BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of the Application of Southern Union Company d/b/a Missouri Gas Energy for Authority to Acquire Directly or Indirectly, up to and Including Fifty Percent (50%) of the Equity Interests of CrossCountry Energy, LLC, and to Take All Other Actions Reasonably Necessary to Effectuate Said Transaction	))))))))	Case No. GO-2005-0019

SOUTHERN UNION COMPANY'S RESPONSE TO STAFF MEMORANDUM IN SUPPORT OF STIPULATION AND AGREEMENT

Comes now Southern Union Company ("Southern Union"), by and through counsel, and for its response to the Staff Memorandum In Support Of Stipulation And Agreement ("Staff Memo") filed herein on or about August 26, 2004, respectfully states as follows:

1. Southern Union appreciates the effort taken by the Staff, Public Counsel and the Commission to process this application such that an order can be issued prior to September 1, 2004 – the date the auction mandated by the bankruptcy court is scheduled to take place (at which auction Southern Union's possession of all required regulatory approvals would position Southern Union in a manner equivalent to other potential bidders).

2. Southern Union is concerned that the Staff Memo could leave the mistaken impression that the Transaction may result in some unidentified negative impact on Southern Union, unforeseen by the Stipulation and

Agreement, and that such unidentified negative impact on Southern Union may ultimately be flowed through as a detriment to MGE's customers.

3. First, although Southern Union agrees with the Staff that it is impossible to foresee all possible scenarios in the future, the Stipulation and Agreement clearly contemplates that the Commission retains possession of all necessary authority to protect MGE customers from detrimental effects of the Transaction should any occur. (*See*, paragraphs III.6. and III.7. on pages 12-13 of the Stipulation and Agreement) Second, while appropriately retaining Commission authority to deal with unforeseen consequences, the Stipulation and Agreement expressly addresses a host of identified topics in advance with great specificity, which provides the Commission with assurance that the Transaction will result in no detriment to MGE's customers. For example:

- Paragraph III.3.E. (on pages 8-9 of the Stipulation and Agreement) provides that capital cost increases that result from the Transaction, should they occur, shall not be recovered from MGE customers;

- Paragraph III.11.A. (on pages 15-16 of the Stipulation and Agreement) provides that the Transaction will be financed with no less than certain amounts of common equity which, when coupled with Southern Union's policy of not issuing a cash dividend, will continue to strengthen Southern Union's equity ratio thereby securing Southern Union's existing investment grade credit rating[1]; and

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[1] The total debt/total capital ratio shown for Southern Union on Attachment B to the Staff Memo includes preferred stock as debt whereas the S&P Guidelines do not. In addition, subsequent to December 31, 2003, Southern Union's total debt/total capital ratio has has strengthened (*i.e.,* due to approximately $87 million in new common equity issued in July 2004, an increase in common shareholders investment of approximately $90 million due to earnings for the period January 1, 2004 through June 30 2004, and debt reduction of approximately $242 million from January 1, 2004 through June 30, 2004.

- Paragraph III.11.D. (on page 16 of the Stipulation and Agreement) prohibits Southern Union from expanding in the energy marketing and trading business without Commission approval, which ensures that Southern Union will not, absent Commission approval, enter this line of business which has proven to result in substantial difficulties for any number of market participants in the last few years.

(*See also*, paragraphs III.1.A., B. and C., III.2, III.3.A., B., C., D., F., H., and I., III.4, III.10.A, and III.11.B on pages 3-11 and 14-16 of the Stipulation and Agreement) Third, the nature of the Transaction itself should provide the Commission with assurance that the Transaction will result in no detriment to MGE's customers, primarily the fact that CrossCountry operates three stable federally regulated interstate pipeline businesses that are quite similar to Southern Union's existing business and therefore do not alter Southern Union's current level of business risk.

Wherefore, Southern Union respectfully submits this response to the Staff Memo and requests that the Commission issue its order approving the Stipulation and Agreement no later than August 31, 2004.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was delivered by first class mail or by hand delivery, on this 27th day of August 2004 to the following:

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