

NATIONAL FUEL GAS CO

Form 10-K

November 29, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

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

For the Fiscal Year Ended September 30, 2007

**○ 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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1 Par Value, and Common Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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 Act). Yes No

The aggregate market value of the voting stock held by nonaffiliates of the registrant amounted to \$3,540,898,000 as of March 31, 2007.

Common Stock, \$1 Par Value, outstanding as of October 31, 2007: 83,473,107 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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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

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 B.V. Horizon Energy Development B.V.

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

Toro Toro Partners, LP

U.E. United Energy, a.s.

Regulatory Agencies

EPA United States Environmental Protection Agency

FASB Financial Accounting Standards Board

FERC Federal Energy Regulatory Commission

NTSB National Transportation Safety Board

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

APB 18 Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock

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)

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. National Fuel uses a conversion formula of 1 barrel of oil = 6 Mcf 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.

CTA Cumulative Foreign Currency Translation Adjustment

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.

Development well A well drilled to a known producing formation in a previously discovered field.

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.

Exchange Act Securities Exchange Act of 1934, as amended

Expenditures for long-lived assets Includes capital expenditures, stock acquisitions and/or investments in partnerships.

Exploitation Development of a field, including the location, drilling, completion and equipment of wells necessary to produce the commercially recoverable oil and gas in the field.

Exploration costs Costs incurred in identifying areas that may warrant examination, as well as costs incurred in examining specific areas, including drilling exploratory wells.

Exploratory well A well drilled in unproven or semi-proven territory for the purpose of ascertaining the presence underground of a commercial hydrocarbon deposit.

FIN FASB Interpretation Number

FIN 47 FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an Interpretation of SFAS 143.

FIN 48 FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of SFAS 109.

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.

Grid The layout of the electrical transmission system or a synchronized transmission network.

Heavy oil A type of crude petroleum that usually is not economically recoverable in its natural state without being heated or diluted.

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

Mbbl Thousand barrels (of oil)

Mcf Thousand cubic feet (of natural gas)

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

MDth Thousand decatherms (of natural gas)

MMcf Million cubic feet (of natural gas)

MMcfe Million cubic feet equivalent

NYMEX New York Mercantile Exchange. An exchange which maintains a futures market for crude oil and natural gas.

Order 636 An order issued by FERC entitled Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation Under Part 284 of the Commission's Regulations.

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.

PRP Potentially responsible party

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 unbundled) 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.

SAR Stock-settled stock appreciation right

SFAS Statement of Financial Accounting Standards

SFAS 5 Statement of Financial Accounting Standards No. 5, Accounting for Contingencies

SFAS 43 Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences

SFAS 69 Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities

SFAS 71 Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation

SFAS 87 Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions

SFAS 88 Statement of Financial Accounting Standards No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits

SFAS 106 Statement of Financial Accounting Standards No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions.

SFAS 109 Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes

SFAS 112 Statement of Financial Accounting Standards No. 112, Employers Accounting for Postemployment Benefits, an amendment of SFAS 5 and 43

SFAS 115 Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities

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 132R Statement of Financial Accounting Standards No. 132R, Employers Disclosures about Pensions and Other Postretirement Benefits

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

SFAS 142 Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets

SFAS 143 Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations

SFAS 157 Statement of Financial Accounting Standards No. 157, Fair Value Measurements

SFAS 158 Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS 87, 88, 106, and 132R

SFAS 159 Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115

Spot gas purchases The purchase of natural gas on a short-term basis.

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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This Form 10-K contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements should be read with the cautionary statements included in this Form 10-K at Item 7, 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, performance and capital structure, anticipated capital expenditures, completion of construction 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, and similar expressions.

PART I

Item 1 Business

The Company and its Subsidiaries

National Fuel Gas Company (the Registrant), incorporated in 1902, is a holding company organized under the laws of the State of New Jersey. Except as otherwise indicated below, the Registrant owns directly or indirectly all of the outstanding securities of its subsidiaries. Reference to the Company in this report means the Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries as appropriate in the context of the disclosure. Also, all references to a certain year in this report relate to the Company's fiscal year ended September 30 of that year unless otherwise noted.

The Company is a diversified energy company consisting of five reportable business segments.

1. The Utility segment operations are carried out by National Fuel Gas Distribution Corporation (Distribution Corporation), a New York corporation. Distribution Corporation sells natural gas or provides natural gas transportation services to approximately 725,000 customers through a local distribution system located in western New York and northwestern Pennsylvania. The principal metropolitan areas served by Distribution Corporation include Buffalo, Niagara Falls and Jamestown, New York and Erie and Sharon, Pennsylvania.

2. The Pipeline and Storage segment operations are carried out by National Fuel Gas Supply Corporation (Supply Corporation), a Pennsylvania corporation, and Empire State Pipeline (Empire), a New York joint venture between two wholly owned subsidiaries of the Company. Supply Corporation provides interstate natural gas transportation and storage services for affiliated and nonaffiliated companies through (i) an integrated gas pipeline system extending from southwestern Pennsylvania to the New York-Canadian border at the Niagara River and eastward to Ellisburg and Leidy, Pennsylvania, and (ii) 28 underground natural gas storage fields owned and operated by Supply Corporation as well as four other underground natural gas storage fields owned and operated jointly with various other interstate gas pipeline companies. Supply Corporation is in the process of shutting down one of its smallest storage fields, which accounts for less than one percent of its marketable storage capacity. Empire, an intrastate pipeline company acquired by the Company in February 2003, transports natural gas for Distribution Corporation and for other utilities, large industrial customers and power producers in New York State. Empire owns a 157-mile pipeline that extends from the United States/Canadian border at the Niagara River near Buffalo, New York to near Syracuse, New York. Empire is constructing the Empire Connector project, which consists of a compressor station and a 78-mile pipeline extension from near Rochester, New York to an interconnection near Corning, New York with the unaffiliated Millennium Pipeline, which is also under construction. The Millennium Pipeline is expected to serve the New York City area upon its completion. Upon completion of the Empire and Millennium construction projects, which is currently expected to occur in November 2008, the Company expects that Empire will become an interstate pipeline company and will merge into Empire Pipeline, Inc. as described below.

3. The Exploration and Production segment operations are carried out by Seneca Resources Corporation (Seneca), a Pennsylvania corporation. Seneca is engaged in the exploration for, and the development and purchase of, natural gas and oil reserves in California, in the Appalachian region of the United States, in Wyoming, and in the Gulf Coast region of Texas, Louisiana, and Alabama, including offshore areas in federal waters and some state waters.

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In 2007, Seneca sold its subsidiary, Seneca Energy Canada Inc. (SECI), which conducted Exploration and Production operations in the provinces of Alberta, Saskatchewan and British Columbia in Canada. At September 30, 2007, the Company had U.S. reserves of 47,586 Mbbbl of oil and 205,389 MMcf of natural gas.

4. The Energy Marketing segment operations are carried out by National Fuel Resources, Inc. (NFR), a New York corporation, which 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 for its customers.

5. The Timber segment operations are carried out by Highland Forest Resources, Inc. (Highland), a New York corporation, and by a division of Seneca known as its Northeast Division. This segment markets timber from its New York and Pennsylvania land holdings, owns two sawmill operations in northwestern Pennsylvania and processes timber consisting primarily of high quality hardwoods. At September 30, 2007, the Company owned 103,700 acres of timber property and managed an additional 3,105 acres of timber rights.

Financial information about each of the Company's business segments can be found in Item 7, MD&A and also in Item 8 at Note J Business Segment Information.

The Company's other direct wholly owned subsidiaries are not included in any of the five reportable business segments and consist of the following:

Horizon Energy Development, Inc. (Horizon), a New York corporation formed to engage in foreign and domestic energy projects through investments as a sole or substantial owner in various business entities. These entities include Horizon's wholly owned subsidiary, Horizon Energy Holdings, Inc., a New York corporation, which owns 100% of Horizon Energy Development B.V. (Horizon B.V.). Horizon B.V. is a Dutch company that is in the process of winding up or selling certain power development projects in Europe;

Horizon LFG, Inc. (Horizon LFG), a New York corporation engaged through subsidiaries in the purchase, sale and transportation of landfill gas in Ohio, Michigan, Kentucky, Missouri, Maryland and Indiana. Horizon LFG and one of its wholly owned subsidiaries own all of the partnership interests in Toro Partners, LP (Toro), a limited partnership which owns and operates short-distance landfill gas pipeline companies. The Company acquired Toro in June 2003;

Leidy Hub, Inc. (Leidy Hub), a New York corporation formed to provide various natural gas hub services to customers in the eastern United States;

Data-Track Account Services, Inc. (Data-Track), a New York corporation formed to provide collection services principally for the Company's subsidiaries;

Horizon Power, Inc. (Horizon Power), a New York corporation which is an exempt wholesale generator under PUHCA 2005 and is developing or operating mid-range independent power production facilities and landfill gas electric generation facilities; and

Empire Pipeline, Inc., a New York corporation formed in 2005 to be the surviving corporation of a planned future merger with Empire, which is expected to occur after construction of the Empire Connector project (described below under the heading Rates and Regulation and under Item 7, MD&A under the headings Investing Cash Flow and Rate and Regulatory Matters).

No single customer, or group of customers under common control, accounted for more than 10% of the Company's consolidated revenues in 2007.

Rates and Regulation

The Registrant is a holding company as defined under PUHCA 2005. PUHCA 2005 repealed PUHCA 1935, to which the Company was formerly subject, and granted the FERC and state public utility commissions access to certain books and records of companies in holding company systems. Pursuant to the FERC's regulations under PUHCA 2005, the Company and its subsidiaries are exempt from the FERC's books and records regulations under PUHCA 2005.

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The Utility segment's rates, services and other matters are regulated by the NYPSC with respect to services provided within New York and by the PaPUC with respect to services provided within Pennsylvania. For additional discussion of the Utility segment's rates and regulation, see Item 7, MD&A under the heading "Rate and Regulatory Matters" and Item 8 at Note C-Regulatory Matters.

The Pipeline and Storage segment's rates, services and other matters are currently regulated by the FERC with respect to Supply Corporation and by the NYPSC with respect to Empire. The FERC has authorized Empire to construct and operate additional facilities (the Empire Connector project) and to become a FERC-regulated interstate pipeline company upon placement of those facilities into service, which is currently expected to occur in November 2008. For additional discussion of the Pipeline and Storage segment's rates and regulation, see Item 7, MD&A under the heading "Rate and Regulatory Matters" and Item 8 at Note C-Regulatory Matters. For further discussion of the Empire Connector project, refer to Item 7, MD&A under the headings "Investing Cash Flow" and "Rate and Regulatory Matters."

The discussion under Item 8 at Note C-Regulatory Matters includes a description of the regulatory assets and liabilities reflected on the Company's Consolidated Balance Sheets in accordance with applicable accounting standards. To the extent that the criteria set forth in such accounting standards are not met by the operations of the Utility segment or the Pipeline and Storage segment, as the case may be, the related regulatory assets and liabilities would be eliminated from the Company's Consolidated Balance Sheets and such accounting treatment would be discontinued.

In addition, the Company and its subsidiaries are subject to the same federal, state and local (including foreign) regulations on various subjects, including environmental matters, to which other companies doing similar business in the same locations are subject.

The Utility Segment

The Utility segment contributed approximately 25.2% of the Company's 2007 income from continuing operations and 15.1% of the Company's 2007 net income available for common stock.

Additional discussion of the Utility segment appears below in this Item 1 under the headings "Sources and Availability of Raw Materials," "Competition: The Utility Segment" and "Seasonality," in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Pipeline and Storage Segment

The Pipeline and Storage segment contributed approximately 28.0% of the Company's 2007 income from continuing operations and 16.7% of the Company's 2007 net income available for common stock.

Supply Corporation has service agreements for all of its firm storage capacity, which totals approximately 68,408 MDth. The Utility segment has contracted for 27,865 MDth or 40.7% of the total firm storage capacity, and the Energy Marketing segment accounts for another 3,888 MDth or 5.7% of the total firm storage capacity. Nonaffiliated customers have contracted for the remaining 36,655 MDth or 53.6% of the total firm storage capacity. A majority of Supply Corporation's storage and transportation services is performed under contracts that allow Supply Corporation or the shipper to terminate the contract upon six or twelve months' notice effective at the end of the contract term. The contracts also typically include "evergreen" language designed to allow the contracts to extend year-to-year at the end of the primary term. At the beginning of 2008, 66.9% of Supply Corporation's total firm storage capacity was committed under contracts that, subject to 2007 shipper or Supply Corporation notifications, could have been terminated effective in 2008. Supply Corporation received one termination notice in 2007, for a 1.5 Bcf storage contract. Termination of that contract will be effective March 31, 2008, and Supply Corporation expects to remarket that capacity for service

commencing April 1, 2008, at maximum tariff rates. The strong demand for market-area storage enabled Supply Corporation to eliminate its remaining storage service rate discounts in 2007. Supply Corporation anticipates that, effective April 1, 2008, all of its storage services will be contracted at the maximum tariff rates.

Supply Corporation's firm transportation capacity is not a fixed quantity, due to the diverse weblike nature of its pipeline system, and is subject to change as the market identifies different transportation paths and receipt/delivery

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point combinations. Supply Corporation currently has firm transportation service agreements for approximately 2,001 MDth per day (contracted transportation capacity). The Utility segment accounts for approximately 1,093 MDth per day or 54.6% of contracted transportation capacity, and the Energy Marketing and Exploration and Production segments represent another 100 MDth per day or 5.0% of contracted transportation capacity. The remaining 808 MDth or 40.4% of contracted transportation capacity is subject to firm contracts with nonaffiliated customers.

At the beginning of 2008, 58.0% of Supply Corporation's contracted transportation capacity was committed under affiliate contracts that were scheduled to expire in 2008 or, subject to 2007 shipper or Supply Corporation notifications, could have been terminated effective in 2008. Based on contract expirations and termination notices received in 2007 for 2008 termination, and taking into account any known contract additions, contracted transportation capacity with affiliates is expected to decrease 2.5% in 2008. Similarly, 24.3% of contracted transportation capacity was committed under unaffiliated shipper contracts that were scheduled to expire in 2008 or, subject to 2007 shipper or Supply Corporation notifications, could have been terminated effective in 2008. Based on contract expirations and termination notices received in 2007 for 2008 termination, and taking into account any known contract additions, contracted transportation capacity with unaffiliated shippers is expected to increase 2.1% in 2008. Supply Corporation previously has been successful in marketing and obtaining executed contracts for available transportation capacity (at discounted rates when necessary), and expects this success to continue.

Empire has service agreements for the 2007-2008 winter period for all of its firm transportation capacity, which totals approximately 565 MDth per day. Empire provides service under both annual contracts (service 12 months per year; contract term one or more years) and seasonal contracts (service during winter or summer only; contract term one or more partial years). Approximately 90.8% of Empire's firm contracted capacity is under multi-year annual contracts that expire after 2008. Approximately 2.7% of Empire's firm contracted capacity is under multi-year seasonal contracts that expire after 2008. The remaining capacity, which represents 6.5% of Empire's firm contracted capacity, is under single season or annual contracts which will expire before the end of 2008. Empire expects that all of this expiring capacity will be re-contracted under seasonal and/or annual arrangements for future contracting periods. The Utility segment accounts for approximately 7.7% of Empire's firm contracted capacity, and the Energy Marketing segment accounts for approximately 2.0% of Empire's firm contracted capacity, with the remaining 90.3% of Empire's firm contracted transportation capacity subject to contracts with nonaffiliated customers.

Additional discussion of the Pipeline and Storage segment appears below under the headings Sources and Availability of Raw Materials, Competition: The Pipeline and Storage Segment and Seasonality, in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Exploration and Production Segment

The Exploration and Production segment contributed approximately 37.1% of the Company's 2007 income from continuing operations and 62.4% of the Company's 2007 net income available for common stock.

Additional discussion of the Exploration and Production segment appears below under the headings Discontinued Operations, Sources and Availability of Raw Materials and Competition: The Exploration and Production Segment, in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

The Energy Marketing Segment

The Energy Marketing segment contributed approximately 3.8% of the Company's 2007 income from continuing operations and 2.3% of the Company's 2007 net income available for common stock.

Additional discussion of the Energy Marketing segment appears below under the headings Sources and Availability of Raw Materials, Competition: The Energy Marketing Segment and Seasonality, in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

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The Timber Segment

The Timber segment contributed approximately 1.9% of the Company's 2007 income from continuing operations and 1.1% of the Company's 2007 net income available for common stock.

Additional discussion of the Timber segment appears below under the headings Sources and Availability of Raw Materials, Competition: The Timber Segment and Seasonality, in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

All Other Category and Corporate Operations

The All Other category and Corporate operations contributed approximately 4.0% of the Company's 2007 income from continuing operations and 2.4% of the Company's 2007 net income available for common stock.

Additional discussion of the All Other category and Corporate operations appears below in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

Discontinued Operations

In August 2007, Seneca sold all of the issued and outstanding shares of SECI. SECI's operations are presented in the Company's financial statements as discontinued operations.

In July 2005, Horizon B.V. sold its entire 85.16% interest in United Energy, a.s. (U.E.), a district heating and electric generation business in the Czech Republic. United Energy's operations are presented in the Company's financial statements as discontinued operations.

Additional discussion of the Company's discontinued operations appears in Item 7, MD&A and in Item 8, Financial Statements and Supplementary Data.

Sources and Availability of Raw Materials

Natural gas is the principal raw material for the Utility segment. In 2007, the Utility segment purchased 79.6 Bcf of gas for core market demand. Gas purchased from producers and suppliers in the southwestern United States and Canada under firm contracts (seasonal and longer) accounted for 85% of these purchases. Purchases of gas on the spot market (contracts for one month or less) accounted for 15% of the Utility segment's 2007 purchases. Purchases from Chevron Natural Gas (21%), ConocoPhillips Company (15%) and Total Gas & Power North America Inc. (14%) accounted for 50% of the Utility's 2007 gas purchases. No other producer or supplier provided the Utility segment with more than 10% of its gas requirements in 2007.

Supply Corporation transports and stores gas owned by its customers, whose gas originates in the southwestern, mid-continent and Appalachian regions of the United States as well as in Canada. Empire transports gas owned by its customers, whose gas originates in the southwestern and mid-continent regions of the United States as well as in Canada. Additional discussion of proposed pipeline projects appears below under Competition: The Pipeline and Storage Segment and in Item 7, MD&A.

The Exploration and Production segment seeks to discover and produce raw materials (natural gas, oil and hydrocarbon liquids) as further described in this report in Item 7, MD&A and Item 8 at Note J-Business Segment Information and Note O-Supplementary Information for Oil and Gas Producing Activities.

With respect to the Timber segment, Highland requires an adequate supply of timber to process in its sawmill and kiln operations. Forty-nine percent of the timber processed during 2007 in Highland's sawmill operations came from land owned by the Company's subsidiaries, and 51% came from outside sources. Timber cut for gas well drilling locations, access roads, and pipelines constituted an increasing portion of Highland's timber supply, both from land owned by the Company's subsidiaries and from outside sources. In addition, Highland purchased ap