

LAW OFFICES
BRYDON, SWEARENGEN & ENGLAND
PROFESSIONAL CORPORATION

DAVID V.G. BRYDON
JAMES C. SWEARENGEN
WILLIAM R. ENGLAND, III
JOHNNY K. RICHARDSON
GARY W. DUFFY
PAUL A. BOUDREAU
SONDRA B. MORGAN

312 EAST CAPITOL AVENUE
P.O. BOX 456
JEFFERSON CITY, MISSOURI 65102-0456
TELEPHONE (573) 635-7166
FACSIMILE (573) 635-0427
Email: PAULB@BRYDONLAW.COM

DEAN COOPER
CHARLES E. SMARR
MARK G. ANDERSON
BRIAN T. MCCARTNEY
GREGORY C. MITCHELL
DIANA C. FARR
JANET E. WHEELER

OF COUNSEL
RICHARD T. CIOTTONE

February 14, 2003

FILED³
FEB 14 2003

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

**Re: Southern Union Company d/b/a Missouri Gas Energy
Case No. GM-2003-0238**

Dear Mr. Roberts:

On behalf of Southern Union Company, I deliver herewith an original and eight (8) copies of:

- **Direct Testimony of Thomas F. Karam;**
- **Direct Testimony of David J. Kvapil (HC); and**
- **Direct Testimony of David J. Kvapil (Nonproprietary) (original only)**

for filing with the Commission in the referenced matter. I would appreciate it if you would see that the copies are distributed to the appropriate Commission personnel. Service copies have been mailed or hand-delivered this date.

Please be advised that originals of the affidavits of both witnesses will be late-filed for substitution for the facsimile copies that are affixed to the testimony.

I have also enclosed an extra copy of each document which I request that you stamp "Filed" and return to the person delivering them to you.

Thank you for your attention in this matter.

Mr. Dale Hardy Roberts
February 14, 2003
Page 2

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:

A handwritten signature in black ink, appearing to read 'PAB', followed by a horizontal line.

Paul A. Boudreau

PAB/ccp

Enclosures

cc: All parties of record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE 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 One Hundred Percent)
(100%) of the Equity Interests of Panhandle)
Eastern Pipeline Company, Including Its)
Subsidiaries, and to Take All Other Actions)
Reasonably Necessary to Effectuate Said)
Transaction.)

Case No. GM-2003-0238


AFFIDAVIT OF THOMAS F. KARAM

Thomas F. Karam, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Thomas F. Karam;" that said testimony and schedules attached hereto were prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.


Thomas F. Karam

State of Pennsylvania
County of Luzerne

SUBSCRIBED and sworn to before me this 14th day of February, 2005.


Notary Public

Notarial Seal
Bonny M. Nallon, Notary Public
City of Wilkes-Barre, Luzerne County
My Commission Expires June 1, 2006
Member, Pennsylvania Association of Notaries

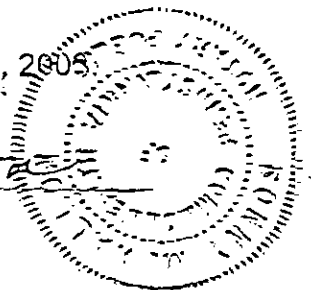


Exhibit No.:
Issue: Purchase of Equity Interests
of Panhandle Eastern Pipeline
Company
Witness: Thomas F. Karam
Type of Exhibit: Direct Testimony
Sponsoring Party: Southern Union Company
d/b/a Missouri Gas Energy
Case No.: GM-2003-0238
Date Testimony Prepared: February 14, 2003

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

CASE NO. GM-2003-0238

DIRECT TESTIMONY

OF

THOMAS F. KARAM

FEBRUARY, 2003

MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GM-2003-0238

DIRECT TESTIMONY OF THOMAS F. KARAM

1 **Q: Please state your name, business address and position.**

2 A: My name is Thomas F. Karam. My current business address is One PEI Center,
3 Wilkes-Barre, Pennsylvania, 18711. I hold the position of President and Chief
4 Operating Officer of Southern Union Company.

5 **Q: Mr. Karam, please provide the Missouri Public Service Commission**
6 **("Commission") with a brief description of your educational background,**
7 **professional designations and business experience.**

8 A: I have been President and Chief Operating Officer of Southern Union Company
9 since May 2001. From November 1999 to April 2001, I served in the capacity of
10 Executive Vice President of Corporate Development for Southern Union and as
11 President and Chief Executive Officer of PG Energy, Southern Union's
12 Pennsylvania-based division. I have been a Director of Southern Union since
13 November 1999. Prior to that, I was President and Chief Executive Officer of
14 Pennsylvania Enterprises, Inc., ("PEI") from 1996 until 1999, when it was
15 acquired by Southern Union. From September 1995 to August 1996, I served as
16 Executive Vice President of PEI. Prior to joining PEI, I developed an
17 understanding of utility finance and investment banking as Vice President of
18 Investment Banking at Legg Mason, Inc., in Baltimore, and prior to that at
19 Thomson McKinnon, in New York. I currently serve on the boards of directors of
20 the American Gas Association, the Energy Association of Pennsylvania, and I am
21 a trustee of the University of Scranton. I also serve on the board of directors of
22 Team Pennsylvania, to which I was appointed by Governor Tom Ridge. I

1 received my Bachelor of Science degrees in accounting and political science
2 from the University of Scranton.

3 **Q: What are the nature of your responsibilities as President and Chief**
4 **Operating Officer of Southern Union Company.**

5 A: My primary responsibilities are to interact with the Chairman and Chief Executive
6 and Board of Directors of Southern Union Company ("Southern Union") to
7 develop and ultimately implement policies and procedures and long-term
8 corporate strategies for Southern Union. I also communicate on a regular basis
9 with the Presidents of each of Southern Union's operating divisions including Mr.
10 James Oglesby, President and Chief Operating Officer of Southern Union's
11 Missouri operating division, Missouri Gas Energy ("MGE").

12 **Q: What is the purpose of your testimony?**

13 A: First, I will describe, generally, Southern Union's Missouri operations. Second, I
14 will explain the nature of the stock purchase agreement by and between CMS
15 Gas Transmission Company ("CMS"), Southern Union, Southern Union
16 Panhandle Corp. ("SUPC"), AIG Highstar Capital, L.P. ("AIG Highstar") and AIG
17 Highstar II Funding Corp. ("AIG Funding") (hereinafter the "Stock Purchase
18 Agreement") pursuant to which SUPC will acquire from CMS all of the equity of
19 Panhandle Eastern Pipeline Company ("Panhandle Eastern"). Finally, I will
20 explain why SUPC's acquisition of Panhandle Eastern is not detrimental to the
21 public interest.

22 **Q: Please provide some general information about Southern Union.**

1 A: Southern Union is a Delaware Corporation, in good standing in all respects,
2 having its principal office and place of business at One PEI Center, Wilkes-Barre,
3 PA 18711. Through its MGE division, Southern Union is a public utility engaged
4 in the distribution of natural gas to the public in those areas certificated to it by
5 the Commission. Consequently, Southern Union is a "gas corporation" as that
6 term is defined in Section 386.020 (18) RSMo 2000, and, as such, is subject to
7 the supervision of the Commission as is provided by law.

8 **Q: Is Southern Union duly authorized to conduct business in the State of**
9 **Missouri?**

10 A: Southern Union has obtained from the Secretary of State of the State of Missouri
11 a certificate of authority to do business as a foreign corporation in the State of
12 Missouri. A copy of Southern Union's Certificate of Authority to do business in
13 this state is attached to my testimony as "Schedule TFK-1."

14 **Q: Has Southern Union duly registered the fictitious name of MGE?**

15 A: Yes, Southern Union has registered the MGE name with the Secretary of State of
16 the State of Missouri. A copy of Southern Union's registration of fictitious name
17 of MGE is attached to my testimony as "Schedule TFK-2."

18 **Q: Is Southern Union in good standing in the State of Missouri?**

19 A: Yes it is. Attached to my testimony and marked as "Schedule TFK-3" is Southern
20 Union's Certificate of Good Standing issued by the Missouri Secretary of State.

21 **Q: Does Southern Union have any pending actions against it or final**
22 **unsatisfied judgments or decisions against it from any state or federal**
23 **agency or court which involve customer service or rates within the three (3)**

1 **years immediately proceeding the filing of the joint application in this**
2 **case?**

3 A: No.

4 **Q: Does Southern Union have any overdue Commission annual reports or**
5 **assessment fees?**

6 A: No.

7 **Q: Please generally describe the terms of the Stock Purchase Agreement.**

8 A: Subject to the terms of the Stock Purchase Agreement, Southern Union, through
9 its wholly owned subsidiary SUPC, intends to acquire from CMS all of the issued
10 and outstanding shares of Panhandle Eastern (the "Shares"). The total
11 consideration to be paid by SUPC for the Shares is approximately \$662 million in
12 cash plus generally any increase in net working capital from that as of September
13 30, 2002 (or minus any such decrease) minus any increase in total debt from that
14 as of September 30, 2002 (or plus any such decrease). Additionally, SUPC will
15 assume the debt of Panhandle Eastern at closing, estimated to be approximately
16 \$1.17 billion, which is non-recourse as to Southern Union. For federal income
17 tax purposes, the transaction will be structured as a "like-kind exchange" with the
18 equity interests of Panhandle Eastern first being transferred to a qualified
19 intermediary and then from the intermediary to SUPC (or another entity in which
20 Southern Union owns all of the voting securities). A copy of the Stock Purchase
21 Agreement is marked "Schedule TFK-4" and attached to my testimony.

22 **Q: What role will be played by AIG Highstar and AIG Funding?**

1 A: AIG Highstar and AIG Funding will have, post-closing, the right to acquire a non-
2 voting equity interest in SUPC. Neither AIG Highstar nor AIG Funding will have
3 any voting shares of SUPC, any rights to name members of the Board of
4 Directors of SUPC, or any rights to have an observer at board meetings of
5 SUPC. Nor will AIG Highstar or AIG Funding have any right to participate in
6 ordinary course management decisions of SUPC. In the event that either AIG
7 Highstar or AIG Funding do not perform their portion of the acquisition, or AIG
8 Highstar or AIG Funding and Southern Union are not able to finalize terms for
9 AIG Highstar's or AIG Funding's participation in the purchase and continued
10 ownership of Panhandle Eastern, Southern Union may complete the entire
11 purchase on its own.

12 **Q: Is the transaction subject to any government approvals?**

13 A: The transaction is conditioned upon, among other things, the expiration or early
14 termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust
15 Improvements Act of 1976, as amended, and any applicable state regulatory
16 approvals. The parties intend to close the transaction as soon as practicable
17 after all consents and approvals have been obtained.

18 **Q: Please describe CMS.**

19 A: CMS is a Michigan corporation. It owns all the issued and outstanding shares of
20 Panhandle.

21 **Q: Please describe the nature of the operations of Panhandle Eastern.**

22 A: Panhandle Eastern is a Delaware corporation holding its principal office and
23 place of business in Houston, Texas. Panhandle Eastern is an interstate natural

1 gas pipeline regulated by the Federal Energy Regulatory Commission ("FERC").
2 Panhandle Eastern operates an approximately 6500 mile natural gas pipeline
3 system comprised of four parallel large diameter pipelines, four storage fields
4 and 26 compressor stations (collectively hereinafter "the Pipeline System"). The
5 Pipeline System extends from producing areas in North Texas, Oklahoma and
6 Kansas and transports supplies upstream from Haven, Kansas to Freedom,
7 Michigan and to the Canadian border. The Pipeline System spans the state of
8 Missouri roughly from Cass County in the west to Pike County in the northeast.
9 The Pipeline System has access to 77 billion cubic feet of natural gas storage
10 capacity giving the Pipeline System a total delivery capacity of 1.54 billion cubic
11 feet per day. A copy of a map illustrating the location of the Pipeline System is
12 attached hereto as "Schedule TFK-5."

13 **Q: Does Panhandle have any other pipeline operations?**

14 A: In addition to the Pipeline System, Panhandle Eastern also owns and operates
15 an extensive, integrated natural gas and condensate pipeline network that
16 provides a broad spectrum of transportation and storage services primarily in the
17 Midwestern United States through a number of subsidiaries. One of the
18 subsidiaries is CMS Trunkline Gas Company, LLC ("Trunkline"). Like Panhandle
19 Eastern, Trunkline is FERC regulated interstate and condensate pipeline system
20 extending from the Texas and Louisiana gulf coast and offshore Gulf of Mexico in
21 a generally northern direction to the Indiana-Michigan border. Trunkline consists
22 of approximately 3500 miles of pipeline and 19 compressor stations with a total
23 capacity of 1.5 billion cubic feet. Trunkline's pipeline is interconnected with that

1 of the Pipeline System at or near Tuscola, Illinois. Neither Panhandle Eastern
2 nor any of its subsidiaries conducts energy trading operations. A diagram
3 illustrating the corporate ownership structure of Panhandle Eastern and its
4 subsidiaries, including Trunkline, is attached to my testimony as "Schedule TFK-
5 6."

6 **Q: Are Panhandle Eastern and MGE engaged in the same or a similar**
7 **business?**

8 A: No. As noted above, MGE is a Commission-regulated intrastate local distribution
9 company (LDC) that is primarily engaged in the business of selling natural gas
10 service to end-use customers. Panhandle Eastern, on the other hand, is a
11 FERC-regulated common carrier interstate natural gas pipeline that is primarily
12 engaged in providing natural gas transportation service on behalf of various
13 shippers on a non-discriminatory basis. The nature and purpose of the two
14 businesses are specialized and distinct and each requires unique operational
15 expertise.

16 **Q: Has Southern Union's Board of Directors approved the terms of the Stock**
17 **Purchase Agreement?**

18 A: An executive committee of the Board of Directors approved the transaction and
19 the transaction documents, including the Stock Purchase Agreement, on
20 December 20, 2002. A copy of the resolutions passed by the executive
21 committee are attached hereto as "Schedule TFK-7."

22 **Q: Will Southern Union's acquisition of Panhandle Eastern be detrimental to**
23 **the public interest?**

1 A: No, the transaction will have no adverse affect on the customers of MGE with
2 respect to rates, service or otherwise and, consequently, it will not be detrimental
3 to the public interest. MGE's customers will see no change to their day-to-day
4 utility service or rates, and those customers will continue to be served effectively
5 and efficiently without interruption. The transaction will not impair the
6 Commission's jurisdiction over MGE. All natural gas commodity, transportation
7 and storage costs are proposed to be passed on to MGE customers will continue
8 to be subject to review by this Commission through the purchased gas
9 adjustment/actual cost adjustment process included in MGE's tariff. All non-gas
10 costs proposed to be passed along to MGE customers will also be subject to
11 review by the Commission. The day-to-day management and operations of MGE
12 will continue to be conducted as they have in the past. Although Panhandle
13 Eastern's operations are not subject to the jurisdiction of this Commission, its
14 Missouri customers will likewise see no change in their day-to-day utility service
15 or rates and said customers will also continue to be served effectively and
16 efficiently without interruption. Panhandle Eastern's operations will continue to
17 be fully and comprehensively regulated by the Federal Energy Regulatory
18 Commission as they have in the past.

19 **Q: Will the transaction impair the Commission's ability to fully and adequately**
20 **supervise MGE's operations?**

21 A: No, the Commission will retain full regulatory supervision over MGE after the
22 transaction is completed. The transaction will not restrict access to Southern
23 Union's books and records as is reasonably necessary to carry out the

1 Commission's responsibilities with respect to MGE's operations, including proper
2 audits.

3 **Q: Has MGE proposed or agreed to any specific conditions in order to further**
4 **insulate its Missouri customers from any possible adverse consequences**
5 **which may be associated with the transaction?**

6 A: Yes, MGE has agreed to the imposition of eight (8) specific conditions which it
7 believes will further insulate MGE customers from any possible adverse
8 consequences associated with the transaction. Those conditions are set forth in
9 an attachment to my testimony marked "Schedule TFK-8." Furthermore,
10 Southern Union has proposed to continue uninterrupted its commitment to
11 customer service performance measures and customer service operating
12 procedures originally agreed to by Southern Union and approved by the
13 Commission in its October 21, 1999 Order Approving Stipulation and Agreement
14 in case number GM-2000-43 (and also agreed to by Southern Union and
15 approved by the Commission in subsequent case numbers GM-2000-500, GM-
16 2000-502 and GM-2000-503).

17 **Q: Has Southern Union proposed any change to its obligations in this regard?**

18 A: Only one modification has been proposed. Southern Union has committed to
19 these same procedures for one (1) full calendar year beyond the conclusion of
20 the calendar year in which the transaction closes. However, upon fulfilling its
21 commitment to customer service performance measures and customer service
22 operating procedures in the full calendar year after the conclusion of the calendar
23 year in which the transaction closes, Southern Union will be considered to have

1 fulfilled certain provisions of the Commission's Orders in this case as well as
2 case numbers GM-2000-500, GM-2000-502 and GM-2000-503. This would
3 include certain provisions put in place in those cases relating to customer credits
4 for those years in which an indicator is exceeded. The expiration of this
5 obligation would not affect the ongoing reporting requirements that were put in
6 place by those orders.

7 **Q: Are there any other circumstances that would ensure that the transaction is**
8 **not detrimental to the public interest?**

9 A: Yes. Southern Union understands that the Commission's approval of its
10 Application in this case will not constitute a finding by the Commission of the
11 value of the transaction for ratemaking purposes and that the Commission may
12 reserve the right to consider the ratemaking treatment afforded the transaction
13 any effects on capital at a later time in any appropriate proceeding.

14 **Q: Are you going to be addressing the financial and cost of capital**
15 **implications of the acquisition by SUPC of Panhandle Eastern?**

16 A: That topic will be addressed by Mr. David J. Kvapil. Mr. Kvapil is the Chief
17 Financial Officer of Southern Union Company. Mr. Kvapil will also expand on
18 several of the topics I have already mentioned.

19 **Q: Does this conclude your direct testimony?**

20 A: Yes.

STATE OF MISSOURI



Judith K. Moriarty

SECRETARY OF STATE

CORPORATION DIVISION - CERTIFICATE OF AUTHORITY

WHEREAS,
SOUTHERN UNION COMPANY

USING IN MISSOURI THE NAME
SOUTHERN UNION COMPANY

HAS COMPLIED WITH THE GENERAL AND BUSINESS CORPORATION LAW WHICH GOVERNS FOREIGN CORPORATIONS; BY FILING IN THE OFFICE OF THE SECRETARY OF STATE OF MISSOURI AUTHENTICATED EVIDENCE OF ITS INCORPORATION AND GOOD STANDING UNDER THE LAWS OF THE STATE OF DELAWARE.

NOW, THEREFORE, I, JUDITH K. MORIARTY, SECRETARY OF STATE OF THE STATE OF MISSOURI, DO HEREBY CERTIFY THAT SAID CORPORATION IS FROM THIS DATE DULY AUTHORIZED TO TRANSACT BUSINESS IN THIS STATE, AND IS ENTITLED TO ALL RIGHTS AND PRIVILEGES GRANTED TO FOREIGN CORPORATIONS UNDER THE GENERAL AND BUSINESS CORPORATION LAW OF MISSOURI.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 26TH DAY OF JULY, 1993.

Judith K. Moriarty
Secretary of State

\$150.00



SOUTHERN UNION COMPANY

OFFICERS

OFFICE(S)

NAME

Chairman of the Board and
Chief Executive Officer

George L. Lindemann

President and Chief Operating Officer

Peter H. Kelley

Senior Vice President - Finance and
Administration, Chief Financial
Officer and Treasurer

Ronald J. Endres

Senior Vice President - Mergers and
Acquisitions, Chief Information
Officer and Assistant Secretary

Eugene N. Dubay

Senior Vice President - Planning

Donald A. Scovil

Vice President - Human Resources

Nancy M. Capezzuti

Vice President - Legal and Secretary

Dennis K. Morgan

Vice President - Marketing

Steven P. Laden

Vice President - Controller

David J. Kvapil

Assistant Secretary

John E. Brennan

Assistant Secretary

Joan K. Sherbenou

Assistant Secretary

FILED
Kerry Walker
AND CERTIFICATE OF
AUTHORITY ISSUED

SOUTHERN UNION COMPANY

BOARD OF DIRECTORS

George L. Lindemann, Chairman
John E. Brennan, Vice Chairman
Frank W. Denius, Chairman Emeritus
Peter H. Kelley
Aaron I. Fleischman
Adam M. Lindemann
Roger J. Pearson
George Rountree, III
Dan K. Wassong

JUL 26 1993

Judith L. Moriarty
SECRETARY OF STATE

BUSINESS ADDRESS

Southern Union Company
504 Lavaca, Suite 900
Austin, Texas 78701



State of Missouri

Judith K. Moriarty, Secretary of State

P.O. Box 778, Jefferson City, Mo. 65102

Corporation Division

Application for Foreign Corporation For a Certificate of Authority

(Submit in duplicate with filing fee of \$150.00)

- (1) The corporation's name is SOUTHERN UNION COMPANY
and it is organized and existing under the laws of the State of Delaware.
- (2) The name it will use in Missouri is SOUTHERN UNION COMPANY
- (3) The date of its incorporation was 12/13/32, and the period of its duration is perpetual
month/day/year
- (4) The address of its principal place of business 504 Lavaca, Suite 900, Austin, Texas 78701
Address City/State/Zip
- (5) The name and address of its registered agent and office in the State of Missouri is
CT Corporation System, 906 Olive Street, St. Louis, Missouri 63101
Name Address City/State/Zip
- (6) The specific purpose(s) of its business in Missouri are:
Buying, selling, and transporting natural gas and to engage in any lawful act or activity for which corporations may be organized.
- (7) The name of its officers and directors and their business addresses are as follows:

(Officers)	Name	Address	City/State/Zip
------------	------	---------	----------------

President SEE ATTACHED

Vice President _____

Secretary _____

Treasurer _____

(Board of Directors)

Director SEE ATTACHED

Director _____

Director _____

Director _____

- (8) The effective date of this document is the date it is filed by the Secretary of State of Missouri, unless you indicate a future date, as follows: _____

(Date may not be more than 90 days after the filing date in this office)

In affirmation thereof, the facts stated above are true.

Dennis K. Morgan
(Authorized signature of officer or chairman of the board)
Dennis K. Morgan

Judith K. Moriarty
Vice President - Legal & Secretary

(Title)

7/21/93
(Date of Signature)

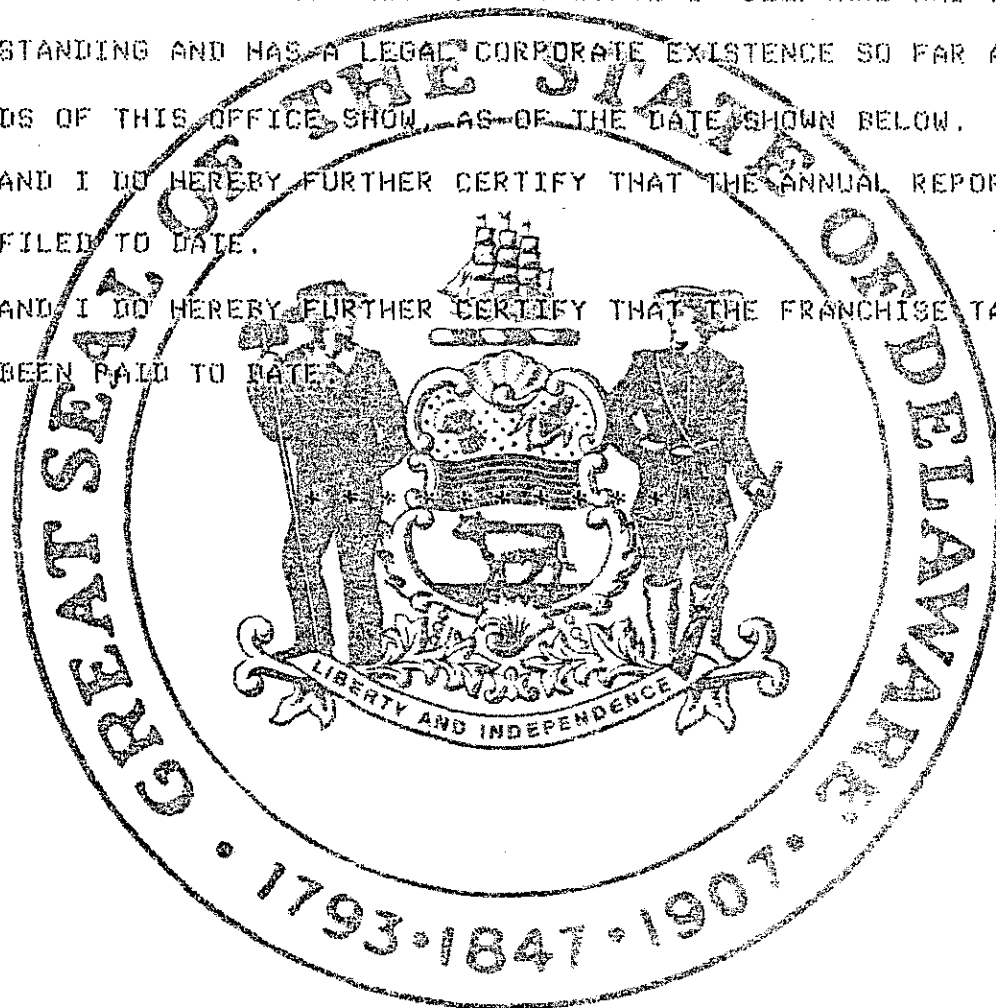
Note: You must have a current certificate of good standing or certificate of existence with this application. This may be obtained from the Secretary of State or other authority that issues corporate charters.

State of Delaware
Office of the Secretary of State

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY SOUTHERN UNION COMPANY IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE DATE SHOWN BELOW.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.



William T. Quillen

William T. Quillen, Secretary of State

AUTHENTICATION: *3983407

733201165

DATE: 07/20/1993



State of Missouri

Judith K. Moriarty, Secretary of State

No. X 258652

Corporation Division

Registration of Fictitious Name

This information is for the use of the public and gives no protection to the name. There is no provision in this Chapter to keep another company or corporation from adopting and using the same name. (RSMo 417)

We, the undersigned, are doing business under the following name, and at the following address:

Name to be registered: MISSOURI GAS ENERGY

Missouri Business Address (if not, other): 504 Lavaca, Suite 900

City, State and Zip Code: Austin, Texas 78701

FILED

AUG 05 1993

Judith K. Moriarty
SECRETARY OF STATE

The parties having an interest in the business, and the percentage they own are (if a corporation is owner, indicate corporation name and percentage owned). If all parties are jointly and severally liable, percentage of ownership need not be listed:

Name of Owners, Individual or Corporate	Street and Number	City	State	If listed, Percentage of ownership must equal 100%
<u>SOUTHERN UNION COMPANY</u>	<u>504 Lavaca, Suite 900</u>	<u>Austin</u>	<u>Texas</u>	<u>100 %</u>
				%
				%
				%
				%
				%

Make check for \$2.00 payable to the State Director of Revenue.

TO BE FILED IN DUPLICATE (Must be typed or printed)

Return to: Secretary of State
Corporation Division
P.O. Box 778
Jefferson City, Mo. 65102

Schedule TFK-2

The undersigned, being all the parties owning interest in the above company, being duly sworn, upon their oaths each did say that the statements and matters set forth herein are true.

Individual
Owners
Sign Here

{	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

The undersigned corporation has caused this application to be executed in its name by its President or Vice-President and its Secretary or Assistant Secretary, this 4th day of August, 19 93.

SOUTHERN UNION COMPANY, a Delaware corporation

By E. M. Dubay (Exact Corporate Title)
Its President or Vice-President
By Kerry Walker
Its Secretary or Assistant Secretary

X 258652
If
Corporation
is
Owner,
Corporate
Officers
Execute
Here

(Corporate Seal)
If no seal, state "none".

The Secretary of State's Office makes every effort to provide program accessibility to all citizens without regard to disability. If you desire this publication in alternate form because of a disability, please contact the Director of Publications, P.O. Box 778, Jefferson City, Mo. 65102; phone (314) 751-1814. Hearing-impaired citizens may contact the Director by phone through Missouri Relay (800-735-2966). The Corporations Division also maintains a Telecommunications Device for the Deaf (TDD) at (314) 526-5599.

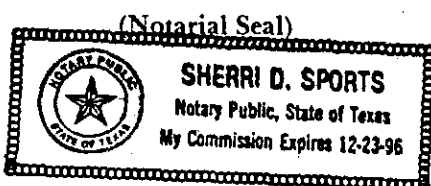
State of TEXAS

County of TRAVIS

} ss

I, Sherri D. Sports, A Notary Public, do hereby certify that on the 4th day of August, 19 93, personally appeared before me Eugene M. Dubay, and being first duly sworn by me, acknowledged that _____ he signed as his own free act and deed the foregoing document in the capacity therein set forth and declared that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the day and year before written.



Sherri D. Sports
Notary Public
My commission expires 12-23-96

No. F00383790

STATE OF MISSOURI



Matt Blunt
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF CORPORATE GOOD STANDING - FOREIGN CORPORATION

I, MATT BLUNT, Secretary of State of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that


SOUTHERN UNION COMPANY

using in Missouri the name

SOUTHERN UNION COMPANY

a DELAWARE corporation filed its Evidence of Incorporation with this State on the 26th day of JULY, 1993, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 13th day of FEBRUARY, 2003.


Secretary of State



STOCK PURCHASE AGREEMENT

by and between

CMS GAS TRANSMISSION COMPANY,

AIG HIGHSTAR CAPITAL, L.P.,

AIG HIGHSTAR II FUNDING CORP.,

SOUTHERN UNION COMPANY

and

SOUTHERN UNION PANHANDLE CORP.

Dated as of

December 21, 2002

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS	
Section 1.1 Specific Definitions	1
ARTICLE II SALE AND PURCHASE	
Section 2.1 Agreement to Sell and Purchase	15
Section 2.2 Time and Place of Closing	15
Section 2.3 Pre-Closing Matters	16
Section 2.4 Estimated Purchase Price	17
Section 2.5 Post-Closing Adjustment	17
Section 2.6 Deliveries by Seller at the Closing.....	19
Section 2.7 Deliveries by Buyer at the Closing	20
Section 2.8 Cooperation with Respect to Like-Kind Exchange.	20
ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER	
Section 3.1 Corporate Organization; Qualification	21
Section 3.2 Authority Relative to this Agreement	21
Section 3.3 Shares	22
Section 3.4 Consents and Approvals	23
Section 3.5 No Conflict or Violation	23
Section 3.6 Financial Information.....	24
Section 3.7 Contracts	24
Section 3.8 Compliance with Law	25
Section 3.9 Permits	25
Section 3.10 Litigation.....	25
Section 3.11 Title to Properties.....	26
Section 3.12 Employee Matters	26
Section 3.13 Labor Relations	28
Section 3.14 Intellectual Property	29
Section 3.15 Representations with Respect to Environmental Matters	29
Section 3.16 Tax Matters	30

Section 3.17 Absence of Certain Changes or Events.....	30
Section 3.18 Absence of Undisclosed Liabilities	31
Section 3.19 Brokerage and Finders' Fees	31
Section 3.20 Affiliated Transactions.....	31
Section 3.21 Insurance.....	31
Section 3.22 Regulatory Matters.....	32
Section 3.23 Opinions of Financial Advisors.	32
Section 3.24 No Other Representations or Warranties.	33

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER

Section 4.1 Corporate Organization; Qualification	33
Section 4.2 Authority Relative to this Agreement	33
Section 4.3 Consents and Approvals	34
Section 4.4 No Conflict or Violation	34
Section 4.5 Litigation.....	34
Section 4.6 Availability of Funds	35
Section 4.7 Brokerage and Finders' Fees	35
Section 4.8 Investment Representations	35
Section 4.9 Buyer Capitalization; Other Interests.....	36
Section 4.10 No Other Representations or Warranties	37

ARTICLE V COVENANTS OF THE PARTIES

Section 5.1 Conduct of Business	37
Section 5.2 Access to Properties and Records	39
Section 5.3 Consents and Approvals	40
Section 5.4 Further Assurances.....	42
Section 5.5 Employee Matters	42
Section 5.6 Tax Covenants	46
Section 5.7 Intercompany Accounts	53
Section 5.8 Related Agreements	54
Section 5.9 Preliminary Transfer	54
Section 5.10 Maintenance of Insurance Policies	54
Section 5.11 Preservation of Records	56

Section 5.12 Public Statements.....	56
Section 5.13 Certain Transactions	56
Section 5.14 CMS Panhandle Holdings, LLC	57
Section 5.15 Change of Corporate Name	57
Section 5.16 Transitional Use of Seller's Trademarks	57
Section 5.17 Reasonable Best Efforts.....	58
Section 5.18 No Shopping	59
Section 5.19 Sponsor Covenants.....	59
Section 5.20 Closing Delay.....	60
Section 5.21 Restated Financials	61

ARTICLE VI CONDITIONS

Section 6.1 Mutual Conditions to the Closing	61
Section 6.2 Buyer's Conditions to the Closing	62
Section 6.3 Seller's Conditions to the Closing.....	63

ARTICLE VII TERMINATION AND ABANDONMENT

Section 7.1 Termination.....	64
Section 7.2 Procedure and Effect of Termination.....	65

ARTICLE VIII SURVIVAL; INDEMNIFICATION

Section 8.1 Survival	66
Section 8.2 Indemnification	66
Section 8.3 Calculation of Damages.....	69
Section 8.4 Procedures for Third-Party Claims	69
Section 8.5 Procedures for Inter-Party Claims	71

ARTICLE IX MISCELLANEOUS PROVISIONS

Section 9.1 Interpretation.....	71
Section 9.2 Disclosure Letters	72
Section 9.3 Payments	72
Section 9.4 Expenses	72
Section 9.5 Choice of Law.....	72

Section 9.6 Assignment	72
Section 9.7 Notices	72
Section 9.8 Consent to Jurisdiction.....	74
Section 9.9 Resolution of Disputes.....	75
Section 9.10 Waiver of Jury Trial.....	76
Section 9.11 No Right of Setoff.....	76
Section 9.12 Time is of the Essence	76
Section 9.13 Specific Performance	76
Section 9.14 Entire Agreement.....	76
Section 9.15 Third Party Beneficiaries	77
Section 9.16 Counterparts.....	77
Section 9.17 Severability	77
Section 9.18 Headings	77
Section 9.19 Waiver.....	77
Section 9.20 Amendment.....	78

EXHIBITS

- A Intellectual Property Agreement**
- B Access and Support Agreement**
- C Assumption Agreement**
- D Form of Opinions from Seller's Counsel**
- E Form of Opinions from Counsel to Buyer, Southern Union, Highstar and Funding**

STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT, dated as of December 21, 2002 (this "Agreement"), is made and entered into by and between CMS Gas Transmission Company, a Michigan corporation (the "Seller"), AIG Highstar Capital, L.P., a Delaware limited partnership ("Highstar"), AIG Highstar II Funding Corp., a Delaware corporation ("Funding"), Southern Union Company, a Delaware corporation ("Southern Union"), and together with Highstar and Funding, the "Sponsors"), and Southern Union Panhandle Corp., a Delaware corporation (the "Buyer").

WITNESSETH:

WHEREAS, Panhandle Eastern Pipe Line Company, a Delaware corporation ("Panhandle"), itself and through its subsidiaries, owns and operates a network of integrated natural gas and condensate pipeline and is engaged in the business of the interstate transportation of natural gas, natural gas storage services, the storage and regasification of liquefied natural gas and the separation and measurement of condensate;

WHEREAS, Seller owns all of the issued and outstanding shares of Panhandle (the "Shares");

WHEREAS, the Sponsors have formed Buyer for the purpose of effecting the transactions contemplated in this Agreement;

WHEREAS, Seller desires to sell all of the Shares;

WHEREAS, the Sponsors desire to cause Buyer to purchase all of the Shares;
and

WHEREAS, each of the Boards of Directors or other governing body of each of Seller, Buyer, Southern Union, Highstar and Funding has approved, and deems it advisable and in the best interests of their respective shareholders and partners to consummate the transactions contemplated by, this Agreement upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, for and in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, Seller, Buyer, Southern Union, Highstar and Funding, intending to be legally bound hereby, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Specific Definitions For purposes of this Agreement, the following terms shall have the meanings set forth below:

"743 Schedule"	shall have the meaning set forth in Section 5.6(f).
"1935 Act"	shall have the meaning set forth in Section 3.22.
"Access and Support Agreement"	shall mean the access and support agreement to be entered into on the Closing Date between Seller and Buyer, substantially in the form of the agreement attached hereto as Exhibit B.
"Action"	shall mean any administrative, regulatory, judicial or other formal proceeding, action, Claim, suit, investigation or inquiry by or before any Governmental Authority, arbitrator or mediator.
"Affected Employees"	shall mean Panhandle Employees on the Closing Date.
"Affiliate"	shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Exchange Act. For purposes of Section 5.3 of this Agreement and only under Section 5.3 of this Agreement, Southern Star Central Corp. shall be deemed to be an Affiliate of Highstar. Notwithstanding the foregoing, American International Group, Inc. and its Affiliates (other than Highstar and Funding) and any portfolio investment of Highstar and Funding shall not be deemed an Affiliate of Buyer or any other party for purposes of this Agreement.
"Agreement"	shall mean this Stock Purchase Agreement, together with the Seller Disclosure Letter, Buyer Disclosure Letter and Exhibits hereto, as the same may be amended or supplemented from time to time in accordance with the provisions hereof.
"Annual Financial Statements"	shall have the meaning set forth in Section 6.2(i).
"Applicable Law"	shall mean any statute, law, ordinance, executive order, rule or regulation (including a regulation that has been formally promulgated in a rule-making proceeding but, pending final adoption, is in proposed or temporary form having the force of law); guideline or notice having the force of law; or approval, permit, license, franchise, judgment, order, decree, injunction or writ of any Governmental Authority applicable to a specified Person or specified property, as in effect from time to time.
"Assumption Agreement"	shall mean the agreement between Buyer and CMS Capital, L.L.C. whereby Buyer shall assume CMS Capital L.L.C.'s obligation pursuant to its note payable to Panhandle dated as of January 1, 2002, substantially in the form of the agreement

attached hereto as Exhibit C.

"Auditor"	shall have the meaning set forth in Section 2.5(b).
"Base Net Working Capital"	shall have the meaning set forth in 0.
"Base Total Debt"	shall have the meaning set forth in 0.
"Bonus Accrual"	shall have the meaning set forth in Section 5.5(e).
"Burdensome Condition"	shall have the meaning set forth in Section 5.3(b).
"Business Day"	shall mean a day other than a Saturday, Sunday or other day on which banks located in New York City are authorized or required by law to close.
"Business Materials"	shall have the meaning set forth in Section 5.16(a).
"Buyer"	shall have the meaning set forth in the preamble to this Agreement.
"Buyer Account Plan"	shall have the meaning set forth in Section 5.5(a).
"Buyer Adjustment"	shall have the meaning set forth in Section 2.5(c).
"Buyer Counterparty"	shall mean each of Buyer's Affiliates that executes and delivers any of the Related Agreements.
"Buyer Indemnified Parties"	shall have the meaning set forth in Section 8.2(a).
"Buyer Plans"	shall have the meaning set forth in Section 5.5(d).
"Cap Amount"	shall have the meaning set forth in Section 8.2(d).
"Casualty Insurance Claims"	shall have the meaning set forth in Section 5.10(a).
"Centennial"	shall have the meaning set forth in Section 5.9(a).
"Claims"	shall mean any and all claims, lawsuits, demands, causes of action, investigations and other proceedings (whether or not before a Governmental Authority).
"Closing Adjustment Amount"	shall have the meaning set forth in Section 2.5(a).

"Closing Balance Sheet"	shall have the meaning set forth in Section 2.5(a).
"Closing Date"	shall have the meaning set forth in Section 2.2.
"Closing"	shall have the meaning set forth in Section 2.2.
"CMSGCFS"	shall have the meaning set forth in Section 5.9(a).
"Code"	shall mean the Internal Revenue Code of 1986, as amended.
"Comparable Employment"	shall have the meaning ascribed to such term in the applicable Separation Plan.
"Confidentiality Agreement"	shall mean the confidentiality agreement entered into by and between Highstar and CMS Energy Corporation (" <u>Parent</u> "), dated September 20, 2002, as modified by the letter agreement dated December 6, 2002.
"Consolidated Income Tax Return"	shall have the meaning set forth in Section 5.6(b)(ix) hereof.
"Corporate Name Change Transition Period"	shall have the meaning set forth in Section 5.15.
"Damages"	shall mean all demands, Claims, causes of action, suits, judgments, damages, amounts paid in settlement (with the approval of the Indemnifying Party where applicable), penalties, Liabilities, losses or deficiencies, costs and expenses, including reasonable attorney's fees, court costs, expenses of arbitration or mediation, and other out-of-pocket expenses incurred in investigating or preparing the foregoing. "Damages" does not include incidental, indirect or consequential damages, damages for lost profits or other special damages or punitive or exemplary damages; <u>provided, however</u> , that in the case of Third-Party Claims, "Damages" shall be deemed to include all forms of relief, monetary and otherwise, asserted therein, without any of the foregoing exceptions.
"Delay Penalty"	shall have the meaning set forth in Section 5.20.
"Determination Date"	shall have the meaning set forth in Section 2.5(b).
"Disabled Employee"	shall have the meaning set forth in Section 5.5(b)(i).
"Dispute"	shall have the meaning set forth in Section 9.9.

"Election"	shall have the meaning set forth in Section 5.6(a)(i).
"Employee Benefit Plans"	shall have the meaning set forth in Section 3.12(c).
"Encumbrances"	shall mean any Claims, mortgages, pledges, liens, security interests, conditional and installment sale agreements or other title retention agreements, activity and use limitations, easements, deed restrictions, title defects, reservations, encumbrances and charges of any kind, options, subordination agreements or adverse claim of any kind.
"Environmental Laws"	shall mean all foreign, federal, state and local laws, regulations, rules and ordinances relating to pollution or protection of human health or the environment, including laws relating to releases or threatened releases of Hazardous Substances into the environment (including ambient air, surface water, groundwater, land, surface and subsurface strata).
"Environmental Permit"	shall mean any Permit, formal exemption, identification number or other authorization issued by a Governmental Authority pursuant to an applicable Environmental Law.
"ERISA Plan(s)"	shall have the meaning set forth in Section 3.12(a).
"ERISA"	shall mean the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.
"Estimated Adjustment Amount"	shall have the meaning set forth in 0.
"Estimated Closing Debt"	shall have the meaning set forth in Section 2.3.
"Estimated Closing Net Working Capital Amount"	shall have the meaning set forth in Section 2.3.
"Estimated Purchase Price"	shall have the meaning set forth in 0.
"Exchange Act"	shall mean the Securities Exchange Act of 1934, as amended.
"Final Form 8023"	shall have the meaning set forth in Section 5.6(a)(ii).

"Final 743 Schedule"	Shall have the meaning set forth in Section 5.6(f)(i)
"Financial Statements"	shall mean the Year End Financial Statements and the Interim Financial Statements.
"Funding"	shall have the meaning set forth in the preamble to this Agreement.
"GAAP"	shall mean United States generally accepted accounting principles as in effect from time to time, applied on a consistent basis.
"Governmental Authority"	shall mean any executive, legislative, judicial, tribal, regulatory, taxing or administrative agency, body, commission, department, board, court, tribunal, arbitrating body or authority of the United States or any foreign country, or any state, local or other governmental subdivision thereof.
"Guardian"	shall have the meaning set forth in Section 5.9(a).
"Hazardous Substances"	shall mean any chemicals, materials or substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "hazardous constituents", "restricted hazardous materials", "extremely hazardous substances", "toxic substances", "contaminants", "pollutants", "toxic pollutants", or words of similar meaning and regulatory effect under any applicable Environmental Law.
"Highstar"	shall have the meaning set forth in the recitals.
"HSR Act"	shall have the meaning set forth in Section 6.1(a).
"Indemnified Party"	shall have the meaning set forth in Section 8.2(c).
"Indemnifying Party"	shall have the meaning set forth in Section 8.2(c).
"Initial Termination Date"	shall have the meaning set forth in Section 7.1(b).
"Insurance Policies"	shall have the meaning set forth in Section 3.21(a).
"Intellectual Property Agreement"	shall mean the Intellectual Property Agreement to be entered into between Seller and Buyer, as of the Closing Date, substantially in the form of the agreement attached hereto as Exhibit A.
"Interim Financial"	shall mean the unaudited balance sheet and statement of

Statements"	income as of and for (i) the three months ended March 31, 2002, (ii) the six months ended June 30, 2002, and (iii) the nine months ended September 30, 2002, in each case for Panhandle and the Panhandle Subsidiaries on a consolidated basis.
"Knowledge"	shall mean, as to each of Seller, Panhandle and the Panhandle Subsidiaries, the actual knowledge, after due inquiry, of the persons listed on Section 1.1(a) of the Seller Disclosure Letter, or any Person who replaces any of such listed persons between the date of this Agreement and the Closing Date, and in the case of Buyer and the Sponsors, the actual knowledge, after due inquiry, of the persons listed on Section 1.1(a) of the Buyer Disclosure Letter, or any Person who replaces any of such listed persons between the date of this Agreement and the Closing Date.
"Liabilities"	shall mean any and all debts, liabilities, commitments and obligations, whether or not fixed, contingent or absolute, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whether or not required by GAAP to be reflected in financial statements or disclosed in the notes thereto.
"Liens"	shall mean any lien, mortgage, pledge, charge, claim assignment by way of security or similar security interest.
"Material Adverse Effect"	shall mean any change or effect that is materially adverse to the business, financial condition or assets of the business of Panhandle and the Panhandle Subsidiaries, taken as a whole; <u>provided, however</u> , that Material Adverse Effect shall exclude any change or effect due to (a) negotiation, execution, announcement, and consummation of this Agreement and the transactions contemplated hereby, including the impact thereof on relationships, contractual or otherwise, with customers, suppliers, distributors, partners, joint owners or venturers, or employees, (b) any action taken by Seller, Panhandle, the Panhandle Subsidiaries, Buyer or any of their respective representatives or Affiliates or other action required or permitted by the terms of this Agreement or necessary to consummate the transactions contemplated by this Agreement, (c) the general state of the industries in which Panhandle or the Panhandle Subsidiaries operate (including (i) pricing levels, (ii) changes in the international, national, regional or local wholesale or retail markets for natural gas, (iii) changes in the North American, national, regional or local interstate natural gas pipeline systems, and (iv) rules, regulations or decisions of

the FERC or the courts affecting the interstate natural gas transmission industry as a whole, or rate orders, motions, complaints or other actions affecting Panhandle or the Panhandle Subsidiaries), except, in all cases for such effects which disproportionately impact Panhandle and the Panhandle Subsidiaries, taken as a whole, (d) general legal, regulatory, political, business, economic, capital market and financial market conditions (including prevailing interest rate levels), or conditions otherwise generally affecting the industries in which Panhandle or the Panhandle Subsidiaries operate, except, in all cases, for such effects which disproportionately impact Panhandle and the Panhandle Subsidiaries, taken as a whole, and (e) any condition described in the Seller Disclosure Letter (but only to the extent set forth in such Seller Disclosure Letter).

"Material Contract"	shall have the meaning set forth in Section 3.7(a).
"Minimum Claim Amount"	shall have the meaning set forth in Section 8.2(d).
"Net Working Capital Amount"	shall have the meaning set forth in Section 2.3.
"NGA"	Shall have the meaning set forth in Section 3.22.
"Organizational Documents"	shall mean certificates of incorporation, by-laws, certificates of formation, limited liability company operating agreements, partnership or limited partnership agreements or other formation or governing documents of a particular entity.
"Panhandle"	shall have the meaning set forth in the recitals to this Agreement.
"Panhandle Employees"	shall mean all employees employed by Panhandle or the Panhandle Subsidiaries including employees on short-term disability, military leave, maternity leave or paternity leave and other approved leaves of absence from active employment.
"Panhandle Subsidiaries"	shall mean CMS Pan Gas Storage Company, LLC, a Delaware limited liability company (d/b/a Southwest Gas Storage Company); Trunkline Field Services Company, a Delaware Corporation; CMS Panhandle Holdings, LLC, a Delaware limited liability company; CMS Panhandle Storage Company, a Delaware corporation; CMS Trunkline Gas Company, LLC, a Delaware limited liability company; CMS Trunkline Offshore Pipeline Company, LLC, a Delaware limited liability company; CMS Trunkline Deepwater Pipeline Company,

LLC, a Delaware limited liability company; Sea Robin Pipeline Company, an unincorporated joint venture; CMS Trunkline Gas Resources, LLC a Delaware limited liability company; MG Ventures Storage, Inc., a Delaware corporation; CMS Panhandle Eastern Resources, Inc., a Delaware corporation; CMS Panhandle Lake Charles Generation Company, LLC, a Delaware limited liability company; CMS Trunkline LNG Company, LLC, a Delaware limited liability company, CMS Trunkline LNG Holdings, LLC, a Delaware limited liability company, Panhandle Partner LLC, a Delaware limited liability company, CMS Panhandle LNG Acquisition Company, a Delaware corporation, and DekaTherm Investor Trust, a Delaware trust. On and after the date of the transfer of CMSGCFS to Panhandle or a Panhandle Subsidiary pursuant to Section 5.9 hereof, CMSGCFS shall be deemed a Panhandle Subsidiary for all purposes of this Agreement.

Without limiting the foregoing, for purposes of Section 3.16 of this Agreement, a Panhandle Subsidiary shall also include any Subsidiary of a Panhandle Subsidiary and any entity which was merged or combined under state corporate law with, liquidated into, or converted into a Panhandle Subsidiary or a Subsidiary of a Panhandle Subsidiary.

"PBOPs"

shall have the meaning set forth in Section 5.5(d).

"Permits"

shall have the meaning set forth in Section 3.9.

"Permitted
Encumbrances"

shall mean (a) zoning, planning and building codes and other applicable laws regulating the use, development and occupancy of real property and permits, consents and rules under such laws; (b) encumbrances, easements, rights-of-way, covenants, conditions, restrictions and other matters affecting title to real property which do not materially detract from the value of such real property or materially restrict the use of such real property; (c) leases and subleases of real property; (d) all easements, encumbrances or other matters which are necessary for utilities and other similar services on real property; (e) Encumbrances to secure indebtedness reflected on the Financial Statements, (f) Encumbrances to secure indebtedness incurred in the ordinary course of business, consistent with past practice, after the date thereof, to the extent permitted pursuant to Section 5.1(b)(xi), (f) Liens for Taxes and other governmental levies not yet due and payable or, if due, (i) not delinquent or (ii) being contested in good faith by appropriate proceedings during which collection or enforcement against the property is stayed and with respect to

which adequate reserves have been established and are being maintained to the extent required by GAAP, (g) mechanics', workmen's, repairmen's, materialmen's, warehousemen's, carriers' or other Liens, including all statutory Liens, arising or incurred in the ordinary course of business, (h) original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business, (i) Liens that do not materially interfere with or materially affect the value or use of the respective underlying asset to which such Liens relate, (j) Encumbrances which are capable of being cured through condemnation procedures under the Natural Gas Act at a total cost to Panhandle and the Panhandle Subsidiaries of less than \$1 million and (k) Encumbrances which are reflected in any Material Contract.

"Person" shall mean any natural person, corporation, company, general partnership, limited partnership, limited liability partnership, joint venture, proprietorship, limited liability company, or other entity or business organization or vehicle, trust, unincorporated organization or Governmental Authority or any department or agency thereof.

"Post-Closing Taxes" shall have the meaning set forth in Section 5.6(b)(iii).

"Pre-Closing Taxes" shall have the meaning set forth in Section 5.6(b)(iv).

"Pro Forma Adjusted Balance Sheet" shall mean the September 30, 2002 Interim Financial Statements, adjusted to:

(A) reflect, among the other matters reflected in the adjustments set forth in Section 1.1(b)(ii) of the Seller Disclosure Letter, the following pro forma adjustments:

(i) the consolidation of 100 percent of CMS Trunkline LNG Holdings, LLC, following the purchase of Dekatherm Investors Trust's interest therein by Panhandle or a subsidiary of Panhandle,

(ii) the consolidation of 100% of CMSGCFS,

(iii) the elimination of 100% of Panhandle's interest in Centennial,

(iv) the elimination of 100% of Panhandle's interest in Guardian, and

(v) the elimination of all account balances

relating to the Supplemental Retirement Plan.

(B) reflect, among the other matters reflected in the adjustments set forth in Section 1.1(b)(ii) of the Seller Disclosure Letter, the following adjustments for purposes of calculating the Net Working Capital Amount:

(i) current assets shall include the non-current portion of the system gas account, as reflected on the applicable balance sheet,

(ii) current assets shall exclude (x) any Tax asset (current or deferred) or (y) any mark to market adjustments related to any swap agreements listed in Section 1.1(b)(i) of the Seller Disclosure Letter, and

(iii) current liabilities shall exclude (w) any Tax liability (current or deferred), (x) any mark to market adjustments related to any swap agreements listed in Section 1.1(b)(i) of the Seller Disclosure Letter, (y) short term debt and current portions of long term debt or (z) bonus amounts accrued for Affected Employees which will be paid by Buyer, who will be reimbursed by Seller, pursuant to Section 5.5(e) hereof; and

(C) reflect that current assets and current liabilities relating to amounts owed by (or owed to) Panhandle or the Panhandle Subsidiaries on the one hand to (or by) Seller or any of its Affiliates, other than Panhandle and the Panhandle Subsidiaries, on the other hand shall be excluded; provided, however, that none of the following shall be excluded:

(i) receivables and/or payables for the purchase or sale of natural gas, natural gas liquids and other commodities between Panhandle or the Panhandle Subsidiaries on the one hand, and Seller (or any of its Affiliates, other than Panhandle and the Panhandle Subsidiaries) on the other hand;

(ii) receivables for services rendered in the ordinary course of business by

Panhandle or the Panhandle Subsidiaries on the one hand, to Seller (or any of its Affiliates, other than Panhandle and the Panhandle Subsidiaries) on the other hand; and

(iii) payables for services rendered, other than allocated corporate expenses in the ordinary course of business for Panhandle or the Panhandle Subsidiaries on the one hand, by Seller (or any of its Affiliates, other than Panhandle and the Panhandle Subsidiaries) on the other hand.

The Pro Forma Adjusted Balance Sheet, reflecting the adjustments listed above, is set forth in Section 1.1(b)(ii) of the Seller Disclosure Letter.

"Prohibited Transactions"	shall have the meaning set forth in Section 5.18.
"Purchase Price"	shall mean the purchase price for the Shares as set forth in Section 2.5(d).
"Related Agreements"	shall mean the Transition Services Agreement, the Intellectual Property Agreement, the Access and Support Agreement, and the Assumption Agreement.
"Related Companies"	shall mean Centennial, Guardian and Lee 8 Storage Partnership, a Michigan general partnership. On and after the date of the transfer of the holding company, whose sole asset is 100 percent of the ownership interests in CMSGCFS, to Panhandle or a Panhandle Subsidiary, Atchafalaya Pipeline, L.L.C., a Delaware limited liability company shall also be considered a Related Company. On and after the date of the transfer of Centennial and Guardian to Seller, Centennial and Guardian shall no longer be deemed Related Companies for all purposes of this Agreement.
"Real Property"	shall have the meaning set forth in Section 3.11.
"Restated Financials"	shall have the meaning set forth in Section 6.2(i).
"Rights-Of-Way"	shall have the meaning set forth in Section 3.11.

"Section 5.3(b) Person"	shall mean any of Southern Union and its Subsidiaries (taken as a whole), Highstar and Funding, taken as whole, Buyer, or Southern Star Central.
"Seller Adjustment"	shall have the meaning set forth in Section 2.5(c).
"Seller Counterparty"	shall mean each of Seller's Affiliates that executes and delivers any of the Related Agreements.
"Seller Indemnified Parties"	shall have the meaning set forth in Section 8.2(b).
"Seller Plans"	shall have the meaning set forth in Section 5.5(b).
"Seller Returns"	shall have the meaning set forth in Section 5.6(b)(i).
"Seller"	shall have the meaning set forth in the preamble to this Agreement.
"Seller's Marks"	shall have the meaning set forth in Section 5.16.
"Seller's Savings Plan"	shall have the meaning set forth in Section 5.5(a).
"Separation Plans"	shall mean (i) Separation Allowance Plan for Employees of Panhandle and the Panhandle Subsidiaries, adopted on November 1, 2002; (ii) Executive Separation Allowance Plan for Employees of Panhandle and the Panhandle Subsidiaries, adopted on November 1, 2002; (iii) Executive Separation Allowance Plan for Designated Officers of Panhandle and the Panhandle Subsidiaries, adopted on November 1, 2002; and (iv) Executive Separation Allowance Plan for Designated Senior Officers of Panhandle Eastern Pipe Line Company, adopted on November 1, 2002.
"Shares"	shall have the meaning set forth in the recitals to this Agreement.
"Southern Union"	shall have the meaning set forth in the recitals to this Agreement.
"Sponsors"	shall have the meaning set forth in the recitals to this Agreement.
"Straddle Period Return(s)"	shall have the meaning set forth in Section 5.6(b)(ii).
"Straddle Period"	shall have the meaning set forth in Section 5.6(b)(ii).

"Straddle Statement"	shall have the meaning set forth in Section 5.6(b)(ii).
"Subsidiary"	of any entity means, at any date, any Person (a) the accounts of which would be consolidated with and into those of the applicable entity in such entity's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date or (b) of which securities or other ownership interests representing more than fifty percent (50%) of the equity or more than fifty percent (50%) of the ordinary voting power or, in the case of a partnership, more than fifty percent (50%) of the general partnership interests or more than fifty percent (50%) of the profits or losses of which are, as of such date, owned, controlled or held by the applicable entity or one or more subsidiaries of such entity.
"Survival Period"	shall have the meaning set forth in Section 8.1(c).
"Tax Claim"	shall have the meaning set forth in Section 5.6(e)(i).
"Tax Indemnified Party"	shall have the meaning set forth in Section 5.6(e)(i).
"Tax Indemnifying Party"	shall have the meaning set forth in Section 5.6(e)(i).
"Tax Return"	shall mean any report, return, declaration, or other information required to be supplied to a Governmental Authority in connection with Taxes including any claim for refund or amended return.
"Taxes"	shall mean all taxes, levies or other like assessments, including net income, gross income, gross receipts, capital gains, profits, environmental, excise, value added, ad valorem, real or personal property, withholding, asset, sales, use, transfer, registration, license, payroll, transaction, capital, business, occupation, corporation, employment, withholding, wage, net worth, franchise, minimum, alternative minimum, and estimated taxes, or other governmental taxes imposed by or payable to any foreign, Federal, state or local taxing authority, whether computed on a separate, consolidated, unitary, combined or any other basis; and in each instance such term shall include any interest, penalties or additions to tax attributable to any such Tax.
"Third-Party Claim"	shall have the meaning set forth in Section 8.4(a).
"Threshold Amount"	shall have the meaning set forth in Section 8.2(d).

"Total Debt"	shall mean all short-term and long-term indebtedness of Panhandle and the Panhandle Subsidiaries as reflected on a consolidated balance sheet, prepared in accordance with GAAP, of Panhandle and the Panhandle Subsidiaries as of a particular date, but excluding any debt payable to Seller or Seller's Affiliates by Panhandle or a Panhandle Subsidiary which is eliminated by Panhandle or a Panhandle Subsidiary prior to the Closing Date in accordance with Section 5.7.
"Transfer Tax(es)"	shall have the meaning set forth in Section 5.6(g).
"Transitional License"	shall have the meaning set forth in Section 5.16.
"Transition Services Agreement"	shall mean the transition services agreement to be entered into on the Closing Date between Seller and Buyer in a form mutually acceptable to both parties.
"Treasury Regulation"	shall mean the income Tax regulations, including temporary and proposed regulations, promulgated under the Code, as amended.
"Year End Financial Statements"	shall mean the audited balance sheet and statement of income, as of and for the twelve (12) months ended December 31, 2001 for Panhandle and the Panhandle Subsidiaries on a consolidated basis.

ARTICLE II

SALE AND PURCHASE

Section 2.1 Agreement to Sell and Purchase.

Subject to the terms and conditions of this Agreement, at the Closing, Seller shall sell, convey, assign, transfer and deliver to Buyer the Shares, free and clear of all Encumbrances, and Buyer shall purchase and accept such Shares from Seller.

Section 2.2 Time and Place of Closing.

Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, the closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 4 Times Square, New York, New York, at 10:00 a.m., local time, on the third (3rd) day following the date on which all of the conditions set forth in Article VI of this Agreement have been satisfied or waived (other than those conditions contemplated to be satisfied at the Closing), or at such other place or time as Buyer and Seller may mutually agree in writing; provided, however, that in no event shall the Closing take place earlier than

January 2, 2003. The date and time at which the Closing actually occurs is hereinafter referred to as the "Closing Date."

Section 2.3 Pre-Closing Matters.

At least five (5) Business Days prior to Closing, Seller shall deliver to Buyer its good faith estimate of the Net Working Capital Amount at Closing (the "Estimated Closing Net Working Capital Amount") and its good faith estimate of the amount of Total Debt at Closing (the "Estimated Closing Debt"), in each case together with a reasonably detailed computation of such estimates, which shall be computed in accordance with GAAP (subject to the exceptions from GAAP relating to the adjustments reflected on the Pro Forma Adjusted Balance Sheet) and on a basis consistent with the preparation of the Pro Forma Adjusted Balance Sheet. "Net Working Capital Amount" shall mean (a) the current assets of Panhandle and the Panhandle Subsidiaries minus (b) the current liabilities of Panhandle and the Panhandle Subsidiaries, with both current assets and current liabilities determined in accordance with GAAP, applied in a manner consistent with the preparation of the Pro Forma Adjusted Balance Sheet (and subject to the exceptions from GAAP relating to the adjustments reflected on the Pro Forma Adjusted Balance Sheet), except for the calculation of Estimated Closing Net Working Capital and Net Working Capital Amount as of the Closing Date with respect to System Gas Inventory and Imbalance Related Accounts. For purposes of this Section 2.3, capitalized terms used but not otherwise defined herein shall be deemed to refer to the corresponding line items in Sections 1.1(b)(ii) or 1.1(b)(iii) of the Seller Disclosure Letter, as applicable. For purposes of the Net Working Capital calculation, System Gas Inventory and Imbalance Related Accounts shall be valued at \$29,114,046 plus (less) the excess (deficiency) of the actual on hand quantity of Net System Gas Owned at the closing date less the net quantity of system gas owned at September 30, 2002 (10,789,959 MMBTU) times the average of the closing Henry Hub spot market price for natural gas for the five business days prior to the Closing Date as reported in the Wall Street Journal, except for purposes of the calculation of the Estimated Closing Net Working Capital which shall be valued based on the quantity of Net System Gas Owned ten (10) days prior to the Closing Date times the average closing Henry Hub spot market price for natural gas for the five (5) business days ended ten (10) days prior to the Closing Date. System Gas Inventory and Imbalance Related Accounts shall be defined as System Gas Inventory, Accounts Receivable - Exchanges, Accounts Payable - Exchanges, Fuel Tracker and Line Pack as shown in the Section 1.1(b)(ii) of the Seller Disclosure Letter. Net System Gas Owned shall be defined as System Gas Inventory plus Accounts Receivable - Exchanges, Accounts Payable - Exchange, including Fuel Tracker and Line Pack as shown in the Section 1.1(b)(iii) of the Seller Disclosure Letter. Seller shall deliver to Buyer its calculations of the Estimated Purchase Price and the Estimated Adjustment Amount within five (5) Business Days prior to the Closing Date and shall provide upon reasonable advance notice, Buyer and Buyer's accountants prompt and full reasonable access during normal business hours to the personnel, accountants and books and records of Seller, to the extent reasonably related to the preparation of the Estimated Purchase Price and the Estimated Adjustment Amount (and the elements of such calculation). Buyer and Seller shall in good faith attempt to resolve any objections of Buyer to such calculation of the Estimated Adjustment Amount; if Buyer and Seller are

in disagreement with respect to the calculation of the Estimated Adjustment Amount as of the Closing, the Estimated Purchase Price paid pursuant to Section 2.4 shall be based on the amount of the Estimated Adjustment Amount delivered to Buyer pursuant to this Section 2.3, as adjusted to reflect any changes to the Estimated Adjustment Amount agreed to by the parties prior to Closing.

Section 2.4 Estimated Purchase Price.

In consideration of the aforesaid sale, conveyance, assignment, transfer and delivery to Buyer of the Shares and the agreement of Seller to enter into this Agreement, and subject to the adjustments set forth in Section 2.5, at the Closing, Buyer shall pay in full to Seller (or its designated Affiliates) an amount in cash equal to (a) \$662,300,000 plus (b) the Estimated Adjustment Amount (the result of such calculation, the "Estimated Purchase Price"). The "Estimated Adjustment Amount" shall mean the amount equal to (a) the Estimated Closing Net Working Capital Amount, minus (b) the Net Working Capital Amount as of September 30, 2002, as shown in the Pro Forma Adjusted Balance Sheet (\$92,934,493), minus (c) the Estimated Closing Debt, plus (d) the amount of Total Debt as of September 30, 2002, (\$1,165,519,106). The calculation of the Estimated Adjustment Amount may result in an amount that is positive or negative. The Estimated Purchase Price will be payable at the Closing by wire transfer of same day funds to an account or accounts and in such amounts as designated by Seller. Seller shall designate such account or accounts and amounts in writing at least two (2) Business Days prior to Closing.

Section 2.5 Post-Closing Adjustment

(a) As soon as reasonably practicable following the Closing Date, and in any event within sixty (60) days thereafter, Seller shall prepare and deliver to Buyer (i) a consolidated balance sheet of Panhandle and the Panhandle Subsidiaries as of the close of business on the date immediately prior to the Closing Date (the "Closing Balance Sheet"), and (ii) a calculation of the "Closing Adjustment Amount", which shall mean the amount equal to (a) the Net Working Capital Amount as of the Closing Date, as reflected on the Closing Balance Sheet, minus (b) the amount of the Base Net Working Capital Amount, plus (c) the amount of the Base Total Debt, minus (d) the Total Debt as of the Closing Date, as reflected on the Closing Balance Sheet, which calculation may result in an amount that is positive or negative (together with reasonable back-up information providing the basis for such balance sheet and calculations). In order for Seller to prepare the Closing Balance Sheet and calculate the Closing Adjustment Amount, Buyer will provide to Seller and Seller's accountants prompt and full access to the personnel, accountants and books and records of Panhandle and the Panhandle Subsidiaries (and shall provide copies of the applicable portions of such books and records as may be reasonably requested), to the extent reasonably related to the preparation of the Closing Balance Sheet and the calculation of the Closing Adjustment Amount (and the elements of such calculation). In order for Buyer to review the Closing Balance Sheet and review the calculation of the Closing Adjustment Amount, Seller will

provide to Buyer and Buyer's accountants prompt and full access to the personnel, accountants and books and records used by Seller (and shall provide copies of the applicable portions of such books and records as may be reasonably requested), to the extent reasonably related to the preparation of the Closing Balance Sheet and the calculation of the Closing Adjustment Amount (and the elements of such calculation). The Closing Balance Sheet and the calculation of Closing Adjustment Amount shall be prepared in accordance with GAAP, applied in a manner consistent with the preparation of the Pro Forma Adjusted Balance Sheet (and subject to the exceptions from GAAP relating to the adjustments reflected on the Pro Forma Adjusted Balance Sheet).

(b) Disputes. If Buyer disagrees with the calculation of the Closing Adjustment Amount, it shall notify Seller of such disagreement in writing within thirty (30) days after its receipt of the Closing Balance Sheet, which notice shall set forth in detail the particulars of such disagreement. In the event that Buyer does not provide such a notice of disagreement within such thirty (30) day period, Buyer shall be deemed to have accepted the Closing Balance Sheet and the calculation of the Closing Adjustment Amount (and each element of such calculation), respectively delivered by Seller, which shall be final, binding and conclusive for all purposes hereunder. In the event any such notice of disagreement is timely provided by Buyer, Buyer and Seller shall use their reasonable best efforts for a period of thirty (30) days (or such longer period as they may mutually agree) to resolve any disagreements with respect to the calculation of the Closing Adjustment Amount (or any element thereof). If, at the end of such period, they are unable to resolve such disagreements, then, upon the written request of either party, an independent accounting firm (not providing services to Buyer or Seller) acceptable to Buyer and Seller (the "Auditor") shall resolve any remaining disagreements. The Auditor shall determine as promptly as practicable (but in any event within sixty (60) days) following the date on which such dispute is referred to the Auditor, based solely on written submissions, which shall be forwarded by Buyer and Seller to the Auditor within thirty (30) days following the Auditor's selection, whether the Closing Balance Sheet was prepared in accordance with the standards set forth in this Section 2.5 with respect to any items identified as disputed in the notice of disagreement and not previously resolved by Buyer and Seller, and if not, whether and to what extent (if any) the Closing Adjustment Amount (or any element thereof) requires adjustment. Each party shall bear its own expenses and the fees and expenses of its own representatives and experts in connection with the preparation, review, dispute (if any) and final determination of the Closing Balance Sheet and the Closing Adjustment Amount. The parties shall share the costs, expenses and fees of the Auditor in inverse proportion to the extent to which their respective positions are sustained (e.g., if Seller's position is one hundred percent (100%) sustained, it shall bear none of such costs, expenses, and fees of the Auditor). The determination of the Auditor shall be final, conclusive and binding on the parties. The Auditor's determination of the amount of the Closing Adjustment Amount shall then be deemed to be the Closing Adjustment Amount for purposes of this Section 2.5. The date on which such items are accepted or finally determined in accordance with this Section 2.5 is referred as to the "Determination Date." As used in this Agreement, the term "reasonable best efforts" shall not include efforts which require the performing party (i) to do any act that is unreasonable under the circumstances, (ii) to make any capital contribution not expressly contemplated

hereunder, (iii) to amend or waive any rights under this Agreement, or (iv) to incur or expend any funds other than reasonable out-of-pocket expenses incurred in satisfying its obligation hereunder, including the reasonable fees, expenses and disbursements of accountants, counsel and other professionals.

(c) Purchase Price Adjustment. If the Estimated Adjustment Amount is (x) less than the Closing Adjustment Amount, then the Buyer shall pay to Seller an amount equal to such shortfall (the "Buyer Adjustment") or (y) greater than the Closing Adjustment Amount, then Seller shall pay to Buyer an amount equal to such excess (the "Seller Adjustment").

(d) Adjustment Amounts. The Estimated Purchase Price minus the Seller Adjustment, if any, plus the Buyer Adjustment, if any, shall equal the "Purchase Price". The Seller Adjustment, if any, and the Buyer Adjustment, if any, shall bear simple interest at a rate equal to daily average one month LIBOR plus one percent (1%) per annum measured from the Closing Date to the date of such payment. Amounts owing by Seller, if any, pursuant to this Section 2.5 shall be paid by Seller by delivery of immediately available funds to an account designated by Buyer within five (5) Business Days after the Determination Date. Amounts owing by Buyer, if any, pursuant to this Section 2.5 shall be paid by Buyer by delivery of immediately available funds to an account designated by Seller within five (5) Business Days after the Determination Date.

Section 2.6 Deliveries by Seller at the Closing.

At the Closing, Seller shall deliver, or cause its appropriate Affiliates to deliver, to Buyer:

(a) stock certificates representing one hundred percent (100%) of the Shares;

(b) a cross-receipt acknowledging the receipt of the Purchase Price;

(c) a certificate from an authorized officer of Seller, dated as of the Closing Date, to the effect that the conditions set forth in Section 6.2(a), Section 6.2(c) and Section 6.2(j) of this Agreement have been satisfied;

(d) all other previously undelivered documents, including duly executed original copies of the Related Agreements required by this Agreement to be delivered by Seller or its Affiliates to Buyer at or prior to the Closing;

(e) resignations of each of the directors and officers of Panhandle and the Panhandle Subsidiaries who are not employees of Panhandle or any of the Panhandle Subsidiaries; and

(f) all such other deeds and instruments of sale, assignment, conveyance and transfer and releases, consents and waivers as in the reasonable opinion of Buyer may be necessary to effect the sale, transfer, assignment, conveyance and

delivery of the Shares to Buyer in accordance with this Agreement and the Related Agreements, and where necessary or desirable, in recordable form, in each case, as is necessary to effect the transactions contemplated by this Agreement.

Section 2.7 Deliveries by Buyer at the Closing.

Subject to Section 5.19 hereof, at the Closing, Buyer or its appropriate Affiliates shall deliver to Seller:

- (a) the Estimated Purchase Price in US-dollar-denominated funds by wire transfer of immediately available funds or by such other means as are agreed to by Seller and Buyer;
- (b) a cross-receipt acknowledging receipt of the Shares;
- (c) a certificate from an authorized officer of Buyer and each of the Sponsors, dated as of the Closing Date, to the effect that the conditions set forth in Section 6.3(a) and Section 6.3(c) of this Agreement have been satisfied; and
- (d) all other previously undelivered documents, including duly executed original copies of the Related Agreements required by this Agreement to be delivered by Buyer or its Affiliates to Seller at or prior to the Closing.

Section 2.8 Cooperation with Respect to Like-Kind Exchange.

With the consent of the Seller, which consent shall not unreasonably be withheld, the rights of Buyer under this Agreement may be assigned in whole or in part to Southern Union. In the event Seller consents to such assignment to Southern Union pursuant to Section 9.6 of this Agreement, Buyer may desire that the transactions contemplated in this Agreement and the Related Agreements be accomplished in a manner enabling Southern Union's purchase to qualify as part of a like-kind exchange of property covered by Section 1031 of the Code. Seller agrees to cooperate and consider in good faith any reasonable request or proposal made by Southern Union in connection with efforts to effect such like-kind exchange, including any reasonable use of a "qualified intermediary", an "exchange accommodation titleholder" or a "qualified exchange accommodation agreement" within the meaning of the United States Treasury Regulations and related authority; provided, however, that Seller shall have no obligation to take (or agree to take) any action that, in its reasonable discretion, may create any adverse consequences to the Seller, including but not limited to adverse Tax, financial or regulatory consequences for the transactions contemplated by this Agreement and the Related Agreements or may cause an unreasonable delay in the consummation of the transactions contemplated by this Agreement and the Related Agreements; provided further, that Seller shall have no further obligation under this Section 2.8 if Buyer has not made a proposal reasonably acceptable to Seller by January 8, 2003. Buyer agrees that it will reimburse Seller for any out-of-pocket costs incurred in connection its cooperation, including but not limited to legal fees, opinions of counsel or other costs incurred in implementing Buyer's proposals. Notwithstanding anything herein, the structuring of the

transactions in a manner that qualifies the transactions as part of a like-kind exchange shall not be a condition to Closing.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer as follows:

Section 3.1 Corporate Organization; Qualification.

(a) Seller and Panhandle are each corporations duly organized, validly existing and duly qualified or licensed and in good standing under the laws of the state or jurisdiction of their respective incorporation and have all requisite corporate power, as applicable, to own, lease and operate their respective properties and to carry on their respective businesses as currently conducted. Seller and Panhandle are each duly qualified or licensed to do business as foreign corporations, and are, and have been, in good standing in each jurisdiction in which the nature of the respective businesses conducted by them or the property they own, lease or operate requires them to so qualify, be licensed or be in good standing, except for such failures to be qualified, licensed or in good standing that would not have a Material Adverse Effect. True and correct copies of the Organizational Documents of Panhandle and the Panhandle Subsidiaries with all amendments thereto to the date hereof, have been made available by Seller to Buyer or its representatives.

(b) The Panhandle Subsidiaries are each corporations, or other entities, as applicable, duly organized, validly existing and duly qualified or licensed and in good standing under the laws of the state or jurisdiction of their respective incorporation or formation and have all requisite corporate or other power, as applicable, to own, lease and operate their respective properties and to carry on their respective businesses as currently conducted. The Panhandle Subsidiaries are each duly qualified or licensed to do business as foreign corporations, or other entities, as applicable, and are, and have been, in good standing in each jurisdiction in which the nature of the respective businesses conducted by them or the property they own, lease or operate requires them to so qualify, be licensed or be in good standing except where the failure to be so authorized, qualified or licensed and in good standing would not have a Material Adverse Effect. Section 3.1(b) of the Seller Disclosure Letter sets forth all of the jurisdictions in which Panhandle and the Panhandle Subsidiaries are qualified to do business.

(c) Section 3.1(c) of the Seller Disclosure Letter sets forth the ownership interest of Seller (or any Subsidiary) in each Related Company.

Section 3.2 Authority Relative to this Agreement.

Seller has full corporate power and authority to execute and deliver this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered by it in connection with this Agreement or the Related Agreements, and to consummate the transactions contemplated hereby and

thereby. The execution, delivery and performance of this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by all the necessary action on the part of Seller, and no other corporate or other proceedings on the part of Seller are necessary to authorize this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements or to consummate the transactions contemplated hereby and thereby. This Agreement has been, and the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements as of the Closing Date will be, duly and validly executed and delivered by Seller or the Seller Counterparties, as applicable, and assuming that this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements constitute legal, valid and binding agreements of Buyer and the Buyer Counterparties and each of the Sponsors, as applicable, are (in the case of this Agreement) or will be as of the Closing Date (in the case of the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements) enforceable against Seller and the Seller Counterparties in accordance with their respective terms, except that such enforceability may be limited by applicable bankruptcy, insolvency, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally or general principles of equity.

Section 3.3 Shares.

(a) The Shares are duly authorized, validly issued and fully paid and were not issued in violation of any preemptive rights. Except as set forth in Section 3.3(a) of the Seller Disclosure Letter, (i) there are no shares of Panhandle authorized, issued or outstanding or reserved for any purpose, and (ii) there are no (A) existing options, warrants, calls, rights of first refusal, preemptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the Shares, obligating Seller or any of its Affiliates to issue, transfer or sell, or cause to be issued, transferred or sold, any of the Shares, (B) outstanding securities of Seller or its Affiliates that are convertible into or exchangeable or exercisable for any of the Shares, (C) options, warrants or other rights to purchase from Seller or its Affiliates any such convertible or exchangeable securities or (D) other than this Agreement, contracts, agreements or arrangements of any kind relating to the issuance of any of the Shares, or any such options, warrants or rights, pursuant to which, in any of the foregoing cases, Seller or its Affiliates are subject or bound.

(b) Except as set forth in Section 3.3(b) of the Seller Disclosure Letter, Seller owns all of the issued and outstanding Shares and has good, valid and marketable title to the Shares, free and clear of all Encumbrances or other defects in title, and the Shares have not been pledged or assigned to any Person. At the Closing, the Shares will be transferred to Buyer free and clear of all Encumbrances. The Shares

owned by Seller are not subject to any restrictions on transferability other than those imposed by this Agreement and by applicable securities laws.

(c) Except for the ownership of the Panhandle Subsidiaries and the Related Companies, Panhandle does not have any subsidiaries or any stock or other equity interest (controlling or otherwise) in any corporation, limited liability company, partnership, joint venture or other entity. Except as set forth in Section 3.3(c)(i) of the Seller Disclosure Letter, all of the outstanding shares of capital stock or other ownership interests, as applicable, of each of the Panhandle Subsidiaries are owned directly or indirectly by Panhandle, free and clear of all Encumbrances, and are validly issued, fully paid and nonassessable. At the Closing, all of such shares or other ownership interests will be free and clear of all Encumbrances. Except as set forth in Section 3.3(c)(ii) of the Seller Disclosure Letter, the number of outstanding shares of capital stock or other ownership interests, as applicable, of each of the Related Companies indicated on Section 3.1(c) of the Seller Disclosure Letter are owned directly or indirectly by Panhandle, free and clear of all Encumbrances or other defects in title, and such shares or ownership interests have not been pledged or assigned to any Person. Except as set forth in Section 3.3(a) of the Seller Disclosure Letter, (i) there are no shares of a Panhandle Subsidiary authorized, issued or outstanding or reserved for any purpose, and (ii) there are no (A) existing options, warrants, calls, rights of first refusal, preemptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the shares of a Panhandle Subsidiary, obligating Panhandle or any of its Affiliates to issue, transfer or sell, or cause to be issued, transferred or sold, any of the shares of a Panhandle Subsidiary, (B) outstanding securities of Panhandle or its Affiliates that are convertible into or exchangeable or exercisable for any of the shares of a Panhandle Subsidiary, or (C) options, warrants or other rights to purchase from Panhandle or its Affiliates any such convertible or exchangeable securities.

Section 3.4 Consents and Approvals.

Except as set forth in Section 3.4 of the Seller Disclosure Letter, Seller requires no consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority, or any other Person as a condition to the execution and delivery of this Agreement or the performance of the obligations hereunder, except where the failure to obtain such consent, approval or authorization of, or filing of, registration or qualification with, any Governmental Authority, or any other Person would not materially and adversely impact the operations, as currently conducted, of Panhandle and the Panhandle Subsidiaries, taken as a whole.

Section 3.5 No Conflict or Violation.

Except as set forth in Section 3.5 of the Seller Disclosure Letter, the execution, delivery and performance by the Seller of this Agreement does not:

(a) violate or conflict with any provision of the organizational documents or bylaws of Seller, Panhandle or the Panhandle Subsidiaries;

(b) violate any applicable provision of a law, statute, judgment, order, writ, injunction, decree, award, rule or regulation of any Governmental Authority, except where such violation would not have a Material Adverse Effect; or

(c) violate, result in a breach of, constitute (with due notice or lapse of time or both) a default or cause any obligation, penalty or premium to arise or accrue under any Material Contract, lease, loan, mortgage, security agreement, trust indenture or other material agreement or instrument to which Panhandle or the Panhandle Subsidiaries are a party or by which any of them is bound or to which any of their respective properties or assets is subject, except as would not have a Material Adverse Effect.

Section 3.6 Financial Information.

Seller has previously furnished to Buyer the Financial Statements. Except as set forth in Section 3.6 of the Seller Disclosure Letter, as of the Date of this Agreement, the Financial Statements present fairly in all material respects, in accordance with GAAP consistently applied, on a consolidated basis, the financial condition and results of operation of Panhandle and the Panhandle Subsidiaries as of the date thereof and for the periods set forth therein, except for the absence of footnotes and as otherwise noted therein, and subject, in the case of the Interim Financial Statements, to normal recurring year-end adjustments which are not material either individually or in the aggregate. At Closing, the Restated Financials will present fairly in all material respects, in accordance with GAAP consistently applied, on a consolidated basis, the financial condition and results of operation of Panhandle and the Panhandle Subsidiaries as of the date thereof and for the periods set forth therein, except for the absence of footnotes and as otherwise noted therein, and subject, in the case of the Interim Financial Statements, to normal recurring year-end adjustments which are not material either individually or in the aggregate.

Section 3.7 Contracts.

(a) Section 3.7(a) of the Seller Disclosure Letter sets forth a list, as of the date hereof, of each material contract and lease to which any of Panhandle or the Panhandle Subsidiaries is a party, other than (i) any purchase or sale orders arising in the ordinary course of business, (ii) any contract involving the payment or receipt of less than \$1,000,000 in the aggregate and (iii) any contract listed in any other Section of the Seller Disclosure Letter (each contract set forth in Section 3.7(a) of the Seller Disclosure Letter being referred to herein as a "Material Contract").

(b) Section 3.7(b) of the Seller Disclosure Letter sets forth a list, as of the date hereof, of each contract that any of Panhandle or the Panhandle Subsidiaries has with an Affiliate, other than with respect to any purchases and sales arising in the ordinary course of business.

(c) Except as set forth in Section 3.7(c) of the Seller Disclosure Letter, each Material Contract is a valid and binding agreement of Panhandle or the

Panhandle Subsidiaries, as applicable, and, to the Knowledge of Seller, is in full force and effect.

(d) Except as set forth in Section 3.7(d) of the Seller Disclosure Letter, Seller has no Knowledge of any default under any Material Contract, other than defaults which have been cured or waived and which would not have a Material Adverse Effect. Panhandle or a Panhandle Subsidiary, as the case may be, and, to Seller's Knowledge, the other party(ies) to any Material Contract, have performed in all respects all obligations required to be performed by them under any Material Contract, except where such non-performance would not have a Material Adverse Effect. Seller has made available to Buyer or its representatives true and complete originals or copies of all the Material Contracts.

Section 3.8 Compliance with Law.

Except for Environmental Laws and Tax laws, which are the subject of Section 3.15 and Section 3.16, respectively, and except as set forth in Section 3.8 of the Seller Disclosure Letter, since December 31, 1999, Seller, Panhandle and the Panhandle Subsidiaries have complied with all federal, state, local or foreign laws, statutes, ordinances, rules, regulations, judgments, orders, writs, injunctions or decrees of any Governmental Authority applicable to their respective properties, assets and businesses except where such noncompliance would not have a Material Adverse Effect. None of Seller or Panhandle, and, to the Knowledge of Seller, no Panhandle Subsidiary, has received written notice of any material violation of any such law, license, regulation, order or other legal requirement or, to the Knowledge of Seller, is in material default with respect to any order, writ, judgment, award, injunction or decree of any Governmental Authority, applicable to Panhandle or a Panhandle Subsidiary or any of their respective assets, properties or operations.

Section 3.9 Permits.

Except as set forth in Section 3.9 of the Seller Disclosure Letter, Seller, Panhandle and the Panhandle Subsidiaries have all permits, licenses, certificates of authority, orders and approvals of, and have made all filings applications and registrations with Governmental Authorities necessary for the conduct of the respective business operations of Panhandle and the Panhandle Subsidiaries as presently conducted (collectively, the "Permits"), except for those Permits the absence of which would not, individually or in the aggregate, have a Material Adverse Effect.

Section 3.10 Litigation.

Except as identified in Section 3.10 of the Seller Disclosure Letter, there are no lawsuits, actions, proceedings, or, to Seller's Knowledge, any investigations, pending or, to Seller's Knowledge, threatened, against Seller or any of its Affiliates or any executive officer or director thereof relating to the Shares or the transactions contemplated hereby or the respective assets or businesses of Panhandle or the Panhandle Subsidiaries, except, in the case of lawsuits, actions, proceedings, investigations relating to the respective

assets or businesses of Panhandle or the Panhandle Subsidiaries, as would not, individually or in the aggregate, have a Material Adverse Effect. Seller and its Affiliates are not subject to any outstanding judgment, order, writ, injunction, decree or award entered in an Action to which Seller or any of its Affiliates was a named party relating to the Shares or the transactions contemplated hereby or the respective assets or businesses of Panhandle or the Panhandle Subsidiaries, except, in the case of lawsuits, actions, proceedings, investigations relating to the respective assets or businesses of Panhandle or the Panhandle Subsidiaries, as would not, individually or in the aggregate, have a Material Adverse Effect.

Section 3.11 Title to Properties.

Each of Panhandle and the Panhandle Subsidiaries has good and valid title to all of the tangible assets and properties which it owns and which are reflected in the Financial Statements (except for assets and properties sold, consumed or otherwise disposed of in the ordinary course of business since the date of the Financial Statements), and such tangible assets and properties are owned free and clear of all Encumbrances, except for (a) Encumbrances listed in Section 3.11 of the Seller Disclosure Letter, (b) Permitted Encumbrances, and (c) Encumbrances which will be discharged on or before the Closing Date. To the Knowledge of Seller, each of Panhandle and the Panhandle Subsidiaries owns valid and defeasible fee title to, or holds a valid leasehold interest in, or a valid right-of-way or easement (all such rights-of-way and easements collectively, the "Rights of Way") through, all real property ("Real Property") used or necessary for the conduct of Panhandle's and the Panhandle Subsidiaries' business as presently conducted, and all such real Property (other than Rights-Of-Way) are owned or leased free and clear of all Encumbrances, in each case except for (a) Encumbrances listed in Section 3.11 of the Seller Disclosure Letter, (b) Permitted Encumbrances, and (c) Encumbrances which will be discharged on or before the Closing Date.

Section 3.12 Employee Matters.

(a) Except as set forth in Section 3.12(a) of the Seller Disclosure Letter, neither Panhandle nor the Panhandle Subsidiaries contributes to any "employee benefit plan," as defined in Section 3(3) of ERISA ("ERISA Plans").

(b) Other than the Separation Plans, neither Panhandle nor the Panhandle Subsidiaries sponsors or administers any ERISA Plan.

(c) Except as set forth in Section 3.12(c) of the Seller Disclosure Letter, neither Panhandle nor the Panhandle Subsidiaries has established or maintains any plan, agreement or arrangement providing for employment terms; severance benefits; insurance coverage (including any self-insured arrangements); workers' compensation; disability benefits; supplemental unemployment benefits; vacation benefits; retirement benefits; deferred compensation, profit-sharing, bonuses, or other forms of incentive compensation; or post-retirement insurance, compensation or benefits (whether or not an ERISA Plan) that (i) is entered into, sponsored or maintained, as the case may be, by Panhandle or the Panhandle Subsidiaries, and (ii) covers any current or former Panhandle

Employee or independent contractor to Panhandle or a Panhandle Subsidiary. The policies, agreements, plans and arrangements, copies or descriptions, including the ERISA Plans, that are set forth in Section 3.12(a) and Section 3.12(c) of the Seller Disclosure Letter, of all of which complete and accurate copies have previously have been made available to Buyer, are hereinafter referred to collectively as the "Employee Benefit Plans."

(d) Except as set forth in Section 3.12(d) of the Seller Disclosure Letter, neither Panhandle nor the Panhandle Subsidiaries has any legal commitment to create, incur liability with respect to or cause to exist any other employee benefit plan, program or arrangement for the benefit of any current or former Panhandle Employee or to enter into any contract or agreement to provide compensation or benefits to any former or current Panhandle Employee.

(e) Except as set forth in Section 3.12(e) of the Seller Disclosure Letter, with respect to each Employee Benefit Plan:

(i) the applicable reporting, disclosure and other requirements of ERISA (and other Applicable Law) have been complied with in all material respects;

(ii) there is no act or omission of Panhandle or the Panhandle Subsidiaries which would (a) constitute a breach of fiduciary duty under Section 404 of ERISA or a transaction (including the transactions contemplated by this Agreement) intended to evade liability under Section 4069 of ERISA, in either case that would subject Panhandle or the Panhandle Subsidiaries to a liability, or (b) constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code that would subject Panhandle or the Panhandle Subsidiaries or any plan fiduciary, directly or indirectly (through indemnification obligations or otherwise), to an excise Tax or civil penalty under Section 4975 of the Code or Section 502(i) of ERISA in an amount that would be material;

(iii) none of the current or former Panhandle Employees are entitled to benefits under a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) by reason of their employment with Panhandle or the Panhandle Subsidiaries;

(iv) all contributions or payments required to be made under each Employee Plan or Employee Benefit Plan, by reason of Part 3 of Subtitle B of Title I of ERISA, Section 412 of the Code, or otherwise prior to the Closing Date have been and will be timely made;

(v) there is no pending or, to Seller's Knowledge, threatened litigation with respect to any Employee Benefit Plan;

(vi) except to the extent required under Section 601 of ERISA, neither Panhandle nor the Panhandle Subsidiaries has any present or future obligation to make any payment to or with respect to any former or current Panhandle Employee or any dependent of any such former or current Panhandle Employee under any retiree medical benefit plan, or other retiree welfare benefit plan;

(vii) there is no Employee Benefit Plan covering any former or current Panhandle Employee that provides for the payment by Panhandle or the Panhandle Subsidiaries of any amount (i) that is not deductible as a result of Section 162(a)(1) or 404 of the Code or (ii) that is an "excess parachute payment" pursuant to Section 280G of the Code;

(viii) Seller is aware of no fact that would lead Buyer or, after the transaction, Panhandle or a Panhandle Subsidiary, to incur any liability under Title IV of ERISA;

(ix) Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will (x) entitle any Panhandle Employee to severance pay to which such employee was not previously entitled, or any increase in severance pay upon a termination of employment, (y) accelerate the time of payment or vesting of, or trigger any payment of compensation or benefits to, the Panhandle Employees under any Employee Benefit Plan or (z) trigger any other material obligation pursuant to the Employee Benefit Plans that would be a liability of Buyer or Panhandle or the Panhandle Subsidiaries after the Closing Date; and

(x) each ERISA Plan intended to qualify under Section 401(a) of the Code has been determined to be so qualified by the Internal Revenue Service and, to the Knowledge of Seller, nothing has occurred which has resulted or is likely to result in the revocation of such determination or which requires or is reasonable likely to require action under the compliance resolution programs of the Internal Revenue Service to preserve such qualification.

Section 3.13 Labor Relations.

Except as set forth in Section 3.13 of the Seller Disclosure Letter, (i) none of Panhandle or the Panhandle Subsidiaries is a party to any labor or collective bargaining agreements, and there are no labor or collective bargaining agreements which pertain to any employees of Panhandle or the Panhandle Subsidiaries, (ii) within the preceding eighteen (18) months, there have been no representation or certification proceedings, or petitions seeking a representation proceeding, pending or, to the Knowledge of Seller, threatened in writing to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority with respect to Panhandle or the Panhandle Subsidiaries and (iii) within the preceding eighteen (18) months, to the Knowledge of

Seller, there have been no organizing activities involving Panhandle or the Panhandle Subsidiaries with respect to any group of their respective employees.

Section 3.14 Intellectual Property.

Except as set forth in Section 3.14 of the Seller Disclosure Letter, Panhandle and the Panhandle Subsidiaries will, on the Closing Date, either in their own name or by operation of the Intellectual Property Agreement attached hereto as Exhibit A, own or possess licenses or other legally enforceable rights to use all patents, copyrights (including any copyrights in proprietary software), trademarks, service marks, trade names, logos, and other intellectual property rights, software object and source code as are necessary to conduct their respective businesses as currently conducted, except those the lack of which would not, materially and adversely impact the operations, as currently conducted, of Panhandle and the Panhandle Subsidiaries taken as a whole; and to Seller's Knowledge, there is no conflict by Seller or any of Panhandle or the Panhandle Subsidiaries with the rights of others therein which, individually or in the aggregate, would materially and adversely impact the operations, as currently conducted, of Panhandle and the Panhandle Subsidiaries taken as a whole.

Section 3.15 Representations with Respect to Environmental Matters.

To Seller's Knowledge, and except as set forth in Section 3.15 of the Seller Disclosure Letter:

(a) Panhandle and the Panhandle Subsidiaries are in compliance with all applicable Environmental Laws, except for such noncompliance as would not, individually or in the aggregate, have a Material Adverse Effect;

(b) Panhandle and the Panhandle Subsidiaries have all of the Environmental Permits required in order to conduct their operations or, where such Environmental Permits have expired, have applied for a renewal of such Environmental Permits in a timely fashion, except where the failure to have an Environmental Permit or to have applied for a renewal of an Environmental Permit would not, individually or in the aggregate, have a Material Adverse Effect;

(c) there is no pending or threatened written Claim, lawsuit, or administrative proceeding against Panhandle or the Panhandle Subsidiaries under or pursuant to any Environmental Law that, individually or in the aggregate, would have a Material Adverse Effect. Neither Panhandle nor the Panhandle Subsidiaries is a party or subject to any administrative or judicial order, decree or other agreement with a Governmental Authority under or pursuant to any applicable Environmental Law that, individually or in the aggregate, would have a Material Adverse Effect;

(d) neither Panhandle nor the Panhandle Subsidiaries have received written notice from any third party, including any Governmental Authority, alleging that Panhandle or the Panhandle Subsidiaries has been or is in violation or potentially in violation of any applicable Environmental Law or otherwise may be liable

under any applicable Environmental Law, which violation or liability is unresolved and which, individually or in the aggregate, would have a Material Adverse Effect; and

(e) with respect to the real property that is currently owned or leased by Panhandle or the Panhandle Subsidiaries, there have been no spills or discharges of Hazardous Substances on or underneath any such real property that, individually or in the aggregate, would have a Material Adverse Effect.

The representations and warranties set forth in this Section 3.15 are Seller's sole and exclusive representations and warranties related to environmental matters.

Section 3.16 Tax Matters.

(a) Except as would not have a Material Adverse Effect, all federal, state, and local Tax Returns required to be filed by or on behalf of Panhandle or the Panhandle Subsidiaries, and each consolidated, combined, unitary, affiliated or aggregate group of which any of Panhandle or the Panhandle Subsidiaries are a member has been timely filed (taking into account applicable extensions), and all Taxes shown as due on such Tax Returns have been paid, or adequate reserves therefor have been established.

(b) Except as would not have a Material Adverse Effect, there is no deficiency, proposed adjustment, or matter in controversy that has been asserted or assessed in writing with respect to any Taxes due and owing by Panhandle or the Panhandle Subsidiaries that has not been paid or settled in full.

(c) Except as would not have a Material Adverse Effect, Panhandle and the Panhandle Subsidiaries have timely withheld and timely paid all Taxes required to be withheld by them in connection with any amounts paid or owing to any employee, creditor, independent contractor or other third party.

(d) Except as would not have a Material Adverse Effect, there are no liens for Taxes upon any of the assets of Panhandle or any Panhandle Subsidiary except for liens for Taxes not yet due and payable.

(e) Except as would not have a Material Adverse Effect, no property of Panhandle or any Panhandle Subsidiary is required to be treated as "tax-exempt use property" within the meaning of Code Section 168(h), and no property of Panhandle or any Panhandle Subsidiary is subject to a tax benefit transfer lease subject to the provisions of former Section 168(f)(8) of the Code.

(f) Except as set forth in Section 3.16(f) of the Seller Disclosure Letter, each Panhandle Subsidiary and each Related Company that is treated as a partnership for United States federal income tax purposes has not made a valid election under Section 754 of the Code that will be in effect on the Closing Date.

Section 3.17 Absence of Certain Changes or Events.

(a) Except as set forth in Section 3.17(a) of the Seller Disclosure Letter, for the period beginning on March 29, 1999 and until the date hereof, Panhandle and the Panhandle Subsidiaries have conducted their respective businesses in the ordinary course of business, consistent with past practice (as such practice existed during the period of Seller's ownership of Panhandle and the Panhandle Subsidiaries).

(b) Except as set forth in Section 3.17(b) of the Seller Disclosure Letter, or in the Financial Statements and the notes thereto, since the date of the Financial Statements, there has not been with respect to Panhandle and the Panhandle Subsidiaries any event or development or change which has resulted or would reasonably be expected to result in Material Adverse Effect.

Section 3.18 Absence of Undisclosed Liabilities.

Neither Panhandle nor the Panhandle Subsidiaries have any Liabilities (whether absolute, accrued, contingent or otherwise) that are required by GAAP to be reflected in the audited financial statements of Panhandle and the Panhandle Subsidiaries except those Liabilities (a) disclosed and reserved against in the September 30, 2002 balance sheet for Panhandle and the Panhandle Subsidiaries, (b) set forth in Section 3.18 of the Seller Disclosure Letter, (c) incurred in the ordinary course of business since September 30, 2002 and (d) which have not resulted in a Material Adverse Effect.

Section 3.19 Brokerage and Finders' Fees.

Except for Merrill Lynch & Co. and Salomon Smith Barney Inc., whose fees will be paid by Seller, none of Seller, Panhandle, the Panhandle Subsidiaries, or any of their Affiliates or their respective stockholders, partners, directors, officers or employees, has incurred, or will incur any brokerage, finders' or similar fee in connection with the transactions contemplated by this Agreement or the Related Agreements.

Section 3.20 Affiliated Transactions.

Except as described in Section 3.20 of the Seller Disclosure Letter, and except for trade payables and receivables arising in the ordinary course of business for purchases and sales of goods or services consistent with past practice, neither Panhandle nor the Panhandle Subsidiaries have been a party over the past twelve (12) months to any material transaction or agreement with Seller or any Affiliate of Seller (other than Panhandle and the Panhandle Subsidiaries) and no director or officer of Seller or its Affiliates (other than Panhandle and the Panhandle Subsidiaries), has, directly or indirectly, any material interest in any of the assets or properties of Panhandle or the Panhandle Subsidiaries.

Section 3.21 Insurance.

(a) Section 3.21 of the Seller Disclosure Letter sets forth a true and complete list of all current policies of all material property and casualty insurance, insuring the properties, assets, employees and/or operations of Panhandle and the Panhandle Subsidiaries (collectively, the "Insurance Policies"). To the Knowledge of

Seller, all premiums payable under such Policies have been paid in a timely manner and Panhandle and the Panhandle Subsidiaries have complied in all material respects with the terms and conditions of all such Policies.

(b) As of the date hereof, Seller has not received any written notification of the failure of any of the Insurance Policies to be in full force and effect. To the Knowledge of Seller, neither Panhandle nor the Panhandle Subsidiaries is in default under any provision of the Insurance Policies, and except as set forth in Section 3.21 of the Seller Disclosure Letter, there is no claim by Panhandle or any other Person pending under any of the Insurance Policies as to which coverage has been denied or disputed by the underwriters or issuers thereof.

Section 3.22 Regulatory Matters.

Panhandle is a "Natural Gas Company" as that term is defined in Section 2 of the Natural Gas Act ("NGA"). Panhandle is not a "public utility company," "holding company" or "subsidiary" or "affiliate" of a holding company as such terms are defined in the Public Utility Holding Company Act of 1935 (the "1935 Act"). Except as would not have a Material Adverse Effect, Panhandle and the Panhandle Subsidiaries are in compliance with all provisions of the NGA and all rules and regulations promulgated by FERC pursuant thereto. Except as would not have a Material Adverse Effect, Panhandle and the Panhandle Subsidiaries are in compliance with all orders issued by FERC that pertain to all terms and conditions and rates charged for services. Except as set forth in Section 3.22 of the Seller Disclosure Letter, no approval of (i) the Securities and Exchange Commission under the 1935 Act or (ii) FERC under the NGA or the Federal Power Act is required in connection with the execution of this Agreement by Seller or the transaction contemplated hereby with respect to Seller. The Form No. 2 Annual Reports filed by Panhandle with FERC for the years ended December 31, 2001 and December 31, 2000 were true and correct in all material respects as of the dates thereof and since September 30, 2002 until the date of this Agreement none of Panhandle or the Panhandle Subsidiaries have become subject to any proceeding under Section 5 of the NGA or any general rate case proceeding commenced under Section 4 of the NGA by reason of a filing made with the FERC after September 30, 2002.

Section 3.23 Opinions of Financial Advisors.

The Board of Directors of Parent has received separate opinions, dated the date of this Agreement, from each of Merrill Lynch & Co. and Salomon Smith Barney Inc., addressed to the Board of Directors of Parent; to the effect that, subject to, and based upon the assumptions, qualifications and limitations included in such opinions, the consideration to be received by Parent pursuant to this Agreement is fair from a financial point of view to Parent. Buyer will be permitted to inspect such opinions solely for informational purposes following receipt thereof by Parent.

Section 3.24 No Other Representations or Warranties.

Except for the representations and warranties contained in this Article III, none of Seller, Panhandle, or the Panhandle Subsidiaries, nor any other Person makes any other express or implied representation or warranty on behalf of Seller.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller as follows; provided, that each of the Sponsors represents and warrants only as to Buyer and as to such Sponsor and not as to the other Sponsor:

Section 4.1 Corporate Organization; Qualification.

Buyer and each of the Sponsors is a corporation or other legal entity duly organized, validly existing and duly qualified or licensed and in good standing under the laws of the state or jurisdiction of its incorporation and has all requisite corporate power to own, lease and operate its properties and to carry on its business as currently conducted. Buyer and each of the Sponsors is duly qualified or licensed to do business as a foreign corporation or other legal entity and is, and has been, in good standing in each jurisdiction in which the nature of the business conducted by it or the property it owns, leases or operates requires it to so qualify, be licensed or be in good standing, except for such failures to be qualified, licensed or in good standing that would not materially affect the consummation of the transactions contemplated by this Agreement.

Section 4.2 Authority Relative to this Agreement.

Buyer and each of the Sponsors has full corporate, or other power, and authority to execute and deliver this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered by it in connection with this Agreement or the Related Agreements, and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by all the necessary action on the part of Buyer and each of the Sponsors and no other corporate, or other proceedings on the part of Buyer or any of the Sponsors are necessary to authorize this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements or to consummate the transactions contemplated hereby and thereby. This Agreement has been, and the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements as of the Closing Date will be, duly and validly executed and delivered by Buyer or the Buyer

Counterparties and the Sponsors, as applicable, and assuming that this Agreement, the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements constitute legal, valid and binding agreements of Seller and the Seller Counterparties, as applicable, are (in the case of this Agreement) or will be as of the Closing Date (in the case of the Related Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Related Agreements), enforceable against Buyer, the Buyer Counterparties and each of the Sponsors in accordance with their respective terms, except that such enforceability may be limited by applicable bankruptcy, insolvency, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally or general principles of equity.

Section 4.3 Consents and Approvals.

Except as set forth in Section 4.3 of the Buyer Disclosure Letter, none of Buyer or the Sponsors requires any consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority, or any other Person as a condition to the execution and delivery of this Agreement or the performance of the obligations hereunder, except where the failure to obtain such consent, approval or authorization of, or filing of, registration or qualification with, any Governmental Authority, or any other Person would not materially affect the consummation of the transactions contemplated by this Agreement.

Section 4.4 No Conflict or Violation.

Except as set forth in Section 4.4 of the Buyer Disclosure Letter, the execution, delivery and performance by Buyer and the Sponsors of this Agreement does not:

- (a) violate or conflict with any provision of the organizational documents or bylaws of Buyer or any of the Sponsors, respectively;
- (b) violate any applicable provision of a law, statute, judgment, order, writ, injunction, decree, award, rule or regulation of any Governmental Authority, except where such violation would not have a Material Adverse Effect; or
- (c) violate, result in a breach of, constitute (with due notice or lapse of time or both) a default or cause any material obligation, penalty or premium to arise or accrue under any material contract, lease, loan, agreement, mortgage, security agreement, trust indenture or other material agreement or instrument to which Buyer or any of the Sponsors is a party or by which it is bound or to which any of its properties or assets is subject, except as would not have materially affect the consummation of the transactions contemplated by this Agreement.

Section 4.5 Litigation.

Except as set forth in Section 4.5 of the Buyer Disclosure Letter, there are no lawsuits, actions, proceedings, or, to Buyer's Knowledge, any investigations, pending or, to Buyer's Knowledge, threatened, against Buyer, the Sponsors or any of their respective

Affiliates or any executive officer or director thereof which would prohibit or impair Buyer, the Sponsors or their respective Affiliates from undertaking any of the transactions contemplated by this Agreement or the Related Agreements, except as would not materially affect the consummation of the transactions contemplated by this Agreement. Buyer, the Sponsors and their respective Affiliates are not subject to any outstanding judgment, order, writ, injunction, decree or award entered in an Action to which Buyer, the Sponsors or any of their respective Affiliates was a named party which would prohibit or impair Buyer, the Sponsors or their Affiliates from undertaking any of the transactions contemplated by this Agreement or the Related Agreements, except as would not materially affect the consummation of the transactions contemplated by this Agreement.

Section 4.6 Availability of Funds.

Buyer will have on the Closing Date sufficient funds available in immediately available funds to pay the Purchase Price and to consummate the transactions contemplated hereby. The ability of Buyer to consummate the transactions contemplated hereby is not subject to any condition or contingency with respect to financing.

Section 4.7 Brokerage and Finders' Fees.

Except for Lehman Brothers and Berenson Minella & Company, whose fees will each be paid by Buyer, neither Buyer, the Sponsors nor any of their Affiliates, or their respective stockholders, partners, directors, officers or employees, has incurred, or will incur any brokerage, finders' or similar fee in connection with the transactions contemplated by this Agreement or the Related Agreements.

Section 4.8 Investment Representations.

(a) Buyer is acquiring the Shares to be acquired by it hereunder for its own account, solely for the purpose of investment and not with a view to, or for sale in connection with, any distribution thereof in violation of the federal securities laws or any applicable foreign or state securities law.

(b) Buyer is an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act of 1933, as amended.

(c) Buyer understands that the acquisition of the Shares to be acquired by it pursuant to the terms of this Agreement involves substantial risk. Buyer and its officers have experience as an investor in securities and equity interests of companies such as the ones being transferred pursuant to this Agreement and acknowledges that it can bear the economic risk of its investment and has such knowledge and experience in financial or business matters that Buyer is capable of evaluating the merits and risks of its investment in the Shares to be acquired by it pursuant to the transactions contemplated hereby.

(d) Buyer understands that the Shares to be acquired by it hereunder have not been registered under the Securities Act on the basis that the sale

provided for in this Agreement is exempt from the registration provisions thereof. Buyer acknowledges that such securities may not be transferred or sold except pursuant to the registration and other provisions of applicable securities laws or pursuant to an applicable exemption therefrom.

(e) Buyer acknowledges that the offer and sale of the Shares to be acquired by it in the transactions contemplated hereby has not been accomplished by the publication of any advertisement.

Section 4.9 Buyer Capitalization; Other Interests

(a) As of the date of this Agreement, Southern Union directly owns all of the issued and outstanding shares of capital stock of Buyer. Simultaneously with the execution of this Agreement, the Sponsors and the Buyer have entered into a letter agreement regarding their ownership of the Buyer, a true and correct copy of which has previously been provided to Seller (the "Buyer Letter Agreement"). As of the Closing, the Sponsors will own all of the issued and outstanding shares of capital stock of Buyer in accordance with the Buyer Letter Agreement.

(b) Except as contemplated in the Buyer Letter Agreement, there are no (A) existing options, warrants, calls, rights of first refusal, preemptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the capital stock of Buyer, obligating Buyer, any of the Sponsors or any of their respective Affiliates to issue, transfer or sell, or cause to be issued, transferred or sold, any of the capital stock of Buyer, (B) outstanding securities of Buyer or its Affiliates that are convertible into or exchangeable or exercisable for any of the capital stock of Buyer, (C) options, warrants or other rights to purchase from Buyer, any of the Sponsors or their respective Affiliates any such convertible or exchangeable securities or (D) contracts, agreements or arrangements of any kind relating to the issuance of any of the capital stock of Buyer, or any such options, warrants or rights, pursuant to which, in any of the foregoing cases, Buyer, the Sponsors or any of their respective Affiliates are subject or bound.

(c) Other than as set forth on Section 4.9(c) of the Buyer Disclosure Letter, neither Buyer nor any of the Sponsors own any stock or other equity interest (controlling or otherwise) in any corporation, limited liability corporation, joint venture or other entity engaged in the energy business, including without limitation any business engaged in (i) the ownership or operation of natural gas and condensate pipelines, (ii) interstate transportation of natural gas, (iii) natural gas storage services, (iv) the storage and regasification of liquefied natural gas and (v) the separation and measurement of condensate. Section 4.9(c) of the Buyer Disclosure Letter indicates whether, and the extent to which, the Sponsors have management responsibility and/or operational control for the entities set forth in Section 4.9(c) of the Buyer Disclosure Letter which are engaged in the energy business.

Section 4.10 No Other Representations or Warranties.

Except for the representations and warranties contained in this Article IV, neither Buyer nor any other Person makes any other express or implied representation or warranty on behalf of Buyer.

ARTICLE V

COVENANTS OF THE PARTIES

Section 5.1 Conduct of Business.

(a) Except as expressly provided in this Agreement or as set forth in Section 5.1(a) of the Seller Disclosure Letter, from and after the date of this Agreement and until the Closing Date, Seller shall cause Panhandle and the Panhandle Subsidiaries to conduct and maintain their respective businesses in the ordinary course of business, consistent with past practice.

(b) Except as contemplated by this Agreement or as set forth in Section 5.1(b) of the Seller Disclosure Letter, prior to the Closing Date, without the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed), Seller shall cause Panhandle and the Panhandle Subsidiaries not to:

(i) Amend its Certificate of Incorporation, Bylaws or other comparable charter or organizational documents or merge with or into or consolidate with any other Person;

(ii) Issue, sell, pledge, dispose of or encumber, or authorize or propose the issuance, sale, pledge, disposition or encumbrance of, any shares of, or securities convertible or exchangeable for, or options, puts, warrants, calls, commitments or rights of any kind to acquire, any of its capital stock or other membership or ownership interests or subdivide or in any way reclassify any shares of its capital stock or other membership or ownership interests or change or agree to change in any manner the rights of its outstanding capital stock or other membership or ownership interests;

(iii) (A) Declare, set aside or pay any dividend or other distribution payable other than in cash or cash equivalents, with respect to any shares of any class or series of capital stock of Panhandle or the Panhandle Subsidiaries; (B) split, combine or reclassify any shares of any class or series of capital stock of Panhandle or the Panhandle Subsidiaries; or (C) redeem, purchase or otherwise acquire directly or indirectly any shares of any class or series of capital stock of Panhandle or the Panhandle Subsidiaries, or any instrument or security which consists of or includes a right to acquire such shares;

(iv) Except as may be required by agreements or arrangements identified in Section 5.1(b)(iv) of the Seller Disclosure Letter, grant any severance or termination pay to, or enter into, extend or amend any employment, consulting, severance or other compensation agreement with, or otherwise increase the compensation or benefits provided to any of its officers or other employees whose annual salary base is in excess of \$100,000 other than in the ordinary course of business, consistent with past practice;

(v) Sell, lease, license, mortgage or otherwise dispose of any properties or assets material to its business, other than (A) sales made in the ordinary course of business consistent with past practice or (B) sales of obsolete or other assets not presently utilized in its business;

(vi) Make any change in its accounting principals, practices, estimates or methods, other than as may be required by GAAP, Applicable Law or any Governmental Authority;

(vii) Organize any new Subsidiary or acquire any capital stock of, or equity or ownership interest in, any other Person;

(viii) Materially modify or amend or terminate any Material Contract or waive, release or assign any material rights or Claims under a Material Contract, except in the ordinary course of business and consistent with past practice;

(ix) Pay, repurchase, discharge or satisfy any of its Claims, Liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than in the ordinary course of business and consistent with past practice;

(x) Enter into any contract or transaction relating to the purchase of assets material to Panhandle or the Panhandle Subsidiaries, taken as a whole, other than in the ordinary course of business consistent with past practice;

(xi) (A) Incur or assume any long-term debt, or except in the ordinary course of business consistent with past practice, incur or assume short-term indebtedness (other than intercompany indebtedness) exceeding \$5,000,000 in the aggregate from the date hereof until Closing; (B) modify the terms of any indebtedness or other liability, other than modifications of short-term debt in the ordinary course of business, consistent with past practice; (C) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person (other than any

Panhandle Subsidiary), except as described in Section 5.1(b)(xi)(C) of the Seller Disclosure Letter;

(xii) Adopt a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization;

(xiii) Make or change any material election in respect of Taxes, adopt or request permission of any Taxing authority to change any material accounting method in respect of Taxes, or enter into any closing agreement in respect of Taxes that would increase the Tax liability of Buyer, without Buyer's written consent which shall not be unreasonably withheld; provided, however, that Panhandle and the Panhandle Subsidiaries may make elections pursuant to Treas. Reg. §301.7701-3 or Section 754 of the Code (and any comparable provisions of state or local law).

(xiv) Other than routine compliance filings, make any filings or submit any documents or information to FERC without prior consultation with Buyer; or

(xv) Authorize any of, or commit or agree to take any of, the actions referred to in the paragraphs (i) through (xiv) above.

(c) Seller shall, or shall cause Panhandle and the Panhandle Subsidiaries, to provide to Buyer copies of any filings made with any Governmental Entities after the date of this Agreement and prior to the Closing Date.

Section 5.2 Access to Properties and Records.

(a) Seller, Panhandle and the Panhandle Subsidiaries shall afford to Buyer and Buyer's accountants, counsel and representatives full reasonable access during normal business hours throughout the period prior to the Closing Date (or the earlier termination of this Agreement pursuant to Article VII hereof) to all of Seller's, Panhandle's and the Panhandle Subsidiaries' properties, books, contracts, commitments and records (including all environmental studies, reports and other environmental records) and, during such period, shall furnish to Buyer all information concerning the respective businesses, properties, Liabilities and personnel of Panhandle and the Panhandle Subsidiaries as Buyer may request, provided that no investigation or receipt of information pursuant to this Section 5.2 shall affect any representation or warranty of Seller or the conditions to the obligations of Buyer. To the extent not located at the offices or properties of Panhandle or the Panhandle Subsidiaries as of the Closing Date, as promptly as practicable thereafter Seller shall deliver, or cause its appropriate Affiliates to deliver to Buyer all of the books of accounts, minute books, record books and other records (including safety, health, environmental, maintenance and engineering records and drawings) pertaining to the business operations of Panhandle and the Panhandle Subsidiaries. Notwithstanding anything to the contrary herein, neither Buyer,

the Sponsors nor any of their respective representatives shall have the right to conduct any Phase II environmental due diligence, including the collection and analysis of any samples of environmental media or building materials.

(b) The information contained herein, in the Seller Disclosure Letter or heretofore or hereafter delivered to Buyer or its authorized representatives in connection with the transactions contemplated by this Agreement shall be held in confidence by Buyer and its representatives in accordance with the Confidentiality Agreement until the Closing Date with respect to information relating to Panhandle and its Subsidiaries, and for the term of the Confidentiality Agreement with respect to information relating to Seller and its Affiliates (other than Panhandle and its Subsidiaries).

Section 5.3 Consents and Approvals.

(a) Upon the terms and subject to the conditions of this Agreement, each of the parties hereto agrees to use, and will cause its Affiliates to use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary or advisable under Applicable Law and regulations to consummate and make effective the transactions contemplated by this Agreement as promptly as practicable including the preparation and filing of all forms, registrations and notices required to be filed by such party in order to consummate the transactions contemplated by this Agreement, the taking of all appropriate action necessary, proper or advisable to satisfy each of the conditions to Closing that are to be satisfied by that party or any of its Affiliates and the taking of such actions as are necessary to obtain any approvals, consents, orders, exemptions or waivers of Governmental Authorities and any other Person required to be obtained by such party in order to consummate the transactions contemplated by this Agreement.

(b) To the extent required by the HSR Act, each party shall (i) file or cause to be filed, as promptly as practicable after the execution and delivery of this Agreement, with the Federal Trade Commission and the United States Department of Justice, all reports and other documents required to be filed by such party under the HSR Act concerning the transactions contemplated hereby and (ii) promptly comply with or cause to be complied with any requests by the Federal Trade Commission or the United States Department of Justice for additional information concerning such transactions. Each party agrees to request and seek, and to cooperate with the other party in requesting and seeking, early termination of any applicable waiting period under the HSR Act or other HSR clearance with respect to the transactions contemplated by this Agreement. The filing fees payable in connection with the filings required by the HSR Act in connection with the transaction contemplated hereby shall be borne by Buyer. Each party shall have a right to review in advance all characterizations of the information relating to the transactions contemplated by this Agreement which appear in Items 2 and 3 of the Antitrust Improvements Act Notification and Report Form for certain mergers and acquisitions made in connection with the transactions contemplated hereby. For the avoidance of doubt, no party shall be required to provide to any other party a copy of any documents filed by it pursuant to Item 4(c) of the Antitrust Improvements Act

Notification and Report Form. Subject to (c) below, each party shall, and shall cause its Affiliates to, promptly consult with the other with respect to, provide any necessary information with respect to, and provide copies of all filings made by such party with any Governmental Authority or any other information supplied by such party to a Governmental Authority in connection with this Agreement and the Related Agreements and the transactions contemplated hereby and thereby. Each party shall, and shall cause their respective Affiliates to, with respect to a threatened or pending preliminary or permanent injunction or other order, decree or ruling or statute, rule, regulation or executive order that would adversely affect the ability of any party to this Agreement or any Related Agreement to consummate the transactions contemplated hereby or thereby, use their respective reasonable best efforts to prevent the entry, enactment or promulgation thereof, as the case may be (including by pursuing any available appeal process). Each of Buyer and each of the Sponsors shall use its respective reasonable best efforts to, and shall cause their respective Affiliates to use their reasonable best efforts to, promptly take or cause to be taken all actions necessary to comply with any requests made, or conditions set, by a Governmental Authority to consummate the transactions contemplated hereby, including, subject to the receipt of all required third party consents (including those of lenders, shareholders and partners), with respect to Panhandle (but subject to Section 6.1(b)) and each Section 5.3(b) Person, the divestiture of assets. Each party agrees to use its reasonable best efforts to procure any third-party consents required in the preceding sentence. Notwithstanding the foregoing, none of Highstar, Funding, Southern Star Central, Southern Union or its Subsidiaries (i) shall be required to divest any asset or modify any arrangement with respect to any of its respective operations that would have a material adverse impact on the Section 5.3(b) Person which holds the asset to be divested or is a party to the arrangement to be modified or any other Section 5.3(b) Person or (ii) shall be required to take or refrain from taking any action if such action or refraining would have a material adverse impact on the Section 5.3(b) Person so acting or refraining or any other Section 5.3(b) Person. Without limiting the foregoing, in no event shall any of Buyer's Affiliates be required to take any action to obtain the consent or approval of any Governmental Authority to the transactions contemplated hereby if such Governmental Authority imposes on such Affiliate as a condition to obtaining any such consent any limitations or conditions materially adverse to the businesses and activities engaged in by Southern Union and its Subsidiaries taken as a whole or by Highstar and Funding, taken as a whole, or by Southern Star Central (any such condition or limitation described in this paragraph being referred to herein as a "Burdensome Condition").

(c) Without limiting the generality of the undertakings pursuant to this Section 5.3 and subject to appropriate confidentiality protections and limitations set forth in Section 5.3(b) above, Seller, Buyer and their respective Affiliates shall each furnish to the parties to this Agreement such necessary information and reasonable assistance a party may request in connection with the foregoing and, shall each provide counsel for the other party with copies of all filings made by such party or such Affiliate, and all correspondence between such party or such Affiliate (and its advisors) with any Governmental Authority and any other information supplied by such party and such party's Affiliates to a Governmental Authority in connection with this Agreement and the transactions contemplated hereby, provided, however, that materials may be redacted (i) to remove references concerning the valuation of Panhandle or the Panhandle

Subsidiaries, (ii) as necessary to comply with contractual arrangements, and (iii) to remove information that is proprietary. Subject to Applicable Law and Section 5.3(b) hereof, each party shall, and shall cause its Affiliates to, permit counsel for the other party to review in advance, and consider in good faith the views of the other party in connection with, any proposed written communication to any Governmental Authority. Seller, Buyer and the Sponsors agree not to participate, or to permit their Affiliates to participate, in any substantive meeting or discussion, either in person or by telephone, with any Governmental Authority in connection with this Agreement and the transactions contemplated hereby unless it consults with the other party in advance and, to the extent not prohibited by such Governmental Authority, gives the other party the opportunity to attend and participate. Upon the terms and subject to the conditions herein provided, in case at any time after the Closing Date any further action is necessary or desirable to secure the approvals from any and all Governmental Authority necessary to carry out the purposes of this Agreement, the proper officers and/or directors of the parties shall use their reasonable best efforts to take or cause to be taken all such necessary action.

Section 5.4 Further Assurances.

On and after the Closing Date, Seller and Buyer shall cooperate and use their respective reasonable best efforts to take or cause to be taken all appropriate actions and do, or cause to be done, all things necessary or appropriate to consummate and make effective the transactions contemplated hereby, including the execution of any additional documents or instruments of any kind, the obtaining of consents which may be reasonably necessary or appropriate to carry out any of the provisions hereof and the taking of all such other actions as such party may reasonably be requested to take by the other party hereto from time to time, consistent with the terms of this Agreement and the Related Agreements, in order to effectuate the provisions and purposes of this Agreement and the Related Agreements and the transactions contemplated hereby and thereby.

Section 5.5 Employee Matters.

(a) Buyer shall take all actions necessary and appropriate to ensure that Buyer maintains or adopts one or more defined contribution plans and related trust or trusts (the "Buyer Account Plan") effective as of, or as soon as reasonably practicable but in no event later than 15 days after, the Closing Date for the benefit of the Affected Employees (as defined below). Following the Closing and as soon as practicable following receipt by Seller of (i) a copy of a favorable determination letter issued by the Internal Revenue Service with respect to the Buyer Account Plan or (ii) an opinion, satisfactory to Seller's counsel, of Buyer's counsel that the Buyer Account Plan and its related trust(s) qualify under Section 401(a) and Section 501(a) of the Code, Seller shall provide each Affected Employee who is a participant in the Savings and Incentive Plan for Employees of Consumers Energy and Other CMS Energy Companies ("Seller's Savings Plan") with the opportunity to receive a distribution of his or her account balance and to elect to "roll over" such account balance to the Buyer Account Plan, subject to and in accordance with the provisions of Seller's Savings Plan and Applicable Law. The Buyer Account Plan shall accept the "roll over" of such account balances, including any outstanding plan loans. Seller shall take all necessary or appropriate action, to the extent

consistent with applicable law, to ensure that any plan loans of Affected Employees under the Seller's Savings Plan shall not be deemed distributed prior to the rollover opportunity previously described. Seller shall provide Buyer with copies of such personnel and other records of Seller pertaining to the Affected Employees and such records of any agent or representative of Seller pertaining to the Affected Employees, in each case pertaining to Seller's Savings Plan and as Buyer may reasonably request in order to administer and manage the accounts and assets rolled over to the Buyer Account Plan.

(b) Subject to Section 5.5(b)(i) and Section 5.5(h) below, prior to the Closing Date, Seller shall take all actions necessary to cause the following events to occur as of the Closing Date, and shall give notice to all Panhandle Employees that (i) all Affected Employees shall become fully vested with respect to their account balances under the Seller Savings Plan as of the Closing Date, (ii) the active participation of the Affected Employees in those employee benefit plans, programs and arrangements that are not sponsored by Panhandle or the Panhandle Subsidiaries (such plans, programs and arrangements, the "Seller Plans") shall terminate on the Closing Date, and (iii) Panhandle and the Panhandle Subsidiaries shall terminate participation of Affected Employees in the Seller Plans as of the Closing Date. Panhandle and the Panhandle Subsidiaries shall be solely responsible (except as provided in Section 8.2(a)(iii)) for all obligations and Liabilities under each employee benefit plan listed in Section 3.12(c) of the Seller Disclosure Letter in existence as of the Closing Date, and each employee benefit plan that they establish, maintain or contribute to, on or after the Closing Date, and no such obligations or Liabilities shall be assumed or retained by Seller or its Affiliates. Seller shall retain all obligations or Liabilities and assets with respect to current and former Panhandle Employees or otherwise under all Seller Plans, and no such obligations or Liabilities shall be assumed or retained by Buyer or its Affiliates, including after the transactions contemplated hereby, Panhandle and the Panhandle Subsidiaries.

(i) Notwithstanding the foregoing, any Affected Employee who is unable to report to work with Buyer as of the Closing Date due to disability (each, a "Disabled Employee"), shall continue to be eligible for any applicable long-term disability and life insurance coverage pursuant to Seller's plans until such Disabled Employee returns to active employment with Buyer, Panhandle or the Panhandle Subsidiaries; provided, however, that in order to be eligible for such benefits, each such Disabled Employee, pending approval for long-term disability benefits or return to active employment, must continue to pay all applicable long-term disability and life insurance premiums due following the Closing Date for such coverage pursuant to Seller's long-term disability plan and life insurance plans. Buyer shall, or shall cause Panhandle or the Panhandle Subsidiaries to, (A) pay Disabled Employees who are on short-term disability as of the Closing Date the short-term disability benefits, if any, that apply under Buyer's plans, provided, however, that such benefits need not be provided to the extent that they would duplicate benefits paid under the Seller Plans, and (B) honor any continuing pay or salary obligations and return to work obligations that apply to any such Disabled Employees.

Any Disabled Employees who are on short-term disability as of the Closing Date but who subsequently transition to long-term disability shall be eligible for, and covered by, Seller's long-term disability and life insurance coverage, subject to the provisions of this Section 5.5(b)(i).

(c) As of the Closing Date, Buyer shall cause Panhandle and the Panhandle Subsidiaries to continue to employ all of the Affected Employees as of the Closing Date, other than those Affected Employees whose employment is covered by a Panhandle Eastern Pipe Line Company collective bargaining agreement as of the Closing Date, in Comparable Employment for a period of at least one (1) year from and after the Closing Date, or to pay severance if due in accordance with the terms of the Separation Allowance Plan for Employees of Panhandle and the Panhandle Subsidiaries or the Executive Separation Allowance Plan for Employees of Panhandle and the Panhandle Subsidiaries, as applicable. Notwithstanding the terms of the preceding sentence, Buyer shall cause Panhandle and the Panhandle Subsidiaries to employ all Affected Employees who are officers of Panhandle and the Panhandle Subsidiaries in Comparable Employment for a period of at least two (2) years from and after the Closing Date, or to pay severance if due in accordance with the terms of the Executive Separation Allowance Plan for Designated Officers of Panhandle and the Panhandle Subsidiaries or the Executive Separation Allowance Plan for Designated Senior Officers of Panhandle Eastern Pipe Line Company, as applicable. Employment of, and severance payments, if any, payable to, Affected Employees whose employment is covered by a Panhandle Eastern Pipe Line Company collective bargaining agreement as of the Closing Date shall be governed by the applicable collective bargaining agreement.

(d) For no less than one-year following the Closing Date, Buyer shall, and shall cause its Affiliates, to provide the Affected Employees with employee benefits that are substantially similar in the aggregate to those provided under the Seller Plans as such plans are to be in effect for 2003; provided, however, that Buyer shall not be obligated to replace any equity based plans in which Affected Employees could participate prior to Closing. With respect to those employee benefit plans of Panhandle and the Panhandle Subsidiaries or other Affiliates of Buyer ("Buyer Plans") in which Affected Employees may participate on or after the Closing Date, Buyer shall, and shall cause Panhandle and the Panhandle Subsidiaries to, credit prior service of the Affected Employees with Panhandle and the Panhandle Subsidiaries for purposes of eligibility and vesting under Buyer Plans and for all purposes with respect to vacation, sick days, severance and post-employment benefits other than pensions ("PBOPs") under such Buyer Plans to the extent that such service was recognized under the analogous Employee Benefit Plans, provided however that such service need not be credited to the extent it would result in a duplication of benefits. Following the Closing Date, Buyer shall, or shall cause Panhandle and the Panhandle Subsidiaries to, honor the accrued vacation and sick days of the Affected Employees which remain unused as of the Closing Date to the extent such accruals are shown on the Closing Balance Sheet. Affected Employees shall also be given pro rata credit for any deductible or co-insurance payment amounts payable in respect of the Buyer Plan year in which the Closing Date occurs, to the extent that, following the Closing Date, they participate in any Buyer Plan during such plan year for which deductibles or co-payments are required. Any preexisting

condition restrictions and waiting period limitations which were deemed satisfied with respect to a particular person under any Employee Benefit Plan immediately prior to the Closing Date shall be deemed satisfied by Buyer and its Affiliates under Buyer Plans with respect to such person on and after the Closing Date. Promptly after the date hereof, Seller shall provide Buyer a list of Affected Employees and the status of such Affected Employees as of the Closing Date under Seller Plans providing for PBOPs, for the purpose of avoiding duplication of benefits.

(e) Subject to the final sentence of this Section 5.5(e), Buyer agrees that, at the request of Seller, it shall cause Panhandle and the Panhandle Subsidiaries to make bonus payments to the bonus-eligible Affected Employees (as determined by Seller) for performance in the 2002 calendar year from funds made available by Seller for such purposes, which bonus payments shall be available as a tax deduction to Seller and Panhandle attributable to the pre-Closing Tax period. Buyer shall cause such payments to be made by Panhandle and the Panhandle Subsidiaries as soon as practicable after Buyer is informed by Seller of the bonus amounts to be paid to each bonus-eligible Affected Employee by name, as authorized by the Board of Directors of Parent. Seller and Buyer agree that the calculation of Net Working Capital Amount shall not reflect the bonus amounts accrued for the Affected Employees for accounting purposes (the "Bonus Accrual") and that the Bonus Accrual shall be transferred to the books of Seller as of the Closing Date. To the extent not funded in advance, Seller shall promptly reimburse Buyer for the bonus amounts so paid (and the employer's share of any payroll taxes associated therewith), which reimbursement shall be treated as an adjustment to the Purchase Price. Seller and Buyer shall cooperate with respect to the development and distribution of any employee communications to be made to the Affected Employees after the Closing Date relating to 2002 bonuses.

(f) Buyer, Panhandle and the Panhandle Subsidiaries shall be responsible for all Liabilities and obligations under the Worker Adjustment and Retraining Notification Act and similar foreign, state and local rules, statutes and ordinances resulting from the actions of Buyer, Panhandle or the Panhandle Subsidiaries after the Closing Date. Buyer agrees to hold Seller harmless in accordance with Article VIII for any breach of such responsibility and Buyer's indemnification of Seller in this regard specifically includes any Claim by the Affected Employees for back pay, front pay, benefits or compensatory or punitive damages, any Claim by any Governmental Authority for penalties regarding any issue of prior notification (or lack thereof) of any plant closing or mass layoff occurring after the Closing Date and Seller's costs, including reasonable attorney's fees, in defending any such Claims.

(g) Notwithstanding the foregoing provisions of this Section 5.5, Buyer shall cause all obligations of Panhandle Eastern Pipe Line Company pursuant to existing collective bargaining agreements (which agreements are listed in Section 3.13 of the Seller Disclosure Letter) to be honored following the Closing.

(h) Parent or its Affiliates shall retain all assets that are accumulated through the Closing Date under Financial Accounting Standards Board Statement 106 (and deposited in various VEBA accounts and 401(h) accounts of Parent

or its Affiliates). Further, Parent or its Affiliates shall retain the liability for PBOP for the benefit of former Panhandle Employees who are retirees of Panhandle and/or the Panhandle Subsidiaries as of the Closing Date, and Affected Employees who are eligible to retire and qualified for benefits under PBOP as of the Closing Date, and Parent or its Affiliates shall retain the responsibility for providing post-retirement benefits (other than pension) to such employees pursuant to the eligibility requirements of the Seller Plans. Seller shall provide a list of retirees and Affected Employees who are eligible to retire as of the Closing Date.

Section 5.6 Tax Covenants.

(a) Section 338(h)(10) Election.

(i) Seller and Buyer shall jointly make an election under Section 338(h)(10) of the Code (and any comparable provision of applicable state or local income tax law) with respect to the purchase of the Shares by Buyer (and with respect to the Panhandle Subsidiaries for which such an election may be made) and shall cooperate with each other to take all actions necessary and appropriate (including filing such additional forms, returns, elections schedules and other documents as may be required) to effect and preserve a timely election, in accordance with the provisions of Treasury Regulation Section 1.338(h)(10)-1 (or any comparable provisions of state or local tax law) (the "Election").

(ii) In connection with the Election, Buyer and Seller shall mutually prepare a Form 8023 (or successor form) with any attachments. Buyer shall prepare a draft Form 8023 and provide such draft Form 8023 to Seller no later than ninety (90) days prior to the due date of such Form 8023. If, within thirty (30) days of the receipt of the draft Form 8023, Seller notifies Buyer that it disagrees with the draft Form 8023 and provides Buyer with its proposed Form 8023 and a written or oral explanation of the reasons for its adjustment, then Seller and Buyer shall attempt to resolve their disagreement within the twenty (20) days following Seller's notification of Buyer of such disagreement, otherwise, the draft Form 8023 shall become the final Form 8023 (the "Final Form 8023"). If Seller and Buyer are unable to resolve their disagreement, the dispute shall be submitted to a mutually agreed upon nationally recognized independent accounting firm, whose expense shall be borne equally by Seller and Buyer, for resolution within twenty (20) days of such submission. The Form 8023 delivered by such accounting firm shall be the Final Form 8023. The Final Form 8023 shall be binding on Buyer, Seller, and their respective Affiliates. Buyer and Seller shall take no position, and cause their respective Affiliates to take no position, inconsistent with the Final Form 8023.

(iii) Buyer and Seller shall mutually prepare any forms or schedules similar to Form 8023 that are required for provisions of state or local law that are comparable to Treasury Regulation Section 1.338(h)(10)-1 in a manner similar to the above procedure. In the event that the Final Form 8023 (or similar forms or schedules required for provisions of state or local law) is disputed by any Taxing authority, the party receiving written notice of the dispute shall promptly notify the other party hereto concerning such dispute.

(b) Tax Return Filings, Refunds, and Credits.

(i) Seller shall timely prepare and file (or cause such preparation and filing) with the appropriate Tax authorities all Tax Returns (including any Consolidated Income Tax Returns) with respect to Panhandle and the Panhandle Subsidiaries (and make all elections with respect to such Tax Returns) for Tax periods that end on or before the Closing Date (the "Seller Returns"), and will pay (or cause to be paid) all Taxes due with respect to the Seller Returns.

(ii) Buyer shall timely prepare and file (or cause such preparation and filing) with the appropriate Tax authorities all Tax Returns (the "Straddle Period Returns") with respect to Panhandle and the Panhandle Subsidiaries (and make all elections with respect to such Tax Returns) for all Tax periods ending after the Closing Date that include the Closing Date (the "Straddle Period"). All Straddle Period Returns shall be prepared in accordance with past practice to the extent consistent with applicable law and Panhandle's and the Panhandle Subsidiaries' operations. Buyer shall provide Seller with copies of any Straddle Period Returns at least forty-five (45) days prior to the due date thereof (giving effect to any extensions thereto), accompanied by a statement (the "Straddle Statement") setting forth and calculating in reasonable detail the Pre-Closing Taxes as defined below. If Seller agrees with the Straddle Period Return and Straddle Statement, Seller shall pay to Buyer (or Buyer shall pay to Seller, if appropriate) an amount equal to the Pre-Closing Taxes as shown on the Straddle Statement not later than two (2) Business Days before the due date (including any extensions thereof) for payment of Taxes with respect to such Straddle Period Return. If, within fifteen (15) days of the receipt of the Straddle Period Return and Straddle Statement, Seller notifies Buyer that it disputes the manner of preparation of the Straddle Period Return or the amount calculated in the Straddle Statement, and provides Buyer its proposed form of Straddle Period Return, a statement setting forth and calculating in reasonable detail the Pre-Closing taxes, and a written or oral explanation of the reasons for its adjustment, then Buyer and Seller shall attempt to resolve their disagreement within the five (5) days following Seller's notification or Buyer of such disagreement. If Buyer and Seller are unable to resolve their disagreement, the dispute shall be submitted to a mutually agreed

upon nationally recognized independent accounting firm, whose expense shall be borne equally by Buyer and Seller, for resolution within twenty (20) days of such submission. The decision of such accounting firm with respect to such dispute shall be binding upon Buyer and Seller, and Seller shall pay to Buyer (or Buyer shall pay to Seller, if appropriate) an amount equal to the Pre-Closing Taxes as decided by such accounting firm not later than two (2) Business Days before the due date (including any extensions thereof) for payment of Taxes with respect to such Straddle Period Return. If for any reason the parties' dispute is not resolved as provided in this paragraph prior to the date that is two (2) Business Days before the due date (including any extensions thereof) for payment of Taxes with respect to such Straddle Period Return, Seller shall pay to Buyer (or Buyer shall pay to Seller, if appropriate) an amount equal to the amount of Pre-Closing Taxes not in dispute not later than two (2) Business Days before the due date (including any extensions thereof) for payment of Taxes with respect to such Straddle Period Return.

(iii) From and after the Closing Date, Buyer and its Affiliates (including Panhandle and the Panhandle Subsidiaries) will not file any amended Tax Return, carryback claim, or other adjustment request with respect to Panhandle or the Panhandle Subsidiaries for any Tax period that includes or ends on or before the Closing Date unless Seller consents in writing; provided, however, that Buyer and its affiliates may carryback for its own account (without paying any resulting refund or credit to Seller) any loss attributable to a tax period ending after the Closing Date to a tax period ending on or before the Closing Date provided that Buyer and its Affiliates shall indemnify and make Seller whole for any detriment or cost incurred (or to be incurred) by Seller as a result of such carryback

(iv) For purposes of this Agreement, in the case of any Taxes of Panhandle or the Panhandle Subsidiaries that are payable with respect to any Straddle Period, the portion of any such Taxes that constitutes "Pre-Closing Taxes" shall be the excess of (A) (i) in the case of Taxes that are either (x) based upon or related to income or receipts or (y) imposed in connection with any sale, transfer or assignment or any deemed sale, transfer or assignment of property (real or personal, tangible or intangible) be deemed equal to the amount that would be payable if the Tax period ended at the close of business on the Closing Date (including without limitation all Taxes attributable to any Election) and (ii) in the case of Taxes (other than those described in clause (i)) imposed on a periodic basis with respect to the business or assets of Panhandle or the Panhandle Subsidiaries, be deemed to be the amount of such Taxes for the entire Straddle Period (or, in the case of such Taxes determined on an arrears basis, the amount of such Taxes for the immediately preceding Tax period) multiplied by a fraction the numerator of which is the number of calendar days in the portion of the Straddle Period ending on and

including the Closing Date and the denominator of which is the number of calendar days in the entire Straddle Period over (B) any prepayment or advances of Taxes or any payments of estimated Taxes with respect to the Straddle Period. For purposes of clause (i) of the preceding sentence, any exemption, deduction, credit or other item that is calculated on an annual basis shall be allocated to the portion of the Straddle Period ending on the Closing Date on a pro rata basis determined by multiplying the total amount of such item allocated to the Straddle Period by a fraction, the numerator of which is the number of calendar days in the portion of the Straddle Period ending on the Closing Date and the denominator of which is the number of calendar days in the entire Straddle Period. Pre-Closing Taxes include any Taxes attributable to a Person that is treated as a partnership for federal income tax purposes as if such Person allocated Tax items to its partners in a manner consistent with this Section 5.6(b)(iv). In the case of any Tax based upon or measured by capital (including net worth or long-term debt) or intangibles, any amount thereof required to be allocated under this Section 5.6(b)(iv) shall be computed by reference to the level of such items at the close of business on the Closing Date. The parties hereto will, to the extent permitted by Applicable Law, elect with the relevant Tax authority to treat a portion of any Straddle Period as a short taxable period ending as of the close of business on the Closing Date. For purposes of this Agreement, "Post-Closing Taxes" shall include any Taxes of Panhandle or the Panhandle Subsidiaries that are payable with respect to a Straddle Period, except for the portion of any such Taxes that constitutes Pre-Closing Taxes. For purposes of this Agreement, the Texas corporate franchise tax determined based on the income or capital of any entity for the year during which the Closing Date occurs shall be considered to be a Tax due with respect to the Straddle Period.

(v) Seller and Buyer shall reasonably cooperate in preparing and filing all Tax Returns with respect to Panhandle or the Panhandle Subsidiaries, including maintaining and making available to each other all records reasonably necessary in connection with Taxes of Panhandle or the Panhandle Subsidiaries and in resolving all disputes and audits with respect to all Tax periods relating to Taxes of Panhandle or the Panhandle Subsidiaries.

(vi) For a period of six (6) years after the Closing Date, Seller and its representatives shall have reasonable access to the books and records (including the right to make extracts thereof) of Panhandle or the Panhandle Subsidiaries to the extent that such books and records relate to Taxes and to the extent that such access may reasonably be required by Seller in connection with matters relating to or affected by the operation of Panhandle or the Panhandle Subsidiaries prior to the Closing Date. Such access shall be afforded by Buyer upon receipt of reasonable advance notice and during normal business hours. If Buyer

shall desire to dispose of any of such books and records prior to the expiration of such six-year period, Buyer shall, prior to such disposition, give Seller a reasonable opportunity, at Seller's expense, to segregate and remove such books and records as Seller may select.

(vii) If a Tax Indemnified Party receives a refund or credit or other reimbursement with respect to Taxes for which it would be indemnified under this Agreement, the Tax Indemnified Party shall pay over such refund or credit or other reimbursement to the Tax Indemnifying Party.

(viii) Buyer shall not, and shall cause Panhandle or the Panhandle Subsidiaries to not, make, amend or revoke any Tax election if such action would adversely affect any of Seller or its Affiliates with respect to any Tax period ending on or before the Closing Date or for the Pre-Closing Period or any Tax refund with respect thereto unless Buyer and its Affiliates indemnify and make Seller whole for any detriment or cost incurred (or to be incurred) by Seller as a result of such action.

(ix) For purposes of this Agreement a "Consolidated Income Tax Return" is any income Tax Return filed with respect to any consolidated, combined, affiliated or unified group provided for under Section 1501 of the Code and the Treasury regulations under Section 1502 of the Code, or any comparable provisions of state or local law, other than any income Tax Return that includes only Panhandle or the Panhandle Subsidiaries.

(c) Indemnity for Taxes.

(i) Seller hereby agrees to indemnify Buyer and its Affiliates against and hold them harmless from and against all liability for (i) all Taxes imposed on Panhandle or the Panhandle Subsidiaries with respect to Tax periods ending on or before the Closing Date, including without limitation all Taxes incurred by reason of any Election, (ii) Pre-Closing Taxes with respect to any Straddle Period, and (iii) all Taxes that are attributable to Seller or any member of an affiliated, consolidated, combined or unitary Tax group of which at least one of Panhandle or the Panhandle Subsidiaries (or any direct or indirect predecessor(s) of any of them) was a member at any time on or prior to the Closing Date and not after the Closing Date that is imposed under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Tax law), (iv) any Taxes of Panhandle or any Panhandle Subsidiary incurred as a transferee or a successor relating to any full or partial Tax period ending on or before the Closing Date, (v) Seller's portion of Transfer Taxes pursuant to Section 5.6(g), and (vi) any Damages arising out of, resulting from, or incurred in connection with any breach or inaccuracy of any

representation or warranty set forth in Section 3.16; provided that the determination of whether such a breach or inaccuracy of Section 3.16(c)(d), or (e) occurred will be made without the Material Adverse Effect qualifications contained therein.

(ii) Buyer hereby agrees to indemnify Seller and its Affiliates against and hold them harmless from all liability for (A) all Taxes of Panhandle or the Panhandle Subsidiaries with respect to all Tax periods beginning after the Closing Date, (B) Post-Closing Taxes with respect to any Straddle Period, and (C) Buyer's portion of Transfer Taxes pursuant to section 5.6(g).

(iii) The obligation of Seller to indemnify and hold harmless Buyer, on the one hand, and the obligations of Buyer to indemnify and hold harmless Seller, on the other hand, pursuant to this Section 5.6, shall terminate upon the expiration of the applicable statutes of limitations with respect to the Tax Liabilities in question (giving effect to any waiver, mitigation or extension thereof) or if a Claim is brought with respect thereto, until such time as such Claim is resolved.

(d) Certain Payments. Buyer and Seller agree to treat (and cause their Affiliates to treat) any payment by Seller under Section 5.6(b)(ii) or Section 5.6(c) as an adjustment to the Purchase Price for all Tax purposes.

(e) Contests.

(i) After the Closing Date, Seller and Buyer each shall notify the other party in writing within ten (10) days of the commencement of any Tax audit or administrative or judicial proceeding affecting the Taxes of any of Panhandle or the Panhandle Subsidiaries that, if determined adversely to the taxpayer (the "Tax Indemnified Party") or after the lapse of time would be grounds for indemnification under this Section 5.6 by the other party (the "Tax Indemnifying Party" and a "Tax Claim"). Such notice shall contain factual information describing any asserted Tax liability in reasonable detail and shall include copies of any notice or other document received from any Tax authority in respect of any such asserted Tax liability. Failure to give such notification shall not affect the indemnification provided in this Section 5.6 except to the extent the Tax Indemnifying Party shall have been prejudiced as a result of such failure (except that the Tax Indemnifying Party shall not be liable for any expenses incurred during the period in which the Tax Indemnified Party failed to give such notice). Thereafter, the Tax Indemnified Party shall deliver to the Tax Indemnifying Party, as promptly as possible but in no event later than ten (10) days after the Tax Indemnified Party's receipt thereof, copies of all relevant notices and documents (including court papers) received by the Tax Indemnified Party.

(ii) In the case of an audit or administrative or judicial proceeding involving any asserted liability for Taxes relating to any Taxable years or periods ending on or before the Closing Date, Seller shall have the right, at its expense, to control the conduct of such audit or proceeding; provided, however, that if Seller does not timely take control of such audit or proceeding, Buyer may, at its expense, control the conduct of the audit or proceeding. In the case of an audit or administrative or judicial proceeding involving any asserted liability for Taxes relating to any Straddle Period, Buyer shall have the right, at its expense, to control the conduct of such audit or proceeding; provided, however, that (A) Buyer shall keep Seller reasonably informed with respect to the status of such audit or proceeding and provide Seller with copies of all written correspondence with respect to such audit or proceeding in a timely manner and (B) if such audit or proceeding would be reasonably expected to result in a material increase in Tax liability of Panhandle or the Panhandle Subsidiaries for which Seller would be liable under this Section 5.6, Seller may participate in the conduct of such audit or proceeding at its own expense.

(iii) In the case of an audit or administrative or judicial proceeding involving any asserted liability for Taxes relating to any Taxable years or periods beginning after the Closing Date, Buyer shall have the right, at its expense, to control the conduct of such audit or proceeding.

(iv) Buyer and Seller shall reasonably cooperate in connection with any Tax Claim, and such cooperation shall include the provision to the Tax Indemnifying Party of records and information which are reasonably relevant to such Tax Claim and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder.

(f) Section 743 Determination.

(i) Buyer and Seller shall reasonably cooperate with each other with respect to making any election under Section 754 of the Code for any Panhandle Subsidiary or any Related Company. Prior to making any adjustments pursuant to Section 743 of the Code as a result of the transactions contemplated by this Agreement Buyer shall prepare a schedule indicating such adjustments that Buyer proposes to make (the "743 Schedule") and provide such schedule to Seller. If, within ten (10) days of the receipt of the 743 Schedule, Seller notifies Buyer that it disagrees with the 743 Schedule and provides Buyer with its proposed 743 Schedule and a written or oral explanation of the reasons for the adjustment, then Seller and Buyer shall attempt to resolve their disagreement within the twenty (20) days following Buyer's notification of Seller of such disagreement, otherwise, the 743 Schedule shall be deemed

the final 743 Schedule (the "Final 743 Schedule"). If Seller and Buyer are unable to resolve their disagreement, the dispute shall be submitted to a mutually agreed upon nationally recognized independent accounting firm, whose expense shall be borne equally by Seller and Buyer, for resolution within twenty (20) days of such submission. The 743 Schedule delivered by such accounting firm shall be the Final 743 Schedule. The Final 743 Schedule shall be binding on Buyer, Seller, and their respective Affiliates. Buyer and Seller shall take no position, and cause their respective Affiliates to take no position, inconsistent with the Final 743 Schedule.

(ii) Buyer and Seller shall mutually prepare any forms or schedules necessary to give effect to the preceding paragraph. In the event that any Tax position taken in reliance upon the Final 743 Schedule is disputed by any Taxing authority, the party receiving written notice of the dispute shall promptly notify the other party hereto concerning such dispute.

(g) Transfer and Similar Taxes. Notwithstanding any other provisions of this Agreement to the contrary, all sales, use, transfer, gains, stamp, duties, recording and similar Taxes (collectively, "Transfer Taxes") incurred in connection with the transactions contemplated by this Agreement shall be borne equally by Buyer and Seller, and Seller shall accurately file all necessary Tax Returns and other documentation with respect to Transfer Taxes and timely pay all such Transfer Taxes. If required by Applicable Law, Buyer will join in the execution of any such Return. Seller shall provide copies of any Tax Returns with respect to Transfer Taxes to Buyer no later than five (5) days after the due dates of such Tax Returns.

(h) Termination of Tax Sharing Agreements. On or prior to the Closing Date, Seller shall cause all Tax sharing agreements between Seller or any of its Affiliates (as determined immediately after the Closing Date) on the one hand, and Panhandle or the Panhandle Subsidiaries on the other hand, to be terminated, and all obligations thereunder shall be settled, and no additional payments shall be made under any provisions thereof after the Closing Date."

Section 5.7 Intercompany Accounts.

Except as set forth on Section 5.7 of the Seller Disclosure Letter or as contemplated by the Assumption Agreement, prior to the Closing Date, Seller shall, and shall cause its Affiliates (other than Panhandle and the Panhandle Subsidiaries) to, settle intercompany accounts payable (including any debt payable) to Panhandle or the Panhandle Subsidiaries and accounts receivable (including any debt receivable) from Panhandle or the Panhandle Subsidiaries. Seller shall determine the method by which such intercompany accounts are eliminated including, but not limited to, by means of setoff, settlement, capital contribution or reduction in capital.

Section 5.8 Related Agreements.

At the Closing or as otherwise provided herein, (i) Buyer and the Buyer Counterparties shall execute and deliver to Seller duly executed copies of the Related Agreements to which they are a party and (ii) Seller shall, and shall cause the Seller Counterparties to, execute and deliver to Buyer duly executed copies of the Related Agreements to which they are a party.

Section 5.9 Preliminary Transfer.

(a) In each case, prior to the Closing and in the form described in Section 5.9 of the Seller Disclosure Letter, Seller shall (i) cause the transfer of a newly formed holding company whose sole asset will be 100 percent of the ownership interests in CMS Gulf Coast Field Services, LLC ("CMSGCFS") to Panhandle or a Panhandle Subsidiary, and (ii) use its reasonable best efforts to cause the transfer of all of the ownership interests held by CMS Panhandle Holdings, LLC in each of Centennial Pipeline, L.L.C., a Delaware limited liability company ("Centennial"), and Guardian Pipeline, L.L.C., a Delaware limited liability company ("Guardian"), and the contracts relating to such ownership interests to Seller or a Subsidiary of Seller (other than Panhandle or any of the Panhandle Subsidiaries). At the Closing, Seller shall update the Seller Disclosure Letter, where appropriate, to reflect the inclusion of such holding company, which owns the interests in CMSGCFS, as a Panhandle Subsidiary, and, assuming the transfer of the ownership interests in Centennial and/or Guardian and the contracts relating to such ownership interests have occurred prior to the Closing, the deletion of Centennial and/or Guardian as Related Companies.

(b) If despite using its reasonable best efforts, Seller is unable to cause the transfer of the ownership interests in either Centennial or Guardian and the contracts relating to such ownership interests prior to the Closing, from and after the Closing Seller shall continue to use its reasonable best efforts to effect such transfer(s) as promptly as reasonably practical following the Closing. Until such time (after the Closing), as such ownership interests and contract rights have been transferred in accordance herewith, the ownership interests and contracts interests shall be held on behalf of Seller, such that all of the benefits and burdens appurtenant to such ownership interests and contracts shall remain with Seller and its Affiliates. All decisions relating to the operation and management of such ownership interests and contracts shall be made by Seller and implemented by Buyer in accordance with Seller's instructions, subject to applicable law. Seller shall indemnify Buyer, Panhandle and the Panhandle Subsidiaries in accordance with Article VIII for any Damages and Liabilities arising out of or relating to such ownership interests and contracts relating to such ownership interests after the Closing and until the transfer(s) have been completed in accordance with this Section 5.9.

Section 5.10 Maintenance of Insurance Policies.

(a) Seller and Buyer agree that Casualty Insurance claims relating to the businesses of Panhandle and the Panhandle Subsidiaries (including reported claims and including incurred but not reported claims) will remain with

Panhandle and the Panhandle Subsidiaries immediately following the Closing. For purposes hereof, "Casualty Insurance Claims" shall mean workers' compensation, auto liability, general liability and products liability claims and claims for damages caused to the facilities of Panhandle or the Panhandle Subsidiaries generally insured under all risk, real property, boiler and mechanical breakdown insurance coverage. The Casualty Insurance Claims are subject to the provisions of the Insurance Policies with insurance carriers and contractual arrangements with insurance adjusters maintained by Seller or its Affiliates prior to the Closing. With respect to the Casualty Insurance Claims, the following procedures shall apply: (i) Seller or its Affiliates shall continue to administer, adjust, settle and pay, on behalf of Panhandle and the Panhandle Subsidiaries, all Casualty Insurance Claims with dates of occurrence prior to the date of Closing; provided, that Seller will obtain the consent of Buyer prior to adjusting, settling or paying any Casualty Insurance Claim of an amount greater than \$100,000 and provided, further, that Seller shall permit Buyer to join Seller in any settlement negotiations with claimants, insurers, or insurance adjusters; and (ii) Seller shall invoice Panhandle and the Panhandle Subsidiaries at the end of each month for Casualty Insurance Claims paid on behalf of Panhandle and the Panhandle Subsidiaries by Seller. Buyer shall cause Panhandle and the Panhandle Subsidiaries to pay the invoice within thirty (30) days of its date. In the event that Panhandle and the Panhandle Subsidiaries do not pay Seller within thirty (30) days of such invoice, interest at the rate of ten percent (10%) per annum shall accrue on the amount of such invoice. Casualty Insurance Claims to be paid by Seller hereunder shall include all costs necessary to settle claims including compensatory, medical, legal and other allocated expenses, net of insurance proceeds. In the event that any Casualty Insurance Claims exceeds a deductible or self-insured retention under the Insurance Policies, Seller shall be entitled to the benefit of any insurance proceeds that may be available to discharge any portion of such Casualty Insurance Claim.

(b) Other than as set forth in Section 3.21 hereof, Seller makes no representation or warranty with respect to the applicability, validity or adequacy of any Insurance Policies, and Seller shall not be responsible to Buyer or any of its Affiliates for the failure of any insurer to pay under any such Insurance Policy.

(c) Nothing in this Agreement is intended to provide or shall be construed as providing a benefit or release to any insurer or claims service organization of any obligation under any Insurance Policies. Seller and Buyer confirm that the sole intention of this Section 5.10 is to divide and allocate the benefits and obligations under the Insurance Policies between them as of the Closing Date and not to effect, enhance or diminish the rights and obligations of any insurer or claims service organization thereunder. Nothing herein shall be construed as creating or permitting any insurer or claims service organization the right of subrogation against Seller or Buyer or any of their Affiliates in respect of payments made by one to the other under any Insurance Policy.

(d) If Buyer requests a copy of an Insurance Policy relating to a pending or threatened Casualty Insurance Claim, Seller shall provide a copy of all relevant insurance policies which insure such Casualty Insurance Claims within five (5) Business Days, provided, that if Seller cannot provide such policy within five (5) days after exercising reasonable best efforts to locate such policy, Seller shall continue to

exercise its reasonable best efforts to provide such policy to Buyer as soon as possible thereafter.

Section 5.11 Preservation of Records.

Buyer agrees that it shall, at its own expense, preserve and keep the records held by it relating to the respective businesses of Panhandle and the Panhandle Subsidiaries that could reasonably be required after the Closing by Seller for as long as may be required for such categories of records for the greater of the time periods required pursuant to the Access and Support Agreement and the time periods required pursuant to the applicable document retention program in effect on the Closing Date (a copy of which has been provided to Buyer). In addition, Buyer shall make such records available to Seller as may reasonably be required by Seller in connection with, among other things, any insurance claim, legal proceeding or governmental investigation relating to the respective businesses of Seller and its Affiliates, including Panhandle and the Panhandle Subsidiaries.

Section 5.12 Public Statements.

On or prior to the Closing Date, neither party shall, nor shall permit its Affiliates to, issue or cause the publication of any press release or other announcement with respect to this Agreement or the transactions contemplated hereby without the consent of the other party hereto. Notwithstanding the foregoing, in the event any such press release or announcement is required by law, court process or stock exchange rule to be made by the party proposing to issue the same, such party shall use its reasonable best efforts to consult in good faith with the other party prior to the issuance of any such press release or announcement.

Section 5.13 Certain Transactions.

Buyer, Southern Union and Funding shall not, and shall not permit any of their respective Subsidiaries to, and Highstar shall not, and shall not permit Southern Star Central to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of or equity in, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets if the entering into of a definitive agreement relating to, or the consummation of such acquisition, merger or consolidation would reasonably be expected to (i) impose any material delay in the obtaining of, or significantly increase the risk of not obtaining, any authorizations, consents, orders, declarations or approvals of any Governmental Authority necessary to consummate the transactions contemplated by this Agreement or the expiration or termination of any applicable waiting period, (ii) significantly increase the risk of any Governmental Authority entering an order prohibiting the consummation of the transactions contemplated by this Agreement, (iii) significantly increase the risk of not being able to remove any such order on appeal or otherwise or (iv) materially delay or prevent the consummation of the transactions contemplated by this Agreement. Prior to Closing, Southern Union shall not, and the Subsidiaries of Southern Union shall not,

acquire or agree to acquire any ownership interest in Southern Star Central Corp. or any material asset of Southern Star Central Corp.

Section 5.14 CMS Panhandle Holdings, LLC.

Buyer covenants to maintain CMS Panhandle Holdings, LLC as a partnership for all Tax purposes through December 31, 2003.

Section 5.15 Change of Corporate Name.

As soon as reasonably practicable following the Closing Date, but in no event later than ninety (90) days following the Closing Date (the "Corporate Name Change Transition Period"), Buyer shall cause each of Panhandle and the Panhandle Subsidiaries, as applicable, to change its corporate name to a name that does not include "CMS" and to make any necessary legal filings with the appropriate Governmental Authorities to effectuate such changes. Buyer shall hold harmless and indemnify Seller Indemnified Parties (as defined herein) against all costs, expenses and Damages to the extent incurred by Seller Indemnified Parties resulting from or arising in connection with Buyer's, Panhandle's or any Panhandle Subsidiary's use of the "CMS" name during the Corporate Name Change Transition Period.

Section 5.16 Transitional Use of Seller's Trademarks Seller hereby grants to Panhandle and the Panhandle Subsidiaries, effective upon the Closing Date, a limited non-transferable, non-exclusive, royalty-free transitional right and license to use the trademarks, service marks, and trade names listed on Section 5.16 of the Seller Disclosure Letter, together with all slogans, logotypes, designs and trade dress associated therewith which are, in each case, in existence at Closing Date and currently being used in the conduct of the businesses of Panhandle and the Panhandle Subsidiaries (collectively, the "Seller's Marks") solely on and in connection with the goods and services of the businesses of Panhandle and the Panhandle Subsidiaries and which are embodied in or on any stationery, business cards, advertising and promotional materials, packaging and labels, equipment, manuals and other documentation, statements of work, trucks, hard hats, e-mail addresses, caller ID, printed facsimile headers and footers, web page content and URLs for web sites, Messenger screens, signs on facilities owned or leased by Panhandle and the Panhandle Subsidiaries, and inventory ("Business Materials"), and for any administrative, corporate and legal use in connection with the transition away from using the Seller's Marks (the "Transitional License").

(b) Panhandle's and the Panhandle Subsidiaries' right to use the Seller's Marks shall automatically cease as soon as reasonably practicable following the Closing Date, but in no event later than six (6) months following the Closing Date. Upon the termination of Panhandle's and the Panhandle Subsidiaries' right to use Seller's Marks, Panhandle and each Panhandle Subsidiary shall immediately cease all use of Seller's Marks and all materials bearing Seller's Marks (such materials to be returned to Seller or destroyed).

(c) All rights and goodwill arising from the use of Seller's Marks and/or any similar names or marks (including logos) shall inure solely to Seller's benefit. Panhandle and the Panhandle Subsidiaries agree that neither Buyer, Panhandle nor any Panhandle Subsidiary shall use, directly or indirectly, the word "CMS" or any marks similar thereto, as part of Buyer's, Panhandle's or any Panhandle Subsidiary's own trade names, or in any other way that suggests that there is any relation or affiliation between Seller and Buyer, or Seller and Panhandle and the Panhandle Subsidiaries, other than that created by this Agreement, or as a trademark, service mark or trade name for any other business, product or service. Panhandle and Panhandle Subsidiaries shall have no interest in Seller's Marks except as expressly provided in this Agreement and shall not claim any other rights therein. Nothing in this Agreement or in the performance thereof, or that might otherwise be implied by law, shall operate to grant Panhandle and the Panhandle Subsidiaries any right, title, or interest in or to Seller's Marks other than as specified in the limited license grant in this Agreement. All rights not expressly granted in this Agreement or herein are reserved to Seller.

(d) Panhandle and the Panhandle Subsidiaries agree to assign to Seller and do hereby assign to Seller all rights they may acquire, if any, by operation of law or otherwise in Seller's Marks, including all applications or registrations therefore, along with the goodwill associated therewith. Panhandle and the Panhandle Subsidiaries shall assist Seller in protecting and maintaining Seller's rights in Seller's Marks in connection with Panhandle's and the Panhandle Subsidiaries' licensed use hereunder, including preparation and execution of documents necessary or appropriate in the ordinary course to register Seller's Marks and/or record this Agreement. As between the parties, Seller shall have the sole right to, and in its sole discretion may, commence, prosecute or defend, and control any action concerning Seller's Marks.

(e) During the term of the Transitional License, Buyer, Panhandle and the Panhandle Subsidiaries shall not take, or agree or commit to take, any action that would or would be reasonably likely have an adverse impact on any of the Seller's Marks.

(f) Neither Buyer, Panhandle, nor any Panhandle Subsidiary shall directly or indirectly, contest the validity of, by act or omission jeopardize, or take any action inconsistent with, Seller's rights in Seller's Marks (including attempting to register Seller's Marks or a mark incorporating either Seller's Marks or the word "CMS" or any mark similar thereto). Panhandle's and the Panhandle Subsidiaries' rights under the license granted herein are personal and may not be sublicensed, assigned or otherwise transferred.

Section 5.17 Reasonable Best Efforts.

Upon the terms and subject to the conditions of this Agreement, each of the parties hereto will use all reasonable best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable consistent with applicable law to consummate and make effective in the most expeditious manner practicable the transactions contemplated hereby.

Section 5.18 No Shopping.

From and after the date hereof, none of Seller, Panhandle, the Panhandle Subsidiaries nor their officers, directors, employees, affiliates, stockholders, representatives, agents, nor anyone acting on behalf of them shall, directly or indirectly, encourage, solicit, engage in discussions or negotiations with, or provide any non-public information to, any Person (other than Buyer, the Sponsors or their respective representatives) concerning any merger, sale of assets, purchase or sale of Shares or similar transaction involving Panhandle or the Panhandle Subsidiaries (collectively, "Prohibited Transactions") unless this Agreement is terminated pursuant to and in accordance with Article VII hereof; provided however, that nothing herein shall prohibit a transaction resulting in a change of control of any direct or indirect parent of Panhandle.

Section 5.19 Sponsor Covenants

(a) The Sponsors, severally, shall cause Buyer to perform all of its obligations under this Agreement which are required to be performed on and prior to the Closing Date, including, without limitation, Buyer's requirement to consummate the transaction in accordance with and subject to the terms of Section 2.2 hereof and to pay the Purchase Price in accordance with Article II. The Sponsors obligations shall be several, and not joint or joint and several; provided, however, that if a Sponsor's action or inaction has resulted in a breach by such Sponsor, or in any way caused a breach by Buyer of any of its pre-Closing or Closing obligations under the Agreement, such Sponsor (and only such Sponsor) shall be solely liable for all Damages arising out of, resulting from or incurred in connection with such breach, and Seller shall have no claim against, and hereby releases, the non-breaching Sponsor, from any Liability with respect to such breach. Each of the Sponsors, Buyer and Seller acknowledges and agrees that no action shall be taken by Buyer hereunder without the consent of both Sponsors. Southern Union hereby irrevocably and unconditionally guaranties the performance by Funding of all of its obligations for the benefit of Seller under this Agreement.

(b) Subject to the last sentence in Section 5.19(a) hereof, with respect to any payment obligations of Buyer under this Agreement, Southern Union's, Funding's and Highstar's obligations shall be several, and not joint or joint and several, and the funding of such payment obligations shall be borne 77.9% by Southern Union, 18.4% by Funding and 3.7% by Highstar. If a Sponsor does not fund its percentage of the Estimated Purchase Price at the intended Closing Date, notwithstanding that all of the condition's to Buyer's obligation to consummate the Closing have either been fulfilled or are capable of fulfillment on the Closing Date, the Sponsor who shall have funded or is prepared to fund shall be required to deposit their respective percentage of the Estimated Purchase Price into an escrow account designated by Seller pending the payment of the other Sponsor's share of the Estimated Purchase Price, at which time said funds shall be released to Seller. Seller and the Sponsor who shall have funded or been prepared to fund its percentage of the Estimated Purchase Price shall mutually agree in good faith upon an escrow agent to hold such funds, and together with the escrow agent, shall in good faith enter into an escrow agreement that will govern the holding of such funds. The escrow agreement shall provide that the escrow funds shall be released to such

Sponsor in the event that the Closing has not been consummated within 30 days of the date on which such funds were deposited.

Section 5.20 Closing Delay If the Closing has not occurred on or prior to March 31, 2003, a delay penalty (the "Delay Penalty") shall begin accruing on a daily basis on April 1, 2003 and shall continue until the earlier of the Closing Date or the termination of this Agreement in accordance with Article VII hereof, provided, as of such date, each of the conditions to Seller's obligation have been fulfilled or are reasonably capable of being fulfilled within a reasonable time. Southern Union shall pay the Delay Penalty to Seller in accordance with this Section 5.20, and the Delay Penalty shall be calculated as follows:

- (i) \$100,000 per day in April, 2003;
- (ii) \$200,000 per day in May 2003; and
- (iii) \$300,000 per day on and after June 1, 2003;

Southern Union shall pay the Delay Penalty on the last day of each calendar month or, with respect to such month in which the Closing occurs or in which this Agreement is terminated in accordance with its terms, on the Closing Date or the termination date, as the case may be. For the avoidance of doubt, the Delay Penalty shall be retained by Seller whether or not the Closing occurs; provided, however, 25% of the Delay Penalty shall be credited towards Buyer's payment of the Estimated Purchase Price. Any Delay Penalty payable hereunder shall be paid exclusively by Southern Union and Seller shall have no claim against, and hereby releases, Highstar and Funding and their affiliates from any claim or Liability with respect to any such Delay Penalty.

Section 5.21 Restated Financials

Seller shall use its reasonable best efforts to deliver the Restated Financials to Buyer as soon as reasonably practicable after the date of this Agreement. Seller shall instruct Ernst & Young LLP to conduct an audit of the financial statements of Panhandle and the Panhandle Subsidiaries for the fiscal year ended December 31, 2002 as soon as reasonably practicable after Panhandle management completes such financial statements, Seller shall cooperate with such audit, and shall deliver to Buyer a copy of the audited financial statements of Panhandle and the Panhandle Subsidiaries for the fiscal year ended December 31, 2002 and Ernst & Young LLP's audit opinion thereon upon receipt of same. To the extent Buyer reasonably requires audited or reviewed financial statements with respect to Panhandle and the Panhandle Subsidiaries in order to comply with the reporting requirements of the Securities and Exchange Commission set forth in Regulations S-K and S-X, Seller will reasonably cooperate with Buyer (at Buyer's cost), including any reasonable request that Seller instruct Ernst & Young LLP to prepare and deliver to Buyer a comfort letter, customary in scope and substance for comfort letters delivered in similar circumstances.

ARTICLE VI CONDITIONS

Section 6.1 Mutual Conditions to the Closing.

The respective obligations of each party to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver of each of the following conditions at or prior to the Closing Date:

(a) Any waiting period (and any extension thereof) applicable to the consummation of the transactions contemplated by this Agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), shall have expired or have been terminated;

(b) All waiting periods applicable to the transactions contemplated by this Agreement or any Related Agreement under any applicable other law shall have expired or been terminated, and all filings required by law to be made prior to Closing by Seller or Buyer with, and all consents, approvals and authorizations required by law to be obtained prior to Closing by Seller or by Buyer from, any Governmental Authority under any law in order to consummate the transactions contemplated by this Agreement shall have been made or obtained (as the case may be), except where the failure for such waiting periods to expire or to be terminated, to make such filings, or to obtain any such authorizations, individually or in the aggregate, would not have a Material Adverse Effect; provided, however, if any consent, approval or authorization from any Governmental Authority the absence of which would not have a Material Adverse Effect is not obtained prior to or at the Closing and, as a result, the transfer of one or more assets, rights or interests is prevented at the Closing, from and after the Closing, Seller and Buyer shall continue to use their reasonable best efforts to

obtain such requisite consent, approval or authorization. If the parties are unable to obtain the necessary approvals and, as a result, such assets, rights or interests may not be transferred to Buyer within 90 days after the Closing, the parties shall mutually agree on an acceptable adjustment to the purchase price to reflect the fair market value of such assets, rights or interests as of the Closing Date; and

(c) No court of competent jurisdiction or other competent Governmental Authority shall have issued a statute, rule, regulation, order, decree or injunction or taken any other action that has the effect of restraining, enjoining, imposing a Burdensome Condition or otherwise prohibiting in any material respect the ownership by Buyer of the Shares or the ownership or operation by Buyer of a material portion of the business or assets of Panhandle and the Panhandle Subsidiaries, taken as a whole.

Section 6.2 Buyer's Conditions to the Closing.

The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver of each of the following conditions at or prior to the Closing Date:

(a) The representations and warranties of Seller contained in this Agreement (A) if subject to any limitations as to "materiality" or "Material Adverse Effect," shall be true and correct at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date), and (B) if not subject to any limitations as to "materiality" or "Material Adverse Effect," shall be true and correct at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date) except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(b) Seller and its Affiliates shall have made all deliveries required under Section 2.6;

(c) Seller shall have performed in all material respects all of its obligations required to be performed by it under this Agreement at or prior to the Closing Date;

(d) Seller shall have, or shall have caused the appropriate Seller Counterparty to have, executed and delivered as of the Closing each of the Related Agreements to be executed by Seller or a Seller Counterparty;

(e) Buyer shall have received a properly executed statement of Seller dated as of the Closing Date and conforming to the requirements of Treasury Regulation Section 1.1445-2(b)(2);

(f) Seller shall have delivered to Buyer an opinion, dated as of the Closing Date, from a nationally recognized appraisal firm addressed to Seller, that Seller and its Subsidiaries on a consolidated basis are solvent, both immediately before

and after giving effect to the consummation of the transactions contemplated by this Agreement;

(g) Seller shall have obtained all approvals, consents, releases and documents which are listed in Section 6.2(g) of the Seller Disclosure Letter;

(h) Buyer shall have received a legal opinion, dated as of the Closing Date, from counsel to Seller, substantially in the form of Exhibit D hereto;

(i) Seller shall have delivered to Buyer (and shall have filed with the Securities and Exchange Commission) the restated audited financial statements of Panhandle for each of the fiscal years ended December 31, 2000 and December 31, 2001 (including the opinion of Ernst & Young LLP with respect thereto) (the "Annual Financial Statements") and the restated unaudited financial statements of Panhandle for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002 (which quarterly financial statements shall have been reviewed by Ernst & Young LLP in accordance with the applicable rules and regulations of the SEC) (collectively with the Annual Financial Statements, the "Restated Financials"), and except as set forth in Section 6.2(i) of the Seller Disclosure Letter, the Restated Financials (including the notes thereto) shall correspond in all material respects to the draft Restated Financials (and draft notes thereto) delivered to Buyer prior to the date of this Agreement, and any footnotes with respect to any restated quarterly financial statements shall be the same in all material respects as such footnotes in the Interim Financial Statements, except for corresponding changes reflected in the Annual Financial Statements; and

(j) Seller shall have caused Panhandle to cure any defaults (currently under waiver by the lenders) under the credit facility described as Item 44 in Section 3.7(a) of the Seller Disclosure Letter relating to a failure to furnish such lenders with certified financial statements.

Section 6.3 Seller's Conditions to the Closing.

The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver of each of the following conditions at or prior to the Closing Date:

(a) The representations and warranties of Buyer and the Sponsors contained in this Agreement (A) if subject to any limitations as to "materiality" or "Material Adverse Effect," shall be true and correct at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date), and (B) if not subject to any limitations as to "materiality" or "Material Adverse Effect," shall be true and correct at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date) except where the failure of such representations and warranties to be true and correct would not, individually or in the

aggregate, reasonably be expected to have a material adverse effect on the ability of Buyer and the Sponsors to consummate the transactions contemplated by this Agreement;

(b) Buyer and its Affiliates shall have made all deliveries required under Section 2.7;

(c) Each of Buyer, Southern Union, Highstar and Funding shall have performed in all material respects all of its obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Seller shall have received a certificate from each of Buyer, Southern Union, Highstar and Funding to that effect dated the Closing Date;

(d) Buyer shall have, or shall have caused the appropriate Buyer Counterparty to have, executed and delivered as of the Closing each of the Related Agreements to be executed by Buyer or a Buyer Counterparty;

(e) Buyer shall have obtained all approvals, consents and releases which are listed in Section 6.3(e) of the Buyer Disclosure Letter; and

(f) Seller shall have received a legal opinion, dated as of the Closing Date, from counsel to each of Buyer, Southern Union, Highstar and Funding, substantially in the form of Exhibit E hereto.

ARTICLE VII

TERMINATION AND ABANDONMENT

Section 7.1 Termination.

This Agreement may be terminated at any time prior to the Closing Date by:

(a) mutual written consent of the parties;

(b) by either Buyer or Seller, upon written notice to the other parties, if the Closing shall not have occurred on or before June 30, 2003 (the "Initial Termination Date"); provided, however, that if on the Initial Termination Date the conditions to closing set forth in Sections 6.1(a), 6.1(b) and 6.1(c) shall have been fulfilled and certain other conditions set forth in Sections 6.1, 6.2 or 6.3 shall not have been fulfilled but are reasonably capable of being fulfilled no later than ten business days after the Initial Termination Date, then, if a written notice requesting an extension of the termination date has been delivered by either Buyer to Seller, or by Seller to Buyer, at any time during the ten business day period ending on the Initial Termination Date, the termination date shall be extended to July 15, 2003.

(c) by either Buyer or Seller upon written notice to the other party, if any of the mutual conditions to the Closing set forth in Section 6.1 shall have become incapable of fulfillment by June 30, 2003 or July 15, 2003, as the case may be, and shall not have been waived in writing by the other party;

(d) by Buyer, so long as Buyer is not then in breach of its obligations under this Agreement, upon a breach of any covenant or agreement on the part of Seller set forth in this Agreement, or if any representation or warranty of Seller shall have been or become untrue, in each case such that the conditions set forth in Section 6.2 would not be satisfied; provided, however, that Buyer may not terminate this Agreement if such breach or untruth is capable of being cured by Seller by not later than June 30, 2003 or July 15, 2003, as the case may be, through the exercise of its reasonable best efforts, so long as Seller continues to exercise such reasonable best efforts (until not later than June 30, 2003 or July 15, 2003, as the case may be);

(e) by Seller, so long as Seller is not then in breach of its obligations under this Agreement, upon a breach of any covenant or agreement on the part of Buyer or the Sponsors set forth in this Agreement, or if any representation or warranty of Buyer and the Sponsors shall have been or become untrue, in each case such that the conditions set forth in Section 6.3 would not be satisfied; provided, however, that Seller may not terminate this Agreement if such breach or untruth is capable of being cured by Buyer and the Sponsors by not later than July 15, 2003, through the exercise of their reasonable best efforts, so long as Buyer and the Sponsors continue to exercise such reasonable best efforts (until not later than June 30, 2003 or July 15, 2003, as the case may be); and

(f) by either Seller or Buyer if any Governmental Authority shall have issued an order, decree or ruling or taken any other action, which permanently restrains, enjoins or otherwise prohibits the transactions contemplated by this Agreement and which order, decree, ruling or other action is not subject to appeal; unless failure to consummate closing because of such action by the Governmental Authority is due to the failure of the party seeking to terminate to have fulfilled its obligations under Section 5.3 and Section 5.4.

Section 7.2 Procedure and Effect of Termination.

In the event of the termination of this Agreement pursuant to Section 7.1, (i) this Agreement, except for the provisions of Section 5.2(b), all of Article IX and this Section 7.2, shall become void and have no effect, without any Liability on the part of any party hereto or its directors, officers, stockholders or partners; provided, however, that nothing in this Section 7.2 shall relieve any party for liability for any breach of this Agreement as set forth in the next succeeding sentence of this Section 7.2, and (ii) all filings, applications and other submissions made pursuant to this Agreement, to the extent practicable, shall be withdrawn from the agency or other Person to which they were made or appropriately amended to reflect the termination of the transactions contemplated hereby. Notwithstanding the foregoing, (a) nothing in this Section 7.2 shall relieve any party hereto of liability for Damages resulting from a material breach of any of its obligations under this Agreement; provided, however, that for purposes of this clause (a), Damages shall be deemed not to include Third Party Claims, and (b) if it shall be judicially determined that termination of this Agreement was caused by an intentional breach of this Agreement, then, in addition to other remedies at law or equity for breach of this Agreement, the party so found to have intentionally breached this Agreement shall

indemnify and hold harmless the other party hereto for its respective out-of-pocket costs, including the fees and expenses of their counsel, accountants, financial advisors and other experts and advisors, as well as fees and expenses incident to the negotiation, preparation and execution of this Agreement and related documentation.

ARTICLE VIII

SURVIVAL; INDEMNIFICATION

Section 8.1 Survival.

(a) The representations and warranties provided for in this Agreement shall survive the Closing and remain in full force and effect until the twelve-month (12) anniversary of this Agreement; provided however, that the representations and warranties set forth in Section 3.2 (Authority Relative to this Agreement), Section 3.3 (Shares), Section 3.19 (Brokerage and Finders' Fees), 4.2 (Authority Relative to this Agreement) and 4.7 (Brokerage and Finders' Fees) shall survive indefinitely, the representations and warranties set forth in Section 3.16 (Taxes) shall survive for a period equal to the applicable statute of limitations for each Tax and taxable year, and the representations and warranties set forth in Section 3.15 (Environmental; Health and Safety Matters) shall survive until the second (2nd) anniversary of the Closing Date.

(b) No Claim for damages or other relief of any kind (including a Claim for indemnification under Section 8.2 hereof) arising against a party or any of its Affiliates out of or relating to this Agreement or the transactions contemplated hereby, whether sounding in contract, tort, breach of warranty, securities law, other statutory cause of action, deceptive trade practice, strict liability, product liability or other cause of action or theory of liability (except, in all cases Claims alleging fraud, intentional misrepresentation or intentional misconduct), may be brought unless suit thereon is filed, or a written notice describing the nature of that Claim, the theory of liability, the nature of the relief sought and the material factual assertions upon which the Claim is based is given to the other party, before the termination of the Survival Period.

(c) The survival period of each representation or warranty as provided in this Section 8.1 is referred to herein as the "Survival Period." Notwithstanding the foregoing, any representation or warranty that would otherwise terminate shall survive with respect to Damages which respect to which suit thereon is filed or of which notice describing the nature of that Claim, the theory of liability, the nature of the relief sought and the material factual assertions upon which the Claim is based is given pursuant to this Agreement prior to the end of the Survival Period, until the matter is finally resolved and any related Damages are paid.

Section 8.2 Indemnification.

(a) Subject to the limitations set forth in this Article VIII, subsequent to the Closing, Seller shall indemnify, defend, save and hold harmless, Buyer, the Sponsors, Panhandle and the Panhandle Subsidiaries, their respective successors and

permitted assigns, and their shareholders, members, partners (general and limited), officers, directors, managers, trustees, incorporators, employees, agents, attorneys, consultants and representatives, and each of their heirs, executors, successors and assigns (collectively, the "Buyer Indemnified Parties"), against and in respect of any and all Damages to the extent incurred by the Buyer Indemnified Party arising out of, resulting from or incurred in connection with:

(i) any breach or inaccuracy of any representation or warranty of Seller contained in this Agreement;

(ii) any breach by Seller of any covenant or agreement contained in this Agreement; and

(iii) the matters set forth on Section 8.2(a)(iii) of the Seller Disclosure Letter.

(b) Subject to the limitations set forth in this Article VIII, subsequent to the Closing, Buyer shall indemnify, defend, save and hold harmless, Seller and its Affiliates, their respective successors and permitted assigns, and their shareholders, members, partners (general and limited), officers, directors, managers, trustees, incorporators, employees, agents, attorneys, consultants and representatives, and each of their heirs, executors, successors and assigns (collectively, the "Seller Indemnified Parties") against and in respect of any and all Damages to the extent incurred by the Seller Indemnified Party arising out of, resulting from or incurred in connection with:

(i) any breach or inaccuracy of any representation or warranty of Buyer or the Sponsors contained in this Agreement; and

(ii) any breach by Buyer or the Sponsors of any covenant or agreement contained in this Agreement.

(c) Any Person providing indemnification pursuant to the provisions of this Section 8.2 is referred to herein as an "Indemnifying Party," and any Person entitled to be indemnified pursuant to the provisions of this Section 8.2 is referred to herein as an "Indemnified Party."

(d) Seller's indemnification obligations contained in Section 8.2(a)(i) shall not apply to any Claim for Damages until the aggregate of all such Damages total \$40,000,000 (the "Threshold Amount"), in which event Seller's indemnity obligation contained in Section 8.2(a)(i) shall apply to all Claims for Damages in excess of the Threshold Amount, subject to a maximum liability to all Indemnified Parties, in the aggregate, of \$200,000,000 (the "Cap Amount") for all Claims under Section 8.2(a)(i) in the aggregate. Damages relating to any single breach or series of related breaches of Seller's representations and warranties shall not constitute Damages, and therefore shall not be applied towards the Threshold Amount or be indemnifiable hereunder, unless such

Damages relating to any single breach or series of related breaches exceed \$1,000,000 (the "Minimum Claim Amount").

(e) Buyer's indemnification obligations contained in Section 8.2(b)(i) shall not apply to any Claim for Damages until the aggregate of all such Damages equals the Threshold Amount, in which event Buyer's indemnification obligation contained in Section 8.2(b)(i) shall apply to all Claims for Damages in excess of the Threshold Amount, subject to a maximum liability to all Indemnified Parties, in the aggregate, of the Cap Amount for all Claims under Section 8.2(b)(i) in the aggregate. Damages relating to any single breach or series of related breaches of Buyer's and the Sponsors' representations and warranties shall not constitute Damages, and therefore shall not be applied towards the Threshold Amount or be indemnifiable hereunder, unless such Damages relating to any single breach or series of related breaches exceed the Minimum Claim Amount.

(f) The indemnification obligations of each party hereto under this Section 8.2 shall inure to the benefit of the Buyer Indemnified Parties and Seller Indemnified Parties, and such Buyer Indemnified Parties and Seller Indemnified Parties will be obligated to keep and perform the obligations imposed on an Indemnified Party by this Section 8.2, on the same terms as are applicable to such other party.

(g) In all cases in which a Person is entitled to be indemnified in accordance with this Agreement, such Indemnified Party shall be under a duty to take all commercially reasonable measures to mitigate all losses. Without limiting the foregoing, each Indemnified Party shall use its reasonable best efforts to collect any amount available under insurance coverage, or from any other Person alleged to be responsible, for any Damages for which an indemnity claim is being made; provided, that the reasonable costs incurred by the Indemnified Party in taking such measures shall be included in the amount of any Claim.

(h) An Indemnified Party shall not be entitled under this Agreement to multiple recovery for the same losses. If an Indemnified Party receives any amount under applicable insurance policies, or from any other Person alleged to be responsible for any Damages, subsequent to an indemnification payment by the Indemnifying Party, then such Indemnified Party shall promptly reimburse the Indemnifying Party for any payment made or expense incurred by such Indemnifying Party in connection with providing such indemnification payment up to the amount received by the Indemnified Party, net of any expenses incurred by such Indemnified Party in collecting such amount.

(i) All amounts paid by Seller or Buyer, as the case may be, under this Article VIII shall be treated as adjustments to the Purchase Price for all Tax purposes.

(j) Notwithstanding any other provision in the Agreement to the contrary, this Section 8.2 shall not apply to any Claim of indemnification with respect to

Tax matters. Claims for indemnification with respect to Tax matters shall be governed by Section 5.6.

(k) For purposes of this Article VIII only, the existence of a breach of a representation or warranty in this Agreement and the calculation of Damages arising out of a breach of any representation or warranty in this Agreement shall be determined without giving effect to any exception or qualification of such representation or warranty as to the materiality of the breach thereof or the Material Adverse Effect on any Person of such breach.

Except as provided in Section 5.6 hereof, the provisions of this Article VIII shall constitute the sole and exclusive remedy of any Indemnified Party for Damages arising out of, resulting from or incurred in connection with any inaccuracy in any representation or the breach of any warranty made by Buyer or the Sponsors, on the one hand, or Seller, on the other hand, in this Agreement; provided, however, that this exclusive remedy for Damages does not preclude a party from bringing an Action for specific performance or other equitable remedy to require a party to perform its obligations under this Agreement or any Related Agreement; provided, further, that this exclusive remedy for Damages does not preclude a party from bringing an Action alleging fraud, intentional misrepresentation or intentional misconduct without reference to the provisions of this Article VIII.

Section 8.3 Calculation of Damages.

The Damages suffered by any Party hereto shall be calculated after giving effect to the actual receipt of any available insurance proceeds paid directly to the Indemnified Party. In computing the amount of any insurance proceeds, such insurance proceeds shall be reduced by a reasonable estimate of the present value of future premium increases attributable to the payment of such Claim.

Section 8.4 Procedures for Third-Party Claims.

(a) In the case of any Claim for indemnification arising from a Claim of a third party against an Indemnified Party arising under paragraph 8.2(a) or 8.2(b) as the case may be (a "Third-Party Claim"), an Indemnified Party shall give prompt written notice to the Indemnifying Party of any Claim or demand of which such Indemnified Party has knowledge, and as to which it may request indemnification hereunder, specifying (to the extent known) the amount of such Claim and any relevant facts and circumstances relating thereto; provided, however, that any failure to give such prompt notice or to provide any such facts and circumstances will not waive any rights of the Indemnified Party, except to the extent that the rights of the Indemnifying Party are actually materially prejudiced thereby. The Indemnifying Party shall have the right (and, if it elects to exercise such right, to do so by written notice within thirty (30) days after receiving notice from the Indemnified Party) to defend and to direct the defense against any such Third-Party Claim, in its name or in the name of the Indemnified Party, as the case may be, at the expense of the Indemnifying Party, and with counsel selected by the Indemnifying Party and reasonably satisfactory to the Indemnified Party, unless (i) the

Indemnifying Party shall not have taken any action to defend such Third-Party Claim within such thirty (30) day period, or (ii) the Indemnified Party shall have reasonably concluded that there is a conflict of interest between the Indemnified Party and the Indemnifying Party in the conduct of the defense of such Third-Party Claim.

Notwithstanding anything in this Agreement to the contrary (other than the last sentence of this Section 8.4(a)), the Indemnified Party, at the expense of the Indemnifying Party (which shall include only reasonable out-of-pocket expenses actually incurred), shall cooperate with the Indemnifying Party and keep the Indemnifying Party fully informed in the defense of such Third-Party Claim. The Indemnified Party shall have the right to participate in the defense of any Third-Party Claim with counsel employed at its own expense; provided, however, that in the case of any Third-Party Claim (A) described in clause (ii) above, or (B) as to which the Indemnifying Party shall not in fact have employed counsel to assume the defense of such Third-Party Claim within such thirty-day (30-day) period, or (C) that involves assertion of criminal liability on the Indemnified Party, or (D) seeks to force the Indemnified Party to take (or prevent the Indemnified Party from taking) any action, then in each such case the Indemnified Party shall have the right, but not the obligation, to conduct and control the defense thereof for the account of, and at the risk of, the Indemnifying Party, and the reasonable fees and disbursements of such Indemnified Party's counsel shall be at the expense of the Indemnifying Party. Except as provided in the last sentence of Section 8.4(b), the Indemnifying Party shall have no indemnification obligations with respect to any Third-Party Claim which shall be settled by the Indemnified Party without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld, delayed or conditioned.

(b) The Indemnifying Party, if it has assumed the defense of any Third Party Claim as provided in this Agreement, shall not consent to a settlement of, or the entry of any judgment arising from, any such Third-Party Claim without the Indemnified Party's prior written consent (which consent shall not be unreasonably withheld, delayed or conditioned) unless (i) such settlement or judgment relates solely to monetary damages, and (ii) prior to consenting to such settlement or such entry of judgment, the Indemnifying Party delivers to the Indemnified Party a writing (in form reasonably acceptable to the Indemnified Party) which unconditionally provides that, subject to the provisions of Section 8.2(d) or Section 8.2(e), as appropriate, relating to the Minimum Claim Amount, the Threshold Amount and the Cap Amount, the Damages represented thereby are the responsibility of the Indemnifying Party pursuant to the terms of this Agreement and that, subject to the provisions of the Threshold Amount, the Indemnifying Party shall pay all Damages associated therewith in accordance with the terms of this Agreement. The Indemnifying Party shall not, without the Indemnified Party's prior written consent, enter into any compromise or settlement that (x) commits the Indemnified Party to take, or to forbear to take, any action or (y) involves a reasonable likelihood of an imposition of criminal liability on the Indemnified Party, or (z) does not provide for a complete release by such third party of the Indemnified Party. With the written consent of the Indemnifying Party, which consent shall not be unreasonably withheld, conditioned or delayed, the Indemnified Party shall have the sole and exclusive right to settle any Third-Party Claim, on such terms and conditions as it deems reasonably appropriate, to the extent such Third-Party Claim involves equitable or other nonmonetary relief against the Indemnified Party or involves a reasonable

likelihood of an imposition of criminal liability on the Indemnified Party, and shall have the right to settle any Third-Party Claim involving money damages for which the Indemnifying Party has not assumed the defense pursuant to this Section 8.4.

Section 8.5 Procedures for Inter-Party Claims.

In the event that an Indemnified Party determines that it has a Claim for Damages against an Indemnifying Party hereunder (other than as a result of a Third-Party Claim), the Indemnified Party shall give prompt written notice thereof to the Indemnifying Party, specifying the amount of such Claim and any relevant facts and circumstances relating thereto, and such notice shall be promptly given even if the nature or extent of the Damages is not then known. The notification shall be subsequently supplemented within a reasonable time as additional information regarding the Claim or the nature or extent of Damages resulting therefrom becomes available to the Indemnified Party. Any failure to give such prompt notice or supplement thereto or to provide any such facts and circumstances will not waive any rights of the Indemnified Party, except to the extent that the rights of the Indemnifying Party are actually materially prejudiced thereby. The Indemnified Party and the Indemnifying Party shall negotiate in good faith for a thirty-day (30-day) period regarding the resolution of any disputed Claims for Damages. Promptly following the final determination of the amount of any Damages claimed by the Indemnified Party, the Indemnifying Party, subject to the limitations of the Minimum Claim Amount, Threshold Amount and the Cap Amount, shall pay such Damages to the Indemnified Party by wire transfer or check made payable to the order of the Indemnified Party.

ARTICLE IX

MISCELLANEOUS PROVISIONS

Section 9.1 Interpretation.

Unless the context of this Agreement otherwise requires, (a) words of any gender include the other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (d) the terms "Article," "Section" and "Exhibit" refer to the specified Article, Section and Exhibit of this Agreement, respectively; and (e) "including," shall mean "including, but not limited to." Unless otherwise expressly provided, any agreement, instrument, law or regulation defined or referred to herein means such agreement, instrument, law or regulation as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of a law or regulation) by succession of comparable successor law and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein.

Section 9.2 Disclosure Letters.

The Seller Disclosure Letter and the Buyer Disclosure Letter are incorporated into this Agreement by reference and made a part hereof.

Section 9.3 Payments.

All payments set forth in this Agreement and Exhibits are in United States Dollars. Such payments shall be made by wire transfer of immediately available funds or by such other means as the parties to such payment shall designate.

Section 9.4 Expenses.

Except as expressly set forth herein, or as agreed upon in writing by the parties, whether or not the transactions contemplated hereby are consummated, each party shall bear its own costs, fees and expenses, including the expenses of its Representatives, incurred by such party in connection with this Agreement and the Related Agreements and the transaction contemplated hereby and thereby; provided, however, that Seller shall be solely responsible for all legal, accounting and other fees, costs and expenses incurred by Seller, Panhandle and the Panhandle Subsidiaries in connection with the negotiation, execution and Closing of this Agreement.

Section 9.5 Choice of Law.

This Agreement shall be governed by and construed in accordance with the law of the State of New York (regardless of the laws that might otherwise govern under applicable New York principles of conflicts of law).

Section 9.6 Assignment.

This Agreement may not be assigned by either party without the prior written consent of the other party; provided, however, that without the prior written consent of the other party, each party shall have the right to assign its rights and obligations under this Agreement to any third party successor to all or substantially all of its entire business. This Agreement shall be binding upon and, subject to the terms of the foregoing sentence, inure to the benefit of the parties hereto and their successors, legal representatives and assigns.

Section 9.7 Notices.

All demands, notices, consents, approvals, reports, requests and other communications hereunder must be in writing, will be deemed to have been duly given only if delivered personally or by facsimile transmission (with confirmation of receipt) or by an internationally-recognized express courier service or by mail (first class, postage prepaid) to the parties at the following addresses or telephone or facsimile numbers and will be deemed effective upon delivery; provided, however, that any communication by

facsimile shall be confirmed by an internationally-recognized express courier service or regular mail.

(i) If to Seller:

CMS Gas Transmission Company
CMS Energy Corporation
300 Town Center Drive, Suite 1100
Dearborn, Michigan 48126
Attention: General Counsel
Telephone: (313) 436-9214
Facsimile: (313) 436-9258

With a required copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
Attention: Sheldon S. Adler, Esq.
Telephone: (212) 735-3000
Facsimile: (212) 735-2000

(ii) If to Buyer, Southern Union, Highstar or Funding:

AIG Highstar Capital, L.P.
175 Water Street - 26th Floor
New York, New York 10038
Attention: Christopher Lee, Managing Partner
Telephone: (212) 458-2338
Facsimile: (212) 458-2222

And to:

Southern Union Company
One PEI Center
Wilkes Barre, Pennsylvania 18711-0601
Attention: Thomas F. Karam, President & COO
Telephone: (570) 829-8888
Facsimile: (570) 829-8900

with a copy (which shall not constitute notice) to:

Bingham McCutchen LLP
150 Federal Street
Boston, MA 02110
Attention: Victor J. Paci, Esq.
Telephone: (617) 951-8924
Facsimile: (617) 951-8736

and

Fleischman and Walsh, L.L.P.
1400 Sixteenth Street, N.W., Suite 600
Washington, D.C. 20036
Attention: Stephen A. Bouchard
Telephone: (202) 939-7911
Facsimile: (202) 265-5706

or to such other address as the addressee shall have last furnished in writing in accord with this provision to the addressor.

Section 9.8 Consent to Jurisdiction.

Each party shall maintain at all times a duly appointed agent in the State of New York, which may be changed upon ten (10) Business Days' notice to the other party, for the service of any process or summons in connection with any issue, litigation, action or proceeding brought in any such court. Any such process or summons may also be served on it by mailing a copy of such process or summons to it at its address set forth, and in

the manner provided, in Section 9.7. Each party hereby irrevocably consents to the exclusive personal jurisdiction and venue of any New York State or United States Federal court of competent jurisdiction sitting in New York County, New York, in any action, Claim or proceeding arising out of or in connection with this Agreement and agrees not to commence or prosecute any action, Claim or proceeding in any other court. Each of the parties hereby expressly and irrevocably waives and agrees not to assert the defense of lack of personal jurisdiction, forum non conveniens or any similar defense with respect to the maintenance of any such action or proceeding in New York County, New York.

Section 9.9 Resolution of Disputes.

Except for the resolution of matters which shall be resolved in accordance with the procedures set forth in specific sections, all other disputes arising out of or relating to this Agreement or any Related Agreement or the breach, termination or validity thereof or the parties' performance hereunder or thereunder ("Dispute") shall be resolved as provided by this Section 9.9.

(a) Mediation.

(i) If the Dispute has not been resolved by executive officer negotiation within thirty (30) days of the disputing party's notice requesting negotiation, or if the parties fail to meet within twenty (20) days from delivery of said notice, such Dispute shall be submitted to non-binding mediation in accordance with the then-current Model Procedure for Mediation of Business Disputes of the CPR Institute for Dispute Resolution. The mediation shall be completed within thirty (30) days of the time the mediator is selected. Unless otherwise agreed, the parties will select a mediator from the CPR Panels of Distinguished Neutrals; provided, however, that if no mediator from that list can be mutually agreed upon, each party will submit to the CPR its own list of acceptable mediators from the CPR Panels of Distinguished Neutrals and the CPR shall appoint one of those listed as the mediator for the parties. The costs of the mediation, including the mediator's fees, shall be borne equally by the parties to the Dispute.

(ii) By agreeing to mediation, the parties do not intend to deprive any court of its jurisdiction to issue an injunction, attachment or other order in aid of mediation proceedings. The parties agree to participate in good faith in the mediation to its conclusion. If the Dispute has not been resolved by mediation within ninety (90) days of the disputing party's notice requesting negotiation pursuant to Section 9.9(a)(i), then either party may pursue other available remedies.

Section 9.10 Waiver of Jury Trial.

SELLER AND BUYER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF SELLER OR BUYER. EACH OF SELLER AND BUYER ACKNOWLEDGES AND AGREES THAT IT HAS RECEIVED FULL AND SUFFICIENT CONSIDERATION FOR THIS PROVISION (AND EACH OTHER PROVISION OF EACH OTHER DOCUMENT DELIVERED IN CONNECTION HERewith TO WHICH IT IS A PARTY) AND THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR SUCH PARTY ENTERING INTO THIS AGREEMENT AND EACH SUCH OTHER DOCUMENT.

Section 9.11 No Right of Setoff.

Neither party hereto nor any Affiliate thereof may deduct from, set off, holdback or otherwise reduce in any manner whatsoever against any amounts such Persons may owe to the other party hereto or any of its Affiliates any amounts owed by such Persons to the other party or its Affiliates.

Section 9.12 Time is of the Essence.

Time is of the essence in the performance of the provisions of this Agreement.

Section 9.13 Specific Performance.

The parties hereto agree that irreparable damage would occur in the event that any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 9.14 Entire Agreement.

This Agreement, together with the Seller Disclosure Letter, Buyer Disclosure Letter, Exhibits hereto, Related Agreements and the Confidentiality Agreement constitute the entire agreement between the parties hereto with respect to the subject matter herein and supersede all previous agreements, whether written or oral, relating to the subject matter of this Agreement and all prior drafts of this Agreement, all of which are merged into this Agreement. No prior drafts of this Agreement and no words or phrases from any such prior drafts shall be admissible into evidence in any action or suit involving this Agreement. In the case of any material conflict between any provision of this Agreement and any other Related Agreement, this Agreement shall take precedence.

Section 9.15 Third Party Beneficiaries.

Except as expressly provided in Article VIII hereof, none of the provisions of this Agreement shall be for the benefit of or enforceable by any third party, including any creditor of either party or any of their Affiliates. Except as expressly provided in Article VIII hereof, no such third party shall obtain any right under any provision of this Agreement or shall by reasons of any such provision make any Claim in respect of any Liability (or otherwise) against either party hereto.

Section 9.16 Counterparts.

This Agreement may be executed in two (2) counterparts, both of which, when executed, shall be deemed to be an original and both of which together shall constitute one and the same document.

Section 9.17 Severability.

If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable present or future law, and if the rights or obligations of either party under this Agreement will not be materially and adversely affected thereby, (i) such provision shall be fully severable, (ii) this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement, a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

Section 9.18 Headings.

The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

Section 9.19 Waiver.

Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party or parties waiving such term or condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

Section 9.20 Amendment.

This Agreement may be altered, amended or changed only by a writing making specific reference to this Agreement and signed by duly authorized representatives of each party.

IN WITNESS WHEREOF, Seller, Buyer and the Sponsors, by their duly authorized officers, have executed this Agreement as of the date first written above.

CMS GAS TRANSMISSION COMPANY

By: _____
Name:
Title:

SOUTHERN STAR PANHANDLE CORP.

By: _____
Name:
Title:

SOUTHERN UNION COMPANY

By: _____
Name:
Title:

AIG HIGHSTAR CAPITAL, L.P.

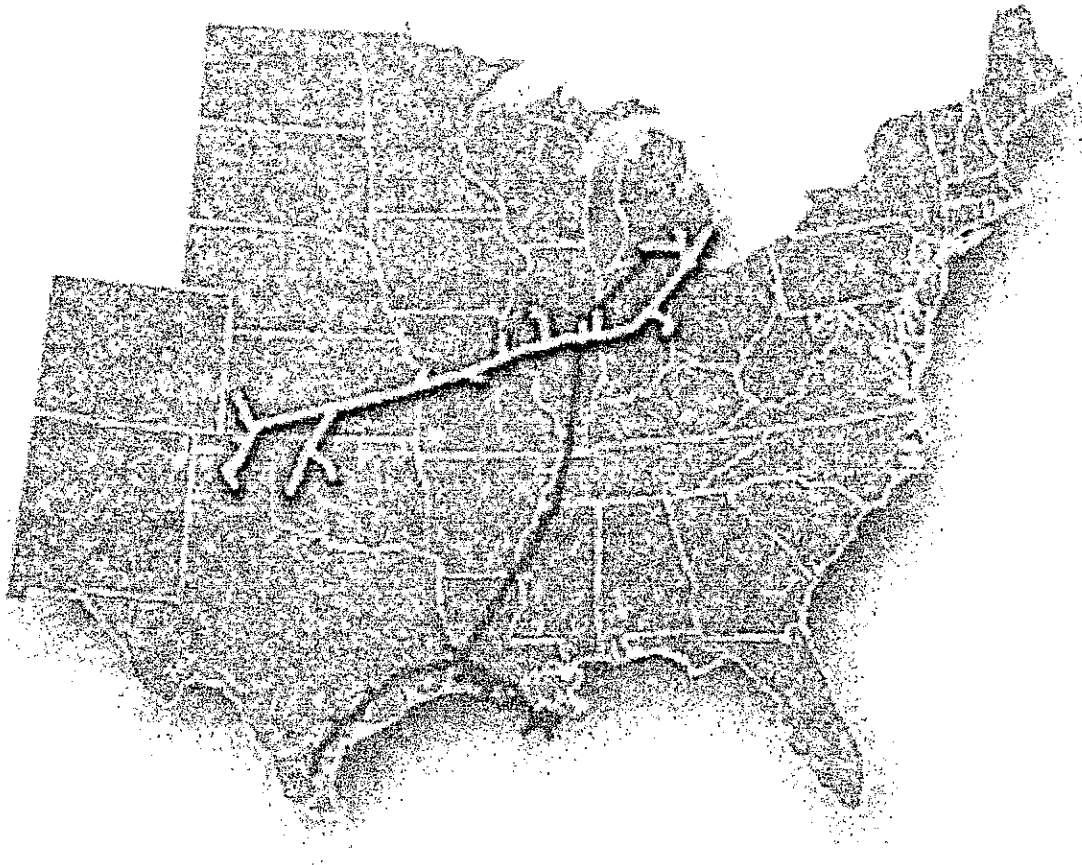
By: _____
Name:
Title:

AIG HIGHSTAR II FUNDING CORP.


By: _____

Name:
Title:

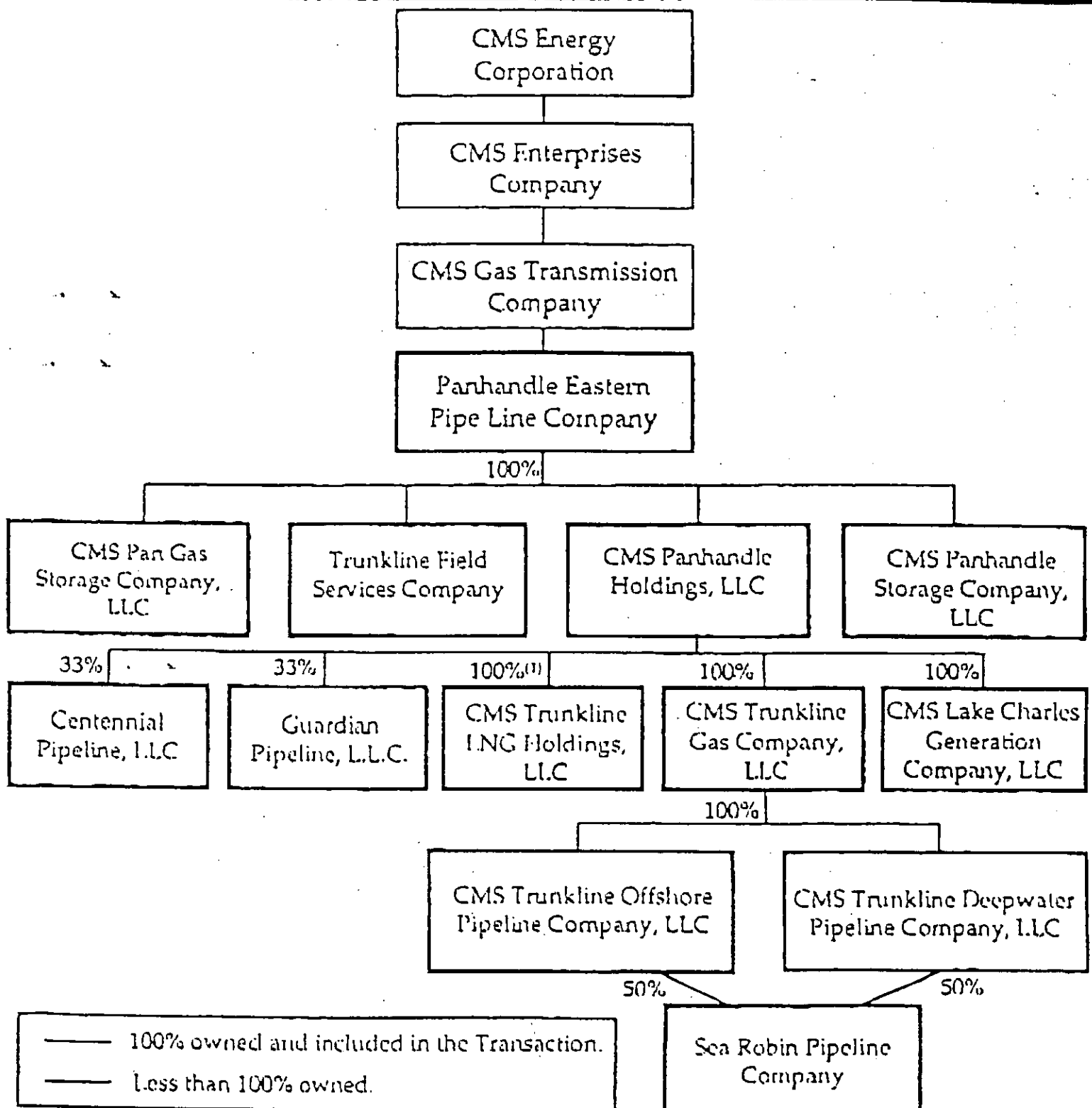
APPENDIX 3



Panhandle Eastern Pipeline Company pipeline system

 CMS Trunkline Gas Company, LLC pipeline system

CMS Organization Chart



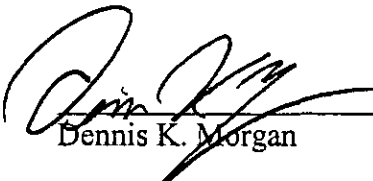
(1) Assumes that the interest currently held by Dekathera Investor Trust is acquired.

SECRETARY'S CERTIFICATE
SOUTHERN UNION COMPANY

The undersigned, Dennis K. Morgan, hereby certifies as follows:

1. I am the duly elected Executive Vice President – Administration, General Counsel and Secretary of Southern Union Company, a Delaware corporation (the “Corporation”).
2. Attached hereto is Exhibit A, which is a true copy of resolutions passed by the Executive Committee of the Board of Directors of the Corporation dated December 20, 2002. The resolutions are in full force and effect, and such resolutions do not conflict with the Bylaws of the Corporation.

Executed this 7th day of January 2003.



Dennis K. Morgan

EXHIBIT "A"

RESOLVED, that the Stock Purchase Agreement (the "SPA") by and among CMS Gas Transmission Company (the "Seller"), AIG Highstar Capital, L.P., AIG Highstar II Funding Corporation (together AIG Highstar Capital, L.P. and AIG Highstar II Funding Corporation, the "Highstar Parties"), Southern Union Panhandle Corporation and the Corporation (together the Corporation and the Highstar Parties, the "Co-Sponsors") with respect to the purchase of the common stock of Panhandle Eastern Pipe Line Company from Seller, the Letter Agreement among the Co-Sponsors and the basic terms among the Co-Sponsors, are hereby approved, and the Corporation's President, Executive Vice President and Chief Financial Officer, Executive Vice President – Administration, General Counsel and Secretary, and Vice President – Legal are hereby authorized to finalize the terms, execute and deliver all required agreements at execution, such execution and delivery to be deemed to indicate their final approval of such agreements.

RESOLVED, that all actions taken to date by officers of the Corporation or representatives of the Corporation and its Co-Sponsors acting at the direction of the officers of the Corporation in connection with such transactions are hereby confirmed, ratified and approved in all respects, and that such officers or representatives hereby are further authorized and directed to take or cause to be taken all other actions as they may deem to be necessary or appropriate in connection with the transaction contemplated by the SPA.

RESOLVED, that such officers be, and hereby are, authorized and directed to execute and deliver all the other instruments and documents that such officers deem necessary or appropriate, and to take or cause to be taken all actions on behalf of the Corporation that such officers deem necessary or appropriate to consummate the transaction contemplated by the SPA, or to otherwise carry out the intent of the foregoing resolutions.

**CONDITIONS TO FURTHER INSULATE SOUTHERN UNION'S MISSOURI
CUSTOMERS FROM ANY POSSIBLE ADVERSE CONSEQUENCES ASSOCIATED
WITH THE TRANSACTION**

A. Southern Union will ensure that the Transaction will have no adverse effect on MGE's budget to complete its service line and replacement program. Southern Union, through its MGE operating division, remains committed to the safety line replacement program schedules currently in effect and approved by the Commission in its Case No. GO-2002-0050

B. The amount of any asserted acquisition premium (i.e. the amount of the total purchase price above net book value including transaction costs) paid by Southern Union in connection with the Transaction shall be treated below the line for ratemaking purposes in Missouri and not recovered in rates. Southern Union shall not seek either direct or indirect rate recovery or recognition of any acquisition premium, including transaction costs, through any purported acquisition savings adjustment (or similar adjustment) in any future ratemaking proceeding in Missouri. Southern Union reserves the right to seek Missouri rate recovery for internal payroll costs necessary to obtain Missouri regulatory approval of the Transaction, to the extent it can be shown that the savings achieved and allocated to MGE as a result of the Transaction are equal to or in excess of such costs. Other parties to any such proceeding will not be precluded from opposing rate recovery of such costs, regardless of any asserted acquisition savings. In addition, Southern Union shall not seek to recover in Missouri the amount of any asserted acquisition premium in the Transaction as being a "stranded cost" regardless of the terms of any legislation permitting the recovery of stranded cost from Missouri ratepayers.

C. Total joint and common costs allocated to Missouri will not increase as a result of the Transaction. Southern Union agrees to make available to the Commission's staff ("Staff") and the Office of the Public Counsel ("OPC"), at reasonable times and places, all books and records and employees and officers of Southern Union and any affiliate, division or subsidiary of Southern Union as provided under applicable law and Commission rules. Southern Union agrees that, in any MGE initiated rate proceeding, it has the burden of proving the reasonableness of any allocated or assigned cost to MGE from any Southern Union affiliate, division or subsidiary including all corporate overhead allocations.

D. Southern Union will retain all documentation relative to the analysis of the Transaction. This documentation will include a list of: (1) all Southern Union personnel, consultants, legal and financial and accounting advisers involved in the Transaction; (2) the time (in hours) spent by those individuals on work related to the proposed application; (3) other expenses, costs or expenditures incurred or recognized by Southern Union that are related to the Transaction; (4) business entity (corporate, subsidiary and division) where the costs were booked, including account number, account description and amount; and (5) description of the nature of costs incurred. Southern Union will maintain its books and records so that all acquisition costs (including the Transaction and future Southern Union merger and acquisition transactions) are segregated and recorded separately. During MGE's next rate proceeding, Southern Union agrees to work with the Staff and OPC to identify all Transaction costs recorded in Southern Union's books and records in the appropriate test year. This condition does not restrict Southern Union's right to seek rate recovery of merger and acquisition costs related to future transactions. Other parties to this proceeding may oppose recovery of merger and acquisition costs related to future

transactions. Southern Union agrees to create and maintain records listing the names of Southern Union employees (excluding current Panhandle Eastern employees), number of hours worked, type of work performed and travel and other expenses incurred for all work related to Panhandle Eastern after the closing of the Transaction through the end of the test year, updated test year or true-up test year in MGE's next general gas rate case. Southern Union will submit to the Commission's accounting department and OPC verified journal entries reflecting the recording of the Transaction of Southern Union's books and records within forty-five (45) days of closing.

E. Southern Union will not seek an increase of cost of capital for MGE as a result of the Transaction. Any increases in cost of capital Southern Union seeks for MGE will be supported by documented proof: (1) that the increases are a result of factors not associated with the Transaction; (2) that the increases are not a result of changes in business, market, economic or other conditions for MGE caused by the Transaction; or (3) that the increases are not a result of changes in the risk profile of MGE caused by the Transaction. Southern Union will ensure that the rates for MGE ratepayers will not increase as a result of the Transaction.

F. Southern Union agrees that any Stipulation and Agreement to which Southern Union is a signatory with regard to any MGE Actual Cost Adjustment ("ACA") case that occurs prior to the closing of the Transaction will be adhered to by Southern Union.

G. Southern Union agrees that within six (6) months of the closing of the Transaction, it shall meet with the Staff and OPC to discuss the impact of the Transaction on Southern Union's structure and organization, including Southern Union's progress towards incorporating Panhandle Eastern's operations into its administrative and general ("A & G") expense allocation methodology. In its A & G allocation methodology, Southern Union will specifically identify how its total company corporate overheads are to be allocated between Southern Union's regulated and non-regulated functions of its regulated divisions as well as its non-regulated subsidiaries. Southern Union agrees that the types and availability of raw data necessary to perform allocations of corporate overhead costs shall be discussed at the meeting to occur within six (6) months of the close of the Transaction. The raw data to be discussed should include, but not be limited to, regulated and non-regulated information concerning customer numbers and billing information, revenue data, asset information (gross and net plant, etc.), management work time allocations, employee numbers and other payroll data, and the Missouri jurisdictional rate of return on investment ("ROR") and return on equity ("ROE"). The allocation procedures to be discussed may include, but need not be limited to, the use of cost allocation manuals, timesheets, time studies, and/or other means of tracking and allocating costs. The allocation procedures agreed upon should provide a means to identify and substantiate the portions of each individual corporate employee's time and associated payroll cost being allocated to Southern Union's regulated divisions.

H. The commitments and representations made by Southern Union in this Appendix 8 are intended to apply only in the context of Missouri jurisdictional regulatory activities. Commission approval of this Application is not intended, and shall not be

construed, to restrict in any way the ability of either the Commission or Southern Union to take any position whatsoever regarding matters covered by this Appendix 8 in proceedings before the Federal Energy Regulatory Commission or any other non-Missouri jurisdictional regulatory authority.