

NATIONAL FUEL GAS CO

Form DEF 14A

January 06, 2005

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

National Fuel Gas Company

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(2) Form, schedule or registration statement no.:

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(3) Filing party:

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(4) Date filed:

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**NATIONAL FUEL GAS COMPANY**

**Notice of Annual Meeting**

**and**

**Proxy Statement**

**Annual Meeting of Stockholders**

**to be held on**

**February 17, 2005**

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**NATIONAL FUEL GAS COMPANY**

**6363 MAIN STREET  
WILLIAMSVILLE, NEW YORK 14221**

January 6, 2005

Dear Stockholder:

We are pleased to invite you to join us at the Annual Meeting of Stockholders of National Fuel Gas Company. The meeting will be held at 10:00 A.M. local time on Thursday, February 17, 2005, at The Woodlands Resort & Conference Center, 2301 N. Millbend Dr., The Woodlands, TX 77380. The matters on the agenda for the meeting are outlined in the enclosed Notice of Meeting and Proxy Statement.

So that you may elect Company directors and secure the representation of your interests at the Annual Meeting, we urge you to vote your shares. The preferred method of voting is by telephone as described on the proxy card. This method is both convenient for you and reduces the expense of soliciting proxies for the Company. If you prefer not to vote by telephone, please complete, sign and date your proxy card and mail it in the envelope provided. The Proxies are committed by law to vote your proxy as you designate.

If you plan to be present at the Annual Meeting, please respond to the question if you vote by telephone, or check the **WILL ATTEND MEETING** box on the proxy card. Whether or not you plan to attend, please vote your shares by telephone or complete, sign, date and promptly return your proxy card so that your vote may be counted. If you do attend and wish to vote in person, you can revoke your proxy by giving written notice to the Secretary of the meeting and/or the Trustee (as described on the first page of this proxy statement), and/or by casting your ballot at the meeting.

Coffee will be served at 9:30 A.M. and I look forward to meeting you at that time.

Please review the proxy statement and take advantage of your right to vote.

Sincerely yours,

**PHILIP C. ACKERMAN**  
*Chairman of the Board of Directors,*  
*Chief Executive Officer and President*

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**NATIONAL FUEL GAS COMPANY**

**6363 MAIN STREET  
WILLIAMSVILLE, NEW YORK 14221**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**to be Held on February 17, 2005**

To the Stockholders of National Fuel Gas Company:

Notice is hereby given that the Annual Meeting of Stockholders of National Fuel Gas Company will be held at 10:00 A.M. local time on Thursday, February 17, 2005, at The Woodlands Resort & Conference Center, 2301 N. Millbend Dr., The Woodlands, TX 77380. At the meeting, action will be taken with respect to:

- (1) the election of directors;
- (2) the appointment of an independent registered public accounting firm;
- (3) the approval of amendments to the Company's Restated Certificate of Incorporation;
- (4) the adoption of, if presented at the meeting, a shareholder proposal which the Board of Directors OPPOSES; and such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on December 20, 2004, will be entitled to vote at the meeting.

BY ORDER OF THE BOARD OF DIRECTORS

ANNA MARIE CELLINO  
*Secretary*

January 6, 2005

**YOUR VOTE IS IMPORTANT**

**Whether or not you plan to attend the meeting, and whatever the number of shares you own, please vote your shares by telephone as described on the proxy/voting instruction card and reduce National Fuel Gas Company's expense in soliciting proxies. Alternatively, you may complete, sign, date and promptly return the enclosed proxy/voting instruction card. Please use the accompanying envelope, which requires no postage if mailed in the United States.**

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**NATIONAL FUEL GAS COMPANY**

**6363 MAIN STREET  
WILLIAMSVILLE, NEW YORK 14221**

**PROXY STATEMENT**

This proxy statement is furnished to the holders of National Fuel Gas Company ( Company ) common stock ( Common Stock ) in connection with the solicitation of proxies on behalf of the Board of Directors of the Company for use at the Annual Meeting of Stockholders to be held on February 17, 2005, or any adjournment thereof. This proxy statement and the accompanying proxy/voting instruction card are first being mailed to stockholders on or about January 6, 2005.

All costs of soliciting proxies will be borne by the Company. Morrow & Co., Inc., 445 Park Avenue, New York, New York 10022, has been retained to assist in the solicitation of proxies and will be compensated in the estimated amount of \$8,500 plus reasonable out-of-pocket expenses. In addition to solicitation by that firm and by mail, a number of regular employees of the Company and its subsidiaries may solicit proxies in person, by telephone or by other methods.

Only stockholders of record at the close of business on December 20, 2004, will be eligible to vote at this meeting or any adjournment thereof. As of that date, 83,189,636 shares of Common Stock were issued and outstanding. The holders of 41,594,819 shares will constitute a quorum at the meeting.

Each share of Common Stock entitles the holder thereof to one vote with respect to each matter that is subject to a vote at the meeting. All shares that are represented by effective proxies received by the Company in time to be voted will be voted at the meeting or any adjournment thereof. Where stockholders direct how their votes shall be cast, shares will be voted in accordance with such directions. Proxies submitted with abstentions and broker non-votes will be included in determining whether or not a quorum is present. Abstentions and broker non-votes will not be counted in tabulating the number of votes cast on proposals submitted to stockholders and therefore will have no effect on the outcome of the votes.

The proxy also confers discretionary authority to vote on all matters that may properly come before the Annual Meeting of Stockholders, or any adjournment thereof, respecting (i) matters of which the Company did not have timely notice but that may be presented at the meeting, (ii) approval of the minutes of the prior meeting; (iii) the election of any person as a director if a nominee is unable to serve or for good cause will not serve; (iv) any shareholder proposal omitted from this proxy statement pursuant to Rule 14a-8 or 14a-9 of the Securities and Exchange Commission's proxy rules, and (v) all matters incident to the conduct of the meeting.

Any stockholder giving a proxy may revoke it at any time prior to the voting thereof by mailing a revocation or a subsequent proxy to Anna Marie Cellino at the above address, by filing written revocation at the meeting with Mrs. Cellino, secretary of the meeting, or by casting a ballot.

If you are a participant in the Company's Employee Stock Ownership Plan or Tax-Deferred Savings Plans, and the accounts are registered in the same name, the proxy card will also serve as a voting instruction for the Trustee of those Plans. All shares of Company Stock for which the Trustee has not received timely directions shall be voted by the Trustee in the same proportion as the shares of Company Stock for which the Trustee received timely directions, except in the case where to do so would be inconsistent with the provisions of Title I of ERISA. If the proxy/voter instruction card is returned signed but without directions marked for one or more items, regarding the unmarked items you are instructing the Trustee and the Proxies to vote FOR items 1, 2 and 3 and vote AGAINST item 4. Participants in the Plan(s) may also provide those voting instructions by telephone. These instructions may be revoked by written notice to Vanguard Fiduciary Trust Company, Trustee for the Company's Tax-Deferred Savings Plans and the Employee Stock Ownership Plan, on or before February 14, 2005 at the following address:

National Fuel Gas Company

c/o The Bank of New York  
P.O. Box 11057  
New York, NY 10203-0057

Enclosed is a copy of the Company's Annual Report and Form 10-K for the fiscal year ended September 30, 2004, which includes financial statements. The Company will furnish any exhibit to the Form 10-K upon request to the Secretary at the Company's principal office, and upon payment of \$5 per exhibit.





## 1. ELECTION OF DIRECTORS

Four directors are to be elected at this Annual Meeting. The nominees for the four directorships are: Robert T. Brady, Rolland E. Kidder, Richard G. Reiten and Craig G. Matthews. Messrs. Brady, Kidder and Reiten are all currently directors of the Company. Mr. Reiten was elected to the Board of Directors at the December 9, 2004 Board Meeting to serve for a term until his reelection at this Annual Meeting. Mr. Reiten and Mr. Matthews were originally recommended to the Nominating/ Corporate Governance Committee by Philip C. Ackerman, the Company's chairman, chief executive officer and president, with the concurring recommendation of some non-management directors.

The Company's Certificate of Incorporation provides that the Board of Directors shall be divided into three classes, and that these three classes shall be as nearly equal in number as possible. (A class of directors is the group of directors whose terms expire at the same annual meeting of stockholders.)

Messrs. Brady and Kidder have been nominated to serve for terms of three years until the 2008 Annual Meeting and until their successors are duly elected and qualified. Messrs. Matthews and Reiten have been nominated to serve for terms of two years until the 2007 Annual Meeting and until their successors are duly elected and qualified. As a result of these actions, there will be three classes of directors with terms that will expire in 2006 (three directors), 2007 (three directors) and 2008 (two directors), respectively.

The service of current director Dr. Bernard S. Lee will end at the 2005 Annual Meeting. It is the policy of the Company, as reflected in its Corporate Governance Guidelines (included in this proxy statement as Appendix A), that directors shall retire not later than the date of the annual meeting of shareholders following the date of their 70th birthday. Dr. Lee has been a director since 1994. The Board is deeply appreciative of his many valuable contributions to the Company over that time.

It is intended that the Proxies will vote for the election of Messrs. Brady, Kidder, Reiten and Matthews as directors, unless they are otherwise directed by the stockholders. Although the Board of Directors has no reason to believe that any of the nominees will be unavailable for election or service, stockholders' proxies confer discretionary authority upon the Proxies to vote for the election of another nominee for director in the event any nominee is unable to serve or for good cause will not serve. Messrs. Brady, Kidder, Reiten and Matthews have consented to being named in this proxy statement and to serve if elected.

The affirmative vote of a plurality of the votes cast by the holders of shares of Common Stock entitled to vote is required to elect each of the nominees for director.

Pages 3 through 5 contain information concerning the four nominees for director, as well as the four directors of the Company whose current terms will continue after the 2005 Annual Meeting, including information with respect to their principal occupations and certain other positions held by them.

Last year all directors attended the Annual Meeting of Stockholders, and they are expected to do so this year. A meeting of the Board of Directors will take place on the same day and at the same place as the Annual Meeting of Stockholders this year (and probably future years), and directors are expected to attend all meetings. If a director is unable to attend a Board meeting in person, participation by telephone is permitted, and in that event the director would not attend the Annual Meeting of Stockholders.

**The Board of Directors Recommends a Vote FOR the Election of****Messrs. Brady, Kidder, Reiten and Matthews**

Name and Year Became a Director of the Company	Age(1)	Principal Occupation
<b>Nominees for Election as Directors for Three-Year Terms to Expire in 2008</b>		
Robert T. Brady 1995	64	Chairman of Moog Inc., a manufacturer of motion control systems and components, since February 1996. President and Chief Executive Officer of Moog Inc. since 1988 and Board member since 1981. Director of Astronics Corporation, M&T Bank Corporation and Seneca Foods Corporation. Director of Acme Electric Corporation from 1989 to November 2001.
Rolland E. Kidder 2002	64	Executive Director of the Robert H. Jackson Center, Inc. in Jamestown, New York since 2001. Former Chairman and President of Kidder Exploration, Inc., an independent oil and gas company from 1984 to 1994. An elected member of the New York State Assembly from 1975 to 1982. Trustee of the New York Power Authority from 1983 to 1993. On the Dean's Advisory Council of the University at Buffalo School of Law from 1996 to 2001. From 1994 until 2001, Vice President and investment advisor for P.B. Sullivan & Co., Inc.
<b>Nominees for Election as Directors for Two-Year Terms to Expire in 2007</b>		
Richard G. Reiten 2004	65	Chairman since September 2000 and a director since March 1996 of Northwest Natural Gas Company, a natural gas local distribution company headquartered in Portland, Oregon. Chief Executive Officer of Northwest Natural Gas Company from January 1997 until December 2002 and President from January 1996 through May 2001. Director of BlueCross BlueShield of Oregon and The Regence Group since 1995. Director of Associated Electric and Gas Insurance Services Limited since 1997. Director of US Bancorp, Building Materials Holding Corp. since 1998 and IdaCorp. Since January 2004.
Craig G. Matthews	61	Former President and CEO of NUI Corp. from February 2004 until Nov. 2004, Director from February 2004. Former Vice Chairman and Chief Operating Officer of KeySpan Corporation (previously Brooklyn Union Gas Co.) until March 2001. Director of Amerada Hess Corporation, Polytechnic University and an Advisory Board Member of Republic Financial Corp.

(1) As of February 17, 2005.

Name and Year Became a Director of the Company	Age(1)	Principal Occupation
<b>Directors Whose Terms Expire in 2006</b>		
R. Don Cash 2003	62	Chairman Emeritus since May 2003, and Board Director since May 1978, of Questar Corporation (Questar), an integrated natural gas company headquartered in Salt Lake City, Utah. Chairman of Questar from May 1985 to May 2003. Chief Executive Officer of Questar from May 1984 to May 2002 and President of Questar from May 1981 to February 1, 2001. Director of Zions Bancorporation since 1982, and TODCO (The Offshore Drilling Company) since May 2004. Director of Texas Tech University Foundation since November 2002 and Associated Electric and Gas Insurance Services Limited since 1993. Former trustee, until September 2002, of the Salt Lake Organizing Committee for the Olympic Winter Games of 2002.
George L. Mazanec 1996	68	Former Vice Chairman, from 1989 until October 1996, of PanEnergy Corporation, Houston, Texas, a diversified energy company (now part of Duke Energy Corporation). Advisor to the Chief Operating Officer of Duke Energy Corporation from August 1997 to 2000. Director of TEPPCO, LP from 1992 to 1997, Director of Northern Border Pipeline Company Partnership from 1993 to 1998 and Director of Westcoast Energy Inc. from 1996 to 2002. Director of Dynegy Inc. since May, 2004. Director of the Northern Trust Bank of Texas, NA and Associated Electric and Gas Insurance Services Limited. Former Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C. Member of the Board of Trustees of DePauw University since 1996.
John F. Riordan 2000	69	President and CEO since April 2000 of GTI (the Gas Technology Institute), a not-for-profit research and educational institution, Des Plaines, Illinois. Vice Chairman of KN Energy, Inc. from February 1998 to February 1999. President and CEO of MIDCON Corporation from October 1988 to January 1998. Director of Nicor, Inc. since 2001 and Niagara University.

(1) As of February 17, 2005.

Name and Year Became a Director of the Company	Age(1)	Principal Occupation
<b>Directors Whose Terms Expire in 2007</b>		
Philip C. Ackerman 1994	61	Chief Executive Officer of the Company since October 2001. Appointed as Chairman of the Board effective January 3, 2002. President of the Company since July 1999. Senior Vice President of the Company from June 1989 until July 1999 and Vice President from 1980 to 1989. President of National Fuel Gas Distribution Corporation(2) from October 1995 until July 1999 and Executive Vice President from June 1989 to October 1995. Executive Vice President of National Fuel Gas Supply Corporation(2) from October 1994 to March 2002. President of Seneca Resources Corporation(2) from June 1989 to October 1996. President of Horizon Energy Development, Inc.(2) since September 1995 and certain other nonregulated subsidiaries of the Company since prior to 1992.

(1) As of February 17, 2005.

(2) Wholly-owned subsidiary of the Company.

**Director Independence**

The Board of Directors has determined that Messrs. Brady, Cash, Kidder, Lee, Matthews, Mazanec, Reiten and Riordan are all independent, and that Mr. Ackerman, Chairman, Chief Executive Officer and President of the Company, is not. The Board's determinations of director independence were made in accordance with the Director Independence Guidelines adopted by the Board and included in this Proxy Statement as Appendix B.

Non-management directors meet at regularly scheduled executive sessions without management. The sessions are chaired by Robert T. Brady. Communications to the non-management directors as a group, or to the entire Board, should be addressed as follows: Robert T. Brady, Moog, Inc., P.O. Box 18, East Aurora, New York 14052. For the present, all shareholder communications addressed in that manner will go directly to the directors. If the volume of communication becomes such that the Board adopts a process for determining which communications will be relayed to Board members, that process will appear on the Company's website at [www.nationalfuelgas.com](http://www.nationalfuelgas.com).

**Meetings of the Board of Directors and Standing Committees**

During the Company's fiscal year ended September 30, 2004 (fiscal 2004), there were six meetings of the Board of Directors. In addition, certain directors attended meetings of standing or pro tempore committees. The Audit Committee held eight meetings, the Compensation Committee held five meetings, the Executive Committee held none, and the Nominating/ Corporate Governance Committee held four meetings. During fiscal 2004, all incumbent directors attended at least 75% of the aggregate of meetings of the Board and of the committees of the Board on which they served.

**Audit**

The Audit Committee held eight meetings during fiscal 2004 in order to review the scope and results of the annual audit, to receive reports of the Company's independent public accountants and chief internal auditor, and to prepare a report of the committee's findings and recommendations to the Board of Directors. The committee consists of Messrs. Cash, Kidder, Lee and Mazanec. The members of the committee are independent as independence for audit committee members is defined in the New York Stock Exchange's (NYSE) listing standards applicable to

the Company. No Audit Committee member simultaneously serves on Audit Committees of more than three public companies. The Board limits Audit Committees on which a Audit Committee member serves to three, unless the Board has determined that such simultaneous service would not impair the ability of such members to serve effectively. The Company's Board of Directors has determined that the Company has at least one audit committee financial expert (as defined by Securities and Exchange Commission (SEC) regulations) serving on its Audit Committee, in the person of Mr. Mazanec. Mr. Mazanec is an independent director (as defined by SEC regulations). Further information relating to the Audit Committee appears in this proxy statement under the headings Audit Fees and Audit Committee Report. A current copy of the charter of the committee is available to security holders on the Company's website at [www.nationalfuelgas.com](http://www.nationalfuelgas.com), and is available in print to stockholders who request a copy from the Company's Secretary at its principal office.

### **Compensation**

The Compensation Committee, all of the members of which are non-employee independent directors, held five meetings during fiscal 2004 in order to review and determine the compensation of Company executive officers, to review reports and to award stock options and At Risk Program awards. The committee administers the Company's 1993 Award and Option Plan, 1997 Award and Option Plan, and Annual At Risk Compensation Incentive Program. The committee consists of Messrs. Brady, Mazanec and Cash. A current copy of the charter of the committee is available to security holders on the Company's website at [www.nationalfuelgas.com](http://www.nationalfuelgas.com) and is available in print to stockholders who request a copy from the Company's Secretary at its principal office.

### **Executive**

There were no meetings of the Executive Committee during fiscal 2004. The committee has and may exercise the authority of the full Board except as prohibited by New Jersey corporate law (N.J.S.A. §14A:6-9). The Executive Committee consists of Messrs. Ackerman, Brady, Mazanec and Riordan.

### **Nominating/ Corporate Governance**

The Nominating/ Corporate Governance Committee consists of Messrs. Brady, Cash and Riordan, all of whom are independent, as independence for nominating committee members is defined in the NYSE listing standards applicable to the Company and in the Company's Director Independence Guidelines. The committee makes recommendations to the full Board on nominees for the position of director. The committee also has duties regarding corporate governance matters as required by law, regulation or NYSE rules. Stockholders may recommend individuals to the committee to consider as potential nominees.

The committee's charter provides for the committee to develop and recommend to the Board criteria for selecting new director nominees and evaluating unsolicited nominations, which are included in this proxy statement as part of the Company's Corporate Governance Guidelines (included in this proxy statement as Appendix A). A current copy of the charter of the committee is available to security holders on the Company's website at [www.nationalfuelgas.com](http://www.nationalfuelgas.com) and is available in print to stockholders who request a copy from the Company's Secretary at its principal office. Appendix A also addresses the qualifications and skills the committee believes necessary for a director, and the committee's consideration of shareholder recommendations for director. Shareholder recommendations identifying a proposed nominee and setting out his or her qualifications should be delivered to the Company's Secretary at its principal office no later than September 3, 2005 to be eligible for consideration for the February 2006 Annual Meeting of Stockholders.

### **Charitable Contributions by Company**

Within the preceding three years, the Company did not make any contributions to any charitable organization in which a director served as executive officer which exceeded the greater of \$1 million or 2% of the charitable organization's consolidated gross revenues.

### **Compensation Committee Interlocks and Insider Participation**

There are no Compensation Committee interlocks or insider participation which SEC regulations or NYSE listing standards would require to be disclosed in this proxy statement.

### **Code of Business Conduct and Ethics**

The Company's Code of Business Conduct and Ethics is available on the Company's website at [www.nationalfuelgas.com](http://www.nationalfuelgas.com) and is available in print to stockholders who request it from the Company's Secretary at its principal office.

### **Related Party Transaction**

A subsidiary of the Company has employed Mr. Jonathan D. Kidder in a non-executive supervisory position since 1999. His father, Mr. Rolland E. Kidder, became a Company director in 2002. Mr. Jon Kidder is a married adult who does not reside in his father's household. In fiscal 2004, for the first time, the value of total compensation to Mr. Jon Kidder (base salary, bonus and estimated value of benefits) exceeded \$60,000, by less than \$5,000. This makes his continued employment a related party transaction for purposes of SEC disclosure requirements. Mr. Rolland Kidder is an independent director for all purposes under applicable NYSE and SEC rules, and also under the Company's Director Independence Guidelines included in this proxy statement as Appendix B.

### **Directors' Compensation**

The Retainer Policy for Non-Employee Directors (the Retainer Policy), which replaced both the Board's preexisting retainer policy and the Retirement Plan for Non-Employee Directors (the Directors' Retirement Plan), was approved at the 1997 Annual Meeting of Stockholders. Directors who are not Company employees or retired employees do not participate in any of the Company's employee benefit or compensation plans. Directors who are current employees receive no compensation for serving as directors. Only non-employee directors are covered by the Retainer Policy, under which directors are paid in money plus an amount of common stock adjusted from time to time.

In fiscal 2004, pursuant to the current Retainer Policy, non-employee directors were each paid an annual retainer of \$20,000 and 1,200 shares of Common Stock. Common Stock issued to non-employee directors under the Retainer Policy is nontransferable until the latter of two years from issuance or six months after the recipient's cessation of service as a director of the Company. In December 2004, the cash component of the annual retainer was increased to \$26,000.

Non-employee directors were each paid a fee of \$1,500 for each Board meeting and \$1,200 for each Committee meeting attended (same fee if participating by telephone). Non-employee directors were each paid an additional annual retainer fee of \$7,500 if appointed as Chairman of any committee; accordingly, Messrs. Brady, Lee and Mazanec each received an additional annual retainer fee of \$7,500 during fiscal 2004. In December 2004, the fee for attending a board or committee meeting was increased to \$1,800.

Benefit accruals under the Directors' Retirement Plan ceased for each current non-employee director on December 31, 1996. All such directors who were eligible vested in their Directors' Retirement Plan benefits at that time, and will receive their accrued Directors' Retirement Plan benefits under its terms (normally at age 70). People who first become directors after February 1997 are not eligible to receive benefits under the Directors' Retirement Plan. The Directors' Retirement Plan pays an annual retirement benefit equal to 10% of the annual retainer in effect on December 31, 1996 (\$18,000/year) multiplied by the number of full years of service prior to

January 1, 1997, but not to exceed 100% of that annual retainer. The retirement benefit would begin upon the date of the director's retirement or age 70, and continue until the earlier of ten years or the death of the director.

#### AUDIT FEES

In addition to retaining PricewaterhouseCoopers LLP to report upon the annual consolidated financial statements of the Company for 2004, the Company retained PricewaterhouseCoopers LLP to provide various non-audit services in 2004. The aggregate fees billed for professional services by PricewaterhouseCoopers LLP for each of the last two years were as follows:

*Audit Fees* \$594,670 for professional services rendered for the annual audit of the Company's consolidated financial statements and the quarterly reviews of the financial statements included in the Company's Forms 10-Q for each of the quarters in fiscal year 2003 and \$633,043 for such service in fiscal year 2004.

*Audit-Related Fees* \$80,829 for professional services rendered for fiscal year 2003 and \$141,212 for fiscal year 2004 associated with: i) comfort letters and consents issued by PricewaterhouseCoopers LLP in connection with public debt offerings; ii) the Company's implementation of the Sarbanes-Oxley Act of 2002; and iii) other technical accounting consultations.

*Tax Fees* \$1,173,800 for professional services rendered during fiscal year 2003 and \$399,920 for fiscal year 2004 for professional services rendered for tax compliance, tax advice and tax planning. In fiscal year 2003, tax consulting fees of \$1,003,800 were incurred principally in connection with the Company's purchase of the Empire State Pipeline, sale of timber property and sale of Canadian oil properties. Fees for tax compliance services for fiscal years 2003 and 2004 amounted to \$170,000 and \$142,800 respectively.

*All Other Fees* \$0 for professional services rendered during fiscal year 2003 and \$0 for fiscal year 2004. No other fees were paid to PricewaterhouseCoopers LLP in fiscal year 2003 or 2004.

The Audit Committee's Charter (available on the Company's website at [www.nationalfuelgas.com](http://www.nationalfuelgas.com)) includes its pre-approval policies and procedures. The Company's Reporting Procedures for Accounting and Auditing Matters are included as Appendix C in this proxy statement.

For fiscal year 2004, none of the services described in each of the above were approved by the Audit Committee in reliance upon the de minimus exception contained in Section 202 of the Sarbanes-Oxley Act and codified in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 and in 17 CFR 210.2-01(c)(7)(i)(C).

**AUDIT COMMITTEE REPORT**

The Company's Board of Directors has adopted a written charter for the Audit Committee of the Board of Directors.

The Audit Committee has reviewed and discussed the Company's audited financial statements for fiscal 2004 with management. The Audit Committee has discussed with the independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU§380), as modified or supplemented. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as modified or supplemented, and has discussed with the independent auditors the independent auditor's independence. The Audit Committee also has considered whether the independent auditor's provision of non-audit services to the Company and its affiliates is compatible with the independent auditor's independence.

Based on the review, discussions and considerations referred to in the preceding paragraph, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K (17 CFR 249.310) for the last fiscal year for filing with the SEC.

**AUDIT COMMITTEE**

BERNARD S. LEE, PH.D., Chairman  
R. DON CASH  
ROLLAND E. KIDDER  
GEORGE L. MAZANEC



## SECURITY OWNERSHIP OF CERTAIN

## BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth for each current director, each nominee for director, each of the executive officers named in the Summary Compensation Table, and for all directors and officers as a group, information concerning beneficial ownership of Common Stock which is the only class of Company stock outstanding. Unless otherwise stated, to the best of the Company's knowledge, each person has sole voting and investment power with respect to the shares listed, including shares which the individual has the right to acquire by exercising stock options but has not done so. All information is as of November 30, 2004 except as otherwise indicated.

Name of Beneficial Owner	Exercisable Stock Options(1)	Shares held in ESOP(2)	Shares Held in 401(k) Plan(3)	Restricted Stock(4)	Shares Otherwise Beneficially Owned(5)	Percent of Class(6)
Philip C. Ackerman	2,247,891	20,678	14,453	76,328	299,827(7)	3.1%
James A. Beck	344,804	284	3,992	16,000	28,279	*
Robert T. Brady	0	0	0	0	7,800	*
R. Don Cash	0	0	0	0	6,233(8)	*
Rolland E. Kidder	0	0	0	0	28,790(9)	*
Bernard S. Lee	0	0	0	0	10,000	*
Craig G. Matthews	0	0	0	0	0	*
George L. Mazanec	0	0	0	0	8,600(10)	*
Richard G. Reiten	0	0	0	0	1,000(11)	*
John F. Riordan	0	0	0	0	6,800	*
Dennis J. Seeley	390,000	14,122	8,982	1,000	58,050	*
David F. Smith	395,312	1,729	10,122	1,000	61,071	*
Ronald J. Tanski	190,000	2,803	12,526	0	36,919	*
Directors and Officers as a Group (17 individuals)	4,419,661	57,490	92,341	95,328	699,910(12)	6.12%

\* Represents beneficial ownership of less than 1% of issued and outstanding Common Stock on November 30, 2004.

- (1) This column lists shares with respect to which each of the named individuals, and all current directors and officers as a group (17 individuals), have the right to acquire beneficial ownership within 60 days of November 30, 2004, through the exercise of stock options granted under the 1993 and 1997 Award and Option Plans. Stock options until exercised, have no voting power.
- (2) This column lists shares held in the Company and Subsidiaries Employee Stock Ownership Plan ( ESOP ). The beneficial owners of these shares have sole voting power with respect to shares held in the ESOP, but do not have investment power respecting most of those shares until they are distributed.
- (3) This column lists shares held in the Company Tax-Deferred Savings Plan for Non-Union Employees ( TDSP ), a 401(k) plan. The beneficial owners of these shares have sole voting power with respect to shares held in the TDSP, but do not have investment power respecting most of those shares until they are distributed.
- (4) This column lists shares of restricted stock, certain restrictions on which had not lapsed as of November 30, 2004. Owners of restricted stock have power to vote the shares, but have no investment power with respect to the shares until the restrictions lapse.
- (5) This column includes shares held of record and any shares beneficially owned through a bank, broker or other nominee.
- (6) This column lists the sum of the individual's (or individuals') stock options and shares shown on this table, expressed as a percent of the Company's outstanding shares and that individual's (or individuals') exercisable stock options at November 30, 2004.

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- (7) Includes 1,000 shares held by Mr. Ackerman's wife in trust for her mother, as to which shares Mr. Ackerman disclaims beneficial ownership, and 440 shares with respect to which Mr. Ackerman shares voting and investment power with his wife.
- (8) Includes 3,000 shares held by the Don Kay Clay Cash Foundation, a Utah not-for-profit corporation, of which Mr. Cash, his wife, son and daughter-in-law are directors. Mr. Cash disclaims beneficial ownership of these shares.
- (9) Includes 10,000 shares owned by Mr. Kidder's wife, as to which Mr. Kidder shares voting and investment power.
- (10) Includes 600 shares owned by Mr. Mazanec's wife, as to which Mr. Mazanec shares voting and investment power.
- (11) These are the 1,000 shares owned by Mr. Reiten at the time he became a director on December 9, 2004.
- (12) Includes 26,726 shares with respect to which one or another of the officers of the Company, not including the executive officers named in the Summary Compensation Table, shares voting and investment power with the officers' spouse. See also notes (7) through (11) above.

As of November 30, 2004, the Company knows of no one who beneficially owns in excess of 5% of the Company's Common Stock, which is the only class of Company stock outstanding, except as set forth in the table below.

Name and Address of Beneficial Owner	Exercisable Stock Options(1)	Shares Held as Trustee for Company Employee Benefit Plans(2)	Shares Otherwise Beneficially Held(3)	Percent of Class(4)
Vanguard Fiduciary Trust Company 100 Vanguard Boulevard Malvern, PA 19355		5,771,311	1,307,297(5)	8.52%
Bernard J. Kennedy 6363 Main Street Williamsville, NY 14221	3,520,000		971,045(6)	5.18%

- (1) This column lists shares with respect to which Mr. Kennedy has the right to acquire beneficial ownership within 60 days of November 30, 2004, through the exercise of stock options granted under the 1993 and 1997 Award and Option Plans. Stock options, until exercised, have no voting power, and the very limited power to transfer options pursuant to those Plans is solely Mr. Kennedy's.
- (2) This column lists the shares held by Vanguard Fiduciary Trust Company in its capacity as trustee for certain employee benefit plans held 5,882,219 shares on behalf of the plans as of November 30, 2004, all of which have been allocated to plan participants. According to its Schedule 13G filed with the SEC for the period ended December 31, 2003, Vanguard Fiduciary Trust Company in its capacity as trustee for certain employee benefit plans held 5,882,219 shares on behalf of the plans, all of which have been allocated to plan participants. The plan trustee votes the shares allocated to participant accounts as directed by those participants. Shares held by the trustee on behalf of the plans as to which participants have made no timely voting directions are voted by the Trustee in the same proportion as the shares of Company stock for which the Trustee received timely directions, except in the case where to do so would be inconsistent with provisions of Title I of ERISA. Vanguard Fiduciary Trust Company disclaims beneficial ownership of all shares held in trust by the trustee that have been allocated to the individual accounts of participants in the plans for which directions have been received, pursuant to Rule 13d-4 under the Securities Exchange Act of 1934.
- (3) This column shows shares otherwise beneficially held by these shareholders.
- (4) This column lists the sum of the shareholder's stock options and shares shown on this table, expressed as a percent of the Company's outstanding shares at November 30, 2004. Mr. Kennedy's unexercised options were included as outstanding shares solely for the

purpose of calculating Mr. Kennedy's percentage ownership of outstanding shares in this table.

- (5) The Vanguard Group, which is affiliated with Vanguard Fiduciary Trust Company, has sole investment and voting discretion with respect to these shares of Company common stock, according to its Form 13F for the period ended September 30, 2004
- (6) Includes 4,500 shares held by the Kennedy Family Foundation, a New York not-for-profit corporation, of which Mr. Kennedy, his wife and son are directors. Mr. Kennedy disclaims beneficial ownership, voting power and investment power with respect to the Kennedy Family Foundation shares. Also includes 76,766 shares owned by Mr. Kennedy's wife, as to which Mr. Kennedy shares voting and investment power. Mr. Kennedy has sole voting and investment power as to all other shares.

**EQUITY COMPENSATION PLAN INFORMATION**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	12,496,439	\$22.93	980,513(1)
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>12,496,439</b>	<b>\$22.93</b>	<b>980,513(1)</b>

- (1) Of the 980,513 securities listed in column (c), 60,976 were reserved at September 30, 2004 for issuance pursuant to the Company's Retainer Policy for Non-Employee Directors.

## EXECUTIVE COMPENSATION

### Report of the Compensation Committee

#### *General*

The Compensation Committee (the Committee) sets the base salaries and bonuses (if any) of the Company's executive officers, makes awards and sets goals for certain executive officers under the Annual At Risk Compensation Incentive Program (the At Risk Program), and makes awards to executive officers and others under various compensation plans as described below. The Committee consists exclusively of non-employee independent directors, appointed by resolution of the entire Board of Directors. No member of the Committee is permitted to receive any award under any plan administered by the Committee.

The Committee's objective is to set executive compensation at levels which (i) are fair and reasonable to the stockholders, (ii) link executive compensation to long-term and short-term interests of the stockholders, and (iii) are sufficient to attract, motivate, and retain outstanding individuals for executive positions. The executive officers' compensation is linked to the interests of the stockholders by making a part of each executive officer's potential compensation depend on the price of the Company's Common Stock on the open market, the Company's earnings per share, and the officer's own performance. The retention of officers is encouraged by making a portion of the compensation package in the form of awards which either increase in value, or only have value, if the executive officer remains with the Company for specified periods of time.

The Committee retains an independent compensation consulting firm to assist it in evaluating officer compensation. That firm compares compensation practices to both utility and general industry practices. It also compares the compensation of the top three officers to a survey group of similar energy companies.

Specific components of executive officers' compensation earned or paid in fiscal 2004 are discussed below. The Company's five most highly compensated executive officers are identified on the Summary Compensation Table on page 16, and are sometimes referred to as the named executive officers.

#### *Base Salary*

The Committee annually reviews base salaries for the Company's executive officers and adjusts them as it deems appropriate on a calendar year basis and as promotions occur. The Committee generally targets a range of the 50th percentile to the 75th percentile of its survey data. The Committee also takes into account an individual's specific responsibilities, experience and effectiveness in setting base salary.

The fiscal 2004 base salaries of the named executive officers are shown on the Summary Compensation Table on page 16 in the Base Salary column.

#### *Annual At Risk Incentive and Bonus*

Under the At Risk Program, the Committee makes At Risk Awards which grant for certain named executive officers the opportunity to earn cash payments depending on the achievement of goals set within the first quarter of each fiscal year. Performance goals can be both financial (for example, Company earnings per share or subsidiary earnings) and non-financial (for example, customer service).

For fiscal 2004 Mr. Ackerman was the only participant in the At Risk Program. At Risk Program goals for Mr. Ackerman, as Chief Executive Officer, were a specified level of Company earnings per share (weighted as 65% of the formula), a Capital Structure goal (weighted as 25% of the formula), and customer service and safety goals (weighted as 10% of the formula). Company diluted earnings per share must reach a pre-determined target to trigger the maximum annual incentive award to Mr. Ackerman.

The Summary Compensation Table on page 16 includes in the LTIP (Long-Term Incentive Plan) Payouts column the amounts earned by Mr. Ackerman in fiscal 2004 under the At Risk Program. The At Risk Award is considered by the SEC to be a long-term incentive because payment is based on the rolling average of performance during the two fiscal years most recently completed. The range of potential At Risk Program awards for fiscal 2004 for Mr. Ackerman is set out in the Long-Term Incentive Plan Table on page 18.

In furtherance of the Committee's goal of emphasizing incentive-based compensation for the Company's other executive officers, most of the executive officers, including Messrs. Beck, Seeley, Smith and Tanski were paid amounts as bonuses in December 2004 (for performance in fiscal 2004). In December 2004, the Compensation Committee reviewed with Mr. Ackerman the performance of Messrs. Beck, Seeley and Smith based on corporate performance, the performance of their respective subsidiaries and their effectiveness in performing their respective responsibilities. The Committee then determined a bonus for each of these executives in consultation with Mr. Ackerman. Mr. Ackerman made recommendations for fiscal 2004 bonuses for the other officers, including Mr. Tanski, which were accepted by the Committee. The Summary Compensation Table on page 16 includes in the Bonus column the amount earned by the named executive officers in fiscal 2004 as bonuses. These awards are considered by the SEC to be bonuses because they are based on performance during a single fiscal year.

#### *Stock Options and Restricted Stock*

Stock options and restricted stock represent the longer-term incentive and retention component of the executive compensation package. Such awards are intended to focus attention on managing the Company from a long-term investor's perspective, and to encourage officers and other managers to have a significant, personal investment in the Company through stock ownership. In fiscal 2002 Mr. Ackerman, after consultation with the Compensation Committee, set Company Stock ownership guidelines for officers. These guidelines range from one times base salary for junior officers to four times base salary at the Chief Executive Officer level. Other employees receiving options are encouraged to retain their stock for long-term investment. Awards are made under plans such as the 1997 Award and Option Plan which allow the Committee broad flexibility to use a wide range of stock-based performance awards.

The Committee awards stock options to buy Company Common Stock, which have value only to the extent the market price of the Company's Common Stock increases after the date of an award. The Committee also from time to time awards restricted stock, which increases or decreases in value to the same extent as the Company's Common Stock. Dividends are paid on restricted stock and on the shares held for employees (including executive officers) in various employee benefit plans, so executive officers benefit directly from dividends paid on the Company's Common Stock.

In 2002 the Committee reviewed and revised its past practice of annual option awards. It determined that it would not continue to make annual awards of stock options to officers. In 2002 the Committee granted options to officers which are intended to be a multi-year incentive. Option awards were made to each named executive officer to buy stock in the future at the market price on the award date. These options vest over a three-year period and none can be exercised for at least one year after the award date. All of them expire no later than 10 years after the award date. In fiscal 2004 the Committee granted no options to officers and awarded a total of 87,000 stock options to 14 non-officer employees. The Committee, with the assistance of its compensation consultant, is currently evaluating its alternatives on long-term incentive compensation including the use of incentives in addition to options and restricted stock. It is also evaluating the frequency of awards.

#### *Compensation of Chief Executive Officer*

The bases for Mr. Ackerman's fiscal 2004 base salary, At Risk Program award and bonus including the Committee's goals and methodology, are discussed earlier in this report under the headings Base Salary and Annual At Risk Incentive and Bonus. Mr. Ackerman received no other longer-term incentive awards in fiscal 2004.

Based on a survey conducted by the independent compensation consulting firm in 2004, total direct compensation earned by Mr. Ackerman was at the 47th percentile of the compensation packages earned by officers in a peer group of ten energy companies. The companies in that peer group range in size from \$0.8 billion in revenues to \$7.4 billion in revenues. The median of the peer group is \$2.3 billion in revenues.

*Policy With Respect to Qualifying Compensation Paid to Executive Officers For Deductibility Under Section 162(m) of the Internal Revenue Code*

The Committee intends that, whenever reasonably possible, compensation paid to its managers, including its executive officers, should be deductible for federal income tax purposes. Compensation paid under the At Risk Program qualifies as performance-based compensation under Section 162(m) of the Internal Revenue Code. The Committee may vote to award compensation, especially to a chief executive officer, that is not fully deductible, if the Committee determines that such award is consistent with its philosophy and is in the best interests of the Company and its stockholders.

COMPENSATION COMMITTEE

GEORGE L. MAZANEC, Chairman

ROBERT T. BRADY

R. DON CASH

**Executive Compensation Summary Table**

The following table sets forth information with respect to compensation paid by the Company and its subsidiaries for services rendered during the last three fiscal years to the Chief Executive Officer and each of the four other most highly compensated executive officers for the fiscal year ended September 30, 2004 (the named executive officers ).

**SUMMARY COMPENSATION TABLE**

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<u>Annual Compensation</u>	<u>Long Term Compensation</u>	
	<u>Awards</u>	<u>Payouts</u>