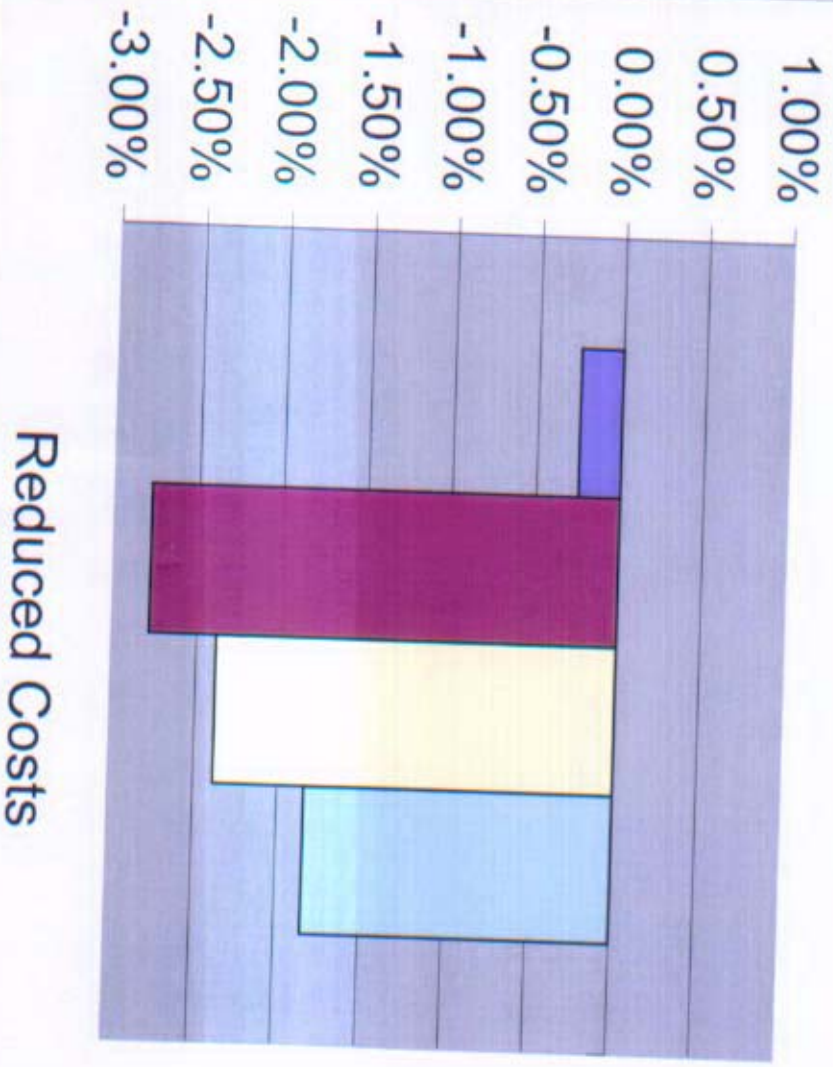


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Missouri Public
Service Commission

Downward Cost of Capital Changes 1995/1996 ROE Recommendations and Yields versus 2004 ROE Recommendations and Yields



Reduced Costs

- Reduction in Southern Union ROE Recommendation
- Reduction in Staff ROE Recommendation
- Reduction in Preferred Stock Cost
- Reduction in BBB Utility Bond Yield

Cost of Capital Chart Explanation

-Southern Union's cost of common equity recommendation in Case No. GR-96-285 was 12.25 percent on a common equity ratio of 29.88 percent.

-Southern Union's cost of common equity recommendation in Case No. GR-2004-0209 is 12.00 percent on a common equity ratio of 43.34 percent.

Difference: 25 basis points

-Staff's recommended cost of common equity in Case No. GR-96-285 was 11.80 percent on a common equity ratio of 32.74 percent.

-Staff's recommended cost of common equity in Case No. GR-2004-0209 is 9.02 percent on a common equity ratio of 25.91 percent.

Difference: 278 basis points

-Southern Union's coupon on the Trust Originated Preferred Securities (TOPrS) that it issued in May 1995 was 9.48 percent.

-Southern Union's stated dividend on the non-cumulative preferred stock that it issued in October 2003 was 7.55 percent and it was yielding 7.1 percent as of June 8, 2004.

Difference: 238 basis points

Note: Because TOPrS has more characteristics of debt, such as a preferred dividend that is backed by a coupon on debt issued by Southern Union, it would be viewed as having less risk by at least individual investors than the non-cumulative preferred stock that was recently issued by Southern Union in October of 2003. However, because corporations that purchase TOPrS do not qualify for the exemption of taxes, commonly referred to as the dividends received deduction (DRD), for 70 percent of the dividend distributions that they do on traditional preferred, this comparison should be used with some caution. This would make traditional preferred securities more attractive to corporations. However, when measured against the general decline in interest rates and yields on utility bonds, Staff still feels that this comparison is informative.

-Yield on BBB utility bonds in May 1995 was 8.30 percent according to the Mergent Bond Record.

-Yield on BBB utility bonds in April 2004 was 6.46 percent according to the Mergent Bond Record.

Difference: 184 basis points