

08/23/2004 MON 14:10 FAX 570 820 2403 Southern Union-CORP FIN →→→ MGE NOACK

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AUG 19 '04 12:11PM HAWKE MCKEON SNISCAK KENNARD

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COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

AUGUST 19, 2004

S-00041009

S-00041011

HAWKE MCKEON SNISCAK & KENNARD LLP
100 NORTH TENTH STREET
PO BOX 1778
HARRISBURG PA 17105-1778

Securities Certificate of Southern Union Company for the issuance of common stock,
preferred stock, convertible preferred stock, in an amount not to exceed \$ 700 million.

S-00041009

Securities Certificate of Southern Union Company for the issuance of
notes (equity units), in an amount not to exceed \$ 250 million.

S-00041011

To Whom It May Concern:

This is to advise you that the Commission in Public Meeting on August 19, 2004 has adopted an
Order in the above entitled proceeding.

An Order has been enclosed for your records.

Very truly yours,

James J. McNulty
Secretary

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encls
cert. mail

Attachment A

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held August 19, 2004

Commissioners Present:

Terrance J. Fitzpatrick, Chairman
Robert K. Bloom, Vice Chairman
Glen R. Thomas
Kim Pizzingrilli
Wendell F. Holland

Securities Certificate of Southern Union Company for the
issuance of common stock, preferred stock, convertible
preferred stock, in an amount not to exceed \$700 million.

Docket No.
S-00041009

Securities Certificate of Southern Union Company for the
issuance of notes (equity units), in an amount not to exceed
\$250 million

S-00041011

ORDER

BY THE COMMISSION:

On July 30, 2004, Southern Union Company (Southern Union) filed pursuant to Chapter 19 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§1901, *et seq.*, a securities certificate for the issuance of common stock, preferred stock, or convertible preferred stock including mandatory convertible preferred stock, or a combination of such issuances, in an aggregate offering amount not to exceed \$700 million. After

conversations with Commission Staff, Southern Union agreed that clarifications or amendments should be made to the filing. On August 4, 2004, the utility filed a request for registration of an additional securities certificate at a separate docket number, and for a consolidation of the two securities certificates, in an aggregate amount not to exceed \$950 million.

Southern Union is a certificated gas utility providing distribution service through regional divisions in several central and northeastern states. In Pennsylvania, jurisdictional service is provided by the PG Energy Division to over 150,000 customers in 13 northeastern counties.

Southern Union has been undergoing a series of strategic changes. In 2000 it acquired three utilities in Massachusetts and Rhode Island which are now operated as the New England Division.

In addition to selling or otherwise disengaging from activities that it felt were not part of its core purpose, Southern Union undertook other significant initiatives. In early January 2003, Southern Union sold its Texas operations, including a distribution utility, a small pipeline and an international operation. The proceeds of that sale provided a significant portion of the financing needed for the June 11, 2003, acquisition of a CMS Energy subsidiary, Panhandle Eastern Pipeline Company.

On June 24, 2004, CCE Holdings, LLC (CCE), a joint venture of a pre-existing non-jurisdictional subsidiary of Southern Union and its equity partner, GE Commercial Finance Energy Financial Services, entered into a Purchase Agreement (Agreement) under which it will acquire from Enron Corp. and its affiliates, 100% of the equity interests of CrossCountry Energy, LLC (CrossCountry). The Agreement was granted

"Stalking Horse" status by the United States Bankruptcy Court for the Southern District of New York (Bankruptcy Court) by an Order entered June 24, 2004, which Order set forth certain bid procedures by which third-parties may submit higher and/or better offers through a court mandated auction process. Third-party bids must be submitted by August 23, 2004, in order to participate in a September 1, 2004, auction.

The purpose of this securities certificate filing is to seek authority for the Company to issue stock and other securities in order to fund a portion of the price of the CrossCountry acquisition, and for general corporate purposes.

In the filing docketed at S-00041009, Southern Union seeks approval to issue up to \$700 million in securities in one of the following forms: all common stock, all preferred stock, all convertible preferred stock, and/or a combination of such issuances. In addition, Southern Union seeks approval for the issuance of notes (equity units) in an amount not to exceed \$500 million. The common stock issued as part of each equity unit is included in the \$700 million stock issuance requested by this filing.

Each equity unit will consist of a note with a maturity of approximately five years together with a purchase contract for shares of common equity in Southern Union. The purchase contract will obligate the investor to purchase from the utility, approximately three years from the issuance of equity units, newly-issued shares of common stock at a price and in a variable quantity specified by the equity units at the time of their issuance. The effective price will be between a predetermined minimum price and a price that is at a premium to the market price of Southern Union shares at the time of issuance of the equity units. Prior to settlement of that equity unit, the notes may be remarketed on behalf of the holder of the equity unit, possibly with a reset coupon on the note.

The filing docketed at S-00041011 states that up to 50% or \$250 million of the proceeds from the equity units may be included in the \$700 million aggregate financing amount. If the note component of the equity units is refinanced as discussed above, then up to an additional \$250 million of proceeds from such refinanced note will be applied to reduce existing debt, or used for general corporate purposes. The maximum aggregate amount to be approved is \$950 million.

Southern Union has supplied schedules of projected balance sheet data and cash flows. The projected changes to the Southern Union's capital structure will be material. The Company has also provided information which shows increasing improvement in its ability to cover fixed charges. Standard & Poor's has stated that Southern Union Co.'s proposed acquisition of CrossCountry Energy LLC's pipeline assets does not currently affect the investment grade "BBB" rating on Southern Union.

Having reviewed these securities certificates of Southern Union, we have determined that the issuances of common, preferred, convertible preferred stock, and notes (equity units) are necessary or proper for the present and probable future capital needs of the utility, and as a result the securities certificates should be registered; **THEREFORE,**

IT IS ORDERED:

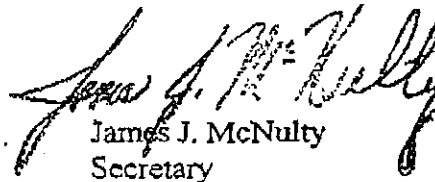
1. That the securities certificate of Southern Union Company for the issuance of common stock; preferred stock; or convertible preferred stock, including mandatory convertible preferred stock, or a combination of such issuances, is hereby registered.
2. That the securities certificate of Southern Union Company for the issuance of equity units is hereby registered.

3. That the gross proceeds of the issuances of common, preferred, convertible preferred stock, and equity units issued pursuant to both instant securities certificates not exceed, in the aggregate, \$950 million.

4. That within 60 days of a sale of securities pursuant to these securities certificates, Southern Union shall file with the Commission a statement setting forth the amounts and types of securities sold, together with a copy of each of the relevant supplemental prospectus or prospectuses.

5. That the case be marked closed.

BY THE COMMISSION,


James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: August 19, 2004

AUG 19 2004

ORDER ENTERED: