UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from____ to_____

Commission File Number 1-3880

NATIONAL FUEL GAS COMPANY

(Exact name of registrant as specified in its charter)

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

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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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	¨
Non-Accelerated Filer	¨(Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ 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, par value $1.00 per share, outstanding at April 30, 2013: 83,550,403 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
Horizon Power	Horizon Power, Inc.
Midstream Corporation	National Fuel Gas Midstream Corporation
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
Seneca	Seneca Resources Corporation
Supply Corporation	National Fuel Gas Supply Corporation

Regulatory Agencies

CFTC	Commodity Futures Trading Commission
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
PaDEP	Pennsylvania Department of Environmental Protection
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission

Other

2012 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2012
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.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Supply Corporation and/or Empire for gas the customer receives in excess of amounts delivered into Supply Corporation's and Empire's systems by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying variable (a price, interest rate, index rate, exchange rate, or other variable) and a notional amount (number of units, barrels, cubic feet, etc.). The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, options, no cost collars and swaps.

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Development costs	Costs incurred to obtain access to proved oil and gas reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act.
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.
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.
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.

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Proved developed reserves	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
Proved undeveloped (PUD) 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.
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
Service agreement	

	The binding agreement by which the pipeline company agrees to provide service and the shipper agrees to pay for the service.
Stock acquisitions	Investments in corporations
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.

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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)

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands of Dollars, Except Per Common Share Amounts)	2013	2012	2013	2012
INCOME				
Operating Revenues	$ 597,826	$ 552,309	$ 1,050,680	$ 984,732
Operating Expenses				
Purchased Gas	209,817	208,537	331,735	340,730
Operation and Maintenance	122,303	118,047	230,035	218,106
Property, Franchise and Other Taxes	22,685	30,477	42,348	49,707
Depreciation, Depletion and Amortization	80,030	63,151	152,361	125,698
	434,835	420,212	756,479	734,241
Operating Income	162,991	132,097	294,201	250,491
Other Income (Expense):				
Interest Income	140	192	1,526	1,297
Other Income	1,087	1,654	2,501	2,990
Interest Expense on Long-Term Debt	(22,786)	(20,425)	(44,234)	(39,066)
Other Interest Expense	(526)	(1,253)	(1,595)	(2,023)
Income Before Income Taxes	140,906	112,265	252,399	213,689
Income Tax Expense	55,186	44,873	98,735	85,598
Net Income Available for Common Stock	85,720	67,392	153,664	128,091

EARNINGS REINVESTED IN THE BUSINESS

Balance at Beginning of Period	1,343,765	1,237,242	1,306,284	1,206,022
	1,429,485	1,304,634	1,459,948	1,334,113
Dividends on Common Stock	(30,486)	(29,527)	(60,949)	(59,006)
Balance at March 31	$ 1,398,999	$ 1,275,107	$ 1,398,999	$ 1,275,107
Earnings Per Common Share:				
Basic:				
Net Income Available for Common Stock	$ 1.03	$ 0.81	$ 1.84	$ 1.54
Diluted:				
Net Income Available for Common Stock	$ 1.02	$ 0.81	$ 1.83	$ 1.53
Weighted Average Common Shares Outstanding:				
Used in Basic Calculation	83,498,508	83,107,884	83,443,805	82,988,750
Used in Diluted Calculation	84,159,734	83,678,261	84,127,705	83,712,681
Dividends Per Common Share:				
Dividends Declared	$ 0.365	$ 0.355	$ 0.73	$ 0.71

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Statements of Comprehensive Income

(Unaudited)

(Thousands of Dollars)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Net Income Available for Common Stock	$ 85,720	$ 67,392	$ 153,664	$ 128,091
Other Comprehensive Income (Loss), Before Tax:				
Unrealized Gain on Securities Available for Sale Arising During the Period	1,983	3,116	2,773	3,828
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(47,350)	14,498	(12,001)	16,653
Reclassification Adjustment for Realized Gains on Derivative Financial Instruments in Net Income	(10,503)	(16,185)	(22,088)	(28,050)
Other Comprehensive Income (Loss), Before Tax	(55,870)	1,429	(31,316)	(7,569)
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	741	1,161	1,037	1,424
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	(19,813)	840	(5,076)	1,657
Reclassification Adjustment for Income Tax Expense on Realized Gains from Derivative Financial Instruments In Net Income	(4,419)	(1,816)	(9,274)	(6,460)
Income Taxes – Net	(23,491)	185	(13,313)	(3,379)
Other Comprehensive Income (Loss)	(32,379)	1,244	(18,003)	(4,190)
Comprehensive Income	$ 53,341	$ 68,636	$ 135,661	$ 123,901

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Balance Sheets

(Unaudited)

	March 31, 2013	September 30, 2012
(Thousands of Dollars)		
ASSETS		
Property, Plant and Equipment	$ 6,954,180	$ 6,615,813
Less - Accumulated Depreciation, Depletion and Amortization	2,007,535	1,876,010
	4,946,645	4,739,803
Current Assets		
Cash and Temporary Cash Investments	112,413	74,494
Hedging Collateral Deposits	750	364
Receivables – Net of Allowance for Uncollectible Accounts of $38,996 and $30,317, Respectively	203,099	115,818
Unbilled Utility Revenue	41,735	19,652
Gas Stored Underground	14,443	49,795
Materials and Supplies - at average cost	31,538	28,577
Other Current Assets	51,731	56,121
Deferred Income Taxes	34,241	10,755
	489,950	355,576
Other Assets		
Recoverable Future Taxes	150,721	150,941
Unamortized Debt Expense	17,698	13,409
Other Regulatory Assets	556,310	546,851
Deferred Charges	7,829	7,591
Other Investments	92,746	86,774
Goodwill	5,476	5,476

Fair Value of Derivative Financial Instruments	6,471	27,616
Other	843	1,105
	838,094	839,763
Total Assets	$ 6,274,689	$ 5,935,142

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Balance Sheets

(Unaudited)

(Thousands of Dollars)	March 31, 2013	September 30, 2012
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Comprehensive Shareholders’ Equity		
Common Stock, $1 Par Value		
Authorized - 200,000,000 Shares; Issued		
And Outstanding – 83,521,745 Shares and		
83,330,140 Shares, Respectively	$ 83,522	$ 83,330
Paid in Capital	676,615	669,501
Earnings Reinvested in the Business	1,398,999	1,306,284
Accumulated Other Comprehensive Loss	(117,023)	(99,020)
Total Comprehensive Shareholders’ Equity	2,042,113	1,960,095
Long-Term Debt, Net of Current Portion	1,649,000	1,149,000
Total Capitalization	3,691,113	3,109,095
Current and Accrued Liabilities		
Notes Payable to Banks and Commercial Paper	-	171,000
Current Portion of Long-Term Debt	-	250,000
Accounts Payable	95,095	87,985
Amounts Payable to Customers	18,239	19,964
Dividends Payable	30,486	30,416
Interest Payable on Long-Term Debt	30,741	29,491
Customer Advances	145	24,055
Customer Security Deposits	17,138	17,942
Other Accruals and Current Liabilities	140,056	79,099
Fair Value of Derivative Financial Instruments	41,498	24,527
	373,398	734,479
Deferred Credits		
Deferred Income Taxes	1,179,594	1,065,757
Taxes Refundable to Customers	65,066	66,392
Unamortized Investment Tax Credit	1,792	2,005

Cost of Removal Regulatory Liability	149,651	139,611
Other Regulatory Liabilities	31,904	21,014
Pension and Other Post-Retirement Liabilities	500,946	516,197
Asset Retirement Obligations	125,328	119,246
Other Deferred Credits	155,897	161,346
	2,210,178	2,091,568
Commitments and Contingencies	-	-
Total Capitalization and Liabilities	$ 6,274,689	$ 5,935,142

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Consolidated Statements of Cash Flows

(Unaudited)

(Thousands of Dollars)	Six Months Ended March 31, 2013	2012
OPERATING ACTIVITIES		
Net Income Available for Common Stock	$ 153,664	$ 128,091
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	152,361	125,698
Deferred Income Taxes	102,557	81,696
Excess Tax Benefits Associated with Stock-Based Compensation Awards	-	(1,076)
Other	14,609	4,269
Change in:		
Hedging Collateral Deposits	(386)	829
Receivables and Unbilled Utility Revenue	(109,403)	(50,906)
Gas Stored Underground and Materials and Supplies	32,391	37,156
Other Current Assets	4,389	5,038
Accounts Payable	20,456	(10,933)
Amounts Payable to Customers	(1,725)	1,808
Customer Advances	(23,910)	(19,439)
Customer Security Deposits	(804)	(300)
Other Accruals and Current Liabilities	39,273	59,250
Other Assets	(6,200)	(5,555)
Other Liabilities	(10,417)	994
Net Cash Provided by Operating Activities	366,855	356,620
INVESTING ACTIVITIES		
Capital Expenditures	(339,737)	(517,330)
Other	(3,445)	(789)
Net Cash Used in Investing Activities	(343,182)	(518,119)
FINANCING ACTIVITIES		

Changes in Notes Payable to Banks and Commercial Paper	(171,000)	(20,000)
Excess Tax Benefits Associated with Stock-Based Compensation Awards	-	1,076
Net Proceeds from Issuance of Long-Term Debt	495,415	496,085
Reduction of Long-Term Debt	(250,000)	(150,000)
Dividends Paid on Common Stock	(60,879)	(58,877)
Net Proceeds from Issuance of Common Stock	710	5,030
Net Cash Provided by Financing Activities	14,246	273,314
Net Increase in Cash and Temporary Cash Investments	37,919	111,815
Cash and Temporary Cash Investments at October 1	74,494	80,428
Cash and Temporary Cash Investments at March 31	$ 112,413	$ 192,243

See Notes to Condensed Consolidated Financial Statements

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National Fuel Gas Company

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation. The Company consolidates all entities in which it has a controlling financial interest. 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.

Reclassifications and Revisions. Certain prior year amounts have been reclassified to conform with current year presentation.

Revisions were made on the Consolidated Statement of Cash Flows for the six months ended March 31, 2012 to reflect non-cash investing activities embedded in Accounts Payable on the Consolidated Balance Sheets at March 31, 2012 and September 30, 2011. These revisions increased the operating cash flows related to the change in Accounts Payable for the six months ended March 31, 2012 by $17.7 million and decreased investing cash flows related to Capital Expenditures by the same amounts.

In subsequent periods, revisions will be made on the Consolidated Statement of Cash Flows for the nine months ended June 30, 2012 and the fiscal years ended September 30, 2012 and September 30, 2011 to reflect non-cash investing activities embedded in Accounts Payable on the Consolidated Balance Sheets for the respective periods. These revisions will increase the operating cash flows related to the nine months ended June 30, 2012 by $32.8 million and decrease investing cash flows related to Capital Expenditures by the same amount. The revision for the fiscal years ended September 30, 2012 and September 30, 2011 will decrease operating cash flows by $1.8 million and $6.6 million, respectively, and increase investing cash flows related to Capital Expenditures by the same amounts. The revisions in the Consolidated Statement of Cash Flows noted above represent errors that are not deemed material, individually or in the aggregate, to the prior period consolidated financial statements.

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, 2012, 2011 and 2010 that are included in the Company's 2012 Form 10-K. The consolidated financial statements for the year ended September 30, 2013 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, 2013 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2013. 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 7 – 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.

The Company has accounts payable and accrued liabilities recorded on its Consolidated Balance Sheets that are related to capital expenditures. These amounts represent non-cash investing activities at the balance sheet date. Accordingly, they are excluded from the Consolidated Statement of Cash Flows when they are recorded as liabilities and included in the Consolidated Statement of Cash Flows when they are paid in the subsequent period. The following table summarizes the Company's non-cash capital expenditures recorded as Accounts Payable and Other Accruals and Current Liabilities on the Consolidated Balance Sheet:

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	At March 31,		At September 30,	
	2013	2012	2012	2011
	(Thousands)			
Non-cash Capital Expenditures	$ 77,093	$ 149,550	$ 67,503	$ 125,115

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, 2013, the Company had hedging collateral deposits of $0.8 million related to its over-the-counter crude oil and gas swap agreements. At September 30, 2012, the Company had hedging collateral deposits of $0.4 million related to its exchange-traded futures contracts. 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 $47.0 million at March 31, 2013, 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 $152.0 million and $146.1 million at March 31, 2013 and September 30, 2012, 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. The natural gas and oil prices used to calculate the full cost ceiling 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 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, 2013, the ceiling exceeded the book value of the oil and gas properties by approximately $61.0 million.

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

	At March 31, 2013	At September 30, 2012
Funded Status of the Pension and Other Post-Retirement Benefit Plans	$ (100,561)	$ (100,561)
Net Unrealized Gain (Loss) on Derivative Financial Instruments	(21,341)	(1,602)
Net Unrealized Gain on Securities Available for Sale	4,879	3,143
Accumulated Other Comprehensive Loss	$ (117,023)	$ (99,020)

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

	At March 31, 2013	At September 30, 2012
Prepayments	$ 3,568	$ 8,316
Prepaid Property and Other Taxes	20,858	14,455
Federal Income Taxes Receivable	749	268
State Income Taxes Receivable	885	2,065
Fair Values of Firm Commitments	-	1,291
Regulatory Assets	25,671	29,726
	$ 51,731	$ 56,121

Other Accruals and Current Liabilities. The components of the Company's Other Accruals and Current Liabilities are as follows (in thousands):

	At March 31, 2013	At September 30, 2012
Accrued Capital Expenditures	$ 59,395	$ 36,460
Regulatory Liabilities	11,802	18,289
Reserve for Gas Replacement	46,963	-
Other	21,896	24,350
	$ 140,056	$ 79,099

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 208,819 and 362,681 securities excluded as being antidilutive for the quarter and six months ended March 31, 2013, respectively. There were 879,847 and 297,081 securities excluded as being antidilutive for the quarter and six months ended March 31, 2012, respectively.

Stock-Based Compensation. During the six months ended March 31, 2013, the Company granted 412,970 SARs having a weighted average exercise price of $53.05 per share. The weighted average grant date fair value of these SARs was $10.66 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. The SARs granted during the six months ended March 31, 2013 vest and become exercisable annually in one-third increments. The weighted average grant date fair value of these SARs granted during the six months ended March 31, 2013 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 six months ended March 31, 2013.

The Company granted 255,604 performance based restricted stock units during the six months ended March 31, 2013. The weighted average fair value of such performance based restricted stock units was $49.51 per share for the six months ended March 31, 2013. The performance based restricted stock units granted during the six months ended March 31, 2013 must meet a performance condition over the performance cycle of October 1, 2012 to September 30, 2015. The performance condition over the performance cycle, generally stated, is the Company’s total return on capital as compared to the same metric for companies in the Natural Gas Distribution and Integrated Natural Gas Companies group as calculated and reported in the Monthly Utility Reports of AUS, Inc., a leading industry consultant. The number of performance based restricted stock units that will vest will depend upon the Company’s performance relative to the report group and not upon the absolute level of return achieved by the Company. The Company also granted 26,100 non-performance based restricted stock units during the six months ended March 31, 2013. The weighted average fair value of such non-performance based restricted stock units was $47.20 per share for the six months ended March 31, 2013.

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Restricted stock units, both performance based and non-performance based, 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. The performance based and non-performance based restricted stock units do not entitle the participant to receive dividends during the vesting period. The accounting for performance based and non-performance based 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 granted during the six months ended March 31, 2013.

New Authoritative Accounting and Financial Reporting Guidance. In December 2011, the FASB issued authoritative guidance requiring enhanced disclosures regarding offsetting assets and liabilities. Companies are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This authoritative guidance will be effective as of the Company’s first quarter of fiscal 2014 and is not expected to have a significant impact on the Company’s financial statements.

In February 2013, the FASB issued authoritative guidance requiring enhanced disclosures regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The authoritative guidance requires parenthetical disclosure on the face of the financial statements or a single footnote that would provide more detail about the components of reclassification adjustments that are reclassified in their entirety to net income. If a component of a reclassification adjustment is not reclassified in its entirety to net income, a cross reference would be made to the footnote disclosure that provides a more thorough discussion of the component involved in that reclassification adjustment. This authoritative guidance will be effective as of the Company’s first quarter of fiscal 2014. The Company does not expect this guidance to have a material impact.

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 can 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, 2013 and September 30, 2012. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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Recurring Fair Value Measures	At fair value as of March 31, 2013				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total
Assets:					
Cash Equivalents – Money Market Mutual Funds	$ 87,836	$ -	$ -	$ -	$ 87,836
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	3,701	-	-	(2,154)	1,547
Over the Counter Swaps – Gas	-	24,250	-	(19,326)	4,924
Over the Counter Swaps – Oil	-	662	-	(662)	-
Other Investments:					
Balanced Equity Mutual Fund	30,084	-	-	-	30,084
Common Stock – Financial Services Industry	5,817	-	-	-	5,817
Other Common Stock	312	-	-	-	312
Hedging Collateral Deposits	750	-	-	-	750
Total	$ 128,500	$ 24,912	$ -	$ (22,142)	$ 131,270
Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	$ 2,154	$ -	$ -	$ (2,154)	$ -
Over the Counter Swaps – Gas	-	41,626	-	(19,326)	22,300
Over the Counter Swaps – Oil	-	3,254	16,606	(662)	19,198
Total	$ 2,154	$ 44,880	$ 16,606	$ (22,142)	$ 41,498
Total Net Assets/(Liabilities)	$ 126,346	$ (19,968)	$ (16,606)	$ -	$ 89,772

Recurring Fair Value Measures	At fair value as of September 30, 2012				
(Thousands of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total
Assets:					
Cash Equivalents – Money Market Mutual Funds	$ 46,113	$ -	$ -	$ -	$ 46,113
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	4,348	-	-	(2,760)	1,588
Over the Counter Swaps – Gas	-	41,751	-	(15,723)	26,028
Over the Counter Swaps – Oil	-	-	559	(559)	-
Other Investments:					
Balanced Equity Mutual Fund	24,767	-	-	-	24,767
Common Stock – Financial Services Industry	4,758	-	-	-	4,758
Other Common Stock	272	-	-	-	272
Hedging Collateral Deposits	364	-	-	-	364
Total	$ 80,622	$ 41,751	$ 559	$ (19,042)	$ 103,890

Liabilities:					
Derivative Financial Instruments:					
Commodity Futures Contracts – Gas	$ 2,760	$ -	$ -	$ (2,760)	$ -
Over the Counter Swaps – Gas	-	19,932	-	(15,723)	4,209
Over the Counter Swaps – Oil	-	654	20,223	(559)	20,318
Total	$ 2,760	$ 20,586	$ 20,223	$ (19,042)	$ 24,527
Total Net Assets/(Liabilities)	$ 77,862	$ 21,165	$ (19,664)	$ -	$ 79,363

(1) Amounts represent the impact of legally-enforceable master netting arrangements that allow the Company to net gain and loss positions held with the same counterparties.

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Derivative Financial Instruments

At March 31, 2013 and September 30, 2012, the derivative financial instruments reported in Level 1 consist of natural gas NYMEX futures contracts used in the Company's Energy Marketing segment. Hedging collateral deposits of $0.4 million (at September 30, 2012), which are associated with these futures contracts, have been reported in Level 1 as well (there were no hedging collateral deposits associated with these futures contracts at March 31, 2013). The derivative financial instruments reported in Level 2 at March 31, 2013 and September 30, 2012 consist of natural gas price swap agreements used in the Company's Exploration and Production and Energy Marketing segments and some of the crude oil price swap agreements used in the Company's Exploration and Production segment. Hedging collateral deposits of $0.8 million associated with these Level 2 price swap agreements have been reported in Level 1 at March 31, 2013. The fair value of the Level 2 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 some of the Company's Exploration and Production segment's crude oil price swap agreements at March 31, 2013 and September 30, 2012. The fair value of the Level 3 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).

The significant unobservable input used in the fair value measurement of the majority of the Company's over-the-counter crude oil swaps is the basis differential between Midway Sunset oil and NYMEX contracts. Significant changes in the assumed basis differential could result in a significant change in value of the derivative financial instruments. At March 31, 2013, it was assumed that Midway Sunset oil was valued at 110.5% of the value of oil priced at NYMEX. This is based on a historical twelve month average of Midway Sunset oil sales verses NYMEX settlements. During this twelve-month period, the price of Midway Sunset oil ranged from 108.5% to 112.4% of NYMEX. If the basis differential between Midway Sunset oil and NYMEX contracts used in the fair value measurement calculation at March 31, 2013 had been 10 percentage points lower, the fair value of the Level 3 crude oil price swap agreements liability would have been approximately $13.1 million lower. If the basis differential between Midway Sunset oil and NYMEX contracts used in the fair value measurement at March 31, 2013 had been 10 percentage points higher, the fair value measurement of the Level 3 crude oil price swap agreements liability would have been approximately $13.1 million higher. These calculated amounts are based solely on basis differential changes and do not take into account any other changes to the fair value measurement calculation.

The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At March 31, 2013, the Company determined that nonperformance risk would have no material impact on its financial position or results of operation. To assess nonperformance risk, the Company considered information such as any applicable collateral posted, master netting arrangements, and applied a market-based method by using the counterparty (for an asset) or the Company's (for a liability) credit default swaps rates.

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, 2013 and 2012, respectively. For the quarters and six months ended March 31, 2013 and March 31, 2012, 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)

(Thousands of Dollars)		Total Gains/Losses			
	January 1, 2013	(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, 2013
Derivative Financial Instruments[2]	$ (14,089)	$ 4,539 (1)	$ (7,056)	$ -	$ (16,606)

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the three months ended March 31, 2013.

[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)		Total Gains/Losses			
	October 1, 2012	(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, 2013
Derivative Financial Instruments[2]	$ (19,664)	$ 6,801 (1)	$ (3,743)	$ -	$ (16,606)

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the six months ended March 31, 2013.

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

Fair Value Measurements Using Unobservable Inputs (Level 3)

(Thousands of Dollars)		Total Gains/Losses			
	January 1, 2012	(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, 2012
Derivative Financial Instruments[2]	$ (54,773)	$ 13,523 (1)	$ (27,504)	$ -	$ (68,754)

[1] Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the three months ended March 31, 2012.

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

Fair Value Measurements Using Unobservable Inputs (Level 3)

(Thousands of Dollars)		Total Gains/Losses			
	October 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, 2012
Derivative Financial Instruments(2)	$ (5,410)	$ 26,135 (1)	$ (89,479)	$ -	$ (68,754)

(1) Amounts are reported in Operating Revenues in the Consolidated Statement of Income for the six months ended March 31, 2012.

(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, 2013		September 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$ 1,649,000	$ 1,871,171	$ 1,399,000	$ 1,623,847

The fair value amounts are not intended to reflect principal amounts that the Company will ultimately be required to pay. Carrying amounts for other financial instruments recorded on the Company's Consolidated Balance Sheets

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approximate fair value. The fair value of long-term debt was calculated using observable inputs (U.S. Treasuries/LIBOR for the risk free component and company specific credit spread information – generally obtained from recent trade activity in the debt). As such, the Company considers the debt to be Level 2.

Temporary cash investments, notes payable to banks and commercial paper are stated at cost. Temporary cash investments are considered Level 1, while notes payable to banks and commercial paper are considered to be Level 2. Given the short-term nature of the notes payable to banks and commercial paper, the Company believes cost is a reasonable approximation of fair value.

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 $56.5 million and $57.0 million at March 31, 2013 and September 30, 2012, respectively. The fair value of the equity mutual fund was $30.1 million at March 31, 2013 and $24.8 million at September 30, 2012. The gross unrealized gain on this equity mutual fund was $4.2 million at March 31, 2013 and $2.6 million at September 30, 2012. The fair value of the stock of an insurance company was $5.8 million at March 31, 2013 and $4.8 million at September 30, 2012. The gross unrealized gain on this stock was $3.4 million at March 31, 2013 and $2.3 million at September 30, 2012. The insurance contracts and marketable equity securities are primarily informal funding mechanisms for various benefit obligations the Company has to certain employees.

Derivative Financial Instruments. The Company uses or has used derivative instruments to manage 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, forecasted gas sales, 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 does not typically exceed 5 years.

The Company has presented its net derivative assets and liabilities as "Fair Value of Derivative Financial Instruments" on its Consolidated Balance Sheets at March 31, 2013 and September 30, 2012. All of the derivative financial instruments reported on those line items related to commodity contracts as discussed in the paragraph above.

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.

As of March 31, 2013, 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	152.3 Bcf (all short positions)
Crude Oil	3,390,000 Bbls (all short positions)

As of March 31, 2013, 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, when applicable, 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):

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Commodity	Units
Natural Gas	7.6 Bcf (4.5 Bcf short positions (mostly forecasted storage withdrawals) and 3.1 Bcf long positions (mostly forecasted storage injections))

As of March 31, 2013, the Company’s Exploration and Production segment had $36.5 million ($21.2 million after tax) of net hedging losses included in the accumulated other comprehensive income (loss) balance. It is expected that $12.2 million ($7.1 million after tax) of such unrealized losses will be reclassified into the Consolidated Statement of Income within the next 12 months as the expected sales of the underlying commodities occur.

As of March 31, 2013, the Company’s Energy Marketing 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 $0.3 million ($0.2 million after tax) of such unrealized losses will be reclassified into the Consolidated Statement of Income (Loss) within the next 12 months as the expected sales of the underlying commodity occurs. It is expected that unrealized gains will be reclassified into the Consolidated Statement of Income in subsequent periods as the expected sales of the underlying commodities occur.

Refer to Note 1, under Accumulated Other Comprehensive Income (Loss), for the after-tax gain (loss) pertaining to derivative financial instruments for the Exploration and Production and Energy Marketing segments.

The Effect of Derivative Financial Instruments on the Statement of Financial Performance for the Three Months Ended March 31, 2013 and 2012 (Thousands of Dollars)

	Amount of Derivative Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on	Location of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the	Amount of Derivative Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet	Location of Derivative Gain or (Loss) Recognized in the Consolidated Statement of	Derivative Gain or (Loss) Recognized in the Consolidated Statement of Income (Ineffective

Derivatives in Cash Flow Hedging Relationships	the Consolidated Statement of Comprehensive Income (Loss) (Effective Portion) for the Three Months Ended March 31, 2013	2012	Consolidated Balance Sheet into the Consolidated Statement of Income (Effective Portion)	into the Consolidated Statement of Income (Effective Portion) for the Three Months Ended March 31, 2013	2012	Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Portion and Amount Excluded from Effectiveness Testing) for the Three Months Ended March 31, 2013	2012
Commodity Contracts – Exploration & Production segment	$ (47,364)	$ 13,463	Operating Revenue	$ 11,741	$ 12,569	Operating Revenue	$ (456)	$ -
Commodity Contracts – Energy Marketing segment	$ 14	$ 459	Purchased Gas	$ (782)	$ 3,040	Not Applicable	$ -	$ -
Commodity Contracts – Pipeline & Storage segment(1)	$ -	$ 576	Operating Revenue	$ -	$ 576	Not Applicable	$ -	$ -
Total	$ (47,350)	$ 14,498		$ 10,959	$ 16,185		$ (456)	$ -

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The Effect of Derivative Financial Instruments on the Statement of Financial Performance for the Six Months Ended March 31, 2013 and 2012 (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, 2013	2012	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, 2013	2012	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, 2013	2012
Commodity Contracts – Exploration & Production segment	$ (13,750)	$ 9,539	Operating Revenue	$ 24,046	$ 17,990	Operating Revenue	$ (456)	$ -
Commodity Contracts – Energy Marketing segment	$ 1,749	$ 6,538	Purchased Gas	$ (830)	$ 9,484	Not Applicable	$ -	$ -
Commodity Contracts – Pipeline & Storage segment(1)	$ -	$ 576	Operating Revenue	$ (672)	$ 576	Not Applicable	$ -	$ -
Total	$ (12,001)	$ 16,653		$ 22,544	$ 28,050		$ (456)	$ -

(1) There were no open hedging positions at March 31, 2013.

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 certain 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, 2013, the Company's Energy Marketing segment had fair value hedges covering approximately 6.8 Bcf (5.4 Bcf of fixed price sales commitments (mostly long positions) and 1.4 Bcf of fixed price purchase commitments (mostly short positions)). For derivative instruments that are designated and qualify 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.

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Derivatives in Fair Value Hedging Relationships – Energy Marketing segment	Location of Gain or (Loss) on Derivative and Hedged Item Recognized in the Consolidated Statement of Income	Amount of Gain or (Loss) on Derivative Recognized in the Consolidated Statement of Income for the Six Months Ended March 31, 2013 (In Thousands)	Amount of Gain or (Loss) on the Hedged Item Recognized in the Consolidated Statement of Income for the Six Months Ended March 31, 2013 (In Thousands)
Commodity Contracts – Hedge of fixed price sales commitments of natural gas	Operating Revenues	$ 1,499	$ (1,499)
Commodity Contracts – Hedge of fixed price purchase commitments of natural gas	Purchased Gas	$ (633)	$ 633
Commodity Contracts – Hedge of natural gas held in storage	Purchased Gas	$ (25)	$ 25
		$ 841	$ (841)

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 eleven counterparties of which three are in a net gain position. On average, the Company had $1.5 million of credit exposure per counterparty in a gain position at March 31, 2013. The maximum credit exposure per counterparty in a gain position at March 31, 2013 was $2.4 million. As of March 31, 2013, the Company had not received any collateral from the counterparties. 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, nor had the counterparties' credit ratings declined to levels at which the counterparties were required to post collateral.

As of March 31, 2013, nine of the eleven 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 may be required. At March 31, 2013, the fair market value of the derivative financial instrument assets with a credit-risk related contingency feature was $2.7 million according to the Company's internal model (discussed in Note 2 — Fair Value Measurements). At March 31, 2013, the fair market value of the derivative financial instrument liabilities with a credit-risk related contingency feature was $38.7 million according to the Company's internal model (discussed in Note 2 — Fair Value Measurements). For its over-the-counter swap agreements, the Company was required to post $0.8 million in hedging collateral deposits at March 31, 2013.

For its exchange traded futures contracts, which are in an asset position, the Company was not required to post any hedging collateral deposits as of March 31, 2013. 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

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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, 2013	2012
Current Income Taxes		
Federal	$ (6,318)	$ (4)
State	2,496	3,906
Deferred Income Taxes		
Federal	82,788	66,416
State	19,769	15,280
	98,735	85,598
Deferred Investment Tax Credit	(213)	(291)
Total Income Taxes	$ 98,522	$ 85,307
Presented as Follows:		
Other Income	(213)	(291)
Income Tax Expense	98,735	85,598
Total Income Taxes	$ 98,522	$ 85,307

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, 2013	2012
U.S. Income Before Income Taxes	$ 252,186	$ 213,398
Income Tax Expense, Computed at U.S. Federal Statutory Rate of 35%	$ 88,265	$ 74,689
Increase (Reduction) in Taxes Resulting from:		
State Income Taxes	14,473	12,471
Miscellaneous	(4,216)	(1,853)
Total Income Taxes	$ 98,522	$ 85,307

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

	At March 31, 2013	At September 30, 2012
Deferred Tax Liabilities:		
Property, Plant and Equipment	$ 1,427,288	$ 1,333,574
Pension and Other Post-Retirement Benefit Costs	239,234	236,431
Other	38,060	43,294
Total Deferred Tax Liabilities	1,704,582	1,613,299
Deferred Tax Assets:		
Pension and Other Post-Retirement Benefit Costs	(275,594)	(276,501)
Tax Loss Carryforwards	(188,968)	(198,744)
Other	(94,667)	(83,052)
Total Deferred Tax Assets	(559,229)	(558,297)
Total Net Deferred Income Taxes	$ 1,145,353	$ 1,055,002
Presented as Follows:		
Net Deferred Tax Liability/(Asset) – Current	(34,241)	(10,755)
Net Deferred Tax Liability – Non-Current	1,179,594	1,065,757
Total Net Deferred Income Taxes	$ 1,145,353	$ 1,055,002

For the quarter ended March 31, 2013, the balance of unrecognized tax benefits decreased by $9.3 million, primarily as a result of favorable settlements with taxing authorities (as discussed below), of which $2.1 million reduced the effective tax rate for the quarter. Approximately $1.9 million of the remaining balance of unrecognized tax benefits would favorably impact the effective tax rate, if recognized. It is reasonably possible that a reduction of $1.9 million of the balance of uncertain tax positions may occur as a result of potential settlements with taxing authorities within the next twelve months.

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 that arose directly from excess tax deductions related to stock-based compensation. Cumulative tax benefits of $37.5 million and $32.7 million for the periods ending March 31, 2013 and September 30, 2012, respectively, relating to the excess stock-based compensation deductions will be recorded in Paid in Capital in future years when such tax benefits are 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 $65.1 million and $66.4 million at March 31, 2013 and September 30, 2012, respectively. Also, regulatory assets representing future amounts collectible from customers, corresponding to additional deferred income taxes not previously recorded because of prior ratemaking practices, amounted to $150.7 million and $150.9 million at March 31, 2013 and September 30, 2012, respectively.

The Internal Revenue Service (IRS) is currently conducting examinations of the Company for fiscal 2012 and fiscal 2013 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 2009 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 the quarter ended March 31, 2013, local IRS examiners issued no-change reports for fiscal 2009, fiscal 2010 and fiscal 2011, but have reserved the right to re-examine these years, pending the anticipated issuance of IRS guidance addressing the issue for natural gas utilities. In addition, the Company negotiated a settlement of the fiscal 2011 Research Tax Credit.

The Company is also subject to various routine state income tax examinations. The Company's principal subsidiaries operate mainly 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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On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012 (the Relief Act). The Relief Act does not have a material effect on the Company's financial statements.

Note 5 - Capitalization

Common Stock. During the six months ended March 31, 2013, the Company issued 411,625 original issue shares of common stock as a result of stock option and SARs exercises. In addition, the Company issued 68,306 original issue shares of common stock for the Direct Stock Purchase and Dividend Reinvestment Plan. The Company also issued 7,980 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, 2013. 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, 2013, 296,306 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 September 30, 2012 consisted of $250 million of 5.25% notes that matured in March 2013. None of the Company's long-term debt at March 31, 2013 will mature within the following twelve-month period.

Long-Term Debt. On February 15, 2013, the Company issued $500.0 million of 3.75% notes due March 1, 2023. After deducting underwriting discounts and commissions, the net proceeds to the Company amounted to $495.4 million. The holders of the notes may require the Company to repurchase their notes at a price equal to 101% of the principal amount in the event of a change in control and a ratings downgrade to a rating below investment grade. The proceeds of this debt issuance were used to refund the $250 million of 5.25% notes that matured in March 2013, as well as for general corporate purposes, including the reduction of short-term debt.

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. In February 2009, the Company received approval from the NYDEC of a Remedial Design Work Plan (RDWP) for this site. In October 2010, the Company submitted a RDWP addendum to conduct additional Preliminary Design Investigation field activities necessary to design a successful remediation. As a result of this work, the Company submitted to the NYDEC a proposal to amend the NYDEC's Record of Decision (ROD) remedy for the site. In April 2013, the NYDEC approved the Company's proposed amendment. Design work for the amended ROD remedy is expected to begin in the summer of 2013. An estimated minimum liability for remediation of this site of $13.9 million has been recorded.

At March 31, 2013, 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 $16.5 million to $17.0 million. The minimum estimated liability of $16.5 million, which includes the $13.9 million discussed above, has been recorded in Other Deferred Credits on the Consolidated Balance Sheet at March 31, 2013. The Company expects to recover its environmental clean-up costs through rate recovery over a period of approximately 10 years.

The Company is currently not aware of any material additional exposure to environmental liabilities. However, changes in environmental laws and regulations, new information or other factors could have an adverse financial impact on 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

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with regulations, rate base, cost of service and purchased gas cost issues, among other things. While these other matters arising in the normal course of business could have a material effect on earnings and cash flows in the period in which they are resolved, an estimate of the possible loss or range of loss, if any, cannot be made at this time.

Note 7 – 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 2012 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 not been any changes in the basis of segmentation nor in the basis of measuring segment profit or loss from those used in the Company's 2012 Form 10-K. As for segment assets, the significant changes from the segment assets disclosed in the 2012 Form 10-K involve the Exploration and Production, Utility, and Pipeline and Storage segments as well as the All Other category. Total Exploration and Production segment assets, Utility segment assets and Pipeline and Storage segment assets have increased by $153.6 million, $49.4 million, and $20.5 million, respectively, during the six months ended March 31, 2013. The All Other category assets and the Corporate and Intersegment Eliminations assets have increased by $48.0 million and $59.5 million, respectively, during the six months ended March 31, 2013.

Quarter Ended March 31, 2013 (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	$ 303,389	$ 46,383	$ 168,080	$ 78,989	$ 596,841	$ 761	$ 224	$ 597,826
Intersegment Revenues	$ 6,396	$ 23,712	$ -	$ 208	$ 30,316	$ 7,898	$ (38,214)	$ -

Segment Profit: Net Income (Loss)	$ 34,516	$ 16,796	$ 27,711	$ 4,283	$ 83,306	$ 3,064	$ (650)	$ 85,720

Six Months Ended March 31, 2013 (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	$ 511,953	$ 89,842	$ 323,529	$ 123,154	$ 1,048,478	$ 1,778	$ 424	$ 1,050,680
Intersegment Revenues	$ 10,707	$ 46,509	$ -	$ 634	$ 57,850	$ 13,377	$ (71,227)	$ -
Segment Profit: Net Income (Loss)	$ 57,394	$ 33,728	$ 54,391	$ 4,778	$ 150,291	$ 4,950	$ (1,577)	$ 153,664

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Quarter Ended March 31, 2012 (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	$ 296,786	$ 42,120	$ 136,926	$ 75,223	$ 551,055	$ 1,023	$ 231	$ 552,309
Intersegment Revenues	$ 5,551	$ 21,294	$ -	$ 269	$ 27,114	$ 3,159	$ (30,273)	$ -
Segment Profit: Net Income (Loss)	$ 28,275	$ 12,841	$ 22,192	$ 3,310	$ 66,618	$ 1,339	$ (565)	$ 67,392

Six Months Ended March 31, 2012 (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	$ 505,596	$ 77,345	$ 272,899	$ 126,445	$ 982,285	$ 1,960	$ 487	$ 984,732
Intersegment Revenues	$ 9,940	$ 42,359	$ -	$ 556	$ 52,855	$ 6,520	$ (59,375)	$ -
Segment Profit: Net Income (Loss)	$ 47,628	$ 22,801	$ 52,507	$ 3,739	$ 126,675	$ 2,743	$ (1,327)	$ 128,091

Note 8 – Retirement Plan and Other Post-Retirement Benefits

Components of Net Periodic Benefit Cost (in thousands):

Three Months Ended March 31,

	Retirement Plan		Other Post-Retirement Benefits	
	2013	2012	2013	2012
Service Cost	$ 3,961	$ 3,551	$ 1,176	$ 1,004
Interest Cost	9,124	10,381	4,803	5,329
Expected Return on Plan Assets	(14,336)	(14,925)	(8,218)	(7,243)
Amortization of Prior Service Cost	60	67	(534)	(534)
Amortization of Transition Amount	-	-	2	3
Amortization of Losses	13,194	9,904	5,223	6,014
Net Amortization and Deferral for Regulatory Purposes (Including Volumetric Adjustments) [1]	1,724	2,200	6,459	5,141
Net Periodic Benefit Cost	$ 13,727	$ 11,178	$ 8,911	$ 9,714

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Six Months Ended March 31,

	Retirement Plan		Other Post-Retirement Benefits	
	2013	2012	2013	2012
Service Cost	$ 7,923	$ 7,101	$ 2,352	$ 2,008
Interest Cost	18,249	20,763	9,606	10,657
Expected Return on Plan Assets	(28,673)	(29,850)	(16,436)	(14,486)
Amortization of Prior Service Cost	119	134	(1,069)	(1,069)
Amortization of Transition Amount	-	-	4	5
Amortization of Losses	26,388	19,807	10,446	12,029
Net Amortization and Deferral for Regulatory Purposes (Including Volumetric Adjustments) (1)	(1,958)	399	9,162	7,274
Net Periodic Benefit Cost	$ 22,048	$ 18,354	$ 14,065	$ 16,418

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

Employer Contributions. During the six months ended March 31, 2013, the Company contributed $42.0 million to its tax-qualified, noncontributory defined-benefit retirement plan (Retirement Plan) and $11.8 million to its VEBA trusts and 401(h) accounts for its other post-retirement benefits. The Company does not plan to make any further contributions to the Retirement Plan for the remainder of 2013. Changes in the discount rate, other actuarial assumptions, and asset performance could ultimately cause the Company to fund larger amounts to the Retirement Plan in fiscal 2013 in order to be in compliance with the Pension Protection Act of 2006 (as impacted by the Moving Ahead for Progress in the 21st Century Act). In July 2012, the Surface Transportation Extension Act, which is also referred to as the Moving Ahead for Progress in the 21st Century Act (the Act), was passed by Congress and signed by the President. The Act included pension funding stabilization provisions. The Company is continually evaluating its future contributions in light of the provisions of the Act. For the remainder of 2013, the Company expects to contribute approximately $6.3 million to its VEBA trusts and 401(h) accounts.

Note 9 – Regulatory Matters

On March 27, 2013, Distribution Corporation filed a plan ("Plan") with the NYPSC proposing to adopt an "earnings stabilization and sharing mechanism" that would allocate earnings above a rate of return on equity of 9.96% evenly between shareholders and an accounting reserve ("Reserve"). The Reserve would be utilized to stabilize Distribution Corporation's earnings and to fund customer benefit programs. The Plan also proposed to increase capital spending and to aid new customer system expansion efforts. Discussions were held with NYPSC staff and others with respect to the Plan.

In a related development, on April 19, 2013, the NYPSC issued an order directing Distribution Corporation to either agree to make its rates and charges temporary subject to refund effective June 1, 2013, or show cause why its gas rates and charges should not be set on a temporary basis subject to refund (“Order”). The Order recognized Distribution Corporation’s Plan and, while lauding the Company’s cost-cutting and efficiency achievements, determined nonetheless that the Plan did not propose to adjust “existing rates . . . enough to compensate for the imbalance between ratepayer and shareholder interests that has developed since . . . 2007 . . .” The Order commences a “temporary rate” proceeding under which a utility’s rates and charges are subject to refund or recoupment following further proceedings to establish a permanent rate. The Order also provides for an examination of the “applicability and appropriateness of PSL §66(20) as a potential remedy in addition to temporary rates.” PSL §66(20) is a subdivision of the Public Service Law that provides the NYPSC with stated authority to direct a refund of revenues received by a utility “in excess of its authorized rate of return for a period of twelve months.” Distribution Corporation is evaluating the Order and plans to respond with information as directed by the NYPSC, and otherwise as is determined necessary and appropriate.

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

OVERVIEW

Please note that this overview is a high-level summary of items that are discussed in greater detail in subsequent sections of this report.

The Company is a diversified energy holding company that owns a number of subsidiary operating companies, and reports financial results in four reportable business segments. For the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012, the Company experienced an increase in earnings of $18.3 million. For the six months ended March 31, 2013 compared to the six months ended March 31, 2012, the Company experienced an increase in earnings of $25.6 million. The earnings increase for both the quarter and six-month periods ended March 31, 2013 reflect increases in all of the Company's segments as well as the All Other category. For further discussion of the Company's earnings, refer to the Results of Operations section below.

The Company's natural gas reserve base has grown substantially in recent years due to its development of reserves in the 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. The Company controls the natural gas interests associated with approximately 775,000 net acres within the Marcellus Shale area, with a majority of the interests held in fee, carrying no royalty and no lease expirations. Natural gas proved developed and undeveloped reserves in the Appalachian region increased from 607 Bcf at September 30, 2011 to 925 Bcf at September 30, 2012. The Company has spent significant amounts of capital in this region related to the development of such reserves. For the six months ended March 31, 2013, the Company's Exploration and Production segment had capital expenditures of $219.3 million in the Appalachian region, of which $206.8 million was spent towards the development of the Marcellus Shale. The Company's fiscal 2013 estimated capital expenditures in the Appalachian region are expected to be approximately $460.0 million.

From a capital resources perspective, the Company has largely been able to meet its capital expenditure needs by using cash from operations as well as both short and long-term debt. In February 2013, the Company issued $500.0 million of 3.75% notes due in March 2023 to refund the $250.0 million of 5.25% notes that matured in March 2013 and to enhance its liquidity position.

The well completion technology referred to as hydraulic fracturing used in conjunction with horizontal drilling continues to be debated. In Pennsylvania, where the Company is focusing its Marcellus Shale development efforts, the permitting and regulatory processes seem to strike a balance between the environmental concerns associated with hydraulic fracturing and the benefits of increased natural gas production. Hydraulic fracturing is a well stimulation technique that has been used for many years and, in the Company's experience, one that the Company believes has little negative impact to the environment. Nonetheless, the potential for increased state or federal regulation of hydraulic fracturing could impact future costs of drilling in the Marcellus Shale and lead to operational delays or restrictions. There is also the risk that drilling could be prohibited on certain acreage that is prospective for the Marcellus Shale. Please refer to the Risk Factors section of the Company’s 2012 Form 10-K for further discussion.

CRITICAL ACCOUNTING ESTIMATES

For a complete discussion of critical accounting estimates, refer to "Critical Accounting Estimates" in Item 7 of the Company's 2012 Form 10-K and Item 2 of the Company’s December 31, 2012 Form 10-Q. There have been no material changes to that disclosure other than as set forth below. The information presented below updates and should be read in conjunction with the critical accounting estimates in that Form 10-K.

Oil and Gas Exploration and Development Costs. The Company, in its Exploration and Production segment, follows the full cost method of accounting for determining the book value of its oil and natural gas properties. In accordance with this methodology, the Company is required to perform a quarterly ceiling test. Under the ceiling test, the present value of future revenues from the Company's oil and gas reserves 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 (the “ceiling”) is compared with the book value of the Company’s oil and gas properties at the balance sheet date. If the book value of the oil and gas properties exceeds the ceiling, a non-cash impairment charge must be recorded to reduce the book value of the oil and gas properties to the calculated ceiling. At March 31, 2013, the ceiling exceeded the book value of the oil and gas properties by approximately $61.0 million. The 12-month average of the first day of the month price for crude oil for each month during the twelve months ended March 31, 2013, based on posted Midway Sunset prices, was $102.29 per Bbl. The 12-month average of the first day of the month price for natural gas for each month during the twelve months ended March 31, 2013, based on the quoted Henry Hub spot price for natural gas, was $2.95 per MMBtu.

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(Note – Because actual pricing of the Company’s various producing properties varies depending on their location and hedging, the actual various prices received for such production is utilized to calculate the ceiling, rather than the Midway Sunset and Henry Hub prices, which are only indicative of 12-month average prices for the twelve months ended March 31, 2013.) If natural gas average prices used in the ceiling test calculation at March 31, 2013 had been $1 per MMBtu lower, the book value of the Company’s oil and gas properties would have exceeded the ceiling by approximately $186.9 million, which would have resulted in an impairment charge. If crude oil average prices used in the ceiling test calculation at March 31, 2013 had been $5 per Bbl lower, the ceiling would have exceeded the book value of the Company’s oil and gas properties by approximately $16.9 million. If both natural gas and crude oil average prices used in the ceiling test calculation at March 31, 2013 were lower by $1 per MMBtu and $5 per Bbl, respectively, the book value of the Company’s oil and gas properties would have exceeded the ceiling by approximately $231.0 million, which would have resulted in an impairment charge. These calculated amounts are based solely on price changes and do not take into account any other changes to the ceiling test calculation. For a more complete discussion of the full cost method of accounting, refer to "Oil and Gas Exploration and Development Costs" under "Critical Accounting Estimates" in Item 7 of the Company's 2012 Form 10-K.

RESULTS OF OPERATIONS

Earnings

The Company’s earnings were $85.7 million for the quarter ended March 31, 2013 compared with earnings of $67.4 million for the quarter ended March 31, 2012. The increase in earnings of $18.3 million is primarily a result of higher earnings in all of the Company’s segments as well as in the All Other category.

The Company's earnings were $153.7 million for the six months ended March 31, 2013 compared to earnings of $128.1 million for the six months ended March 31, 2012. The increase in earnings of $25.6 million is primarily a result of higher earnings in all of the Company’s segments as well as in the All Other category.

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

Earnings (Loss) by Segment

	Three Months Ended March 31,			Six Months Ended March 31,		
(Thousands)	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Utility	$ 34,516	$ 28,275	$ 6,241	$ 57,394	$ 47,628	$ 9,766
Pipeline and Storage	16,796	12,841	3,955	33,728	22,801	10,927
Exploration and Production	27,711	22,192	5,519	54,391	52,507	1,884
Energy Marketing	4,283	3,310	973	4,778	3,739	1,039
Total Reportable Segments	83,306	66,618	16,688	150,291	126,675	23,616
All Other	3,064	1,339	1,725	4,950	2,743	2,207
Corporate	(650)	(565)	(85)	(1,577)	(1,327)	(250)
Total Consolidated	$ 85,720	$ 67,392	$ 18,328	$ 153,664	$ 128,091	$ 25,573

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Utility

Utility Operating Revenues

(Thousands)	Three Months Ended March 31, 2013	2012	Increase (Decrease)	Six Months Ended March 31, 2013	2012	Increase (Decrease)
Retail Sales Revenues:						
Residential	$ 208,701	$ 207,409	$ 1,292	$ 354,506	$ 355,672	$ (1,166)
Commercial	30,759	28,208	2,551	48,351	45,853	2,498
Industrial	2,454	1,675	779	4,227	2,697	1,530
	241,914	237,292	4,622	407,084	404,222	2,862
Transportation	49,460	43,124	6,336	86,713	78,088	8,625
Off-System Sales	16,300	17,865	(1,565)	25,020	27,010	(1,990)
Other	2,111	4,056	(1,945)	3,843	6,216	(2,373)
	$ 309,785	$ 302,337	$ 7,448	$ 522,660	$ 515,536	$ 7,124

Utility Throughput

(MMcf)	Three Months Ended March 31, 2013	2012	Increase (Decrease)	Six Months Ended March 31, 2013	2012	Increase (Decrease)
Retail Sales:						
Residential	25,372	21,384	3,988	40,525	35,933	4,592
Commercial	3,871	3,161	710	5,838	5,155	683
Industrial	405	187	218	706	288	418
	29,648	24,732	4,916	47,069	41,376	5,693
Transportation	27,616	22,719	4,897	46,254	39,647	6,607
Off-System Sales	4,288	6,799	(2,511)	6,716	9,544	(2,828)
	61,552	54,250	7,302	100,039	90,567	9,472

Degree Days

				Percent	
Three Months Ended				Colder (Warmer) Than	
March 31	Normal	2013	2012	Normal[1]	Prior Year[1]
Buffalo	3,290	3,145	2,572	(4.4)	22.3
Erie	3,108	3,067	2,403	(1.3)	27.6
Six Months Ended					
March 31					
Buffalo	5,543	5,181	4,420	(6.5)	17.2
Erie	5,152	4,965	4,124	(3.6)	20.4

(1) Percents compare actual 2013 degree days to normal degree days and actual 2013 degree days to actual 2012 degree days.

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2013 Compared with 2012

Operating revenues for the Utility segment increased $7.4 million for the quarter ended March 31, 2013 as compared with the quarter ended March 31, 2012. This increase resulted from a $6.3 million increase in transportation revenues and a $4.6 million increase in retail gas sales revenues. These were partially offset by a $1.6 million decrease in off-system sales revenue (due to lower volumes), and a $1.9 million decrease in other revenue. The increase in transportation revenues of $6.3 million was primarily due to a 4.9 Bcf increase in transportation throughput, largely the result of colder weather compared to the prior period and the migration of customers from retail sales to transportation services. The increase in retail gas sales revenues was primarily due to the impact of a 4.9 Bcf increase in retail throughput, which more than offset the impact of a lower cost of gas sold. The increase in retail throughput was largely the result of colder weather compared to the prior period, which more than offset the volume reduction associated with the migration of customers from retail sales to transportation services. The Utility segment's average cost of purchased gas sold decreased 7% quarter over quarter. The decrease in other revenue was largely due to the non-recurrence of a regulatory adjustment recorded during the quarter ended March 31, 2012 to increase previous undercollection of pension and other post-retirement benefit costs. In addition, a decline in capacity release revenues led to a decline in other revenues. As a result of the unusually warm winter during fiscal 2012, the demand for capacity release volumes decreased as customers were initiating contracts for fiscal 2013, which led to a decrease in the capacity release rates and revenues. Due to profit sharing with retail customers, the margins resulting from off-system sales are minimal and there is not a material impact to margins.

Operating revenues for the Utility segment increased $7.1 million for the six months ended March 31, 2013 as compared with the six months ended March 31, 2012. This increase resulted from an $8.6 million increase in transportation revenues and a $2.9 million increase in retail gas sales revenues. These were partially offset by a $2.0 million decrease in off-system sales revenue (due to lower volumes), and a $2.4 million decrease in other revenue. The increase in transportation revenues of $8.6 million was primarily due to a 6.6 Bcf increase in transportation throughput, largely the result of colder weather compared to the prior period and the migration of customers from retail sales to transportation services. The increase in retail gas sales revenues was primarily due to the impact of a 5.7 Bcf increase in retail throughput, which more than offset the impact of a lower cost of gas sold. The increase in retail throughput was largely the result of colder weather compared to the prior period, which more than offset the volume reduction associated with the migration of customers from retail sales to transportation services. The Utility segment's average cost of purchased gas sold decreased 6% period over period. The decrease in other revenue was largely due to the non-recurrence of a regulatory adjustment recorded during the quarter ended March 31, 2012 to increase previous undercollection of pension and other post-retirement benefit costs. In addition, a decline in capacity release revenues led to a decline in other revenues, as discussed in the previous paragraph. Due to profit sharing with retail customers, the margins resulting from off-system sales are minimal and there is not a material impact to margins.

The Utility segment's earnings for the quarter ended March 31, 2013 were $34.5 million, an increase of $6.2 million when compared with earnings of $28.3 million for the quarter ended March 31, 2012. The increase in earnings is largely attributable to colder weather ($5.4 million), lower income tax expense of $1.5 million (primarily as a result of a favorable tax settlement) and lower interest expense of $0.9 million (primarily a result of reduced interest on a favorable tax settlement). These increases were partially offset by decreases in the aforementioned regulatory adjustments ($0.6 million) and lower capacity release revenues ($0.5 million).

The impact of weather variations on earnings in the Utility segment's New York rate jurisdiction is mitigated by that jurisdiction's weather normalization clause (WNC). The WNC in New York, which covers the eight-month period from October through May, has had a stabilizing effect on earnings for the New York rate jurisdiction. In addition, in periods of colder than normal weather, the WNC benefits the Utility segment's New York customers. For the quarter ended March 31, 2013, the WNC preserved earnings of approximately $1.1 million, as the weather was warmer than normal. For the quarter ended March 31, 2012, the WNC preserved earnings of approximately $3.3 million, as the weather was warmer than normal.

The Utility segment's earnings for the six months ended March 31, 2013 were $57.4 million, an increase of $9.8 million when compared with earnings of $47.6 million for the six months ended March 31, 2012. The increase in earnings is largely attributable to colder weather ($6.6 million), lower income tax expense of $2.0 million (primarily as a result of a favorable tax settlement), lower operating expenses of $1.3 million (due to decreased bad debt expense) and lower interest expense of $0.8 million (primarily a result of reduced interest on a favorable tax settlement). These increases were partially offset by lower capacity release revenues ($0.7 million).

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For the six months ended March 31, 2013, the WNC preserved earnings of approximately $1.7 million, as the weather was warmer than normal. For the six months ended March 31, 2012, the WNC preserved earnings of approximately $4.7 million, as the weather was warmer than normal.

Pipeline and Storage

Pipeline and Storage Operating Revenues

	Three Months Ended March 31,			Six Months Ended March 31,		
(Thousands)	2013	2012	Increase (Decrease)	2013	2012	Increase
Firm Transportation	$ 50,635	$ 45,007	$ 5,628	$ 97,232	$ 84,139	$ 13,093
Interruptible Transportation	514	335	179	1,015	738	277
	51,149					