NATIONAL FUEL GAS CO
Form 10-Q
May 06, 2011

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

**FORM 10-Q**
þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2011**
**OR**
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from__________ to __________**
**Commission File Number 1-3880**

**NATIONAL FUEL GAS COMPANY**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **New Jersey** | **13-1086010** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **6363 Main Street Williamsville, New York** | **14221** |
| (Address of principal executive offices) | (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 þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

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, 2011: 82,690,940 shares.

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## GLOSSARY OF TERMS

Frequently used abbreviations, acronyms, or terms used in this report:

| | |
|---|---|
| ***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 |
| Distribution Corporation | National Fuel Gas Distribution Corporation |
| Empire | Empire Pipeline, Inc. |
| ESNE | Energy Systems North East, LLC |
| Highland | Highland Forest Resources, Inc. |
| Horizon | Horizon Energy Development, Inc. |
| Horizon B.V. | Horizon Energy Development B.V. |
| Horizon LFG | Horizon LFG, Inc. |
| Horizon Power | Horizon Power, Inc. |
| Midstream Corporation | National Fuel Gas Midstream Corporation |
| 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 |
| | |
| ***Regulatory Agencies*** | |
| EPA | United States Environmental Protection Agency |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| NYDEC | New York State Department of Environmental Conservation |
| NYPSC | State of New York Public Service Commission |
| PaPUC | Pennsylvania Public Utility Commission |
| SEC | Securities and Exchange Commission |
| | |
| ***Other*** | |
| 2010 Form 10-K | The Company s Annual Report on Form 10-K for the year ended September 30, 2010 |
| Bbl | Barrel (of oil) |
| Bcf | Billion cubic feet (of natural gas) |
| Bcfe (or Mcfe) represents Bcf (or Mcf) Equivalent | The total heat value (Btu) of natural gas and oil expressed as a volume of natural gas. The Company uses a conversion formula of 1 barrel of oil = 6 Mcf of natural gas. |
| 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. |
| 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. |
| Development costs | Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. |
| Dth | Decatherm; 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. |

**GLOSSARY OF TERMS (Cont.)**

| | |
|---|---|
| Exchange Act | Securities Exchange Act of 1934, as amended |
| Expenditures for long-lived assets | Includes capital expenditures, stock acquisitions and/or investments in partnerships. |
| Exploration costs | Costs incurred in identifying areas that may warrant examination, as well as costs incurred in examining specific areas, including drilling exploratory wells. |
| 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. |
| LIBOR | London Interbank Offered Rate |
| LIFO | Last-in, first-out |
| Marcellus Shale | A Middle Devonian-age geological shale formation that is present nearly a mile or more below the surface in the Appalachian region of the United States, including much of Pennsylvania and southern New York. |
| Mbbl | Thousand barrels (of oil) |
| Mcf | Thousand cubic feet (of natural gas) |
| MD&A | Management s Discussion and Analysis of Financial Condition and Results of Operations |
| MDth | Thousand decatherms (of natural gas) |
| MMBtu | Million British thermal units |
| MMcf | Million cubic feet (of natural gas) |
| NGA | The Natural Gas Act of 1938, as amended; the federal law regulating interstate natural gas pipeline and storage companies, among other things, codified beginning at 15 U.S.C. Section 717. |
| NYMEX | New York Mercantile Exchange. An exchange which maintains a futures market for crude oil and natural gas. |
| Open Season | A bidding procedure used by pipelines to allocate firm transportation or storage capacity among prospective shippers, in which all bids submitted during a defined time period are evaluated as if they had been submitted simultaneously. |
| PCB | Polychlorinated Biphenyl |
| 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. |
| Reserves | The unproduced but recoverable oil and/or gas in place in a formation which has been proven by production. |

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**GLOSSARY OF TERMS (Concl.)**

| | |
|---|---|
| Restructuring | Generally referring to partial deregulation of the pipeline and/or 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. |
| Revenue decoupling mechanism | A rate mechanism which adjusts customer rates to render a utility financially indifferent to throughput decreases resulting from conservation. |
| S&P | Standard & Poor s Rating Service |
| SAR | Stock appreciation right |
| 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. |
| VEBA | Voluntary Employees Beneficiary Association |
| 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, customer rates are adjusted upward in order to recover projected operating costs. If temperatures during the measured period are colder than normal, customer rates are adjusted downward so that only the projected operating costs will be recovered. |

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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, statements regarding future prospects, plans, objectives, goals, projections, estimates of oil and gas quantities, strategies, future events or performance and underlying assumptions, capital structure, anticipated capital expenditures, completion of construction and other projects, projections for pension and other post-retirement benefit obligations, impacts of the adoption of new accounting rules, and possible outcomes of litigation or regulatory proceedings, as well as statements that are identified by the use of the words anticipates, estimates, expects, forecasts intends, plans, predicts, projects, believes, seeks, will, may, and similar expressions.

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**Part I. Financial Information**
**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, 2011 | 2010 |
|---|---|---|
| **INCOME** | | |
| **Operating Revenues** | $ 660,881 | $ 667,980 |
| **Operating Expenses** | | |
| Purchased Gas | 306,595 | 332,923 |
| Operation and Maintenance | 116,721 | 116,261 |
| Property, Franchise and Other Taxes | 23,798 | 20,440 |
| Depreciation, Depletion and Amortization | 60,011 | 46,725 |
| | 507,125 | 516,349 |
| **Operating Income** | 153,756 | 151,631 |
| **Other Income (Expense):** | | |
| Income from Unconsolidated Subsidiaries | 479 | 672 |
| Gain on Sale of Unconsolidated Subsidiaries | 50,879 | |
| Interest Income | 68 | 326 |
| Other Income | 1,945 | 1,266 |
| Interest Expense on Long-Term Debt | (17,926) | (22,061) |
| Other Interest Expense | (1,454) | (2,002) |
| **Income from Continuing Operations Before Income Taxes** | 187,747 | 129,832 |
| Income Tax Expense | 72,136 | 49,958 |
| **Income from Continuing Operations** | 115,611 | 79,874 |
| **Income from Discontinued Operations, Net of Tax** | | 554 |
| **Net Income Available for Common Stock** | 115,611 | 80,428 |
| **EARNINGS REINVESTED IN THE BUSINESS** | | |
| Balance at January 1 | 1,093,398 | 985,663 |
| | 1,209,009 | 1,066,091 |
| | (28,478) | (27,222) |

| | | |
|---|---|---|
| Dividends on Common Stock (2011 - $0.345 per share; 2010 - $0.335 per share) | | |
| **Balance at March 31** | $ 1,180,531 | $ 1,038,869 |
| **Earnings Per Common Share:** | | |
| Basic: | | |
| Income from Continuing Operations | $ 1.40 | $ 0.98 |
| Income from Discontinued Operations | | 0.01 |
| **Net Income Available for Common Stock** | $ 1.40 | $ 0.99 |
| Diluted: | | |
| Income from Continuing Operations | $ 1.38 | $ 0.96 |
| Income from Discontinued Operations | | 0.01 |
| **Net Income Available for Common Stock** | $ 1.38 | $ 0.97 |
| **Weighted Average Common Shares Outstanding:** | | |
| Used in Basic Calculation | 82,400,851 | 81,175,261 |
| Used in Diluted Calculation | 83,673,977 | 82,569,323 |

See Notes to Condensed Consolidated Financial Statements

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

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, 2011 | 2010 |
|---|---|---|
| **INCOME** | | |
| **Operating Revenues** | $ 1,111,829 | $ 1,122,115 |
| **Operating Expenses** | | |
| Purchased Gas | 469,633 | 504,213 |
| Operation and Maintenance | 214,171 | 210,031 |
| Property, Franchise and Other Taxes | 43,534 | 39,090 |
| Depreciation, Depletion and Amortization | 113,324 | 91,513 |
| | 840,662 | 844,847 |
| **Operating Income** | 271,167 | 277,268 |
| **Other Income (Expense):** | | |
| Income (Loss) from Unconsolidated Subsidiaries | (621) | 1,073 |
| Gain on Sale of Unconsolidated Subsidiaries | 50,879 | |
| Interest Income | 951 | 1,480 |
| Other Income | 2,938 | 1,622 |
| Interest Expense on Long-Term Debt | (38,118) | (44,124) |
| Other Interest Expense | (2,855) | (3,379) |
| **Income from Continuing Operations Before Income Taxes** | 284,341 | 233,940 |
| Income Tax Expense | 110,187 | 89,841 |
| **Income from Continuing Operations** | 174,154 | 144,099 |
| **Income from Discontinued Operations, Net of Tax** | | 828 |
| **Net Income Available for Common Stock** | 174,154 | 144,927 |
| **EARNINGS REINVESTED IN THE BUSINESS** | | |
| Balance at October 1 | 1,063,262 | 948,293 |
| | 1,237,416 | 1,093,220 |
| Dividends on Common Stock (2011 - $0.69 per share; 2010 - $0.67 per share) | (56,885) | (54,351) |

| | | |
|---|---|---|
| **Balance at March 31** | $ 1,180,531 | $ 1,038,869 |
| | | |
| **Earnings Per Common Share:** | | |
| Basic: | | |
| Income from Continuing Operations | $ 2.12 | $ 1.78 |
| Income from Discontinued Operations | | 0.01 |
| **Net Income Available for Common Stock** | $ 2.12 | $ 1.79 |
| Diluted: | | |
| Income from Continuing Operations | $ 2.08 | $ 1.75 |
| Income from Discontinued Operations | | 0.01 |
| **Net Income Available for Common Stock** | $ 2.08 | $ 1.76 |
| **Weighted Average Common Shares Outstanding:** | | |
| Used in Basic Calculation | 82,311,162 | 80,866,311 |
| Used in Diluted Calculation | 83,561,775 | 82,347,254 |

See Notes to Condensed Consolidated Financial Statements

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

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

| (Thousands of Dollars) | March 31, 2011 | September 30, 2010 |
|---|---|---|
| ASSETS | | |
| **Property, Plant and Equipment** | $6,019,453 | $5,637,498 |
| Less Accumulated Depreciation, Depletion and Amortization | 2,285,313 | 2,187,269 |
| | 3,734,140 | 3,450,229 |
| **Current Assets** | | |
| Cash and Temporary Cash Investments | 144,767 | 397,171 |
| Hedging Collateral Deposits | 61,826 | 11,134 |
| Receivables Net of Allowance for Uncollectible Accounts of $44,132 and $30,961, Respectively | 227,898 | 132,136 |
| Unbilled Utility Revenue | 48,551 | 20,920 |
| Gas Stored Underground | 11,927 | 48,584 |
| Materials and Supplies at average cost | 31,707 | 24,987 |
| Other Current Assets | 58,522 | 115,969 |
| Deferred Income Taxes | 34,917 | 24,476 |
| | 620,115 | 775,377 |
| **Other Assets** | | |
| Recoverable Future Taxes | 152,017 | 149,712 |
| Unamortized Debt Expense | 11,547 | 12,550 |
| Other Regulatory Assets | 529,420 | 542,801 |
| Deferred Charges | 5,960 | 9,646 |
| Other Investments | 83,744 | 77,839 |
| Investments in Unconsolidated Subsidiaries | 1,443 | 14,828 |
| Goodwill | 5,476 | 5,476 |
| Fair Value of Derivative Financial Instruments | 37,708 | 65,184 |
| Other | 1,747 | 1,983 |
| | 829,062 | 880,019 |
| **Total Assets** | $5,183,317 | $5,105,625 |

See Notes to Condensed Consolidated Financial Statements

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

National Fuel Gas Company
Consolidated Balance Sheets
(Unaudited)

| (Thousands of Dollars) | March 31, 2011 | September 30, 2010 |
|---|---|---|
| CAPITALIZATION AND LIABILITIES | | |
| **Capitalization:** | | |
| **Comprehensive Shareholders Equity** | | |
| Common Stock, $1 Par Value Authorized - 200,000,000 Shares; Issued And Outstanding 82,544,193 Shares and 82,075,470 Shares, Respectively | $ 82,544 | $ 82,075 |
| Paid in Capital | 645,961 | 645,619 |
| Earnings Reinvested in the Business | 1,180,531 | 1,063,262 |
| Total Common Shareholder Equity Before Items of Other Comprehensive Loss | 1,909,036 | 1,790,956 |
| Accumulated Other Comprehensive Loss | (92,521) | (44,985) |
| **Total Comprehensive Shareholders Equity** | 1,816,515 | 1,745,971 |
| **Long-Term Debt, Net of Current Portion** | 899,000 | 1,049,000 |
| **Total Capitalization** | 2,715,515 | 2,794,971 |
| **Current and Accrued Liabilities** | | |
| Notes Payable to Banks and Commercial Paper | | |
| Current Portion of Long-Term Debt | 150,000 | 200,000 |
| Accounts Payable | 122,911 | 89,677 |
| Amounts Payable to Customers | 25,475 | 38,109 |
| Dividends Payable | 28,478 | 28,316 |
| Interest Payable on Long-Term Debt | 25,512 | 30,512 |
| Customer Advances | 2,700 | 27,638 |
| Customer Security Deposits | 18,064 | 18,320 |
| Other Accruals and Current Liabilities | 160,363 | 71,592 |
| Fair Value of Derivative Financial Instruments | 70,115 | 20,160 |
| | 603,618 | 524,324 |
| **Deferred Credits** | | |
| Deferred Income Taxes | 886,824 | 800,758 |
| Taxes Refundable to Customers | 69,592 | 69,585 |
| Unamortized Investment Tax Credit | 2,937 | 3,288 |
| Cost of Removal Regulatory Liability | 131,958 | 124,032 |
| Other Regulatory Liabilities | 88,825 | 89,334 |
| Pension and Other Post-Retirement Liabilities | 434,488 | 446,082 |
| Asset Retirement Obligations | 102,094 | 101,618 |
| Other Deferred Credits | 147,466 | 151,633 |

| | | |
|---|---|---|
| | 1,864,184 | 1,786,330 |
| **Commitments and Contingencies** | | |
| **Total Capitalization and Liabilities** | $5,183,317 | $5,105,625 |

See Notes to Condensed Consolidated Financial Statements

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

National Fuel Gas Company
Consolidated Statements of Cash Flows
(Unaudited)

| | Six Months Ended March 31, | |
|---|---|---|
| (Thousands of Dollars) | 2011 | 2010 |
| **OPERATING ACTIVITIES** | | |
| Net Income Available for Common Stock | $ 174,154 | $ 144,927 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Gain on Sale of Unconsolidated Subsidiaries | (50,879) | |
| Depreciation, Depletion and Amortization | 113,324 | 91,846 |
| Deferred Income Taxes | 106,510 | 41,795 |
| (Income) Loss from Unconsolidated Subsidiaries, Net of Cash Distributions | 4,899 | 1,228 |
| Excess Tax Benefits Associated with Stock-Based Compensation Awards | | (13,437) |
| Other | 804 | 6,271 |
| Change in: | | |
| Hedging Collateral Deposits | (50,692) | (12,809) |
| Receivables and Unbilled Utility Revenue | (123,393) | (101,881) |
| Gas Stored Underground and Materials and Supplies | 30,144 | 37,932 |
| Prepayments and Other Current Assets | 57,447 | 31,318 |
| Accounts Payable | 33,234 | 12,178 |
| Amounts Payable to Customers | (12,634) | (41,442) |
| Customer Advances | (24,938) | (21,840) |
| Customer Security Deposits | (256) | 1,996 |
| Other Accruals and Current Liabilities | 93,473 | 90,499 |
| Other Assets | 15,710 | 11,285 |
| Other Liabilities | (23,685) | (535) |
| **Net Cash Provided by Operating Activities** | 343,222 | 279,331 |
| **INVESTING ACTIVITIES** | | |
| Capital Expenditures | (392,338) | (230,530) |
| Net Proceeds from Sale of Unconsolidated Subsidiaries | 59,365 | |
| Other | (3,097) | (115) |
| **Net Cash Used in Investing Activities** | (336,070) | (230,645) |
| **FINANCING ACTIVITIES** | | |
| Excess Tax Benefits Associated with Stock-Based Compensation Awards | | 13,437 |
| Reduction of Long-Term Debt | (200,000) | |
| Dividends Paid on Common Stock | (56,723) | (54,096) |
| Net Proceeds from Issuance (Repurchase) of Common Stock | (2,833) | 10,724 |
| **Net Cash Used in Financing Activities** | (259,556) | (29,935) |

| | | |
|---|---|---|
| **Net Increase (Decrease) in Cash and Temporary Cash Investments** | (252,404) | 18,751 |
| **Cash and Temporary Cash Investments at October 1** | 397,171 | 410,053 |
| **Cash and Temporary Cash Investments at March 31** | $ 144,767 | $ 428,804 |

See Notes to Condensed Consolidated Financial Statements

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of Dollars) | 2011 | 2010 |
| Net Income Available for Common Stock | $115,611 | $80,428 |
| Other Comprehensive Income (Loss), Before Tax: | | |
| Foreign Currency Translation Adjustment | | 47 |
| Unrealized Gain on Securities Available for Sale Arising During the Period | 897 | 1,158 |
| Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period | (40,844) | 27,633 |
| Reclassification Adjustment for Realized Gains on Derivative Financial Instruments in Net Income | (7,212) | (5,590) |
| Other Comprehensive Income (Loss), Before Tax | (47,159) | 23,248 |
| Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period | 337 | 438 |
| Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period | (16,778) | 11,310 |
| Reclassification Adjustment for Income Tax Expense on Realized Gains from Derivative Financial Instruments In Net Income | (2,847) | (2,300) |
| Income Taxes Net | (19,288) | 9,448 |
| Other Comprehensive Income (Loss) | (27,871) | 13,800 |
| Comprehensive Income | $ 87,740 | $94,228 |

| | Six Months Ended March 31, | |
|---|---|---|
| (Thousands of Dollars) | 2011 | 2010 |
| Net Income Available for Common Stock | $174,154 | $144,927 |
| Other Comprehensive Income (Loss), Before Tax: | | |
| Foreign Currency Translation Adjustment | 17 | 64 |
| Reclassification Adjustment for Realized Foreign Currency Transaction Loss in Net Income | 34 | |
| Unrealized Gain on Securities Available for Sale Arising During the Period | 3,438 | 445 |
| Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period | (67,980) | 22,780 |
| Reclassification Adjustment for Realized Gains on Derivative Financial Instruments in Net Income | (16,265) | (17,643) |

| | | |
|---|---|---|
| Other Comprehensive Income (Loss), Before Tax | (80,756) | 5,646 |
| Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period | 1,298 | 167 |
| Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period | (27,946) | 9,247 |
| Reclassification Adjustment for Income Tax Expense on Realized Gains from Derivative Financial Instruments In Net Income | (6,572) | (7,262) |
| Income Taxes Net | (33,220) | 2,152 |
| Other Comprehensive Income (Loss) | (47,536) | 3,494 |
| Comprehensive Income | $126,618 | $148,421 |

See Notes to Condensed Consolidated Financial Statements

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**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.

**Reclassification.** Certain prior year amounts have been reclassified to conform with current year presentation. This includes the reclassification of accrued capital expenditures of $55.5 million from Accounts Payable to Other Accruals and Current Liabilities on the Consolidated Balance Sheet at September 30, 2010. This reclassification did not impact the Consolidated Statement of Income or the Consolidated Statement of Cash Flows for any of the periods presented.

**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, 2010, 2009 and 2008 that are included in the Company s 2010 Form 10-K. The consolidated financial statements for the year ended September 30, 2011 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, 2011 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2011. 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. The Company s business segments are discussed more fully in Note 8 Business Segment Information.

**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.

At March 31, 2011, the Company accrued $43.9 million of capital expenditures in the Exploration and Production segment, the majority of which was in the Appalachian region. The Company also accrued $2.0 million of capital expenditures in the Pipeline and Storage segment at March 31, 2011. These amounts were excluded from the Consolidated Statement of Cash Flows at March 31, 2011 since they represent non-cash investing activities at that date. Accrued capital expenditures at March 31, 2011 are included in Other Accruals and Current Liabilities on the Consolidated Balance Sheet.

At September 30, 2010, the Company accrued $55.5 million of capital expenditures in the Exploration and Production segment, the majority of which was in the Appalachian region. This amount was excluded from the Consolidated Statement of Cash Flows at September 30, 2010 since it represented a non-cash investing activity at that date. These capital expenditures were paid during the quarter ended December 31, 2010 and have been included in the Consolidated Statement of Cash Flows for the six months ended March 31, 2011. Accrued capital expenditures at September 30, 2010 are included in Other Accruals and Current Liabilities on the Consolidated Balance Sheet.

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At March 31, 2010, the Company accrued $15.3 million of capital expenditures in the Exploration and Production segment, the majority of which was in the Appalachian region. This amount was excluded from the Consolidated Statement of Cash Flows at March 31, 2010 since it represented a non-cash investing activity at that date.

At September 30, 2009, the Company accrued $9.1 million of capital expenditures in the Exploration and Production segment, the majority of which was in the Appalachian region. The Company also accrued $0.7 million of capital expenditures in the All Other category related to the construction of the Midstream Covington Gathering System. These amounts were excluded from the Consolidated Statement of Cash Flows at September 30, 2009 since they represented non-cash investing activities at that date. These capital expenditures were paid during the quarter ended December 31, 2009 and have been included in the Consolidated Statement of Cash Flows for the six months ended March 31, 2010.

**Hedging Collateral Deposits.** This is an account title for cash held in margin accounts funded by the Company to serve as collateral for hedging positions. At March 31, 2011, the Company had hedging collateral deposits of $6.9 million related to its exchange-traded futures contracts and $54.9 million related to its over-the-counter crude oil swap agreements. At September 30, 2010, the Company had hedging collateral deposits of $10.1 million related to its exchange-traded futures contracts and $1.0 million related to its over-the-counter crude oil swap agreements. In accordance with its accounting policy, the Company does not offset hedging collateral deposits paid or received against related derivative financial instruments liability or asset balances.

**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 $88.6 million at March 31, 2011, is reduced to zero by September 30 of each year as the inventory is replenished.

**Property, Plant and Equipment.** In the Company s Exploration and Production segment, oil and gas property acquisition, exploration and development costs are capitalized under the full cost method of accounting. Under this methodology, all costs associated with property acquisition, exploration and development activities are capitalized, including internal costs directly identified with acquisition, exploration and development activities. The internal costs that are capitalized do not include any costs related to production, general corporate overhead, or similar activities. The Company does not recognize any gain or loss on the sale or other disposition of oil and gas properties unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to a cost center.

Capitalized costs include costs related to unproved properties, which are excluded from amortization until proved reserves are found or it is determined that the unproved properties are impaired. Such costs amounted to $180.8 million and $151.2 million at March 31, 2011 and September 30, 2010, respectively. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the pool of capitalized costs being amortized.

Capitalized costs are subject to the SEC full cost ceiling test. The ceiling test, which is performed each quarter, determines a limit, or ceiling, on the amount of property acquisition, exploration and development costs that can be capitalized. The ceiling under this test represents (a) the present value of estimated future net cash flows, excluding future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, using a discount factor of 10%, which is computed by applying prices of oil and gas (as adjusted for hedging) to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet, less estimated future expenditures, plus (b) the cost of unevaluated properties not being depleted, less (c) income tax effects related to the differences between the book and tax basis of the properties. In accordance with the SEC final rule on Modernization of Oil and Gas Reporting, the natural gas and oil prices used to calculate the full cost ceiling (as of March 31, 2011) are based on an unweighted arithmetic average of the first day of the month oil and gas prices for each month within the twelve-month period prior to the end of the reporting period. If

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

capitalized costs, net of accumulated depreciation, depletion and amortization and related deferred income taxes, exceed the ceiling at the end of any quarter, a permanent impairment is required to be charged to earnings in that quarter. At March 31, 2011, the Company s capitalized costs were below the full cost ceiling for the Company s oil and gas properties. As a result, an impairment charge was not required at March 31, 2011.

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

| | At March 31, 2011 | At September 30, 2010 |
|---|---|---|
| Funded Status of the Pension and Other Post-Retirement Benefit Plans | $ (79,465) | $ (79,465) |
| Cumulative Foreign Currency Translation Adjustment | | (51) |
| Net Unrealized Gain (Loss) on Derivative Financial Instruments | (16,851) | 32,876 |
| Net Unrealized Gain on Securities Available for Sale | 3,795 | 1,655 |
| Accumulated Other Comprehensive Loss | $ (92,521) | $ (44,985) |

**Other Current Assets**. The components of the Company s Other Current Assets are as follows (in thousands):

| | At March 31, 2011 | At September 30, 2010 |
|---|---|---|
| Prepayments | $ 6,779 | $ 13,884 |
| Prepaid Property and Other Taxes | 20,507 | 12,413 |
| Federal Income Taxes Receivable | 16,399 | 56,334 |
| State Income Taxes Receivable | 9,290 | 18,007 |
| Fair Values of Firm Commitments | 5,547 | 15,331 |
| | $ 58,522 | $ 115,969 |

**Earnings Per Common Share.** Basic earnings per common share is computed by dividing net 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, SARs and restricted stock units. The diluted weighted average shares outstanding shown on the Consolidated Statements of Income reflects the potential dilution as a result of these securities as determined using the Treasury Stock Method. Stock options, SARs and restricted stock units that are antidilutive are excluded from the calculation of diluted earnings per common share. There were 10,959 and 140 SARs excluded as being antidilutive for the quarter and six months ended March 31, 2011, respectively. For both the quarters and six months ended March 31, 2011 and March 31, 2010, there were no stock options or restricted stock units excluded as being antidilutive. There were 145,450 and 84,058 SARs excluded as being antidilutive for the quarter and six months ended March 31, 2010, respectively.

**Stock-Based Compensation.** During the six months ended March 31, 2011, the Company granted 180,000 non-performance based SARs having a weighted average exercise price of $63.87 per share. The weighted average grant date fair value of these SARs was $15.33 per share. These SARs may be settled in cash, in shares of common stock of the Company, or in a combination of cash and shares of common stock of the Company, as determined by the Company. These SARs are considered equity awards under the current authoritative guidance for stock-based compensation. The accounting for those SARs is the same as the accounting for stock options. There were no SARs granted during the quarter ended March 31, 2011. The non-performance based SARs granted during the six months ended March 31, 2011 vest and become



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

exercisable annually in one-third increments. The weighted average grant date fair value of these non-performance based SARs granted during the six months ended March 31, 2011 was estimated on the date of grant using the same accounting treatment that is applied for stock options.

There were no stock options granted during the quarter or six months ended March 31, 2011. The Company did not recognize a tax benefit related to the exercise of stock options for the calendar year ended December 31, 2010 due to tax loss carryforwards. The Company expects to recognize a tax benefit of $18.1 million in Paid in Capital related to calendar 2010 stock option exercises in future years as the tax loss carryforward is utilized.

The Company granted 47,250 restricted share awards (non-vested stock as defined by the current accounting literature) during the six months ended March 31, 2011. The weighted average fair value of such restricted shares was $63.98 per share. In addition, the Company granted 28,900 restricted stock units during the six months ended March 31, 2011. The weighted average fair value of such restricted stock units was $58.23 per share. Restricted stock units represent the right to receive shares of common stock of the Company (or the equivalent value in cash or a combination of cash and shares of common stock of the Company, as determined by the Company) at the end of a specified time period. These restricted stock units do not entitle the participant to receive dividends during the vesting period. The accounting for these restricted stock units is the same as the accounting for restricted share awards, except that the fair value at the date of grant of the restricted stock units must be reduced by the present value of forgone dividends over the vesting term of the award. There were no restricted share awards or restricted stock units granted during the quarter ended March 31, 2011.

**Note 2 Fair Value Measurements**

The FASB authoritative guidance regarding fair value measurements establishes a fair-value hierarchy and prioritizes the inputs used in valuation techniques that measure fair value. Those inputs are prioritized into three levels. Level 1 inputs are unadjusted quoted prices in active markets for assets or liabilities that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly at the measurement date. Level 3 inputs are unobservable inputs for the asset or liability at the measurement date. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table sets forth, by level within the fair value hierarchy, the Company s financial assets and liabilities (as applicable) that were accounted for at fair value on a recurring basis as of March 31, 2011 and September 30, 2010. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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

| Recurring Fair Value Measures | At fair value as of March 31, 2011 | | | |
|---|---|---|---|---|
| (Thousands of Dollars) | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Cash Equivalents Money Market Mutual Funds | $115,924 | $ | $ | $115,924 |
| Derivative Financial Instruments: | | | | |
| Over the Counter Swaps Oil | | (777) | | (777) |
| Over the Counter Swaps Gas | | 38,485 | | 38,485 |
| Other Investments: | | | | |
| Balanced Equity Mutual Fund | 21,786 | | | 21,786 |
| Common Stock Financial Services Industry | 6,991 | | | 6,991 |
| Other Common Stock | 247 | | | 247 |
| Hedging Collateral Deposits | 61,826 | | | 61,826 |
| Total | $206,774 | $37,708 | $ | $244,482 |
| Liabilities: | | | | |
| Derivative Financial Instruments: | | | | |
| Commodity Futures Contracts Gas | $ 2,846 | $ | $ | $ 2,846 |
| Over the Counter Swaps Oil | | | 71,913 | 71,913 |
| Over the Counter Swaps Gas | | (4,644) | | (4,644) |
| Total | $ 2,846 | $ (4,644) | $ 71,913 | $ 70,115 |
| Total Net Assets/(Liabilities) | $203,928 | $42,352 | $(71,913) | $174,367 |

| Recurring Fair Value Measures | At fair value as of September 30, 2010 | | | |
|---|---|---|---|---|
| (Thousands of Dollars) | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Cash Equivalents Money Market Mutual Funds | $277,423 | $ | $ | $277,423 |
| Derivative Financial Instruments: | | | | |
| Over the Counter Swaps Gas | | 67,387 | | 67,387 |
| Over the Counter Swaps Oil | | | (2,203) | (2,203) |
| Other Investments: | | | | |
| Balanced Equity Mutual Fund | 17,256 | | | 17,256 |
| Common Stock Financial Services Industry | 4,991 | | | 4,991 |
| Other Common Stock | 241 | | | 241 |
| Hedging Collateral Deposits | 11,134 | | | 11,134 |
| Total | $311,045 | $67,387 | $ (2,203) | $376,229 |
| Liabilities: | | | | |

| | | | | |
|---|---|---|---|---|
| Derivative Financial Instruments: | | | | |
| Commodity Futures Contracts Gas | $ 5,840 | $ | $ | $ 5,840 |
| Over the Counter Swaps Oil | | | 14,280 | 14,280 |
| Over the Counter Swaps Gas | | 40 | | 40 |
| Total | $ 5,840 | $ 40 | $ 14,280 | $ 20,160 |
| Total Net Assets/(Liabilities) | $305,205 | $67,347 | $(16,483) | $356,069 |

**Derivative Financial Instruments**

At March 31, 2011 and September 30, 2010, the derivative financial instruments reported in Level 1 consist of natural gas NYMEX futures contracts used in the Company s Energy Marketing and Pipeline and Storage segments. Hedging collateral deposits of $6.9 million (at March 31, 2011) and $10.1 million (at September 30, 2010), which are associated with these futures contracts have been reported in Level 1 as

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

well. The derivative financial instruments reported in Level 2 at March 31, 2011 consist of crude oil and natural gas price swap agreements used in the Company s Exploration and Production and Energy Marketing segments. At September 30, 2010, the derivative financial instruments reported in Level 2 consist of natural gas price swap agreements used in the Company s Exploration and Production and Energy Marketing segments. The fair value of these price swap agreements is based on an internal, discounted cash flow model that uses observable inputs (i.e. LIBOR based discount rates and basis differential information, if applicable, at active natural gas and crude oil trading markets). The derivative financial instruments reported in Level 3 consist of the majority of the Company s Exploration and Production segment s crude oil price swap agreements at March 31, 2011 and all of its crude oil price swap agreements at September 30, 2010. Hedging collateral deposits of $54.9 million and $1.0 million associated with these crude oil price swap agreements have been reported in Level 1 at March 31, 2011 and September 30, 2010, respectively. The fair value of the crude oil price swap agreements is based on an internal, discounted cash flow model that uses both observable (i.e. LIBOR based discount rates) and unobservable inputs (i.e. basis differential information of crude oil trading markets with low trading volume). Based on an assessment of the counterparties credit risk, the fair market value of the price swap agreements reported as Level 2 assets have been reduced by $0.2 million and $1.0 million at March 31, 2011 and September 30, 2010, respectively. Based on an assessment of the Company s credit risk, the fair market value of the price swap agreements reported as Level 2 and Level 3 liabilities have been reduced by less than $0.1 million and $0.3 million at March 31, 2011 and September 30, 2010, respectively. These credit reserves were determined by applying default probabilities to the anticipated cash flows that the Company is either expecting from its counterparties or expecting to pay to its counterparties.

The tables listed below provide reconciliations of the beginning and ending net balances for assets and liabilities measured at fair value and classified as Level 3 for the quarters and six months ended March 31, 2011 and 2010, respectively. For the quarters and six months ended March 31, 2011 and March 31, 2010, no transfers in or out of Level 1 or Level 2 occurred. There were no purchases or sales of derivative financial instruments during the periods presented in the tables below. All settlements of the derivative financial instruments are reflected in the Gains/Losses Realized and Included in Earnings column of the tables below.

Fair Value Measurements Using Unobservable Inputs (Level 3)

| | | Total Gains/Losses | | | |
|---|---|---|---|---|---|
| (Thousands of Dollars) | January 1, 2011 | Gains/Losses Realized and Included in Earnings | Gains/Losses Unrealized and Included in Other Comprehensive Income (Loss) | Transfer In/Out of Level 3 | March 31, 2011 |
| Derivative Financial Instruments[2] | $(37,407) | $(13,189)[1] | $(21,317) | $ | $(71,913) |

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the three months ended March 31, 2011.

[2] Derivative Financial Instruments are shown on a net basis.

Fair Value Measurements Using Unobservable Inputs (Level 3)

Total Gains/Losses

Gains/Losses

| (Thousands of Dollars) | October 1, 2010 | Gains/Losses Realized and Included in Earnings | Unrealized and Included in Other Comprehensive Income (Loss) | Transfer In/Out of Level 3 | March 31, 2011 |
|---|---|---|---|---|---|
| Derivative Financial Instruments[2] | $(16,483) | $(15,992)[1] | $(39,438) | $ | $(71,913) |

(1) Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the six months ended March 31, 2011.

(2) Derivative Financial Instruments are shown on a net basis.

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Fair Value Measurements Using Unobservable Inputs (Level 3)

| (Thousands of Dollars) | January 1, 2010 | Total Gains/Losses: Gains/Losses Realized and Included in Earnings | Total Gains/Losses: Gains/Losses Unrealized and Included in Other Comprehensive Income (Loss) | Transfer In/Out of Level 3 | March 31, 2010 |
|---|---|---|---|---|---|
| Derivative Financial Instruments[2] | $(149) | $(1,662)[1] | $(12,289) | $ | $(14,100) |

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the three months ended March 31, 2010.

[2] Derivative Financial Instruments are shown on a net basis.

Fair Value Measurements Using Unobservable Inputs (Level 3)

| (Thousands of Dollars) | October 1, 2009 | Total Gains/Losses: Gains/Losses Realized and Included in Earnings | Total Gains/Losses: Gains/Losses Unrealized and Included in Other Comprehensive Income (Loss) | Transfer In/Out of Level 3 | March 31, 2010 |
|---|---|---|---|---|---|
| Derivative Financial Instruments[2] | $26,969 | $(4,797)[1] | $(36,272) | $ | $(14,100) |

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the six months ended March 31, 2010.

[2] Derivative Financial Instruments are shown on a net basis.

**Note 3 Financial Instruments**

**Long-Term Debt.** The fair market value of the Company s debt, as presented in the table below, was determined using a discounted cash flow model, which incorporates the Company s credit ratings and current market conditions in determining the yield, and subsequently, the fair market value of the debt. Based on these criteria, the fair market value of long-term debt, including current portion, was as follows (in thousands):

| | March 31, 2011 | | September 30, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |

| | | | | |
|---|---|---|---|---|
| Long-Term Debt | $1,049,000 | $1,190,130 | $1,249,000 | $1,423,349 |

**Other Investments.** Investments in life insurance are stated at their cash surrender values or net present value as discussed below. Investments in an equity mutual fund and the stock of an insurance company (marketable equity securities), as discussed below, are stated at fair value based on quoted market prices.

Other investments include cash surrender values of insurance contracts (net present value in the case of split-dollar collateral assignment arrangements) and marketable equity securities. The values of the insurance contracts amounted to $54.7 million at March 31, 2011 and $55.4 million at September 30, 2010. The fair value of the equity mutual fund was $21.8 million at March 31, 2011 and $17.3 million at September 30, 2010. The gross unrealized gain on this equity mutual fund was $1.4 million at March 31, 2011. The unrealized gain on the equity mutual fund at September 30, 2010 was negligible as the fair value was approximately equal to the cost basis. The fair value of the stock of an insurance company was $7.0 million at March 31, 2011 and $5.0 million at September 30, 2010. The gross unrealized gain on this stock was $4.6 million at March 31, 2011 and $2.6 million at September 30, 2010. The insurance contracts and marketable equity securities are primarily informal funding mechanisms for various benefit obligations the Company has to certain employees.

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

**Derivative Financial Instruments.** The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is commodity price risk in the Exploration and Production, Energy Marketing and Pipeline and Storage segments. The Company enters into futures contracts and over-the-counter swap agreements for natural gas and crude oil to manage the price risk associated with forecasted sales of gas and oil. The Company also enters into futures contracts and swaps to manage the risk associated with forecasted gas purchases, storage of gas, withdrawal of gas from storage to meet customer demand and the potential decline in the value of gas held in storage. The duration of the Company s hedges do not typically exceed 3 years.

The Company has presented its net derivative assets and liabilities on its Consolidated Balance Sheets at March 31, 2011 and September 30, 2010 as shown in the table below.

| | Fair Values of Derivative Instruments (Dollar Amounts in Thousands) | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| Derivatives Designated as Hedging Instruments | Consolidated Balance Sheet Location | Fair Value | Consolidated Balance Sheet Location | Fair Value |
| Commodity Contracts at March 31, 2011 | Fair Value of Derivative Financial Instruments | $37,708 | Fair Value of Derivative Financial Instruments | $70,115 |
| Commodity Contracts at September 30, 2010 | Fair Value of Derivative Financial Instruments | $65,184 | Fair Value of Derivative Financial Instruments | $20,160 |

The following table discloses the fair value of derivative contracts on a gross-contract basis as opposed to the net-contract basis presentation on the Consolidated Balance Sheets at March 31, 2011 and September 30, 2010.

| | Fair Values of Derivative Instruments (Dollar Amounts in Thousands) | |
|---|---|---|
| Derivatives Designated as Hedging Instruments | Gross Asset Derivatives Fair Value | Gross Liability Derivatives Fair Value |
| Commodity Contracts at March 31, 2011 | $ 47,243 | $ 79,650 |
| Commodity Contracts at September 30, 2010 | $ 77,837 | $ 32,813 |

*Cash flow hedges*

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

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

As of March 31, 2011, the Company s Exploration and Production segment had the following commodity derivative contracts (swaps) outstanding to hedge forecasted sales (where the Company uses short positions (i.e. positions that pay-off in the event of commodity price decline) to mitigate the risk of decreasing revenues and earnings):

| **Commodity** | **Units** |
|---|---|
| Natural Gas | 55.6 Bcf (all short positions) |
| Crude Oil | 3,138,000 Bbls (all short positions) |

As of March 31, 2011, the Company s Energy Marketing segment had the following commodity derivative contracts (futures contracts and swaps) outstanding to hedge forecasted sales (where the Company uses short positions to mitigate the risk associated with natural gas price decreases and its impact on decreasing revenues and earnings) and purchases (where the Company uses long positions (i.e. positions that pay-off in the event of commodity price increases) to mitigate the risk of increasing natural gas prices, which would lead to increased purchased gas expense and decreased earnings):

| **Commodity** | **Units** |
|---|---|
| Natural Gas | 6.2 Bcf (3.5 Bcf short positions (forecasted storage withdrawals) and 2.7 Bcf long positions (forecasted storage injections)) |

As of March 31, 2011, the Company s Pipeline and Storage segment has the following commodity derivative contracts (futures contracts) outstanding to hedge forecasted sales (where the Company uses short positions to mitigate the risk associated with natural gas price decreases and its impact on decreasing revenues and earnings):

| **Commodity** | **Units** |
|---|---|
| Natural Gas | 1.2 Bcf (all short positions) |

As of March 31, 2011, the Company s Exploration and Production segment had $30.2 million ($17.8 million after tax) of net hedging losses included in the accumulated other comprehensive income (loss) balance. It is expected that $14.4 million ($8.5 million after tax) of these losses will be reclassified into the Consolidated Statement of Income (Loss) within the next 12 months as the expected sales of the underlying commodities occur. See Note 1, under Accumulated Other Comprehensive Income (Loss), for the after-tax gain (loss) pertaining to derivative financial instruments (Net Unrealized Gain (Loss) on Derivative Financial Instruments in Note 1 includes the Exploration and Production, Energy Marketing and Pipeline and Storage segments).

As of March 31, 2011, the Company s Energy Marketing segment had $1.8 million ($1.1 million after tax) of net hedging gains included in the accumulated other comprehensive income (loss) balance. It is expected that the full amount will be reclassified into the Consolidated Statement of Income (Loss) within the next 12 months as the sales and purchases of the underlying commodities occur. See Note 1, under Accumulated Other Comprehensive Income (Loss), for the after-tax gain (loss) pertaining to derivative financial instruments (Net Unrealized Gain (Loss) on Derivative Financial Instruments in Note 1 includes the Exploration and Production, Energy Marketing and Pipeline and Storage segments).

As of March 31, 2011, the Company s Pipeline and Storage segment had $0.2 million ($0.1 million after tax) of net hedging losses included in the accumulated other comprehensive income (loss) balance. It is expected that the full amount will be reclassified into the Consolidated Statement of Income (Loss) within the next 12 months as the expected sales of the underlying commodities occur. See Note 1, under Accumulated Other Comprehensive Income (Loss), for the after-tax gain (loss) pertaining to derivative financial instruments (Net Unrealized Gain (Loss) on Derivative Financial Instruments in Note 1 includes the Exploration and Production, Energy Marketing and Pipeline and Storage segments).

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

**The Effect of Derivative Financial Instruments on the Statement of Financial Performance for the Three Months Ended March 31, 2011 and 2010 (Thousands of Dollars)**

| Derivatives in Cash Flow Hedging Relationships | Amount of Derivative Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on the Consolidated Statement of Comprehensive Income (Loss) (Effective Portion) for the Three Months Ended March 31, 2011 | 2010 | Location of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion) | Amount of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion) for the Three Months Ended March 31, 2011 | 2010 | Location of Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the Three Months Ended March 31, 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Commodity Contracts Exploration & Production segment | $ (41,586) | $ 24,375 | Operating Revenue | $ 1,956 | $ 5,538 | Operating Revenue | $ | $ |
| Commodity Contracts Energy Marketing segment | $ 872 | $ 2,278 | Purchased Gas | $ 5,256 | $ (470) | Purchased Gas | $ | $ |
| Commodity Contracts Pipeline & Storage segment | $ (130) | $ 980 | Operating Revenue | $ | $ 522 | Operating Revenue | $ | $ |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ (40,844) | $ 27,633 | $ 7,212 | $ 5,590 | $ | $ |

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

**The Effect of Derivative Financial Instruments on the Statement of Financial Performance for the Six Months Ended March 31, 2011 and 2010 (Thousands of Dollars)**

| Derivatives in Cash Flow Hedging Relationships | Amount of Derivative Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on the Consolidated Statement of Comprehensive Income (Loss) (Effective Portion) for the Six Months Ended March 31, | | Location of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion) | Amount of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion) for the Six Months Ended March 31, | | Location of Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the Six Months Ended March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | | 2011 | 2010 |
| Commodity Contracts Exploration & Production segment | $ (68,368) | $ 16,465 | Operating Revenue | $ 10,963 | $ 17,578 | Operating Revenue | $ | $ |
| Commodity Contracts Energy Marketing segment | $ 603 | $ 5,303 | Purchased Gas | $ 5,302 | $ (447) | Purchased Gas | $ | $ |
| Commodity Contracts Pipeline & Storage segment | $ (215) | $ 1,012 | Operating Revenue | $ | $ 512 | Operating Revenue | $ | $ |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ (67,980) | $ 22,780 | $ 16,265 | $ 17,643 | $ | $ |

*Fair value hedges*

The Company s Energy Marketing segment utilizes fair value hedges to mitigate risk associated with fixed price sales commitments, fixed price purchase commitments, and the decline in the value of natural gas held in storage. With respect to fixed price sales commitments, the Company enters into long positions to mitigate the risk of price increases for natural gas supplies that could occur after the Company enters into fixed price sales agreements with its customers. With respect to fixed price purchase commitments, the Company enters into short positions to mitigate the risk of price decreases that could occur after the Company locks into fixed price purchase deals with its suppliers. With respect to storage hedges, the Company enters into short positions to mitigate the risk of price decreases that could result in a lower of cost or market writedown of the value of natural gas in storage that is recorded in the Company s financial statements. As of March 31, 2011, the Company s Energy Marketing segment had fair value hedges covering approximately 10.6 Bcf (7.9 Bcf of fixed price sales commitments (all long positions) and 2.7 Bcf of fixed price purchase commitments (all short positions)). For derivative instruments that are designated and qualify

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as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk completely offset each other in current earnings, as shown below.

| Consolidated Statement of Income | | Gain/(Loss) on Derivative | | Gain/(Loss) on Commitment |
|---|---|---|---|---|
| Operating Revenues | $ | 10,625,997 | $ | (10,625,997) |
| Purchased Gas | $ | (1,470,609) | $ | 1,470,609 |

| Derivatives in Fair Value Hedging Relationships | | Location of Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income | | Amount of Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income for the Six Months Ended March 31, 2011 (In Thousands) |
|---|---|---|---|---|
| Commodity Contracts | Energy Marketing segment[1] | Operating Revenues | $ | 10,626 |
| Commodity Contracts | Energy Marketing segment[2] | Purchased Gas | $ | (1,167) |
| Commodity Contracts | Energy Marketing segment[3] | Purchased Gas | $ | (304) |
| | | | **$** | **9,155** |

(1) Represents hedging of fixed price sales commitments of natural gas.

(2) Represents hedging of fixed price purchase commitments of natural gas.

(3) Represents hedging of natural gas held in storage.

The Company may be exposed to credit risk on any of the derivative financial instruments that are in a gain position. Credit risk relates to the risk of loss that the Company would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. To mitigate such credit risk, management performs a credit check, and then on a quarterly basis monitors counterparty credit exposure. The majority of the Company s counterparties are financial institutions and energy traders. The Company has over-the-counter swap positions with twelve counterparties of which nine are in a net gain position. The Company had derivative financial instruments that were in loss positions with the other three counterparties. On average, the Company had $4.1 million of credit exposure per counterparty in a gain position at March 31, 2011. The maximum credit exposure per counterparty in a gain position at March 31, 2011 was $7.9 million. The Company had not received any collateral from these counterparties at March 31, 2011 since the Company s gain position on such derivative financial instruments had not exceeded the established thresholds at which the counterparties would be required to post collateral.

As of March 31, 2011, nine of the twelve counterparties to the Company s outstanding derivative instrument contracts (specifically the over-the-counter swaps) had a common credit-risk related contingency feature. In the event the Company s credit rating increases or falls below a certain threshold (applicable debt ratings), the available credit extended to the Company would either increase or decrease. A decline in the Company s credit rating, in and of itself, would not cause the Company to be required to increase the level of its hedging collateral deposits (in the form of cash deposits, letters of credit or treasury debt instruments). If the Company s outstanding derivative instrument contracts were in a liability position (or if the current liability were larger) and/or the Company s credit rating declined, then additional hedging collateral deposits would be required. At March 31, 2011, the fair market value of the derivative financial instrument assets with a credit-risk related contingency feature was $21.9 million according to the Company s internal model (discussed in Note 2 Fair Value Measurements). At March 31, 2011, the fair market value of the derivative financial instrument liabilities with a credit-risk related contingency feature was $67.2 million according to the Company s internal model (discussed in Note 2 Fair Value Measurements). The liability with one counterparty was $54.8 million. For its over-the-counter crude oil swap agreements, which are in a liability position, the Company was required to post $54.9 million in hedging collateral deposits at March 31, 2011. This is discussed in Note 1 under Hedging Collateral Deposits.

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

For its exchange traded futures contracts, which are in a liability position, the Company had posted $6.9 million in hedging collateral as of March 31, 2011. As these are exchange traded futures contracts, there are no specific credit-risk related contingency features. The Company posts hedging collateral based on open positions and margin requirements it has with its counterparties.

The Company s requirement to post hedging collateral deposits is based on the fair value determined by the Company s counterparties, which may differ from the Company s assessment of fair value. Hedging collateral deposits may also include closed derivative positions in which the broker has not cleared the cash from the account to offset the derivative liability. The Company records liabilities related to closed derivative positions in Other Accruals and Current Liabilities on the Consolidated Balance Sheet. These liabilities are relieved when the broker clears the cash from the hedging collateral deposit account. This is discussed in Note 1 under Hedging Collateral Deposits.

**Note 4 Income Taxes**

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

| | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|
| Current Income Taxes | | |
| Federal | $ | $ 39,245 |
| State | 3,677 | 9,394 |
| Deferred Income Taxes | | |
| Federal | 87,598 | 33,447 |
| State | 18,912 | 8,348 |
| | 110,187 | 90,434 |
| Deferred Investment Tax Credit | (348) | (348) |
| Total Income Taxes | $ 109,839 | $ 90,086 |
| Presented as Follows: | | |
| Other Income | $ (348) | $ (348) |
| Income Tax Expense Continuing Operations | 110,187 | 89,841 |
| Income from Discontinued Operations | | 593 |
| Total Income Taxes | $ 109,839 | $ 90,086 |

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, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|

| | | |
|---|---|---|
| U.S. Income Before Income Taxes | $ 283,993 | $ 235,013 |
| Income Tax Expense, Computed at Federal Statutory Rate of 35% | $ 99,398 | $ 82,255 |
| Increase (Reduction) in Taxes Resulting from: | | |
| State Income Taxes | 14,683 | 11,532 |
| Miscellaneous | (4,242) | (3,701) |
| Total Income Taxes | $ 109,839 | $ 90,086 |

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

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

| | At March 31, 2011 | At September 30, 2010 |
|---|---|---|
| Deferred Tax Liabilities: | | |
| Property, Plant and Equipment | $ 966,524 | $ 849,869 |
| Pension and Other Post-Retirement Benefit Costs | 179,360 | 177,853 |
| Other | 37,109 | 63,671 |
| Total Deferred Tax Liabilities | 1,182,993 | 1,091,393 |
| Deferred Tax Assets: | | |
| Pension and Other Post-Retirement Benefit Costs | (225,461) | (223,588) |
| Tax Loss Carryforwards | (16,237) | (9,772) |
| Other | (89,388) | (81,751) |
| Total Deferred Tax Assets | (331,086) | (315,111) |
| Total Net Deferred Income Taxes | $ 851,907 | $ 776,282 |
| Presented as Follows: | | |
| Net Deferred Tax Liability/(Asset) Current | $ (34,917) | $ (24,476) |
| Net Deferred Tax Liability Non-Current | 886,824 | 800,758 |
| Total Net Deferred Income Taxes | $ 851,907 | $ 776,282 |

As a result of certain realization requirements of the authoritative guidance on stock-based compensation, the table of deferred tax liabilities and assets shown above does not include certain deferred tax assets at March 31, 2011 that arose directly from excess tax deductions related to stock-based compensation. A tax benefit of $18.1 million relating to the excess stock-based compensation deductions will be recorded in Paid in Capital in future years when such tax benefit is realized.

Regulatory liabilities representing the reduction of previously recorded deferred income taxes associated with rate-regulated activities that are expected to be refundable to customers amounted to $69.6 million at both March 31, 2011 and September 30, 2010. 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 $152.0 million and $149.7 million at March 31, 2011 and September 30, 2010, respectively.

The Company files U.S. federal and various state income tax returns. The Internal Revenue Service (IRS) is currently conducting an examination of the Company for fiscal 2010 and 2011 in accordance with the Compliance Assurance Process ( CAP ). The CAP audit employs a real time review of the Company s books and tax records by the IRS that is intended to permit issue resolution prior to the filing of the tax return. While the federal statute of limitations remains open for fiscal 2007 and later years, IRS examinations for fiscal 2008 and prior years have been completed and the Company believes such years are effectively settled. During fiscal 2009, consent was received from the IRS National Office approving the Company s application to change its tax method of accounting for certain capitalized costs relating to its utility property. During fiscal 2010, local IRS examiners proposed to disallow most of the accounting method change recorded by the Company in fiscal 2009. The Company has filed a protest with the IRS

Appeals Office disputing the local IRS findings.

The Company is also subject to various routine state income tax examinations. The Company s operating subsidiaries mainly operate in four states which have statutes of limitations that generally expire between three to four years from the date of filing of the income tax return.

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

**Note 5 Capitalization**

**Common Stock.** During the six months ended March 31, 2011, the Company issued 786,929 original issue shares of common stock as a result of stock option and SARs exercises and 47,250 original issue shares for restricted stock awards (non-vested stock as defined by the current accounting literature for stock-based compensation). The Company also issued 7,200 original issue shares of common stock to the non-employee directors of the Company who receive compensation under the Company s 2009 Non-Employee Director Equity Compensation Plan, as partial consideration for the directors services during the six months ended March 31, 2011. Holders of stock options, SARs 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, 2011, 372,656 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.

**Current Portion of Long-Term Debt.** Current Portion of Long-Term Debt at March 31, 2011 consists of $150 million of 6.70% medium-term notes that mature in November 2011. Current Portion of Long-Term Debt at September 30, 2010 consisted of $200 million of 7.50% notes that matured in November 2010.

**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 to 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 agreed with the NYDEC to remediate a former manufactured gas plant site located in New York. The Company has received approval from the NYDEC of a Remedial Design work plan for this site and has recorded an estimated minimum liability for remediation of this site of $14.6 million.

At March 31, 2011, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites (including the former manufactured gas plant site discussed above) will be in the range of $17.1 million to $21.3 million. The minimum estimated liability of $17.1 million, which includes the $14.6 million discussed above, has been recorded on the Consolidated Balance Sheet at March 31, 2011. The Company expects to recover its environmental clean-up costs through rate recovery.

The Company is currently not aware of any material additional exposure to environmental liabilities. However, changes in environmental regulations, new information or other factors could adversely impact the Company.

**Other.** The Company is involved in other litigation and regulatory matters arising in the normal course of business. These other matters may include, for example, negligence claims and tax, regulatory or other governmental audits, inspections, investigations and 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 are they expected to have a material adverse effect on the financial condition of the Company.

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

**Note 7 Discontinued Operations**

On September 1, 2010, the Company sold its landfill gas operations in the states of Ohio, Michigan, Kentucky, Missouri, Maryland and Indiana. Those operations consisted of short distance landfill gas pipeline companies engaged in the purchase, sale and transportation of landfill gas. The Company s landfill gas operations were maintained under the Company s wholly-owned subsidiary, Horizon LFG. The decision to sell was based on progressing the Company s strategy of divesting its smaller, non-core assets in order to focus on its core businesses, including the development of the Marcellus Shale and the construction of key pipeline infrastructure projects throughout the Appalachian region. As a result of the decision to sell the landfill gas operations, the Company began presenting these operations as discontinued operations during the fourth quarter of 2010.

The following is selected financial information of the discontinued operations for the sale of the Company s landfill gas operations:

| (Thousands) | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2010 |
|---|---|---|
| Operating Revenues | $ 3,400 | $ 6,277 |
| Operating Expenses | 2,445 | 4,845 |
| Operating Income | 955 | 1,432 |
| Other Interest Expense | (4) | (11) |
| Income before Income Taxes | 951 | 1,421 |
| Income Tax Expense | 397 | 593 |
| Income from Discontinued Operations | $ 554 | $ 828 |

**Note 8 Business Segment Information**

The Company reports financial results for four segments: Utility, Pipeline and Storage, Exploration and Production and Energy Marketing. The division of the Company s operations into 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 financial information for the segments and reconciliations to consolidated amounts. As stated in the 2010 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 Company s 2010 Form 10-K. There have been no material changes in the amount of assets for any operating segment from the amounts disclosed in the 2010 Form 10-K.

Quarter Ended March 31, 2011 (Thousands)

| | Utility | Pipeline and Storage | Exploration and Production | Energy Marketing | Total Reportable Segments | All Other | Corporate and Intersegment Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from External | $361,745 | $39,669 | $137,430 | $121,321 | $660,165 | $ 472 | $ 244 | $660,881 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Customers | | | | | | | | |
| Intersegment Revenues | $ 6,635 | $20,632 | $ | $ | $ 27,267 | $ 2,538 | $(29,805) | $ |
| Segment Profit: | | | | | | | | |
| Net Income (Loss) | $ 33,081 | $10,955 | $ 33,299 | $ 6,299 | $ 83,634 | $32,181 | $ (204) | $115,611 |

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Six Months Ended March 31, 2011 (Thousands)

| | Utility | Pipeline and Storage | Exploration and Production | Energy Marketing | Total Reportable Segments | All Other | Corporate and Intersegment Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from External Customers | $604,587 | $73,182 | $257,598 | $174,973 | $1,110,340 | $ 1,021 | $ 468 | $1,111,829 |
| Intersegment Revenues | $ 11,205 | $40,514 | $ | $ | $ 51,719 | $ 4,216 | $(55,935) | $ |
| Segment Profit: Net Income (Loss) | $ 56,071 | $19,533 | $ 60,672 | $ 7,231 | $ 143,507 | $31,606 | $ (959) | $ 174,154 |

Quarter Ended March 31, 2010 (Thousands)

| | Utility | Pipeline and Storage | Exploration and Production | Energy Marketing | Total Reportable Segments | All Other | Corporate and Intersegment Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from External Customers | $348,593 | $40,971 | $109,158 | $158,537 | $657,259 | $10,503 | $ 218 | $667,980 |
| Intersegment Revenues | $ 6,149 | $20,565 | $ | $ | $ 26,714 | $ | $(26,714) | $ |
| Segment Profit: Income (Loss) from Continuing Operations | $ 33,273 | $12,448 | $ 27,383 | $ 5,969 | $ 79,073 | $ 1,020 | $ (219) | $ 79,874 |

Six Months Ended March 31, 2010 (Thousands)

| | Utility | Pipeline and Storage | Exploration and Production | Energy Marketing | Total Reportable Segments | All Other | Corporate and Intersegment Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Revenue from External Customers | $580,997 | $75,475 | $215,511 | $230,273 | $1,102,256 | $19,430 | $ 429 | $1,122,115 |
| Intersegment Revenues | $ 10,662 | $40,822 | $ | $ | $ 51,484 | $ | $(51,484) | $ |
| Segment Profit: Income (Loss) from Continuing Operations | $ 56,286 | $22,802 | $ 57,163 | $ 7,061 | $ 143,312 | $ 1,910 | $ (1,123) | $ 144,099 |

**Note 9 Investments in Unconsolidated Subsidiaries**

At March 31, 2011, the Company owns a 50% interest in ESNE. ESNE is an 80-megawatt, combined cycle, natural gas-fired turbine power plant in North East, Pennsylvania that is in the process of being dismantled. The Company expects to recover its investment in ESNE through the sale of ESNE s major assets, such as the power turbines.

During the quarter ended March 31, 2011, the Company sold its 50% equity method investments in Seneca Energy and Model City for $59.4 million, resulting in a gain of $50.9 million. Seneca Energy and Model City generate and sell electricity using methane gas obtained from landfills owned by outside parties.

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A summary of the Company s investments in unconsolidated subsidiaries at March 31, 2011 and September 30, 2010 is as follows (in thousands):

| | At March 31, 2011 | At September 30, 2010 |
|---|---|---|
| Seneca Energy | $ | $ 11,007 |
| Model City | | 2,017 |
| ESNE | 1,443 | 1,804 |
| | $ 1,443 | $ 14,828 |

**Note 10 Retirement Plan and Other Post-Retirement Benefits**

Components of Net Periodic Benefit Cost (in thousands):

Three months ended March 31,

| | Retirement Plan | | Other Post-Retirement Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Service Cost | $ 3,693 | $ 3,249 | $ 1,069 | $ 1,075 |
| Interest Cost | 10,669 | 11,077 | 5,471 | 6,254 |
| Expected Return on Plan Assets | (14,776) | (14,585) | (7,291) | (6,584) |
| Amortization of Prior Service Cost | 147 | 164 | (427) | (427) |
| Amortization of Transition Amount | | | 135 | 135 |
| Amortization of Losses | 8,718 | 5,410 | 5,948 | 6,470 |
| Net Amortization and Deferral for Regulatory Purposes (Including | & | | | |