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Missouri Public Service Commission

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2010

OR

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

Commission File No. 1-6407

SOUTHERN UNION COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

75-0571592
(I.R.S. Employer Identification No.)

5444 Westheimer Road
Houston, Texas
(Address of principal executive offices)

77056-5306
(Zip Code)

Registrant's telephone number, including area code: **(713) 989-2000**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ 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 ☑ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☑

The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 30, 2010 was $2,529,540,437 (based on the closing sales price of Common Stock on the New York Stock Exchange on June 30, 2010). For purposes of this calculation, shares held by non-affiliates exclude only those shares beneficially owned by executive officers, directors and stockholders of more than 10% of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding on February 18, 2011 was 124,656,118.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for its annual meeting of stockholders that is scheduled to be held on May 4, 2011 are incorporated by reference into Part III.

OPC Exhibit No. 3
Date 11/30/11 Reporter BnB
File No. GU-2011-0392

SOUTHERN UNION COMPANY AND SUBSIDIARIES
FORM 10-K
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connected to the Company's gathering systems are less than anticipated and the Company is unable to secure additional sources of natural gas, then the volumes of natural gas in the future and associated gross margin could be less than anticipated. A decline in the volumes of natural gas and associated NGL in the Company's gathering and processing business could have a material adverse effect on its business.

The Company depends on two natural gas producers for a significant portion of its supply of natural gas. The loss of these producers or the replacement of its contracts on less favorable terms could result in a decline in the Company's volumes and/or gross margin.

SUGS' two largest natural gas suppliers for the year ended December 31, 2010 accounted for approximately 32 percent of the Company's wellhead throughput under multiple contracts. The loss of all or even a portion of the natural gas volumes supplied by these producers or the extension or replacement of these contracts on less favorable terms, if at all, as a result of competition or otherwise, could reduce the Company's gross margin. Although these producers represent a large volume of natural gas, the gross margin per unit of volume is significantly lower than the average gross margin per unit of volume on the Company's gathering and processing system due to the lack of need for services required to make the natural gas merchantable (e.g. high pressure, low NGL content, essentially transmission pipeline quality natural gas).

The Company depends on one NGL customer for a significant portion of its sales of NGLs. The loss of this customer or the replacement of its contract on less favorable terms could result in a decline in the Company's gross margin.

For the five year period ending December 31, 2014, SUGS has contracted to sell its entire owned or controlled output of NGL to Conoco Phillips Company (*Conoco*). Pricing for the NGL volumes sold to Conoco throughout the contract period are based on OPIS pricing at Mont Belvieu, Texas delivery points. For the year ended December 31, 2010, Conoco accounted for approximately 22 percent and 54 percent of the Company's and SUGS' operating revenues, respectively.

RISKS THAT RELATE TO THE COMPANY'S DISTRIBUTION BUSINESS

The distribution business is highly regulated and the Company's revenues, operating results and financial condition may fluctuate with the distribution business' ability to achieve timely and effective rate relief from state regulators.

The Company's distribution business is subject to regulation by the MPSC and the MDPU. These authorities regulate many aspects of the Company's distribution operations, including construction and maintenance of facilities, operations, safety, the rates that can be charged to customers and the maximum rate of return that the Company is allowed to realize. The ability to obtain rate increases depends upon regulatory discretion.

The distribution business is influenced by fluctuations in costs, including operating costs such as insurance, postretirement and other benefit costs, wages, changes in the provision for the allowance for doubtful accounts associated with volatile natural gas costs and other operating costs. The profitability of regulated operations depends on the business' ability to recover costs related to providing services to its customers. To the extent that such operating costs increase in an amount greater than that for which rate recovery is allowed, this differential could impact operating results until the business files for and is allowed an increase in rates. The lag between an increase in costs and the rate relief obtained from the regulators can have a direct negative impact on operating results. As with any request for an increase in rates in a regulatory filing, once granted, the rate increase may not be adequate. In addition, regulators may prevent the business from passing along some costs in the form of higher rates.

The distribution business' operating results and liquidity needs are seasonal in nature and may fluctuate based on weather conditions and natural gas prices.

The natural gas distribution business is a seasonal business with a significant percentage of annual operating revenues and EBIT occurring in the traditional winter heating season in the first and fourth calendar quarters. The business is also subject to seasonal and other variations in working capital due to changes in natural gas prices and the fact that customers pay for the natural gas delivered to them after they use it, whereas the business is required to pay for the natural gas before delivery. As a result, fluctuations in natural gas prices may have a significant effect on results of operations and cash flows.

Operational risks are involved in operating a distribution business.

Numerous risks are associated with the operations of a natural gas distribution business. These include adverse weather conditions, accidents, the breakdown or failure of equipment or processes, the performance of suppliers' processing facilities below expected levels of capacity or efficiency, the collision of equipment with facilities and catastrophic events such as explosions, fires, earthquakes, floods, landslides, tornadoes, lightning or other similar events beyond the Company's control. A casualty occurrence might result in injury or loss of life, extensive property damage or environmental damage. Insurance proceeds may be inadequate to cover all liabilities or expenses incurred or revenues lost.

The distribution business has recorded certain assets that may not be recoverable from its customers.

The distribution business records certain assets on the Company's balance sheet resulting from the regulatory process that could not be recorded under GAAP for non regulated entities. As of December 31, 2010, the Company's regulatory assets recorded in its Consolidated Balance Sheet totaled $66.2 million. When establishing regulatory assets, the distribution business considers factors such as rate orders from its regulators, previous rate orders for substantially similar costs, written approval from the regulators and analysis of recoverability from legal counsel to determine the probability of future recovery of these assets. The Company would be required to write-off any regulatory assets for which future recovery is determined not to be probable. For additional information related to management's assessment of the probability of recovery or pass through of regulatory asset costs to its customers, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Matters – Critical Accounting Policies – Effects of Regulation.*

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements, which address the Company's expected business and financial performance, among other matters, are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast and similar expressions. Forward-looking statements involve risks and uncertainties that may or could cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- changes in demand for natural gas or NGL and related services by customers, in the composition of the Company's customer base and in the sources of natural gas or NGL available to the Company;
- the effects of inflation and the timing and extent of changes in the prices and overall demand for and availability of natural gas or NGL as well as electricity, oil, coal and commodity and other bulk materials and chemicals;
- adverse weather conditions, such as warmer or colder than normal weather in the Company's service territories, as applicable, and the operational impact of natural disasters;