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October 6, 1999

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

RE: Case No. GM-2000-43 - Southern Union Company

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **UNANIMOUS STIPULATION AND AGREEMENT**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Cliff E. Snodgrass
Senior Counsel
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CES/wf
Enclosure
cc: Counsel of Record

FILED
OCT 6 1999
Missouri Public
Service Commission

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

FILED
OCT 6 1999
Missouri Public
Service Commission

In the Matter of the Application of)
Southern Union Company for Authority to)
Acquire and Merge with Pennsylvania)
Enterprises Inc., and, in Connection)
therewith, Certain Other Related)
Transactions.)

Case No. GM-2000-43

UNANIMOUS STIPULATION AND AGREEMENT

COME NOW the Staff of the Missouri Public Service Commission ("Staff"), Southern Union Company ("Southern Union" or "Company") and the Office of the Public Counsel ("OPC") and, as a result of discussions among the parties to Case No. GM-2000-43, hereby submit to the Missouri Public Service Commission ("Commission") for its consideration and approval the following Stipulation and Agreement, in connection with the Application of Southern Union Company for authority to acquire and merge with Pennsylvania Enterprises Inc., and other related transactions.

1. APPROVAL OF THE MERGER

The parties to this Stipulation and Agreement respectfully request that the Commission issue an Order approving the merger by October 15, 1999, or as soon as possible thereafter on the basis that, subject to the conditions and modifications set forth herein, the merger is not detrimental to the public interest and that this Stipulation and Agreement resolves all outstanding issues in this docket.¹

2. CUSTOMER SERVICE

In order to assist in making determinations regarding the level of service being provided

¹ Southern Union has requested expeditious Commission approval, to which the Staff and OPC do not object, in order to permit the transaction to close by late October or, at the latest, early November, 1999. Southern Union has been informed by its financial advisors that this timing will allow the greatest financing flexibility, including rates, terms and conditions. If October 15, 1999, is not reasonably achievable, Southern Union respectfully requests that the Commission approve this Stipulation and Agreement as soon thereafter as possible.

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to the customer, Southern Union, Staff and OPC have established a series of performance measures to measure some components of customer service for Southern Union's Missouri Gas Energy ("MGE") customers. The measures are similar in nature to the measurements agreed to in Case No. EM-97-515, Western Resources, Inc. and Kansas City Power & Light Company. This is being done to ensure that this merger will have no adverse effect on the level of customer service to post-merger MGE customers. This Agreement also contains reporting requirements to enable the Staff and OPC to monitor various other components of customer service following the closing of the merger.

Southern Union will ensure that the merger will have no adverse effect on MGE's efforts to provide high quality service to its customers. Southern Union, through its MGE operating division, agrees to the customer service performance measures as summarized below:

a.) Customer Service Performance Measures

- Average Abandoned Call Rate (ACR) is not to exceed 7.5% on an annual basis plus a 100 basis point variance (a maximum allowable level of 8.5%) for the calendar year beginning January 1, 2000.
- Average Speed of Answer (ASA) is not to exceed 65 seconds plus a 25 percent variance of 16 seconds annually (a maximum allowable level of 81 seconds) for the calendar year of January 1, 2000 through December 31, 2000. Thereafter, the measurement will be 65 seconds plus a 15 percent variance of 10 seconds annually (a maximum allowable level of 75 seconds).²

² MGE has plans to implement an automated work order system and other automation improvements in its customer service operations during the year 2000. In recognition of this plan, an additional twenty five percent was added to the ASA measurement to allow for possible variances attributable to this implementation during the first twelve month period.

The base measurements of 7.5% and 65 seconds represent MGE's average actual performance during the July 1997 through June 1999 twenty-four month period.

Future changes made to the annual average abandoned call rate and/or annual average speed of answer measurements established, if any, will have to be based on valid studies/analysis to determine whether such changes will result in providing efficient and economic performance.

b.) Company Response to Customer Service Measures

The Company shall provide the Staff and OPC quarterly reports (within 45 days of quarter-end) on the Customer Service Measures. Statistics for the measures shall be tracked and displayed monthly, reported to Staff and OPC on a calendar year quarterly basis and assessed for compliance annually. Within ninety (90) days after the end of the calendar year, the Company shall submit a draft report to the Staff and OPC which shall include actual performance measures for the year, explanation of any deviation above the measures, actions to be undertaken to eliminate the deviations above the measures and estimates of the cost of such actions. The Staff and OPC shall provide a response to the Company's draft report within thirty (30) days. The Company shall file a final report with the Commission 150 days after the end of the calendar year.

If the Customer Service Measures exceed the 24-month averages for the measures identified, MGE will initiate the following responses:

- Should the actual Service Measures exceed, for any calendar year, the 24-month averages identified, MGE shall provide the Staff and OPC a written explanation of why MGE believes these figures have increased.
- Should the actual Service Measures for any calendar year period exceed the maximum allowable levels, the Company shall also provide an estimate of the cost, if any, to improve

the applicable measure to the 24-month average Service Measure level. The Company shall expense or invest the appropriate amount in the next year to improve the Measure to the 24-month average Service Measure level. These expenditures may be in whatever form necessary. The Company will credit to customers a like amount (annual revenue requirement) during the subsequent year for the year in which the indicator was exceeded. The credit may be booked to a deferred liability account, if the Company, Staff, and OPC agree, until a sufficient amount is accumulated to warrant a credit to customers. The impact of emergencies, catastrophes, natural disasters, extreme adverse weather, extreme natural gas prices, sabotage, work stoppage or other unforeseen events beyond the Company's control shall be taken into account, in which case no credit or expenditure may be required.

c.) Customer Complaints/Inquiries to Staff

For purposes of this section, customer complaints/inquiries include contacts the Staff receives from MGE's customers, but are not necessarily the result of MGE's violation of its tariffs or Commission rules.

FISCAL YEAR	TOTAL COMPLAINTS / INQUIRIES	NO. OF CUSTOMERS (CALENDAR YR)	NO. OF CUSTOMER CONTACTS PER 1,000 CUSTOMERS
1998	1,095	480,077	2.28
1999	678	482,000	1.40
24 Month Average			1.84

Significant increases in the annual average number of complaints/inquiries of 1.84 per one thousand (1,000) customers will be explained by the Company and/or may prompt an investigation by the Staff and/or OPC. The impact of events beyond the Company's control will be taken into account in the Company's explanation and in any investigation by the Staff and/or

OPC. The Staff shall provide Company and OPC quarterly reports (within 45 days of quarter-end) showing monthly information regarding the number and category of customer complaints/inquiries received by the Commission's Consumer Services Department.

d.) Customer Service Operating Procedures

Southern Union agrees that the present practices of MGE in the following areas will be continued, or improved upon to ensure that customers do not experience a decline in service levels:

- Company will adhere to Commission rules and MGE's approved tariffs.
- Company will, consistent with Commission rules, attempt to collect at customer premise prior to service discontinuance. If payment is not made to collector, payment can be made at the Company's available public business offices, pay stations or through auto-pay.
- Company will restore service five (5) days a week, subject to exceptions for holidays, consistent with Commission rules, and will at all times make a reasonable effort to restore service on the day requested once the reason for the discontinuance is remedied and the request for service is made. In no event shall service be restored later than the next business day following the date requested by the customer.
- Company will use bill test procedures to ensure bill accuracy.
- Company will take appropriate steps to maintain the operation of its automated meter reading system.
- Company will notify Staff and OPC of substantive changes in customer service procedures in call center operations and staffing, customer billing, meter reading, customer remittance, credit and collections, and connection and disconnection.
- Company will identify (1) personnel responsible for handling Commission complaints and ensure they have proper authority, (2) after hours contact personnel, and (3) management

employee(s) accountable for ensuring MGE employees are trained in and maintain a working knowledge of Missouri customer service rules and regulations. Company will notify Staff and OPC of any changes in these personnel within three (3) business days of the changes.

- Company will continue the following programs: LIHEAP participation, the “Neighbors Helping Neighbors” Program, the “Flexible Due Date Plan”, and the availability of “Customer Advisors”.
- Company will identify the process and level of authority for discontinuance of service to a registered customer.
- Company will provide the Staff and OPC quarterly reports (within 45 days of quarter-end) containing customer service organization charts, customer service staffing, number of estimated bills (including consecutive estimates), list of customer pay station locations, and actual Missouri jurisdictional bad debt write-off by customer class, including the dollar amount written off, number of accounts written off and revenue by customer class.

The customer service measures are subject to renegotiations by the parties in the event of natural gas restructuring.

3. MERGER PREMIUM

The amount of any asserted merger premium (i.e., the amount of the total purchase price above net book value, including transaction costs), paid by Southern Union for PNT or incurred as a result of the acquisition 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 the merger premium, including transaction costs, through any purported merger savings adjustment (or similar adjustment) in any future ratemaking proceeding in Missouri.

Southern Union reserves the right to seek Missouri rate recovery of internal payroll costs necessary to obtain Missouri regulatory approval of this transaction, to the extent that it can be

shown that merger savings achieved and allocated to MGE as a result of this transaction are equal to or in excess of such costs. Other parties to this proceeding reserve the right to oppose rate recovery of such costs, regardless of any asserted merger savings.

In addition, Southern Union shall not seek to recover in Missouri the amount of any asserted merger premium in this transaction as being a "stranded cost" regardless of the terms of any legislation permitting the recovery of stranded costs from Missouri ratepayers.

4. MGE'S CONSTRUCTION BUDGET

Southern Union agrees that the proposed acquisition will have no effect on its budget to complete MGE's service line and main replacement program and will continue to comply with the replacement schedules approved by the Commission in Case No. GO-99-302, and Case No. GO-91-277.

5. JOINT AND COMMON COSTS ALLOCATED TO MGE

Total joint and common costs allocated to Missouri will not increase as a result of the proposed transaction. Southern Union agrees to make available to the Staff and 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 Missouri Gas Energy from any Southern Union affiliate, division or subsidiary, including all corporate overhead allocations.

6. STATE JURISDICTIONAL ISSUES

a. Southern Union will retain all documentation relative to the analysis of the PNT acquisition. This documentation will include a list of: a) all Southern Union personnel, consultants, legal, financial and accounting advisors involved in the acquisition; b) the time (in

hours) spent by those individuals on work related to the proposed acquisition; c) other expenses, costs or expenditures incurred or recognized by Southern Union that are related to the proposed acquisition; d) business entity (corporate, subsidiary, division) where the costs were booked, including account number, account description and amount; e) description of the nature of the costs incurred.

b. Southern Union will maintain its books and records so that all acquisition and merger costs (including this transaction and future Southern Union merger and acquisition transactions) are segregated and recorded separately.

c. During MGE's next general rate proceeding, Southern Union agrees to work with the Staff and OPC to identify all acquisition-related 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 reserve the right to oppose recovery of merger and acquisition costs related to future transactions.

d. Southern Union agrees to create and maintain records listing the names of Southern Union employees (excluding current PNT employees), number of hours worked, type of work performed and travel and other expenses incurred for all work related to PNT 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 rate case.

e. Southern Union will submit to the Commission's accounting department and OPC verified journal entries reflecting the recording of the proposed acquisition in Southern Union's books and records within forty-five (45) days of closing.

7. **FINANCIAL ISSUES/COST OF CAPITAL**

Southern Union will not seek an increase in Cost of Capital for MGE as a result of this transaction. Any increases in the Cost of Capital Southern Union seeks for MGE will be supported by documented proof: that the increases are a result of factors not associated with this transaction; that the increases are not a result of changes in business, market, economic, or other conditions for MGE caused by this transaction; or that the increases are not a result of changes in the risk profile of MGE caused by this transaction. Southern Union will ensure that the rates for MGE ratepayers will not increase as a result of this transaction.

8. **ACA ISSUES**

Southern Union agrees that any Stipulation and Agreement to which Southern Union is a signatory, with regard to any MGE Actual Cost Adjustment case approved by the Commission which occurs prior to the merger closing of Southern Union and Pennsylvania Enterprises, will be adhered to by Southern Union Company.

9. **ALLOCATIONS AGREEMENTS**

Southern Union agrees that within six (6) months of the close of the merger, it shall meet with the Staff and OPC to discuss the impact of the PNT acquisition on the Company's structure and organization, including Southern Union's progress toward incorporating PNT's operations into its Administrative and General ("A&G") expense allocation methodology. In its A&G expense allocation methodology, the Company should specifically identify how its total company corporate overheads are to be allocated between the Company's regulated and nonregulated functions of its regulated divisions, as well as its nonregulated subsidiaries. The Company agrees that the types and the 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 acquisition. This raw data to be discussed should include, but not be limited to,

regulated and nonregulated 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, time sheets, 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 costs to be allocated to Southern Union's regulated divisions.

10. THE STAFF'S RIGHTS

The Staff shall have the right to file suggestions or prepared testimony in support of this Stipulation and Agreement, and the other parties shall have the right to file responsive suggestions or prepared testimony.

If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission within five (5) days of receipt of the Staff's memorandum, a responsive memorandum which shall also be served on all parties. All memoranda submitted by the parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all parties, and shall not become a part of the record of this proceeding, or bind or prejudice the party submitting such memorandum in any future proceeding, or in this proceeding, whether or not the Commission approves this Stipulation and Agreement. The contents of any memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other signatories of this

Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

The Staff also shall have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

11. NO ACQUIESCENCE

Except as expressly provided otherwise in paragraphs 2, 3, 5, 6(c) and 7 herein, none of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any question of Commission authority, accounting authority order principle, cost of capital methodology, capital structure, ratemaking principle, valuation methodology, cost of service methodology or determination, depreciation principle or method, rate design methodology, cost allocation, cost recovery, or prudence, that may underlie this Stipulation and Agreement, or for which provision is made in this Stipulation and Agreement.

12. NEGOTIATED SETTLEMENT

This Stipulation and Agreement represents a negotiated settlement. Except as specified herein, the signatories to this Stipulation and agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation and Agreement: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Stipulation and Agreement in the instant

proceeding; or in any way condition its approval of the same, except as stated herein; or should the proposed merger not be consummated.

13. PROVISIONS ARE INTERDEPENDENT

The provisions of this Stipulation and Agreement have resulted from negotiations among the signatories and are interdependent. In the event that the Commission does not approve and adopt the terms of this Stipulation and Agreement in total, it shall be void and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof.

14. WAIVER OF RIGHTS TO CROSS EXAMINATION, ETC.

In the event the Commission accepts the specific terms of this Stipulation and Agreement, the signatories waive their respective rights to cross-examine witnesses; their respective rights to present oral argument and written briefs pursuant to Section 536.080.1, RSMo 1994³; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2; and their respective rights to judicial review pursuant to Section 386.510. This waiver applies only to a Commission Report and Order respecting this Stipulation and Agreement issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation and Agreement.

15. ADHERENCE TO MISSOURI RULES

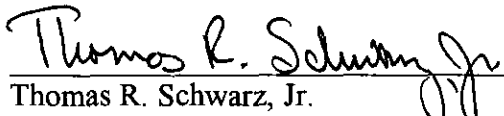
Southern Union agrees to continue to comply with all applicable and lawful Missouri Commission orders, rules, reporting requirements and other practices, and filed and approved tariffs.


³ All statutory references are to Revised Statutes of Missouri 1994, unless otherwise noted.

WHEREFORE, the signatories and parties listed below respectfully request that the Commission issue an Order approving this Stipulation and Agreement and allowing Southern Union Company to acquire and merge with Pennsylvania Enterprises Inc., subject to the terms and conditions contained within this Stipulation and Agreement.

Respectfully submitted,


DANA K. JOYCE
General Counsel


Thomas R. Schwarz, Jr.
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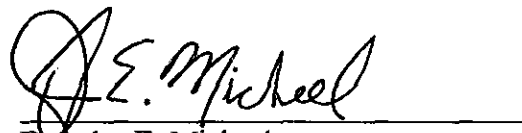
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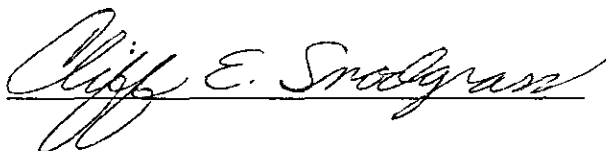

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Attorney for the Office of the Public
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the service list below on this 6th day of October, 1999.


Cliff E. Smolgrass

Service List for

Case No. GM-2000-43

Revised: October 6, 1999

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