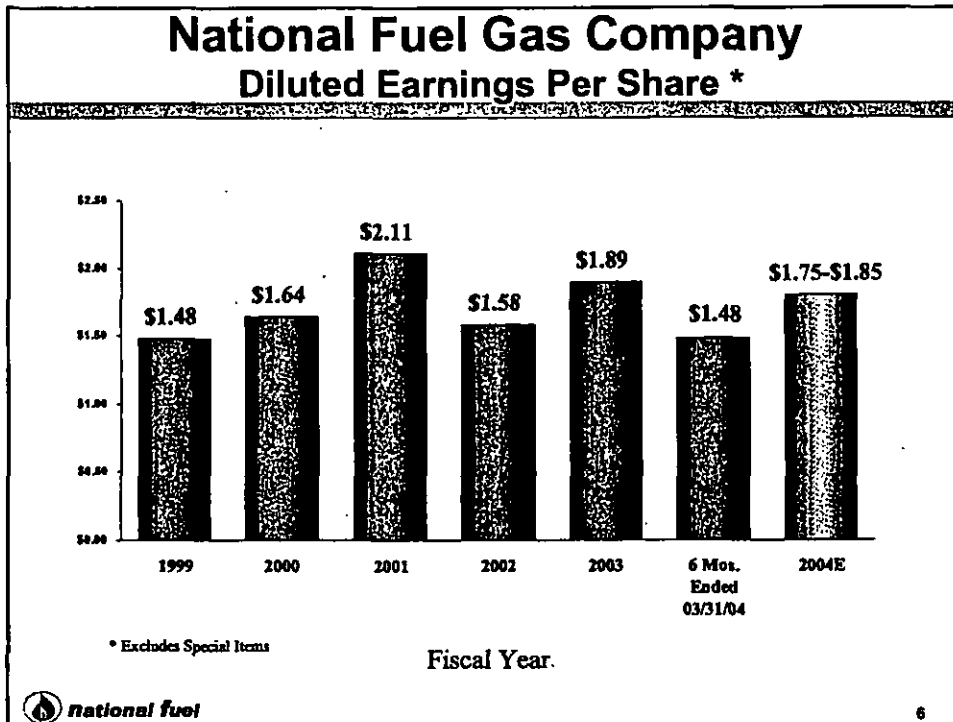
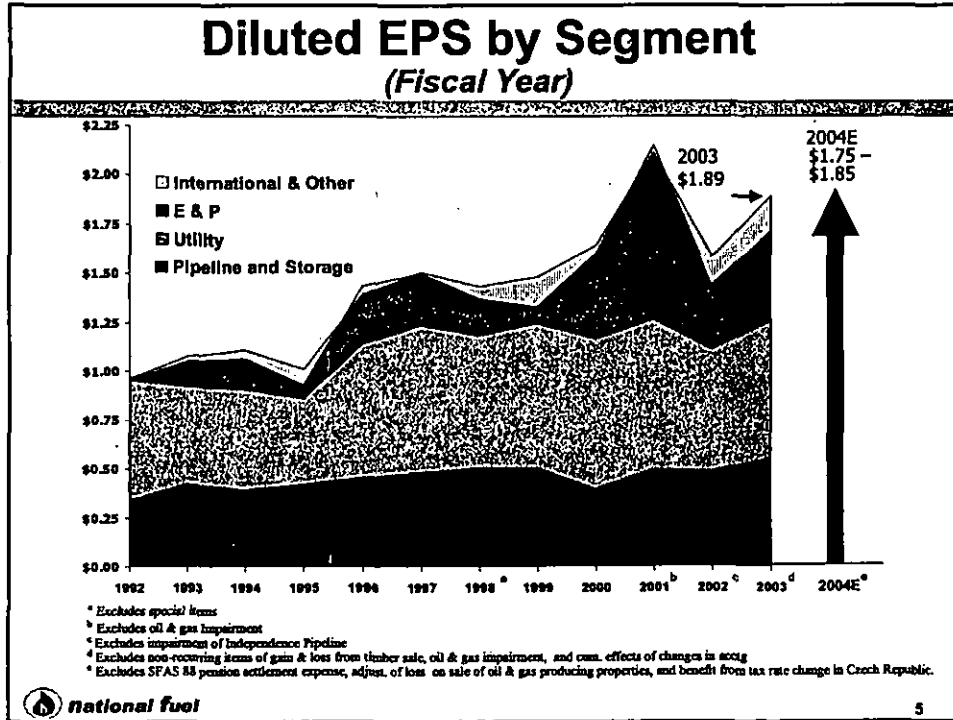
Safe Harbor

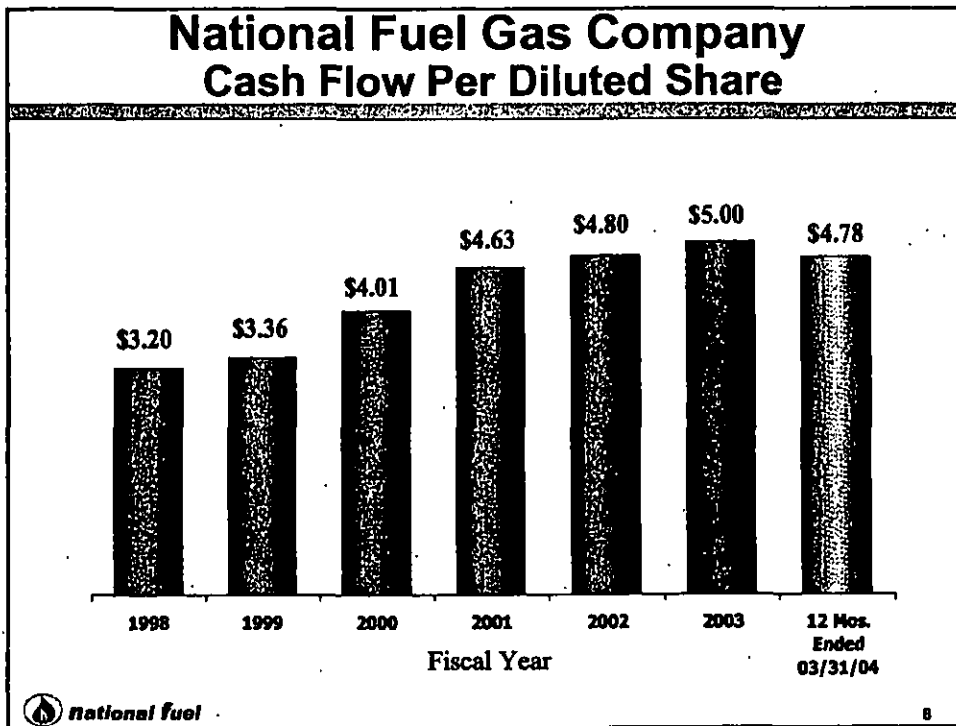
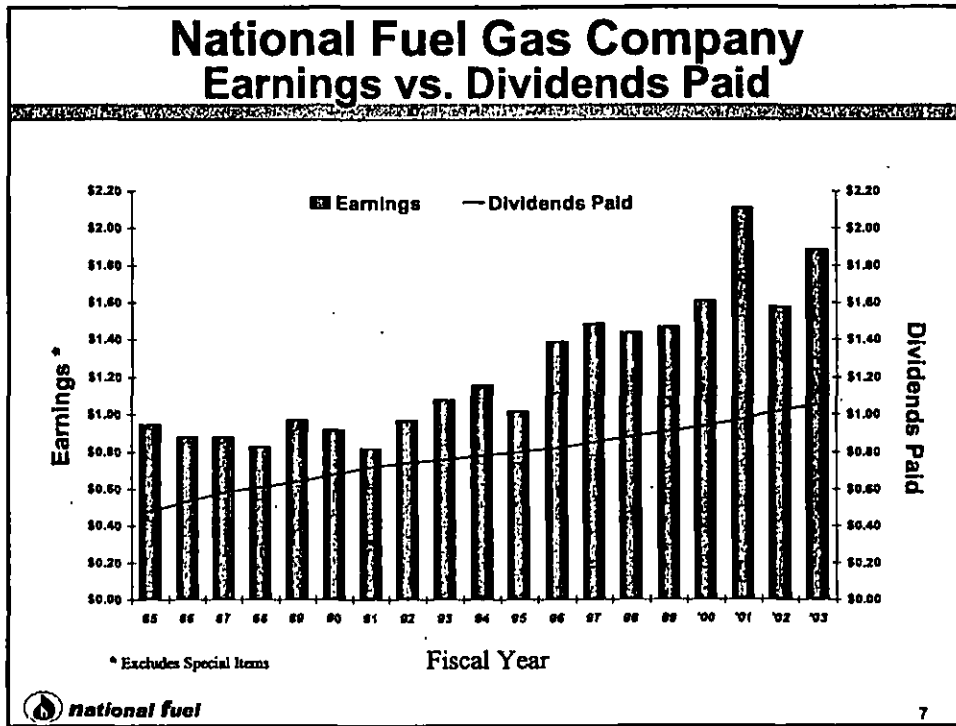
NOTE: This presentation contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements concerning plans, objectives, goals, projections, strategies and future events or performance, other statements that are not statements of historical fact, and statements identified by words such as "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects" or words of similar meaning. While National Fuel's expectations, beliefs and projections are made in good faith and are believed to have a reasonable basis, actual results may differ materially. You may refer to National Fuel's most recent Form 10-Q for a listing of important risk factors you should consider. In addition, this presentation contains certain non-GAAP financial measures. For slides that contain non-GAAP financial measures, slides containing the most directly comparable GAAP financial measures are provided at the end of this presentation, followed by reconciliations.

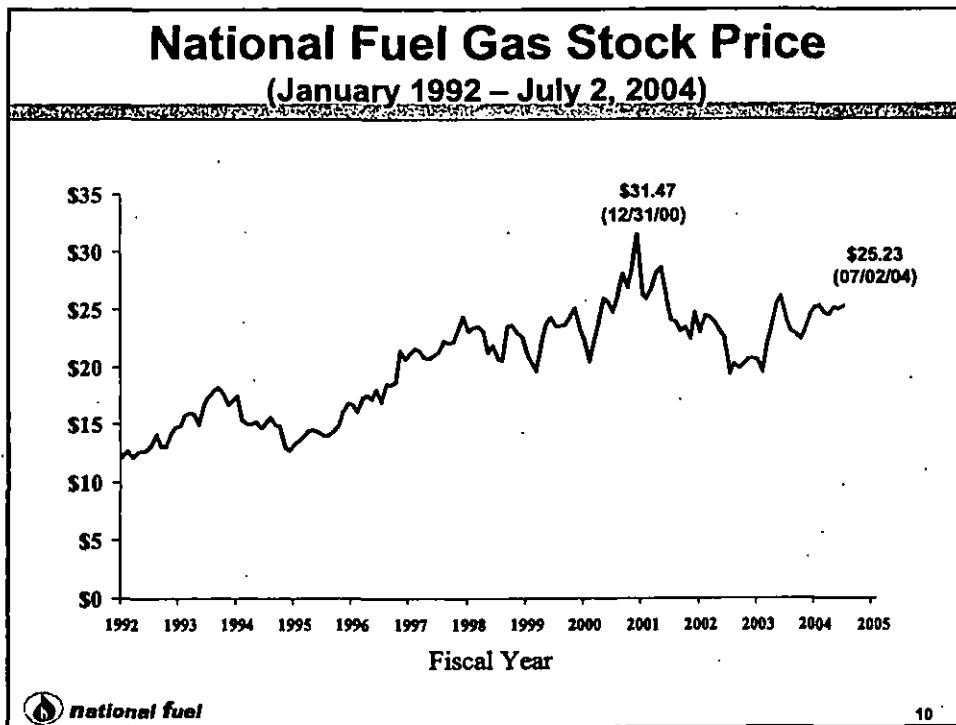
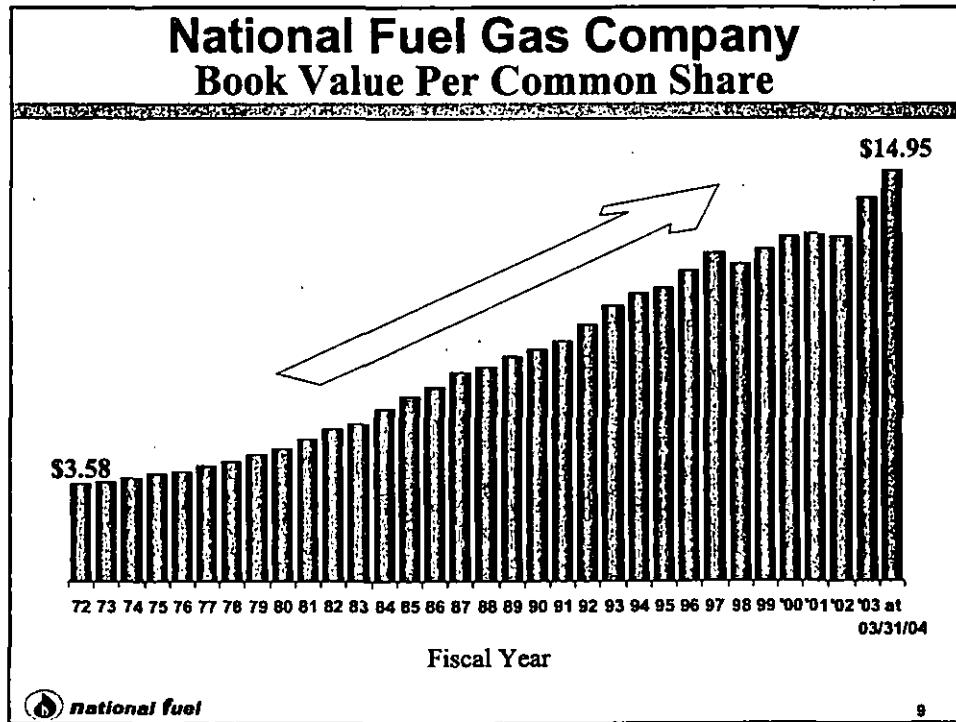
National Fuel Gas Company

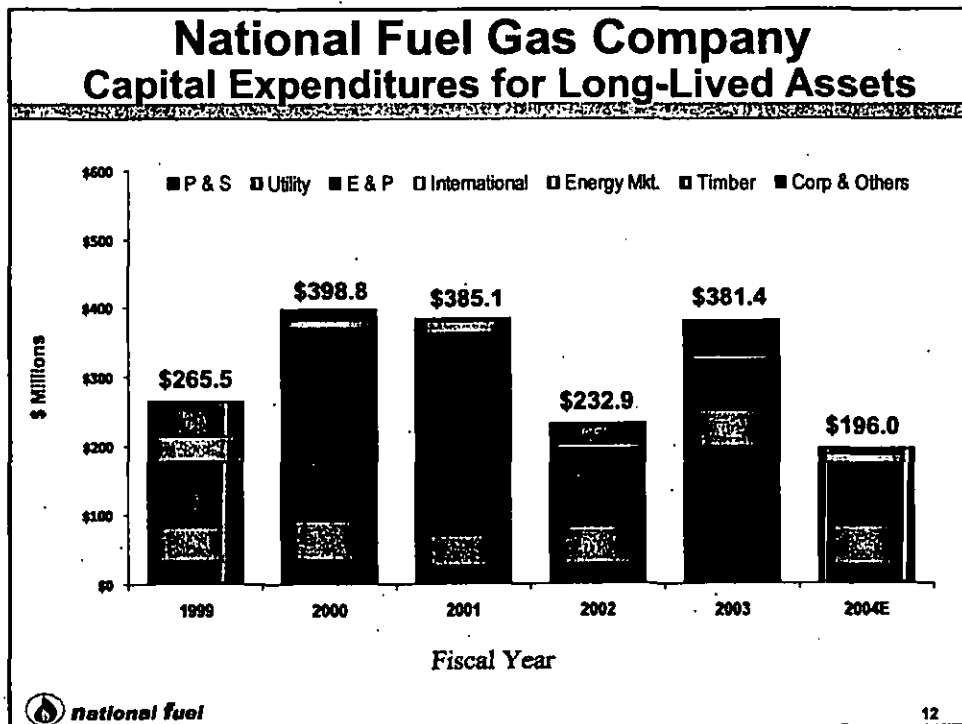
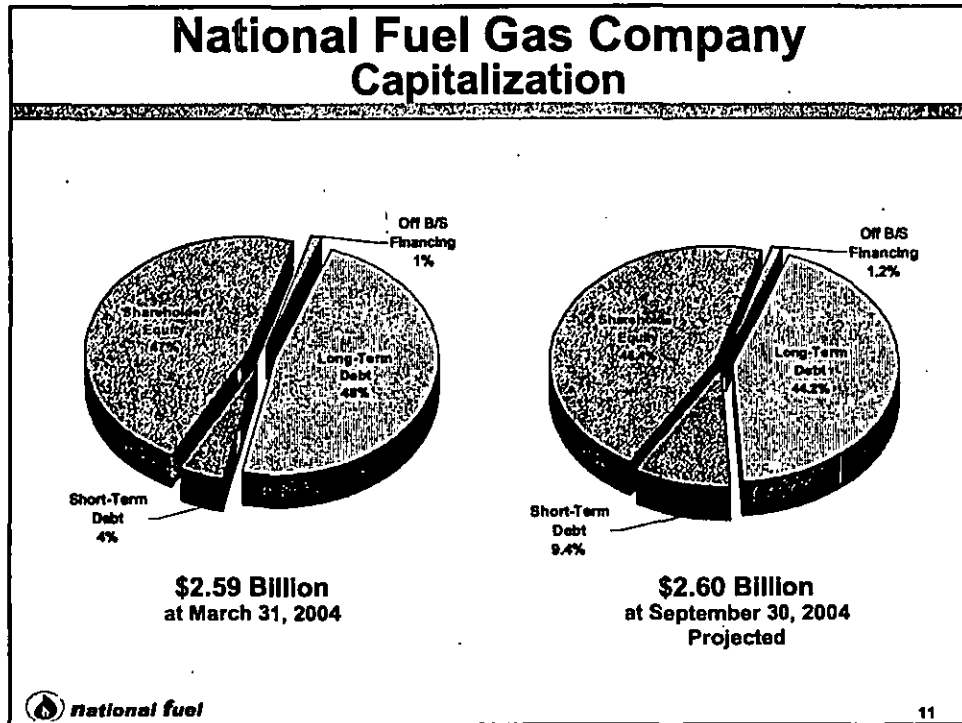
Corporate Objective
Grow shareholder value
through timely
investments in the energy
industry











National Fuel Gas Company Lines Of Credit

- **Bilateral Credit Facilities (6 Banks)
Aggregate of \$400 MM**

- **Commercial Paper Program (3 Dealers) backed
by Committed Credit Facility Totaling \$220.0 MM**


- **Of the \$220.0 MM Committed Facility:**
 - ❖ \$110.0 MM is Committed Through September 26, 2004
 - ❖ \$110.0 MM is Committed Through September 30, 2005

National Fuel Gas Company Capital Markets Financing

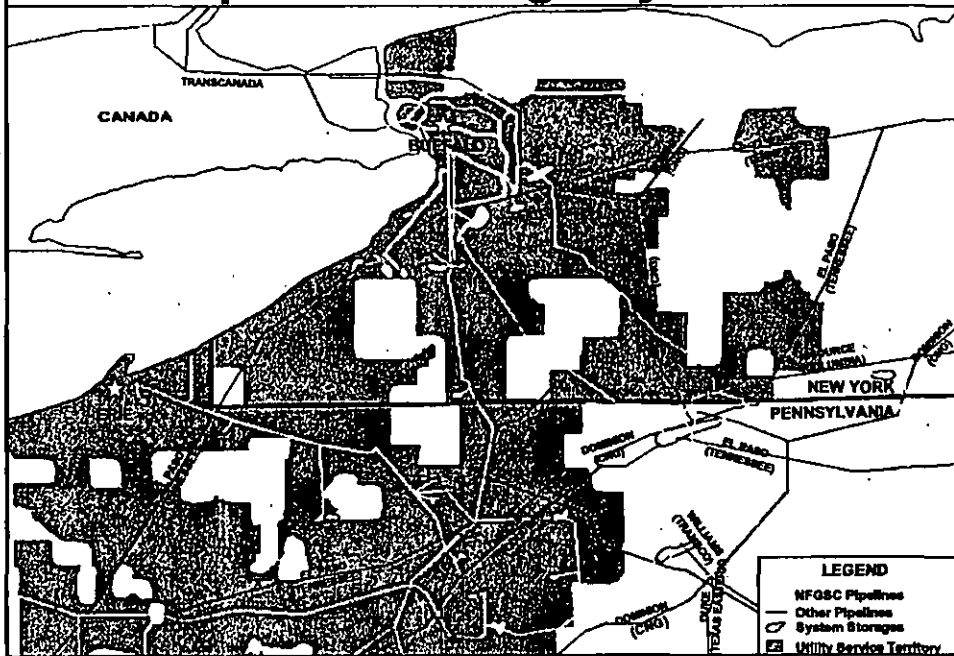
Maturity Date	Description	Principal Amount (\$000)
August 2004	6.82% Medium-Term Note	\$100,000
May 2008	6.303% Medium-Term Note	\$200,000

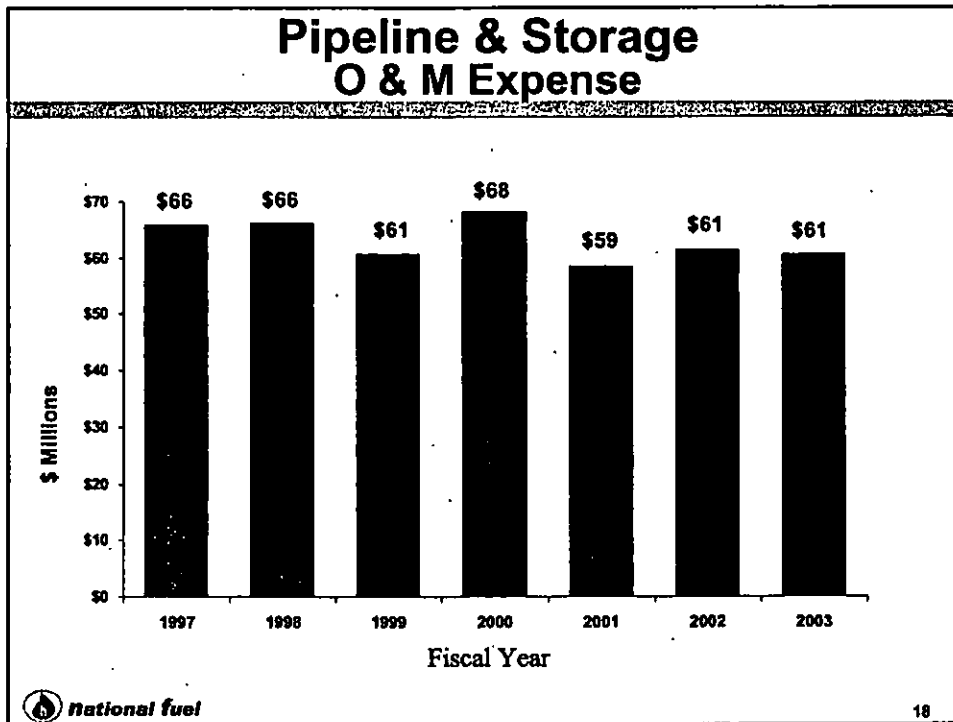
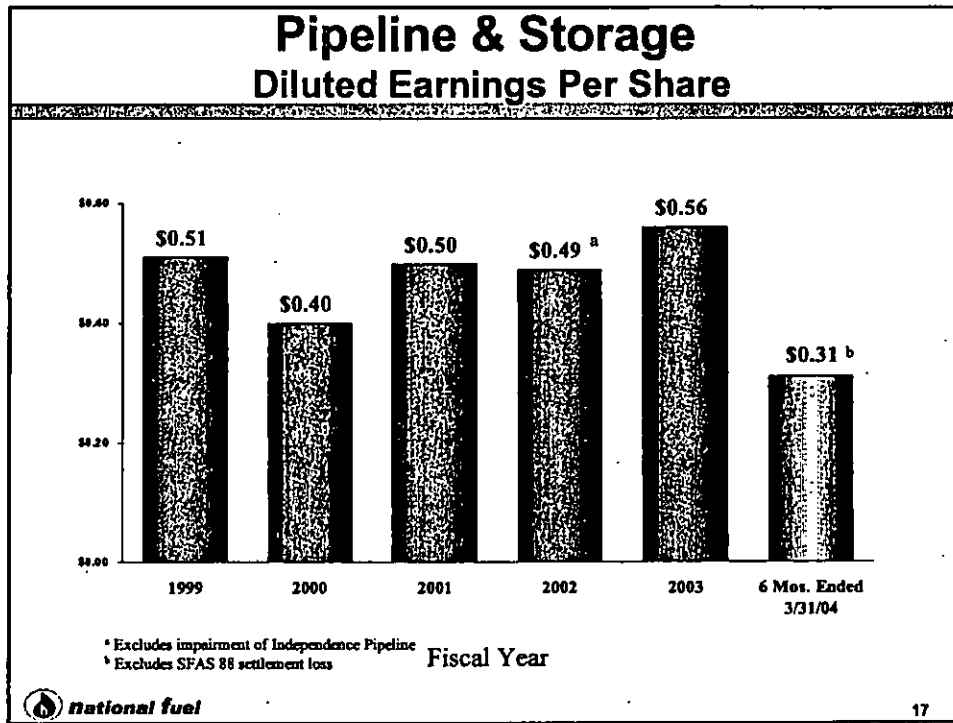
NFG Debt Ratings at March 31, 2004

	Standard & Poor's	Moody's	Fitch, Inc.
Long-Term Debt	BBB+	A-3	A-
Outlook	Stable	Negative	Stable
Commercial Paper	A-2	P-2	F-2

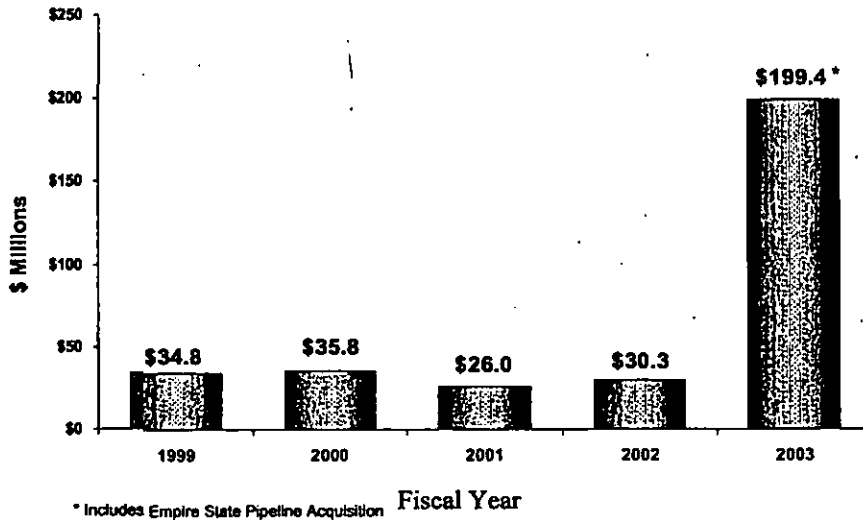
 15

Pipeline/Storage System

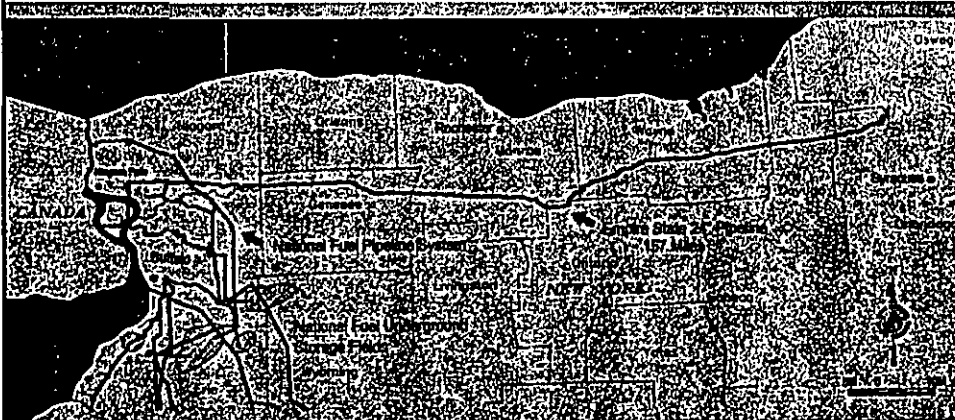




Pipeline & Storage Total Expenditures for Long-lived Assets



Empire State Pipeline



- ◆ 157 Mile, 24" Pipeline, 525 MMcf/d Design Capacity
- ◆ 10 Meter Stations, No Compression Facilities After Chippewa, Ontario
- ◆ Constructed 1992; In Service Since 1993
- ◆ Purchased 02/07/03 for \$240 MM, Includes \$60 MM Assumed Debt
- ◆ Intrastate Pipeline, NYPSC Regulated



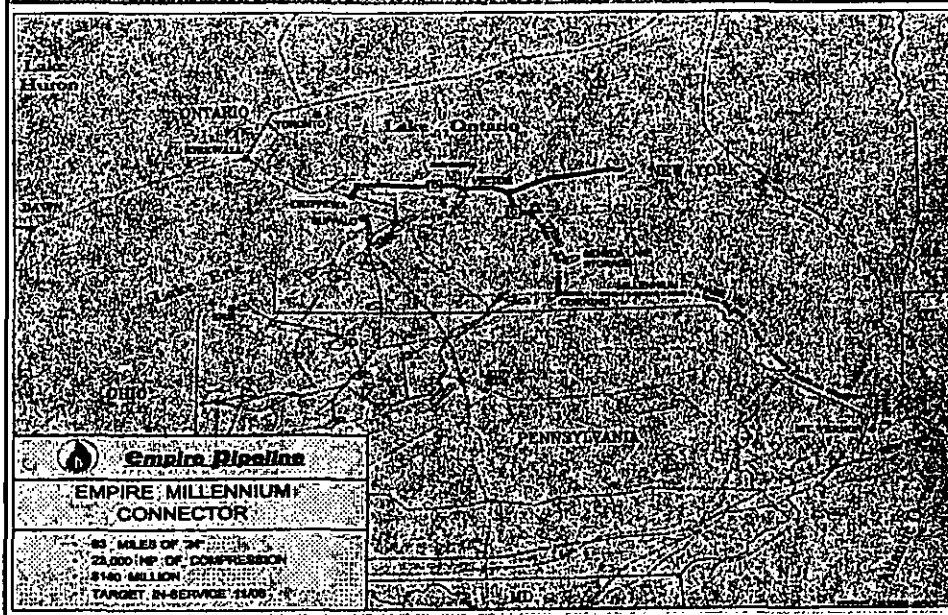
Current Expansion Opportunities

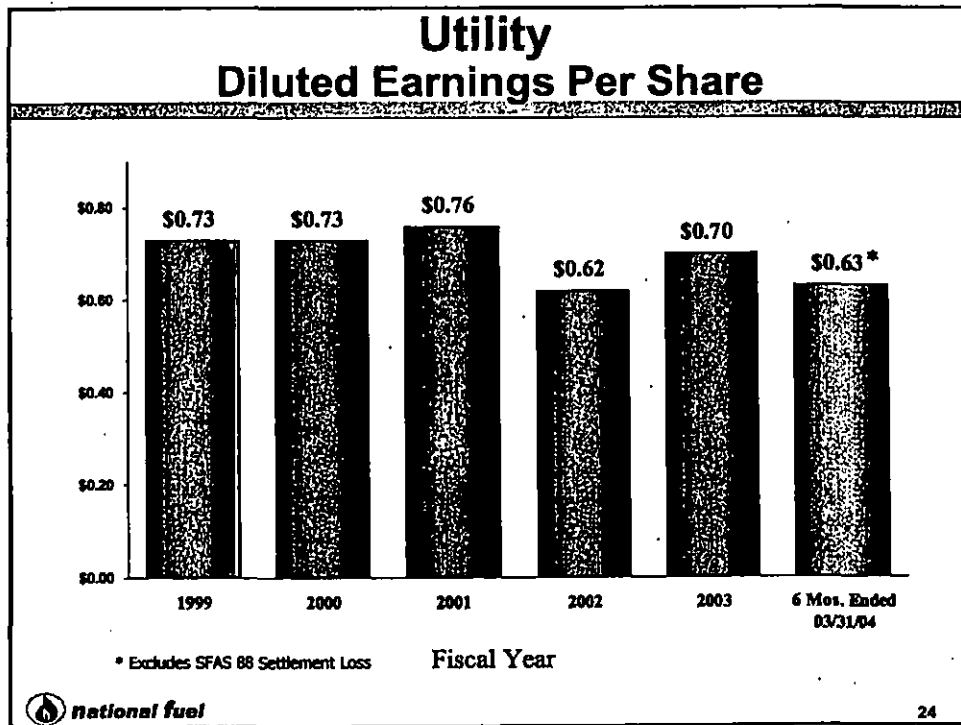
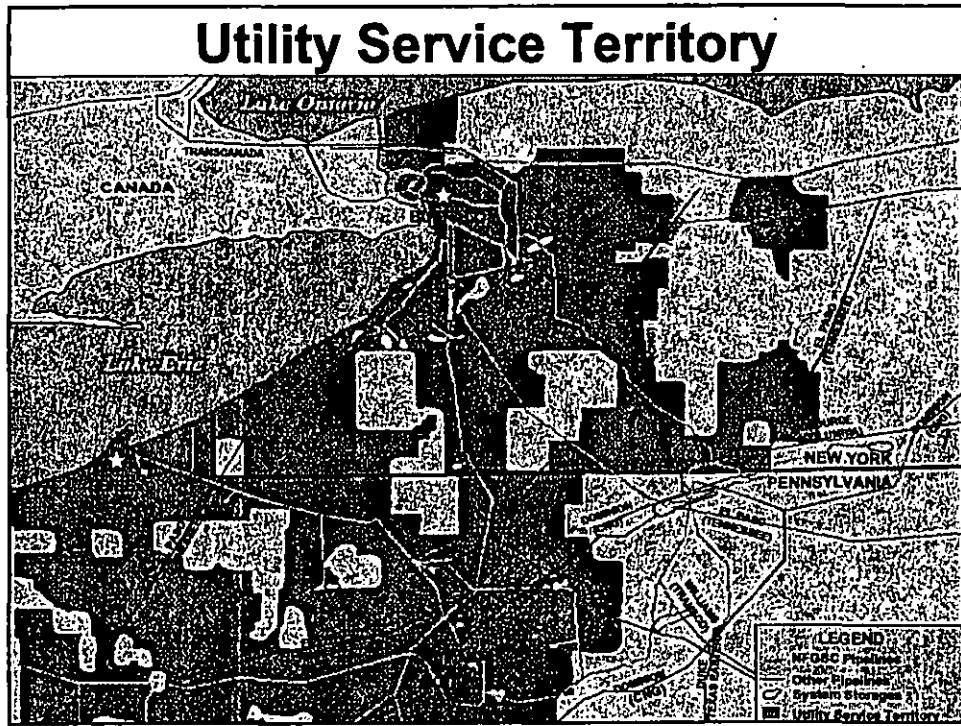
Empire

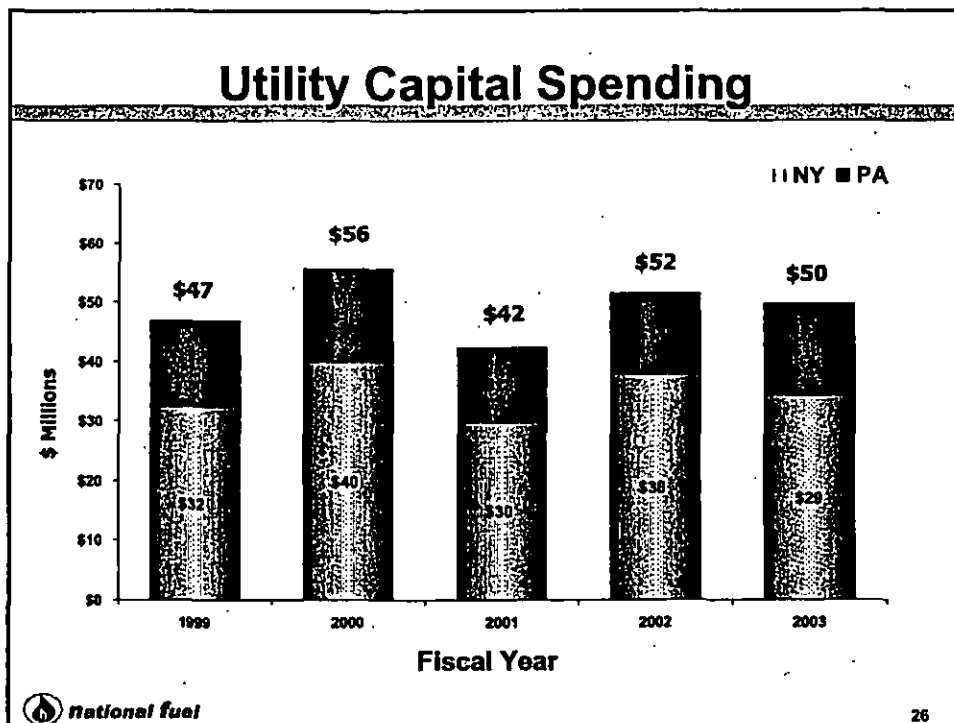
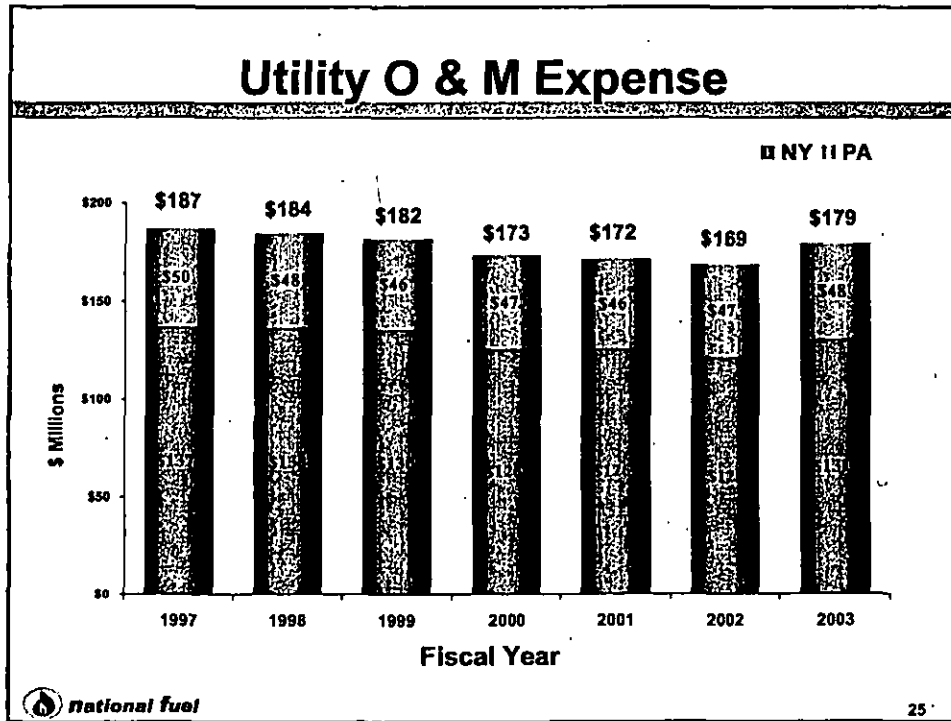
- ✓ Millennium Connection
- ✓ Seneca Lake Storage
- ✓ Additional Interconnects



Empire – Millennium Connector







Utility Regulatory Rate Mechanisms

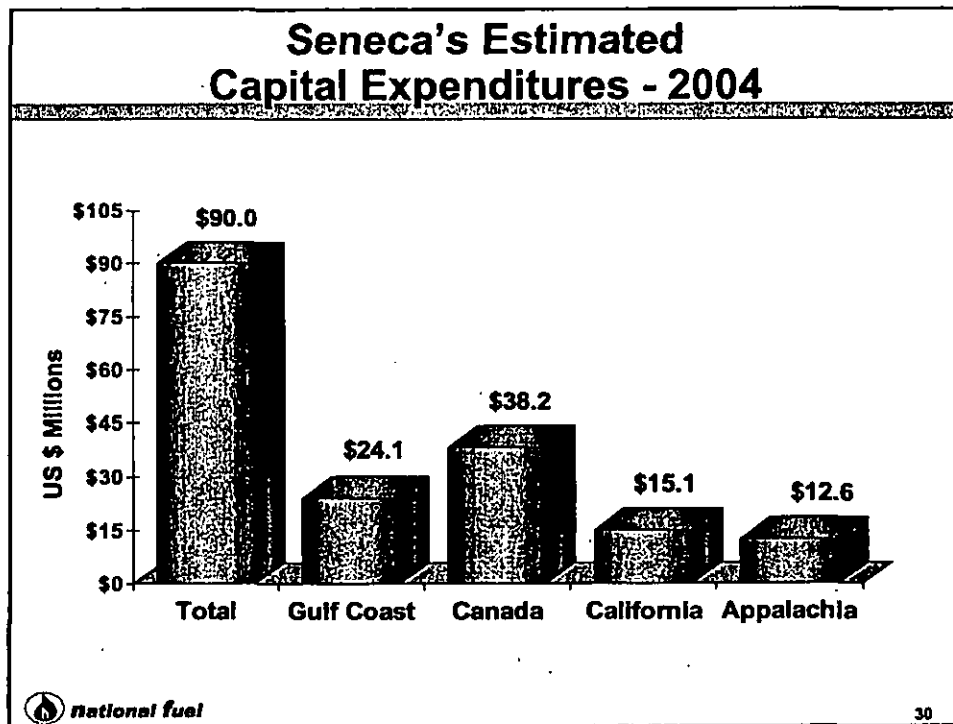
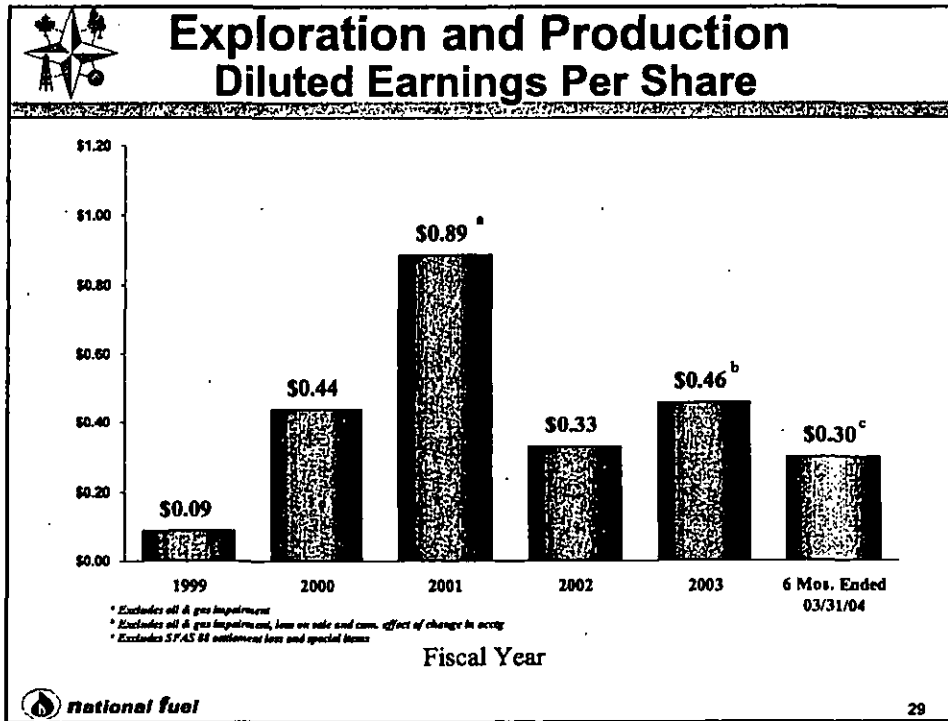
➤ New York

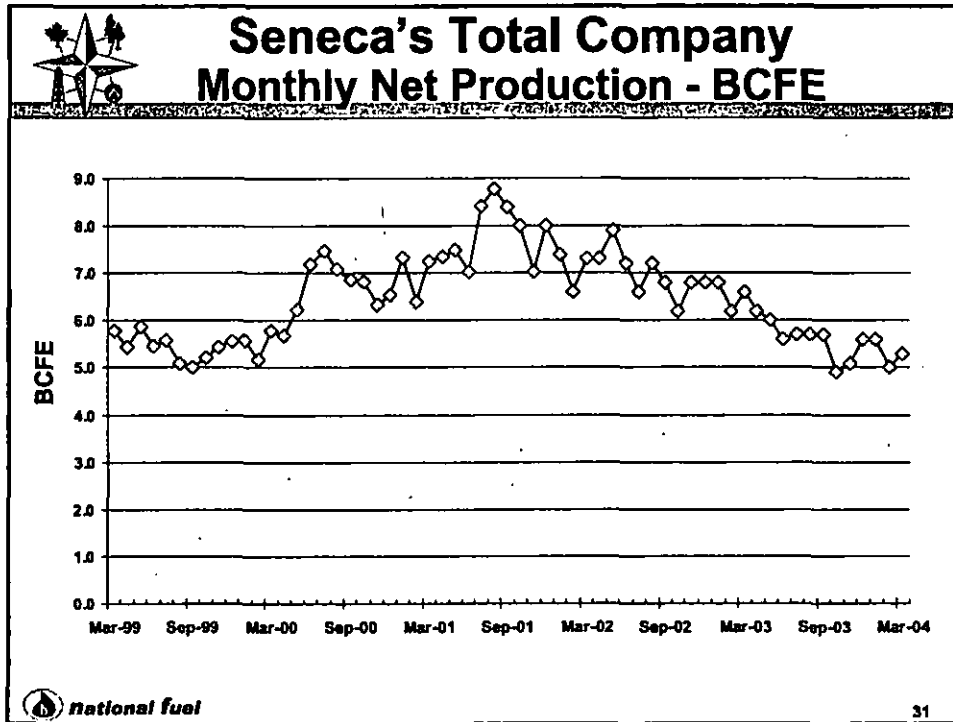
- ❖ Weather Normalization Clause
- ❖ 90/10 Symmetrical Sharing of Revenue Variance for Large Industrial Customers
 - ✓ \$25 Million in Rates for This Class
- ❖ Trackers for:
 - ✓ Gas Costs
 - ✓ Pension
 - ✓ Post Retirement Benefits
- ❖ 85/15 (Company) Sharing with Customers, Profits from Off-System Sales of Gas & Release of Upstream Pipeline Capacity

Utility Regulatory Rate Mechanisms

➤ Pennsylvania

- ❖ Trackers for:
 - ✓ Gas Costs
 - ✓ Pension
 - ✓ Post Retirement Benefits
- ❖ 75/25 (Company) Sharing with Customers, Profits from Off-System Sales of Gas & Release of Upstream Pipeline Capacity





Exploration and Production Total Reserves by Division (9/30/03)

Division	Reserves (BCFE)	% PDP
East	82.0	100%
West	453.2	65%
Gulf	68.0	59%
Canada	66.5	77%

Total Reserves: 669.7 BCFE
% of Reserves PDP: 70%
% of Reserves PUD: 25%

All Seneca Reserves are Audited by R.E. Davis & Assoc.

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