

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 29th
day of July, 1999.

In the Matter of the Application of)	
Southern Union Company for Authority)	
to Acquire up to and Including Five)	<u>Case No. GM-2000-49</u>
Percent (5%) of the Common Stock of)	
Pennsylvania Enterprises, Inc.)	

ORDER APPROVING APPLICATION WITH ADDITIONAL CONDITIONS

On July 20, 1999, Southern Union Company (Southern Union) filed an application with the Commission requesting authority to acquire up to and including five percent of the common stock of Pennsylvania Enterprises, Inc. (PNT). In a companion case, case number GM-2000-43, Southern Union has requested authority to complete a merger with PNT. Southern Union wishes to immediately purchase a portion of the stock of PNT for the purpose of mitigating the pricing effect of possible arbitrage trading in PNT shares prior to the time of closing of the merger. Along with its Application, Southern Union filed a motion requesting expedited consideration of this application to permit the proposed transactions to occur no later than July 31. Southern Union requested that the Commission issue its order approving its application no later than July 30, bearing an effective date of the date of issuance.

On July 29, the Commission's Staff filed a recommendation regarding the application of Southern Union. Staff recommends that the Commission reject the application as submitted. Staff indicates that its review of

the Application and discussions with Southern Union representatives indicate that, as filed, the Application does not provide sufficient specific undertakings by Southern Union to ensure that the investments authorized by this order is not detrimental to the public interest in Missouri. Staff indicates that in rate case proceedings, Southern Union has consistently taken the position that its capital structure is highly leveraged and because of this its shareholders deserve a risk premium on return on equity. The Application indicates that Southern Union intends to borrow even more money for this request, which will increase its leverage and exacerbate the risk premium argument.

Staff further states that in its Application Southern Union shows a pro forma financial scenario. This scenario shows Southern Union losing money because it is borrowing \$12 million at 5.5%, yet only earning 3.97% on its investment. Furthermore, Southern Union fails to show a scenario in which its offer does not result in a business combination with PNT. If the business combination between Southern Union and PNT does not occur, the stock price could retreat and Southern Union would be forced to liquidate its position at a loss. Southern Union's failure to recognize the negative consequences of this scenario also results in a failure to take precautions to ensure that this action is not detrimental to the public interest in Missouri.

While Staff recommends rejection of the Application, it also states that if the Commission does approve the Application it do so only on certain conditions. The Commission recognizes the concerns expressed in Staff's recommendation. However, the Commission is not willing to reject

the Application on the basis of those concerns. The Commission will approve the Application but only with the additional conditions recommended by Staff and set forth in this order.

IT IS THEREFORE ORDERED:

1. That the Application filed by Southern Union Company for authority to acquire up to five percent (5%) of the outstanding common stock of Pennsylvania Enterprises, Inc. prior to and in anticipation of the closing of the merger is approved subject to the additional conditions set forth in this order.

2. That Southern Union Company shall be required to file complete financial documentation, concurrent to the action, for each investment, including, but not limited to, methods of finance, overall cost of the transaction, interest rate of borrowed funds, source of equity invested, and correspondence with brokers and investment firms. This documentation will include dated buy and sell orders for the specific investment.

3. That Southern Union Company shall be required to file monthly financial investment reports of the current status of all investments and investment activity. Content of these reports shall include (but is not limited to) initial investment, current carrying value, any activity such as stock splits, dates of sale, etc.

4. That Southern Union Company must undertake to capture, retain and make available to regulatory authority the raw data needed to capture all direct and indirect costs associated with the investments authorized by this order. Southern Union Company shall, at a minimum, maintain: a list of all persons involved in the investments authorized by this order;

support personnel involved in the investments authorized by this order; the time spent by those personnel on the investments authorized by this order; and a list of all other expenses incurred by Southern Union Company on the investments authorized by this order. Such other expenses shall include but not be limited to consultants, communications, travel and debt costs. Southern Union Company must file a report within 30 days of the Commission's order detailing the information that it presently has captured and the procedures it will use to capture this information in the future. Such information must be maintained and made available through the completion of Southern Union Company's next rate case.

5. That Southern Union Company will represent that the investments authorized by this order will not affect the funding for the construction budget of its Missouri Gas Energy (MGE) operating division for this fiscal year nor MGE's operational expenses necessary to provide safe and adequate service. Further, Southern Union Company must demonstrate that next year's construction budget for MGE will not be affected by this Project. This demonstration will include MGE's commitment to its safety program for the year ending June 30, 2000. Southern Union Company must agree that to meet its construction obligations it will, if necessary, liquidate a portion of the investments authorized by this order to meet its obligations.

6. That Missouri ratepayers will suffer no adverse effects from any initial investment or losses suffered on such investments through either an amortization of said losses directly to the operating income of MGE or via reduction in retained earnings due to such losses. Southern

Union Company's capital structure (actual dollar levels and percentage levels) will not be affected by losses on investments in determining the appropriate rate of return in the future. In order to ensure that the investments authorized by this order are not detrimental to the public interest, Southern Union Company must specify, in a report filed within 30 days of this order, the steps that it will take to insulate Missouri ratepayers from such possible results.

7. That Southern Union Company and MGE will not seek an increase to its requested Return on Equity or overall Rate of Return, for Missouri operations, due to factors of, or related to, actual leverage, percentage of leverage in the capital structure, risk associated with leverage, changes in cash or cash working capital or any other real or perceived changes in risk profile due to these investments. Also, any adverse effects on Southern Union Company's cost of debt will not be included in the calculation of Missouri-jurisdiction Rate of Return or cost of service. No adverse effect of the investments authorized by this order will be included in capitalization of AFUDC in Southern Union Company's rate base and/or under presently authorized AAOs. If the investments authorized by this order require interim financing, Southern Union Company will assign its lowest cost debt to regulated projects, and higher cost debt to unregulated projects.

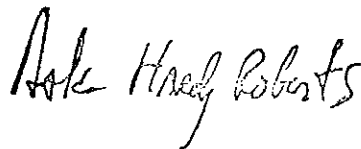
8. That for purposes of determining the appropriate level of equity balances, the term ownership equity shall be defined as those funds or securities, which have the most subordinate claim against the assets of Southern Union Company as compared to all other securities or

claims upon the assets of Southern Union Company. Owner's equity does not include securities such as long term debt instruments, hybrid equity securities such as SUC's trust originated preferred securities, preferred stock, or short-term debt.

9. That nothing in this order shall be considered as a finding by the Commission that the merger transaction proposed in Case No. GM-2000-43 is consistent with the public interest.

10. That this order shall become effective on July 30, 1999.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Murray, chemenauer,
and Drainer, CC., concur
Crumpton, C., absent

Woodruff, Regulatory Law Judge

RECEIVED

JUL 29 1999

COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION