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August 31, 2001

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Blanca S. Bayo
Director, Division of the Commission
Clerk and Administrative Services
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Via Hand-Delivery

Re: In re: Application of Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas for Authority to Issue and Sell Securities Pursuant to Section 366.04, Florida Statutes and Chapter 25-8, Florida Administrative Code; and Request for Approval to Borrow Funds for Short-term Financing Purposes, Docket No. 000691-GU

Dear Ms. Bayo:

Enclosed for filing on behalf of Southern Union Company are the original and three (3) copies of its Securities Transaction Consummation Report, dated August 31, 2001.

For our records, please acknowledge your receipt of this filing on the enclosed copy of this letter. Thank you for your consideration.

Sincerely,

HOLLAND & KNIGHT LLP

Karen D. Walker

APP
CAF
CMP
COM
CTR
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LEG 1
OPC
PAI
RGO
SEC 1
SER
OTH

DBM:kjg
Enclosure

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of Atlantic Utilities, A Florida Division of Southern Union Company d/b/a South Florida Natural Gas For Authority to Issue and Sell Securities Pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code; and Request for Approval to Borrow Funds for Short-term Financing Purposes.

Docket No. 000691-GU

Filed: August 31, 2001

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SECURITIES TRANSACTION CONSUMMATION REPORT

Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas ("Southern Union"), by and through its undersigned counsel, and pursuant to Rule 25-8.009, Florida Administrative Code, and Order No. PSC-00-1525-FOF-GU, hereby reports on the issuance of securities for the period from August 1, 2000 through June 30, 2001.

1. In conjunction with its acquisition of Fall River Gas Company ("FRG"), Southern Union issued approximately 1,371,000 shares of Southern Union common stock.

2. In conjunction with its acquisition of FRG, Providence Energy Corp. ("PVY"), and Valley Resources, Inc. ("VR"), Southern Union assumed $107,688,000 of mortgage debt and $6,875,000 of senior debt.

3. In order to finance the cash portion of the FR, PVY and VR purchase price, finance certain acquisition costs, and refinance certain short-term and long-term debt of FR, PVY and VR, Southern Union entered into a $535,000,000 Term Loan Facility on August 28, 2000, with an option to renew.

4. Each of the issues is described in more detail in Exhibit "A" which includes the terms and conditions of the issues, any amounts realized or net proceeds from each issue, and the expenses of each issue. Exhibit "A" also contains a statement showing capitalization, pretax interest coverage, and debt interest and preferred stock dividend requirements as of the end of the fiscal year ending June 30, 2000.

5. Pursuant to Rule 25-8.009, Florida Administrative Code, Southern Union submits the following additional documents relative to the above referenced transactions:

(a) Agreement of Merger between Southern Union and FRG dated October 4, 1999;

(b) Term Loan Credit Agreement dated August 28, 2000;

(c) Form S-4 Registration Statement as filed with the Securities Exchange Commission on July 7, 2000;

(d) Opinion dated August 28, 2000 of Susan M. Westbrook, Managing Attorney for Southern Union;

(e) Form 10-K/A Annual Report (Commission File No. 1-6407) as filed with the Securities Exchange Commission under the Securities Act of 1934 for the fiscal year ended June 30, 2000; and

(f) Form 10-Q Quarterly Report (Commission File No. 1-6407) as filed with the Securities Exchange Commission under the Securities Act of 1934 for the quarter ended March 31, 2001.

6. On February 18, 2000, Southern Union filed an application with the Pennsylvania Public Utility Commission seeking approval of Southern Union's acquisition of all of the stock FRG, PVY, and VR, and the merger of each of the acquirees with and into Southern Union. On May 11, 2000, the Pennsylvania Public Utility Commission issued an Order approving the application. In its Order, the Pennsylvania Public Utility Commission did not address the issues that are the subject of this Consummation Report.

Respectfully submitted this 31st day of August, 2001.

D. Bruce May
Florida Bar No. 354473
Karen D. Walker
Florida Bar No. 0982921
Holland & Knight LLP
Post Office Drawer 810
Tallahassee, Florida 32302
(850) 224-7000

Attorneys for Southern Union

TAL1 #239593 v3

Southern Union Company
Florida Consumation Report

A. Terms and conditions

Debt Assumed with Acquisition	Maturity Date	Balance Assumed	Ann Int Rate	Interest Pmt Dates
Providence Series M 10.25%	7/31/08	2,182,000	10.25%	1/31 & 7/31
Providence Series N 9.63%	5/30/20	10,000,000	9.63%	5/31 & 11/30
Providence Series O 8.46%	9/30/22	12,500,000	8.46%	3/31 & 9/30
Providence Series P 8.09%	9/30/22	12,500,000	8.09%	3/31 & 9/30
Providence Series Q 5.62%	11/30/03	6,400,000	5.62%	5/1 & 11/1
Providence Series R 7.5%	12/15/25	15,000,000	7.50%	6/15 & 12/15
Providence Series S 6.82%	4/1/18	15,000,000	6.82%	4/1 & 10/1
Providence Series T 6.5%	2/1/29	14,606,000	6.50%	2/1 & 5/1& 8/1 & 11/1
Fall River 9.44%	2/15/20	6,500,000	9.44%	2/15 & 8/15
Fall River 7.99%	12/15/26	7,000,000	7.96%	3/15 & 9/15
Fall River 7.24%	12/15/27	6,000,000	7.24%	6/15 & 12/15
Total mortage debt		107,688,000		
Valley Resources 7.7%--Senior Debt	9/1/27	6,875,000	7.70%	3/1 & 9/1
Term Loan	08/27/01	535,000,000	LIBOR+87.5%	Monthly

B. Realized amounts

The debt of the New England divisions that was assumed in the merger had no net proceeds.

The term loan had a net proceed of $535 million.

The stock issuance of 1.3 million shares was valued at $27.5 million and used for the acquisition of Fall River.

C. Expenses

Mortgage Debt	
Prov Q	122,269.00
Prov T	247,883.23
Prov S	290,836.35
Prov R	289,666.50
Prov P	238,811.00
Prov O	238,811.00
Prov N	210,057.78
Series M	45,543.89
Fall River 2027	53,531.02
Fall River 2026	62,243.35
Fall River 2020	59,557.26
Total mortgage assumed	1,859,210.38
Valley Resources	-
Term Loan	1,470,797.96
Stock Issuance	-

D. Total capitalization

2000	1,569,628,000
2001	Not yet released

E. Pretax interest coverage

2000	90,114,000
2001	Not yet released

F. Preferred stock dividend requirements

2000	9,480,000

G. Interest requirements

2000	57,867,000

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of Atlantic Utilities, A Florida Division of Southern Union Company d/b/a South Florida Natural Gas For Authority to Issue and Sell Securities Pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code; and Request for Approval to Borrow Funds for Short-term Financing Purposes.

Docket No. 000691-GU

Filed: August 31, 2001

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ADDITIONAL DOCUMENTS IN SUPPORT OF SECURITIES TRANSACTION CONSUMMATION REPORT

AGREEMENT OF MERGER

between

SOUTHERN UNION COMPANY

and

FALL RIVER GAS COMPANY

Dated as of October 4, 1999

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AGREEMENT OF MERGER

This AGREEMENT OF MERGER (this "Agreement") is made as of the 4th day of October, 1999, by and between SOUTHERN UNION COMPANY, a Delaware corporation ("SUG"), and FALL RIVER GAS COMPANY, a Massachusetts corporation ("FAL").

RECITALS

WHEREAS, the Board of Directors of each of SUG and FAL has approved and deems it advisable and in the best interests of their respective stockholders to consummate the merger of FAL with and into SUG upon the terms and subject to the conditions set forth herein; and

WHEREAS, in furtherance thereof, the Board of Directors of each of SUG and FAL has approved this Agreement and the merger of FAL with and into SUG, with SUG being the surviving corporation (the "Merger");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, SUG and FAL hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Certain Defined Terms. For purposes of this Agreement, the following terms have the meanings specified or referred to in this Article I (such definitions to be equally applicable to both the singular and plural forms of the terms defined):

"*Acquired Companies*"--FAL and its Subsidiaries, collectively, and each, an "Acquired Company."

"*Affiliate*"--with respect to any Person, any other Person that directly, or through one or more intermediaries, controls or is controlled by or is under common control with such first Person. As used in this definition, "control" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"*Applicable Contract*"--any Contract (a) under which any Acquired Company has any rights, (b) under which any Acquired Company has any obligation or liability, or (c) by which any Acquired Company or any of the assets owned or used by it is bound.

"*Average Trading Price*"--of SUG Common Stock, as of any date, will equal the average of the reported closing market prices of such stock for the ten consecutive trading days ending on the third trading day prior to such date (counting from and including the trading day immediately preceding such date). The closing market price for each day in question will be the last sale price, regular way or, if no such sale takes place on such day, the average of the closing bid and

asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system of the principal national securities exchange on which SUG Common Stock is listed or admitted to trading.

"*CERCLA*"--the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"*Closing Date*"--the date on which the Closing actually takes place.

"*Contract*"--any agreement, contract, document, instrument, obligation, promise or undertaking (whether written or oral) that is legally binding.

"*DGCL*"--the Delaware General Corporation Law.

"*Encumbrance*"--any charge, adverse claim, lien, mortgage, pledge, security interest or other encumbrance.

"*Environment*"--soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

"*Environmental Law*"--any Legal Requirement that requires or relates to:

(a) advising appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;

(b) preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the Environment;

(c) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated;

(d) reducing to acceptable levels the risks inherent in the transportation of hazardous substances, pollutants, oil, or other potentially harmful; or

(e) making responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or permitting self-appointed representatives of the public interest to recover for injuries done to public assets or for damages to natural resources.

"*ERISA*"--the Employee Retirement Income Security Act of 1974, as amended, or any successor law, and regulations and rules issued pursuant to that act or any successor law.

"*Exchange Act*"--the Securities Exchange Act of 1934, as amended, or any successor law, and regulations and rules issued by the SEC pursuant to that act or any successor law.

"*Facilities*"--any real property, leaseholds, or other interests currently or formerly owned or operated by any Acquired Company and any buildings, plants, structures, or equipment (including motor vehicles, tank cars, and rolling stock) currently or formerly owned or operated by any Acquired Company.

"*FAL Balance Sheet*"--the audited consolidated balance sheet of the Acquired Companies at September 30, 1998 (including the notes thereto), provided by FAL to SUG as part of the FAL Financial Statements.

"*FAL Common Stock*"--the common stock, par value $.83^1/_3$ per share, of FAL.

"*FAL Disclosure Schedule*"--the disclosure schedule delivered by FAL to SUG concurrently with the execution and delivery of this Agreement.

"*FAL Material Adverse Effect*"--a material adverse effect (i) on the business, operations, financial condition or results of operations of FAL and its Subsidiaries, taken as a whole, or (ii) on the ability of FAL and its Subsidiaries to consummate the Merger in accordance with this Agreement.

"*FAL Permitted Liens*"--Encumbrances securing Taxes, assessments, governmental charges or levies, or the claims of materialmen, mechanics, carriers and like persons, all of which are not yet due and payable or which are being contested in good faith; Encumbrances (other than any Encumbrance imposed by ERISA) incurred on deposits made in the Ordinary Course of Business in connection with worker's compensation, unemployment insurance or other types of social security; the Encumbrances created by the Indenture of First Mortgage, dated as of December 1, 1952, between FAL and State Street Bank and Trust Company, successor in interest to the First National Bank of Boston, successor by merger to Old Colony Trust Company, as Trustee, as amended or supplemented from time to time; in the case of leased real property, Encumbrances (not attributable to an Acquired Company as lessee) affecting the landlord's (and any underlying landlord's) interest in any leased real property; and such other Encumbrances which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

"*Final Order*"--an action by a Governmental Body as to which: (a) no request for stay of the action is pending, no such stay is in effect and if any time period is permitted by statute or regulation for filing any request for such stay, such time period has passed; (b) no petition for rehearing, reconsideration or application for review of the action is pending and the time for filing any such petition or application has passed; (c) such Governmental Body does not have the action under reconsideration on its own motion and the time in which such reconsideration is permitted has passed; and (d) no appeal to a court, or a request for stay by a court of the Governmental Body's action is pending or in effect and the deadline for filing any such appeal or request has passed.

"*GAAP*"--generally accepted United States accounting principles, applied on a consistent basis.

"*Governmental Authorization*"--any approval, consent, license, franchise, certificate of public convenience and necessity, permit, waiver or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"*Governmental Body*"--any:

(a) nation, state, county, city, town, village, district or other jurisdiction of any nature;

(b) federal, state, county, local, municipal or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official or entity and any court or other tribunal); or

(d) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.

"*Hazardous Activity*"--the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, treatment, or use (including any withdrawal or other use of groundwater) of Hazardous Materials in, on, under, about, or from the Facilities or any part thereof into the Environment, any other act, business, operation, or thing that increases the danger, or risk of danger, or poses an unreasonable risk of harm to persons or property on or off the Facilities, or that may affect the value of the Facilities or the Acquired Companies.

"*Hazardous Materials*"--any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials.

"*HSR Act*"--the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or any successor law, and regulations and rules issued by the U.S. Department of Justice or the Federal Trade Commission pursuant to that act or any successor law.

"*IRC*"--the Internal Revenue Code of 1986, as amended.

"*IRS*"--the Internal Revenue Service or any successor agency.

"*Knowledge*"--an individual will be deemed to have "Knowledge" of a particular fact or other matter if such individual is actually aware of such fact or other matter. A Person (other

than an individual) will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving as a director or officer of such Person or any material Subsidiary of it or other management employee with direct responsibility for such particular fact or other matter of such Person or any material Subsidiary of it (or in any similar capacity) has actual knowledge of such fact or other matter.

"*Legal Requirement*"--any federal, state, county, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, ordinance, principle of common law, regulation, rule, tariff, franchise agreement, statute or treaty.

"*Material Contract*"--a Contract involving a total commitment by or to any party thereto of at least $65,000 on an annual basis or at least $250,000 on its remaining term which cannot be terminated on no more than sixty (60) days' notice without penalty or additional cost to the Acquired Company as the terminating party.

"*MBCL*"--the Massachusetts Business Corporation Law.

"*Order*"--any award, decision, decree, injunction, judgment, order, writ, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

"*Ordinary Course of Business*"--an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if:

(a) such action and authorization therefor is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

(b) such action is not required by law to be authorized by the board of directors (or similar authority) of such Person or of such Person's parent company (if any).

"*Organizational Documents*"--(a) the articles or certificate of incorporation or organization and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) the certificate of formation and the members, operating or similar agreement of a limited liability company; (e) any charter or similar document adopted or filed in connection with the creation, formation or organization of a Person; and (f) any amendment to any of the foregoing.

"*Person*"--any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, organized group of persons, entity of any other type, or Governmental Body.

"*Proceeding*"--any action, arbitration, hearing, litigation or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"*PUHCA*"--the Public Utility Holding Company Act of 1935, as amended, or any successor law, and regulations and rules issued by the SEC pursuant to that act or any successor law.

"*Related Documents*"--any Contract provided for in this Agreement to be entered into by one or more of the parties hereto or their respective Subsidiaries in connection with the Merger.

"*Release*"--any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping, or other releasing into the Environment, whether intentional or unintentional.

"*Representative*"--with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

"*SEC*"--the United States Securities and Exchange Commission or any successor agency.

"*Securities Act*"--the Securities Act of 1933, as amended, or any successor law, and regulations and rules issued by the SEC pursuant to that act or any successor law.

"*Subsidiary*"--with respect to any Person (the "Owner"), any Person of which securities or other interests having the power to elect a majority of that other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries; when used without reference to a particular Person, "Subsidiary" means a Subsidiary of FAL.

"*SUG Balance Sheet*"--the audited consolidated balance sheet of SUG at June 30, 1999 (including the notes thereto), provided by SUG to FAL as part of the SUG Financial Statements.

"*SUG Common Stock*"--the common stock, par value $1.00 per share, of SUG.

"*SUG Disclosure Schedule*"--the disclosure schedule delivered by SUG to FAL concurrently with the execution and delivery of this Agreement.

"*SUG Material Adverse Effect*"--a material adverse effect (i) on the business, operations, financial condition or results of operations of SUG and its Subsidiaries, taken as a whole, or (ii) on the ability of SUG to consummate the Merger in accordance with this Agreement.

"*Tax*"--any tax (including any income tax, capital gains tax, value-added tax, sales and use tax, franchise tax, payroll tax, withholding tax or property tax), levy, assessment, tariff, duty (including any customs duty), deficiency, franchise fee or payment, payroll tax, utility tax, gross

receipts tax or other fee or payment, and any related charge or amount (including any fine, penalty, interest or addition to tax), imposed, assessed or collected by or under the authority of any Governmental Body or payable pursuant to any tax-sharing agreement or any other Contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency or fee.

"*Tax Return*"--any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

"*Threatened*"--a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" if any demand or statement has been made (orally or in writing) or any notice has been given (orally or in writing), or if any other event has occurred or any other circumstance exists, that would lead a director, officer or management employee of a comparable gas distribution company to conclude that such a claim, Proceeding, dispute, action, or other matter is likely to be asserted, commenced, taken or otherwise pursued in the future.

Section 1.2 Other Defined Terms. In addition to the terms defined in Section 1.1, certain other terms are defined elsewhere in this Agreement as indicated below and, whenever such terms are used in this Agreement, they shall have their respective defined meanings.

Term	Section
Agreement	Introductory Paragraph
Business Combination	6.1(h)(4)
Cash Consideration	3.1(a)
Cash Election	3.1(b)
Cash Election Number	3.1(b)
Cash Election Shares	3.1(c)
Cash Fraction	3.1(c)
Certificates	3.2(c)
Closing	2.3
Confidentiality Agreement	6.1(c)(1)
Dissenting Shares	3.3
Effective Time	2.2
Election Deadline	3.2(b)

Employees	6.2(b)
Exchange Ratio	3.1(a)
FAL	Introductory Paragraph
FAL Benefit Plans	5.18(a)
FAL Commonly Controlled Entity	5.18(e)
FAL Financial Statements	5.9
FAL Meeting	6.1(j)(1)
FAL Proxy Statement	4.18
FAL SEC Documents	5.9
FAL Stockholders' Approval	5.24
Form of Election	3.2(b)
Indemnified Parties	9.1(a)
Initial Termination Date	8.1(k)
Maximum Value	3.1(a)
Merger	Recitals
Merger Consideration	3.1(a)
Minimum Value	3.1(a)
NYSE	3.1(e)
Paying Agent	3.2(a)
PBGC	4.14(b)
PEI	4.2
PEI Merger Agreement	4.2
Registration Statement	4.18
Rule 145 Affiliates	6.1(k)
Rule 145 Letters	6.1(k)
Stock Consideration	3.1(a)
SUG	Introductory Paragraph
SUG Benefit Plans	4.14(a)
SUG Commonly Controlled Entity	4.14(d)

SUG Financial Statements	4.9
SUG SEC Documents	4.9
Superior Proposal	6.1(h)(4)
Surviving Corporation	2.1
Third Party Beneficiary	10.11
Total Consideration	3.1(e)

ARTICLE II
THE MERGER; OTHER TRANSACTIONS

Section 2.1 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time, FAL will be merged with and into SUG in accordance with the laws of the State of Delaware and the Commonwealth of Massachusetts. SUG will be the surviving corporation in the Merger (the "Surviving Corporation") and will continue its corporate existence under the laws of the State of Delaware. The Merger will have the effect as provided in the applicable provisions of the DGCL and the MBCL. Without limiting the generality of the foregoing, upon the Merger, all the rights, privileges, immunities, powers and franchises of FAL and SUG will vest in the Surviving Corporation and all obligations, duties, debts and liabilities of FAL and SUG will be the obligations, duties, debts and liabilities of the Surviving Corporation.

Section 2.2 Effective Time of the Merger. On the Closing Date, with respect to the Merger, (i) a duly executed certificate of merger complying with the requirements of the DGCL will be executed and filed with the Secretary of State of the State of Delaware and (ii) duly executed articles of merger complying with the requirements of the MBCL will be filed with the Secretary of State of the Commonwealth of Massachusetts. The Merger will become effective upon filing the certificate of merger with the Secretary of State of the State of Delaware and the articles of merger with the Secretary of State of the Commonwealth of Massachusetts (the "Effective Time").

Section 2.3 Closing. Unless this Agreement has been terminated and the transactions contemplated herein have been abandoned pursuant to Article VIII hereof, the closing of the transactions contemplated by this Agreement (the "Closing") will take place at 10:00 a.m., Eastern Time, on the Closing Date to be specified by the parties, which shall be no later than the tenth business day after satisfaction or waiver of all of the conditions set forth in Article VII hereof (other than Sections 7.1(a), 7.1(b), 7.1(c), 7.1(f), 7.1(g), 7.1(h), 7.1(k), 7.1(l), 7.2(a), 7.2(b), 7.2(c), 7.2(e), 7.2(f) and 7.2(h), which shall be satisfied or waived on the Closing Date) at the offices of Hughes Hubbard & Reed LLP, New York, counsel to SUG, unless another date or place is agreed to in writing by the parties hereto.

Section 2.4 Certificate of Incorporation; Bylaws. Pursuant to the Merger, the Restated Certificate of Incorporation of SUG, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by law and (ii) the bylaws of SUG as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation until thereafter amended as provided by law.

Section 2.5 Directors and Officers. The directors and officers of SUG immediately prior to the Effective Time will be the directors and officers of the Surviving Corporation, each to hold office in accordance with the Certificate of Incorporation and bylaws of the Surviving Corporation.

ARTICLE III
CONVERSION OF SHARES

Section 3.1 Effect of the Merger. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders of any shares of FAL Common Stock:

(a) Each issued and outstanding share of FAL Common Stock (other than Dissenting Shares) will be converted into the right of each holder thereof to receive (i) that number of fully paid and nonassessable shares of SUG Common Stock (the "Stock Consideration") equal to $23.50 divided by the Exchange Ratio rounded to the nearest hundred-thousandth or (ii) upon a valid Cash Election as provided in Section 3.1(b), $23.50 in cash (the "Cash Consideration"), subject to the limitations set forth in Section 3.1(b), 3.1(c), and 3.1(e). In the case of the consideration to be received by the holders of FAL Common Stock in the aggregate, "Merger Consideration" shall mean the Cash Consideration together with the Stock Consideration. In the case of the consideration to be received by an individual holder of FAL Common Stock, "Merger Consideration" shall mean the Cash Consideration and/or the Stock Consideration to be received by such holder, as the case may be.

"Exchange Ratio" shall mean the Average Trading Price of SUG Common Stock as of the Closing Date. Notwithstanding the foregoing, if the Exchange Ratio as calculated pursuant to the preceding sentence and without regard to this sentence (i) is less than the Minimum Value, then the Exchange Ratio will be equal to the "Minimum Value," or (ii) is greater than the "Maximum Value," then the Exchange Ratio will be equal to the "Maximum Value." "Minimum Value" will be $16.875 and "Maximum Value" will be $19.6875.

(b) Subject to the immediately following sentence and to Section 3.1(c) and 3.1(e), each record holder of shares of FAL Common Stock immediately prior to the Effective Time shall be entitled to elect to receive cash for all or any part of such shares of FAL Common Stock (a "Cash Election"). Notwithstanding the foregoing, the aggregate number of shares of FAL Common Stock that may be converted into the right to receive cash consideration shall not exceed the Cash Election Number. To the extent not covered by a properly given Cash Election, all shares of FAL Common Stock issued and outstanding immediately prior to the Effective Time

shall, except as provided in Section 3.1(g), be converted solely into shares of SUG Common Stock.

"Cash Election Number" shall equal, subject to reduction pursuant to Section 3.1(e), the amount by which (i) 50% of the number of shares of FAL Common Stock outstanding immediately prior to the Effective Time, exceeds (ii) the sum of (a) the number of shares of FAL Common Stock to be exchanged for cash in lieu of fractional shares pursuant to Section 3.1(g), and (b) the number of Dissenting Shares.

(c) If the aggregate number of shares of FAL Common Stock covered by Cash Elections (the "Cash Election Shares") exceeds the Cash Election Number, each Cash Election Share shall be converted into (i) the right to receive an amount in cash, without interest, equal to the product of (a) $23.50 and (b) a fraction (the "Cash Fraction"), the numerator of which shall be the Cash Election Number and the denominator of which shall be the total number of Cash Election Shares, and (ii) a number of shares of SUG Common Stock equal to the product of (a) $23.50 divided by the Exchange Ratio and (b) a fraction equal to one minus the Cash Fraction.

(d) SUG will make all computations to give effect to this Section 3.1.

(e) If, after having made the calculation under Section 3.1(b), the value of the SUG Common Stock (excluding fractional shares to be paid in cash) to be issued in the Merger, valued at the lesser of the Average Trading Price as of the Closing Date and the closing price of SUG Common Stock on the last trading day before the Closing Date (or, if determined to be more appropriate to ensure the status of the Merger as a reorganization under Section 368(a)(1)(A) of the IRC, the trading price as of the time of the Closing), as reported on the New York Stock Exchange ("NYSE"), is less than 50% of the total consideration to be paid in exchange for the shares of FAL Common Stock (including, without limitation, the amount of cash to be paid in lieu of fractional shares and treating any Dissenting Shares as having been exchanged for the Cash Consideration) (the "Total Consideration"), then the Cash Election Number shall be reduced to the extent necessary so that the value of the SUG Common Stock to be issued in the Merger (as determined above) is 50% of the Total Consideration.

(f) Each holder of FAL Common Stock shall surrender all such holder's certificates formerly representing ownership of FAL Common Stock in the manner provided in Section 3.2. All such shares of FAL Common Stock, when so converted, shall no longer be outstanding and shall be canceled and automatically converted into the right to receive the Merger Consideration (and cash in lieu of fractional shares) therefor upon the surrender of such certificate in accordance with Section 3.2. Any payment made pursuant to this Section 3.1 shall be made net of applicable withholding taxes to the extent such withholding is required by law.

(g) No fractional share of SUG Common Stock shall be issued in connection with the Merger. Each holder of shares of FAL Common Stock shall be entitled to receive in lieu of any fractional share of SUG Common Stock to which such holder otherwise would have been entitled pursuant to this Section 3.1 (after taking into account all shares of FAL Common Stock then held of record by such holder) a cash payment in an amount equal to the product of (i) the

fractional interest of a share of SUG Common Stock to which such holder otherwise would have been entitled and (ii) the closing price of a share of SUG Common Stock on the NYSE on the trading day immediately prior to the Effective Time. Payment of such amounts shall be made by SUG.

Section 3.2 Exchange of FAL Common Stock Certificates.

(a) SUG's registrar and transfer agent, or such other bank or trust company as may be selected by SUG and be reasonably acceptable to FAL, will act as paying agent ("Paying Agent") for the holders of FAL Common Stock in connection with the Merger, pursuant to an agreement providing for the matters set forth in this Section 3.2 and such other matters as may be appropriate and the terms of which shall be reasonably satisfactory to SUG and FAL.

(b) (i) Not fewer than 15 business days prior to the Closing Date, SUG will cause the Paying Agent to mail a form of election (the "Form of Election") to holders of record of shares of FAL Common Stock (as of a record date as close as practicable to the date of mailing). In addition, the Paying Agent will use its reasonable efforts to make the Form of Election available to the Persons who become stockholders of FAL during the period between such record date and the Election Deadline. Any election to receive Cash Consideration contemplated by Section 3.1(b) will have been properly made only if the Paying Agent shall have received at its designated office or offices, by 4:00 p.m., Eastern Time, on the third business day prior to the Closing Date (the "Election Deadline"), a Form of Election properly completed, as set forth in such Form of Election. An election may be revoked only by written notice received by the Paying Agent prior to the Election Deadline. In addition, all elections shall automatically be revoked if the Paying Agent is notified by SUG and FAL that the Merger has been abandoned. SUG shall have the discretion, which it may delegate in whole or in part to the Paying Agent, to determine whether Forms of Election have been properly completed, signed and submitted or revoked pursuant to this Section 3.2(b), and to disregard immaterial defects in Forms of Election. The decision of SUG (or the Paying Agent, as the case may be) in such matters shall be conclusive and binding.

(c) At the Effective Time of the Merger, SUG will instruct the Paying Agent to promptly, and in any event not later than three (3) business days following the Effective Time, mail (and to make available for collection by hand) to each holder of record of a certificate or certificates, which immediately prior to the Effective Time represented outstanding shares of FAL Common Stock (the "Certificates"), whose shares of FAL Common Stock were converted pursuant to Section 3.1(a) into the right to receive the Merger Consideration (and cash in lieu of fractional shares) (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form and have such other provisions as SUG may reasonably specify) and (ii) instructions (which shall provide that at the election of the surrendering holder Certificates may be surrendered, and payment therefor collected, by hand delivery) for use in effecting the surrender of the Certificates in exchange for payment of the Merger Consideration (and cash in lieu of fractional shares). Upon surrender of a Certificate for cancellation to the Paying Agent or to such other agent or agents as may be appointed by SUG, together with such

letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration for each share of FAL Common Stock formerly represented by such Certificate (and cash in lieu of fractional shares), to be mailed (or made available for collection by hand if so elected by the surrendering holder) within three (3) business days of receipt thereof, and the Certificate so surrendered shall forthwith be canceled. If payment of the Merger Consideration (and cash in lieu of fractional shares) is to be made to a Person other than the Person in whose name the surrendered Certificate is registered, it shall be a condition of payment that the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the Person requesting such payment shall have paid any transfer and other Taxes required by reason of the payment of the Merger Consideration (and cash in lieu of fractional shares) to a Person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Corporation that such Tax either has been paid or is not applicable. Until surrendered as contemplated by this Section 3.2, each Certificate (other than Certificates representing FAL Common Stock held by SUG or Dissenting Shares) shall be deemed at any time after the Effective Time to represent only the right to receive the Merger Consideration (and cash in lieu of fractional shares) as contemplated by this Section 3.2.

(d) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, the Paying Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration (and cash in lieu of fractional shares) deliverable in respect thereof as determined in accordance with this Article III, provided that the Person to whom the Merger Consideration (and cash in lieu of fractional shares) is paid shall, as a condition precedent to the payment thereof, give the Paying Agent a bond in such sum as it may ordinarily require and indemnify the Surviving Corporation in a manner satisfactory to it against any claim that may be made against the Surviving Corporation with respect to the Certificate claimed to have been lost, stolen or destroyed.

(e) After the Effective Time, the stock transfer books of FAL shall be closed and there shall be no transfers on the stock transfer books of the Surviving Corporation of shares of FAL Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be canceled and exchanged for the Merger Consideration (and cash in lieu of fractional shares) as provided in this Article III.

(f) The Surviving Corporation shall not be liable to any holder of FAL Common Stock for Merger Consideration (and cash in lieu of fractional shares) delivered to a public official pursuant to any applicable abandonment, escheat or similar law. Any amounts remaining unclaimed by holders of any such shares of FAL Common Stock seven years after the Effective Time (or such earlier date immediately prior to the time at which such amounts would otherwise escheat to or become property of any Governmental Body) shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of any claims or interest of any such holders or their successors, assigns or personal representatives previously entitled thereto.

Section 3.3 Dissenting Shares. Notwithstanding any provision of this Agreement to the contrary, the shares of any holder of FAL Common Stock who has demanded and perfected appraisal rights for such shares in accordance with the MBCL and who, as of the Effective Time, has not effectively withdrawn or lost such appraisal rights ("Dissenting Shares"), shall not be converted into or represent a right to receive the Merger Consideration (and cash in lieu of fractional shares) pursuant to Section 3.1, but the holder thereof shall only be entitled to such rights as are granted by the MBCL. Notwithstanding the foregoing, if any holder of shares of FAL Common Stock who demands appraisal of such shares under the MBCL shall effectively withdraw the request for appraisal or lose the right to appraisal, then, as of the later of the Effective Time and the occurrence of such event, such holder's shares shall automatically be converted into and represent only the right to receive the Merger Consideration and cash in lieu of fractional shares, without interest thereon, upon surrender of the certificate representing such shares. FAL shall give SUG prompt notice of any demands received by FAL for appraisal of FAL Common Stock, and, prior to the Effective Time, SUG shall have the right to participate in all negotiations and proceedings with respect to such demands. Prior to the Effective Time, FAL shall not, except with the prior written consent of SUG, make any payment with respect to or offer to settle, any such demands.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SUG

SUG, as to SUG and its Subsidiaries, represents and warrants to FAL that:

Section 4.1 Organization, Existence and Qualification. SUG is a corporation duly incorporated, validly existing, and in good standing under the laws of the State of Delaware, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, to perform its obligations under all Contracts to which it is a party, and to execute and deliver this Agreement. SUG is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the business conducted by it, requires such qualification as a foreign corporation except for such failures to be so qualified or in good standing as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

Section 4.2 Capitalization. As of the date of this Agreement, the authorized capital stock of SUG consists of (i) 50,000,000 shares of SUG Common Stock, of which 31,288,321 shares were issued and 31,236,696 were outstanding on September 30, 1999, and (ii) 1,500,000 shares of Cumulative Preferred Stock, no par value, none of which are issued or outstanding. The issued and outstanding shares of SUG Common Stock have been validly issued and are fully paid and nonassessable. The shares of SUG Common Stock to be issued as the Merger Consideration have been duly authorized and when issued and delivered in accordance with the terms of this Agreement, will have been validly issued and will be fully paid and nonassessable and the issuance thereof is not subject to any preemptive or other similar right. Except as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, as of the date of this Agreement, no shares of SUG Common Stock are held, in

treasury or otherwise, by SUG or any of its Subsidiaries and except as set forth in Section 4.2 of the SUG Disclosure Schedule, as of the date of this Agreement, there are no outstanding (i) securities convertible into SUG Common Stock or other capital stock of SUG or any of its material Subsidiaries, (ii) warrants or options to purchase SUG Common Stock or other securities of SUG or any of its material Subsidiaries or (iii) commitments to issue shares of SUG Common Stock (other than pursuant to the Merger and other than pursuant to the Agreement of Merger, dated as of June 7, 1999 (the "PEI Merger Agreement"), by and between SUG and Pennsylvania Enterprises, Inc. ("PEI")) or other securities of SUG or any of its material Subsidiaries.

Section 4.3 Subsidiaries; Investments. Except as set forth in Section 4.3 of the SUG Disclosure Schedule, as of the date of this Agreement, SUG has no Subsidiaries or investments in any Person except for marketable securities reflected in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and SUG is the registered owner and holder of all of the issued and outstanding shares of capital stock of its Subsidiaries and has good title to such shares. The outstanding capital stock of each material Subsidiary of SUG has been validly issued and is fully paid and nonassessable.

Section 4.4 Authority Relative to this Agreement and Binding Effect. The execution, delivery and performance of this Agreement and the Related Documents by SUG have been duly authorized by all requisite corporate action. The execution, delivery and performance of this Agreement and the Related Documents by SUG will not result in a violation or breach of any term or provision of, constitute a default, or require a consent, approval or notification, or accelerate the performance required under, the Organizational Documents of SUG, any indenture, mortgage, deed of trust, security agreement, loan agreement, or other Contract to which SUG is a party or by which its assets are bound, or violate any Order, with such exceptions as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect. This Agreement constitutes and the Related Documents to be executed by SUG when executed and delivered will constitute valid and binding obligations of SUG, enforceable against SUG in accordance with their terms, except as enforceability may be limited by (i) bankruptcy or similar laws from time to time in effect affecting the enforcement of creditors' rights generally or (ii) the availability of equitable remedies generally.

Section 4.5 Governmental Approvals. Except as set forth in Section 4.5 of the SUG Disclosure Schedule and as required by the HSR Act, no approval or authorization of any Governmental Body with respect to performance under this Agreement or the Related Documents by SUG is required to be obtained by SUG in connection with the execution and delivery by SUG of this Agreement or the Related Documents or the consummation by SUG of the transactions contemplated hereby or thereby, the failure to obtain which are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

Section 4.6 Public Utility Holding Company Status; Regulation as a Public Utility. SUG is a "gas utility company" (as such term is defined in PUHCA). SUG indirectly owns a minority interest in a "foreign utility company" (as such term is defined in PUHCA) that is exempt from, and is deemed not to be a public utility company for purposes of, PUHCA

pursuant to Section 33 thereof with respect to which SUG has filed with the SEC a Form U-57 notification of foreign utility company status. Except as stated above in this Section 4.6, neither SUG nor any of its Subsidiaries is a "holding company," a "subsidiary company," a "public utility company" or an "affiliate" of a "public utility company," or a "holding company" within the meaning of such terms in PUHCA.

Section 4.7 Compliance with Legal Requirements; Governmental Authorizations.

(a) Except as set forth in Section 4.7 of the SUG Disclosure Schedule or specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and subject to Section 4.15 of this Agreement, to the Knowledge of SUG, SUG is not in violation of any Legal Requirement that is applicable to it, to the conduct or operation of its business, or to the ownership or use of any of its assets, other than such violations, if any, which are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

(b) The SUG SEC Documents delivered to FAL prior to the date of this Agreement accurately describe all material regulation of SUG that relates to the utility business of SUG as of the date of this Agreement. Except as set forth in Section 4.7 of the SUG Disclosure Schedule, SUG has, and is in material compliance with, all material Governmental Authorizations necessary to conduct its business and to own, operate and use all of its assets as currently conducted.

Section 4.8 Legal Proceedings; Orders. Except as set forth in Section 4.8 of the SUG Disclosure Schedule or as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, there is no pending Proceeding:

(1) that has been commenced by or against, or that otherwise relates to, SUG or, if the merger with PEI is consummated, PEI, that is reasonably likely to have a SUG Material Adverse Effect; or

(2) as of the date of this Agreement, that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, the Merger or any of the transactions contemplated hereby.

To the Knowledge of SUG, no such Proceedings, audits or investigations have been Threatened that are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect. As of the date of this Agreement, SUG is not subject to any Orders that are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

Section 4.9 SEC Documents. SUG has made (and, with respect to such documents filed after the date hereof through the Closing Date, will make) available to FAL a true and complete copy of each report, schedule, registration statement (other than on Form S-8), and definitive proxy statement filed by SUG with the SEC since September 16, 1999 and through the Closing Date in substantially the form filed with the SEC (the "SUG SEC Documents"). As of their respective dates, the SUG SEC Documents, including without limitation any financial

statements or schedules included therein, complied (or will comply), in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such SUG SEC Documents, and did not (or will not) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of SUG included in the SUG SEC Documents (collectively, the "SUG Financial Statements") were (or will be) prepared in accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q) and fairly present (or will fairly present) in all material respects the financial position of SUG as of the respective dates thereof or the results of operations and cash flows for the respective periods then ended, as the case may be, subject, in the case of unaudited interim financial statements, to normal, recurring adjustments which are not material in the aggregate.

Section 4.10 Taxes. Except as set forth in Section 4.10 of the SUG Disclosure Schedule:

(a) SUG and its Subsidiaries have timely filed all United States federal, state and local income Tax Returns required to be filed by or with respect to them or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired, and SUG and its Subsidiaries have timely paid and discharged all Taxes due in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due or made adequate provision therefor in accordance with GAAP except where the failures to so file, pay or discharge are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect. As of the date of this Agreement, there are no pending audits or other examinations relating to any Tax matters. There are no Tax liens on any assets of SUG or its Subsidiaries. As of the date of this Agreement, SUG and its Subsidiaries have not granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax. The accruals and reserves (including deferred taxes) reflected in the SUG Balance Sheet are in all material respects adequate to cover all material Taxes accruable through the date thereof (including interest and penalties, if any, thereon and Taxes being contested) in accordance with GAAP.

(b) Neither SUG nor any of its Subsidiaries is obligated under any Contract with respect to industrial development bonds or other obligations with respect to which the excludability from gross income of the holder for federal or state income tax purposes could be affected by the Merger or any of the transactions contemplated by this Agreement.

(c) SUG has no present plan or intention after the Merger to (i) sell or otherwise dispose of any of the assets of the Surviving Corporation, including the assets of FAL acquired pursuant to the Merger, except for dispositions made in the ordinary course of business or to a corporation controlled by the Surviving Corporation within the meaning of Section 368(a)(2)(C) of the IRC, or (ii) reacquire any of the SUG Common Stock included in the

Merger Consideration, other than repurchases in the open market pursuant to stock repurchase plans undertaken for reasons unrelated to the transactions contemplated by this Agreement.

Section 4.11 Intellectual Property. SUG has no Knowledge of (i) any infringement or claimed infringement by it of any patent rights or copyrights of others or (ii) any infringement of the patent or patent license rights, trademarks or copyrights owned by or under license to it, except for any such infringements of the type described in clause (i) or (ii) that are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

Section 4.12 Contracts. Except as described in Section 4.12 of the SUG Disclosure Schedule or as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and with such exceptions as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect, all of SUG's Contracts are in full force and effect and neither SUG nor, to the Knowledge of SUG, any other party thereto is in default thereunder nor has any event occurred or is any event occurring that, with notice or the passage of time or otherwise, is reasonably likely to give rise to an event of default thereunder by any party thereto.

Section 4.13 Indebtedness. All outstanding principal amounts of indebtedness for borrowed money of SUG as of October 1, 1999 are set forth in Section 4.13 of the SUG Disclosure Schedule.

Section 4.14 Employee Benefit Plans.

(a) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, each of the SUG Benefit Plans has been operated and administered in all material respects in accordance with its governing documents and applicable federal and state laws (including, but not limited to, ERISA and the IRC). For purposes of this Agreement, "SUG Benefit Plans" shall mean all employee retirement, welfare, stock option, stock ownership, deferred compensation, bonus or other benefit plans, agreements, practices, policies, programs, or arrangements that are applicable to any employee, director or consultant of SUG or its Subsidiaries or maintained by or contributed to by SUG or its Subsidiaries.

(b) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, as to any SUG Benefit Plan subject to Title IV of ERISA, there is no event or condition which presents the material risk of plan termination, no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, no reportable event within the meaning of Section 4043 of ERISA (for which the notice requirements of Regulation §4043 promulgated by the Pension Benefit Guaranty Corporation ("PBGC") have not been waived) has occurred within the last six years, no notice of intent to terminate the SUG Benefit Plan has been given under Section 4041 of ERISA, no proceeding has been instituted under Section 4042 of ERISA to terminate the SUG Benefit Plan, there has been no termination or partial termination of the SUG Benefit Plan within the meaning of Section 411(d)(3) of the IRC within the last six years, except with respect to the conversion of the retirement income plan to a cash balance plan for which full vesting was

granted with respect to affected employees, no event described in Sections 4062 or 4063 of ERISA has occurred, all PBGC premiums have been timely paid and no liability to the PBGC has been incurred, except for PBGC premiums not yet due.

(c) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, each trust funding a SUG Benefit Plan, which trust is intended to be exempt from federal income taxation pursuant to Section 501(c)(9) of the IRC, satisfies the requirements of such section and has, whenever required by law, received a favorable determination letter from the IRS regarding such exempt status, and to the Knowledge of SUG has not, since receipt of the most recent favorable determination letter, been amended or operated in any way which would adversely affect such exempt status.

(d) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, with respect to any SUG Benefit Plan or any other "employee benefit plan" as defined in Section 3(3) of ERISA which is established, sponsored, maintained or contributed to, or has been established, sponsored, maintained or contributed to or, to the Knowledge of SUG, with respect to any such plan which has been established, sponsored, maintained or contributed to within six years prior to the Closing Date, by SUG or its Subsidiaries or any corporation, trade, business or entity under common control or being a part of an affiliated service group with SUG, within the meaning of Section 414(b), (c) or (m) of the IRC or Section 4001 of ERISA ("SUG Commonly Controlled Entity"), (i) no withdrawal liability, within the meaning of Section 4201 of ERISA, has been incurred, which withdrawal liability has not been satisfied and no such withdrawal liability is reasonably expected to be incurred, (ii) no liability under Title IV of ERISA (including, but not limited to, liability to the PBGC) has been incurred by SUG or any SUG Commonly Controlled Entity, which liability has not been satisfied (other than for PBGC premiums not yet due), (iii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, (iv) there has been no failure to make any contribution (including installments) to such plan required by Section 302 of ERISA and Section 412 of the IRC which has resulted in a lien under Section 302 of ERISA or Section 412 of the IRC and for which any liability is currently outstanding, (v) to the Knowledge of SUG, no action, omission or transaction has occurred with respect to any such plan or any other SUG Benefit Plan which could subject SUG or the plan or trust forming a part thereof to a material civil liability or penalty under ERISA or other applicable laws, or a material Tax under the IRC, (vi) any such plan which is a Group Health Plan has complied in all material respects with the provisions of Sections 601-608 of ERISA and Section 4980B of the IRC, (vii) there are no pending or, to the Knowledge of SUG, Threatened claims by or on behalf of any such plan or any other SUG Benefit Plan, by any employees, former employees or plan beneficiaries covered by such plan or otherwise by or on behalf of any person involving any such plan (other than routine non-contested claims for benefits) which could result in a material liability to SUG and its Subsidiaries, taken as a whole, and (viii) neither SUG nor any SUG Commonly Controlled Entity has engaged in, or is a successor or parent corporation to any entity or person that has engaged in, a transaction described in Section 4069 of ERISA.

(e) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) increase the amount of benefits otherwise

payable under any SUG Benefit Plan, (ii) result in the acceleration of the time of eligibility to participate in any SUG Benefit Plan, or of any payment, exercisability, funding or vesting of any benefit under any SUG Benefit Plan, (iii) result in payment becoming due or with respect to any current or former employee, director or consultant, or (iv) result in any payment becoming due in the event of a termination of employment or service of any employee, director or consultant.

(f) SUG is not a party to any Contract nor has it established any policy or practice, which would require SUG to make a payment or provide any other form of compensation or benefit to any Person performing (or who within the past twelve months performed) services for SUG during or upon termination of such services which would not be payable or provided in the absence of the consummation of the transactions contemplated by this Agreement.

(g) Except as would affect unionized employees and/or retirees who are covered by bargaining agreements, if any, and as otherwise set forth in Section 4.14 of the SUG Disclosure Schedule, each SUG Benefit Plan which is an "employee welfare benefit plan," as such term is defined in Section 3(1) of ERISA, may be unilaterally amended or terminated in its entirety without any liability being incurred by SUG or any Affiliate of SUG, except as to benefits accrued thereunder prior to such amendment or termination.

(h) As of the date of this Agreement, SUG has not contributed nor been obligated to contribute to any "multi-employer plan" within the meaning of Section 3(37) of ERISA within the last six years and has no outstanding liability with respect to any such plan.

Section 4.15 Environmental Matters. Except as set forth in Section 4.15 of the SUG Disclosure Schedule or as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and with such other exceptions as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect:

(a) To the Knowledge of SUG, SUG and any Person for whose conduct SUG is reasonably likely to be held responsible, is currently and at all times has been, in material compliance with any Environmental Law. SUG has not received any Order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any violation or failure to comply with any Environmental Law, or of any obligation to undertake or bear the cost of any environmental cleanup, or with respect to any property or Facility at which Hazardous Materials generated by SUG or any other Person for whose conduct SUG may be held responsible were transported for disposal; and

(b) There are no pending or, to the Knowledge of SUG, Threatened claims or Encumbrances arising under or pursuant to any Environmental Law with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which SUG has or had a direct or indirect interest (including by ownership or use).

Section 4.16 No Material Adverse Change. Except as described in the SUG SEC Documents that have been provided to FAL prior to the date of this Agreement, since the date of the SUG Balance Sheet, there has not been any SUG Material Adverse Effect, and no events have occurred or circumstances exist that are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect, except that any SUG Material Adverse Effect that results from or relates to (a) general business or economic conditions, (b) conditions generally affecting the industries in which SUG competes or (c) the announcement of the transactions contemplated by this Agreement shall be disregarded.

Section 4.17 Brokers. SUG is not a party to, or in any way obligated under any Contract, and there are no outstanding claims against SUG, for the payment of any broker's or finder's fees in connection with the origin, negotiation, execution or performance of this Agreement.

Section 4.18 Proxy Statement; Registration Statement. None of the information supplied or to be supplied to FAL by or on behalf of SUG for inclusion in the proxy statement, in definitive form, relating to the FAL Meeting to be held in connection with the Merger (the "FAL Proxy Statement"), or supplied by or on behalf of SUG in the Registration Statement on Form S-4 (and any amendments thereto) to be filed by SUG with the SEC pursuant to the Securities Act to register the shares of SUG Common Stock constituting the Stock Consideration (the "Registration Statement") will, in the case of the Registration Statement, at the effective time of the Registration Statement, at any time the Registration Statement is amended or supplemented, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented, at the time of the FAL Meeting and at the Effective Time, and in the case of the FAL Proxy Statement, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented and at the time of the FAL Meeting (giving effect to any documents incorporated by reference therein), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement will comply as to form and in substance in all material respects with the applicable provisions of the Securities Act and the rules and regulations thereunder.

Section 4.19 No Vote Required. No vote of the holders of any class or series of the capital stock of SUG is required to approve this Agreement and the Merger.

Section 4.20 Disclaimer of Representations and Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE IV, SUG MAKES NO OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AND SUG HEREBY DISCLAIMS ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES, WHETHER BY SUG, ANY SUBSIDIARY OF SUG, OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO FAL OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES,

AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, OF ANY DOCUMENTATION OR OTHER INFORMATION BY SUG, ANY SUBSIDIARY OF SUG, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO ANY OF THE FOREGOING.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF FAL

FAL, as to the Acquired Companies, represents and warrants to SUG as follows:

Section 5.1 Organization, Existence and Qualification.

(a) Each Acquired Company is a corporation duly incorporated, validly existing, and in good standing under the laws of its state of incorporation or organization, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under all Applicable Contracts. Section 5.1(a) of the FAL Disclosure Schedule sets forth the name of each Acquired Company, the state or jurisdiction of its incorporation or organization, and each state or jurisdiction where such Acquired Company is duly qualified as a foreign corporation. Each Acquired Company is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the business conducted by it, requires such qualification as a foreign corporation except for such failures to be so qualified or in good standing as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

(b) FAL has delivered to SUG copies of the Organizational Documents, as currently in effect, of each Acquired Company.

Section 5.2 Capitalization. The capital stock of FAL consists of 2,951,334 shares of FAL Common Stock, of which 2,220,086 shares are issued and outstanding. The issued and outstanding shares of FAL Common Stock have been validly issued and are fully paid and nonassessable. Except as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, no shares of FAL Common Stock are held, in treasury or otherwise, by FAL or any of its Subsidiaries and there are no outstanding (i) securities convertible into FAL Common Stock or other capital stock of FAL or any of its Subsidiaries, (ii) warrants or options to purchase FAL Common Stock or other securities of FAL or any of its Subsidiaries or (iii) other commitments to issue shares of FAL Common Stock or other securities of FAL or any of its Subsidiaries.

Section 5.3 Subsidiaries; Investments. Except as set forth in Section 5.3 of the FAL Disclosure Schedule, FAL has no Subsidiaries or investments in any Person (except for marketable securities disclosed to SUG prior to the date of this Agreement) and FAL is the registered owner and holder of all of the issued and outstanding shares of capital stock of its

Subsidiaries and has good title to such shares. The outstanding capital stock of each Subsidiary has been validly issued and is fully paid and nonassessable. All such capital stock owned by any Acquired Company is free and clear of any Encumbrance (except for any Encumbrance disclosed in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, or created or incurred by this Agreement in favor of SUG, or imposed by federal or state securities laws).

Section 5.4 Authority Relative to this Agreement and Binding Effect. The execution, delivery and performance of this Agreement and the Related Documents by FAL have been duly authorized by all requisite corporate action, except, as of the date of this Agreement, for the FAL Stockholders' Approval. Except as set forth in Section 5.4 of the FAL Disclosure Schedule, the execution, delivery and performance of this Agreement and the Related Documents by FAL will not result in a violation or breach of any term or provision of, or constitute a default, require a consent, approval or notification, or accelerate the performance required under, the Organizational Documents of any of the Acquired Companies, any indenture, mortgage, deed of trust, security agreement, loan agreement, or other Applicable Contract to which any of the Acquired Companies is a party or by which its assets are bound, or violate any Order, with such exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. This Agreement constitutes and the Related Documents to be executed by any of the Acquired Companies when executed and delivered will constitute valid and binding obligations of such Acquired Company, enforceable against such Acquired Company in accordance with their terms, except as enforceability may be limited by (i) bankruptcy or similar laws from time to time in effect affecting the enforcement of creditors' rights generally or (ii) the availability of equitable remedies generally.

Section 5.5 Governmental Approvals. Except as set forth in Section 5.5 of the FAL Disclosure Schedule and as required by the HSR Act, no approval or authorization of any Governmental Body with respect to performance under this Agreement or the Related Documents by any Acquired Company is required to be obtained by FAL in connection with the execution and delivery by FAL of this Agreement or the Related Documents or the consummation by the Acquired Companies of the transactions contemplated hereby or thereby, the failure to obtain which are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

Section 5.6 Public Utility Holding Company Status; Regulation as a Public Utility. None of the Acquired Companies is a "holding company," a "subsidiary company," a "public utility company," or an "affiliate" of a "public utility company" or a "holding company" within the meaning of such terms in PUHCA.

Section 5.7 Compliance with Legal Requirements; Governmental Authorizations.

(a) Except as set forth in Section 5.7(a) of the FAL Disclosure Schedule or as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, and subject to Section 5.19 of this Agreement, to the Knowledge of any Acquired Company, no Acquired Company is in violation of any Legal Requirement that is applicable to it, to the conduct or operation of its business, or to the ownership or use of any of its assets, other

than such violations, if any, which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

(b) The FAL SEC Documents delivered to SUG prior to the date of this Agreement accurately describe all material regulation of each Acquired Company that relates to the utility business of any Acquired Company. Except as set forth on Section 5.7(a) of the FAL Disclosure Schedule, each Acquired Company has, and is in material compliance with, all material Governmental Authorizations necessary to conduct its business and to own, operate and use all of its assets as currently conducted.

Section 5.8 Legal Proceedings; Orders. Except as set forth in Section 5.8 of the FAL Disclosure Schedule or as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, there is no pending Proceeding:

(1) that has been commenced by or against, or that otherwise relates to, any Acquired Company that is reasonably likely to have a FAL Material Adverse Effect; or

(2) as of the date of this Agreement, that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, the Merger or any of the transactions contemplated hereby.

To the Knowledge of FAL, except as set forth in Section 5.8 of the FAL Disclosure Schedule, as of the date of this Agreement, no such Proceedings, audits or investigations have been Threatened that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. As of the date of this Agreement, none of the Acquired Companies is subject to any Orders that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

Section 5.9 SEC Documents. FAL has made (and, with respect to such documents filed after the date hereof through the Closing Date, will make) available to SUG a true and complete copy of each report, schedule, registration statement (other than on Form S-8), and definitive proxy statement filed by FAL with the SEC since September 30, 1998 through the Closing Date in substantially the form filed with the SEC (the "FAL SEC Documents"). As of their respective dates, the FAL SEC Documents, including without limitation any financial statements or schedules included therein, complied (or will comply), in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such FAL SEC Documents, and did not (or will not) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of FAL included in the FAL SEC Documents (collectively, the "FAL Financial Statements") were (or will be) prepared in accordance with GAAP (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q) and fairly present (or will fairly present) in all

material respects the financial position of FAL and its Subsidiaries, as of the respective dates thereof or the results of operations and cash flows for the respective periods then ended, as the case may be, subject, in the case of unaudited interim financial statements, to normal, recurring adjustments which are not material in the aggregate.

Section 5.10 Taxes. Except as set forth in Section 5.10 of the FAL Disclosure Schedule:

(a) The Acquired Companies have timely filed all United States federal, state and local income Tax Returns required to be filed by or with respect to them or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired, and the Acquired Companies have timely paid and discharged all Taxes due in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due or made adequate provision therefor in accordance with GAAP except where failures to so file, pay or discharge are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. There are no pending audits or other examinations relating to any Tax matters. There are no Tax liens on any assets of the Acquired Companies. As of the date of this Agreement, none of the Acquired Companies has granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax. The accruals and reserves (including deferred taxes) reflected in the FAL Balance Sheet are in all material respects adequate to cover all material Taxes accruable through the date thereof (including interest and penalties, if any, thereon and Taxes being contested) in accordance with GAAP.

(b) None of the Acquired Companies is obligated under any Applicable Contract with respect to industrial development bonds or other obligations with respect to which the excludability from gross income of the holder for federal or state income tax purposes could be affected by the Merger or any of the transactions contemplated by this Agreement.

Section 5.11 Intellectual Property. No Acquired Company has any Knowledge of (i) any infringement or claimed infringement by any Acquired Company of any patent rights or copyrights of others or (ii) any infringement of the patent or patent license rights, trademarks or copyrights owned by or under license to any Acquired Company, except for any such infringements of the type described in clause (i) or (ii) that are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

Section 5.12 Title to Assets. Except (i) as set forth in Section 5.12 of the FAL Disclosure Schedule, (ii) as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, (iii) as set forth in Section 5.19 of this Agreement or (iv) as set forth in Section 5.19 of the FAL Disclosure Schedule, none of the Acquired Companies' assets are subject to any Encumbrance other than FAL Permitted Liens.

Section 5.13 Indebtedness. All outstanding principal amounts of indebtedness for borrowed money of the Acquired Companies as of October 4, 1999 are set forth in Section 5.13 of the FAL Disclosure Schedule.

Section 5.14 Machinery and Equipment. Except for normal wear and tear, and with such exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect, the machinery and equipment of the Acquired Companies necessary for the conduct by the Acquired Companies of their respective businesses as presently conducted are in good operating condition and in a state of reasonable maintenance and repair.

Section 5.15 Applicable Contracts. Set forth in Section 5.15(a) of the FAL Disclosure Schedule is a list as the date hereof of all Applicable Contracts to which any Acquired Company is a party involving a total commitment by or to any party thereto of more than $65,000 on an annual basis or more than $250,000 on its remaining term which cannot be terminated on no more than sixty (60) days' notice without penalty or additional cost to the Acquired Company as the terminating party. Except as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, and with such exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect, all Applicable Contracts of the Acquired Companies are in full force and effect and no Acquired Company nor, to the Knowledge of FAL, any other party thereto is in default thereunder nor has any event occurred or is any event occurring that with notice or the passage of time or otherwise, is reasonably likely to give rise to an event of default thereunder by any party thereto.

Section 5.16 Insurance. Section 5.16(a) of the FAL Disclosure Schedule sets forth a list of all policies of insurance held by the Acquired Companies as of the date of this Agreement. Since June 30, 1994, the assets and the business of the Acquired Companies have been continuously insured with what FAL believes are reputable insurers against all risks and in such amounts normally insured against by companies of the same type and in the same line of business as any of the Acquired Companies. As of the date of this Agreement, no notice of cancellation, non-renewal or material increase in premiums has been received by any of the Acquired Companies with respect to such policies, and no Acquired Company has Knowledge of any fact or circumstance that could reasonably be expected to form the basis for any cancellation, non-renewal or material increase in premiums, except for such cancellations, non-renewals and increases which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. None of the Acquired Companies is in default with respect to any provision contained in any such policy or binder nor has there been any failure to give notice or to present any claim relating to the business or the assets of the Acquired Companies under any such policy or binder in a timely fashion or in the manner or detail required by the policy or binder, except for such defaults or failures which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. As of the date of this Agreement, there are no outstanding unpaid premiums (except premiums not yet due and payable), and no notice of cancellation or renewal with respect to, or disallowance of any claim under, any such policy or binder has been received by the Acquired Companies as of the date hereof, except for such non-payments of premiums, cancellations, renewals or disallowances which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

Section 5.17 Employees. Section 5.17(a) of the FAL Disclosure Schedule sets forth a list as of no more than thirty (30) days prior to the date of this Agreement of all the present officers and employees of the Acquired Companies, indicating each employee's base salary or

wage rate and identifying those who are union employees and those who are part-time employees. Except as set forth in Section 5.17(b) of the FAL Disclosure Schedule, as of the date of this Agreement, no labor union or other collective bargaining unit has been certified or recognized by any of the Acquired Companies, and, to the Knowledge of the Acquired Companies, as of the date of this Agreement, there are no elections, organizing drives or material controversies pending or Threatened between any of the Acquired Companies and any labor union or other collective bargaining unit representing any of the Acquired Companies' employees. There is no pending or, to the Knowledge of FAL, Threatened labor practice complaint, arbitration, labor strike or other material labor dispute (excluding grievances) involving any of the Acquired Companies which are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. Except for collective bargaining agreements or as set forth in Section 5.17(c) of the FAL Disclosure Schedule, none of the Acquired Companies is a party to any employment agreement with any employee pertaining to any of the Acquired Companies.

Section 5.18 Employee Benefit Plans.

(a) Each of the FAL Benefit Plans has been operated and administered in all material respects in accordance with its governing documents and applicable federal and state laws (including, but not limited to, ERISA and the IRC). For purposes of this Agreement, "FAL Benefit Plans" shall mean all employee retirement, welfare, stock option, stock ownership, deferred compensation, bonus or other benefit plans, agreements, practices, policies, programs, or arrangements, that are applicable to any employee, director or consultant of the Acquired Companies or maintained by or contributed to by any of the Acquired Companies.

(b) As to any FAL Benefit Plan subject to Title IV of ERISA, there is no event or condition which presents the material risk of plan termination, no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, no reportable event within the meaning of Section 4043 of ERISA (for which the notice requirements of Regulation §4043 promulgated by the PBGC have not been waived) has occurred within the last six years, no notice of intent to terminate the FAL Benefit Plan has been given under Section 4041 of ERISA, no proceeding has been instituted under Section 4042 of ERISA to terminate the FAL Benefit Plan, there has been no termination or partial termination of the FAL Benefit Plan within the meaning of Section 411(d)(3) of the IRC within the last six years, no event described in Sections 4062 or 4063 of ERISA has occurred, all PBGC premiums have been timely paid and no liability to the PBGC has been incurred, except for PBGC premiums not yet due.

(c) There is no matter pending (other than qualification determination applications and filings and other required periodic filings) with respect to any of the FAL Benefit Plans before the IRS, the Department of Labor, the PBGC or in or before any other governmental authority.

(d) Each trust funding a FAL Benefit Plan, which trust is intended to be exempt from federal income taxation pursuant to Section 501(c)(9) of the IRC, satisfies the

requirements of such section and has received a favorable determination letter from the IRS regarding such exempt status and to the Knowledge of any Acquired Company has not, since receipt of the most recent favorable determination letter, been amended or operated in any way which would adversely affect such exempt status.

(e) With respect to any FAL Benefit Plan or any other "employee benefit plan" as defined in Section 3(3) of ERISA which is established, sponsored, maintained or contributed to, or to the Knowledge of the Acquired Companies, with respect to any such plan which has been established, sponsored, maintained or contributed to within six years prior to the Closing Date, by the Acquired Companies or any corporation, trade, business or entity under common control or being a part of an affiliated service group with any of the Acquired Companies, within the meaning of Section 414(b), (c) or (m) of the IRC or Section 4001 of ERISA ("FAL Commonly Controlled Entity"), (i) no withdrawal liability, within the meaning of Section 4201 of ERISA, has been incurred, which withdrawal liability has not been satisfied and no such withdrawal liability is reasonably expected to be incurred, (ii) no liability under Title IV of ERISA (including, but not limited to, liability to the PBGC) has been incurred by the Acquired Companies or any FAL Commonly Controlled Entity, which liability has not been satisfied (other than for PBGC premiums not yet due), (iii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, (iv) there has been no failure to make any contribution (including installments) to such plan required by Section 302 of ERISA and Section 412 of the IRC which has resulted in a lien under Section 302 of ERISA or Section 412 of the IRC and for which any liability is currently outstanding, (v) to the Knowledge of any Acquired Company, no action, omission or transaction has occurred with respect to any such plan or any other FAL Benefit Plan which could subject any of the Acquired Companies, the plan or trust forming a part thereof, or SUG to a material civil liability or penalty under ERISA or other applicable laws, or a material Tax under the IRC, (vi) any such plan which is a Group Health Plan has complied in all material respects with the provisions of Sections 601-608 of ERISA and Section 4980B of the IRC, (vii) there are no pending or, to the Knowledge of any Acquired Company, Threatened claims by or on behalf of any such plan or any other FAL Benefit Plan, by any employees, former employees or plan beneficiaries covered by such plan or otherwise by or on behalf of any person involving any such plan (other than routine non-contested claims for benefits) which could result in a material liability to the Acquired Companies taken as a whole, and (viii) neither the Acquired Companies nor any FAL Commonly Controlled Entity has engaged in, or is a successor or parent corporation to any entity or person that has engaged in, a transaction described in Section 4069 of ERISA.

(f) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) increase the amount of benefits otherwise payable under any FAL Benefit Plan, (ii) result in the acceleration of the time of eligibility to participate in any FAL Benefit Plan, or any payment, exercisability, funding or vesting of any benefit under any FAL Benefit Plan, (iii) result in any payment becoming due to or with respect to any current or former employee, director or consultant, or (iv) result in any payment becoming due in the event of a termination of employment or service of any employee, director or consultant.

(g) None of the Acquired Companies is a party to any Applicable Contract nor has it established any policy or practice, which would require it or SUG to make a payment or provide any other form of compensation or benefit to any Person performing (or who within the past twelve months performed) services for any of the Acquired Companies during or upon termination of such services which would not be payable or provided in the absence of the consummation of the transactions contemplated by this Agreement.

(h) Except as would affect unionized employees and/or retirees who had been unionized employees, each FAL Benefit Plan which is an "employee welfare benefit plan," as such term is defined in Section 3(1) of ERISA, may be unilaterally amended or terminated in its entirety without any liability being incurred by any of the Acquired Companies, SUG or any Affiliate of SUG, except as to benefits accrued thereunder prior to such amendment or termination.

(i) None of the Acquired Companies has contributed nor been obligated to contribute to any "multi-employer plan" within the meaning of Section 3(37) of ERISA within the last six years, and none of the Acquired Companies has any outstanding liability with respect to any such plan.

(j) Section 5.18(j) of the FAL Disclosure Schedule contains a true and complete list of each FAL Benefit Plan, and any management, employment, deferred compensation, severance (including any payment, right or benefit resulting from a change in control), bonus, or other contract for personal services with any current or former officer, director or employee, any consulting contract with any person who prior to entering this such contract was a director or officer or owner of 5% or more of the stock of any Acquired Company or family member of any such director, officer or stockholder, or any plan, agreement, arrangement or understanding similar to any of the foregoing. There are no outstanding options to purchase FAL capital stock or other securities. FAL has provided to SUG a complete and correct copy of each FAL Benefit Plan (or written summary of any unwritten FAL Benefit Plan), and with respect to each FAL Benefit Plan, the current summary plan description, related trust agreements, related insurance contracts, the latest IRS determination letter, the last three annual reports on Form 5500 series (including all required schedules), and the most recent actuarial report and annual financial statements.

Section 5.19 Environmental Matters. Except as set forth in Section 5.19 of the FAL Disclosure Schedule or as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, and with such other exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect:

(a) To the Knowledge of any Acquired Company, no Facility owned or operated by any Acquired Company is currently, or was at any time, listed on the National Priorities List promulgated under CERCLA, or on any comparable state list, and no Acquired Company has received any written notification of potential or actual liability or a written request for information from any Person under or relating to CERCLA or any comparable Legal Requirement with respect to any Acquired Company or the Facilities;

(b) To the Knowledge of any Acquired Company, each Acquired Company and any Person for whose conduct any Acquired Company is reasonably likely to be held responsible, is currently and at all times has been, in material compliance with any Environmental Law. No Acquired Company has received any Order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any violation or failure to comply with any Environmental Law, or of any obligation to undertake or bear the cost of any environmental cleanup, or with respect to any property or Facility at which Hazardous Materials generated by any Acquired Company were transported for disposal;

(c) There are no pending or, to the Knowledge of any Acquired Company, Threatened claims arising under or pursuant to any Environmental Law with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which any Acquired Company has or had a direct or indirect interest (including by ownership or use); and

(d) FAL has delivered or made available to SUG true and complete copies and results of any environmental site assessments, studies, analyses, tests or monitoring possessed by any Acquired Company of which any Acquired Company has Knowledge pertaining to Hazardous Materials or Hazardous Activities in, on or under the Facilities, or concerning compliance by any Acquired Company or any other Person for whose conduct any Acquired Company is reasonably likely to be held responsible, with Environmental Laws.

Section 5.20 No Material Adverse Change. Since the date of the FAL Balance Sheet, except as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, there has not been any FAL Material Adverse Effect, and no events have occurred or circumstances exist that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect, except that any FAL Material Adverse Effect that results from or relates to (a) general business or economic conditions, (b) conditions generally affecting the industries in which the Acquired Companies compete or (c) the announcement of the transactions contemplated by this Agreement shall be disregarded.

Section 5.21 Brokers. No Acquired Company is a party to, or in any way obligated under any Applicable Contract, and there are no outstanding claims against any Acquired Company, for the payment of any broker's or finder's fees in connection with the origin, negotiation, execution or performance of this Agreement.

Section 5.22 Regulatory Proceedings. Except as set forth in Section 5.22 of the FAL Disclosure Schedule, other than purchase gas adjustment provisions, none of FAL or its Subsidiaries all or part of whose rates or services are regulated by a Governmental Body (a) has rates that have been or are being collected subject to refund, pending final resolution of any rate proceeding pending before a Governmental Body or on appeal to the courts, or (b) is a party to any rate proceeding before a Governmental Body that are, individually or in the aggregate, reasonably likely to result in any Orders having a FAL Material Adverse Effect.

Section 5.23 Proxy Statement; Registration Statement. None of the information supplied or to be supplied by or on behalf of the Acquired Companies in either the FAL Proxy Statement or supplied or to be supplied by the Acquired Companies to SUG for inclusion in the Registration Statement, will, in the case of the Registration Statement, at the effective time of the Registration Statement, at any time the Registration Statement is amended or supplemented, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented, at the time of the FAL Meeting and at the Effective Time, and in the case of the FAL Proxy Statement, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented and at the time of the FAL Meeting (giving effect to any documents incorporated by reference therein), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The FAL Proxy Statement will comply as to form and in substance in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder.

Section 5.24 Vote Required. Other than the approval of the Merger by the holders of two thirds of the outstanding shares of FAL Common Stock entitled to vote on the question (the "FAL Stockholders' Approval"), no vote of the holders of any class or series of the capital stock of any Acquired Company is required to approve this Agreement and the Merger.

Section 5.25 Opinion of Financial Advisor. FAL has provided SUG a copy of the opinion of Legg Mason Wood Walker, Incorporated, dated as of the date hereof, with respect to the Merger Consideration to be received by the holders of FAL Common Stock pursuant to the transactions contemplated by this Agreement.

Section 5.26 Disclaimer of Representations and Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE V, FAL MAKES NO OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AND FAL HEREBY DISCLAIMS ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES, WHETHER BY FAL, ANY SUBSIDIARY OF FAL, OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO SUG OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, OF ANY DOCUMENTATION OR OTHER INFORMATION BY FAL, ANY SUBSIDIARY OF FAL, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO ANY OF THE FOREGOING.

ARTICLE VI
COVENANTS

Section 6.1 Covenants of FAL. FAL agrees to observe and perform the following covenants and agreements:

(a) Conduct of the Business Prior to the Closing Date. With respect to the Acquired Companies, except (i) as contemplated in this Agreement, (ii) as required by law or regulation, or (iii) as otherwise expressly consented to in writing by SUG which consent shall not be unreasonably withheld or delayed, prior to the Closing, FAL will cause each Acquired Company to:

(1) Not make or permit any material change in the general nature of its business;

(2) Maintain its Ordinary Course of Business in accordance with prudent business judgment and consistent with past practice and policy, and maintain its assets in good operating repair, order and condition, reasonable wear and tear excepted, subject to retirements in the Ordinary Course of Business;

(3) Preserve the Acquired Company as an ongoing business and use reasonable efforts to maintain the goodwill associated with the Acquired Company;

(4) Preserve all of the Acquired Companies' franchises, tariffs, certificates of public convenience and necessity, licenses, authorizations and other governmental rights and permits;

(5) Not enter into any material transaction or Material Contract;

(6) Not purchase, sell, lease, dispose of or otherwise transfer or make any contract for the purchase, sale, lease, disposition or transfer of, or subject to lien, any of the assets of the Acquired Company other than in the Ordinary Course of Business;

(7) Not hire any new employee unless such employee is a bona fide replacement for a presently-filled position with the Acquired Company as of the date hereof;

(8) Not file any material applications, petitions, motions, orders, briefs, settlement or agreements in any material Proceeding before any Governmental Body which involves any Acquired Company, and appeals related thereto;

(9) Not engage in or modify, except in the Ordinary Course of Business, any material intercompany transactions involving any other Acquired Company;

(10) Not voluntarily change in any material respect or terminate any insurance policies disclosed on Section 5.16(a) of the FAL Disclosure Schedule that presently are in effect unless equivalent coverage is obtained;

(11) Except as disclosed or specifically contemplated in this Agreement or in Section 6.1(a)(11) of the FAL Disclosure Schedule, and with respect to budgeted expenditures known and specifically disclosed in writing to SUG, subject to adjustments in the Ordinary Course of Business and other deviations (which in the aggregate shall not exceed 5% on an annualized basis during the period from the date of this Agreement until the Closing Date), not make any capital expenditure or capital expenditure commitment;

(12) Not make any changes in financial policies or practices, or strategic or operating policies or practices, in each case which involve any Acquired Company;

(13) Comply in all material respects with all applicable material Legal Requirements and permits, including without limitation those relating to the filing of reports and the payment of Taxes due to be paid prior to the Closing, other than those contested in good faith;

(14) Not adopt, amend (other than amendments that reduce the amounts payable by SUG or any of its Subsidiaries or amendments required by law) or assume an obligation to contribute to any FAL Benefit Plan or collective bargaining agreement or enter into any employment, consulting, severance or similar Contract with any Person (including without limitation, contracts with management of any Acquired Company or any of its Affiliates that might require payments be made upon consummation of the transactions contemplated hereby) or amend any such existing contracts;

(15) Except in the Ordinary Course of Business or as required by the terms of any existing Contract, FAL Benefit Plan or collective bargaining agreement, not grant any increase or change in total compensation, benefits or pay any bonus to any employee, director or consultant;

(16) Not grant or enter into or extend the term of any Contract with respect to continued employment or service for any employee, officer, director or consultant;

(17) Not make any loan or advance to any Person other than to any officer, director, stockholder or employee in the Ordinary Course of Business;

(18) Not terminate any existing gas purchase, exchange or transportation contract necessary to supply firm gas at all city gate delivery points or enter into any new contract for the supply, transportation, storage or exchange of gas with respect to the Acquired Companies' regulated gas distribution operations or renew or extend or negotiate any existing contract providing for the same where such contract is not terminable within sixty (60) days without penalty;

(19) Not amend any of its Organizational Documents; and

(20) Subject to Section 6.1(l), not issue or assume any note, debenture or other evidence of indebtedness which by its terms does not mature within one year from the date of execution or issuance thereof, unless otherwise redeemable or subject to prepayment at any time at the option of the Acquired Company on not more than thirty (30) days notice without penalty for such redemption or prepayment.

(b) Customer Notifications. At any time and from time to time reasonably requested by SUG prior to the Closing Date, each Acquired Company will permit SUG at FAL's expense to insert preprinted single-page customer education materials into billing documentation to be delivered to customers affected by this Agreement; provided, however, that FAL has reviewed in advance and consented to the content of such materials, which consent shall not be unreasonably withheld or delayed. Other means of notifying customers may be employed by either party, at the expense of the initiating party, but in no event shall any notification be initiated without the prior consent of the other party (which consent shall not be unreasonably withheld or delayed).

(c) Access to the Acquired Companies' Offices, Properties and Records; Updating Information.

(1) From and after the date hereof and until the Closing Date, the Acquired Companies shall permit SUG and its Representatives to have, on reasonable notice and at reasonable times, reasonable access to such of the offices, properties and employees of the Acquired Companies, and shall disclose, and make available to SUG and its Representatives all books, papers and records to the extent that they relate to the ownership, operation, obligations and liabilities of or pertaining to the Acquired Companies, their businesses, assets and liabilities. Without limiting the application of the Confidentiality Agreement dated October 4, 1999 between FAL and SUG (the "Confidentiality Agreement"), all documents or information furnished by the Acquired Companies hereunder shall be subject to the Confidentiality Agreement.

(2) FAL will notify SUG as promptly as practicable of any significant change in the Ordinary Course of Business or operation of any of the Acquired Companies and of any material complaints, investigations or hearings (or communications indicating that the same may be contemplated) by any

Governmental Body, or the institution or overt threat or settlement of any material Proceeding involving or affecting any of the Acquired Companies or the transactions contemplated by this Agreement, and shall use reasonable efforts to keep SUG fully informed of such events and permit SUG's Representatives access to all materials prepared in connection therewith, consistent with any applicable Legal Requirement or Contract.

(3) As promptly as practicable after SUG's request, FAL will furnish such financial and operating data and other information pertaining to the Acquired Companies and their businesses and assets as SUG may reasonably request; provided, however, that nothing herein will obligate any of the Acquired Companies to take actions that would unreasonably disrupt its Ordinary Course of Business or violate the terms of any Legal Requirement or Contract to which the Acquired Company is a party or to which any of its assets is subject in providing such information, or to incur any costs with respect to SUG's external auditors (or the Acquired Companies' external auditors in the event a report by such auditors is requested by SUG) providing accounting services with respect to issuing an auditor's report required by or for SUG.

(d) Governmental Approvals; Third Party Consents. FAL will use its reasonable best efforts to obtain all necessary consents, approvals and waivers from any Person required in connection with the transactions contemplated hereby under any license, lease, permit or Contract applicable to the Acquired Companies, including, without limitation, the approvals of those Governmental Bodies and the consents of those third parties listed in Section 5.4 and Section 5.5 of the FAL Disclosure Schedule and as required by the HSR Act.

(e) Dividends. FAL shall not, nor shall it permit any of its Subsidiaries to: (i) declare or pay any dividends on or make other distributions in respect of any of its or their capital stock other than (A) dividends by a wholly-owned Subsidiary to FAL or another wholly-owned Subsidiary, or (B) regular quarterly dividends on FAL Common Stock with usual record and payment dates that do not exceed the current rate of $0.96 per fiscal year; (ii) split, combine or reclassify any of its capital stock or the capital stock of any Subsidiary or issue or authorize or propose the issuance of any other securities in respect of, or in substitution for, shares of its capital stock or the capital stock of any Subsidiary; or (iii) redeem, repurchase or otherwise acquire any shares of its capital stock or the capital stock of any Subsidiary other than redemptions, repurchases and other acquisitions of shares of capital stock in connection with the administration of employee benefit and dividend reinvestment and customer stock purchase plans as in effect on the date hereof in the ordinary course of the operation of such plans consistent with past practice.

(f) Issuance of Securities. FAL shall not, nor shall it permit any of its Subsidiaries to, issue, agree to issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, sale, award, pledge, disposal or other encumbrance of, any shares of its or their capital stock of any class or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or

convertible or exchangeable securities, other than as provided for in the FAL Benefit Plans, and its dividend reinvestment plan in effect as of the date hereof.

(g) Accounting. FAL shall not, nor shall it permit any of its Subsidiaries to, make any changes in their accounting methods, principles or practices except as required by law, rule, regulation or GAAP.

(h) No Shopping.

(1) FAL shall not, and shall not authorize or permit any of its (or any of its Subsidiaries') officers, directors, agents, financial advisors, attorneys, accountants or other Representatives to, directly or indirectly, solicit, initiate or encourage submission of proposals or offers from any Person relating to, or that could reasonably be expected to lead to, a Business Combination or participate in any negotiations or discussions regarding, or furnish to any other Person any information with respect to, or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any other Person to do or seek a Business Combination; provided, however, that, prior to the FAL Stockholders' Approval, FAL may, in response to an unsolicited written proposal from a third party with respect to a Business Combination that FAL's Board of Directors determines, in its good faith judgment, after consultation with and the receipt of the advice of its financial advisor and outside counsel with customary qualifications, is a Superior Proposal, (i) furnish information to, and negotiate, explore or otherwise engage in substantive discussions with such third party, only if FAL's Board of Directors determines, in its good faith judgment after consultation with its financial advisors and outside legal counsel, that it is reasonably necessary in order to comply with its fiduciary duties under applicable law and (ii) take and disclose to FAL's stockholders a position with respect to another Business Combination proposal, or amend or withdraw such position, pursuant to Rule 14d-9 and 14e-2 under the Exchange Act, or make such disclosure to FAL's stockholders which in the good faith judgment of FAL's Board of Directors is required by applicable law, based on the advice of its outside counsel. Prior to furnishing any non-public information to, entering into negotiations with or accepting a Superior Proposal from such third party, FAL will (i) provide written notice to SUG to the effect that it is furnishing information to or entering into discussions or negotiations with such third party and (ii) receive from such third party an executed confidentiality agreement containing substantially the same terms and conditions as the Confidentiality Agreement. FAL will immediately cease and cause to be terminated any existing solicitation, initiation, encouragement, activity, discussion or negotiations with any parties conducted heretofore by FAL or any of its representatives with respect to any Business Combination.

(2) Except as expressly permitted by this Section 6.1(h), neither the FAL Board of Directors nor any committee thereof may, (i) withdraw or modify,

or propose publicly to withdraw or modify, in a manner adverse to SUG, the approval or recommendation by such Board of Directors or such committee of the Merger or this Agreement, (ii) approve or recommend, or propose publicly to approve or recommend, a Business Combination or (iii) cause FAL to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any Business Combination. Notwithstanding the foregoing, prior to the time at which the FAL Stockholders' Approval has been obtained, in response to an unsolicited Business Combination proposal from a third party, if FAL's Board of Directors determines, in its good faith judgment, after consultation with and the receipt of the advice of its financial advisor and outside counsel with customary qualifications, that such proposal is a Superior Proposal and that failure to do any of the actions set forth in clauses (i), (ii) or (iii) above would create a reasonable possibility of a breach of the fiduciary duties of FAL's Board of Directors under applicable law, FAL's Board of Directors may (i) withdraw or modify its approval or recommendation of the Merger or this Agreement, approve or recommend a Business Combination or cause FAL to enter into a Business Combination and (ii) negotiate with a third party with respect to such Business Combination proposal and, subject to FAL having paid to SUG the fees described in Section 8.3(a) hereof and having entered into a definitive agreement with respect to such Business Combination proposal, terminate this Agreement; provided, however, that prior to entering into a definitive agreement with respect to a Business Combination proposal, FAL shall give SUG at least five (5) day's notice thereof, and shall cause its Representatives to, negotiate with SUG to make such adjustments in the terms and conditions of this Agreement as would enable FAL to proceed with the transactions contemplated herein on such adjusted terms; provided, further, that if FAL and SUG are unable to reach an agreement on such adjustments within five (5) days after such notice from FAL, FAL may enter into such definitive agreement, subject to the provisions of Article VIII.

(3) FAL shall notify SUG orally and in writing of any such inquiries, offers or proposals (including, without limitation, the material terms and conditions of any such offer or proposal and the identity of the Person making it), within one business day of the receipt thereof, shall use all reasonable efforts to keep SUG informed of the status and details of any such inquiry, offer or proposal and shall give SUG two (2) days advance notice of the first delivery of non-public information to such Person. If any such inquiry, offer or proposal is in writing, FAL shall promptly deliver to SUG a copy of such inquiry, offer or proposal.

(4) For purposes of this Agreement, (i) "Business Combination" means (other than the transactions contemplated or permitted by this Agreement) (A) a merger, consolidation or other business combination, share exchange, sale of shares of capital stock, tender offer or exchange offer or similar transaction involving FAL or any of its Subsidiaries, (B) acquisition in any manner, directly or indirectly, of a material interest in any capital stock of, or a material equity

interest in a substantial portion of the assets of, FAL or any of its Subsidiaries, including any single or multi-step transaction or series of related transactions that is structured to permit a third party to acquire beneficial ownership of a majority or greater equity interest in FAL or any of its Subsidiaries, or (C) the acquisition in any manner, directly or indirectly, of any material portion of the business or assets (other than immaterial or insubstantial assets or inventory in the Ordinary Course of Business) of FAL or any of its Subsidiaries and (ii) "Superior Proposal" means a proposed Business Combination involving at least 50% of the shares of capital stock or a material portion of the assets of FAL that FAL's Board of Directors determines, after consulting with FAL's financial advisors and outside counsel, is financially superior to the transactions contemplated hereby and it appears that the party making the proposal is reasonably likely to have the funds necessary to consummate the Business Combination.

(i) Solicitation of Proxies; FAL Proxy Statement. Subject to Section 6.1(h), FAL shall use its reasonable best efforts to solicit from its stockholders proxies in favor of the Merger and shall take all other action necessary or, in the reasonable opinion of SUG, advisable to secure the FAL Stockholders' Approval.

(j) FAL Stockholders' Approval.

(1) Subject to the provisions of Section 6.1(h) and Section 6.1(j)(2), FAL shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its stockholders (including all adjournments thereof, the "FAL Meeting") for the purpose of securing the FAL Stockholders' Approval, (ii) distribute to its stockholders the FAL Proxy Statement in accordance with applicable federal and state law and with its Organizational Documents, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its stockholders the approval and adoption of this Agreement and the transactions contemplated hereby and (iv) cooperate and consult with SUG with respect to each of the foregoing matters.

(2) The FAL Meeting for the purpose of securing the FAL Stockholders' Approval, including any adjournments thereof, will be held on such date or dates as FAL and SUG mutually determine.

(k) Rule 145 Letters. FAL shall promptly identify to SUG all officers and directors of any Acquired Company and any other persons who are "affiliates" within the meaning of such term as used in Rule 145 under the Securities Act ("Rule 145 Affiliates"), and FAL shall use its reasonable efforts to provide to SUG undertakings from such persons ("Rule 145 Letters") to the effect that no disposition of shares of SUG Common Stock received in the Merger will be made by such persons except within the limits and in accordance with the applicable provisions of said Rule 145, as amended from time to time, or except in a transaction which, in the opinion of legal counsel satisfactory to SUG, is exempt from registration under the Securities Act.

(l) Financing Activities. FAL shall, and shall cause its Subsidiaries to, cooperate, to the fullest extent commercially reasonable and practicable, with SUG's requests with respect to refinancing by the Acquired Companies of the current maturities of any of their indebtedness, and any repurchase, redemption or prepayment by any of the Acquired Companies of any of its indebtedness that may be required prior to or because of the Merger or that SUG may request that the Acquired Companies effect prior to the Merger, so as to permit SUG to have the maximum opportunity to refinance, on or promptly after the Closing Date without any penalty except as may be due pursuant to the terms of the Acquired Companies' indebtedness as in effect on the date of this Agreement, any of the Acquired Companies' indebtedness outstanding on the Closing Date; provided, however, that no Acquired Company shall be required to consummate prior to the Effective Time any such refinancing, repurchase, redemption or repayment requested by SUG.

(m) FAL Disclosure Schedule. On the date hereof, FAL has delivered to SUG the FAL Disclosure Schedule, accompanied by a certificate signed by an executive officer of FAL stating the FAL Disclosure Schedule is being delivered pursuant to this Section 6.1(m). The FAL Disclosure Schedule constitutes an integral part of this Agreement and modifies the representations, warranties, covenants or agreements of FAL contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the FAL Disclosure Schedule.

(n) FAL Bondholders' Consent. FAL shall use its reasonable best efforts to obtain consents from all holders of each series of First Mortgage Bonds issued and outstanding under the Indenture of First Mortgage, dated as of December 1, 1952, between FAL and State Street Bank and Trust Company, successor in interest to the First National Bank of Boston, successor by merger to Old Colony Trust Company, as Trustee, as amended or supplemented from time to time, to such amendments to such Indenture as requested by SUG.

Section 6.2 Covenants of SUG. SUG agrees to observe and perform the following covenants and agreements:

(a) Governmental Approvals; Third Party Consents. SUG will use its reasonable best efforts at SUG's sole expense to obtain all necessary consents, approvals and waivers from any Person required in connection with the transactions contemplated hereby under any license, lease, permit, Contract or agreement applicable to SUG, including, without limitation, the approvals of those Governmental Bodies and the consents of those third parties listed in Section 4.5 of the SUG Disclosure Schedule and as required by the HSR Act.

(b) Employees; Benefits. With respect to the employees (excluding unionized employees) listed in Section 5.17(a) of the FAL Disclosure Schedule (or their successors employed pursuant to Section 6.1(a)(7) above) (the "Employees"), except as otherwise specified herein, SUG agrees as follows:

(1) During the 12 months immediately following the Closing Date, to make available to the Employees who continue their service with the Surviving

Corporation or any Subsidiary of the Surviving Corporation employee benefit plans or arrangements that are no less favorable, in the aggregate, than the FAL Benefit Plans listed in Section 5.18(j) of the FAL Disclosure Schedule offered to the Employees immediately prior to the date of this Agreement.

(2) For purposes of eligibility, vesting and benefit accrual under all benefit plans provided to the Employees after the Closing Date, SUG will recognize the tenure of employment, as recognized by the Acquired Companies as of the Closing Date.

(3) All vacation time earned by the Employees prior to the Closing Date must be taken by the end of the calendar year in which the Closing Date occurs, except where the Employee is requested by FAL or SUG to forego their vacation for business-related reasons. For purposes of awarding vacation time at the beginning of each calendar year following the Closing Date, SUG will recognize the tenure of employment, as recognized by the Acquired Company as of the Closing Date.

(c) Blue Sky Permits. SUG shall use its reasonable best efforts to obtain, prior to the effective date of the Registration Statement, all necessary state securities laws or "blue sky" permits and approvals required to carry out the transactions contemplated by the Agreement, and will pay all expenses incident thereto.

(d) Listing Application. Prior to the Closing, SUG shall cause the shares of SUG Common Stock constituting the Stock Consideration to be listed on the NYSE, subject to official notice of issuance thereof.

(e) Collective Bargaining Agreements. At the Effective Time, SUG agrees to assume all collective bargaining agreements covering employees of any Acquired Company, and shall discharge when due any and all liabilities of any Acquired Company under such collective bargaining agreements relating to periods after the Effective Time.

(f) SUG Disclosure Schedule. On the date hereof, SUG has delivered to FAL the SUG Disclosure Schedule, accompanied by a certificate signed by an executive officer of SUG stating that the SUG Disclosure Schedule is being delivered pursuant to this Section 6.2(f). The SUG Disclosure Schedule constitutes an integral part of this Agreement and modifies the representations, warranties, covenants or agreements of SUG contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the SUG Disclosure Schedule.

(g) Conduct of the Business Prior to the Closing Date. Except (i) as contemplated in this Agreement, (ii) in connection with the transactions contemplated by the PEI Merger Agreement, (iii) as required by law or regulation or (iv) as otherwise expressly consented to in writing by FAL which consent will not be unreasonably withheld or delayed, prior to the Closing, SUG will:

(1) Not make or permit any material change in the general nature of its business;

(2) Maintain its present operations in the Ordinary Course of Business in accordance with prudent business judgment and consistent with past practice and policy, and maintain its assets in good repair, order and condition, reasonable wear and tear excepted, subject to retirements in the Ordinary Course of Business;

(3) Preserve SUG as an ongoing business and use reasonable efforts to maintain the goodwill associated with SUG; and

(4) Preserve all of SUG's franchises, tariffs, certificates of public convenience and necessity, licenses, authorizations and other governmental rights and permits.

(h) Access to SUG's Offices, Properties and Records; Updating Information.

(1) From and after the date hereof and until the Closing Date, SUG and its Subsidiaries shall permit FAL and its Representatives to have, on reasonable notice and at reasonable times, reasonable access to such of the offices, properties and employees of SUG and its Subsidiaries, and shall disclose, and make available to FAL and its Representatives all books, papers and records to the extent that they relate to the ownership, operation, obligations and liabilities of or pertaining to SUG, its Subsidiaries and their respective businesses and assets. Without limiting the application of the Confidentiality Agreement, all documents or information furnished by SUG and its Subsidiaries hereunder shall be subject to the Confidentiality Agreement.

(2) SUG will notify FAL as promptly as practicable of any significant change in the Ordinary Course of Business or operation of SUG or any of its Subsidiaries and of any material complaints, investigations or hearings (or communications indicating that the same may be contemplated) by any Governmental Body, or the institution or overt threat or settlement of any material Proceeding involving or affecting SUG or any of its Subsidiaries or the transactions contemplated by this Agreement, and shall use reasonable efforts to keep FAL fully informed of such events and permit FAL's Representatives access to all materials prepared in connection therewith consistent with any applicable Legal Requirement or Contract.

Section 6.3 Additional Agreements.

(a) The Registration Statement and the FAL Proxy Statement. As soon as practicable after the date hereof, FAL and SUG shall take such reasonable steps as are necessary for the prompt preparation and filing with the SEC of (i) the FAL Proxy Statement by FAL and (ii) the Registration Statement, which will include certain information contained in the FAL Proxy Statement, by SUG. The foregoing shall include without limitation: (i) obtaining and

furnishing the information required to be included therein, (ii) after consultation between FAL and SUG, responding promptly to any comments made by the SEC with respect to the FAL Proxy Statement and the Registration Statement and any amendments and preliminary version thereof and (iii) causing the Registration Statement to become effective, and the FAL Proxy Statement to be mailed to FAL's stockholders at the earliest practicable date. FAL agrees, as to information with respect to FAL, its officers, directors, stockholders and Subsidiaries contained in the Registration Statement and the FAL Proxy Statement, and SUG agrees, as to information with respect to SUG, its officers, directors, stockholders and Subsidiaries contained in the Registration Statement and the FAL Proxy Statement, that such information, in the case of the FAL Proxy Statement at the time of the mailing of the FAL Proxy Statement and (as then amended or supplemented) at the time of the FAL Meeting, or in the case of the Registration Statement at the time of the mailing of the FAL Proxy Statement (as then amended or supplemented), at the time of the FAL Meeting and at the effective time of the Registration Statement, will not contain any untrue statement of material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. No representation, warranty, covenant or agreement is made by or on behalf of FAL with respect to information supplied by any other Person for inclusion in the FAL Proxy Statement or the Registration Statement. No representation, warranty, covenant or agreement is made by or on behalf of SUG with respect to information supplied by any other Person for inclusion in the FAL Proxy Statement or the Registration Statement. No filing of, or amendment or supplement to, the FAL Proxy Statement or the Registration Statement shall be made by any party hereto without providing the other party with the opportunity to review and comment thereon (except for any ongoing SEC reporting required of SUG or FAL that will be incorporated by reference). If at any time prior to the Effective Time any information relating to any party hereto or any of their respective officers, directors, stockholders or Subsidiaries, should be discovered by any party hereto which should be set forth in an amendment or supplement to the FAL Proxy Statement or the Registration Statement so that the FAL Proxy Statement or the Registration Statement would not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party hereto and an appropriate amendment or supplement describing such information shall be promptly prepared, filed with the SEC and, to the extent required by law, disseminated to the stockholders of FAL, as may be necessary.

(b) Further Assurances. Each of SUG and FAL agrees, and FAL agrees to cause its Subsidiaries, to take all such reasonable and lawful action as may be necessary or appropriate in order to effectuate the Merger in accordance with this Agreement as promptly as possible. If, at any time after the Effective Time, any such further action is necessary or desirable to carry out the purpose of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Acquired Companies, the officers and directors of the Surviving Corporation will be fully authorized to take, and will take, all such lawful and necessary action.

(c) Financial Statements to be Provided. Upon SUG's request, FAL shall (i) provide to SUG audited and unaudited financial statements required to be included in the

proxy statements and the registration statement contemplated by the PEI Merger Agreement and (ii) cause its independent accountants to deliver to SUG and PEI the required consents in connection therewith.

ARTICLE VII
CONDITIONS

Section 7.1 Conditions to SUG's Obligation to Effect the Merger. The obligation of SUG to effect the transactions contemplated by this Agreement shall be subject to fulfillment at or prior to the Closing of the following conditions:

(a) Representations and Warranties True as of the Closing Date. FAL's representations and warranties in this Agreement shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on the Closing Date; provided, however, that any such representation or warranty that is qualified by any standard of materiality (including, but not limited to, FAL Material Adverse Effect) shall have then been, and shall then be, accurate in all respects.

(b) Compliance with Agreements. The covenants, agreements and conditions required by this Agreement to be performed and complied with by any of the Acquired Companies shall have been performed and complied with in all material respects prior to or at the Closing Date.

(c) Certificate. FAL shall execute and deliver to SUG a certificate of an authorized officer of FAL, dated the Closing Date, stating that the conditions specified in Sections 7.1(a) and 7.1(b) of this Agreement applicable to the Acquired Companies have been satisfied.

(d) Governmental Approvals. All approvals, consents, opinions or rulings of all Governmental Bodies required in order to consummate the transactions contemplated hereby shall have been obtained by Final Order in such form as is, and with no conditions that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect or a material adverse effect on the business, operations, properties, financial condition or results of operations of the Surviving Corporation, or which would otherwise, in the reasonable determination of SUG, be unduly burdensome to the Surviving Corporation or any of its Affiliates. In addition, and without limitation of the condition set forth in the immediately preceding sentence, the Massachusetts Department of Telecommunications and Energy shall have resolved, by means of a Final Order, the manner in which the Surviving Corporation as a whole and its operating division in Massachusetts will be regulated under Chapter 164 of the Massachusetts General Laws, and such resolution shall be acceptable to SUG in its sole discretion. The applicable waiting period under the HSR Act with respect to the transactions contemplated hereby shall have expired or have been terminated.

(e) Third Party Consents. Each of the consents required under Section 5.4 of this Agreement shall have been obtained to the reasonable satisfaction of SUG, other than any such consents which, if not obtained, are not, individually or in the aggregate, reasonably likely

to result in a FAL Material Adverse Effect after the Closing. In addition, all consents and approvals required, under the terms of any note, bond or indenture listed in Section 5.4 of the FAL Disclosure Schedule to which any of the Acquired Companies is a party, shall have been obtained.

(f) Injunctions. On the Closing Date, there shall be no Orders which operate to restrain, enjoin or otherwise prevent the consummation of this Agreement or the Merger.

(g) Resignations. Each director of each Acquired Company shall resign any position as a director of an Acquired Company effective as of the Closing Date in accordance with such Acquired Company's Organizational Documents and applicable provisions of the MBCL; provided, however, that such resignations shall not cause the termination of any such Person's employment as an employee of an Acquired Company or reduce any such employee's then current level of compensation.

(h) Opinion of Tax Counsel. On the Closing Date, SUG shall have received from Hughes Hubbard & Reed LLP, counsel to SUG, an opinion to the effect that the Merger will constitute a "reorganization" within the meaning of IRC Section 368(a)(1)(A), and that no gain or loss will be recognized by SUG or FAL with respect to the Merger.

(i) FAL Stockholders' Approval. The FAL Stockholders' Approval shall have been obtained.

(j) Appraisal Rights. Demand for payment for shares and appraisal thereof by stockholders of FAL in accordance with the MBCL with respect to the Merger shall not equal or exceed 5 percent of the shares of FAL Common Stock entitled to vote on the Merger.

(k) Rule 145 Letters. Each Rule 145 Affiliate shall have executed and delivered to SUG a Rule 145 Letter, in form and substance reasonably satisfactory to SUG and its counsel.

(l) Registration Statement. The Registration Statement shall have become effective, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(m) Listing of SUG Common Stock. The shares of SUG Common Stock constituting the Stock Consideration shall have been authorized for listing, upon official notice of issuance, on the NYSE.

(n) FAL Bondholders' Consent. All holders of each series of First Mortgage Bonds issued and outstanding under the Indenture of First Mortgage, dated as of December 1, 1952, between FAL and State Street Bank and Trust Company, successor in interest to the First National Bank of Boston, successor by merger to Old Colony Trust Company, as Trustee, as amended or supplemented from time to time, shall have consented to such amendments to such Indenture as requested by SUG.

Section 7.2 Conditions to FAL's Obligations to Effect the Merger. The obligation of FAL to effect the transactions contemplated by this Agreement shall be subject to fulfillment at or prior to the Closing of the following conditions:

(a) Representations and Warranties True as of the Closing Date. SUG's representations and warranties in this Agreement shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on the Closing Date; provided, however, that any such representation or warranty that is qualified by any standard of materiality (including, but not limited to, SUG Material Adverse Effect) shall have then been, and shall then be, accurate in all respects.

(b) Compliance with Agreements. The covenants, agreements and conditions required by this Agreement to be performed and complied with by SUG shall have been performed and complied with in all material respects prior to or at the Closing Date.

(c) Certificate. SUG shall execute and deliver to FAL a certificate of an authorized officer of SUG, dated the Closing Date, stating that the conditions specified in Sections 7.2(a) and 7.2(b) of this Agreement applicable to SUG have been satisfied.

(d) Governmental Approvals. All approvals, consents, opinions or rulings of all Governmental Bodies required in order to consummate the transactions contemplated hereby shall have been obtained by Final Order in such form as is, and with no conditions that are, individually or in the aggregate, reasonably likely to have a material adverse effect on the business, operations, properties, financial condition or results of operations of the Surviving Corporation. The applicable waiting period under the HSR Act with respect to the transactions contemplated hereby shall have expired or have been terminated.

(e) Injunctions. On the Closing Date, there shall be no Orders which operate to restrain, enjoin or otherwise prevent the consummation of this Agreement or the Merger.

(f) Opinion of Counsel. On the Closing Date, FAL shall have received from Rich, May, Bilodeau & Flaherty, P.C., counsel to FAL, an opinion to the effect that the Merger will be treated for federal income tax purposes as a "reorganization" within the meaning of IRC Section 368(a), and that no gain or loss will be recognized for federal income tax purposes by the stockholders of FAL who receive SUG Common Stock in the Merger upon their receipt of the Merger Consideration, except that any realized gain will be recognized to the extent of the amount of cash reeeived (including cash in lieu of the fractional shares).

(g) FAL Stockholders' Approval. The FAL Stockholders' Approval shall have been obtained.

(h) Registration Statement. The Registration Statement shall have become effective, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(i) Listing of SUG Common Stock. The shares of SUG Common Stock constituting the Stock Consideration shall have been authorized for listing, upon official notice of issuance, on the NYSE.

ARTICLE VIII
TERMINATION

Section 8.1 Termination Rights. This Agreement may be terminated in its entirety at any time prior to the Closing:

(a) By the mutual written consent of SUG and FAL;

(b) By FAL, on the one hand, or SUG, on the other hand, in writing if there shall be in effect a non-appealable order of a court of competent jurisdiction prohibiting the consummation of the Merger in accordance with this Agreement;

(c) By FAL, by written notice to SUG, if there is a breach of any representation, warranty, covenant or agreement of SUG, which breach cannot be cured and would cause the conditions set forth in Section 7.2(a) or (b) to be incapable of being satisfied;

(d) By SUG, by written notice to FAL, if there is a breach of any representation, warranty, covenant or agreement of FAL, which breach cannot be cured and would cause the conditions set forth in Section 7.1(a) or (b) to be incapable of being satisfied;

(e) By FAL, by written notice to SUG in accordance with Section 6.1(h)(2); provided, however, that the termination described in this clause (e) shall not be effective unless and until FAL shall have paid SUG the fee described in Section 8.3(a) and FAL has substantially contemporaneously entered into a definitive agreement with respect to the proposed Business Combination;

(f) By FAL, by written notice to SUG, if the FAL Stockholders' Approval is not obtained at the FAL Meeting or by SUG, by written notice to FAL, if the FAL Stockholders' Approval is not obtained at the FAL Meeting; provided, however, that there has not been a material misrepresentation or a material breach of covenant, warranty or agreement contained herein on the part of the party asserting its right to terminate pursuant to this Section 8.1(f);

(g) By SUG, by written notice to FAL, if the Board of Directors of FAL or any committee thereof (i) withdraws or modifies, or proposes publicly to withdraw or modify, in a manner adverse to SUG, the approval or recommendation by the Board of Directors or such committee of the Merger or this Agreement, (ii) approves or recommends, or proposes publicly to approve or recommend, a Business Combination, (iii) causes FAL to enter into a definitive agreement related to any Business Combination or (iv) resolves to take any of the actions specified in clause (i), (ii) and (iii) above;

business day) such fee was required to be paid, compounded on a daily basis using a 360-day year.

ARTICLE IX
INDEMNIFICATION; REMEDIES

Section 9.1 Directors' and Officers' Indemnification.

(a) Indemnification and Insurance. For a period of six years after the Effective Time, the Surviving Corporation will indemnify and hold harmless the present and former officers and directors of FAL and its Subsidiaries (the "Indemnified Parties") in respect of acts or omissions occurring prior to the Effective Time to the extent provided under FAL's articles of organization and bylaws in effect on the date hereof; provided, however, that if any claim or claims are asserted or made within such six-year period, all rights to indemnification in respect of such claims shall continue until the final disposition of any and all such claims. For six years after the Effective Time, the Surviving Corporation will use its reasonable best efforts to provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each such person currently covered by FAL's officers' and directors' liability insurance policy on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date hereof; provided, however, that in satisfying its obligation under this Section, if the annual premiums of such insurance coverage exceed 200% of the previous year's premiums, the Surviving Corporation will be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Board of Directors of the Surviving Corporation for a cost not exceeding such amount.

(b) Successors. In the event the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then and in either such case, proper provisions must be made so that the successors and assigns of the Surviving Corporation will assume the obligations set forth in this Section 9.1.

(c) Survival of Indemnification. To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of any Acquired Company with respect to their activities as such prior to the Effective Time, as provided in their respective Organizational Documents in effect on the date hereof, or otherwise in effect on the date hereof, will survive the Merger and will continue in full force and effect except for amendments to make changes permitted by law that would enhance the rights of past or present officers and directors to indemnification or advancement of expenses in respect of acts or omissions occurring prior to the Effective Time for a period of not less than six years from the Effective Time (or, in the case of matters occurring prior to the Effective Time which have not been resolved prior to the sixth anniversary of the Effective Time, until such matters are finally resolved).

Section 9.2 Representations and Warranties. Each and every representation and warranty of either party shall expire at, and be terminated and extinguished with, the Effective Time.

ARTICLE X
GENERAL PROVISIONS

Section 10.1 Expenses. Each of the parties will pay all costs and expenses of its performance of and compliance with this Agreement, except (i) as provided in Section 8.3 and as expressly provided otherwise herein, (ii) FAL shall pay all fees and expenses of counsel for FAL, (iii) SUG will pay all real estate transfer taxes and real estate recording fees, if any, including expenses of counsel associated with real estate title, transfer and recording issues in connection with the Merger, and all filing and application fees paid to Governmental Bodies in connection with the Merger and (iv) SUG and FAL will each pay half of the combined costs of printing and mailing to the FAL stockholders the prospectus that is a part of the Registration Statement and the FAL Proxy Statement.

Section 10.2 Notices. All notices, requests and other communications hereunder shall be in writing and shall be deemed to have been given upon receipt if either (a) personally delivered, (b) sent by prepaid first class mail, and registered or certified and a return receipt requested or (c) by facsimile telecopier with completed transmission acknowledged:

if to SUG, to:

Southern Union Company
504 Lavaca Street, Suite 800
Austin, Texas 78701
Attention: Peter H. Kelley
President and Chief Operating Officer
Telecopier: (512) 477-3879

with a copy to:

Pennsylvania Enterprises, Inc.
One PEI Center
Wilkes-Barre, Pennsylvania 18711-0601
Attention: Thomas F. Karam
President and Chief Executive Officer
Telecopier: (570) 829-8900

and

Hughes Hubbard & Reed LLP
One Battery Park Plaza
New York, New York 10004

Attention: Garett J. Albert
Telecopier: (212) 422-4726

if to FAL, to:

Fall River Gas Company
155 North Main Street
Fall River, Massachusetts 02722
Attention: Bradford J. Faxon
President and Chief Executive Officer
Telecopier: (508) 675-7811

with a copy to:

Rich, May, Bilodeau & Flaherty, P.C.
176 Federal Street
Boston, Massachusetts 02110
Attention: Eric J. Krathwohl
Telecopier: (617) 556-3889

or at such other address or number as shall be given in writing by a party to the other parties.

Section 10.3 Assignment. This Agreement may not be assigned by any party hereto without the prior written consent of the other parties hereto. Any assignment in violation of the terms of this Agreement shall be null and void *ab initio*.

Section 10.4 Successor Bound. Subject to the provisions of Section 10.3, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 10.5 Governing Law; Forum; Consent to Jurisdiction. This Agreement shall be construed in accordance with and governed by the laws of the State of New York except to the extent that the terms and consummation of the Merger are subject to the DGCL or the MBCL in which case such laws shall govern. Each party to this Agreement hereby irrevocably and unconditionally (i) consents to submit to the exclusive jurisdiction of the federal courts of the Southern District of New York in the county of New York and the borough of Manhattan and the jurisdiction of the federal courts of the District of Massachusetts in the county of Suffolk and the city of Boston for any proceeding arising in connection with this Agreement (and each such party agrees not to commence any such proceeding, except in such courts), (ii) to the extent such party is not a resident of the State of New York or the Commonwealth of Massachusetts, agrees to appoint agents in the State of New York and the Commonwealth of Massachusetts as such party's agents for acceptance of legal process in any such proceeding against such party with the same legal force and validity as if served upon such party personally within the State of New York or the Commonwealth of Massachusetts, respectively, and to notify promptly each other party hereto of the name and address of each such agent, (iii) waives any objection to the laying

of venue of any such proceeding in the federal courts of the Southern District of New York in the county of New York and the borough of Manhattan or the federal courts of the District of Massachusetts in the county of Suffolk and the city of Boston, and (iv) waives, and agrees not to plead or to make, any claim that any such proceeding brought in any federal court of the Southern District of New York or the District of Massachusetts has been brought in an improper or otherwise inconvenient forum.

Section 10.6 Waiver of Trial By Jury. EACH PARTY TO THIS AGREEMENT HEREBY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH ANY SUCH PARTY MAY BE A PARTY ARISING OUT OF OR IN ANY WAY PERTAINING TO (i) THIS AGREEMENT, (ii) THE MERGER, (iii) THE CONFIDENTIALITY AGREEMENT OR (iv) ANY RELATED DOCUMENTS. IT IS AGREED AND UNDERSTOOD THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES WHO ARE PARTIES TO THIS AGREEMENT. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY EACH PARTY HERETO, AND EACH SUCH PARTY HEREBY REPRESENTS AND WARRANTS THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY PERSON TO INDUCE THIS WAIVER OR TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. EACH PARTY TO THIS AGREEMENT FURTHER REPRESENTS AND WARRANTS THAT EACH SUCH PARTY HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF EACH SUCH PARTY'S OWN FREE WILL, AND THAT EACH SUCH PARTY HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

Section 10.7 Cooperation; Further Documents.

(a) Each of the parties hereto agrees to use its 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 under applicable laws, regulations or otherwise, to consummate and to make effective the transactions contemplated by this Agreement, including, without limitation, the timely performance of all actions and things contemplated by this Agreement to be taken or done by each of the parties hereto.

(b) Each party shall cooperate with the other party in such other party's discharge of the obligations hereunder, which shall include making reasonably available to the other party such of its personnel as have relevant information, with respect thereto.

Section 10.8 Construction of Agreement. The terms and provisions of this Agreement represent the results of negotiations between the parties hereto and their Representatives, each of which has been represented by counsel of its own choosing, and neither of which has acted under duress or compulsion, whether legal, economic or otherwise. Accordingly, the terms and provisions of this Agreement shall be interpreted and construed in accordance with their usual and customary meanings, and FAL and SUG hereby waive the application in connection with the

interpretation and construction of this Agreement of any rule of law to the effect that ambiguous or conflicting terms or provisions contained in this Agreement shall be interpreted or construed against the party whose attorney prepared the executed draft or any earlier draft of this Agreement.

Section 10.9 Publicity; Organizational and Operational Announcements. No party hereto shall issue, make or cause the publication of any press release or other announcement with respect to this Agreement or the transactions contemplated hereby, or otherwise make any disclosures relating thereto, without the consent of the other party, such consent not to be unreasonably withheld or delayed; provided, however, that such consent shall not be required where such release or announcement is required by applicable law or the rules or regulations of a securities exchange, in which event the party so required to issue such release or announcement shall endeavor, wherever possible, to furnish an advance copy of the proposed release to the other party.

Section 10.10 Waiver. Except as otherwise expressly provided in this Agreement, neither the failure nor any delay on the part of any party to exercise any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise or waiver of any such right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege available to each party at law or in equity.

Section 10.11 Parties in Interest. This Agreement (including the documents and instruments referred to herein) is not intended to confer upon any Person, other than the parties hereto and their successors and permitted assigns, any rights or remedies hereunder, except that the parties hereto agree and acknowledge that the agreements and covenants contained in Section 9.1 are intended for the direct and irrevocable benefit of the Indemnified Parties described therein and their respective heirs or legal representatives (each such director or Indemnified Party, a "Third Party Beneficiary"), and that each such Third Party Beneficiary, although not a party to this Agreement, shall be and is a direct and irrevocable third party beneficiary of such agreements and covenants and shall have the right to enforce such agreements and covenants against the Surviving Corporation in all respects fully and to the same extent as if such Third Party Beneficiary were a party hereto.

Section 10.12 Specific Performance. The parties hereto agree that irreparable damage would occur to a party in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that any party shall be entitled to an injunction or injunctions to prevent breaches of this agreement by any other party and to enforce specifically, to the fullest extent available, the terms and provisions hereof, including each party's obligation to close, in any court of the United States or any state having jurisdiction, this being in addition to any other right or remedy to which any party is entitled at law or in equity.

Section 10.13 Section and Paragraph Headings. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 10.14 Amendment. This Agreement may be amended only by an instrument in writing executed by the parties hereto.

Section 10.15 Entire Agreement. This Agreement, the exhibits, annexes and schedules hereto and the documents specifically referred to herein and the Confidentiality Agreement constitute the entire agreement, understanding, representations and warranties of the parties hereto with respect to the subject matter hereof.

Section 10.16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SOUTHERN UNION COMPANY

By: _____
Name: Ronald J. Endres
Title: Executive Vice President

FALL RIVER GAS COMPANY

By: _____
Name: Bradford J. Faxon
Title: President and Chief Executive Officer

By: _____
Name: Peter H. Thanas
Title: Senior Vice President and Treasurer

[SEAL]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SOUTHERN UNION COMPANY

By: _____
Name: Ronald J. Endres
Title: Executive Vice President

FALL RIVER GAS COMPANY

By: _____
Name: Bradford J. Faxon
Title: President and Chief Executive Officer

By: _____
Name: Peter H. Thanas
Title: Senior Vice President and Treasurer

[SEAL]

TERM LOAN CREDIT AGREEMENT

DATED AS OF AUGUST 28, 2000

BY AND AMONG

SOUTHERN UNION COMPANY

as the Borrower,

THE BANKS NAMED HEREIN

as the Banks,

THE CHASE MANHATTAN BANK

as the Administrative Agent,

BANK ONE, NA

as the Syndication Agent,

FIRST UNION NATIONAL BANK

as the Documentation Agent,

BANK OF AMERICA, N.A., FLEET NATIONAL BANK, THE FUJI BANK, LIMITED

AND

THE NORINCHUKIN BANK, NEW YORK BRANCH

as the Co-Agents

AND

CHASE SECURITIES INC.

as the Sole Book Manager and Lead Arranger

TERM LOAN CREDIT AGREEMENT

SOUTHERN UNION COMPANY, a corporation organized under the laws of Delaware (hereinafter called the "Borrower"), the financial institutions listed on the signature pages hereof (collectively, the "Banks" and individually, a "Bank"), THE CHASE MANHATTAN BANK, a New York banking corporation ("Chase") in its capacity as administrative agent (the "Agent") for the Banks hereunder, BANK ONE, NA, a national banking association, in its capacity as syndication agent (the "Syndication Agent") for the Banks hereunder, and FIRST UNION NATIONAL BANK, a national banking association, in its capacity as documentation agent (the "Documentation Agent") for the Banks hereunder, hereby agree as follows:

1. CERTAIN DEFINITIONS. As used in this Agreement, the following terms shall have the following meanings:

"**Additional Costs**" shall mean, with respect to any Rate Period in the case of any Eurodollar Rate Loan, all costs, losses or payments, as determined by any Bank in its sole and absolute discretion (which determination shall be conclusive in the absence of manifest error) that such Bank or its Domestic Lending Office or its Eurodollar Lending Office does, or would, if such Eurodollar Rate Loan were funded during such Rate Period by the Domestic Lending Office or the Eurodollar Lending Office of such Bank, incur, suffer or make by reason of:

(a) any and all present or future taxes (including, without limitation, any interest equalization tax or any similar tax on the acquisition of debt obligations, or any stamp or registration tax or duty or official or sealed papers tax), levies, imposts or any other charge of any nature whatsoever imposed by any taxing authority on or with regard to any aspect of the transactions contemplated by this Agreement, except such taxes as may be measured by the overall net income of such Bank or its Domestic Lending Office or its Eurodollar Lending Office and imposed by the jurisdiction, or any political subdivision or taxing authority thereof, in which such Bank's Domestic Lending Office or its Eurodollar Lending Office is located; and

(b) any increase in the cost to such Bank of agreeing to make or making, funding or maintaining any Eurodollar Rate Loan because of or arising from (i) the introduction of, or any change (other than any change by way of imposition or increase of reserve requirements, in the case of any Eurodollar Rate Loan, included in the Eurodollar Rate Reserve Percentage) in or in the interpretation or administration of, any law or regulation or (ii) the compliance with any request from any central bank or other governmental authority (whether or not having the force of law).

"**Affiliate**" shall mean any Person controlling, controlled by or under common control with any other Person. For purposes of this definition, "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or otherwise. If any Person shall own, directly or indirectly, beneficially or of record, twenty percent (20%) or more of the voting equity (whether outstanding capital stock, partnership interests or otherwise) of another Person, such Person shall be deemed to be an Affiliate.

"**Agent**" shall have the meaning set forth in the preamble hereto.

"**Agreement**" shall mean this Term Loan Credit Agreement, as the same may be amended, modified, supplemented or restated from time to time.

"**Alternate Base Rate**" shall mean, for any day, a rate, per annum (rounds upward to the nearest 1/16 of 1%) equal to: (a) the greatest of (i) the Prime Rate (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) in effect on such day; or (ii) the Federal Funds Rate in effect for such day plus one-half of one percent (1/2%) (computed on the basis of the actual number of days elapsed over a year of 360 days).

"**Alternate Base Rate Loan**" shall mean any Loan which bears interest at the Alternate Base Rate.

"**Applicable Lending Office**" shall mean, with respect to each Bank, such Bank's (a) Domestic Lending Office in the case of an Alternate Base Rate Loan; and (b) Eurodollar Lending Office in the case of a Eurodollar Rate Loan.

"**Assignment and Acceptance**" shall have the meaning set forth in Section 12.13.

"**Available Senior Funded Debt Capacity**" for any period shall mean, as of the first day of that period, the principal amount of additional Senior Funded Debt that the Borrower would be permitted to issue under the then existing indentures, note purchase agreements and credit agreements (other than the Agreement and other revolving credit agreements).

"**Bank**" shall have the meaning set forth in the preamble hereto and shall include the Agent, in its individual capacity.

"**Borrower**" shall have the meaning set forth in the preamble hereto.

"**Borrowing Date**" shall mean a date upon which the Borrower has requested a Loan (or if applicable, the rollover or conversion of the principal balance of any outstanding Loan hereunder for any subsequent Rate Period) to be made in a Notice of Borrowing delivered pursuant to Section 2.1.

"**Business Day**" shall mean a day when the Agent is open for business, provided that, if the applicable Business Day relates to any Eurodollar Rate Loan, it shall mean a day when the Agent is open for business and banks are open for business in the London interbank market and in New York City.

"**Capital Lease**" shall mean any lease of any Property (whether real, personal, or mixed) which, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of the lessee.

"**Capitalized Lease Obligations**" shall mean, for the Borrower and its Subsidiaries, any of their obligations that should, in accordance with GAAP, be recorded as Capital Leases.

"**Cash Interest Expense**" shall mean, for any period, total interest expense to the extent paid in cash (including the interest component of Capitalized Lease Obligations and capitalized interest

and all dividends and interest paid on or with respect to Borrower's Structured Securities) of the Borrower and any Subsidiary for such period all as determined in conformity with GAAP.

"**Closing Date**" shall mean August 28, 2000.

"**Code**" shall mean the Internal Revenue Code of 1986, as amended, as now or hereafter in effect, together with all regulations, rulings and interpretations thereof or thereunder issued by the Internal Revenue Service.

"**Commitment**" shall have the meaning set forth in Section 2.1(a) and "Commitments" shall mean, collectively, the Commitments of all of the Banks.

"**Consolidated Net Income**" shall mean for any period the consolidated net income of the Borrower and all Subsidiaries, determined in accordance with GAAP, for such period.

"**Consolidated Net Worth**" shall mean, for any period for the Borrower and all Subsidiaries, (a) the consolidated stockholders' equity of the Borrower and its Subsidiaries, and preferred securities of the Borrower's Subsidiaries, all determined in accordance with GAAP, less (b) the sum of the following consolidated items, without duplication: the book amount of any deferred charges (including, but not limited to, unamortized debt discount and expenses, organization expenses, experimental and development expenses, but excluding prepaid expenses) that are not permitted to be recovered by the Borrower under rates permitted under rate tariffs, plus (c) the sum of all amounts contributed or paid by the Borrower to the Rabbi Trusts for purposes of funding the same, but only to the extent such contributions and payments are required to be deducted from the consolidated stockholders' equity of the Borrower and its Subsidiaries in accordance with GAAP.

"**Consolidated Total Capitalization**" shall mean at any time the sum of: (a) Consolidated Net Worth at such time; plus (b) the principal amount of outstanding Debt of the Borrower and its Subsidiaries.

"**Consolidated Total Indebtedness**" shall mean all Debt of the Borrower and all Subsidiaries including any current maturities thereof, plus, without duplication, all amounts outstanding under Standby Letters of Credit, including without limitation, all Revolving Facility Letters of Credit.

"**Debt**" means (without duplication), for any Person indebtedness for money borrowed determined in accordance with GAAP but in any event including, (a) indebtedness of such Person for borrowed money or arising out of any extension of credit to or for the account of such Person (including, without limitation, extensions of credit in the form of reimbursement or payment obligations of such Person relating to letters of credit issued for the account of such Person) or for the deferred purchase price of property or services, except indebtedness which is owing to trade creditors in the ordinary course of business and which is due within thirty (30) days after the original invoice date; (b) indebtedness of the kind described in clause (a) of this definition which is secured by (or for which the holder of such Debt has any existing right, contingent or otherwise, to be secured by) any Lien upon or in Property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness or obligations; (c) Capitalized Lease Obligations of such Person; (d)

obligations under direct or indirect Guaranties other than Guaranties issued by the Borrower covering obligations of the Southern Union Trusts under the Structured Securities. Whenever the definition of Debt is being used herein in order to compute a financial ratio or covenant applicable to the consolidated business of the Borrower and its Subsidiaries, Debt which is already included in such computation by virtue of the fact that it is owed by a Subsidiary of the Borrower will not also be added by virtue of the fact that the Borrower has executed a guaranty with respect to such Debt that would otherwise require such guaranteed indebtedness to be considered Debt hereunder. Nothing contained in the foregoing sentence is intended to limit the other provisions of this Agreement which contain limitations on the amount and types of Debt which may be incurred by the Borrower or its Subsidiaries.

"**Debtor Laws**" shall mean all applicable liquidation, conservatorship, bankruptcy, moratorium, arrangement, receivership, insolvency, reorganization, or similar laws, or general equitable principles from time to time in effect affecting the rights of creditors generally.

"**Default**" shall mean any of the events specified in Section 10, whether or not there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act.

"**Dollars**" and "**$**" shall mean lawful currency of the United States of America.

"**Domestic Lending Office**" shall mean, with respect to each Bank, the office of such Bank located at its "Address for Notices" set forth below the name of such Bank on the signature pages hereof or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

"**EBDIT**" shall mean for any period the sum of (a) consolidated net earnings for the Borrower and its Subsidiaries (excluding for all purposes hereof all extraordinary items), plus (b) each of the following to the extent actually deducted in deriving such net earnings: (i) depreciation and amortization expense; (ii) interest expense; (iii) federal and state income taxes; and (iv) dividends charged against income on or with respect to Structured Securities, in each case before adjustment for extraordinary items, as shown in the financial statements of Borrower and its Subsidiaries referred to in Section 6.2 hereof (excluding for all purposes hereof all extraordinary items), and determined in accordance with GAAP, and (c) plus (or minus, if applicable) the net amount of non-cash deductions from (or additions to, if applicable) such net earnings for such period attributable to fluctuations in the market price(s) of securities which the Borrower is obligated to purchase in future periods under any of the Rabbi Trusts, but only to the extent that such deductions (or additions, if applicable) are required to be taken in accordance with GAAP.

"**Eligible Assignee**" shall mean: (i) any Bank, or any Affiliate of any Bank, or any institution 100% of the voting stock of which is directly, or indirectly owned by such Bank or by the immediate or remote parent of such Bank; or (ii) a commercial bank, a foreign branch of a United States commercial bank, a domestic branch of a foreign commercial bank or other financial institution having in each case assets in excess of $1,000,000,000.00.

"**Environmental Law**" shall mean (a) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C.A. § 9601 *et seq.*), as amended from time to time, and any and all rules and regulations issued or promulgated thereunder ("CERCLA"); (b) the Resource Conservation and Recovery Act (as amended by the Hazardous and Solid Waste Amendment of 1984, 42 U.S.C.A. § 6901 *et seq.*), as amended from time to time, and any and all rules and regulations promulgated thereunder ("RCRA"); (c) the Clean Air Act, 42 U.S.C.A. § 7401 *et seq.*, as amended from time to time, and any and all rules and regulations promulgated thereunder; (d) the Clean Water Act of 1977, 33 U.S.CA § 1251 *et seq.*, as amended from time to time, and any and all rules and regulations promulgated thereunder; (e) the Toxic Substances Control Act, 15 U.S.C.A. § 2601 *et seq.*, as amended from time to time, and any and all rules and regulations promulgated thereunder; or (f) any other federal or state law, statute, rule, or emulation enacted in connection with or relating to the protection or regulation of the environment (including, without limitation, those laws, statutes, rules, and regulations regulating the disposal, removal, production, storing, refining, handling, transferring, processing, or transporting of Hazardous Materials) and any rules and regulations issued or promulgated in connection with any of the foregoing by any governmental authority, and "**Environmental Laws**" shall mean each of the foregoing.

"**EPA**" shall mean the Environmental Protection Agency, or any successor organization.

"**ERISA**" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and all rules, regulations, rulings and interpretations thereof issued by the Internal Revenue Service or the Department of Labor thereunder.

"**Eurocurrency Liabilities**" shall have the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"**Eurodollar Lending Office**" shall mean, with respect to each Bank, the office of such Bank located at its "Address for Notices" set forth below the name of such Bank on the signature pages hereof, or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

"**Eurodollar Rate**" shall mean with respect to the applicable Rate Period in effect for each Eurodollar Rate Loan, the sum of (a) the quotient obtained by dividing (i) the annual rate of interest determined by the Agent, at or before 11:00 a.m. Houston time (or as soon thereafter as practicable), on the second Business Day prior to the first day of such Rate Period, to be the annual rate of interest at which deposits of Dollars are offered to the Agent by prime banks in whatever Eurodollar interbank market may be selected by the Agent in its sole discretion, acting in good faith, at the time of determination and in accordance with then existing practice in such market for delivery on the first day of such Rate Period in immediately available funds and having a maturity equal to such Rate Period in an amount substantially equal to the amount of such Eurodollar Rate Loan by (ii) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Rate Period, plus (b) an additional percentage per annum changing with the rating of the Borrower's unsecured, non-credit enhanced Senior Funded Debt and determined in accordance with the following grid:

Rating of the Borrower's unsecured, non-credit enhanced Senior Funded Debt	Additional Percentage Per Annum
Equal to or greater than A3 by Moody's Investor Service, Inc. and equal to or greater than A- by Standard and Poor's Ratings Group	0.775%
Baa1 by Moody's Investor Service, Inc. or BBB+ by Standard and Poor's Ratings Group	0.875%
Baa2 by Moody's Investor Service, Inc. or BBB by Standard and Poor's Ratings Group	0.925%
Baa3 by Moody's Investor Service, Inc. or BBB- by Standard and Poor's Ratings Group	1.000%
Equal to or less than Ba1 by Moody's Investor Service, Inc. and equal to or less than BB+ by Standard and Poor's Ratings Group	1.500%

In the event that Borrower withdraws from having its unsecured, non-credit enhanced Senior Funded Debt being rated by Moody's Investor Service, Inc. or Standard and Poor's Ratings Group, so that one or both of such ratings services fails to rate the Borrower's unsecured, non-credit enhanced Senior Funded Debt, the component of pricing from the grid set forth above for purposes of determining the applicable Eurodollar Rate for all Rate Periods commencing thereafter shall be 1.500% until such time as Borrower subsequently causes its unsecured, non-credit enhanced Senior Funded Debt to be rated by both of said ratings services.

"**Eurodollar Rate Loan**" shall mean any Loan that bears interest at the Eurodollar Rate.

"**Eurodollar Rate Reserve Percentage**" of the Agent for any Rate Period for any Eurodollar Rate Loan shall mean the reserve percentage applicable during such Rate Period (or if more than one such percentages shall be so applicable, the daily average of such percentages for those days in such Rate Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental, or other marginal reserve requirement) for member banks of the Federal Reserve System with deposits exceeding $1,000,000,000 with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Rate Period.

"**Event of Default**" shall mean any of the events specified in Section 10, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act.

"**Expiration Date**" shall mean the last day of a Rate Period.

"**Federal Funds Rate**" shall mean, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates (rounded to the nearest 1/100 of 1%) on overnight federal fund transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from Fulton Prebon and Garvin Guy Butler or two other federal funds brokers of recognized standing selected by the Agent.

"**Funded Debt**" means all Debt of a Person which matures more than one year from the date of creation or matures within one year from such date but is renewable or extendible, at the option of such Person, by its terms or by the terms of any instrument or agreement relating thereto, to a date more than one year from such date or arises under a revolving credit or similar agreement which obligates Banks to extend credit during a period of more than one year from such date, including, without limitation, all amounts of any Funded Debt required to be paid or prepaid within one year from the date of determination of the existence of any such Funded Debt.

"**GAAP**" shall mean generally accepted accounting principles, applicable to the circumstances as of the date of determination, applied consistently with such principles as applied in the preparation of the Borrowers audited financial statements referred to in Section 6.2.

"**General Intangibles**" shall mean all of the Borrower's contract rights now existing or hereafter acquired, arising or created under contracts or arrangements for the purchase, sale, storage or transportation of gas or other Inventory.

"**Governmental Authority**" shall mean any (domestic or foreign) federal, state, county, municipal, parish, provincial, or other government, or any department, commission, board, court, agency (including, without limitation, the EPA), or any other instrumentality of any of them or any other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of, or pertaining to, government, including, without limitation, any arbitration panel, any court, or any commission.

"**Governmental Requirement**" means any Order, Permit, law, statute (including, without limitation, any Environmental Protection Statute), code, ordinance, rule, regulation, certificate, or other direction or requirement of any Governmental Authority.

"**Guaranty**" means, with respect to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of another Person, including, without limitation, by means of an agreement to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to maintain financial covenants, or to assure the payment of such Debt by an agreement to make payments in respect of goods or services regardless of whether delivered or to purchase or acquire the Debt of another, or otherwise, provided that the term "Guaranty" shall not include endorsements for deposit or collection in the ordinary course of business.

"**Hazardous Materials**" shall mean any substance which, pursuant to any Environmental Laws, requires special handling in its collection, use, storage, treatment or disposal, including but not limited to any of the following: (a) any "hazardous waste" as defined by RCRA; (b) any "hazardous substance" as defined by CERCLA; (c) asbestos; (d) polychlorinated biphenyls; (e) any flammables, explosives or radioactive materials; and (f) any substance, the presence of which on any of the Borrower's or any Subsidiary's properties is prohibited by any Governmental Authority.

"**Highest Lawful Rate**" shall mean, with respect to each Bank, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged, or received with respect to the Notes or on other amounts, if any, due to such Bank pursuant to this Agreement, under laws applicable to such Bank which are presently in effect, or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

"**Indemnified Parties**" shall have the meaning set forth in Section 12.16.

"**Interest Payment Date**" shall mean (a) as to any Eurodollar Rate Loan in which the Rate Period with respect thereto is not greater than three (3) months, the date on which such Rate Period ends; (b) as to any Eurodollar Rate Loan in which the Rate Period with respect thereto is greater than three (3) months, the date on which the third month of such Rate Period ends, and the date on which each such Rate Period ends; (c) as to any Alternate Base Rate Loan in which the Rate Period with respect thereto is not greater than ninety (90) days, the date on which such Rate Period ends; (d) as to any Alternate Base Rate Loan in which the Rate Period with respect thereto is greater than ninety (90) days, the ninetieth (90th) day of such Rate Period, and the date on which each such Rate Period ends; and (e) as to all Loans, such time as the principal of and interest on the Notes shall have been paid in full.

"**Inventory**" means, with respect to Borrower or any Subsidiary, all of such Person's now owned or hereafter acquired or created inventory in all of its forms and of every nature, wherever located, whether acquired by purchase, merger, or otherwise, and all raw materials, work in process therefor and finished goods thereof, and all supplies, materials, and products of every nature and description used, usable, or consumed in connection with the manufacture, packing, shipping, advertising, selling, leasing, furnishing, or production of such goods, and shall include, in any event, all "inventory" (within the meaning of such term in the Uniform Commercial Code in effect in any applicable jurisdiction), whether in mass or joint, or other interest or right of any kind in goods which are returned to, repossessed by, or stopped in transit by such Person, and all accessions to any of the foregoing and all products of any of the foregoing.

"**Investment**" of any Person means any investment so classified under GAAP, and, whether or not so classified, includes (a) any direct or indirect loan advance made by it to any other Person; (b) any direct or indirect Guaranty for the benefit of such Person; provided, however, that for purposes of determining Investments of Borrower hereunder, the existing Guaranty by Borrower of certain tax increment financing extended by The Fidelity Deposit and Discount Bank to The Redevelopment Authority of the County of Lackawanna shall be deemed to not be an Investment; (c) any capital contribution to any other Person; and (d) any ownership or similar interest in any other Person; and the amount of any Investment shall be the original principal or capital amount

thereof (plus any subsequent principal or capital amount) minus all cash returns of principal or capital thereof.

"**Letter(s) of Credit**" shall mean, in the singular form, any letter of credit issued by any Person for the account of the Borrower and, in the plural form, all such letters of credit issued by any Person for the account of the Borrower.

"**Lien**" shall mean any mortgage, deed of trust, pledge, security interest, encumbrance, lien (including without limitation, any such interest arising under any Environmental Law), or similar charge of any kind (including without limitation, any agreement to give any of the foregoing, any conditional sale or other title retention agreement or any lease in the nature thereof), or the interest of the lessor under any Capital Lease.

"**Loan**" or "**Loans**" shall mean a loan or loans, respectively, from the Banks to the Borrower made under Section 2.1.

"**Loan Document**" shall mean this Agreement, any Note, or any other document, agreement or instrument now or hereafter executed and delivered by the Borrower or any other Person in connection with any of the transactions contemplated by any of the foregoing, as any of the foregoing may hereafter be amended, modified, or supplemented, and "**Loan Documents**" shall mean, collectively, each of the foregoing.

"**Majority Banks**" shall mean at any time Banks holding more than 50% of the unpaid principal amounts outstanding under the Notes, or, if no such amounts are outstanding, more than 50% of the Pro Rata Percentages.

"**Material Adverse Effect**" shall mean any material adverse effect on (a) the financial condition, business, properties, assets, prospects or operations of the Borrower and its Subsidiaries taken as a whole, or (b) the ability of the Borrower to perform its obligations under this Agreement, any Note or any other Loan Document on a timely basis.

"**Maturity Date**" shall mean August 27, 2001, as the same may be extended pursuant to the provisions of Section 2.4 hereof.

"**Non-Revolving Credit Facility Letter of Credit**" shall mean any Letter of Credit which is not a Revolving Credit Facility Letter of Credit.

"**Note**" or "**Notes**" shall mean a promissory note or notes, respectively, of the Borrower, executed and delivered under this Agreement.

"**Notice of Borrowing**" shall have the meaning set forth in Section 2.1(c).

"**Obligations**" shall mean all obligations of the Borrower to the Banks under this Agreement, the Notes and all other Loan Documents to which it is a party.

"**Officer's Certificate**" shall mean a certificate signed in the name of the Borrower by either its President, one of its Vice Presidents, its Treasurer, its Secretary, or one of its Assistant Treasurers or Assistant Secretaries.

"**Pending Acquisitions**" shall mean collectively the following described mergers by the Borrower with such specified entities, so long as (i) after the finalization and consummation of such mergers the Borrower is the surviving entity and (ii) such mergers are finalized and consummated on or before October 31, 2000 in substantial compliance with the following specified terms:

(a) The contemplated merger of the Borrower and Fall River Gas Company announced October 5, 1999, whereby the Borrower acquires Fall River Gas Company for consideration of approximately $75,000,000.00, including assumption of certain existing Debt of Fall River Gas Company;

(b) The contemplated merger of the Borrower and Providence Energy Corporation announced November 15, 1999, whereby the Borrower acquires Providence Energy Corporation for consideration of approximately $400,000,000.00, including assumption of certain existing Debt of Providence Energy Corporation, with each shareholder of Providence Energy Corporation receiving cash of $42.50 per each outstanding share of Providence Energy Corporation; and

(c) The contemplated merger of the Borrower and Valley Resources, Inc. announced December 1, 1999, whereby the Borrower acquires Valley Resources, Inc. for consideration of approximately $160,000,000.00, including assumption of certain existing Debt of Valley Resources, Inc., with each shareholder of Valley Resources, Inc. receiving cash of $25.00 per each outstanding share of Valley Resources, Inc.

"**Person**" shall mean an individual, partnership, joint venture, corporation, joint stock company, bank, trust, unincorporated organization and/or a government or any department or agency thereof.

"**Plan**" shall mean any plan subject to Title IV of ERISA and maintained for employees of the Borrower or of any member of a "controlled group of corporations," as such term is defined in the Code, of which the Borrower or any Subsidiary is a member, or any such plan to which the Borrower or any Subsidiary is required to contribute on behalf of its employees.

"**Prime Rate**" shall mean, on any day, the rate determined by the Agent as being its prime rate for that day. Without notice to the Borrower or any other Person, the Prime Rate shall change automatically from time to time as and in the amount by which said Prime Rate shall fluctuate, with each such change to be effective as of the date of each change in such Prime Rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. The Agent may make commercial or other loans at rates of interest at, above or below the Prime Rate.

"**Pro-Rata Percentage**" shall mean with respect to any Bank, a fraction (expressed as a percentage), the numerator of which shall be the amount of such Bank's Commitment and the denominator of which shall be the aggregate amount of all the Commitments of the Banks, as adjusted from time to time in accordance with Section 3.6.

"**Property**" shall mean any interest or right in any kind of property or asset, whether real, personal, or mixed, owned or leased, tangible or intangible, and whether now held or hereafter acquired.

"**Qualifying Assets**" shall mean (i) equity interests owned one hundred percent (100%) by the Borrower in entities engaged primarily in one or more of the Borrower's lines of business described in Section 6.15 (singly, a "Qualified Entity," collectively, "Qualified Entities"), or productive assets used in one or more of such lines of business; provided, however, that as to any related group of such assets acquired for a purchase price of more than Sixty Million Dollars ($60,000,000.00) (including the amount of any Debt assumed or deemed incurred in connection with such acquisition), the Majority Banks shall have delivered to the Borrower their prior written consent; and (ii) equity interests of less than one hundred percent (100%) owned by the Borrower in one or more Qualifying Entities, provided that at any one time the amount of the Borrower's investment in Qualifying Assets described in clause (ii) (measured by the aggregate purchase price paid therefor, including the aggregate amount of Debt assumed or deemed incurred by Borrower in connection with such acquisitions) does not exceed ten percent (10%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date.

"**Rabbi Trusts**" shall mean those four (4) certain non-qualified deferred compensation irrevocable trusts existing as of the Closing Date, previously established by the Borrower for the benefit of its executive employees, so long as the assets in each of such trusts which have not yet been distributed to one or more executive employees of the Borrower remain subject to the claims of the Borrower's general creditors.

"**Rate Period**" shall mean the period of time for which the Alternate Base Rate or the Eurodollar Rate shall be in effect as to any Alternate Base Rate Loan or Eurodollar Rate Loan, as the case may be, commencing with the Borrowing Date or the Expiration Date of the immediately preceding Rate Period, as the case may be, applicable to and ending on the effective date of any rollover borrowing made as provided in Section 2.2(a) as the Borrower may specify in the related Notice of Borrowing, subject, however, to the early termination provisions of the second sentence of Section 2.3(b) relating to any Eurodollar Rate Loan; provided, however, that any Rate Period that would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Rate Period shall end on the next preceding Business Day. For any Alternate Base Rate Loan, the Rate Period shall be 90 days; and for any Eurodollar Rate Loan the Rate Period may be 15 days, 1, 2, 3, or 6 months, in each case as specified in the applicable Notice of Borrowing, subject to the provisions of Sections 2.2 and 2.3.

"**Release**" shall mean a "release", as such term is defined in CERCLA.

"**Restricted Payment**" shall mean the Borrower's declaration or payment of any dividend on, or purchase or agreement to purchase any of, or making of any other distribution with respect to, any of its capital stock, except any such dividend, purchase or distribution consisting solely of capital stock of the Borrower, and except any dividend or interest paid on or with respect to the Borrower's Structured Securities to the extent that such amounts are included in Cash Interest Expense.

"Revolving Credit Facilities" shall mean (a) that certain $90,000,000.00 revolving credit facility provided to the Borrower under the terms of that certain Amended and Restated Revolving Credit Agreement (Short-Term Credit Facility) dated effective May 31, 2000 by and among the Borrower, Chase Bank of Texas, National Association, as administrative agent, and the banks or financial institutions now or hereafter a party thereto, (b) that certain $135,000,000.00 revolving credit facility provided to the Borrower under the terms of that certain Amended and Restated Revolving Credit Agreement (Long-Term Credit Facility) dated effective May 31, 2000 by and among the Borrower, Chase Bank of Texas, National Association, as administrative agent, and the banks or financial institutions now or hereafter a party thereto, and (c) any and all amendments, modifications, increases, supplements and/or restatements of either of said revolving credit facilities now or hereafter existing from time to time.

"Revolving Credit Facility Letter(s) of Credit" shall mean, in the singular form, any Standby Letter of Credit issued for the account of the Borrower under either of the Revolving Credit Facilities and, in the plural form, all such Standby Letters of Credit issued for the account of the Borrower.

"Securities Act" shall have the meaning set forth in Section 12.1.

"Senior Funded Debt" shall mean Funded Debt of the Borrower excluding Debt that is contractually subordinated in right of payment to any other Debt.

"Senior Notes" means (a) the $475,000,000 of 7.6% Senior Notes of the Borrower previously placed with investors on or about January 31, 1994, and (b) the $300,000,000 of 8.25% Senior Notes of the Borrower previously placed with investors on or about November 3, 1999, as such Senior Notes may be amended, modified, or supplemented from time to time in accordance with the terms of this Agreement; and **"Senior Note"** means each such note individually.

"Significant Property" shall mean at any time property or assets of the Borrower or any Subsidiary having a book value (net of accumulated depreciation taken in accordance with GAAP) of at least $5,000,000.00 or that contributed (or is an integrated physical portion of an assemblage of assets that contributed) at least 5% of the gross income of the owner thereof for the fiscal quarter most recently ended.

"Southern Union Trust" means any of those certain Delaware business trusts organized for the sole purpose of purchasing Subordinated Debt Securities constituting a portion of, and described in the definition of, Structured Securities and issuing the Preferred Securities and Common Securities also constituting a portion of, and described in the definition of, Structured Securities, and having no assets other than the Borrower's Subordinated Debt Securities, the Guaranties (as described in the definition of Structured Securities) and the proceeds thereof. Southern Union Trusts shall be considered to be Subsidiaries for purposes hereof so long as their affairs are consolidated under GAAP and for federal income tax purposes with the affairs of the Borrower.

"Standby Letter of Credit" shall mean any standby letter of credit issued to support obligations (contingent or otherwise) of the Borrower.

"**Structured Securities**" shall mean collectively (a) the Subordinated Debt Securities, the Guaranties, the Common Securities and the Preferred Securities of the Southern Union Trusts, all as described and defined in the Registration Statement on Form S-3 filed by the Borrower with the Securities and Exchange Commission on March 25, 1995, and (b) subordinated debt securities, guaranties, common securities and/or preferred securities hereafter issued in connection with the consummation of the Pending Acquisitions in an aggregate face amount of not more than $150,000,000 upon terms and conditions substantially similar in all material respects to the terms and conditions described and defined in such Registration Statement on Form S-3 filed by the Borrower with the Securities and Exchange Commission on March 25, 1995. For all purposes of this Agreement, the amounts payable by Southern Union Trusts under the Preferred Securities and Common Securities (or similar securities provided for under subclause (b) above) and the amounts payable by the Borrower under the Subordinated Debt Securities or the Guaranties (or similar securities provided for under subclause (b) above) shall be treated without duplication, it being recognized that the amounts payable by Southern Union Trusts are funded with payments made or to be made by the Borrower to Southern Union Trusts and are also guaranteed by the Borrower under the Guaranties described in the S-3 mentioned above (or similar guaranties provided for under subclause (b) above).

"**Subsidiary**" or "**Subsidiaries**" shall mean any corporation or corporations organized under the laws of any state of the United States of America, Canada, or any province of Canada, which conduct(s) the major portion of business in the United States of America or Canada and of which not less than 50% of the voting stock of every class (except for directors' qualifying shares), at the time as of which any determination is being made, is owned by the Borrower either directly or indirectly through other Subsidiaries.

"**Type**" shall mean, with respect to any Loan, any Alternate Base Rate Loan or any Eurodollar Rate Loan.

2. THE LOANS

2.1 The Loans

(a) Subject to the terms and conditions and relying upon the representations and warranties of the Borrower herein set forth, each Bank severally agrees to make Loans to the Borrower on any one or more Business Days prior to October 31, 2000, up to an aggregate principal amount of Loans not exceeding at any time outstanding the amount set opposite such Bank's name on the signature pages hereof (such Bank's "Commitment"); provided, however, that notwithstanding the foregoing or any other provision to the contrary contained herein, the Borrower shall only be entitled to request and receive up to four (4) separate, new Loans hereunder, and each Bank's unused Commitment shall automatically terminate without notice to the Borrower or any other Person on the earlier to occur of October 31, 2000 or immediately after the Agent has received and disbursed to the Borrower such Bank's Pro Rata Percentage of the fourth new Loan advance requested hereunder by the Borrower. The Borrower may not borrow, repay and reborrow any Loan advanced hereunder. However, prior to the Maturity Date, the Borrower shall be entitled to request and receive

"rollover" borrowings in accordance with the other provisions of this Agreement for purposes of continuing or converting the applicable rate of interest to accrue on the principal balance of any outstanding Loan hereunder for any subsequent Rate Period in accordance with the other terms of this Agreement, but such rollover borrowings alone shall not change the outstanding principal balance of the Loans or be construed to make this Agreement or the credit facility evidenced hereby a revolving credit facility.

(b) The Borrower shall execute and deliver to the Agent for each Bank to evidence the Loans made by each Bank under such Bank's Commitment, a Note, which shall be: (i) dated the date of the Closing Date; (ii) in the principal amount of such Bank's maximum Commitment; (iii) in substantially the form attached hereto as Exhibit A, with blanks appropriately filled; (iv) payable to the order of such Bank on the Maturity Date; and (v) subject to acceleration upon the occurrence of an Event of Default. Each Note shall bear interest on the unpaid principal amount thereof from time to time outstanding at the rate per annum determined as specified in Sections 2.2(a), 2.2(b), 2.3(b) and 2.3(c), payable on each Interest Payment Date and at maturity, commencing with the first Interest Payment Date following the date of each Note.

(c) Each Loan (or if applicable, the rollover of the principal balance of any outstanding Loan hereunder for any subsequent Rate Period) shall be: (i) in the case of any Eurodollar Rate Loan, in an amount of not less than $1,000,000.00 or an integral multiple of $1,000,000.00 in excess thereof; or (ii) in the case of any Alternate Base Rate Loan, in an amount of not less than $500,000.00 or an integral multiple of $100,000.00 in excess thereof and, at the option of the Borrower, any borrowing under this Section 2.1(c) may be comprised of two or more such Loans bearing different rates of interest. Each such borrowing (including the rollover of the principal balance of any Loan hereunder for any subsequent Rate Period) shall be made upon prior notice from the Borrower to the Agent in the form attached hereto as Exhibit B (the "Notice of Borrowing") delivered to the Agent not later than 11:00 am (Houston time): (i) on the third Business Day prior to the Borrowing Date, if such borrowing consists of Eurodollar Rate Loans; and (ii) on the Borrowing Date, if such borrowing consists of Alternate Base Rate Loans. Each Notice of Borrowing shall be irrevocable and shall specify: (i) the amount of the proposed borrowing and of each Loan comprising a part thereof; (ii) the Borrowing Date; (iii) the rate of interest that each such Loan shall bear; (iv) the Rate Period with respect to each such Loan and the Expiration Date of each such Rate Period; and (v) with respect to each new Loan advance requested in accordance with the terms of Section 2.2(a), the demand deposit account of the Borrower at The Chase Manhattan Bank into which the proceeds of the borrowing are to be deposited by the Agent. The Borrower may give the Agent telephonic notice by the required time of any proposed borrowing under this Section 2.1(c); provided that such telephonic notice shall be confirmed in writing by delivery to the Agent promptly (but in no event later than the Borrowing Date relating to any such borrowing) of a Notice of Borrowing. Neither the Agent nor any Bank shall incur any liability to the Borrower in acting upon any telephonic notice referred to above which the Agent believes in good faith to have been given by the Borrower, or for otherwise acting in good faith under this Section 2.1(c).

(d) In the case of a proposed borrowing comprised of Eurodollar Rate Loans, the Agent shall promptly notify each Bank of the applicable interest rate under Section 2.2. With respect to each new Loan advance requested by the Borrower in accordance with the terms of Section 2.2(a), each Bank shall, before 11:00 am (Houston time) on the Borrowing Date, make available for the account of its Applicable Lending Office to the Agent at the Agent's address set forth in Section 12.4, in same day funds, its Pro Rata Percentage of such borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Section 7, on the Borrowing Date, the Agent shall make the borrowing available to the Borrower at its Applicable Lending Office in immediately available funds. Each Bank shall post on a schedule attached to its Note(s): (i) the date and principal amount of each Loan made under such Note; (ii) the rate of interest each such Loan will bear; and (iii) each payment of principal thereon; provided, however, that any failure of such Bank so to mark such Note shall not affect the Borrower's obligations thereunder; and provided further that such Bank's records as to such matters shall be controlling whether or not such Bank has so marked such Note. Any deposit to the Borrower's demand deposit account by the Agent or by The Chase Manhattan Bank (of funds received from the Agent) pursuant to a request (whether written or oral) believed by the Agent or by The Chase Manhattan Bank to be an authorized request by the Borrower for a Loan hereunder shall be deemed to be a Loan hereunder for all purposes with the same effect as if the Borrower had in fact requested the Agent to make such Loan.

(e) Unless the Agent shall have received notice from a Bank prior to the date of any new Loan to be advanced hereunder that such Bank will not make available to the Agent such Bank's Pro Rata Percentage of such borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such borrowing in accordance with this Section 2.1 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such Pro Rata Percentage available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, (i) in the case of the Borrower, at the interest rate applicable at the time to the Loans comprising such borrowing, and (ii) in the case of such Bank, at the Federal Funds Rate. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan as part of such borrowing for purposes of this Agreement.

(f) The failure of any Bank to make the Loan to be made by it as part of any borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its Loan on the date of such borrowing, but no Bank shall be responsible for the failure of any other Bank to make the Loan to be made by such other Bank on the date of any borrowing.

2.2 Interest Rate Determination

(a) Except as specified in Sections 2.3(b) and 2.3(c), the Loans shall bear interest on the unpaid principal amount thereof from time to time outstanding, until maturity, at a rate per annum (calculated based on a year of 360 days in the case of the Eurodollar Rate or the

Alternate Base Rate based on the Federal Funds Rate and a year of 365 or 366 days, as the case may be, in the case of the Alternate Base Rate based on the Prime Rate) equal to the lesser of (A) the rate specified in the Notice of Borrowing with respect thereto or (B) the Highest Lawful Rate from the first day to, but not including, the Expiration Date of the Rate Period then in effect with respect thereto.

(b) Any principal, interest, fees or other amount owing hereunder, under any Note or under any other Loan Document that is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest at a rate per annum equal to the lesser of (i) two percent (2%) above the Alternate Base Rate in effect from time to time or (ii) the Highest Lawful Rate.

2.3 Additional Interest Rate Provisions

(a) The respective Note of each Bank may be held by the applicable Bank for the account of its respective Domestic Lending Office or its respective Eurodollar Lending Office, and may be transferred from one to the other from time to time as each Bank may determine.

(b) If the Borrower shall have chosen the Eurodollar Rate in a Notice of Borrowing and prior to the Borrowing Date, any Bank in good faith determines (which determination shall be conclusive) that (i) deposits in Dollars in the principal amount of such Eurodollar Rate Loan are not being offered to the Eurodollar Lending Office of such Bank in the Eurodollar interbank market selected by such Bank in its sole discretion in good faith or (ii) adequate and reasonable means do not exist for ascertaining the chosen Eurodollar Rate in respect of such Eurodollar Rate Loan or (iii) the Eurodollar Rate for any Rate Period for such Eurodollar Rate Loan will not adequately reflect the cost to such Bank of making or maintaining such Eurodollar Rate Loan for such Rate Period, then such Bank will so notify the Borrower and the Agent and such Eurodollar Rate shall not become effective as to such Eurodollar Rate Loan on such Borrowing Date or at any time thereafter until such time thereafter as the Borrower receives notice from the Agent that the circumstances giving rise to such determination no longer apply.

(c) Anything in this Agreement to the contrary notwithstanding, if at any time any Bank in good faith determines (which determination shall be conclusive) that the introduction of or any change in any applicable law, rule or regulation or any change in the interpretation or administration thereof by any governmental or other regulatory authority charged with the interpretation or administration thereof shall make it unlawful for the Bank (or the Eurodollar Lending Office of such Bank) to maintain or fund any Eurodollar Rate Loan, such Bank shall give notice thereof to the Borrower and the Agent. With respect to any Eurodollar Rate Loan which is outstanding when such Bank so notifies the Borrower, upon such date as shall be specified in such notice the Rate Period shall end and the lesser of (i) the Alternate Base Rate or (ii) the Highest Lawful Rate shall commence to apply in lieu of the Eurodollar Rate in respect of such Eurodollar Rate Loan and shall continue to apply unless and until the Borrower changes the rate as provided in Section 2.2(a). No more than five (5) Business Days after such specified date, the Borrower shall pay to such Bank (x)

accrued and unpaid interest on such Eurodollar Rate Loan at the Eurodollar Rate in effect at the time of such notice to but not including such specified date plus (y) such amount or amounts (to the extent that such amount or amounts would not be usurious under applicable law) as may be necessary to compensate such Bank for any direct or indirect costs and losses incurred by it (to the extent that such amounts have not been included in the Additional Costs in calculating such Eurodollar Rate), but otherwise without penalty. If notice has been given by such Bank pursuant to the foregoing provisions of this Section 2.3(c), then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, such Eurodollar Rate shall not again apply to such Loan or any other Loan and the obligation of such Bank to continue any Eurodollar Rate Loan as a Eurodollar Rate Loan shall be suspended. Any such claim by such Bank for compensation under clause (y) above shall be accompanied by a certificate setting forth the computation upon which such claim is based, and such certificate shall be conclusive and binding for all purposes, absent manifest error.

(d) **THE BORROWER WILL INDEMNIFY EACH BANK AGAINST, AND REIMBURSE EACH BANK ON DEMAND FOR, ANY LOSS (INCLUDING LOSS OF REASONABLY ANTICIPATED PROFITS DETERMINED USING REASONABLE ATTRIBUTION AND ALLOCATION METHODS), OR REASONABLE COST OR EXPENSE INCURRED OR SUSTAINED BY SUCH BANK (INCLUDING WITHOUT LIMITATION, ANY LOSS OR EXPENSE INCURRED BY REASON OF THE LIQUIDATION OR REEMPLOYMENT OF DEPOSITS OR OTHER FUNDS ACQUIRED BY SUCH BANK TO FUND OR MAINTAIN ANY EURODOLLAR RATE LOAN) AS A RESULT OF (i) ANY ADDITIONAL COSTS INCURRED BY SUCH BANK; (ii) ANY PAYMENT OR REPAYMENT (WHETHER AUTHORIZED OR REQUIRED HEREUNDER OR OTHERWISE) OF ALL OR A PORTION OF ANY LOAN ON A DAY OTHER THAN THE EXPIRATION DATE OF A RATE PERIOD FOR SUCH LOAN; (iii) ANY PAYMENT OR PREPAYMENT (WHETHER REQUIRED HEREUNDER OR OTHERWISE) OF ANY LOAN MADE AFTER THE DELIVERY OF A NOTICE OF BORROWING BUT BEFORE THE APPLICABLE BORROWING DATE IF SUCH PAYMENT OR PREPAYMENT PREVENTS THE PROPOSED BORROWING FROM BECOMING FULLY EFFECTIVE; OR (iv) AFTER RECEIPT BY THE AGENT OF A NOTICE OF BORROWING, THE FAILURE OF ANY LOAN TO BE MADE OR EFFECTED BY SUCH BANK DUE TO ANY CONDITION PRECEDENT TO A BORROWING NOT BEING SATISFIED BY THE BORROWER OR DUE TO ANY OTHER ACTION OR INACTION OF THE BORROWER. ANY BANK DEMANDING PAYMENT UNDER THIS SECTION 2.3(d) SHALL DELIVER TO THE BORROWER AND THE AGENT A STATEMENT REASONABLY SETTING FORTH THE AMOUNT AND MANNER OF DETERMINING SUCH LOSS, COST OR EXPENSE. THE FACTS SET FORTH IN SUCH STATEMENT SHALL BE CONCLUSIVE AND BINDING FOR ALL PURPOSES, ABSENT MANIFEST ERROR.**

(e) If, after the date of this Agreement, any Bank shall have determined that the adoption of any applicable law, rule, guideline, interpretation or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital as a consequence of its obligations hereunder and under similar lending arrangements to a level below that which such Bank could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material then the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(f) A certificate of such Bank setting forth such amount or amounts as shall be necessary to compensate such Bank as specified in subparagraph (e) above shall be delivered as soon as practicable to the Borrower (with a copy thereof to the agent) and to the extent determined in accordance with subparagraph (e) above shall be conclusive and binding, absent manifest error. The Borrower shall pay such Bank the amount shown as due on any such certificate within fifteen (15) days after such Bank delivers such certificate. In preparing such certificate, such Bank may employ such assumptions and allocations (consistently applied with respect to advances made by such Bank or commitments by such Bank to make advances) of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method (consistently applied with respect to advances made by such Bank or commitments by such Bank to make advances).

(g) In calculating the Eurodollar Rate payable under Section 4.1 hereof, and notwithstanding the provisions set forth in the definitions of Eurodollar Rate, in the event that the ratings for Borrower's unsecured, non-credit enhanced Senior Funded Debt under Standard & Poor's Ratings Group and under Moody's Investor Service, Inc. fall within different rating categories which are not functional equivalents, the Eurodollar Rate shall be based on the higher of such ratings if there is only one category difference between the functional equivalents of such ratings, and if there is a two category difference between the functional equivalents of such ratings, the component of pricing from the grid set forth in such definitions shall be based on the rating category which is then in the middle of or between the two category ratings which are then in effect.

2.4 Option to Extend the Maturity Date. Subject to the terms and conditions set forth in this Section 2.4, the Borrower is hereby granted the option to extend the Maturity Date to August 26, 2002, so long as no Default then exists as of the date that the Borrower elects to exercise such option or as of the initial August 27, 2001 Maturity Date hereunder. In order to validly exercise such option, the Borrower must notify the Agent in writing, on or before June 27, 2001, of the Borrower's intent to exercise of such option to extend the Maturity Date, and any such notice delivered to the Agent shall be irrevocable. If such written notice is timely furnished to the Agent by the Borrower, then effective as of the current Maturity Date of August 27, 2001, the Maturity Date shall be deemed

extended to August 26, 2002 if (a) no Default exists on either the date that the Agent receives from the Borrower such written notice of the Borrower's intent to exercise such option or on the August 27, 2001 effective date of the extension of the Maturity Date, and (b) the Borrower pays to the Agent, for the ratable benefit of the Banks, on the August 17, 2001 effective date of such extension of the Maturity Date an extension fee equal to 0.125% the aggregate principal balances of the Loans outstanding on the August 27, 2001 effective date such extension of the Maturity Date. Promptly after receipt of such notice from the Borrower of its intent to exercise such option to extend the Maturity Date in accordance with the provisions of this Section 2.4, the Agent shall notify the Banks of the Agent's receipt of such notice. Upon the effective date of the extension of the Maturity Date in accordance with the provisions of this Section 2.4, the Maturity Date of each Note shall be deemed to be extended to August 26, 2002, the terms and conditions of this Agreement will apply during such extension period, and from and after the August 27, 2001 effective date of such extension, the term "Maturity Date" shall mean August 26, 2002.

3. PAYMENTS AND PREPAYMENTS

3.1 Required Prepayments. The Borrower agrees to make prepayments of the Loans as follows:

(a) If at any time the Agent determines that the aggregate principal amount of Loans outstanding exceeds the Commitments, then the Borrower shall make a prepayment of principal of the Loans in an amount at least equal to such excess;

(b) If all of the Pending Acquisitions have not been finalized and fully consummated on or before October 31, 2000, then unless the Majority Banks otherwise consent in writing (to be delivered to the Agent on or before November 15, 2000) to waive the prepayment of the Loans otherwise required below in this Section 3.1, the Loans then outstanding shall be prepaid by the Borrower on or before December 31, 2000 in the amount necessary to cause the aggregate principal amount of the Loans outstanding on December 31, 2000 to not exceed the sum of the following specified amounts for the Pending Acquisition(s) finalized and fully consummated by the Borrower on or before October 31, 2000:

(i) Fall River Gas Company acquisition - $30,000,000.00 plus the lesser of (1) $20,000,000.00 or (2) the aggregate amount of Loan proceeds utilized for refinancing of existing Debt of Fall River Gas Company;

(ii) Providence Energy Corporation acquisition - $290,000,000.00 plus the lesser of (1) $85,000,000.00 or (2) the aggregate amount of Loan proceeds utilized for refinancing of existing Debt of Providence Energy Corporation ; and

(iii) Valley Resources, Inc. acquisition - $135,000,000.00 plus the lesser of (1) $30,000,000.00 or (2) the aggregate amount of Loan proceeds utilized for refinancing of existing Debt of Valley Resources, Inc.

(c) If any stock or other equity securities in Capstone Turbine Corporation now or hereafter owned by the Borrower or any of its Subsidiaries is sold or otherwise liquidated at any time after the Closing Date by the Borrower or its applicable Subsidiary, the Loans then outstanding shall be prepaid by the Borrower in an amount equal to (i) the net proceeds (i.e., gross proceeds received less (1) ordinary and customary commissions and other related sales costs and (2) the tax liability of the Borrower or its Subsidiary, as applicable, resulting from such sale or disposition) received by the Borrower or its applicable Subsidiary from such sale or other disposition of the applicable Capstone Turbine Corporation stock or other equity securities less (ii) $10,000,000.00, with such prepayment to be made in full on or before five (5) Business Days after the date of the applicable sale or disposition of such stock or other equity securities.

3.2 Repayment of the Loans. Borrower shall repay the principal amount of each Loan, on the last day of the Rate Period for such Loan, together with all accrued and unpaid interest thereon as of such date, irrespective of any claim, set off, defense, or other right which the Borrower may have at any time against any Bank, the Agent or any other Person; provided, however, that in lieu of such repayment of the principal amount of the applicable Loan on the last day of the Rate Period for such Loan, the Borrower may, to the extent otherwise permitted hereunder, rollover the outstanding principal balance of such applicable Loan for an additional Rate Period pursuant to a Notice of Borrowings submitted by the Borrower under the terms of Section 2.1(c).

3.3 Place of Payment or Prepayment. All payments and prepayments made in accordance with the provisions of this Agreement or of the Notes or of any other Loan Document in respect of commitment fees or of principal or interest on the Notes shall be made to the Agent for the account of the Banks at its Domestic Lending Office, no later than noon, Houston time, in immediately available funds. Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make any payment due hereunder in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due to such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the Federal Funds Rate. If and to the extent that the Agent receives any payment or prepayment from the Borrower and fails to distribute such payment or prepayment to the Banks ratably on the basis of their respective Pro Rata Percentage on the day the Agent receives such payment or prepayment, and such distribution shall not be so made by the Agent in full on the required day, the Agent shall pay to each Bank such Bank's Pro Rata Percentage thereof together with interest thereon at the Federal Funds Rate for each day from the date such amount is paid to the Agent by the Borrower until the date the Agent pays such amount to such Bank.

3.4 No Prepayment Premium or Penalty. Each prepayment pursuant to Section 3.1 or 3.3 shall be without premium or penalty, subject in the case of Eurodollar Rate Loans to the provisions of Section 2.3(d).

3.5 Taxes. All payments (whether of principal, interest, reimbursements or otherwise) under this Agreement or on the Notes shall be made by the Borrower without set off or counterclaim and shall be made free and clear of and without deduction for any present or future tax, levy, impost or any other charge, if any, of any nature whatsoever now or hereafter imposed by any taxing authority. If the making of such payments is prohibited by law, unless such a tax, levy, impost or other charge is deducted or withheld therefrom, the Borrower shall pay to the Banks, on the date of each such payment, such additional amounts as may be necessary in order that the net amounts received by the Banks after such deduction or withholding shall equal the amounts which would have been received if such deduction or withholding were not required.

3.6 Reduction or Termination of Commitments. The Borrower may at any time or from time to time reduce or terminate the Commitment of each Bank by giving not less than ten (10) full Business Days' prior written notice to such effect to the Agent, provided that any partial reduction shall be in the amount of $1,000,000.00 or an integral multiple thereof. Concurrently with each such reduction or termination, all amounts in excess of the reduced Commitments shall be automatically due and payable and it is a condition to the effectiveness of such reduction that the Borrower shall immediately prepay the entire amount of such excess together with all accrued interest thereon and such other amounts that may be required to be paid in consequence of such prepayment under Section 2.3(d). Promptly after the Agent's receipt of such notice of reduction, the Agent shall notify each Bank of the proposed reduction and such reduction shall be effective on the date specified in the Borrower's notice with respect to such reduction and shall reduce the Commitment of each Bank proportionately in accordance with its Pro Rata Percentage. After each such reduction, the commitment fee shall be calculated upon the Commitments as so reduced. The Commitment of each Bank shall automatically terminate on the Maturity Date or in the event of acceleration of the maturity date of the Notes. Additionally, as provided for under Section 2.1(a), each Bank's unused Commitment shall automatically terminate without notice to the Borrower or any other Person on the earlier to occur of October 31, 2000 or immediately after the Agent has received and disbursed to the Borrower such Bank's Pro Rata Percentage of the fourth new Loan advance requested hereunder by the Borrower. Each reduction of the Commitment hereunder shall be irrevocable.

4. COMMITMENT FEE AND OTHER FEES

4.1 Commitment Fee. The Borrower agrees to pay to the Agent for the account of each Bank a commitment fee based on a year of 360 days, from the Closing Date to, but not including, October 31, 2000 (or such earlier date that all unused Commitments shall have terminated under the terms of Section 2.1(a)), on the daily average unused amount of each Bank's Commitment, such commitment fee to be payable in arrears on October 31, 2000 (or such earlier date that all unused Commitments shall have terminated under the terms of Section 2.1(a)), at a rate per annum equal to 0.130%.

4.2 Fees Not Interest; Nonpayment. The fees described in this Agreement represent compensation for services rendered and to be rendered separate and apart from the lending of money or the provision of credit and do not constitute compensation for the use, detention, or forbearance of money, and the obligation of the Borrower to pay each fee described herein shall be in addition to, and not in lieu of, the obligation of the Borrower to pay interest, other fees described in this

Agreement, and expenses otherwise described in this Agreement. Fees shall be payable when due in Dollars and in immediately available funds. The commitment fee referred to in Section 4.1 shall be non-refundable, and shall, to the fullest extent permitted by law, bear interest, if not paid when due, at a rate per annum equal to the lesser of (a) five percent (5%) above the Alternate Base Rate as in effect from time to time or (b) the Highest Lawful Rate.

5. APPLICATION OF PROCEEDS. The Borrower agrees that the proceeds of the Loans shall be used to finance the costs and expenses incurred by the Borrower in finalizing and consummating any of the Pending Acquisitions, including without limitation, the refinancing of existing Debt of the entity acquired by the Borrower under the applicable Pending Acquisition; provided, however, that the aggregate amount of Loan proceeds utilized by the Borrower in excess of $450,000,000.00 shall only be utilized for refinancing of existing Debt of one or more of the entities acquired by the Borrower under the Pending Acquisitions; and provided further, however, that the aggregate amount of Loan proceeds utilized by Borrower shall not exceed in the aggregate the following specified amount for the applicable Pending Acquisition and in no event whatsoever shall the aggregate principal balances of the Loans outstanding exceed the Commitments:

(a) $50,000,000.00 for the Fall River Gas Company acquisition;

(b) $375,000,000.00 for the Providence Energy Corporation acquisition; and

(c) $165,000,000.00 for the Valley Resources, Inc. acquisition.

6. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

6.1 Organization and Qualification. The Borrower and each Subsidiary: (a) are corporations duly organized, validly existing, and in good standing under the laws of their respective states of incorporation; (b) have the corporate or organizational power to own their respective properties and to carry on their respective businesses as now conducted; and (c) are duly qualified as foreign corporations (or, in the case of any Southern Union Trust, trusts) to do business and are in good standing in every jurisdiction where such qualification is necessary except when the failure to so qualify would not or does not have a Material Adverse Effect. The Borrower is a corporation organized under the laws of Delaware and has the Subsidiaries listed on Schedule 6.1 attached hereto and hereby made a part hereof for all purposes, and no others, each of which is a Delaware corporation unless otherwise noted. None of the Subsidiaries listed on Schedule 6.1 as "Inactive Subsidiaries," conducts or will conduct any business, and none of such Subsidiaries has any assets other than minimum legal capitalization.

6.2 Financial Statements. The Borrower has furnished the Banks with (a) the Borrower's annual audit report containing the Borrower's consolidated balance sheet, statements of income and stockholder's equity and a cash flow statement as at and for the twelve month period ending June 30, 1999, accompanied by the certificate of Price Waterhouse Coopers and (b) the Borrower's unaudited financial report as of the fiscal quarter ending March 31, 2000. These

statements are complete and correct and present fairly in accordance with GAAP, consistently applied throughout the periods involved, the consolidated financial position of the Borrower and the Subsidiaries and the results of its and their operations as at the dates and for the periods indicated subject, as to interim statements only, to changes resulting from customary end-of-year credit adjustments which in the aggregate will not be material. There has been no material adverse change in the condition, financial or otherwise, of the Borrower or any Subsidiary since March 31, 2000.

6.3 Litigation. Except as disclosed on Schedule 6.3 or pursuant to Section 6.16, there is no: (a) action or proceeding pending or, to the knowledge of the Borrower, threatened against the Borrower or any Subsidiary before any court, administrative agency or arbitrator which is reasonably expected to have a Material Adverse Effect; (b) judgment outstanding against the Borrower for the payment of money; or (c) other outstanding judgment, order or decree affecting the Borrower or any Subsidiary before or by any administrative or governmental authority, compliance with or satisfaction of which may reasonably be expected to have a Material Adverse Effect.

6.4 Default. Neither the Borrower nor any Subsidiary is in default under or in violation of the provisions of any instrument evidencing any Debt or of any agreement relating thereto or any judgment, order, writ, injunction or decree of any court or any order, law, regulation or demand of any administrative or governmental instrumentality which default or violation might have a Material Adverse Effect.

6.5 Title to Assets. The Borrower and each Subsidiary have good and marketable title to their respective assets, subject to no Liens except those permitted in Section 9.2.

6.6 Payment of Taxes. The Borrower and each Subsidiary have filed all tax returns required to be filed and have paid all taxes shown on said returns and all assessments which are due and payable (except such as are being contested in good faith by appropriate proceedings for which adequate reserves for their payment have been provided in a manner consistent with the accounting practices followed by the Borrower as of March 31, 2000). The Borrower is not aware of any pending investigation by any taxing authority or of any claims by any governmental authority for any unpaid taxes, except as disclosed on Schedule 6.6.

6.7 Conflicting or Adverse Agreements or Restrictions. Neither the Borrower nor any Subsidiary is a party to any contract or agreement or subject to any restriction which would have a Material Adverse Effect. Neither the execution and delivery of this Agreement or the Notes or any other Loan Document nor the consummation of the transactions contemplated hereby nor fulfillment of and compliance with the respective terms, conditions and provisions hereof or of the Notes or of any instruments required hereby will conflict with or result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation or imposition of any lien (other than as contemplated or permitted by this Agreement) on any of the property of the Borrower or any Subsidiary pursuant to (a) the charter or bylaws applicable to the Borrower or any Subsidiary; (b) any law or any regulation of any administrative or governmental instrumentality; (c) any order, writ, injunction or decree of any court; or (d) the terms, conditions or provisions of any agreement or instrument to which the Borrower or any Subsidiary is a party or by which it is bound or to which it is subject.

6.8 Authorization, Validity, Etc. The Borrower has the corporate power and authority to make, execute, deliver and carry out this Agreement and the transactions contemplated herein, to make the borrowings provided for herein, to execute and deliver the Notes and to perform its obligations hereunder and under the Notes and the other Loan Documents to which it is a party and all such action has been duly authorized by all necessary corporate proceedings on its part. This Agreement has been duly and validly executed and delivered by the Borrower and constitutes the valid and legally binding agreement of the Borrower enforceable in accordance with its terms, except as limited by Debtor Laws; and the Notes and the other Loan Documents, when duly executed and delivered by the Borrower pursuant to the provisions hereof, will constitute the valid and legally binding obligation of the Borrower enforceable in accordance with the terms thereof and of this Agreement, except as limited by Debtor Laws.

6.9 Investment Company Act Not Applicable. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

6.10 Public Utility Holding Company Act Not Applicable. Neither the Borrower nor any Subsidiary is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company", or an affiliate of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

6.11 Regulations G, T, U and X. No Loan shall be a "purpose credit secured directly or indirectly by margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System ("margin stock"); none of the proceeds of any Loan will be used to extend credit to others for the purpose of purchasing or carrying any margin stock, or for any other purpose which would constitute this transaction a "purpose credit secured directly or indirectly by margin stock" within the meaning of said Regulation U, as now in effect or as the same may hereafter be in effect. Neither the Borrower nor any Subsidiary will take or permit any action which would involve the Banks in a violation of Regulation G, Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or a violation of the Securities Exchange Act of 1934, in each case as now or hereafter in effect. Not more than twenty-five percent (25%) of the value (as determined by any reasonable method) of the assets subject to the negative pledge set forth in Section 9.2 of the Credit Agreement and the restrictions on disposition of assets set forth in Section 9.8 of the Credit Agreement is represented by margin stock.

6.12 ERISA. No Reportable Event (as defined in § 4043(b) of ERISA) has occurred with respect to any Plan. Each Plan complies in all material respects with all applicable provisions of ERISA, and the Borrower and each Subsidiary have filed all reports required by ERISA and the Code to be filed with respect to each Plan. The Borrower has no knowledge of any event which could result in a liability of the Borrower or any Subsidiary to the Pension Benefit Guaranty Corporation. The Borrower and each Subsidiary have met all requirements with respect to funding the Plans imposed by ERISA or the Code. Since the effective date of Title IV of ERISA, there have not been any, nor are there now existing any, events or conditions that would permit any Plan to be terminated under circumstances which would cause the lien provided under § 4068 of ERISA to attach to any property of the Borrower or any Subsidiary. The value of the Plans' benefits

guaranteed under Title IV of ERISA on the date hereof does not exceed the value of such Plans' assets allocable to such benefits as of the date of this Agreement and shall not be permitted to do so hereafter.

6.13 No Financing of Certain Security Acquisitions. None of the proceeds of any Loan will be used to acquire any security in any transaction that is subject to §13 or §14 of the Securities Exchange Act of 1934, as amended.

6.14 Franchises, Co-Licenses, Etc. The Borrower and each Subsidiary own or have obtained all the material governmental permits, certificates of authority, leases, patents, trademarks, service marks, trade names, copyrights, franchises and licenses, and rights with respect thereto, required or necessary (or, in the sole and independent judgment of the Borrower, prudent) in connection with the conduct of their respective businesses as presently conducted or as proposed to be conducted.

6.15 Lines of Business. The nature of the Borrower's lines of business are predominately the following: (a) the operation of energy distribution and transportation services, including without limitation, natural gas sales and transportation and distribution, propane sales and distribution and promotion, marketing and sale of compressed natural gas and liquified natural gas; (b) the development and marketing of fuel cell and distributive energy options; (c) electric marketing/generation; (d) the operation of fuel oil distribution and transportation networks; and (e) sales and rentals of appliances utilizing one or more of the fuel or energy options specified in this Section 6.15.

6.16 Environmental Matters. Except as disclosed in Schedule 6.16, all facilities and property owned or leased by the Borrower or any Subsidiary have been and continue to be, owned or leased and operated by the Borrower and each Subsidiary in material compliance with all Environmental Laws; (i) there has not been (during the period of the Borrower's, or a Subsidiary's ownership or lease) any Release of Hazardous Materials at, on or under any property now (or, to the Borrower's knowledge, previously) owned or leased by the Borrower or any Subsidiary (A) in quantities that would be required to be reported under any Environmental Law, (B) that required, or may reasonably be expected to require, the Borrower to expend funds on remediation or cleanup activities pursuant to any Environmental Law except for remediation or clean-up activities that would not be reasonably expected to have a Material Adverse Effect, or (C) that otherwise, singly or in the aggregate, has, or may reasonably be expected to have, a Material Adverse Effect; (ii) the Borrower and each Subsidiary have been issued and are in material compliance with all permits, certificates, approvals, orders, licenses and other authorizations relating to environmental matters necessary for their respective businesses; and (iii) there are no polychlorinated biphenyls (PCB's) or asbestos-containing materials or surface impoundments in any of the facilities now (or, to the knowledge of the Borrower, previously) owned or leased by the Borrower or any Subsidiary, except for asbestos-containing materials of the type and in quantities that, to the knowledge of the borrower, do not currently require remediation, and if remediation of such asbestos-containing materials is hereafter required for any reason, such remediation activities would not reasonably be expected to have a Material Adverse Effect; (iv) Hazardous Materials have not been generated, used, treated, recycled, stored or disposed of in any of the facilities or on any of the property now (or, to the knowledge of the Borrower, previously) owned or leased by the Borrower or any Subsidiary during

the time of the Borrower's or such Subsidiary's ownership or leased by the Borrower or any Subsidiary during the time of the Borrower's or such Subsidiary's ownership except in material compliance with all applicable Environmental Laws; and (v) all underground storage tanks located on the property now (or, to the knowledge of the Borrower, previously) owned or leased by the Borrower or any Subsidiary have been (and to the extent currently owned or leased are) operated in material compliance with all applicable Environmental Laws.

7. CONDITIONS

The obligation of the Banks to make any Loans is subject to the following conditions:

7.1 Representations True and No Defaults

(a) The representations and warranties contained in Section 6 shall be true and correct on and as of the particular Borrowing Date as though made on and as of such date;

(b) The Borrower shall not be in default in the due performance of any covenant on its part contained in this Agreement;

(c) No material adverse change shall have occurred with respect to the business, assets, properties or condition (financial or otherwise) of the Borrower reflected in the quarterly financial statements of the Borrower dated March 31, 2000 (copies of such audited financial statements having been supplied to the Agent and each Bank); and

(d) No Event of Default or Default shall have occurred and be continuing.

7.2 Governmental Approvals. The Borrower shall have obtained all orders, approvals or consents of all public regulatory bodies required for the making and carrying out of this Agreement, the making of the borrowings pursuant hereto and the issuance of the Notes to evidence such borrowings.

7.3 Compliance With Law. The business and operations of the Borrower and each Subsidiary as conducted at all times relevant to the transactions contemplated by this Agreement to and including the close of business on the particular Borrowing Date shall have been and shall be in compliance in all material respects with all applicable State and Federal laws, regulations and orders affecting the Borrower and each Subsidiary and the business and operations of any of them.

7.4 Notice of Borrowing and Other Documents. On each Borrowing Date, the Banks shall have received (a) a Notice of Borrowing; and (b) such other documents and certificates relating to the transactions herein contemplated as the Banks may reasonably request.

7.5 Payment of Fees and Expenses. The Borrower shall have paid (a) all expenses of the type described in Section 12.3 through the date of such Loan or the issuance of such Facility Letter of Credit and (b) all closing, structuring and other invoiced fees owed as of the Closing Date to the Agent, any of the Banks and/or Chase Securities Inc. by the Borrower under this Agreement or any other written agreement between the Borrower and the Agent, the applicable Bank(s) or Chase Securities Inc. The Borrower hereby agrees to fully pay on the Closing Date all of such expenses,

closing, structuring and other fees described in the preceding sentence that are then owing on the Closing Date, to the extent that Borrower has been presented an invoice for the same on or before the Closing Date.

7.6 Loan Documents, Opinions and Other Instruments. As of the Closing Date, the Borrower shall have delivered to the Agent the following: (a) this Agreement, each of the Notes and all other Loan Documents required by the Agent and the Banks to be executed and delivered by the Borrower in connection with this Agreement; (b) a certificate from the Secretary of State of the State of Delaware as to the continued existence and good standing of the Borrower in the State of Delaware; (c) a certificate from Secretary of State of the State of Texas as to the continued qualification of the Borrower to do business in the State of Texas; (d) a current certificate from the Office of the Comptroller of the State of Texas as to the good standing of the Borrower in the State of Texas; (e) a Secretary's Certificate executed by the duly elected Secretary or a duly elected Assistant Secretary of the Borrower, in a form acceptable to the Agent, whereby such Secretary or Assistant Secretary certifies that one or more corporate resolutions adopted by the Board of Directors of the Borrower remain in full force and effect authorizing the Borrower to secure Loans in accordance with the terms of this Agreement; and (f) a legal opinion from in-house counsel for the Borrower, dated as of the Closing Date, addressed to the Agent and the Lenders and otherwise acceptable in all respects to the Agent in its discretion.

7.7 Consummation of Applicable Pending Acquisition. The applicable Pending Acquisition for which Borrower is requesting a new Loan hereunder to be utilized for payment of costs and expenses related to such Pending Acquisition shall be consummated and finalized prior to or contemporaneously with the funding of such requested new Loan.

7.8 Investment Services Ratings. With respect to the advance and funding of the initial Loan hereunder, the Agent shall have been furnished with a letter from each of Standard & Poor's Ratings Group and Moody's Investor Service, Inc. reflecting that the then current ratings for Borrower's unsecured, non-credit enhanced Senior Funded Debt as of the date of funding of such initial Loan hereunder is not less than BBB- by Standard & Poor's Ratings Group and not less than Baa3 by Moody's Investor Service, Inc. Additionally, with respect to each subsequent advance and funding of any new Loan requested hereunder by the Borrower after the advance and funding of the initial Loan (but excluding any "rollover" borrowings made in accordance with the other provisions of this Agreement), the Agent shall not have received written notice from Borrower or any Bank that the then current rating for Borrower's unsecured, non-credit enhanced Senior Funded Debt as of the date of funding of such subsequent Loan has fallen below BBB- , as determined by Standard & Poor's Ratings Group, or below Baa3, as determined by Moody's Investor Service, Inc. The submission by Borrower to the Agent of any Notice of Borrowing requesting the advance and funding of any new Loan hereunder (excluding any "rollover" borrowings made in accordance with the other provisions of this Agreement) shall constitute a representation and warranty by Borrower to the Agent and the Banks that Borrower has not received any notice that Borrower's unsecured, non-credit enhanced Senior Funded Debt, as of the date of submission of such Notice of Borrowing, has fallen below BBB- , as determined by Standard & Poor's Ratings Group, or below Baa3, as determined by Moody's Investor Service, Inc.

8. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that, so long as the Borrower may borrow hereunder (including rollover borrowings discussed under Section 2.1(a)) and until payment in full of the Notes, and its other obligations under this Agreement and the other Loan Documents the Borrower will:

8.1 Financial Statements and Information. Deliver to the Banks:

(a) as soon as available, and in any event within 120 days after the end of each fiscal year of the Borrower, a copy of the annual audit report of the Borrower and the Subsidiaries for such fiscal year containing a balance sheet, statements of income and stockholders equity and a cash flow statement, all in reasonable detail and certified by Price Waterhouse Coopers or another independent certified public accountant of recognized standing satisfactory to the Banks. The Borrower will obtain from such accountants and deliver to the Banks at the time said financial statements are delivered the written statement of the accountants that in making the examination necessary to said certification they have obtained no knowledge of any Event of Default or Default, or if such accountants shall have obtained knowledge of any such Event of Default or Default, they shall state the nature and period of existence thereof in such statement; provided that such accountants shall not be liable directly or indirectly to the Banks for failure to obtain knowledge of any such Event of Default or Default; and

(b) as soon as available, and in any event within sixty (60) days after the end of each quarterly accounting period in each fiscal year of the Borrower (excluding the fourth quarter), an unaudited financial report of the Borrower and the Subsidiaries as at the end of such quarter and for the period then ended, containing a balance sheet, statements of income and stockholders equity and a cash flow statement, all in reasonable detail and certified by a financial officer of the Borrower to have been prepared in accordance with GAAP, except as may be explained in such certificate; and

(c) copies of all statements and reports sent to stockholders of the Borrower or filed with the Securities and Exchange Commission; and

(d) such additional financial or other information as the Banks may reasonably request including, without limitation, copies of such monthly, quarterly, and annual reports of gas purchases and sales that the Borrower is required to deliver to or file with governmental bodies pursuant to tariffs and/or franchise agreements.

All financial statements specified in clauses (a) and (b) above shall be furnished in consolidated and consolidating form for the Borrower and all Subsidiaries with comparative consolidated figures for the corresponding period in the preceding year. Together with each delivery of financial statements required by clauses (a) and (b) above, the Borrower will deliver to the Banks (i) such schedules, computations and other information as may be required to demonstrate that the Borrower is in compliance with its covenants in Section 9.1 or reflecting any noncompliance therewith as at the applicable date and (ii) an Officer's Certificate stating that there exists no Event of Default or Default, or, if any such Event of Default or Default exists, stating the nature thereof, the period of existence thereof and what action the Borrower has taken or proposes to take with respect thereto.

The Banks are authorized to deliver a copy of any financial statement delivered to it to any regulatory body having jurisdiction over them, and to disclose same to any prospective assignees or participant Lenders.

8.2 Lease and Investment Schedules. Deliver to the Banks:

(a) from time to time and, in any event, with each delivery of annual financial statements under Section 8.1(a), a current, complete schedule of all agreements to rent or lease any property (personal, real or mixed, but not including oil and gas leases) to which the Borrower or any Subsidiary is a party lessee and which, considered independently or collectively with other leases with the same lessor, involve an obligation by the Borrower or a Subsidiary to make payments of at least $250,000.00 in any year, showing the total amounts payable under each such agreement, the amounts and due dates of payments thereunder and containing a description of the rented or leased property, and all other information the Majority Banks may request; and

(b) with each delivery of annual financial statements under Section 8.1(a) a current complete schedule listing all debt exceeding $200,000.00 in principal amount outstanding and equity owned or held by the Borrower or any Subsidiary containing all information required by, and in a form satisfactory to, the Banks, except for such debt or equity of Subsidiaries.

8.3 Books and Records. Maintain, and cause each Subsidiary to maintain, proper books of record and account in accordance with sound accounting practices in which true, full and correct entries will be made of all their respective dealings and business affairs.

8.4 Insurance. Maintain, and cause each Subsidiary to maintain, insurance with financially sound, responsible and reputable companies in such types and amounts and against such casualties, risks and contingencies as is customarily carried by owners of similar businesses and properties, and furnish to the Banks, together with each delivery of annual financial statements under Section 8.1(a), an Officer's Certificate containing full information as to the insurance carried.

8.5 Maintenance of Property. Cause its Significant Property and the Significant Property of each Subsidiary to be maintained, preserved, protected and kept in good repair, working order and condition so that the business carried on in connection therewith may be conducted properly and efficiently, except for normal wear and tear; provided, however, that the improved properties of Lavaca Realty Company should be maintained, preserved and protected in a manner consistent with the maintenance, preservation and protection of improved real property held for sale.

8.6 Inspection of Property and Records. Permit any officer, director or agent of the Agent or any Bank, on written notice and at such Banks expense, to visit and inspect during normal business hours any of the properties, corporate books and financial records of the Borrower and each Subsidiary and discuss their respective affairs and finances with their principal officers, all at such times as the Agent or any Bank may reasonably request.

8.7 Existence, Laws, Obligations. Maintain, and cause each Subsidiary to maintain, its corporate existence and franchises, and any license agreements and tariffs that permit the recovery of a return that the Borrower considers to be fair (and as to licenses, franchises, and tariffs that are subject to regulatory determinations of recovery of returns, the Borrower has presented or is presenting favorable defense thereof); and to comply, and cause each Subsidiary to comply, with all statutes and governmental regulations noncompliance with which might have a Material Adverse Effect, and pay, and cause each Subsidiary to pay, all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations which if unpaid might become a lien against the property of the Borrower or any Subsidiary except liabilities being contested in good faith. Notwithstanding the foregoing, the Borrower may dissolve those certain inactive and minimally capitalized Subsidiaries designated as such on Schedule 6.1.

8.8 Notice of Certain Matters. Notify the Agent Bank immediately upon acquiring knowledge of the occurrence of any of the following events: (a) the institution or threatened institution of any lawsuit or administrative proceeding affecting the Borrower or any Subsidiary that is not covered by insurance (less applicable deductible amounts) and which, if determined adversely to the Borrower or such Subsidiary, could reasonably be expected to have a Material Adverse Effect; (b) the occurrence of any material adverse change, or of any event that in the good faith opinion of the Borrower is likely, to result in a material adverse change, in the assets, liabilities, financial condition, business or affairs of the Borrower or any Subsidiary; (c) the occurrence of any Event of Default or any Default; or (d) a change by Moody's Investors Service, Inc. or by Standard and Poor's Ratings Group in the rating of the Borrower's Funded Debt.

8.9 ERISA. At all times:

(a) maintain and keep in full force and effect each Plan;

(b) make contributions to each Plan in a timely manner and in an amount sufficient to comply with the minimum funding standards requirements of ERISA;

(c) immediately upon acquiring knowledge of any "reportable event" or of any "prohibited transaction" (as such terms are defined in the Code § 4043) in connection with any Plan, furnish the Banks with a statement executed by the president or chief financial officer of the Borrower setting forth the details thereof and the action which the Borrower proposes to take with respect thereto and, when known, any action taken by the Internal Revenue Service with respect thereto;

(d) notify the Banks promptly upon receipt by the Borrower or any Subsidiary of any notice of the institution of any proceeding or other action which may result in the termination of any Plan and furnish to the Banks copies of such notice;

(e) acquire and maintain in amounts satisfactory to the Banks from either the Pension Benefit Guaranty Corporation or authorized private insurers, when available, the contingent employer liability coverage insurance required under ERISA;

(f) furnish the Banks with copies of the summary annual report for each Plan filed with the Internal Revenue Service as the Agent or the Banks may request; and

(g) furnish the Banks with copies of any request for waiver of the funding standards or extension of the amortization periods required by § 303 and § 304 of ERISA or § 412 of the Code promptly after the request is submitted to the Secretary of the Treasury, the Department of Labor or the Internal Revenue Service, as the case may be.

8.10 Compliance with Environmental Laws. At all times:

(a) use and operate, and cause each Subsidiary to use and operate, all of their respective facilities and properties in material compliance with all Environmental Laws; keep, and cause each Subsidiary to keep, all necessary permits, approvals, orders, certificates, licenses and other authorizations relating to environmental matters in effect and remain in material compliance therewith; handle, and cause each Subsidiary to handle, all Hazardous Materials in material compliance with all applicable Environmental Laws; and dispose, and cause each Subsidiary to dispose, of all Hazardous Materials generated by the Borrower or any Subsidiary or at any property owned or leased by them at facilities or with carriers that maintain valid permits, approvals, certificates, licenses or other authorizations for such disposal under applicable Environmental Laws;

(b) promptly notify the Agent and provide copies upon receipt of all written claims, complaints, notices or inquiries relating to the condition of the facilities and properties of the Borrower and each Subsidiary under, or their respective compliance with, applicable Environmental Laws wherein the condition or the noncompliance that is the subject of such claim, complaint, notice, or inquiry involves, or could reasonably be expected to involve, liability of or expenditures by the Borrower and its Subsidiaries of $10,000,000.00 or more; and

(c) provide such information and certifications which the Banks may reasonably request from time to time to evidence compliance with this Section 8.10.

8.11 PGA Clauses. The Borrower will use its best efforts to maintain in force provisions in all of its tariffs and franchise agreements that permit the Borrower to recover from customers substantially all of the amount by which the cost of gas purchases exceeds the amount currently billed to customers for the delivery of such gas (sometimes referred to as PGA clauses).

9. NEGATIVE COVENANTS

So long as the Borrower may borrow hereunder and until payment in full of the Notes, except with the written consent of the Banks:

9.1 Capital Requirements. The Borrower will not:

(a) permit its Consolidated Net Worth at the end of any fiscal quarter to be less than the sum of (i) $698,603,000; (ii) 40% of Consolidated Net Income (if positive) for the

period commencing on January 1, 2000 and ending on the date of determination, and treated as a single accounting period; (iii) the difference between (A) 100% of the net proceeds of any issuance of capital or preferred stock by the Borrower or any consolidated Subsidiary received by the Borrower or such consolidated Subsidiary at any time after December 31, 1999; and (B) the aggregate amount of all redemption or repurchase payments hereafter made, if any, by the Borrower and any such consolidated Subsidiary in connection with the repurchase by the Borrower or any such consolidated Subsidiary of any of their respective capital or preferred stock; and (iv) without duplication, the difference between (A) 100% of the net proceeds heretofore and hereafter received by the Borrower and any consolidated Subsidiary in respect of the issuance by the Borrower or such consolidated Subsidiary of the Structured Securities, and (B) the aggregate amount of all redemption payments hereafter made, if any, by the Borrower and any such consolidated Subsidiary in connection with the redemption of any of the Structured Securities; or

(b) permit the ratio of its Consolidated Total Indebtedness to its Consolidated Total Capitalization to be greater than 0.70 to 1.00 at the end of any fiscal quarter; or

(c) acquire, or permit any Subsidiary to acquire, any assets other than (i) investments permitted under Section 9.4, or (ii) Qualifying Assets; or

(d) permit the ratio of EBDIT to Cash Interest Expense for the four fiscal quarters most recently ended (considered as a single accounting period) at any time to be less than 2.00 to 1.00 at all times.

9.2 Mortgages, Liens, Etc. The Borrower will not, and will not permit any Subsidiary to, create or permit to exist any Lien (including the charge upon assets purchased under a conditional sales agreement, purchase money mortgage, security agreement or other title retention agreement) upon any of its respective assets, whether now owned or hereafter acquired, or assign or otherwise convey any right to receive income, except:

(a) Liens for taxes not yet due or that are being contested in good faith by appropriate proceedings;

(b) other Liens incidental to the conduct of its business or the ownership of its assets that were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and that do not in the aggregate materially detract from the value of such assets or materially impair the use thereof in the operation of such business;

(c) Liens on assets of a Subsidiary to secure obligations of such Subsidiary to the Borrower or another Subsidiary; and

(d) Liens on property existing at the time of acquisition thereof by the Borrower or any Subsidiary, including without limitation, any property acquired by the Borrower in consummating and finalizing any of the Pending Acquisitions, or purchase money Liens placed on an item of real or personal property purchased by the Borrower or any Subsidiary

to secure a portion of the purchase price of such property, provided that no such Lien may encumber or cover any other property of the Borrower or any Subsidiary.

9.3 Debt. The Borrower will not, and will not permit any Subsidiary to, incur or permit to exist any Debt, except:

(a) Debt evidenced by the Notes or outstanding under either of the Revolving Credit Facilities not in default;

(b) Debt of any Subsidiary to the Borrower or any other Subsidiary;

(c) Debt existing as of March 31, 2000 as reflected on financial statements delivered under Section 6.2(b) and refinancings thereof other than Debt that has been refinanced by the proceeds of either of the Revolving Credit Facilities;

(d) endorsements in the ordinary course of business of negotiable instruments in the course of collection;

(e) Debt of the Borrower or any Subsidiary representing the portion of the purchase price of property acquired by the Borrower or such Subsidiary that is secured by Liens permitted by the provisions of Section 9.2(d); provided, however, that at no time may the aggregate principal amount of such Debt outstanding exceed thirty percent (30%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date;

(f) Debt evidenced by Senior Notes; and

(g) additional Debt of the Borrower and Structured Securities of the Borrower and the Southern Union Trusts provided that after giving effect to the issuance thereof, there shall exist no Default or Event of Default; and: (i) the ratio of Consolidated Total Indebtedness to Consolidated Total Capitalization shall be no greater than 0.70 to 1.00; (ii) the ratio of EBDIT for the four fiscal quarters most recently ended to pro forma Cash Interest Expense for the following four fiscal quarters shall be no less than 2.00 to 1.0 at all times; provided, however, that if the additional Debt for which the determinations required to be made by this subparagraph (g) will be used to finance in whole or in part the consideration to be paid by the Borrower for the acquisition of any entity otherwise permitted under the terms of this Agreement, the determination of EBDIT for purposes of this ratio shall include not only the EBDIT of the Borrower and its Subsidiaries for the four fiscal quarters most recently ended, but shall also include the EBDIT of such entity to be acquired for such four fiscal quarters most recently ended; and (iii) (A) such Debt and Structured Securities shall have a final maturity or mandatory redemption date, as the case may be, no earlier than the Maturity Date (as the same may be extended pursuant to Section 2.4) and shall mature or be subject to mandatory redemption or mandatory defeasance no earlier than the Maturity Date (as so extended) and shall be subject to no mandatory redemption or "put" to the Borrower or any Southern Union Trust exercisable, or sinking fund or other similar mandatory principal payment provisions that require payments to be made toward principal,

prior to such Maturity Date (as so extended); or (B) (x) such additional Debt shall have a final maturity date prior to the Maturity Date, (y) such additional Debt shall not exceed Eighty Million Dollars ($80,000,000.00) in the aggregate plus Twenty Million Dollars ($20,000,000.00) of reimbursement obligations incurred in connection with Non-Revolving Credit Facility Letters of Credit issued by a Bank or Banks or by any other financial institution; provided, however, that for purposes of determining the aggregate amount of such additional Debt for purposes of this subclause (y), the $30,000,000 of 8.375% mortgage notes of PG Energy maturing December 1, 2002 shall not be included, and (z) such additional Debt shall be borrowed from a Bank or Banks as a loan or loans arising independent of this Agreement or either of the Revolving Credit Facilities or shall be borrowed from a financial institution that is not a Bank under this Agreement or either of the Revolving Credit Facilities.

(h) existing short-term Debt of any entity specified in the definition of "Pending Acquisitions" that is assumed by the Borrower in connection with the consummation of any of the Pending Acquisitions, so long as (i) the aggregate principal amount of such Debt assumed for all of the Pending Acquisitions does not exceed $100,000,000.00 and (ii) none of such Debt remains outstanding for more than 180 days after the consummation of the applicable merger, unless all or a portion of such Debt is refinanced with Debt otherwise permitted by other provisions of this Section 9.3.

9.4 Loans, Advances and Investments. The Borrower will not, and will not permit any Subsidiary to, make or have outstanding any loan or advance to, or own or acquire any stock or securities of or equity interest or other Investment in, any Person, except (without duplication):

(a) stock of (i) the Subsidiaries named in Section 6.1 and any other Subsidiary to be acquired in accordance with the terms of any of the Pending Acquisitions; (ii) other entities that are acquired by the Borrower or any Subsidiary but that are promptly merged with and into the Borrower, including without limitation, the stock of each entity merging with the Borrower under any of the Pending Acquisitions; and (iii) the same Qualifying Entities as the Qualifying Entities under subparagraph (ii) of the definition of "Qualifying Assets," provided that at any one time the aggregate purchase price paid for such stock in such Qualifying Entities, including the aggregate amount of Debt assumed or deemed incurred by Borrower in connection with the purchase of such stock, is not more than ten percent (10%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date;

(b) loans or advances to a Subsidiary;

(c) Securities maturing no more than 180 days after Borrower's purchase that are either:

(i) readily marketable securities issued by the United States or its agencies or instrumentalities; or

(ii) commercial paper rated "Prime 2" by Moody's Investors Service, Inc. ("Moody's") or A-2 by Standard and Poor's Ratings Group ("S&P"); or

(iii) certificates of deposit or repurchase contracts on customary terms with financial institutions in which deposits are insured by any agency or instrumentality of the United States; or

(iv) readily marketable securities received in settlement of liabilities created in the ordinary course of business; or

(v) obligations of states, agencies, counties, cities and other political subdivisions of any state rated at lest MIG2, VMIG2 or Aa by Moody's or AA by S&P; or

(vi) loan participations in credits in which the borrower's debt is rated at least Aa or Prime 2 by Moody's or AA or A-2 by S&P; or

(vii) money market mutual funds that are regulated by the Securities and Exchange Commission, have a dollar-weighted average stated maturity of 90 days or fewer on their investments and include in their investment objectives the maintenance of a stable net asset value of $1 for each share.

(d) other equity interests owned by a Subsidiary on the date of this Agreement and such additional equity interests to the extent (but only to the extent) that such Subsidiary is legally obligated to acquire those interests on the date of this Agreement, in each case as disclosed to the Banks in writing;

(e) loans or advances by the Borrower to customers in connection with and pursuant to marketing and merchandising products that the Borrower reasonably expects to increase sales of the Borrower or Subsidiaries, provided that: (i) such loans must be either less than $2,000,000.00 to any one customer (or group of affiliated customers, shown on the Borrower's records to be Affiliates); and (ii) all such loans must not exceed $24,000,000.00 in the aggregate outstanding at any time;

(f) travel and expense advances in the ordinary course of business to officers and employees;

(g) stock or securities of or equity interests in, any Person provided that, after giving effect to the acquisition and ownership thereof, the Borrower is in compliance with the provisions of Section 9.1(c) of this Agreement; and

(h) loans, advances or other Investments by the Borrower or any Subsidiary not otherwise permitted under the other provisions of this Section 9.4, so long as the sum of the outstanding balance of all of such loans and advances and the purchase price paid for all of such other Investments does not exceed in the aggregate seven percent (7%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date.

9.5 Stock and Debt of Subsidiaries. The Borrower will not, and will not permit any Subsidiary to, sell or otherwise dispose of any shares of stock or Debt of any Subsidiary, or permit any Subsidiary to issue or dispose of its stock (other than directors' qualifying shares), except to the Borrower or another Subsidiary, and except that Southern Union Trusts may issue preferred beneficial interests in public offerings of Borrower's Structured Securities.

9.6 Merger, Consolidation, Etc. The Borrower will not, and will not permit any Subsidiary to, merge or consolidate with any other Person or sell, lease, transfer or otherwise dispose of (whether in one transaction or a series of transactions) all or a substantial part of its assets or acquire (whether in one transaction or a series of transactions) all or a substantial part of the assets of any Person, except that:

(a) any Subsidiary may merge or consolidate with the Borrower (provided that the Borrower shall be the continuing or surviving corporation) or with any one or more Subsidiaries;

(b) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Borrower or another Subsidiary;

(c) subject to Section 9.14, Lavaca Realty Company may dispose of all or a substantial part of its assets to any Person, whether in one transaction or a series of transactions, for a price or prices that do not result in a Material Adverse Effect;

(d) the Borrower may acquire the assets of any Person, provided that, after giving effect to such acquisition, the Borrower is in compliance with the provisions of Sections 9.1(c);

(e) the Borrower or any Subsidiary may sell, lease, assign or otherwise dispose of assets as otherwise permitted under Section 9.8; and

(f) the Borrower may merge with the entities described in and as contemplated under the definition of "Pending Acquisitions."

9.7 Supply and Purchase Contracts. The Borrower will not, and will not permit any Subsidiary to, enter into or be a party to any contract for the purchase of materials, supplies or other property if such contract requires that payment for such materials, supplies or other property shall be made regardless of whether or not delivery is ever made or tendered of such materials, supplies and other property, except in those circumstances and involving those supply or purchase contracts that the Borrower reasonably considers to be necessary or helpful in its operations in the ordinary course of business and that the Borrower reasonably considers not to be unnecessarily burdensome on the Borrower or its Subsidiaries.

9.8 Sale or Other Disposition of Assets. The Borrower will not, and will not permit any Subsidiary to, except as permitted under this Section 9.8, sell, assign, lease, or otherwise dispose of (whether in one transaction or in a series of transactions) all or any part of its Property (whether now owned or hereafter acquired); provided, however, that (i) the Borrower or any Subsidiary may in the

ordinary course of business dispose of (a) Property consisting of Inventory; and (b) Property consisting of goods or equipment that are, in the opinion of the Borrower or any Subsidiary, obsolete or unproductive, but if in the good faith judgment of the Borrower or any Subsidiary such disposition without replacement thereof would have a Material Adverse Effect, such goods and equipment shall be replaced, or their utility and function substituted, by new or existing goods or equipment; (ii) Lavaca Realty Company may dispose of its Property on the terms set forth in Section 9.6(c); (iii) the Borrower may transfer or dispose of any of its Significant Property (in any transaction or series of transactions) to any Subsidiary or Subsidiaries only if such Property so transferred or disposed of after the Closing Date has an aggregate value as of the date of such transfer or disposition (determined after depreciation and in accordance with GAAP) of not more than ten percent (10%) of the aggregate value of all of the Borrower's and its Subsidiaries' real property and tangible personal property other than Inventory considered on a consolidated basis and determined after depreciation and in accordance with GAAP, as of March 31, 2000; provided, however, that notwithstanding the foregoing limitation on the transfer of assets by the Borrower to any Subsidiary, the Borrower may at any time after the Closing Date transfer all or any portion of the stock or other equity securities owned by the Borrower in Capstone Turbine Corporation to a wholly-owned Subsidiary hereafter created by the Borrower for the purpose of owning and holding such stock and other equity securities; (iv) the Borrower and Lavaca Realty Company may dispose of their real property in one or more sale/leaseback transactions, provided that any Debt incurred in connection with such transaction does not create a Default as defined herein; (v) a Southern Union Trust may distribute the Borrower's subordinated debt securities constituting a portion of the Structured Securities, on the terms and under the conditions set out in the registration statement therefor filed with the Securities and Exchange Commission on March 25, 1995 or any similar registration statement hereafter filed with the Securities and Exchange Commission in connection with any other Structured Securities issued in connection with the Pending Acquisitions; (vi) the Borrower or any Subsidiary may dispose of real property or tangible personal property other than Inventory (in consideration of such amount as in the good faith judgment of the Borrower or such Subsidiary represents a fair consideration therefor), provided that the aggregate value as of the date of disposition of such property disposed of (determined after depreciation and in accordance with GAAP) after the Closing Date does not exceed ten percent (10%) of the aggregate value of all of the Borrower's and its Subsidiaries' real property and tangible personal property other than Inventory considered on a consolidated basis and determined after depreciation and in accordance with GAAP, as of March 31, 2000; (vii) the Borrower may dispose of Qualifying Assets of the type described in clause (ii) of the definition of Qualifying Assets, provided that the Borrower make a payment on the Loan in an amount equal to the lesser of (a) the net sales proceeds from such disposition, and (b) the amount of Loan proceeds used to acquire such clause (ii) Qualifying Assets; and (viii) the Borrower may dispose of other Investments of the type acquired under the terms of Section 9.4(h), provided that the Borrower make a payment on the Loan in an amount equal to the lesser of (a) the net sales proceeds from such disposition, and (b) the amount of Loan proceeds used to acquire such other Investments.

9.9 Discount or Sale of Receivables. The Borrower will not, and will not permit any Subsidiary, other than Southern Union Total Energy Services, Inc., to discount or sell with recourse, or sell for less than the face value thereof (including any accrued interest) any of its notes receivable, receivables under leases or other accounts receivable.

9.10 Change in Accounting Method. The Borrower will not, and will not permit any Subsidiary to, make any change in the method of computing depreciation for either tax or book purposes or any other material change in accounting method representing any departure from GAAP without the Majority Banks' prior written approval.

9.11 Restricted Payment. The Borrower will not pay or declare any Restricted Payment unless immediately prior to such payment and after giving effect to such payment, the Borrower could incur at least $1 of additional Debt without violating the provisions of Section 9.3(g) and after giving effect thereto no Default or Event of Default exists hereunder.

9.12 Securities Credit Regulations. Neither the Borrower nor any Subsidiary will take or permit any action which might cause the Loans or the Facility Letter of Credit Obligations or this Agreement to violate Regulation G, Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or a violation of the Securities Exchange Act of 1934, in each case as now or hereafter in effect.

9.13 Nature of Business; Management. The Borrower will not, and will not permit any Subsidiary to: (a) change its principal line of business; or (b) enter into any business not within the scope of Section 6.15 and the definition of Qualifying Assets; or (c) permit any material overall change in the management of the Borrower.

9.14 Transactions with Related Parties. The Borrower will not, and will not permit any Subsidiary to, enter into any transaction or agreement with any officer, director or holder of ten percent (10%) or more of any class of the outstanding capital stock of the Borrower or any Subsidiary (or any Affiliate of any such Person) unless the same is upon terms substantially similar to those obtainable from wholly unrelated sources.

9.15 Hazardous Materials. The Borrower will not, and will not permit any Subsidiary to (a) cause or permit any Hazardous Materials to be placed, held, used, located, or disposed of on, under or at any of such Person's property or any part thereof by any Person in a manner which could reasonably be expected to have a Material Adverse Effect; (b) cause or permit any part of any of such Person's property to be used as a manufacturing, storage, treatment or disposal site for Hazardous Materials, where such action could reasonably be expected to have a Material Adverse Effect; or (c) cause or suffer any liens to be recorded against any of such Person's property as a consequence of, or in any way related to, the presence, remediation, or disposal of Hazardous Materials in or about any of such Person's property, including any so-called state, federal or local "superfund" lien relating to such matters, where such recordation could reasonably be expected to have a Material Adverse Effect.

9.16 Limitations on Payments on Subordinated Debt. The Borrower will not, and will not permit any Subsidiary to, make any payment in respect of interest on, principal of, or otherwise relating to, the borrower's subordinated debt securities issued in connection with the Structured Securities if, after giving effect to such payment, a Default or Event of Default would exist.

10. EVENTS OF DEFAULT; REMEDIES

If any of the following events shall occur, then the Agent shall at the request, or may with the consent, of the Majority Banks, (a) by notice to the Borrower, declare the Commitment of each Bank and the several obligation of each Bank to make Loans hereunder to be terminated, whereupon the same shall forthwith terminate, and (b) declare the Notes and all interest accrued and unpaid thereon, and all other amounts payable under the Notes, this Agreement and the other Loan Documents, to be forthwith due and payable, whereupon the Notes, all such interest and all such other amounts, shall become and be forthwith due and payable without presentment, demand, protest, or further notice of any kind (including, without limitation, notice of default, notice of intent to accelerate and notice of acceleration), all of which are hereby expressly waived by the Borrower; provided, however, that with respect to any Event of Default described in Sections 10.7 or 10.8 hereof, (i) the Commitment of each Bank and the obligation of the Banks to make Loans shall automatically be terminated and (ii) the entire unpaid principal amount of the Notes, all interest accrued and unpaid thereon, and all such other amounts payable under the Notes, this Agreement and the other Loan Documents, shall automatically become immediately due and payable, without presentment, demand, protest, or any notice of any kind (including, without limitation, notice of default, notice of intent to accelerate and notice of acceleration), all of which are hereby expressly waived by the Borrower:

10.1 Failure to Pay Principal or Interest. The Borrower does not pay, repay or prepay any principal of or interest on any Note when due; or

10.2 Failure to Pay Commitment Fee or Other Amounts. The Borrower does not pay any commitment fee or any other obligation or amount payable under this Agreement or the Notes within two (2) Business Days after the same shall have become due; or

10.3 Failure to Pay Other Debt. The Borrower or any Subsidiary fails to pay principal or interest aggregating more than $2,000,000.00 on any other Debt when due and any related grace period has expired, or the holder of any of such other Debt declares such Debt due prior to its stated maturity because of the Borrower's or any Subsidiary's default thereunder and the expiration of any related grace period; or

10.4 Misrepresentation or Breach of Warranty. Any representation or warranty made by the Borrower herein or otherwise furnished to the Agent or any Bank in connection with this Agreement or any other Loan Document shall be incorrect, false or misleading in any material respect when made; or

10.5 Violation of Negative Covenants. The Borrower violates any covenant, agreement or condition contained in Sections 9.2, 9.3, 9.5, 9.6, 9.9, 9.10, 9.11, or 9.15; or

10.6 Violation of Other Covenants, Etc. The Borrower violates any other covenant, agreement or condition contained herein (other than the covenants, agreements and conditions set forth or described in Sections 10.1, 10.2, 10.3, 10.4, and 10.5 above) or in any other Loan Document and such violation shall not have been remedied within (30) days after written notice has been received by the Borrower from the Agent or the holder of any Note; or

10.7 Bankruptcy and Other Matters. The Borrower or any Subsidiary (a) makes an assignment for the benefit of creditors; or (b) admits in writing its inability to pay its debts generally as they become due; or (c) generally fails to pay its debts as they become due; or (d) files a petition or answer seeking for itself, or consenting to or acquiescing in, any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any applicable Debtor Law (including, without limitation, the Federal Bankruptcy Code); or (i) there is appointed a receiver, custodian, liquidator, fiscal agent, or trustee of the Borrower or any Subsidiary or of the whole or any substantial part of their respective assets; or (ii) any court enters an order, judgment or decree approving a petition filed against the Borrower or any Subsidiary seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any Debtor Law and either such order, decree or judgment so filed against it is not dismissed or stayed (unless and until such stay is no longer in effect) within thirty (30) days of entry thereof or an order for relief is entered pursuant to any such law; or

10.8 Dissolution. Any order is entered in any proceeding against the Borrower or any Subsidiary decreeing the dissolution, liquidation, winding-up or split-up of the Borrower or such Subsidiary, and such order remains in effect for thirty (30) days; or

10.9 Undischarged Judgment. Final Judgment or judgments in the aggregate, that might be or give rise to Liens on any property of the Borrower or any Subsidiary, for the payment of money in excess of $1,000,000.00 shall be rendered against the Borrower or any Subsidiary and the same shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed; or

10.10 Environmental Matters. The occurrence of any of the following events that could result in liability to the Borrower or any Subsidiary under any Environmental Law or the creation of a Lien on any property of the Borrower or any Subsidiary in favor of any governmental authority or any other Person for any liability under any Environmental Law or for damages arising from costs incurred by such Person in response to a Release or threatened Release of Hazardous Materials into the environment if any such asserted liability or Lien exceeds $10,000,000.00 and if any such lien would cover any property of the Borrower or any Subsidiary which property is or would reasonably be considered to be integral to the operations of the Borrower or any Subsidiary in the ordinary course of business:

(a) the Release of Hazardous Materials at, upon, under or within the property owned or leased by the Borrower or any Subsidiary or any contiguous property;

(b) the receipt by the Borrower or any Subsidiary of any summons, claim, complaint, judgment, order or similar notice that it is not in compliance with or that any governmental authority is investigating its compliance with any Environmental Law;

(c) the receipt by the Borrower or any Subsidiary of any notice or claim to the effect that it is or may be liable for the Release or threatened Release of Hazardous Materials into the environment; or

(d) any governmental authority incurs costs or expenses in response to the Release of any Hazardous Material which affects in any way the properties of the Borrower or any Subsidiary; or

10.11 Default under Revolving Credit Facilities. An Event of Default (as defined under either of the credit agreements evidencing the Revolving Credit Facilities) shall occur under either of the Revolving Credit Facilities.

10.12 Other Remedies. In addition to and cumulative of any rights or remedies expressly provided for in this Section 10, if any one or more Events of Default shall have occurred, the Agent shall at the request, and may with the consent, of the Majority Banks proceed to protect and enforce the rights of the Banks hereunder by any appropriate proceedings. The Agent shall at the request, and may with the consent, of the Majority Banks also proceed either by the specific performance of any covenant or agreement contained in this Agreement or by enforcing the payment of the Notes or by enforcing any other legal or equitable right provided under this Agreement or the Notes or otherwise existing under any law in favor of the holder of any of the Notes.

10.13 Remedies Cumulative. No remedy, right or power conferred upon the Banks is intended to be exclusive of any other remedy, right or power given hereunder or now or hereafter existing at law, in equity, or otherwise, and all such remedies, rights and powers shall be cumulative.

11. THE AGENT

11.1 Authorization and Action. Each Bank hereby appoints Chase as its Agent under and irrevocably authorizes the Agent (subject to Sections 11.1 and 11.7) to take such action as the Agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto. Without limitation of the foregoing, each Bank expressly authorizes the Agent to execute, deliver, and perform its obligations under this Agreement, and to exercise all rights, powers, and remedies that the Agent may have hereunder. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act, or to refrain from acting (and shall be fully protected in so acting or refraining from acting), upon the instructions of the Majority Banks, and such instructions shall be binding upon all the Banks and all holders of any Note; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or applicable law. The Agent agrees to give to each Bank prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

11.2 Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents, or employees shall be liable to any Bank for any action taken or omitted to be taken by it or them under or in connection with this Agreement, the Notes and the other Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (a) may treat the original or any successor holder of any Note as the holder thereof until the Agent receives notice from the Bank which is the payee of such Note concerning the assignment of such Note; (b) may employ and consult with legal counsel (including counsel for

the Borrower), independent public accountants, and other experts selected by it and shall not be liable to any Bank for any action taken, or omitted to be taken, in good faith by it or them in accordance with the advice of such counsel, accountants, or experts received in such consultations and shall not be liable for any negligence or misconduct of any such counsel, accountants, or other experts; (c) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any opinions, certifications, statements, warranties, or representations made in or in connection with this Agreement; (d) shall not have any duty to any Bank to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of this Agreement or any other instrument or document furnished pursuant thereto or to satisfy itself that all conditions to and requirements for any Loan have been met or that the Borrower is entitled to any Loan or to inspect the property (including the books and records) of the Borrower or any Subsidiary; (e) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other instrument or document furnished pursuant thereto; and (f) shall incur no liability under or in respect of this Agreement by acing upon any notice, consent, certificate, or other instrument or writing (which may be by telegram, cable, telex, or otherwise) believed by it to be genuine and signed or sent by the proper party or parties.

11.3 Defaults. The Agent shall not be deemed to have knowledge of the occurrence of a Default (other than the nonpayment of principal of or interest hereunder or of any fees) unless the Agent has received notice from a Bank or the Borrower specifying such Default and stating that such notice is a Notice of Default. In the event that the Agent receives such a notice of the occurrence of a Default, the Agent shall give prompt notice thereof to the Banks (and shall give each Bank prompt notice of each such nonpayment). The Agent shall (subject to Section 11.7) take such action with respect to such Default; provided that, unless and until the Agent shall have received the directions referred to in Sections 11.1 or 11.7, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable and in the best interest of the Banks.

11.4 Chase and Affiliates. With respect to its Commitment, any Loan made by it, and the Note issued to it, Chase shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include Chase in its individual capacity. Chase and its respective Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Borrower, any of its respective Affiliates and any Person who may do business with or own securities of the Borrower or any such Affiliate, all as if Chase were not the Agent and without any duty to account therefor to the Banks.

11.5 Non-Reliance on Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and each Subsidiary and its decision to enter into the transactions contemplated by this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this

Agreement or to inspect the properties or books of the Borrower or any Subsidiary. Except for notices, reports, and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition, or business of the Borrower or any Subsidiary (or any of their Affiliates) which may come into the possession of the Agent or any of its Affiliates.

11.6 Indemnification. Notwithstanding anything to the contrary herein contained, the Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be indemnified to its satisfaction by the Banks against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of its taking or continuing to take any action. Each Bank agrees to indemnify the Agent (to the extent not reimbursed by the Borrower), according to such Bank's Commitment, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, and disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or the Notes or any action taken or omitted by the Agent under this Agreement or the Notes; provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting from the gross negligence or willful misconduct of the person being indemnified; and provided further that it is the intention of each Bank to indemnify the Agent against the consequences of the Agent's own negligence, whether such negligence be sole, joint, concurrent, active or passive. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its Pro Rata Percentage of any out-of-pocket expenses (including attorneys' fees) incurred by the Agent in connection with the preparation, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement and the Notes, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

11.7 Successor Agent. The Agent may resign at any time as Agent under this Agreement by giving written notice thereof to the Banks and the Borrower and may be removed at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Banks or shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000.00. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Section 11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

11.8 Agent's Reliance. The Borrower shall notify the Agent in writing of the names of its officers and employees authorized to request a Loan on behalf of the Borrower and shall provide the Agent with a specimen signature of each such officer or employee. The Agent shall be entitled to rely conclusively on such officer's or employee's authority to request a Loan on behalf of the Borrower until the Agent receives written notice from the Borrower to the contrary. The Agent shall have no duty to verify the authenticity of the signature appearing on any Notice of Borrowing, and, with respect to any oral request for a Loan, the Agent shall have no duty to verify the identity of any Person representing himself as one of the officers or employees authorized to make such request on behalf of the Borrower. Neither the Agent nor any Bank shall incur any liability to the Borrower in acting upon any telephonic notice referred to above which the Agent or such Bank believes in good faith to have been given by a duly authorized officer or other Person authorized to borrow on behalf of the Borrower or for otherwise acting in good faith.

12. MISCELLANEOUS

12.1 Representation by the Banks. Each Bank represents that it is the intention of such Bank, as of the date of its acquisition of its Note, to acquire the Note for its account or for the account of its Affiliates, and not with a view to the distribution or sale thereof, and, subject to any applicable laws, the disposition of such Bank's property shall at all times be within its control. The Notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be transferred, sold or otherwise disposed of except (a) in a registered Offering under the Securities Act; (b) pursuant to an exemption from the registration provisions of the Securities Act; or (c) if the Securities Act shall not apply to the Notes or the transactions contemplated hereunder as commercial lending transactions.

12.2 Amendments, Waivers, Etc. No amendment or waiver of any provision of any Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Majority Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver, or consent shall, unless in writing and signed by each Bank, do any of the following: (a) waive any of the conditions specified in Section 7; (b) increase the Commitment of any Bank or alter the term thereof, or subject any Bank to any additional or extended obligations; (c) change the principal of, or rate of interest on, any Note, or any fees or other amounts payable hereunder; (d) postpone any date fixed for any payment of principal of, or interest on, any Note, or any fees (including, without limitation, any fee) or other amounts payable hereunder; (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of any Note, or the number of Banks which shall be required for Banks, or any of them, to take any action hereunder; or (f) amend this Section 12.2; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Agent in addition to each Bank, affect the rights or duties of the Agent under any Loan Document. No failure or delay on the part of any Bank or the Agent in exercising any power or right hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No course of dealing between the Borrower and any Bank or the Agent shall operate as a waiver of any right of any Bank or the

Agent. No modification or waiver of any provision of this Agreement or the Note nor consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

12.3 Reimbursement of Expenses. Other than expenses provided in Section 8.7, any provision hereof to the contrary notwithstanding, and whether or not the transactions contemplated by this Agreement shall be consummated, the Borrower agrees to reimburse (a) the Agent for its reasonable out-of-pocket expenses, including the reasonable fees and expenses of counsel to the Agent, in connection with such transactions, or any of them, or otherwise in connection with this Agreement, including its negotiation, preparation, execution, administration and modification, (b) the Agent and each Bank for all reasonable fees incurred by the Agent or any Bank in connection with the enforcement of this Agreement after the occurrence of any Event of Default which is then continuing, including the reasonable fees and expenses of counsel to the Agent and each Bank related thereto, (c) the Agent for costs and expenses of the Agent for environmental consultants related to the transactions contemplated and governed by this Agreement, and (d) the Agent and each Bank for costs and expenses of the Agent and each Bank in connection with due diligence, transportation, computer time and research and duplication. The Borrower agrees to pay any and all stamp and other taxes which may be payable or determined to be payable in connection with the execution and delivery of this Agreement or the Notes, and to save any holder of any Note harmless from any and all liabilities with respect to or resulting from any delay or omission to pay any such taxes. The obligations of the Borrower under this Section 12.3 shall survive the termination of this Agreement and/or the payment of the Notes.

12.4 Notices. All notices and other communications provided for herein shall be in writing (including telex, facsimile, or cable communication) and shall be mailed, telecopied, telexed, cabled or delivered addressed as follows:

(a) If to the Borrower, to it at: Southern Union Company
504 Lavaca, Suite 800
Austin, Texas 78701
Attention: Mr. Ronald J. Endres
Fax: (512) 370-8253

	with copies to:	Susan Westbrook, Esq. Ms. Cheryl Yager Southern Union Company 504 Lavaca, Suite 800 Austin, Texas 78701 Fax: (512) 370-8253
(b)	If to the Agent, to it at:	The Chase Manhattan Bank 700 Lavaca, 2nd Floor Austin, Texas 78701 Attention: Manager/Commercial Lending Fax: (512) 479-2853
	with a copy to:	The Chase Manhattan Bank Loan and Agency Services One Chase Manhattan Plaza, 8th Floor New York, New York 10081 Attention: Mr. Muniram Appanna Fax: (212) 552-2261

and if to any Bank, at the address specified below its name on the signature pages hereof, or as to the Borrower or the Agent, to such other address as shall be designated by such party in a written notice to the other party and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed, telecopied, telexed, transmitted, or cabled, become effective when deposited in the mail, confirmed by telex answer back, transmitted to the telecopier, or delivered to the cable company, except that notices and communications to the Agent under Sections 2.1(c) or 2.2 shall not be effective until actually received by the Agent.

12.5 Governing Law; Venue. THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE UNITED STATES OF AMERICA; provided, however, that Chapter 346 of the Texas Finance Code, as amended, shall not apply to this Agreement and the Notes issued hereunder. Travis County, Texas shall be a proper place of venue to enforce payment or performance of this Agreement and the other Loan Documents by the Borrower, unless the Agent shall give its prior written consent to a different venue. The Borrower hereby irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to any of the Loan Documents in the District Courts of Travis County, Texas, or in the United States District Court for the Western District of Texas, Austin Division, and hereby further irrevocably waives any claims that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. The Borrower hereby irrevocably agrees that, provided that the Borrower can obtain personal jurisdiction over and service of process upon the Agent or the applicable Bank, any legal proceeding against the Agent or any Bank arising out of or in connection with this Agreement or the other Loan Documents

shall be brought in the district courts of Travis County, Texas, or in the United States District Court for the Western District of Texas, Austin Division. Nothing contained in this Section or in any other provision of any Loan Document (unless expressly provided otherwise) shall be deemed or construed as an agreement by any Bank to be subject to the jurisdiction of such courts.

12.6 Survival of Representations, Warranties and Covenants. All representations, warranties and covenants contained herein or made in writing by the Borrower in connection herewith shall survive the execution and delivery of this Agreement and the Notes, and will bind and inure to the benefit of the respective successors and assigns of the parties hereto, whether so expressed or not, provided that the undertaking of the Banks to make the Loans to the Borrower shall not inure to the benefit of any successor or assign of the Borrower. No investigation at any time made by or on behalf of the Banks shall diminish the Banks' rights to rely on any representations made herein or in connection herewith. All statements contained in any certificate or other written instrument delivered by the Borrower or by any Person authorized by the Borrower under or pursuant to this Agreement or in connection with the transactions contemplated hereby shall constitute representations and warranties hereunder as of the time made by the Borrower.

12.7 Counterparts. This Agreement may be executed in several counterparts, and by the parties hereto on separate counterparts, and each counterpart, when so executed and delivered, shall constitute an original instrument and all such separate counterparts shall constitute but one and the same instrument.

12.8 Separability. Should any clause, sentence, paragraph or section of this Agreement be judicially declared to be invalid, unenforceable or void, such decision shall not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable or void will be deemed to have been stricken herefrom and the remainder will have the same force and effectiveness as if such part or parts had never been included herein. Each covenant contained in this Agreement shall be construed (absent an express contrary provision herein) as being independent of each other covenant contained herein, and compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with one or more other covenants.

12.9 Descriptive Headings. The section headings in this Agreement have been inserted for convenience only and shall be given no substantive meaning or significance whatsoever in construing the terms and provisions of this Agreement.

12.10 Accounting Terms. All accounting terms used herein which are not expressly defined in the Agreement, or the respective meanings of which are not otherwise qualified, shall have the respective meanings given to them in accordance with GAAP.

12.11 Limitation of Liability. No claim may be made by the Borrower or any other Person against the Agent or any Bank or the Affiliates, directors, officers, employees, attorneys, or agents of the Agent or any Bank for any special, indirect, consequential, or punitive damages in respect to any claim for breach of contract arising out of or related to the transactions contemplated by this Agreement, or any act, omission, or event occurring in connection herewith and the Borrower

hereby waives, releases, and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

12.12 Set-Off. The Borrower hereby gives and confirms to each Bank a right of set-off of all moneys, securities and other property of the Borrower (whether special, general or limited) and the proceeds thereof, now or hereafter delivered to remain with or in transit in any manner to such Bank, its Affiliates, correspondents or agents from or for the Borrower, whether for safekeeping, custody, pledge, transmission, collection or otherwise or coming into possession of such Bank, its Affiliates, correspondents or agents in any way, and also, any balance of any deposit accounts and credits of the Borrower with, and any and all claims of security for the payment of the Notes and of all other liabilities and obligations now or hereafter owed by the Borrower to such Bank, contracted with or acquired by such Bank, whether such liabilities and obligations be joint, several, absolute, contingent, secured, unsecured, matured or unmatured, and the Borrower hereby authorizes each Bank, its Affiliates, correspondents or agents at any time or times, without prior notice, to apply such money, securities, other property, proceeds, balances, credits of claims, or any part of the foregoing, to such liabilities in such amounts as it may select, whether such liabilities be contingent, unmatured or otherwise, and whether any collateral security therefor is deemed adequate or not. The rights described herein shall be in addition to any collateral security, if any, described in any separate agreement executed by the Borrower.

12.13 Sale or Assignment

(a) Subject to the prior written consent of the Agent and the Borrower, such consent not to be unreasonably withheld, each Bank may assign to an Eligible Assignee all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments and the Note held by it); provided, however, that: (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Banks rights and obligations under this Agreement; (ii) the amount of the Commitments so assigned shall equal or exceed $5,000,000.00; (iii) the Commitment of each Bank shall be not less than $5,000,000.00 (subject only to reductions pursuant to Sections 3.6 and 10 hereof); (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register (as hereinafter defined), an Assignment and Acceptance in the form of Exhibit C attached hereto and made a part hereof (the "Assignment and Acceptance"), together with any Note subject to such assignment and a processing and recordation fee of $2,000.00; (v) any such assignment from one Bank to another Bank shall not require the consent of the Agent or the Borrower if such assignment does not result in any Bank holding more than 60% of the aggregate outstanding Commitments; and (vi) any such assignment shall not require the consent of the Borrower if a Default or Event of Default shall have occurred and is then continuing. Upon such execution, delivery, acceptance, and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be the date on which such Assignment and Acceptance is accepted by the Agent, (A) the Eligible Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank under the Loan Documents, and (B) the Bank assignor thereunder shall, to the

extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under the Loan Documents, such Bank shall cease to be a party thereto).

(b) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the Eligible Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with any Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of any Loan Document or any other instrument or document furnished pursuant thereto; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such Eligible Assignee confirms that it has received a copy of the Loan Documents, together with copies of the financial statements referred to in Section 6.2 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such Eligible Assignee, independently and without reliance upon the Agent, such assigning Bank, or any Bank and based on such documents and information as it shall deem appropriate at the time, will continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such Eligible Assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under any Loan Document as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (vi) such Eligible Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of any Loan Document are required to be performed by it as a Bank.

(c) The Agent shall maintain at its address referred to in Section 12.4 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of Banks and the Commitment of, and principal amount of the Loans owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent, and Banks may treat each Person whose name is recorded in the Register as Bank hereunder for all purposes of the Loan Documents. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank, together with any Note subject to such assignment, the Agent, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C, shall (i) accept such Assignment and Acceptance; (ii) record the information contained therein in the

Register; and (iii) give prompt notice thereof to the Borrower. Within three (3) Business Days after its receipt of such notice, the Borrower at its own expense, shall execute and deliver to the Agent in exchange for each surrendered Note a new Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment hereunder, a new Note to the order of the assigning Bank in an amount equal to the Commitment retained by it hereunder. The new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit C attached hereto and made a part hereof. Upon receipt by the Agent of each such new Note conforming to the requirements set forth in the preceding sentences, the Agent shall return to the Borrower each such surrendered Note marked to show that each such surrendered Note has been replaced, renewed, and extended by such new Note.

(e) Each Bank may sell participations to one or more banks or other entities in or to all or a portion of its rights and/or obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Note held by it); provided, however, that (i) each Bank's obligations under this Agreement (including, without limitation, its Commitment to the Borrower hereunder) shall remain unchanged; (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations; (iii) except as provided below, such Bank shall remain the holder of any such Note for all purposes of this Agreement; and (iv) the participating banks or other entities shall be entitled to the benefits of Sections 2.3 and 3.6 to recover costs, losses and expenses in the circumstances, and to the extent provided in Section 2.3, as though such participant were a Bank; provided, however, the amounts to which a participant shall be entitled to obtain pursuant to Sections 2.3 and 3.6 shall be determined by reference to such participant's selling Bank and shall be recoverable solely from such selling Bank and (v) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with the selling Bank in connection with such Bank's rights and obligations under this Agreement and the other Loan Documents; provided, however, the selling Bank may grant a participant rights with respect to amendments, modification or waivers with respect to any fees payable hereunder to such Bank (including the amount and the dates fixed for the payment of any such fees) or the amount of principal or the rate of interest payable on, the dates fixed for any payment of principal or interest on, the Loans, or the release of any obligations of the Borrower hereunder and under the other Loan Documents, or the release of any security for any of the Obligations. Except with respect to cost protections contained in Sections 2.3 and 3.6, no participant shall be a third party beneficiary of this Agreement and shall not be entitled to enforce any rights provided to its selling Bank against the Company under this Agreement.

(f) Notwithstanding anything herein to the contrary, each Bank may pledge and assign all or any portion of its rights and interests under the Loan Documents to any Federal Reserve Bank.

12.14 Non U.S. Banks. Prior to the date of the initial Borrowings hereunder, and from time to time thereafter if requested by the Borrower or the Agent, each Bank organized under the laws

of a jurisdiction outside the United States of America shall provide the Agent and the Borrower with the forms prescribed by the Internal Revenue Service of the United States of America certifying such Banks exemption from United States withholding taxes with respect to all payments to be made to such Bank hereunder or under such Bank's Note. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that payments hereunder or under such Bank's Note are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Bank organized under the laws of a jurisdiction outside the United States.

12.15 Interest. All agreements between the Borrower, the Agent or any Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made on any Note or otherwise, shall the amount paid, or agreed to be paid, to the Agent or any Bank for the use, forbearance, or detention of the money to be loaned under this Agreement or otherwise or for the payment or performance of any covenant or obligation contained herein or in any document related hereto exceed the amount permissible at the Highest Lawful Rate. If, as a result of any circumstances whatsoever, fulfillment of any provision hereof or of any of such documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, *ipso facto*, the obligation to be filled shall be reduced to the limit of such validity, and if, from any such circumstance, the Agent or any Bank shall ever receive interest or anything which might be deemed interest under applicable law which would exceed the amount permissible at the Highest Lawful Rate, such amount which would be excessive interest shall be applied to the reduction of the principal amount owing on account of the Notes or the amounts owing on other obligations of the Borrower to the Agent or any Bank under this Agreement or any document related hereto and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of the Notes and the amounts owing on other obligations of the Borrower to the Agent or any Bank under this Agreement or any document related hereto, as the case may be, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Agent or any Bank for the use, forbearance, or detention of the indebtedness of the Borrower to the Agent or any Bank shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full term of such indebtedness until payment in full of the principal thereof (Including the period of any renewal or extension thereof) so that the interest on account of such indebtedness shall not exceed the Highest Lawful Rate. The terms and provisions of this Section 12.15 shall control and supersede every other provision of all agreements between the Borrower and the Banks.

12.16 Indemnification. THE BORROWER AGREES TO INDEMNIFY, DEFEND, AND SAVE HARMLESS THE AGENT, EACH BANK AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, AND ATTORNEYS, AND EACH OF THEM (THE "INDEMNIFIED PARTIES"), FROM AND AGAINST ALL CLAIMS, ACTIONS, SUITS, AND OTHER LEGAL PROCEEDINGS, DAMAGES, COSTS, INTEREST, CHARGES, TAXES, COUNSEL FEES, AND OTHER EXPENSES AND PENALTIES (INCLUDING WITHOUT LIMITATION ALL ATTORNEY FEES AND COSTS OR EXPENSES OF SETTLEMENT) WHICH ANY OF THE INDEMNIFIED

PARTIES MAY SUSTAIN OR INCUR BY REASON OF OR ARISING OUT OF (a) THE MAKING OF ANY LOAN HEREUNDER, THE EXECUTION AND DELIVERY OF THIS AGREEMENT AND THE NOTES AND THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED THEREBY AND THE EXERCISE OF ANY OF THE BANKS' RIGHTS UNDER THIS AGREEMENT AND THE NOTES OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, DAMAGES, COSTS, AND EXPENSES INCURRED BY ANY OF THE INDEMNIFIED PARTIES IN INVESTIGATING, PREPARING FOR, DEFENDING AGAINST, OR PROVIDING EVIDENCE, PRODUCING DOCUMENTS, OR TAKING ANY OTHER ACTION IN RESPECT OF ANY COMMENCED OR THREATENED LITIGATION UNDER ANY FEDERAL SECURITIES LAW OR ANY SIMILAR LAW OF ANY JURISDICTION OR AT COMMON LAW OR (b) ANY AND ALL CLAIMS OR PROCEEDINGS (WHETHER BROUGHT BY A PRIVATE PARTY, GOVERNMENTAL AUTHORITY OR OTHERWISE) FOR BODILY INJURY, PROPERTY DAMAGE, ABATEMENT, REMEDIATION, ENVIRONMENTAL DAMAGE, OR IMPAIRMENT OR ANY OTHER INJURY OR DAMAGE RESULTING FROM OR RELATING TO THE RELEASE OF ANY HAZARDOUS MATERIALS LOCATED UPON, MIGRATING INTO, FROM, OR THROUGH OR OTHERWISE RELATING TO ANY PROPERTY OWNED OR LEASED BY THE BORROWER OR ANY SUBSIDIARY (WHETHER OR NOT THE RELEASE OF SUCH HAZARDOUS MATERIALS WAS CAUSED BY THE BORROWER, ANY SUBSIDIARY, A TENANT, OR SUBTENANT OF THE BORROWER OR ANY SUBSIDIARY, A PRIOR OWNER, A TENANT, OR SUBTENANT OF ANY PRIOR OWNER OR ANY OTHER PARTY AND WHETHER OR NOT THE ALLEGED LIABILITY IS ATTRIBUTABLE TO THE HANDLING, STORAGE, GENERATION, TRANSPORTATION, OR DISPOSAL OF ANY HAZARDOUS MATERIALS OR THE MERE PRESENCE OF ANY HAZARDOUS MATERIALS ON SUCH PROPERTY; PROVIDED THAT THE BORROWER SHALL NOT BE LIABLE TO THE INDEMNIFIED PARTIES WHERE THE RELEASE OF SUCH HAZARDOUS MATERIALS OCCURS AT ANY TIME AT WHICH THE BORROWER OR ANY SUBSIDIARY CEASES TO OWN OR LEASE SUCH PROPERTY); AND PROVIDED FURTHER THAT NO INDEMNIFIED PARTY SHALL BE ENTITLED TO THE BENEFITS OF THIS SECTION 12.16 TO THE EXTENT ITS OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT CONTRIBUTED TO ITS LOSS; AND PROVIDED FURTHER THAT IT IS THE INTENTION OF THE BORROWER TO INDEMNIFY THE INDEMNIFIED PARTIES AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE. THIS AGREEMENT IS INTENDED TO PROTECT AND INDEMNIFY THE INDEMNIFIED PARTIES AGAINST ALL RISKS HEREBY ASSUMED BY THE BORROWER. FOR PURPOSES OF THE FOREGOING SECTION 12.16, THE PHRASE "CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED THEREBY" SET FORTH IN SUBPARAGRAPH (a) ABOVE SHALL INCLUDE, BUT NOT BE LIMITED TO, THE FINANCING OF ANY CORPORATE TAKEOVER PERMITTED HEREUNDER AND THE BORROWER'S USE OF THE LOAN PROCEEDS FOR THE PURPOSE OF ACQUIRING ANY EQUITY INTERESTS DESCRIBED IN SUBPARAGRAPH (ii) OF THE DEFINITION OF "QUALIFYING ASSETS" SET FORTH IN THIS AGREEMENT (AS AMENDED). THE OBLIGATIONS OF THE BORROWER UNDER THIS SECTION 12.16

SHALL SURVIVE ANY TERMINATION OF THIS AGREEMENT AND THE REPAYMENT OF THE NOTES.

12.17 Payments Set Aside. To the extent that the Borrower makes a payment or payments to the Agent or any Bank or the Agent or any Bank exercises its right of set off, and such payment or payments or the proceeds of such set off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other Person under any Debtor Law or equitable cause, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied, and all rights and remedies therefor, shall be revived and shall continue in full force and effect as if such payment had not been made or set off had not occurred.

12.18 Loan Agreement Controls. If there are any conflicts or inconsistencies among this Agreement and any other document executed in connection with the transactions connected herewith, the provisions of this Agreement shall prevail and control.

12.19 Obligations Several. The obligations of each Bank under this Agreement and the Note to which it is a party are several, and no Bank shall be responsible for any obligation or Commitment of any other Bank under this Agreement and the Note to which it is a party. Nothing contained in this Agreement or the Note to which it is a party, and no action taken by any Bank pursuant thereto, shall be deemed to constitute the Banks to be a partnership, an association, a joint venture, or any other kind of entity.

12.20 Pro Rata Treatment. All Loans under, and all payments and other amounts received in connection with this Agreement (including, without limitation, amounts received as a result of the exercise by any Bank of any right of set off) shall be effectively shared by the Banks ratably in accordance with the respective Pro Rata Percentages of the Banks. If any Bank shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set off, or otherwise) on account of the principal of, or interest on, or fees in respect of, any Note held by it (other than pursuant to Section 2.3(d)) in excess of its Pro Rata Percentage of payments on account of similar Notes obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the Notes or Loans made by them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (a) the amount of such Bank's required repayment to (b) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. Disproportionate payments of interest shall be shared by the purchase of separate participations in unpaid interest obligations, disproportionate payments of fees shall be shared by the purchase of separate participations in unpaid fee obligations, and disproportionate payments of principal shall be shared by the purchase of separate participations in unpaid principal obligations. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 12.20 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of

such participation. Notwithstanding the foregoing, a Bank may receive and retain an amount in excess of its Pro Rata Percentage to the extent but only to the extent, that such excess results from such Bank's Highest Lawful Rate exceeding another Bank's Highest Lawful Rate.

12.21 No Rights, Duties or Obligations of Syndication Agent, Documentation Agent or Co-Agents. The Borrower, the Agent and each Bank acknowledge and agree that except for the rights, powers, obligations and liabilities under this Agreement and the other Loan Documents as a Bank, Bank One, NA, as Syndication Agent, First Union National Bank, as Documentation Agent, and Bank of America, N.A., Fleet National Bank, The Fuji Bank, Limited and The Norinchukin Bank, New York Branch, as Co-Agents, shall have no additional rights, powers, obligations or liabilities under this agreement or any other Loan Documents in their capacities as Syndication Agent, Documentation Agent or Co-Agents, respectively.

12.22 Final Agreement. THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT'S OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

12.23 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN WITNESS WHEREOF, the parties hereto, by their respective officers thereunto duly authorized, have executed this Agreement on the dates set forth below to be effective as of August 28, 2000.

SOUTHERN UNION COMPANY

LEGAL APPROVAL

By. _____
Ronald J. Endres, Executive Vice President

Commitment:
$45,000,000

THE CHASE MANHATTAN BANK,
for itself and as Agent for the Banks

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties hereto, by their respective officers thereunto duly authorized, have executed this Agreement on the dates set forth below to be effective as of August 28, 2000.

SOUTHERN UNION COMPANY

By._____
Ronald J. Endres, Executive Vice President

Commitment:
$45,000,000

THE CHASE MANHATTAN BANK,
for itself and as Agent for the Banks

By:_____
Name: KEN SAMPLE
Title: SENIOR VICE PRESIDENT

Commitment:
$45,000,000

BANK ONE, NA
(Main Office Chicago)

By: _____
Name: GEORGE R. SCHANZ
Title: FIRST VICE PRESIDENT

Address for Notices:

Bank One, NA
1 Bank One Plaza, Suite IL1-0634
Chicago, Illinois 60670
Attention: Ken Fecko
Fax No.: (312) 732-4840

Commitment:
$45,000,000

FIRST UNION NATIONAL BANK

By: _____
Name: _____
Title: _____

Address for Notices:

First Union National Bank
301 S. College Street
Charlotte, North Carolina 28288-0735
Attention: Mitch Wilson
Fax No.: (704) 383-7611

Commitment:
$45,000,000

BANK ONE, NA

By: _____
Name: _____
Title: _____

Address for Notices:

Bank One, NA
1 Bank One Plaza, Suite IL1-0363
Chicago, Illinois 60670
Attention: Dawn M. Lawler
Fax No.: (312) 732-3055

Commitment:
$45,000,000

FIRST UNION NATIONAL BANK

By: _____
Name: Joe K. Dancy
Title: Vice President

Address for Notices:

First Union National Bank
301 S. College Street
Charlotte, North Carolina 28288-0735
Attention: Mitch Wilson
Fax No.: (704) 383-7611

Commitment:
$40,000,000

BANK OF AMERICA, N.A.

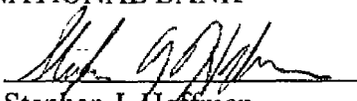
By: _____
Name: _____
Title: _____

Address for Notices:

Bank of America, N.A.
100 N. Tryon Street
Mail Code: NC1-007-16-13
Charlotte, North Carolina 28255
Attention: Michelle Schoenfeld
Fax No.: (704) 386-1319

Commitment:
$40,000,000

FLEET NATIONAL BANK

By: 
Name: Stephen J. Hoffman
Title: Vice President

Address for Notices:

Fleet National Bank
100 Federal Street
Boston, Massachusetts 02110
Attention: Stephen Hoffman
Fax No.: (617) 434-3652

Commitment:
$40,000,000

BANK OF AMERICA, N.A.

By: Michelle A. Schoenfeld
Name: MICHELLE A. SCHOENFELD
Title: VICE PRESIDENT

Address for Notices:

Bank of America, N.A.
100 N. Tryon Street
Mail Code: NC1-007-16-13
Charlotte, North Carolina 28255
Attention: Michelle Schoenfeld
Fax No.: (704) 386-1319

Commitment:
$40,000,000

FLEET NATIONAL BANK

By: _____
Name: _____
Title: _____

Address for Notices:

Fleet National Bank
100 Federal Street
Boston, Massachusetts 02110
Attention: Stephen Hoffman
Fax No.: (617) 434-3652

Commitment:
$40,000,000

THE FUJI BANK, LIMITED

By: _____
Name: _____
Title: _____

Address for Notices:

The Fuji Bank, Limited
1221 McKinney Street, Suite 4100
Houston, Texas 77010
Attention: Jacques Azagury
Fax No.: (713) 759-0048

Separate Domestic and Eurodollar Lending Office:

The Fuji Bank, Limited
Two World Trade Center, 79th Floor
New York, New York 10048-0042

Commitment:
$40,000,000

THE NORINCHUKIN BANK,
NEW YORK BRANCH

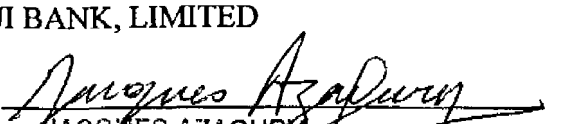
By: _____
Name: Yoshiro Niiro
Title: General Manager

Address for Notices:

The Norinchukin Bank, New York Branch
245 Park Avenue, 29th Floor
New York, New York 10167
Attention: Takaaki Yamamiya
Fax No.: (212) 697-5754

Commitment:
$40,000,000

THE FUJI BANK, LIMITED

By: 
Name: JACQUES AZAGURY
Title: SENIOR VICE PRESIDENT & MANAGER

Address for Notices:

The Fuji Bank, Limited
1221 McKinney Street, Suite 4100
Houston, Texas 77010
Attention: Jacques Azagury
Fax No.: (713) 759-0048

Separate Domestic and Eurodollar Lending Office:

The Fuji Bank, Limited
Two World Trade Center, 79th Floor
New York, New York 10048-0042

Commitment:
$40,000,000

THE NORINCHUKIN BANK,
NEW YORK BRANCH

By: _____
Name: _____
Title: _____

Address for Notices:

The Norinchukin Bank, New York Branch
245 Park Avenue, 29th Floor
New York, New York 10167
Attention: Takaaki Yamamiya
Fax No.: (212) 697-5754

Commitment:
$25,000,000

CHANG HWA BANK LTD.

By: James Lin
Name: James Lin
Title: SVP & General Manager

Address for Notices:

333 SOUTH GRAND SUITE 600
LOS ANGELES CA. 90071
Attention: HARRY LIN
Fax No.: (213)620-7227

Commitment:
$25,000,000

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: _____
Name: _____
Title: _____

Address for Notices:

The Bank of Tokyo-Mitsubishi, Ltd.
1100 Louisiana Street, Suite 2800
Houston, Texas 77002
Attention: Iris Munoz
Fax No.: (713) 655-3855

Commitment:
$25,000,000

CHANG HWA COMMERCIAL BANK

By: _____
Name: _____
Title: _____

Address

for Notices:

Chang Hwa Commercial Bank
333 S. Grand Avenue, Suite 600
Los Angeles, California 90071
Attention: Harry Lin
Fax No.: (213) 620-7227

Commitment:
$25,000,000

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: _____
Name: Michael Meiss
Title: VP & Manager

Address

for Notices:

The Bank of Tokyo-Mitsubishi, Ltd.
1100 Louisiana Street, Suite 2800
Houston, Texas 77002
Attention: Iris Munoz
Fax No.: (713) 655-3855

Commitment:
$25,000,000

CREDIT LYONNAIS NEW YORK BRANCH

By: _____
Name: Philippe Sousa
Title: Senior Vice President

Address for Notices:

Credit Lyonnais New York Branch
1000 Louisiana, Suite 5360
Houston, Texas 77002
Attention: Darrell Stanley
Fax No.: (713) 751-0307

Separate Domestic and Eurodollar Lending Office:

Credit Lyonnais New York Branch
1301 Avenue of the Americas
New York, New York 10019

Commitment:
$25,000,000

THE DAI-ICHI KANGO BANK, LTD.
NEW YORK BRANCH

By: _____
Name: _____
Title: _____

Address for Notices:

The Dai-Ichi Kango Bank, Ltd.
New York Branch
One World Trade Center, 48th Floor
New York, New York 10048
Attention: Azlan S. Ahmad
Fax No.: (212) 524-0579

Commitment:
$25,000,000

NATIONAL AUSTRALIA BANK LIMITED, A.C.N. 004044937

By: _____
Name: _____
Title: _____

Address for Notices:

National Australia Bank Limited
200 Park Avenue, 34th Floor
New York, New York 10166
Attention: Frank Campiglia
Fax No.: (212) 983-1969

Commitment:
$25,000,000

BAYERISCHE HYPO-AND VEREINSBANK AG, NEW YORK BRANCH

By: Y. Dankner
Name: Yoram Dankner
Title: Managing Director

By: Shannon Batchman
Name: SHANNON BATCHMAN
Title: DIRECTOR

Address for Notices:

Bayerische Hypo-and Vereinsbank, AG, New York Bank
150 East 42nd Street
New York, New York 10017
Attention: Yoram Dankner
Fax No.: (212) 672-5530

Separate Eurodollar Lending Office:

Bayerische Hypo-and Vereinsbank, AG, Grand Cayman Branch
c/o Bayerische Hypo-and Vereinsbank AG
150 East 42nd Street
New York, New York 10017

Commitment:
$25,000,000

CREDIT LYONNAIS NEW YORK BRANCH

By: _____
Name: _____
Title: _____

Address for Notices:

Credit Lyonnais New York Branch
1000 Louisiana, Suite 5360
Houston, Texas 77002
Attention: Darrell Stanley
Fax No.: (713) 751-0307

Separate Domestic and Eurodollar Lending Office:

Credit Lyonnais New York Branch
1301 Avenue of the Americas
New York, New York 10019

Commitment:
$25,000,000

THE DAI-ICHI KANGYO BANK, LTD.
NEW YORK BRANCH

By: Azlan S. Ahmad
Name: Azlan S. Ahmad
Title: Assistant Vice President

Address for Notices:

The Dai-Ichi Kangyo Bank, Ltd.
New York Branch
One World Trade Center, 48th Floor
New York, New York 10048
Attention: Azlan S. Ahmad
Fax No.: (212) 524-0579

Commitment:
$25,000,000

NATIONAL AUSTRALIA BANK LIMITED, A.C.N. 004044937

By: _____
Name: FRANK G. CAMPIGLIA
Title: VICE PRESIDENT

Address for Notices:

National Australia Bank Limited
200 Park Avenue, 34th Floor
New York, New York 10166
Attention: Frank Campiglia
Fax No.: (212) 983-1969

Commitment:
$25,000,000

BAYERISCHE HYPO-AND VEREINSBANK AG, NEW YORK BRANCH

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Address for Notices:

Bayerische Hypo-and Vereinsbank, AG, New York Bank
150 East 42nd Street
New York, New York 10017
Attention: Yoram Dankner
Fax No.: (212) 672-5530

Separate Eurodollar Lending Office:

Bayerische Hypo-and Vereinsbank, AG, Grand Cayman Branch
c/o Bayerische Hypo-and Vereinsbank AG
150 East 42nd Street
New York, New York 10017

Commitment:
$25,000,000

THE INDUSTRIAL BANK OF JAPAN
TRUST COMPANY

By: _____
Name: Michael N. Oakes
Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN, LIMITED, HOUSTON OFFICE
(Authorized Representative)

Address for Notices:

The Industrial Bank of Japan Trust Company
Three Allen Center, Suite 4850
333 Clay Street
Houston, Texas 77002
Attention: Lynn Williford
Fax No.: (713) 651-9209

Separate Domestic and Eurodollar Lending Office:

The Industrial Bank of Japan Trust Company
1251 Avenue of the Americas
New York, New York 10020

Commitment:
$25,000,000

WELLS FARGO BANK TEXAS,
NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

Address for Notices:

Wells Fargo Bank Texas, National Association
1000 Louisiana, 3rd Floor – Energy Department
Houston, Texas 77002
Attention: Alan Smith
Fax No.: (713) 739-1087

Separate Domestic and Eurodollar Lending Office:

Wells Fargo Bank Loan Center
1740 Broadway
Denver, Colorado 80274

Commitment:
$25,000,000

THE INDUSTRIAL BANK OF JAPAN
TRUST COMPANY

By: _____
Name: _____
Title: _____

Address for Notices:

The Industrial Bank of Japan Trust Company
Three Allen Center, Suite 4850
333 Clay Street
Houston, Texas 77002
Attention: Lynn Williford
Fax No.: (713) 651-9209

Separate Domestic and Eurodollar Lending Office:

The Industrial Bank of Japan Trust Company
1251 Avenue of the Americas
New York, New York 10020

Commitment:
$25,000,000

WELLS FARGO BANK TEXAS,
NATIONAL ASSOCIATION

By: T. Alan Smith
Name: T. Alan Smith
Title: Vice President

Address for Notices:

Wells Fargo Bank Texas, National Association
1000 Louisiana, 3rd Floor – Energy Department
Houston, Texas 77002
Attention: Alan Smith
Fax No.: (713) 739-1087

Separate Domestic and Eurodollar Lending Office:

Wells Fargo Bank Loan Center
1740 Broadway
Denver, Colorado 80274

Commitment:
$25,000,000

KBC BANK N.V.

By: _____
Name: ROBERT SNAUFFER
Title: FIRST VICE PRESIDENT

_____
PATRICIA A. JANSSENS
VICE PRESIDENT

Address for Notices:

KBC Bank N.V.
Atlanta Representative Office
245 Peachtree Center Avenue, Suite 2550
Atlanta, Georgia 30303
Attention: Filip Ferrante
Fax No.: (404) 584-5466

Separate Domestic and Eurodollar Lending Office:

KBC Bank N.V.
New York Branch
125 West 55th Street
New York, New York 10019

Commitment:
$25,000,000

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Address for Notices:

Westdeutsche Landesbank Girozentrale, New York
Branch
1211 Avenues of the Americas
New York, New York 10036
Attention: Anthony Alessandro
Fax No.: (212) 852-6148

Commitment:
$25,000,000

KBC BANK N.V.

By: _____
Name: _____
Title: _____

Address for Notices:

KBC Bank N.V.
Atlanta Representative Office
245 Peachtree Center Avenue, Suite 2550
Atlanta, Georgia 30303
Attention: Filip Ferrante
Fax No.: (404) 584-5466

Separate Domestic and Eurodollar Lending Office:

KBC Bank N.V.
New York Branch
125 West 55th Street
New York, New York 10019

Commitment:
$25,000,000

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: Walter T. Duffy III
Name: Walter T. Duffy III
Title: Associate Director

By: Lisa Walker
Name: Lisa Walker
Title: Associate Director

Address for Notices:

Westdeutsche Landesbank Girozentrale, New York Branch
1211 Avenues of the Americas
New York, New York 10036
Attention: Anthony Alessandro
Fax No.: (212) 852-6148

Commitment:
$10,000,000

CITIZENS BANK OF RHODE ISLAND

By: Marian L. Barrette
Name: Marian L. Barrette
Title: Vice President

Address for Notices:

Citizens Bank of Rhode Island
One Citizens Plaza, Mail Stop RC0480
Providence, Rhode Island 02903
Attention: Marian L. Barrette
Fax No.: (401) 455-5404

Commitment:
$10,000,000

SUNTRUST BANK

By: _____
Name: _____
Title: _____

Address for Notices:

SunTrust Bank
303 Peachtree Street NE, 3rd Floor, M.C. 1929
Atlanta, Georgia 30308
Attention: Linda Stanley
Fax No.: (404) 827-6270

Commitment:
$10,000,000

CITIZENS BANK OF RHODE ISLAND

By: _____
Name: _____
Title: _____

Address for Notices:

Citizens Bank of Rhode Island
One Citizens Plaza, Mail Stop RC0480
Providence, Rhode Island 02903
Attention: Marian L. Barrette
Fax No.: (401) 455-5404

Commitment:
$10,000,000

SUNTRUST BANK

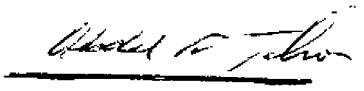
By: _____
Name: John A. Fields, Jr.
Title: Managing Director

Address for Notices:

SunTrust Bank
303 Peachtree Street NE, 3rd Floor, M.C. 1929
Atlanta, Georgia 30308
Attention: Linda Stanley
Fax No.: (404) 827-6270

Commitment:
$10,000,000

GULF INTERNATIONAL BANK B.S.C.

By: 

Name: Mireille Khalidi — Abdel-Fattah Tahoun
Title: VP — SVP

Address for Notices:

Gulf International Bank B.S.C.
335 Madison Avenue, Suite 1101
New York, New York 10017
Attention: Ms. Mireille Khalidi
Fax No.: (212) 922-2339

Separate Eurodollar Lending Office:

Gulf International Bank B.S.C., Grand Cayman
c/o 335 Madison Avenue, Suite 1101
New York, New York 10017

EXHIBIT A

TERM NOTE

$_____ _____, 200__

FOR VALUE RECEIVED, the undersigned, SOUTHERN UNION COMPANY, a corporation organized under the laws of Delaware (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Bank"), on or before _____ (the "Maturity Date"), the principal sum of _____ Million and No/ 100ths Dollars ($_,000,000.00) in accordance with the terms and provisions of that certain Term Loan Credit Agreement dated August ___, 2000, by and among the Borrower, the Bank, the other banks named on the signature pages thereof, and THE CHASE MANHATTAN BANK, as Agent (the "Credit Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement.

The outstanding principal balance of this Term Note shall be payable at the Maturity Date. The Borrower promises to pay interest on the unpaid principal balance of this Term Note from the date of any Loan evidenced by this Term Note until the principal balance thereof is paid in full. Interest shall accrue on the outstanding principal balance of this Term Note from and including the date of any Loan evidenced by this Term Note to but not including the Maturity Date at the rate or rates, and shall be due and payable on the dates, set forth in the Credit Agreement. Any amount not paid when due with respect to principal (whether at stated maturity, by acceleration or otherwise), costs or expenses, or, to the extent permitted by applicable law, interest, shall bear interest from the date when due to and excluding the date the same is paid in full, payable on demand, at the rate provided for in Section 2.2(b) of the Credit Agreement.

Payments of principal and interest, and all amounts due with respect to costs and expenses, shall be made in lawful money of the United States of America in immediately available funds, without deduction, set off or counterclaim to the account of the Agent at the principal office of The Chase Manhattan Bank in Houston, Texas (or such other address as the Agent under the Credit Agreement may specify) not later than noon (Houston time) on the dates on which such payments shall become due pursuant to the terms and provisions set forth in the Credit Agreement.

If any payment of interest or principal herein provided for is not paid when due, then the owner or holder of this Term Note may at its option, by notice to the Borrower, declare the unpaid, principal balance of this Term Note, all accrued and unpaid interest thereon and all other amounts payable under this Term Note to be forthwith due and payable, whereupon this Term Note, all such interest and all such amounts shall become and be forthwith due and payable in full, without presentment, demand, protest, notice of intent to accelerate, notice of actual acceleration or further notice of any kind, all of which are hereby expressly waived by the Borrower.

If any payment of principal or interest on this Term Note shall become due on a Saturday, Sunday, or public holiday on which the Agent is not open for business, such payment shall be made

on the next succeeding Business Day and such extension of time shall in such case be included in computing interest in connection with such payment.

In addition to all principal and accrued interest on this Term Note, the Borrower agrees to pay (a) all reasonable costs and expenses incurred by the Agent and all owners and holders of this Term Note in collecting this Term Note through any probate, reorganization bankruptcy or any other proceeding and (b) reasonable attorneys' fees when and if this Term Note is placed in the hands of an attorney for collection after default.

All agreements between the Borrower and the Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made on this Term Note or otherwise, shall the amount paid, or agreed to be paid, to the Bank for the use, forbearance, or detention of the money to be loaned under the Credit Agreement and evidenced by this Term Note or otherwise or for the payment or performance of any covenant or obligation contained in the Credit Agreement or this Term Note exceed the amount permissible at Highest Lawful Rate. If as a result of any circumstances whatsoever, fulfillment of any provision hereof or of the Credit Agreement at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, *ipso facto*, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstance, the Bank shall ever receive interest or anything which might be deemed interest under applicable law which would exceed the amount permissible at the Highest Lawful Rate, such amount which would be excessive interest shall be applied to the reduction of the principal amount owing on account of this Term Note or the amounts owing on other obligations of the Borrower to the Bank under the Credit Agreement and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of this Term Note and the amounts owing on other obligations of the Borrower to the Bank under the Credit Agreement, as the case may be, such excess shall be refunded to the Borrower. In determining whether or not the interest paid or payable under any specific contingencies exceeds the Highest Lawful Rate, the Borrower and the Bank shall, to the maximum extent permitted under applicable law, (a) characterize any nonprincipal payment as an expense, fee or premium rather than as interest; (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate and spread in equal parts during the period of the full stated term of this Term Note, all interest at any time contracted for, charged, received or reserved in connection with the indebtedness evidenced by this Term Note.

This Term Note is one of the Notes provided for in, and is entitled to the benefits of, the Credit Agreement, which Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events, for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions and with the effect therein specified, and provisions to the effect that no provision of the Credit Agreement or this Term Note shall require the payment or permit the collection of interest in excess of the Highest Lawful Rate. It is contemplated that by reason of prepayments or repayments hereon prior to the Maturity Date, there may be times when no indebtedness is owing hereunder prior to such date; but notwithstanding such occurrence this Term Note shall remain valid and shall be in full force and effect as to Loans made pursuant to the Credit Agreement subsequent to each such occurrence.

Except as otherwise specifically provided for in the Credit Agreement, the Borrower and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, protest, notice of protest, notice of intent to accelerate, notice of acceleration and diligence in collecting and bringing of suit against any party hereto, and agree to all renewals, extensions or partial payments hereon and to any release or substitution of security hereof, in whole or in part, with or without notice, before or after maturity.

THIS TERM NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS AND APPLICABLE FEDERAL LAW.

IN WITNESS WHEREOF, the Borrower has caused this Term Note to be executed and delivered by its officer thereunto duly authorized effective as of the date first above written.

SOUTHERN UNION COMPANY

By:_____
Name:_____
Title:_____

EXHIBIT B

NOTICE OF BORROWING
(Term Loan Credit Facility)

The undersigned hereby certifies that s/he is an officer of SOUTHERN UNION COMPANY, a corporation organized under the laws of Delaware (the "Borrower"), authorized to execute this Notice of Borrowing on behalf of the Borrower. With reference to that Term Loan Credit Agreement dated August ___, 2000 (as same may be amended, modified, increased, supplemented and/or restated from time to time, the "Credit Agreement") entered into by and between the Borrower, THE CHASE MANHATTAN BANK, as Agent, and the Banks identified therein, the undersigned further certifies, represents and warrants to Banks on behalf of the Borrower that to his best knowledge and belief after reasonable and due investigation and review, all of the following statements are true and correct (each capitalized term used herein having the same meaning given to it in the Credit Agreement unless otherwise specified):

(a) Borrower requests that the Banks advance to the Borrower the aggregate sum of $_____by no later than _____, 200__ (the "Borrowing Date"). Immediately following such Loan, the aggregate outstanding balance of Loans shall equal $_____. Borrower requests that the Loans bear interest as follows:

(i) The principal amount of the Loans, if any, which shall bear interest at the Alternate Base Rate requested to be made by the Banks is $_____. The initial Rate Period for such Loans shall be 90 days.

(ii) The principal amount of the Loans, if any, which shall bear interest at the Eurodollar Rate for which the Rate Period shall be fifteen days requested to be made by the Banks is $_____.

(iii) The principal amount of the Loans, if any, which shall bear interest at the Eurodollar Rate for which the Rate Period shall be one month requested to be made by the Banks is $_____.

(iv) The principal amount of the Loans, if any, which shall bear interest at the Eurodollar Rate for which the Rate Period shall be two months requested to be made by the Banks is $_____.

(v) The principal amount of the Loans, if any, which shall bear interest at the Eurodollar Rate for which the Rate Period shall be three months requested to be made by the Banks is $_____.

(vi) The principal amount of the Loans, if any, which shall bear interest at the Eurodollar Rate for which the Rate Period shall be six months requested to be made by the Banks is $_____.

[(b) The proceeds of the borrowing shall be deposited into Borrower's demand deposit account at The Chase Manhattan Bank more fully described as follows:

Account No. 09916100522, styled Southern Union Company.]

(c) [_____ of new funds are to be advanced to finance the Pending Acquisitions in accordance with Section 5.1 of the Credit Agreement, and] $_____ of rollover borrowings is hereby requested for the purposes of continuing Loans currently outstanding under the Credit Agreement.

(d) The Expiration Date of each Rate Period specified in (a) above shall be the last day of such Rate Period.

(e) As of the date hereof, and as a result of the making of the requested Loans, there does not and will not exist any Default or Event of Default.

(f) The representations and warranties contained in Section 6 of the Credit Agreement are true and correct in all material respects as of the date hereof and shall be true and correct upon the making of the requested Loan (or if applicable, the rollover of the above-described principal balance(s) of Loans currently outstanding under the Credit Agreement), with the same force and effect as though made on and as of the date hereof and thereof.

(g) No change that would cause a material adverse effect on the business, operations or condition (financial or otherwise) of the Borrower has occurred since the date of the most recent financial statements provided to the Banks dated as of _____, 200__.

EXECUTED AND DELIVERED this _____ day of _____, 200__.

SOUTHERN UNION COMPANY

_____

By:_____
Name:_____
Title:_____

EXHIBIT C

ASSIGNMENT AND ACCEPTANCE

[NAME AND ADDRESS OF
ASSIGNING BANK]

_____, 200__

_____
_____
_____
_____

Re: Southern Union Company Credit Agreement (Term Loan Credit Facility)

Ladies and Gentlemen:

Reference is made to that certain Term Loan Credit Agreement dated as of August 28, 2000 (the "Credit Agreement"), by and among those certain financial institutions that are now or hereafter a party to said Credit Agreement, The Chase Manhattan Bank, as agent for such financial institutions (the "Agent") and Southern Union Company (the "Company"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement.

Each reference to the Credit Agreement, the Notes, or any other document evidencing or governing the Loans (all such documents collectively, the "Financing Documents") includes each such document as amended, modified, extended or replaced from time to time. All times are Houston times.

1. ASSIGNMENT. We hereby sell you and assign to you without recourse, and you hereby unconditionally and irrevocably acquire for your own account and risk, a _____ percent (_____ %) undivided interest ("your assigned share") in each of the following (the "Assigned Obligations"):

a. our Note;

b. all Loans and interest thereon as provided in Section 2 of the Credit Agreement [,except that interest shall accrue on your assigned share in the principal of Alternate Base Rate Loans and Eurodollar Rate Loans at an annual rate equal to the rate provided in the Credit Agreement minus _____%]; and

c. commitment fees payable pursuant to Section 4 of the Credit Agreement[, except that your assigned share in such fees shall be at an annual rate equal to the rate provided in the Credit Agreement minus ____%].

2. MATERIALS PROVIDED ASSIGNEE

a. We will promptly request that the Company issue new Notes to us and to you in substitution for our Note to reflect the assignment set forth herein. Upon issuance of such substitute Notes, (i) you will become a Bank under the Credit Agreement, (ii) you will assume our obligations under the Credit Agreement to the extent of your assigned share, and (iii) the Company will release us from our obligations under the Credit Agreement to the extent, but only to the extent, of your assigned share. The Company consents to such release by signing this Agreement where indicated below. As a Bank, you will be entitled to the benefits and subject to the obligations of a "Bank", as set forth in the Credit Agreement, and your rights and liabilities with respect to the other Banks and the Agent will be governed by the Credit Agreement, including without limitation Section 11 thereof.

b. We have furnished you copies of the Credit Agreement, our Note and each other Financing Document you have requested. We do not represent or warrant (i) the priority, legality, validity, binding effect or enforceability of any Financing Document or any security interest created thereunder, (ii) the truthfulness and accuracy of any representation contained in any Financing Document, (iii) the filing or recording of any Financing Document necessary to perfect any security interest created thereunder, (iv) the financial condition of the Company or any other Person obligated under any Financing Document, any financial or other information, certificate, receipt or other document furnished or to be furnished under any Financing Document or (v) any other matter not specifically set forth herein having any relation to any Financing Document, your interest in one Note, the Company or any other Person. You represent to us that you are able to make, and have made, your own independent investigation and determination of the foregoing matters, including, without limitation, the credit worthiness of the Company and the structure of the transaction.

3. GOVERNING LAW; JURISDICTION. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas. You irrevocably submit to the jurisdiction of any State or Federal court sitting in Austin, Texas in any suit, action or proceeding arising out of or relating to this Agreement and irrevocably waive any objection you may have to this laying of venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. We may serve process in any manner permitted by law and may bring proceedings against you in any other jurisdiction.

4. NOTICES. All notices and other communications given hereunder to a party shall be given in writing (including bank wire, telecopy, telex or similar writing) at such party's address set forth on the signature pages hereof or such other address as such party may hereafter specify by notice to the other party. Notice may also be given by telephone to the Person, or any other officer in the office, listed on the signature pages hereof if confirmed promptly by telex or telecopy. Notices shall be effective immediately, if given by telephone; upon transmission, if given by bank wire, telecopy or telex; five days after deposit in the mails, if mailed; and when delivered, if given by other means.

5. **AUTHORITY.** Each of us represents and warrants that the execution and delivery of this Agreement have been validly authorized by all necessary corporate action and that this Agreement constitutes a valid and legally binding obligation enforceable against it in accordance with its terms.

6. **COUNTERPARTS.** This Agreement may be executed in one or more counterparts, and by each party on separate counterparts, each of which shall be an original but all of which taken together shall be but one instrument.

7. **AMENDMENTS.** No amendment modification or waiver of any provision of this Agreement shall be effective unless in writing and signed by the party against whom enforcement is sought.

If the foregoing correctly sets forth our agreement, please so indicate by signing the enclosed copy of this Agreement and returning it to us.

Very truly yours,

_____

By: _____
Name: _____
Title: _____

[Street Address] _____
[City, State, Zip Code] _____
Telephone: _____
Telecopy: _____

AGREED AND ACCEPTED:

_____

By: _____
_____
_____
_____

Attention: _____
Telephone: _____
Telecopy: _____
Account for Payments: _____

ASSIGNMENT APPROVED PURSUANT TO SECTION 12.13 OF THE CREDIT AGREEMENT AND RELEASE APPROVED IN SECTION 2 OF THIS AGREEMENT:

SOUTHERN UNION COMPANY

By: _____
Name: _____
Title: _____

Schedule 6.1

Subsidiary	State of Incorporation	Certificate of Authority
Atlantic Gas Corporation	Florida	
Contigo, Inc. *	Delaware	Texas
Energia Estrella del Sur, S.A. de C.V.	Mexico	
Energy Worx, Inc.	Delaware	Missouri, Texas
GUS Acquisition Corporation	Rhode Island	
Honesdale Gas Company	Pennsylvania	
KellAir Aviation Company	Delaware	Texas
KellAir NC Aviation Company	North Carolina	
Keystone Pipeline Services, Inc.	Delaware	
Lavaca Realty Company	Delaware	Missouri, Texas
Mercado Gas Services Inc.	Delaware	Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Illinois, Indiana, Kansas, Louisiana, Maryland, Michigan, Mississippi, Nevada, New Mexico, Oklahoma, Tennessee, Texas
Norteno Pipeline Company	Delaware	Texas
PEI Power Corporation	Pennsylvania	
Penn Gas Development Co.	Pennsylvania	
Pennsylvania Energy Resources, Inc.	Pennsylvania	
PG Energy Services Inc.	Pennsylvania	
Southern Transmission Company	Delaware	Texas
Southern Union Energy International, Inc.	Delaware	
Southern Union Financial I Delaware Business Trust	Delaware	
Southern Union Financial II Delaware Business Trust	Delaware	
Southern Union Financial III Delaware Business Trust	Delaware	
Southern Union Gas Company, Inc. Delaware *	Delaware	
Southern Union Gas Company, Inc. Texas *	Texas	
Southern Union International Investments, Inc.	Delaware	
SU Acquisition Corporation	California	
SUG Acquisition Corporation	Rhode Island	
SUPro Energy Company	Delaware	Missouri, New Mexico, Texas
Sygent, Inc.	Delaware	
Western Utilities, Inc. Delaware *	Delaware	
Western Utilities, Inc. New Mexico *	New Mexico	

* Currently inactive, having minimal capitalization

SCHEDULE 6.3

LITIGATION

None

Schedule 6.6

Tax Matters

1) IRS Audit (1992-1995) Assessed $2.1 million; Issues under appeal; Outcome uncertain

2) MO Sales Tax Audit (1994-1997) In Progress; No assessment to-date

Environmental Matters

Southern Union Company ("SUC") is the current or former owner and is the potential successor to the former owners or operators of a number of parcels of real estate on which manufactured gas plants ("MGPs") were once located. Manufactured gas was a fuel used prior to the development of pipeline systems for the transport of natural gas. It was a product of a manufacturing process that resulted in numerous chemical residues. Coal tar and other by-products of the gas manufacturing process contain a number of constituents now listed as environmental concerns by the Environmental Protection Agency ("EPA") and residues from these constituents are commonly found at MGPs. MGP sites known to SUC are listed below. Other than as set forth below, SUC is not aware of any current governmental investigation of any of these sites; however, there is a possibility that the sites listed below could, in time, require investigation, assessment, monitoring, remediation or cleanup under Environmental Laws.

Under applicable Environmental Laws, as the current owner of former MGPs, SUC could potentially be subject to claims asserted directly by the government and/or for claims for contribution asserted by other potentially responsible parties. Additionally, SUC could potentially be subject to such claims on the basis that SUC is the successor to former owners or operators of the MGPs. There is also the potential that, as a passive interim owner of property on which decommissioned MGPs were located, SUC could be subject to such claims. Although SUC has defenses to claims based on its current or prior ownership or operation of the MGPs, these sites are nonetheless subject to monitoring and also could reasonably form the basis of environmental claims.

The locations of known or suspected former MGPs within the current or former service territories of SUC or its predecessors are as follows:

Sites currently owned:

Address	City
402 33rd Street	Galveston, TX
4th and Cedar	St. Joseph, MO
223 Gillis	Kansas City, MO
First and Campbell, a/k/a 899 E. First St.	Kansas City, MO
20th and Indiana	Kansas City, MO
23rd and Pleasant	Independence, MO
520 East Fifth	Joplin, MO
Eighth Street	Carbondale, PA
Filbert Street Plant (partial site)	Milton, PA
Third Street & Wagner Avenue East	Montgomery, PA
Washington Street	Montoursville, PA
Market Street	Muncy, PA
Bridge Street	Scranton, PA
Albright Avenue	Scranton, PA
Water Street & North Street	Wilkes-Barre, PA
Rose Street	Williamsport, PA
Plymouth Avenue (partial site)	Edwardsville, PA
Walnut Street	Nanticoke, PA
Bloomsburg Office	Bloomsburg, PA
Railroad Street	Danville, PA

Sites not owned:

Address	City
Unknown	Burlington, VT
Unknown	Prescott, AZ
Unknown	Albuquerque, NM
Unknown	Roswell, NM
First and Congress	Austin, TX
Third and Medina	Austin, TX
West of West Avenue & W. 5th Street	Austin, TX
Unknown	Brenham, TX
Third and Chihuahua	El Paso, TX
West 19th Street	Port Arthur, TX
100 block of Southwest Third Street	Mineral Wells, TX
606 Fort Worth Street	Weatherford, TX
N. Independence & former railroad intersection	Harrisonville, MO
400 W. Excelsior	Excelsior Springs, MO
Unknown	Warrensburg, MO
Kentucky Avenue	Joplin, MO
Pacific and Grand Streets a/k/a South River Boulevard and West Pacific	Independence, MO
1621 West 25th Street	Kansas City, MO
400 North Lafayette Avenue	Marshall, MO
Eastwood & North Ellsworth Avenue	Marshall, MO
Sixth and Front Street	Monett, MO
Sixth and Olive	St. Joseph, MO
Fifth and Angelique	St. Joseph, MO
North Main and Limestone, a/k/a 411 N. Main	Carthage, MO
North Maple and Limestone, a/k/a SW corner of Garrison and Limestone	Carthage, MO
Plymouth Avenue (partial site)	Edwardsville, PA
Sixth Street	Wyoming, PA
Filbert Street Holder (partial site)	Milton, PA
Gashouse Alley & Arch Street	Sunbury, PA
Darling Street & North River	Wilkes-Barre, PA
West 9th & Oak Street	Berwick, PA
Mulberry Street	Williamsport, PA
Filbert Street (2nd site on Filbert Street)	Milton, PA
NW Corner of N. Walnut & Arch Street (holder site)	Nanticoke, PA

OTHER ENVIRONMENTAL MATTERS

KANSAS CITY, MISSOURI MGP SITE:

In a letter dated May 10, 1999, the Missouri Department of Natural Resources ("MDNR") sent notice of a planned site inspection/removal site evaluation of the Kansas City Coal Gas Former Manufactured Gas Plant ("MGP") site. This site (comprised of two distinct former MGP operations) is located at East First Street and Campbell in Kansas City, Missouri, and is owned by Missouri Gas Energy. A 1988 investigation of the site performed by an Environmental Protection Agency ("EPA") contractor determined that further remedial assessment was not required under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended by the Superfund Amendments and Reauthorization Act of 1986. The MDNR has stated that the reassessment of the Kansas City coal gas site is part of a statewide effort to identify, evaluate, and prioritize the potential hazards posed by all of Missouri's FMGP sites. During July 1999, the Company sent applications to the MDNR submitting the two sites to the agency's Voluntary Cleanup Program ("VCP"). The sites were accepted into the VCP on August 2, 1999, and MDNR subsequently approved the Company's proposed environmental assessment workplans. Following the completion of the assessments, final environmental reports were sent to the state on March 6, 2000. In a letter dated June 21, 2000, MDNR provided written comments to one of the site environmental reports (Station A). In that letter, MDNR indicated that some environmental remediation will be required of Station A, but that further exploration and delineation of site contamination should be performed before remedial methods can be determined. A workplan to further assess the site is being developed by the Company's environmental consultants for submission to MDNR.

INDEPENDENCE, MISSOURI FMGP #1:

The Company received a letter dated December 16, 1999, from MDNR notifying the Company of a Pre-CERCLIS Site Screening (SS) investigation of a former manufactured gas plant located at Pacific Avenue & South River Boulevard in Independence, Missouri. In response, the Company contacted MDNR to inform the agency that, as this property is not owned by the Company, it cannot grant access to the property for the MDNR's investigation. After contacting the current owner of the site and following the completion of the SS investigation, MDNR reported to the current owner of the site that, "At this time, the Independence FMGP #1 site is not recommended for CERCLIS entry and no further CERCLA action is recommended." MDNR also noted that, "The Independence FMGP #1 site is being referred to the Hazardous Waste Program's Registry Unit for further evaluation and Registry (Registry of Confirmed Abandoned or Uncontrollable Hazardous Waste Disposal Sites in Missouri) listing.

FUTURE ACQUISITIONS

The locations of known or suspected former MGPs within the current or former service territories of Fall River Gas Company, Providence Gas Company, and Valley Resources, Inc. or their predecessors are provided below. This information is provided as it is expected that Southern Union Company's acquisition of these companies will be consummated before the end of 2000.

Fall River Gas Company MGP Sites:

Address	City
Pond Street & Anawan Street	Fall River, MA
Charles Street & Bay Street	Fall River, MA

Providence Gas Company MGP Sites:

Address	City
45 Main Street	Plympton, MA
132 Mayflower Road	Plympton, MA
170 Allens Avenue	Providence, RI
642 Allens Avenue	Providence, RI
18 Canal Street	Providence, RI
Globe Street @ Allens Avenue	Providence, RI
Newport Bayfront Property	
Westerly Canal Street Site	
Public Street @ Allens Avenue	

Providence Gas Company Gas Holder Sites:

Address	City
Public Street @ Allens Avenue	
Globe Street @ Allens Avenue	
Pike Street @ Benefit Street	
Huntington Avenue @ Dike Street	
Federal Street @ Cory Street	
Plain Street @ Lockwood Street	
Crary Street @ Hospital Street	
Mechanic Street @ Dryden Lane	
Ashburton Street @ Conanicut Street	
Westfield Street @ Fuller Street	
First Street @ Mauren Avenue	
Blackstone Street	
Hartford Avenue @ Pattaya Avenue	
Industrial Drive	Westerly, RI

Westerly – Bradford Road	Westerly, RI

Valley Resources, Inc. MGP Sites:

Address	City
Mendon Road	Attleboro,
Lawn Knoll	Attleboro,
Pawtucket Water Supply Board	Cumberland,
Tidewater	Pawtucket,
Hamlet Avenue	Woonsocket,

Valley Resources, Inc. Other:

Address	City
Plympton Site (Bristol & Warren Gas meter disposal) 500 regulators in use with mercury components	

0302ENV

SOUTHERN UNION CO filed this S-4 on 07/07/2000.

Outline Printer Friendly

First Page »

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 7, 2000

REGISTRATION NO. 333-[ ]

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SOUTHERN UNION COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	4923	75-0571592
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification No.

---

504 Lavaca Street, Eighth Floor
Austin, Texas 78701
(512) 477-5852
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

DENNIS K. MORGAN, ESQ.
SENIOR VICE PRESIDENT-- LEGAL AND SECRETARY
SOUTHERN UNION COMPANY
504 LAVACA STREET, EIGHTH FLOOR
AUSTIN, TEXAS 78701
(512) 477-5852
(Name, address, including zip code, and telephone number, including area code, of agent for service)

WITH COPIES TO:

STEPHEN A. BOUCHARD, ESQ.
Fleischman and Walsh, L.L.P.
1400 Sixteenth Street, N.W.
Washington, D.C.
20036
(202) 939-7900

ERIC J. KRATHWOHL, ESQ.
Rich, May, Bilodeau & Flaherty, PC
176 Federal Street, 6th Floor
Boston, Massachusetts
02110-2223
(617) 482-1360

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT

SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT. THE ISSUANCE OF SECURITIES SHALL OCCUR WHEN ALL OTHER CONDITIONS TO THE CONSUMMATION OF THE TRANSACTIONS DESCRIBED IN THE PROXY STATEMENT/PROSPECTUS HAVE BEEN SATISFIED OR WAIVED.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933 ("the Securities Act"), check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE OF COMMON STOCK (2)	P A OFFERI
Common stock, $1.00 par value	3,136,710	$22.00	$49

(1) The maximum number of shares of Southern Union common stock, $1.00 par value, to be registered is based on the maximum number of shares to be issued in connection with the transactions described herein.

(2) Calculated pursuant to Rule 457(f)(1) of the Securities Act of 1933, as amended, solely for the purpose of the registration fee based on the average of the high and low prices of Fall River Gas common stock as reported on the American Stock Exchange Composite Transactions on July 5, 2000.

(3) Filing fee of $9,577.23 was paid to the Commission on June 5, 2000 in connection with the filing of the preliminary proxy material of Southern Union Company and Fall River Gas Company. The balance of the filing fee for this Registration Statement, $3,504.88, is delivered herewith.

THIS REGISTRATION STATEMENT IS HEREBY AMENDED ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVENESS UNTIL THE REGISTRANT WILL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT WILL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT WILL BECOME

EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

FALL RIVER GAS COMPANY
155 NORTH MAIN STREET
P.O. BOX 911
FALL RIVER, MASSACHUSETTS 02722-0911

July __, 2000

Dear Fellow Stockholder:

It is our pleasure to extend to you a cordial invitation to attend a special meeting of Stockholders of Fall River Gas Company.

You may have read that your Board of Directors and the Board of Directors of Southern Union Company have agreed on a merger. The enclosed proxy statement asks for your approval of the merger and provides you with detailed information about it. Please read this entire document carefully. You may obtain additional information about Fall River Gas Company and Southern Union Company from documents filed with the Securities and Exchange Commission.

YOUR BOARD OF DIRECTORS HAS CONCLUDED THAT THE MERGER IS IN THE BEST INTEREST OF FALL RIVER GAS COMPANY'S STOCKHOLDERS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE IN FAVOR OF THE MERGER.

Your vote is important. The merger cannot be completed without the approval of at least two-thirds of the outstanding shares of Fall River Gas Company common stock entitled to vote at the meeting. Whether or not you expect to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly by mail in the enclosed envelope which requires no postage if mailed in the United States.

The special meeting will be held at the office of Fall River Gas Company at 155 North Main Street, Fall River, Massachusetts beginning at 10:00 a.m. (Eastern Time), on August 29, 2000. On behalf of your Board of Directors, thank you for your continued support and interest in Fall River Gas Company.

Sincerely,

Bradford J. Faxon
President and Chief Executive Officer

FALL RIVER GAS COMPANY
155 NORTH MAIN STREET
P.O. BOX 911
FALL RIVER, MASSACHUSETTS 02722-0911
TELEPHONE: (508) 675-7811

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON AUGUST 29, 2000

NOTICE IS HEREBY GIVEN that the special meeting of stockholders of Fall River Gas Company will be held at the office of Fall River Gas Company on August 29, 2000, beginning at 10:00 a.m. (Eastern Time), for the following purposes:

(1) To approve and adopt the Agreement of Merger between Southern Union Company and Fall River Gas Company; and

(2) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on July 5, 2000, as the record date for the determination of holders of Fall River Gas Company common stock entitled to notice of and to vote at the meeting.

If you plan to attend the meeting and are a stockholder of record, please mark your proxy card in the appropriate space, or if voting by telephone, indicate this intent during the telephone voting process. An admission ticket will be mailed to you prior to the meeting date. However, if your shares are not registered in your own name, please advise the stockholder of record (your bank, broker, etc.) that you wish to attend. That firm will provide you with evidence of your ownership which will enable you to gain admittance to the meeting.

Whether you plan to attend the meeting or not, please complete, sign and date the enclosed proxy and return it promptly by mail in the enclosed envelope. No postage is required if mailed in the United States. Should you attend the special meeting in person, you may if you wish, withdraw your proxy and vote in person.

By order of the Board of Directors,

Robert J. Pollock
Clerk

Fall River, Massachusetts
July __, 2000

IMPORTANT

MASSACHUSETTS LAW REQUIRES THAT THE HOLDERS OF A MAJORITY OF FALL RIVER GAS COMPANY'S OUTSTANDING COMMON STOCK BE PRESENT IN PERSON OR BY PROXY AT THE SPECIAL MEETING IN ORDER TO CONSTITUTE A QUORUM. STOCKHOLDERS CAN HELP AVOID THE NECESSITY AND EXPENSE OF FOLLOW-UP LETTERS TO ASSURE THAT A QUORUM IS PRESENT AT THE SPECIAL MEETING BY PROMPTLY RETURNING THE ENCLOSED PROXY OR VOTING BY TELEPHONE. BROKER NON-VOTES, ABSTENTIONS, AND WITHHOLD AUTHORITY VOTES ALL COUNT FOR THE PURPOSE OF DETERMINING A QUORUM. IN THE ABSENCE OF A QUORUM, THE SPECIAL MEETING WILL BE ADJOURNED UNTIL A TIME ANNOUNCED AT SUCH MEETING. AT THE ADJOURNED MEETING, THE STOCKHOLDERS IN ATTENDANCE, ALTHOUGH LESS THAN A QUORUM, WILL NEVERTHELESS CONSTITUTE A QUORUM TO ACT ON ALL THE MATTERS INCLUDED IN THIS PROXY STATEMENT, IF THE ADJOURNMENT HAS BEEN AT LEAST FIFTEEN DAYS.

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The accompanying proxy, to be mailed to Fall River Gas Company ("Fall River Gas") stockholders together with the Notice of Special Meeting and this proxy statement/prospectus on or about July __, 2000, is solicited by Fall River Gas in connection with the special meeting to be held on August 29, 2000.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: WHAT WILL HAPPEN TO FALL RIVER GAS AS A RESULT OF THE MERGER?

A: If the merger is completed, Fall River Gas will merge into Southern Union Company ("Southern Union"), Fall River Gas' utility operations will become a division of Southern Union, and Fall River Gas' non-regulated subsidiary will become a subsidiary of Southern Union.

Q: WHAT DO I NEED TO DO NOW?

A: After you carefully read and consider the information contained in this document, please indicate on the enclosed proxy card how you want to vote. Sign and mail your proxy and return it in the enclosed envelope as soon as possible so that your shares may be represented at the special meeting. Failing to vote in person or by proxy will have the same effect as a vote against the merger agreement.

Q: WHAT IS THE REQUIRED VOTE TO APPROVE AND ADOPT THE MERGER AGREEMENT?

A: The merger agreement must be approved and adopted by the holders of at least two-thirds of the shares of Fall River Gas common stock entitled to vote at the special meeting.

Q. WHAT WILL YOU RECEIVE IF THE MERGER IS COMPLETED?

A. You will have the option to elect either cash or Southern Union common stock or a combination of both in exchange for your shares. You may elect to receive either $23.50 in cash for each share you own or a number of shares of Southern Union common stock equal to an exchange ratio. The exchange ratio will be adjusted shortly before the closing of the merger

to ensure that the value of the Southern Union common stock you receive, for each share of Fall River Gas common stock you own, will be approximately $23.50. This election is subject to the limitation that no more than 50% of the aggregate consideration paid to all Fall River Gas stockholders may be in cash.

Please read the more detailed description of the consideration to be issued in the merger on pages 48 through 50.

Q. WILL I ALWAYS RECEIVE THE SPECIFIC AMOUNTS OF CASH AND STOCK THAT I HAVE ELECTED?

A: If you elect stock consideration, you will receive the amount of whole shares of Southern Union common stock you elected and you will get cash for any fractional shares that you would otherwise receive. However, if you elect cash, the amount of cash you receive as consideration in the merger may be less than the amount you actually elected if too many other Fall River Gas stockholders elect cash. If the Fall River Gas stockholders as a whole exceed the cash limitation, the amount of cash paid to each stockholder electing cash will be reduced proportionately.

Please read the more detailed description of the consideration to be issued in the merger on pages 48 through 50.

Q: WHO IS ENTITLED TO VOTE?

A: Stockholders as of the close of business on the record date, July 5, 2000 are entitled to vote at the special meeting.

Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED IN MY SIGNED PROXY CARD?

A: Yes. You may change your vote at any time before the vote takes place at the special meeting. To do so, you can attend the special meeting and vote in person. Or, you can complete a new proxy card or send a written notice stating you would like to revoke your proxy. These should be sent to: Fall River Gas Company, 155 North Main Street, P.O. Box 911, Fall River, Massachusetts 02722-0911, Attention: Clerk. This notice must reach the Clerk before the proxy is voted.

Q: MY SHARES ARE HELD IN "STREET NAME." WILL MY BROKER VOTE MY SHARES ON THE MERGER?

A: A broker will vote your shares on the merger agreement only if you provide your broker with instructions on how to vote. You should follow the directions provided by your broker(s) regarding how to instruct brokers to vote the shares.

Q. AM I ENTITLED TO STATUTORY APPRAISAL RIGHTS?

A: No, Fall River Gas stockholders are not entitled to appraisal rights under Massachusetts law.

Q: SHOULD I SEND IN MY CERTIFICATES NOW?

A: No. After the merger is completed, Southern Union will send written instructions to you for exchanging your stock certificates. YOU SHOULD NOT SEND IN YOUR STOCK CERTIFICATES WITH YOUR PROXY.

Q: WHO CAN HELP ANSWER MY QUESTIONS?

A: If you have any questions about the merger or if you need additional copies of this document or the enclosed proxy, you should contact Peter H. Thanas, Senior Vice President and Treasurer, Fall River Gas Company, 155 North Main Street, P.O. Box 911, Fall River, Massachusetts 02722.

Q: WHEN IS THE MERGER EXPECTED TO BE COMPLETED?

A: Fall River Gas and Southern Union are working as quickly as possible and hope to complete the merger in September 2000.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Any reports, statements or other information that the companies have filed may be read and copied at the following locations of the SEC.

Public Reference Room	New York Regional Office	Chicago Regional Center
Room 1024	Suite 100	Citicorp Center
450 Fifth Street, N.W.	7 World Trade Center	Suite 1400
Washington, D.C. 20549	New York, New York 10048	500 West Madison Street
		Chicago, Illinois
		60661-2511

You may also obtain copies of this information by mail from the public reference section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 for further information on the public reference rooms. Southern Union's and Fall River Gas' SEC filings should also be available to the public from commercial retrieval services and at the Internet web site maintained by the SEC at http://www.sec.gov.

In addition, materials and information concerning Fall River Gas can be inspected at the American Stock Exchange, Inc., The Office of the Secretary, 86 Trinity Place, 12th Floor, New York, New York 10006, where Fall River Gas Common Stock is listed. Materials and information concerning Southern Union can be inspected at the New York Stock Exchange, Inc., 20 Broad Street, 7th Floor, New York, New York 10005, where Southern Union common stock is listed.

The SEC allows us to "incorporate by reference" certain information into this proxy statement/prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this document, except for any additional information that is superseded by information contained directly in this document. We incorporate by reference the documents listed below that were previously filed with the SEC by Southern Union (SEC File No. 1-06407) and Fall River Gas (SEC File No. 1-13517). These documents contain important information (including the financial condition) about our company and Southern Union.

SEC FILINGS REGARDING SOUTHERN UNION (FILE NO. 1-06407)

- Southern Union's Annual Report on Form 10-K for the fiscal year ended June 30, 1999.

- Southern Union's Definitive Proxy Statement on Schedule 14A for the 1999 Annual Meeting of Stockholders filed with the SEC on September 17, 1999.

- Southern Union's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

- Southern Union's Form 8-K, filed with the SEC on October 8, 1999.

- Southern Union's Form 8-K, filed with the SEC on November 18, 1999 (which incorporates by reference financial information for Pennsylvania Enterprises, Inc.).

- Southern Union's Forms 8-K (two), filed with the SEC on November 19, 1999.

- Southern Union's Form 8-K, filed with the SEC on December 6, 1999.

- Southern Union's Form 8-K, filed with the SEC on December 30, 1999.

- Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999.

- Southern Union's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.

- Southern Union's Form 8-K, filed with the SEC on June 5, 2000 (which includes certain historical financial information for Pennsylvania Enterprises, Inc., ProvEnergy Corporation and Valley Resources, Inc.).

- Southern Union's Definitive Proxy Statement on Schedule 14A for a Special Meeting of Stockholders to be held on August 29, 2000, filed with the SEC on July __ , 2000.

SEC FILINGS REGARDING FALL RIVER GAS (FILE NO. 1-13517)

- Fall River Gas' Annual Report on Form 10-K for the fiscal year ended September 30, 1999.

- Fall River Gas' Form 8-K, filed with the SEC on October 20, 1999.

- Fall River Gas' Quarterly Report on Form 10-Q for the quarter ended December 31, 1999.

- Fall River Gas' Definitive Proxy Statement on Schedule 14A for the 2000 Annual Meeting of Stockholders filed with the SEC on December 21, 1999.

- Fall River Gas' Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.

Southern Union and Fall River Gas may be required by the SEC to file other documents pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the time this proxy statement/prospectus is sent and the date the Fall River Gas special meeting is held. These other documents will be considered to be incorporated by reference in this proxy statement/prospectus and to be a part of it from the date they are filed with the SEC.

Fall River Gas may have sent you some of the documents regarding Fall River Gas that are incorporated by reference, but you can obtain any of them through Fall River Gas, the SEC or the SEC's Internet web site as previously described. Likewise, you can obtain the documents regarding Southern Union that are incorporated by reference through Southern Union, the SEC or the SEC's Internet web site as previously described.

Documents incorporated by reference as exhibits to this proxy statement/prospectus are available from Southern Union and Fall River Gas without charge. You may obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone from the appropriate company at the following addresses:

SOUTHERN UNION COMPANY
Attention: George Yankowski
Director-Investor Relations
504 Lavaca Street, Eighth Floor
Austin, Texas 78701
(512) 477-5852

FALL RIVER GAS COMPANY
Attention: Peter H. Thanas
Senior Vice President and Treasurer
155 North Main Street
P.O. Box 911
Fall River, Massachusetts 02722-0911
(508) 675-7811

If you would like to request documents from Southern Union or Fall River Gas, please do so promptly in order to receive them before Fall River Gas' special meeting.

All information contained in or incorporated by reference in this proxy statement/prospectus with respect to Southern Union has been provided by Southern Union. All information contained in or incorporated by reference in this proxy statement/prospectus with respect to Fall River Gas has been provided by Fall River Gas. Neither Southern Union nor Fall River Gas assumes any responsibility for the accuracy or completeness of the information provided by the other party.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT/PROSPECTUS TO VOTE ON THE MERGER AGREEMENT. NEITHER SOUTHERN UNION NOR FALL RIVER GAS HAS AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS. THIS PROXY STATEMENT/PROSPECTUS IS DATED JULY __, 2000. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THAT DATE, AND NEITHER THE MAILING OF THIS PROXY STATEMENT/PROSPECTUS TO STOCKHOLDERS NOR THE COMPLETION OF THE MERGER SHALL CREATE ANY IMPLICATION TO THE CONTRARY.

SUMMARY

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION FROM THIS PROXY STATEMENT/PROSPECTUS AND MAY NOT CONTAIN ALL OF THE INFORMATION THAT IS IMPORTANT TO YOU. TO UNDERSTAND THE MERGER AND FOR A MORE COMPLETE DESCRIPTION OF THE LEGAL TERMS OF THE MERGER, YOU SHOULD READ THIS ENTIRE DOCUMENT CAREFULLY AND THE OTHER DOCUMENTS TO WHICH WE HAVE REFERRED YOU. SEE "WHERE YOU CAN FIND MORE INFORMATION" ON PAGE 3. WE HAVE INCLUDED PAGE REFERENCES IN PARENTHESES TO DIRECT YOU TO A MORE COMPLETE DESCRIPTION OF THE TOPICS PRESENTED IN THIS SUMMARY. ("WE" AND "OUR" AS USED IN THIS DOCUMENT REFER TO SOUTHERN UNION AND FALL RIVER GAS.)

OVERVIEW

Southern Union and Fall River Gas entered into a merger agreement on October 4, 1999. We are asking you to approve this merger agreement. The merger agreement sets forth the terms and conditions and the details of the transactions through which Southern Union proposes to acquire Fall River Gas. Under the terms of

the merger agreement, at the closing, each outstanding share of Fall River Gas common stock will be converted into the right to receive either $23.50 in cash or a number of shares of Southern Union common stock equal to an exchange ratio that will be adjusted shortly before the closing of the merger to ensure that the value of Southern Union common stock received for each share of Fall River Gas common stock will be approximately $23.50, or a combination of both, depending on each Fall River Gas stockholder's election. At least 50% of all outstanding shares of Fall River Gas must be exchanged for shares of Southern Union common stock.

Upon completion of the transactions contemplated by the merger agreement, Fall River Gas will be merged into Southern Union and its utility business will be operated as a division of Southern Union. Fall River Gas' non-regulated subsidiary will become a subsidiary of Southern Union.

THE COMPANIES

SOUTHERN UNION (SEE PAGE 72)

Southern Union is a publicly owned international energy company headquartered in Austin, Texas, that primarily engages in the distribution of natural gas and is one of the fifteen largest distributors in the nation by customer count. Southern Union serves more than 1.2 million customers through: its four natural gas divisions in Texas, Missouri, Pennsylvania, and Florida; its propane distribution subsidiaries; and its equity ownership in a natural gas distribution company serving Piedras-Negras, Mexico. Through its subsidiaries, Southern Union also markets natural gas to end users and operates natural gas pipeline systems, generates and markets electricity, and constructs, maintains and rehabilitates natural gas distribution pipelines.

Southern Union recently completed a merger with Pennsylvania Enterprises, Inc. ("PEI"), on November 4, 1999. Later on November 14 and 30, 1999, Southern Union entered into merger agreements with Providence Energy Corporation ("ProvEnergy") and Valley Resources, Inc ("Valley Resources"). See "Recent Developments - Southern Union."

FALL RIVER GAS (SEE PAGE 74)

Fall River Gas is a publicly owned company, headquartered in Fall River, Massachusetts, that is primarily engaged in the distribution of natural gas. Fall River Gas provides natural gas to more than 48,000 customers in southeastern Massachusetts. Through its non-regulated subsidiary, Fall River Gas markets and rents water heaters, conversion burners and central heating and air conditioning systems to customers in Fall River Gas' service area.

THE MERGER

SUMMARY (SEE PAGE 48)

We are asking you to approve and adopt the merger agreement that provides for the merger of Fall River Gas into Southern Union. Fall River Gas' utility operations will become a division of Southern Union, and Fall River Gas' non-regulated subsidiary will become a subsidiary of Southern Union. When we speak about

the "merger" and the "merger agreement" in this proxy statement/prospectus, we mean the merger of Fall River Gas into Southern Union and the agreement that sets forth the details of that merger.

The merger will become effective following the approval of the merger agreement by the stockholders of Fall River Gas and the satisfaction or waiver of all other conditions to the merger. At this time, these conditions include certain approvals of the state regulatory commissions of Massachusetts, Pennsylvania and Florida.

The merger agreement is attached at the back of this proxy statement/prospectus as Appendix A. We encourage you to read the merger agreement since it is the legal document that governs the merger.

WHAT HOLDERS OF FALL RIVER GAS COMMON STOCK WILL RECEIVE IN THE MERGER (SEE PAGE 48)

When the merger is completed, your shares of Fall River Gas common stock will be cancelled. You will have the option to elect either cash or Southern Union common stock or a combination of both in exchange for your shares of Fall River Gas, subject to certain limitations.

Each share of your Fall River Gas common stock that you elect to exchange for cash will be converted into the right to receive $23.50 in cash, unless too many Fall River Gas stockholders elect to receive cash. No more than 50% of the aggregate consideration paid to all Fall River Gas stockholders may consist of cash, including cash paid to Fall River Gas stockholders in lieu of issuing them fractional shares of Southern Union common stock. If the Fall River Gas stockholders' elections to receive cash for their shares exceed this cash limitation, the amount of cash paid to each Fall River Gas stockholder electing cash will be reduced proportionately. Thus, if too many Fall River Gas stockholders elect to receive cash, consequently exceeding the cash limitation, a combination of cash and Southern Union common stock having a deemed value of $23.50 will be delivered to Fall River Gas stockholders in exchange for each share they elected to be exchanged for cash.

Each share of your Fall River Gas common stock that you elect to exchange for Southern Union common stock or do not elect to exchange for cash (or cannot exchange for cash because too many Fall River Gas stockholders have elected to exchange for cash as described above), will be converted into the right to receive that number of whole shares of Southern Union common stock having a value of $23.50. Southern Union will not issue any fractional shares of its common stock in the merger. Instead, you will get cash for any fractional shares of Southern Union common stock you would otherwise receive.

You will be entitled to receive Southern Union common stock in the merger if:

- you elect to receive Southern Union common stock;
- you elect to receive cash and Fall River Gas stockholders exceed the cash limitation;
- you do not indicate a preference as to the type of consideration you want to receive; or
- you do not properly complete the form of election provided to you by the company Southern Union has selected to be the paying agent in connection with the merger.

The exact number of shares of Southern Union common stock you will receive for each share of Fall River Gas common stock that you own will depend on the average price of Southern Union common stock on the New York Stock Exchange for the ten trading-day period beginning on the twelfth trading day and ending

on the third trading day before the closing of the merger (counting from and including the trading day immediately before the closing).

If the average price of Southern Union's common stock during this ten trading-day period is:

- Above $19.6875, the number of shares of Southern Union common stock will be fixed at 1.19365 for each share of Fall River Gas common stock.

- Between $16.875 and $19.6875, the number of shares of Southern Union common stock will be adjusted so that each share of Fall River Gas' common stock will be exchanged for Southern Union common stock having a value equal to $23.50 divided by the average trading price during the period of time described above.

- Below $16.875, but at least $15.00, the number of shares of Southern Union common stock will be fixed at 1.39259 for each share of Fall River Gas common stock.

- Below $15.00, Fall River Gas has the option to terminate the merger agreement. If Fall River Gas does not terminate the merger agreement, you will receive 1.39259 shares of Southern Union common stock per share of Fall River Gas common stock.

PROCEDURE FOR FILING ELECTIONS AND CONVERTING FALL RIVER GAS COMMON STOCK INTO MERGER CONSIDERATION (SEE PAGE 50)

A form of election and complete instructions for properly making an election to receive either cash or Southern Union common stock or a combination of cash and Southern Union common stock will be delivered under separate cover to holders of record of shares of Fall River Gas (as of a record date as close as practicable to the date of mailing) at least 15 business days prior to the anticipated closing date of the merger. The closing date of the merger is expected to occur in September 2000.

Fall River Gas stockholders will be entitled to choose one of the following consideration options, which will be listed on their form of election:

- to receive cash for each share of Fall River Gas they own;

- to receive Southern Union common stock for each share of Fall River Gas they own;

- to exchange some of their shares of Fall River Gas for cash and some for Southern Union common stock; or

- to indicate no preference as to type of consideration.

You will be eligible to receive cash only if the paying agent has received a properly completed form of election at its designated office or offices by 4:00 p.m., Eastern Time, on the third business day prior to the closing date of the merger. You will be eligible to receive as consideration only shares of Southern Union common stock if:

the form of election you submit indicates a preference to receive only

- the form of election you submit indicates a preference to receive only shares of Southern Union common stock;

- the form of election you submit indicates no preference as to form of consideration; or

- you fail to submit a properly completed form of election prior to the deadline for submitting cash elections.

You may revoke your election only if Southern Union's paying agent receives written notice of revocation prior to the deadline for submitting cash elections.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES (SEE PAGE 42)

In regard to the Southern Union common stock and cash received in the merger, a Fall River Gas stockholder will generally recognize capital gain for U.S. federal income tax purposes in an amount equal to the lesser of (i) the amount of cash received or (ii) the excess of the amount of cash and the fair market value of Southern Union common stock received in the merger over the tax basis of the Fall River Gas common stock surrendered.

The merger will not result in the recognition of gain or loss to Southern Union or Fall River Gas.

SINCE THE TAX CONSEQUENCES OF THE MERGER TO YOU MAY VARY DEPENDING UPON YOUR PARTICULAR CIRCUMSTANCES AS A FALL RIVER GAS STOCKHOLDER, YOU SHOULD CONSULT YOUR OWN TAX ADVISORS REGARDING THE FEDERAL (AND ANY STATE, LOCAL OR FOREIGN) TAX CONSEQUENCES OF THE MERGER IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES.

RECOMMENDATION TO FALL RIVER GAS COMMON STOCKHOLDERS (SEE PAGE 34)

The Fall River Gas board of directors believes that the merger is in the best interest of Fall River Gas stockholders and recommends that holders of Fall River Gas common stock vote "FOR" the approval and adoption of the merger agreement. The reasons for the board's recommendation are set forth on pages 34 to 36.

FAIRNESS OPINION OF FALL RIVER GAS' FINANCIAL ADVISOR (SEE PAGE 36)

In deciding to approve the merger, the Fall River Gas board of directors considered an opinion from its financial advisor Legg Mason Wood Walker, Incorporated ("Legg Mason") to the effect that, as of the date of the merger agreement, the consideration to be received by Fall River Gas stockholders was fair to the stockholders from a financial point of view. This opinion is attached as Appendix B to this proxy statement/prospectus. We encourage you to read this opinion.

THE FALL RIVER GAS SPECIAL MEETING

The Fall River Gas special meeting will be held at 10:00 a.m. (Eastern Time) on August 29, 2000, at the office of Fall River Gas, 155 North Main Street, Fall River, Massachusetts 02722. At the meeting, holders of Fall River Gas common stock will be asked to approve and adopt the merger agreement.

RECORD DATE; VOTING RIGHTS; VOTING AGREEMENT (SEE PAGE 29)

If you owned shares of Fall River Gas common stock as of the close of business on July 5, 2000, you are entitled to vote at the special meeting.

On that date, there were 2,252,429 shares of Fall River Gas common stock outstanding. Holders of Fall River Gas common stock will have one vote at the special meeting for each share of Fall River Gas common stock they own on that date.

In connection with the merger, Barbara N. Jarabek, as trustee to The Jarabek Family Limited Partnership, Ronald J. Ferris, Bradford J. Faxon, Raymond H. Faxon, Cindy L.J. Audette, Gilbert C. Oliveira, Jr. and Thomas H. Bilodeau each entered into a voting agreement with Southern Union. According to the terms of the voting agreement, these stockholders: 1) agreed to vote or cause to be voted their shares of Fall River Gas common stock in favor of the merger and the adoption and approval of the merger agreement, and 2) granted Southern Union an irrevocable proxy to vote their shares of Fall River Gas common stock for the approval and adoption of the merger agreement and the performance of transactions related to the merger. As of the special meeting record date, the number of shares beneficially owned by the Fall River Gas stockholders who entered into the voting agreement and granted this irrevocable proxy represented approximately 25.6% of the outstanding shares of Fall River Gas common stock entitled to vote on the approval and adoption of the merger agreement and performance of transactions related to the merger agreement.

Of the 572,510 shares of Fall River Gas common stock represented by the stockholders who are parties to the voting agreement, as of May 31, 2000, 276,800 shares were beneficially owned by executive officers and directors of Fall River Gas. The voting agreement is attached as Appendix C to this proxy statement/prospectus. See "The Merger Agreement - Covenants and other Agreements - Fall River Gas Voting Agreement."

As of the close of business on May 31, 2000, directors and officers of Fall River Gas beneficially owned and were entitled to vote approximately 297,216 shares of Fall River Gas common stock, which represented approximately 13.3% of the shares of Fall River Gas outstanding on that date. Each of them has indicated his or her present intention to vote, or cause to be voted, the Fall River Gas common stock owned by him or her for the proposal to approve and adopt the merger agreement.

QUORUM; REQUIRED VOTE (SEE PAGE 29)

A majority of the shares of Fall River Gas common stock outstanding and entitled to vote on the record date must be present in person or by proxy at the special meeting or voted by telephone in order for a quorum to be present.

Consummation of the merger requires the approval of at least two-thirds of the shares of Fall River Gas outstanding and entitled to vote at the meeting.

If you hold your shares of Fall River Gas common stock through a broker or nominee, you must instruct your broker on how you would like to vote or these shares will not be voted, although they may be counted as present if your broker or nominee returns a proxy card without any voting instructions. Similarly, a properly executed proxy marked "ABSTAIN" will be counted as present, but will not be counted as a vote cast. ACCORDINGLY, ABSTENTIONS AND BROKER NON-VOTES WILL HAVE THE EFFECT OF A VOTE "AGAINST" THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT.

SUMMARY OF OTHER SELECTED INFORMATION

POTENTIAL CONFLICTS AND INTERESTS OF OFFICERS AND DIRECTORS IN THE MERGER (SEE PAGE 40)

Fall River Gas officers and the Fall River Gas board have interests in the

merger that may be different from, or in addition to, the interest of Fall River Gas stockholders generally and may represent conflicts of interest.

The merger will constitute a "change in control" of Fall River Gas and this will entitle certain Fall River Gas officers, in accordance with the terms of their respective employment agreements, to receive lump sum severance benefits if the officer is terminated without cause or terminates his or her own employment within thirty-six months after the date the merger is completed. On October 4, 1999, these employment agreements were amended. These amendments will become effective as of the date the merger is completed. These amendments provide for payment to Bradford J. Faxon, Peter H. Thanas and John F. Fanning of $1,000,000, $700,000 and $300,000, respectively. If Messrs. Faxon, Thanas and Fanning continue their employment with Fall River Gas, these payments will be made in equal monthly installments over an eighteen-month period beginning on the effective date of the merger. These payments would be offset against any severance payments that may become owed under any of these agreements, in certain circumstances.

For six years after the merger, Southern Union has also agreed to indemnify, and use its reasonable best efforts to provide liability insurance for present and former officers and directors of Fall River Gas against acts and omissions occurring before the merger under certain circumstances.

The Fall River Gas board was aware of these interests and considered them in approving the merger agreement.

REGULATORY APPROVALS (SEE PAGE 44)

Certain approvals from the state regulatory commissions of Massachusetts, Missouri and Pennsylvania, as well as the expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 are required in order to complete the merger. Authorization from the state regulatory commissions of Florida and Pennsylvania for Southern Union to issue debt securities and/or common stock sufficient to complete the merger is also required. As of the date of this proxy statement/prospectus, only the required regulatory approvals from the Missouri and Pennsylvania commissions for the merger have been obtained.

Subsequent to the execution of the merger agreement, the issue arose as to whether Southern Union was required under Massachusetts law to obtain the approval of the transaction by holders of two-thirds of the outstanding shares of Southern Union common stock in connection with obtaining the approval of the transaction by the Massachusetts Department of Telecommunications and Energy. In order to eliminate any uncertainty concerning this issue and to facilitate the closing of the transaction, Southern Union has advised Fall River Gas and the Massachusetts Department of Telecommunications and Energy that it intends to seek, and through its proxy is seeking, such stockholder approval at the Southern Union special meeting.

Southern Union has advised Fall River Gas that George Lindemann, the Chairman of the Board and Chief Executive Officer of Southern Union, and members of his immediate family have advised Southern Union that they intend to vote all of the shares of Southern Union common stock that they beneficially own and are entitled to vote in favor of the approval of the Fall River Gas merger agreement and the transactions contemplated thereby. As of June 30, 2000, those Lindemann family members beneficially owned and were entitled to vote approximately 27% of the shares of Southern Union common stock then outstanding.

Southern Union has advised Fall River Gas that each of Southern Union's

directors and executive officers has advised Southern Union that they intend to vote the shares of Southern Union common stock that they beneficially own and are entitled to vote in favor of the approval of the Fall River Gas merger agreement and the transactions contemplated thereby. As of June 30, 2000, those directors and executive officers other than the Lindemanns, discussed above, beneficially owned and were entitled to vote approximately 5% of the shares of Southern Union common stock outstanding. Together with the Lindemanns, this represents a total of approximately 32% of the shares of Southern Union common stock outstanding as of June 30, 2000.

CONDITIONS TO THE MERGER (SEE PAGE 59)

Completion of the merger depends on the satisfaction of certain conditions, including:

- Approval by Fall River Gas stockholders.

- All required governmental approvals obtained without material adverse conditions. To facilitate obtaining the approval of the transaction by the Massachusetts Department of Telecommunications and Energy, Southern Union is seeking approval of the transaction at the Southern Union special meeting by holders of two-thirds of the outstanding shares of Southern Union common stock.

- No court or administrative order issued to prevent the merger.

- Effectiveness of the registration statement in which this proxy statement/prospectus is included.

- Listing on the NYSE of the Southern Union common stock being issued to Fall River Gas stockholders in connection with the merger.

- The receipt of certain third-party consents and approvals.

AMENDMENT OF THE MERGER AGREEMENT (SEE PAGE 60)

Southern Union and Fall River Gas may amend in writing the terms of the merger agreement.

TERMINATION OF THE MERGER AGREEMENT AND TERMINATION FEES (SEE PAGE 61 AND PAGE 62)

Fall River Gas and Southern Union may terminate the merger agreement by mutual written consent without completing the merger. The merger agreement may be terminated by either Fall River Gas or Southern Union in the following instances:

- if less than two-thirds of the Fall River Gas stockholders vote to approve the merger;

- if a court issues a non-appealable order that prohibits the consummation of the merger;

- if the merger is not completed by October 15, 2000 (this date may be extended to February 28, 2001 to obtain certain governmental approvals); or

- if the other party breaches a warranty, covenant, agreement or representation contained in the merger agreement.

Fall River Gas may terminate the merger if the average trading price of Southern Union common stock used to determine the number of shares of Southern Union common stock to be received by Fall River Gas stockholders in the merger is lower than $15.00.

Also, the merger agreement may be terminated by Fall River Gas if it signs an agreement for a business combination with another party under certain circumstances. Additionally, Southern Union may terminate the merger if: 1) the Fall River Gas board or one of its committees withdraws or modifies its approval or recommendation of approval of the merger agreement to the Fall River Gas stockholders; or 2) if a third party or group acquires a majority of Fall River Gas' shares. In any of these events, Fall River Gas may be required to pay Southern Union a termination fee of $1.5 million.

COMPARATIVE STOCKHOLDER RIGHTS (SEE PAGE 77)

When the merger is completed, a holder of Fall River Gas common stock, to the extent he has not received cash in exchange for any or all of his shares, will be a stockholder of Southern Union. The rights of these stockholders will be governed by Delaware law and Southern Union's restated certificate of incorporation and bylaws (instead of Massachusetts law and Fall River Gas' articles of organization and bylaws), subject to any continuing application of any Massachusetts law provisions as a result of Southern Union becoming a Massachusetts utility. Certain differences between the rights of holders of Southern Union common stock and those of holders of Fall River Gas common stock are summarized on pages 77 to 88.

ACCOUNTING TREATMENT (SEE PAGE 46)

The merger will be accounted for using the purchase method of accounting in accordance with generally accepted accounting principles.

NO STATUTORY APPRAISAL RIGHTS (SEE PAGE 46)

Holders of Fall River Gas common stock who do not vote in favor of the merger will not be entitled to appraisal rights.

COMPARATIVE PER SHARE COMMON STOCK MARKET PRICE INFORMATION (SEE PAGE 26)

Southern Union common stock is listed on the New York Stock Exchange. Fall River Gas common stock is listed on the American Stock Exchange. On October 4, 1999, the date of the merger agreement, Southern Union common stock closed at $18.69 and Fall River Gas common stock closed at $21.00. On October 1, 1999, the last full trading day prior to the public announcement of the merger, Southern Union common stock closed at $18.75 and Fall River Gas common stock closed at $20.75. These Southern Union common stock prices are actual historical trading prices on the stated dates and are not restated to give effect to any stock dividends distributed.

LISTING OF SOUTHERN UNION COMMON STOCK (SEE PAGE 46)

Southern Union will list the shares of its common stock to be issued in the merger on the NYSE.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

The summary below sets forth selected historical financial and market data and selected unaudited pro forma combined condensed financial data. The financial data should be read in conjunction with the documents incorporated by

reference and the historical financial statements and the related notes of Southern Union, PEI, Fall River Gas, ProvEnergy, and Valley Resources incorporated by reference, and in conjunction with the Unaudited Pro Forma Combined Condensed Financial Statements and the related notes thereto included under "Unaudited Pro Forma Combined Condensed Financial Statements."

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF SOUTHERN UNION

The selected historical financial data of Southern Union have been derived from the audited historical consolidated financial statements and related notes of Southern Union for each of the years in the five-year period ended June 30, 1999 and the unaudited consolidated financial statements for the nine months ended March 31, 2000 and 1999. The historical data are only a summary, and you should read them in conjunction with the historical financial statements and related notes contained in the annual and quarterly reports for Southern Union, which have been incorporated by reference in this proxy statement/prospectus. See "Where You Can Find More Information." Operating results for the nine months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the entire fiscal year ending June 30, 2000.

	YEAR ENDED JUNE 30,			
	1999(a)(b)	1998(a)(b)	1997(a)	199
	(DOLLARS IN THOUSANDS, EXC			
Total operating revenues	$ 605,231	$ 669,304	$ 717,031	$ 62
Earnings from continuing operations (d)	10,445	12,229	19,032	2
Diluted earnings per share (e)	0.31	0.37	0.59	
Total assets	1,087,348	1,047,764	990,403	96
Common stockholders' equity	301,058	296,834	267,462	24
Short-term debt and capital lease obligation	2,066	1,777	687	
Long-term debt and capital lease obligation, excluding current portion	390,931	406,407	386,157	38
Company-obligated mandatorily redeemable preferred securities of subsidiary trust	100,000	100,000	100,000	10
Average customers served	998,476	979,186	955,838	95

(a) Certain Texas and Oklahoma Panhandle distribution operations and Western Gas Interstate (a former subsidiary of Southern Union), exclusive of the Del Norte interconnect, were sold on May 1, 1996.

(b) On December 31, 1997, Southern Union acquired Atlantic Utilities Corporation and Subsidiaries for 755,650 pre-split and pre-stock dividend shares of common stock valued at $18,041,000 and cash of $4,436,000.

(c) PEI was acquired on November 4, 1999 and was accounted for as a purchase. PEI's assets are included in the Company's consolidated balance sheet at March 31, 2000 and its results of operations have been included in the Company's consolidated results of operations since November 4, 1999. For these reasons, the consolidated results of operations of the company for the periods subsequent to the acquisition are not comparable to the same

periods in prior years.

(d) As of June 30, 1998, Missouri Gas Energy (a division of Southern Union) wrote off $8,163,000 pre-tax in previously recorded regulatory assets as a result of announced rate orders and court rulings.

(e) Earnings per share for all periods presented were computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year adjusted for (i) the 5% stock dividends distributed on June 30, 2000, August 6, 1999, December 9, 1998, December 10, 1997, December 10, 1996 and November 27, 1995, and (ii) the 50% stock dividend distributed on July 13, 1998 and the 33 1/3% stock dividend distributed on March 11, 1996.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF FALL RIVER GAS

The selected historical financial data of Fall River Gas have been derived from the audited historical consolidated financial statements and related notes of Fall River Gas for each of the years in the five-year period ended September 30, 1999 and the unaudited consolidated financial statements for the six months ended March 31, 2000 and 1999. The historical data are only a summary, and you should read them in conjunction with the historical financial statements and related notes contained in the annual and quarterly reports for Fall River Gas, which have been incorporated by reference in this proxy statement/prospectus. See "Where You Can Find More Information." Operating results for the six months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2000.

	FISCAL YEAR ENDED SEPTEMBER 30,				
	1999	1998	1997	1996	1
	(DOLLARS IN THOUSANDS, EXCEPT PER				
INCOME STATEMENT DATA:					
Gas operating revenues	$42,081	$42,671	$45,261	$48,966	$4
Operating expenses	39,365	39,693	42,400	46,624	4
Operating income	2,716	2,978	2,861	2,342	
Net income	2,100	2,080	1,625	1,424	
COMMON STOCK INFORMATION:					
Weighted average number of shares outstanding in thousands	2,197	2,146	1,785	1,781	
Earnings per share of common stock	0.96	0.97	0.91	0.80	
Cash dividends per share of common stock	0.96	0.96	0.96	0.96	
CAPITALIZATION AT END OF PERIOD:					
Common shareholders' investment	17,584	17,430	12,618	12,637	1
Long-term debt	19,500	19,500	13,500	13,500	
Total capitalization	37,084	36,930	26,118	26,137	1
TOTAL ASSETS AT END OF PERIOD:	55,683	55,639	54,935	53,191	5

SELECTED UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL DATA

The following selected unaudited pro forma combined condensed financial data presents the combined financial data of Southern Union, Fall River Gas, PEI, ProvEnergy and Valley Resources including their respective subsidiaries, after giving effect to Southern Union's merger with each of them. The PEI merger,

completed on November 4, 1999, was, and the Fall River Gas, ProvEnergy and Valley Resources mergers will be, accounted for as a purchase. The unaudited pro forma combined condensed financial data also give effect to Southern Union's issuance of $300 million of senior notes that was completed on November 3, 1999, in anticipation of the PEI merger, prospective financing for the pending acquisitions by merger of Fall River Gas, ProvEnergy and Valley Resources, and the assumption of certain debt of the acquired companies. All of these transactions are assumed to be effective for the period indicated in the following selected unaudited pro forma combined condensed financial data (see "Recent Developments").

The selected unaudited pro forma combined condensed financial data as of and for the year ended June 30, 1999, and as of and for the nine months ended March 31, 2000, were derived from and should be read in conjunction with the Unaudited Pro Forma Combined Condensed Balance Sheet and the Unaudited Pro Forma Combined Condensed Statement of Operations, including the notes thereto, which are included in

this proxy statement on pages 64 to 71, and other filings with the SEC by each of Southern Union, PEI, Fall River Gas, ProvEnergy and Valley Resources. The selected unaudited pro forma combined condensed financial data should also be read in conjunction with the historical financial statements and related notes of Southern Union, PEI, Fall River Gas, ProvEnergy and Valley Resources which are incorporated herein by reference, including by reference to a Southern Union Current Report on Form 8-K (see "Where You Can Find More Information") and are available in the respective reports these companies have filed with the SEC.

The selected unaudited pro forma combined condensed financial data is presented for purposes of illustration only in accordance with the assumptions stated in the notes to the financial information set forth below and is not necessarily indicative of the operating results or the financial position that would have occurred if the PEI, Fall River Gas, ProvEnergy and Valley Resources mergers had all been consummated by the beginning of the period presented nor is it necessarily indicative of the future operating results or financial position of the combined enterprise. The selected unaudited pro forma combined condensed financial data does not contain any adjustments to reflect cost savings or other synergies that may be a result of the PEI, Fall River Gas, ProvEnergy and Valley Resources mergers.

	YEAR ENDED JUNE 30, 1999
	(DOLLARS IN THOUSAND
Total operating revenues	$1,185,700
Earnings (loss) from continuing operations (a)(b)(c)	(9,768)
Diluted earnings (loss) per share (d)(e)	(0.19)
Total assets	
Common stockholders' equity (e)	
Short-term debt and capital lease obligation (b)(f)	
Long-term debt and capital lease obligation, excluding current portion (b)	
Company-obligated mandatorily redeemable preferred securities of subsidiary trust (b)	

(a) Southern Union incurred pre-tax costs associated with various acquisition

(a) Southern Union incurred pre-tax costs associated with various acquisition efforts unrelated to the Fall River Gas, PEI, ProvEnergy and Valley Resources mergers, and litigation costs associated with an unsuccessful acquisition, of $3,839,000 and $6,664,000 for the year ended June 30, 1999 and the nine-months ended March 31, 2000, respectively.

(b) Funding for the Fall River Gas, ProvEnergy and Valley Resources mergers is assumed to be provided by bank borrowings at an estimated annual interest rate of 7.60%. This rate is what Southern Union believes would be obtained based on current market rates. These proceeds are assumed to be utilized: to finance the cash portion of the Fall River Gas, ProvEnergy and Valley Resources mergers and the settlement of any respective stock options; and to pay a total of approximately $9 million of various professional fees and change of control agreements expected to be incurred in connection with the three pending acquisitions. Additionally, long-term debt of $300 million at an annual interest rate of 8.25% was issued on November 3, 1999 in connection with the PEI merger.

(c) In anticipation of the pending and completed acquisitions, the outstanding PEI and ProvEnergy preferred stock was repurchased prior to closing of the related merger.

(d) Earnings (loss) per share for both periods presented were computed based on the weighted average number of shares of common stock outstanding during the period adjusted for the Southern Union 5% stock dividends distributed on June 30, 2000, August 6, 1999 and December 9, 1998, and the 50% stock dividend distributed on July 13, 1998.

(e) The March 31, 2000 information reflects an estimated issuance of Southern Union common stock to Fall River Gas stockholders at an exchange ratio of 1.39259 based on an average trading price of $15.7954 for Southern Union common stock at the average closing price per share for the ten trading day period ending on the third trading day before June 30, 2000, and assuming that half the Fall River Gas shares are not exchanged but paid for in cash.

(f) Represents historical short-term debt and capital lease obligation of Southern Union, Fall River Gas, ProvEnergy and ValleyResources.

RISK FACTORS AND OTHER CONSIDERATIONS

You should consider carefully all the information contained in this proxy statement/prospectus, including the following matters:

THE AMOUNT OF CONSIDERATION RECEIVED IN STOCK MAY VARY AS A RESULT OF FLUCTUATIONS IN SOUTHERN UNION'S STOCK PRICE

Fall River Gas stockholders may choose whether they want to exchange their Fall River Gas common stock for either cash or Southern Union common stock. Fall River Gas stockholders may also choose to exchange some of their Fall River Gas common stock for cash and some for Southern Union common stock. The opportunity to make this election will occur only shortly before the merger is completed, which will be after the time of the Fall River Gas stockholder vote on the merger. Also, the exchange ratio used to determine the amount of Southern Union common stock to be delivered to Fall River Gas stockholders who are entitled to receive Southern Union common stock will be adjusted. This adjustment will be based on the average of the closing prices of Southern Union common stock on the NYSE for a period of ten consecutive trading days ending on the third trading day before the date that the merger is completed.

The adjustments to the exchange ratio are designed to ensure that the aggregate value based on this average price of the Southern Union shares to be exchanged for each share of Fall River Gas common stock you own will be at least $23.50 per share (except as explained in the second paragraph below) unless Fall River Gas decides to complete the merger if the average price is below $15.00 a share.

You should be aware of two risks associated with these methods of electing the form of merger consideration you want to receive and adjusting the amount of Southern Union common stock to be delivered to Fall River Gas stockholders upon completion of the merger.

- First, there may be significant time lapses between: 1) when your vote is cast regarding the merger at the special meeting, 2) when you make your election regarding the form of merger consideration you want to receive, and 3) when merger is completed. During this period of time, the market value of Southern Union common stock may fluctuate significantly. At the time your vote is cast regarding approval of the merger and the time at which you make your election regarding the form of merger consideration you want to receive, you will not know the exact number of shares of Southern Union common stock that will be delivered to you when the merger is completed.

- Second, the number of shares of Southern Union common stock you will receive will be based on the closing prices of Southern Union common stock from the twelfth to the third trading days before the date that the merger is completed. The actual market value of the shares when received by you will depend on the market value of a share of Southern Union common stock on that date, which may be less than the value used to determine the number of shares you will receive.

You are urged to obtain current market quotations for Southern Union common stock and Fall River Gas common stock.

THE AMOUNT OF CASH PAID TO STOCKHOLDERS ELECTING CASH MAY BE REDUCED PROPORTIONATELY

No more than 50% of the aggregate consideration paid to all Fall River Gas stockholders may consist of cash. If you elect to receive cash in exchange for some or all of your shares of Fall River Gas common stock, the amount of cash you receive as consideration in the merger may be less than the amount you actually elected because too many other Fall River Gas stockholders elected to receive cash. If the Fall River Gas stockholders exceed their cash limitation, the amount of cash paid to each stockholder electing cash will be reduced proportionately.

THE COMBINED COMPANY MAY NOT REALIZE BENEFITS OF INTEGRATING OUR COMPANIES, THE COMPANY SOUTHERN UNION RECENTLY ACQUIRED AND THE OTHER COMPANIES SOUTHERN UNION HAS AGREED TO ACQUIRE

Southern Union recently acquired PEI and has agreed to acquire several companies, including Fall River Gas. See "Recent Developments - Southern Union." The combined company will need to combine and integrate the operations of these separate companies into one company. The combined company could encounter difficulties in the integration process, such as the loss of key employees, customers or suppliers. If the combined company cannot integrate the businesses of Southern Union and the other companies, successfully, the combined company may fail to realize the benefits that Southern Union's and Fall River Gas' management expect to realize from the merger.

APPROVALS MAY NOT BE OBTAINED OR MAY CONTAIN UNACCEPTABLE RESTRICTIONS

The consummation of the merger is conditioned upon receiving approval from various governmental regulatory authorities. It is possible that some required approvals and consents will not be obtained or that such approvals and consents can be obtained only if they contain certain restrictions on the combined company that will not be acceptable or would adversely affect the value of the

combined company. See "The Merger - Regulatory Matters." Required approvals that have not yet been received are:

- approval of the merger by the Massachusetts Department of Telecommunications and Energy;

- authorization by the Florida Public Service Commission and the Pennsylvania Public Utility Commission of any securities issued by Southern Union in connection with the merger; and

- expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

In addition, other filings with, notifications to and authorizations and approvals of various government agencies and third-party consents with respect to the merger must be made or received before the completion of the merger. As of the date of this proxy statement/prospectus, only the required approval of the Pennsylvania and Missouri commissions for the merger have been obtained. Fall River Gas and Southern Union are seeking to obtain all other required approvals and consents, most of which will not be obtained prior to the Fall River Gas special meeting.

FUTURE ACQUISITIONS MAY NOT ACHIEVE FAVORABLE FINANCIAL RESULTS, MAY DILUTE YOUR PERCENTAGE OWNERSHIP IN SOUTHERN UNION OR REQUIRE SUBSTANTIAL EXPENDITURES

Southern Union's strategic plan is to increase the scale of its operations and the size of its customer base by pursuing and consummating future business combination transactions. Recently, it has acquired or agreed to acquire four companies, including Fall River Gas. See "Recent Developments - Southern Union." The combined company may not be able to consummate future acquisitions on favorable terms. In addition, future acquisitions may not achieve favorable financial results.

Future acquisitions may involve or require the issuance of shares of Southern Union common stock, which could have a dilutive effect on the then-current stockholders of Southern Union. Southern Union may not choose or be able to acquire companies or assets associated with the energy industry using its equity as currency. The combined company's leverage might be increased to finance an acquisition or the operations of the combined company. Furthermore, acquisitions may require substantial financial expenditures that will need to be financed through cash flow from operations or future debt and equity offerings by the combined company. Southern Union may not be able to generate sufficient cash flow from operations or obtain debt or equity financing sufficient to fund future acquisitions or the expenditures required because of the acquisitions.

A DIFFERENT SET OF FACTORS AND CONDITIONS AFFECT SOUTHERN UNION STOCK AND COULD HAVE A NEGATIVE IMPACT ON ITS STOCK PRICE

Upon completion of the merger, stockholders of Fall River Gas that do not receive cash for any or all of their shares of Fall River Gas stock will become holders of Southern Union common stock. The businesses and markets of Southern Union and the other companies it has acquired and is acquiring are different from those of Fall River Gas. For example, the natural gas business of Fall River Gas depends primarily on weather, economic and regulatory conditions affecting southeastern Massachusetts. Southern Union's gas business depends in part on weather and economic conditions in Texas, Missouri, Pennsylvania, and Florida. In addition, Southern Union, through its subsidiaries, is engaged in the electricity business and the propane distribution business.

There is a risk that various factors, conditions and developments which would

not affect the price of Fall River Gas' stock could negatively affect the price of Southern Union's stock. See "Forward-Looking Statements May Prove Inaccurate" for a summary of many of the key factors that might affect Southern Union and the price at which Southern Union common stock may trade from time to time. See "Comparative Per Share Data" for certain unaudited historical per share data of Southern Union and Fall River Gas.

SOUTHERN UNION DOES NOT PAY CASH DIVIDENDS ON ITS COMMON STOCK

Fall River Gas presently pays a $0.24 quarterly cash dividend on its outstanding shares of common stock. Southern Union presently does not pay a cash dividend. Southern Union plans to continue to distribute an annual 5% stock dividend, subject to any required regulatory approvals being obtained.

COMPETITION WITHIN THE NATURAL GAS INDUSTRY IS INTENSE

As a result of the deregulation of the utility industry, the natural gas distribution business has become highly competitive. In a deregulated environment, formerly regulated utility companies that are not responsive to a competitive energy marketplace suffer erosion in market share, revenues and profits as competitors gain access to their service territories.

Although the merger will result in a larger combined company with a more diverse customer base, several of the combined company's competitors will still have substantially larger financial resources, staffs and facilities than the combined company. There is a risk that the intense competition for natural gas customers may in the future reduce the combined company's earnings from retail natural gas service and have an adverse effect on the stability of the combined company's utility earnings generally.

THE TERMS OF MERGER-RELATED FINANCINGS MAY ADVERSELY AFFECT THE COMBINED COMPANY

Southern Union's management would require financing through external sources of up to approximately $600 million to complete the pending mergers (assuming that Fall River Gas shareholders choose to receive the maximum of 50% of the aggregate merger consideration that may be paid to them in cash and if all $140 million of existing long-term debt of the three companies being acquired must be refinanced rather than amended and assumed as planned) necessary to fund the total cash payable to the stockholders of Fall River Gas, ProvEnergy and Valley Resources, and costs and refinancings related to all of these mergers in connection with completion of these mergers (see "The Companies - Southern Union - Acquisitions").

In addition to the Fall River Gas, ProvEnergy and Valley Resources transactions, other future acquisitions may require substantial financial expenditures that will also need to be financed through external sources, including future debt and equity offerings by the combined company. Furthermore, Southern Union may refinance a portion of the outstanding debt of Fall River Gas, ProvEnergy, Valley Resources and their respective subsidiaries in connection with or soon after the completion of those transactions.

Sources of financing for the three pending and any future acquisitions may include commercial and investment banks, institutional lenders and investors, and the public securities markets. Southern Union presently plans to fund the pending mergers with bank borrowings, but has no commitments at this time. After closing the mergers, Southern Union may need or choose to refinance some or all of any bank financing for the mergers. The terms of any financing or refinancing arrangements may contain covenants that could adversely affect the financial condition and flexibility of the combined company. Southern Union's management believes that Southern Union will have access if, and when, needed to many

believes that Southern Union will have access to, and when needed be able to, many sources and types of short-term and long-term capital financing on reasonable terms and conditions.

FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE

We have each made forward-looking statements in this document (and in documents that we have incorporated by reference) that are subject to risks and uncertainties. Forward-looking statements include the information concerning possible or assumed future results of operations of Southern Union, Fall River Gas, ProvEnergy and Valley Resources. Also, when we use words such as "believes," "expects," "anticipates," "intends," or similar expressions, we are making forward-looking statements. You should note that many factors, some of which are discussed elsewhere in this document and in the documents that we incorporate by reference, could affect the future financial results of Southern Union, Fall River Gas, ProvEnergy and Valley Resources and could cause those results to differ materially from those expressed in our forward-looking statements contained or incorporated by reference in this document. The factors that could cause actual results to differ materially from those indicated by such forward-looking statements include the following:

- general economic, financial and business conditions;
- effectiveness of hedging strategies;
- competition in the energy services sector;
- the availability of natural gas and oil;
- development and operating costs;
- the success and costs of advertising and promotional efforts;
- the availability and terms of capital;
- unanticipated environmental liabilities;
- the impacts of unusual items resulting from ongoing evaluations of business strategies and asset valuations;
- changes in business strategy;
- the timing and extent of changes in commodity prices;
- gas sales volumes;
- weather conditions and other natural phenomena in our service territories;
- the purchase and implementation of new technologies for enhancing customer services and/or operating efficiencies;
- impact of relations with labor unions of bargaining-unit employees;

- the receipt of timely and adequate rate relief;
- the outcome of pending and future litigation;

- the outcome of pending and future litigation;

- governmental regulations and proceedings affecting the companies, including the restructuring of the natural gas industry in Massachusetts, Rhode Island, Texas, Missouri, Pennsylvania and Florida;

- the nature and impact of any extraordinary transaction such as any acquisition or divestiture of a business unit or any assets;

- the risk that the businesses of PEI, Fall River Gas, ProvEnergy, Valley Resources and any other businesses or investments that Southern Union has acquired or may acquire may not be successfully integrated with the businesses of Southern Union.

This list provides only an example of some of the risks, uncertainties and assumptions that may affect forward-looking statements. If any of these risks or uncertainties materialize or fail to materialize, as applicable, or if the underlying assumptions prove incorrect, actual results may differ materially from those projected in the forward-looking statements.

The nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets may also cause actual results to differ materially from estimates or projections contained in forward-looking statements. Southern Union's strategic plan is to increase the scale of its operations and the size of its customer base by pursuing and completing future business combination transactions. Acquisitions may require substantial additional financial expenditures that will need to be financed through cash flow from operations or future debt and equity offerings. The availability and terms of any such financing sources will depend upon various factors and conditions such as Southern Union's cash flow and earnings, its resulting capital structure, credit ratings and conditions in financial capital markets at the time of any such offering. Any future acquisitions and related financing arrangements or debt assumptions would likely increase its aggregate indebtedness, and may increase the portion of its total capitalization represented by debt. Acquisitions and financings will also affect Southern Union's results due to factors such as its ability to realize any anticipated benefits from such transactions, successful integration of new and different operations and businesses, effects of different regional economic and weather conditions, and the extent of any related debt financing.

Other factors that could cause actual results to differ materially from estimates and projections contained in forward-looking statements are described in the documents that have been incorporated by reference into this document. You should not place undue reliance on forward-looking statements, which speak only as of the date of this proxy statement/prospectus, or, in the case of documents incorporated by reference, the dates of those documents.

COMPARATIVE DIVIDENDS AND MARKET PRICES

SOUTHERN UNION

Southern Union common stock is listed and principally traded on the NYSE under the symbol "SUG." The table below sets forth the high and low sales prices (adjusted for any stock dividends and stock splits) of Southern Union common stock for the calendar periods indicated as reported in THE WALL STREET JOURNAL as New York Stock Exchange Composite Transactions. The last day of Southern Union's fiscal year is June 30. Southern Union does not pay its stockholders a cash dividend. For the last seven years, Southern Union has distributed an annual 5% stock dividend, and it expects to continue to distribute an annual 5% stock dividend that can be sold through its Dividend Sale Plan.

	PRICE RANGE	
	HIGH	LOW
1997		
First quarter	$13.36	$11.65
Second quarter	13.85	12.06
Third quarter	13.44	11.93
Fourth quarter	14.87	12.48
1998		
First quarter	$14.26	$13.18
Second quarter	18.79	13.74
Third quarter	19.33	13.50
Fourth quarter	22.22	16.79
1999		
First quarter	$22.10	$15.76
Second quarter	20.75	16.78
Third quarter	20.66	17.14
Fourth quarter	20.00	16.61
2000		
First quarter	$18.15	$12.62
Second quarter	17.26	14.41

FALL RIVER GAS

Fall River Gas common stock is listed and principally traded on the American Stock Exchange under the symbol "FAL." Prior to October 31, 1997, the Fall River Gas' common stock was traded in the over-the-counter market on the OTC Bulletin Board and quoted under the symbol "FALL." The table below lists the dividends declared and the high and low sales price of Fall River Gas common stock for the calendar period indicated as reported in THE WALL STREET JOURNAL as American Stock Exchange Composite Transactions and prior to October 1997 as reported by The National Quotation Bureau. The last day of Fall River Gas' fiscal year is September 30.

	PRICE RANGE		
	HIGH	LOW	CASH DIVIDENDS
1997			
First quarter	$17.00	$16.00	$0.24
Second quarter	16.38	12.50	0.24
Third quarter	14.00	12.75	0.24
Fourth quarter	16.63	13.00	0.24

1998			
First quarter	$17.25	$14.88	$0.24
Second quarter	16.75	14.25	0.24
Third quarter	16.38	14.38	0.24
Fourth quarter	17.50	15.00	0.24
1999			
First quarter	$18.25	$16.88	$0.24
Second quarter	19.88	17.13	0.24
Third quarter	22.00	18.75	0.24
Fourth quarter	21.94	20.13	0.24
2000			
First quarter	$21.88	$19.13	$0.24
Second quarter	22.69	20.50	0.24

HISTORICAL EQUIVALENT PER SHARE MARKET VALUES

The following table lists the market value of Southern Union common stock (on an historical basis) and the market value of Fall River Gas common stock (on an historical and equivalent per share basis): as of July 23, 1999, the day the executive committee of the board of directors of Fall River Gas authorized Fall River Gas' representatives to negotiate a merger agreement with Southern Union based on its indication of interest; as of October 1, 1999, the last business day preceding the day when Southern Union and Fall River Gas entered into the merger agreement; and as of June 30, 2000, the day used to determine the estimated exchange ratio used in the Unaudited Pro Forma Combined Condensed Financial Statements. The equivalent per share values were based on an exchange ratio valuing Southern Union common stock at the average closing price per share for the ten trading day period ending on the third trading day before each respective date.

	SOUTHERN UNION			FALL RIVER GAS		
DATE	HIGH	LOW	CLOSING	HIGH	LOW	CLOSING
July 23, 1999	$20.50	$20.13	$20.50	$21.00	$20.50	$20.50
October 1, 1999	19.00	18.69	18.75	20.86	20.75	20.75
June 30, 2000	17.13	15.75	15.81	22.25	22.00	22.00

YOU ARE ENCOURAGED TO OBTAIN CURRENT MARKET QUOTATIONS FOR SOUTHERN UNION COMMON STOCK AND FALL RIVER GAS COMMON STOCK.

COMPARATIVE PER SHARE DATA

The following tables list certain unaudited historical per share data of Southern Union and Fall River Gas and the combined per share data on an unaudited pro forma basis after giving effect to the PEI, Fall River Gas, ProvEnergy and Valley Resources mergers assuming the mergers had been in effect for the period indicated, using the purchase method of accounting for business combinations and assuming an exchange ratio of 1.39259 shares of Southern Union

common stock for each share of Fall River Gas common stock based on an average trading price of $15.7954 for Southern Union common stock, which is the average closing price per share for the ten trading day period ending on the third trading day before June 30, 2000. This data should be read in conjunction with the selected financial data and the Unaudited Pro Forma Combined Condensed Financial Statements and notes thereto included elsewhere in this proxy statement/prospectus and the separate historical financial statements of Southern Union, PEI, Fall River Gas, ProvEnergy and Valley Resources incorporated in this proxy statement/prospectus by reference, including by reference to a Southern Union Current Report on Form 8-K. The unaudited pro forma combined financial data is not necessarily indicative of the operating results or financial position that would have occurred if the mergers had been consummated as of the beginning of the periods presented, nor are they necessarily indicative of the future operating results or financial position of the combined company.

	YEAR ENDED JUNE 30, 1999
SOUTHERN UNION -- HISTORICAL	
Earnings per common share:	
Basic	$ 0.32
Diluted	0.31
Cash dividends declared per share(a)	--
Book value per share at period end	9.36
FALL RIVER GAS - HISTORICAL	
Earnings per common share:	
Basic	$ 0.93
Diluted	0.93
Cash dividends declared per share	0.96
Book value per share at period end	8.29
SOUTHERN UNION - PRO FORMA(b)	
Earnings (loss) per common share:	
Basic	$ (0.19)
Diluted	(0.19)
Cash dividends declared per share(a)	--
Book value per share at period end	12.81
FALL RIVER GAS - EQUIVALENT PRO FORMA	
Per share data imputed to existing stockholders(c)(d)	
Earnings (loss) per common share:	
Basic	$ (0.27)
Diluted	(0.27)
Cash dividends declared per share	--
Book value per share at period end	17.83

(a) Southern Union distributes an annual 5% stock dividend.
(b) See "Selected Unaudited Pro Forma Combined Condensed Financial Data."
(c) Equivalent pro forma share data are calculated by multiplying the respective unaudited pro forma combined data by an assumed exchange ratio of 1.39259 shares of Southern Union common stock for each share of Fall River Gas common stock. The assumed exchange ratio is based on an average trading price of $15.7954 for Southern Union common stock, which is the

trading price of $19.7994 for Southern Union common stock, which is the average closing price per share for the ten trading day period ending on the third trading day before June 30, 2000.

(d) Pro forma combined cash dividends declared per share represents the historical stock (not cash) dividend policy of Southern Union for all periods presented.

RECENT DEVELOPMENTS

SOUTHERN UNION

In addition to the Fall River Gas merger, Southern Union recently has completed or agreed to the significant acquisitions described below.

MERGER WITH PENNSYLVANIA ENTERPRISES, INC. Effective November 4, 1999, Southern Union acquired PEI and its subsidiaries for approximately 17 million shares of Southern Union common stock and approximately $36 million in cash plus the assumption of approximately $150 million in debt. PEI's natural gas utility businesses are being operated as PG Energy and Honesdale Gas, divisions of Southern Union, which provide service to approximately 154,000 natural gas customers in northeastern and central Pennsylvania (including the cities of Wilkes-Barre, Scranton and Williamsport). Through PG Energy Services, Inc., a PEI subsidiary that Southern Union acquired in the PEI merger, Southern Union markets electricity and other products and services under the name PG Energy Power Plus, principally in northeastern and central Pennsylvania. Other subsidiaries that Southern Union acquired in the PEI merger include PEI Power Corporation, Keystone Pipeline Services, Inc. (itself a wholly owned subsidiary of PG Energy Services, Inc.) and Theta Land Corporation. PEI Power Corporation, an exempt wholesale generator (within the meaning of the Public Utility Holding Company Act of 1935), generates and sells electricity. Keystone Pipeline Services, Inc. is engaged primarily in the construction, maintenance and rehabilitation of natural gas distribution pipelines. Theta Land Corporation engages in the sale of property for residential and commercial development and was sold for $12.1 million in January 2000.

MERGER WITH PROVIDENCE ENERGY CORPORATION. On November 14, 1999, Southern Union and ProvEnergy (NYSE: "PVY") entered into a definitive merger agreement. The agreement calls for ProvEnergy and its utility subsidiaries to merge into Southern Union in a transaction valued at approximately $400 million, including the assumption of debt. ProvEnergy shareholders will receive $42.50 in cash for each of the approximately 6.1 million shares of ProvEnergy common stock outstanding. ProvEnergy, headquartered in Providence, Rhode Island, is engaged through its subsidiaries principally in natural gas distribution to approximately 168,000 natural gas customers in Providence and Newport, Rhode Island, and 23 other cities and towns in Rhode Island and Massachusetts. ProvEnergy's oil business serves over 4,000 residential customers and a large commercial base. ProvEnergy's utility service territories encompass approximately 760 square miles with a population of approximately 850,000. On May 22, 2000, the shareholders of ProvEnergy approved the terms of the ProvEnergy merger. Southern Union anticipates completing the ProvEnergy merger in September 2000 once all remaining conditions are satisfied, including receipt of all regulatory approvals.

MERGER WITH VALLEY RESOURCES, INC. On November 30, 1999, Southern Union, SUG Acquisition Corporation a Rhode Island corporation and wholly-owned subsidiary of Southern Union, and Valley Resources (AMEX: "VR") entered into a definitive merger agreement. The agreement calls for Valley Resources to merge into Southern Union in a transaction valued at approximately $160 million, including the assumption of debt. Valley Resources shareholders will receive $25.00 in cash for each of the approximately 4.98 million shares of Valley Resources

common stock outstanding. Valley Resources, headquartered in Cumberland, Rhode Island, provides natural gas utility service to more than 64,000 customers through its subsidiaries, Valley Gas Company and Bristol & Warren Gas Company. Valley Gas Company's service

area covers a 92 square mile area in the Blackstone Valley Region located in the northeastern portion of Rhode Island that has a population of approximately 250,000. Bristol & Warren Gas Company's service area covers approximately 15 square miles in the eastern portion of Rhode Island that has a population of approximately 35,000. Other Valley Resources subsidiaries rent and sell gas appliances, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Valley Resources also has an 90% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI fuel cell, holds patents for a natural gas/diesel co-firing system and for a device to control the flow of fuel on dual-fuel equipment. Valley Resources shareholders approved the Valley Resources merger at their special meeting on June 13, 2000. Southern Union anticipates completing the Valley Resources merger in September 2000 once all remaining conditions are satisfied, including receipt of all regulatory approvals for the Valley Resources merger.

THE FALL RIVER GAS SPECIAL MEETING

PURPOSE, TIME AND PLACE

The special meeting will be held at the office of Fall River Gas, 155 Main Street, Fall River, Massachusetts 02722 on August 29, 2000, at 10:00 a.m. (Eastern Time), for the following purposes:

(1) To approve and adopt the merger agreement;

(2) To transact such other business as may properly come before the meeting or any adjournment thereof.

RECORD DATE; VOTING POWER; VOTE REQUIRED

The Fall River Gas board has fixed the close of business on July 5, 2000 as the record date for the determination of holders of Fall River Gas common stock entitled to notice of and to vote at the special meeting. Fall River Gas common stock, of which there were 2,252,429 shares outstanding and entitled to vote on July 5, 2000, is the only class of securities of Fall River Gas entitled to vote at the special meeting. A majority of the shares of Fall River Gas common stock issued and outstanding and entitled to vote on the record date must be present in person or by proxy at the special meeting or voted by telephone in order for a quorum to be present for purposes of transacting business at the special meeting.

In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies. Holders of Fall River Gas common stock as of the record date are each entitled to one vote per share on the approval and adoption of the merger agreement at the special meeting. The approval and adoption requires the affirmative vote of at least two-thirds of the shares of Fall River Gas common stock outstanding on the record date. The Fall River Gas board recommends that Fall River Gas stockholders vote "FOR" approval and adoption of the merger agreement.

SHARE OWNERSHIP OF MANAGEMENT; MANAGEMENT VOTE; VOTING AGREEMENT

As of the close of business on May 31, 2000, directors and officers of Fall River Gas beneficially owned and were entitled to vote approximately 297,216 shares of Fall River Gas common stock, which represented

approximately 13.3% of the shares of Fall River Gas outstanding on that date. Each of them has indicated his or her present intention to vote, or cause to be voted, the Fall River Gas common stock owned by him or her "FOR" the proposal to approve and adopt the merger agreement at the special meeting. See "Principal Stockholders - Beneficial Owners of More Than 5% of Fall River Gas' Common Stock" and "Fall River Gas Management Ownership" for additional information.

In connection with the merger, Barbara N. Jarabek, as trustee to The Jarabek Family Limited Partnership, Ronald J. Ferris, Bradford J. Faxon, Raymond H. Faxon, Cindy L.J. Audette, Gilbert C. Oliveira, Jr. and Thomas H. Bilodeau entered into a voting agreement with Southern Union. According to the terms of the voting agreement, these stockholders agreed: 1) to vote or cause to be voted their shares of Fall River Gas common stock in favor of the merger and the adoption and approval of the merger agreement, and 2) to grant Southern Union an irrevocable proxy to vote their shares of Fall River Gas common stock for the approval and adoption by the Fall River Gas stockholders of the merger agreement and the performance of transactions related to the merger. As of the special meeting record date, the number of shares beneficially owned by the Fall River Gas stockholders who entered into the voting agreement and granted this irrevocable proxy represent approximately 25.6% of the outstanding shares of Fall River Gas common stock entitled to vote on the approval and adoption of the merger agreement and performance of transactions related to the merger agreement.

Of the 572,510 shares of Fall River Gas common stock represented by the stockholders who are parties to the voting agreement, as of May 31, 2000, 276,800 shares were beneficially owned by executive officers and directors of Fall River Gas. The voting agreement is attached as Appendix C to this proxy statement/prospectus. See "The Merger Agreement - Covenants and other Agreements - Fall River Gas Voting Agreement."

VOTING OF PROXIES

All holders of Fall River Gas common stock who are entitled to vote and are represented at the special meeting by properly executed proxies received prior to or at such meeting and not duly and timely revoked will have their shares voted at the meeting in accordance with the instructions indicated on the proxies. If no instructions are indicated, the proxies will be voted "FOR" approval and adoption of the merger agreement.

If any other matters are properly presented at the special meeting for consideration, the persons named in the enclosed form of proxy, and acting thereunder, will have discretion to vote on such matters in accordance with their best judgment (unless authorization to use such discretion is withheld). Fall River Gas is not aware of any matters expected to be presented at the special meeting other than as described in the Notice of Special Meeting.

REVOCABILITY OF PROXIES

Massachusetts law provides that a proxy, unless coupled with an interest (for example, a vote pooling or similar arrangement among holders of Fall River Gas common stock, or between Fall River Gas and holders of Fall River Gas common stock, or an unrevoked proxy in favor of an existing or potential creditor of a holder of Fall River Gas common stock), is revocable at will by a holder of Fall River Gas common stock,

notwithstanding any other agreement or provision in the proxy to the contrary. A holder of Fall River Gas common stock may revoke a proxy by giving written notice of revocation to the clerk of Fall River Gas at Fall River Gas' address set forth on page 5 of this proxy statement/prospectus at any time before the proxy is voted. Such revocation will be effective upon receipt of the written notice by the Clerk of Fall River Gas.

SOLICITATION OF PROXIES

Fall River Gas and Southern Union will each bear half of the costs of this solicitation of proxies. In addition to solicitation by mail, arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to send material to their principals, and Fall River Gas may reimburse them for their expenses in so doing. To the extent necessary in order to ensure a sufficient presence of holders of Fall River Gas common stock to constitute a quorum, officers and other employees of Fall River Gas or designated agents may, without additional remuneration, in person or by telephone or telegram, request the return of proxies. In addition, Fall River Gas has retained Corporate Investor Communications, Inc. ("CIC") for assistance in the solicitation of proxies. For its services, CIC will receive a fee estimated at $4,500 plus reimbursement for reasonable and customary out-of-pocket expenses.

THE MERGER

THIS SECTION OF THE PROXY STATEMENT/PROSPECTUS, AS WELL AS THE NEXT SECTION ENTITLED "THE MERGER AGREEMENT," DESCRIBES CERTAIN ASPECTS OF THE PROPOSED MERGER. THESE SECTIONS HIGHLIGHT KEY INFORMATION ABOUT THE MERGER AND THE MERGER AGREEMENT, BUT THEY MAY NOT INCLUDE ALL THE INFORMATION THAT YOU WOULD LIKE TO KNOW. THE MERGER AGREEMENT IS ATTACHED AS APPENDIX A TO THIS PROXY STATEMENT/PROSPECTUS. WE URGE YOU TO READ THE MERGER AGREEMENT IN ITS ENTIRETY.

FALL RIVER GAS BACKGROUND OF THE MERGER

As part of its long-term planning, Fall River Gas' board has periodically reviewed and evaluated various strategic options and alternatives available to maximize the economic return of its stockholders. Fall River Gas' board has recognized the difficulties Fall River Gas faced in responding to the demands of a deregulated energy market, in competing with the larger companies being formed in the consolidation of the energy industry and in continuing to increase shareholder value. From time to time, Fall River Gas' board has considered strategic combinations, but found no attractive opportunities to maximize shareholder value.

On June 21, 1999, Bradford J. Faxon, Chairman of the Board, Chief Executive Officer and President, Peter H. Thanas, Senior Vice President, and Thomas K. Barry, director of Fall River Gas, met with Thomas F. Karam, President and Chief Executive Officer of PEI, a Pennsylvania based gas utility holding company that was then in the initial stages of its merger with Southern Union, and discussed, in general terms, their respective companies and whether it would be appropriate to initiate further discussions between representatives of Southern Union and Fall River Gas regarding a possible business combination. As a follow-up to this conversation, Mr. Karam sent Mr. Faxon copies of recent Southern Union public reports.

On July 19, 1999, following several general conversations between Mr. Faxon and Mr. Karam about the energy industry and the philosophies of their companies, and the possibility of a strategic relationship

between Southern Union and Fall River Gas, Mr. Karam conveyed Southern Union's proposal to acquire Fall River Gas, in an all stock transaction, valuing the Fall River Gas stock at $21 per share. Mr. Faxon communicated the proposal to the executive committee of the board of directors at the executive committee's July 23, 1999 meeting (director Ronald J. Ferris was also in attendance). The committee concluded that the proposal was too low and instructed Mr. Faxon to seek a higher proposed price. After Fall River Gas advised Southern Union of this decision, additional discussions occurred between Mr. Faxon, Mr. Thanas and Mr. Karam and Peter H. Kelley, President and Chief Operating Officer of Southern Union. On July 29, 1999 Southern Union made a revised proposal of $23.50 per share and Mr. Faxon undertook to seek approval by the Fall River Gas board of directors.

Subsequently, discussions ensued between Messrs. Faxon, Thanas, counsel for the respective companies and Mr. Karam as well as other representatives of Southern Union with respect to other proposed terms for a transaction. At the same time, Mr. Faxon advised the members of the board of Fall River Gas of the developments regarding a possible business combination with Southern Union and called a special meeting of the board of directors. During this time period, Messrs. Faxon and Thanas fielded informal inquiries from other potential combination partners, but no offers were received from anyone other than Southern Union.

On the morning of September 8, 1999, the board of Fall River Gas met to consider a merger agreement with Southern Union. At the same time, at Fall River Gas' request, the American Stock Exchange agreed to suspend trading in the stock of Fall River Gas while the board and its advisors discussed the merger. Mr. Faxon updated the board on his discussions with Southern Union and stated his view that a strategic merger with a larger company would, among other things: 1) provide an opportunity for growth; 2) assist Fall River Gas in providing all energy alternatives to its customers; 3) provide geographical diversity; 4) permit more aggressive growth; and 5) better enable the company to take advantage of opportunities in the energy industry.

In addition, Mr. Faxon stated a strategic relationship with Southern Union would not require Fall River Gas to significantly reduce employees or other assets in Fall River Gas' service area and should help improve service to its customers. He noted the changing competitive landscape in the energy industry where critical mass and complete energy solutions are necessary, the increasing merger activity and formation of larger companies with which Fall River Gas would be required to compete, and the limitations of Fall River Gas in terms of potential sales growth in its existing service territory and access to capital. Fall River Gas' outside counsel, Rich, May, Bilodeau & Flaherty, P.C., reviewed the board's fiduciary duties and the standards of conduct to be followed in considering a merger proposal. Rich, May, Bilodeau & Flaherty, P.C. also discussed key legal aspects of the proposed merger agreement and the negotiation process with members of Fall River Gas' board.

Legg Mason, Fall River Gas' financial advisors, discussed the proposed financial terms of the transaction between Southern Union and Fall River Gas with the board and rendered its written opinion that, as of the date of the meeting and based upon and subject to certain matters stated in its opinion, the consideration to be received by the stockholders of Fall River Gas in the proposed merger was fair to the stockholders from a financial point of view.

Mr. Kelley, Ronald J. Endres, Southern Union's Executive Vice President and Chief Financial Officer, and Mr. Karam, made a presentation to the Fall River Gas board of directors describing Southern Union, its

operations and recent corporate history, including its 1994 Missouri acquisition and its then pending merger with PEI, as well as its corporate plan of growth through acquisitions. Mr. Endres discussed Southern Union's returns to investors and discussed Southern Union's business vision of enhancing profitability through technological advances. Mr. Karam summarized the benefits of Southern Union's strategies and certain benefits of the proposed merger: 1) geographical diversification and minimum employee disruption; 2) reduction in costs; 3) creation of additional value through increased size; and 4) establishment of a New England presence for Southern Union.

After the Southern Union presentation, the Fall River Gas board discussed the terms of the proposed merger agreement, including the stock-for-stock consideration, valued at $23.50 per share of Fall River Gas common stock. The sense of the meeting was that the price was fair, but more information should be gathered regarding Southern Union. Mr. Faxon suggested and the board voted to and established a special committee of the board for the sole purpose of gathering additional information regarding Southern Union. The committee members were Cindy L.J. Audette, Thomas H. Bilodeau and Ronald J. Ferris. Fall River Gas management then issued a press release stating that Fall River Gas had received an offer from an undisclosed party for an all stock transaction at $23.50 per share, and that the board of directors had formed a committee to help it evaluate the offer.

During the next several days, additional discussions were held among the representatives of Fall River Gas and Southern Union, while the special committee gathered additional information regarding Southern Union. During this period, the Fall River Gas board members also engaged in discussions with one another concerning the possible merger.

On the morning of September 17, 1999, the Fall River Gas board again met to consider the proposed merger. Again, Mr. Faxon stated his support for the transaction, noting: 1) that the price offered was favorable relative to other recent comparable transactions; 2) that Fall River Gas' growth prospects in terms of business and earnings were limited; and 3) that the proposed merger would not require a significant reduction in employees or assets in Fall River Gas' service area. He further noted that although there had been inquiries from third parties, no other offers by other potential merger partners had been received. Fall River Gas' counsel again reviewed the board's responsibilities and key aspects of the merger agreement and the special committee presented its findings. After extensive discussion, the board determined that it lacked sufficient consensus to recommend the merger as structured. Fall River Gas then issued a press release stating that the board had rejected the offer.

Following additional conversations between representatives of Southern Union and Fall River Gas, by letter dated September 28, 1999, Mr. Karam conveyed Southern Union's willingness to change the structure for its proposed merger to provide that up to one-half of the consideration could be cash rather than stock of Southern Union. At its regular meeting on September 30, 1999, Fall River Gas' board considered the terms of Southern Union's revised offer. Fall River Gas' counsel discussed various aspects of the proposed merger agreement, conditions to closing, as well as a likely time schedule. Legg Mason, by conference telephone, noted that it considered the change from an all-stock transaction to a cash-and-stock transaction to be favorable to the stockholders and confirmed its view that the consideration to be received by the stockholders of Fall River Gas in the proposed merger was fair to the stockholders from a financial point of view. Legg Mason orally advised that it would change its written opinion delivered to the Fall River Gas

board of directors on September 7, 1999 to reflect this change in the merger consideration. Legg Mason delivered their revised written opinion on October 4, 1999.

The Fall River Gas board, after further discussion and for the reasons listed under "-Fall River Gas Reasons for the Merger; Recommendation of Fall River Gas' Board of Directors," unanimously approved the merger agreement. Following the meeting, Messrs. Faxon and Thanas called representatives of Southern Union to communicate the board's approval. After the close of business October 4, 1999, the merger agreement was executed and the merger was publicly announced.

FALL RIVER GAS REASONS FOR THE MERGER; RECOMMENDATION OF FALL RIVER GAS' BOARD OF DIRECTORS

Recognizing the need for Fall River Gas to be larger in order to respond to the demands of a deregulated energy market and to compete with the larger companies being formed in the consolidation of the energy industry, the Fall River Gas board authorized the exploration of a strategic stock-for-stock merger. The Fall River Gas board believes that the merger with Southern Union, among other things, should help Fall River Gas: 1) to provide all energy alternatives to the consumer; 2) to diversify geographically; 3) to grow aggressively where advisable; and 4) to be better able to take advantage of opportunities in the energy industry. In addition, this strategic relationship should not require Fall River Gas to significantly reduce employees or other assets in Massachusetts and should help improve service to its customers.

In reaching its decision to approve the merger and the merger agreement and to recommend that Fall River Gas stockholders adopt the merger agreement, the Fall River Gas board consulted with its management, financial and legal advisors and considered a number of factors, including, among others, the following material factors:

- the belief that the merger with Southern Union will result in a combined entity with sufficient size and scope to compete effectively in the deregulated energy market;

- the merger consideration negotiated with Southern Union, including the collar provision designed to protect Fall River Gas stockholders with respect to the value of the stock consideration to be received by them in the merger, and the implied premium that the merger consideration represented over then recent market prices of Fall River Gas common stock;

- the written opinion of Legg Mason, a copy of which is attached as Appendix B to this proxy statement/prospectus, that subject to the assumptions and limitations contained in that opinion, the consideration to be received in the merger by the stockholders of Fall River Gas is fair, from a financial point of view, to the stockholders;

- the financial presentation made by Legg Mason to the Fall River Gas board in connection with delivering its written opinion;

- the benefits to Fall River Gas' employees and the communities served by Fall River Gas, including the retention of local operations and provisions of Southern Union's benefit plans;

- the terms and conditions of the merger agreement, including:

- the representations and warranties Fall River Gas has made to Southern

Union;

- the representations and warranties Southern Union has made to Fall River Gas;
- the closing conditions;
- the ability of Fall River Gas, under certain circumstances, to provide information to, and enter into negotiations with, third parties with respect to certain unsolicited offers to acquire Fall River Gas;
- the ability to terminate the merger agreement in order to enter into an agreement with a person making an unsolicited offer, which is more favorable to Fall River Gas stockholders from a financial point of view than the merger after paying a termination fee to Southern Union and giving Southern Union the opportunity to match any offer made by such a third party; and
- the ability of Fall River Gas to terminate the merger agreement if the average trading price of Southern Union common stock for the valuation period ending shortly before the closing falls below $15.00 (see "The Merger Agreement -- Merger Consideration");

- the structure of the transaction, which is intended to qualify as a "reorganization" for United States federal income tax purposes, so that the stockholders of Fall River Gas, as such, will recognize gain only to the extent they receive cash in exchange for their shares of Fall River Gas common stock;
- information concerning the business, financial condition, results of operations and prospects, including, but not limited to, the potential for growth, development and profitability of Southern Union;
- the projected pro forma ownership of Southern Union by the stockholders of Fall River Gas implied by the exchange ratio;
- the historical market prices and trading information with respect to Fall River Gas common stock and Southern Union common stock; and
- the likelihood that the merger would be consummated.

During its deliberations regarding the proposed merger and merger agreement, the Fall River Gas board also analyzed certain risks associated with the merger, including the integration of the two companies and the risk of obtaining the necessary regulatory approvals for the merger in acceptable form. After reviewing these matters, the Fall River Gas board determined that the benefits of the merger outweighed any risks entailed in these matters.

At its meeting on September 30, 1999, the Fall River Gas board unanimously approved the terms of the merger agreement and the related transactions, determined that the terms of the merger are in the best interests of Fall River Gas and Fall River Gas' stockholders, and recommended approval and adoption of the merger agreement by Fall River Gas' stockholders.

This discussion of the information and factors considered by the Fall River Gas board in making their decision is not intended to be exhaustive but is believed to include all material factors considered in connection with the Fall River Gas board's evaluation of the merger. The Fall River Gas board did not find it practicable to, and did not, quantify or otherwise assign relative

weights to, the specific factors considered in reaching its determination. In addition, individual members of the Fall River Gas board may have given different weight to different factors. Based on the total mix of information available to them, all of the directors decided to approve and recommend the merger to Fall River Gas stockholders.

In considering the recommendation of the Fall River Gas board with respect to the merger agreement, Fall River Gas stockholders should be aware that certain members of the Fall River Gas board and Fall River Gas employees have interests in the merger that are different from, or in addition to, the interests of stockholders of Fall River Gas generally. The Fall River Gas board was aware of these interests and considered them, among other matters, in approving the merger agreement. See "The Merger - Potential Conflicts and Interests of Certain Persons in the Merger."

OPINION OF FALL RIVER GAS' FINANCIAL ADVISOR

Legg Mason rendered its oral and written opinion to the Fall River Gas board at their meeting on September 30, 1999, that, as of that date, and subject to certain assumptions, factors and limitations set forth in such opinion as described below, the merger consideration to be received by Fall River Gas stockholders pursuant to the merger agreement was fair to stockholders from a financial point of view.

The full text of the written opinion of Legg Mason dated October 4, 1999, which sets forth the assumptions made, matters considered, scope and limitations on the review undertaken, and procedures followed by Legg Mason in connection with the opinion, is attached as Appendix B to this proxy statement/prospectus. Stockholders are urged to read this opinion in its entirety. Legg Mason's opinion is directed only to the consideration to be received by stockholders pursuant to the merger agreement and does not constitute a recommendation to any stockholder as to how such stockholder should vote at the special meeting. Legg Mason's opinion will not be updated prior to or at the closing of the merger. The summary of the opinion of Legg Mason set forth in this proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion. In connection with this engagement, Fall River Gas did not request Legg Mason, and Legg Mason did not assist Fall River Gas, to determine the exchange ratio provided for in the merger agreement. The exchange ratio was determined through arm's-length negotiations between Fall River Gas and Southern Union.

In connection with its opinion, Legg Mason reviewed, among other things, (a) the merger agreement and certain related documents, (b) the audited consolidated financial statements of Fall River Gas as of and for the years ended September 30, 1998, 1997, 1996 and 1995, (c) the unaudited financial statements of Fall River Gas as of and for the nine-month period ended June 30, 1999, (d) the audited consolidated financial statements of Southern Union as of and for the years ended June 30, 1999, 1998, 1997, 1996 and 1995. Legg Mason also had discussions with members of the senior management of Fall River Gas and Southern Union regarding the past and current business operations, financial condition and future prospects of their respective companies. In addition, Legg Mason reviewed the reported price and trading activity for the shares of Fall River Gas common stock and the shares of Southern Union common stock, compared certain financial and stock market data for Fall River Gas and Southern Union with similar information for certain

other publicly-traded companies, analyzed publicly available information concerning the terms of certain selected business combinations in the gas distribution utility industry, and performed such other studies and analyses

distribution utility industry, and performed such other studies and analyses as Legg Mason considered necessary or appropriate.

Legg Mason relied without independent verification upon the accuracy and completeness of all of the financial and other information reviewed by them for purposes of their opinion. Legg Mason did not make an independent evaluation or appraisal of the assets and liabilities of Fall River Gas or Southern Union or any of their subsidiaries and they were not furnished with any such evaluation or appraisal.

The following is a summary of the financial analyses Legg Mason utilized in connection with providing its written opinion to the Fall River Gas board.

STOCK TRADING HISTORY. Legg Mason examined the history of the trading price and volume for the shares of Fall River Gas common stock. This examination showed that during the period from October 2, 1998 to October 1, 1999, the trading price of Fall River Gas common stock ranged from $15 3/8 per share to $21 7/8 per share. This examination also showed that over the period from October 4, 1994 to October 1, 1999, the trading price of Fall River Gas common stock ranged from $12.75 per share to $27.00 per share. This range may be compared to the merger consideration. Legg Mason also examined the history of the trading price and volume for the shares of Southern Union common stock (not adjusted for the 5% Southern Union stock dividends distributed on June 30, 2000 and August 6, 1999). This examination showed that during the four-month period from June 1, 1999 to October 1, 1999, the trading price of Southern Union common stock ranged from $18.00 per share to $21 23/32 per share. The closing price of Southern Union common stock on October 1, 1999 was $18.75 per share, which was used as the basis for the exchange rate in the merger agreement. In addition, this examination showed that over the period from October 3, 1997 to October 1, 1999, the trading price of Southern Union common stock ranged from $13.25 per share to $23 7/32 per share.

COMPARISON OF SELECTED PEER COMPANIES. Legg Mason compared selected historical stock market and balance sheet data and financial ratios for Fall River Gas to the corresponding data and ratios of the following companies: Berkshire Energy Resources, Cascade Natural Gas Corporation, Delta Natural Gas Company, Inc., Energy North, Inc., Energy South, Inc., Energy West Incorporated, ProvEnergy, RGC Resources, Inc. and Valley Resources. The multiples of Fall River Gas were calculated using a price of $20.75 per share for Fall River Gas common stock, the closing price as of October 1, 1999. Such data and ratios included, among other things, equity value as a multiple of latest twelve months ("LTM") earnings per share ("EPS"), projected 1999 earnings per share, projected 2000 earnings per share and stockholders' equity; total market capitalization as a multiple of LTM revenues, of LTM earnings before interest, taxes, depreciation and amortization ("EBITDA") and of LTM earnings before interest and taxes ("EBIT"). Projected earnings per share data was provided by First Call Analysts' Research and FactSet Data Systems. EBITDA (which is not a measure of financial performance under generally accepted accounting principles) is used by investment banking firms as one measure of a company's financial performance. EBITDA should not be construed as an alternative to operating income (as determined in accordance with generally accepted accounting principles), as an indicator of a company's performance or cash flows from operating activities (as determined in accordance with generally accepted accounting principles) or as a measure of liquidity.

An analysis of equity value as a multiple of LTM earnings per share for the selected peer companies yielded a range of 10.2x to 24.1x with a median of 15.5x as compared to 22.4x for Fall River Gas. An analysis of

equity value as a multiple of projected 1999 EPS yielded a range of 13.4x to 23.6x with a median of 15.9x as compared to 21.2x for Fall River Gas. An analysis of equity value as a multiple of projected 2000 EPS yielded a range of 11.8x to 20.3x with a median of 14.5x as compared with 16.2x for Fall River Gas. An analysis of total market capitalization as a multiple of LTM EBITDA yielded a range of 6.3x to 9.7x with a median of 7.4x as compared to 11.9x for Fall River Gas. An analysis of total market capitalization as a multiple of LTM EBIT yielded a range of 9.1x to 15.9x with a median of 10.9x as compared to 19.3x for Fall River Gas.

SELECTED TRANSACTIONS ANALYSIS. Using publicly available information, Legg Mason analyzed the purchase price and implied transaction value multiples paid or announced to be paid in the following selected merger and acquisition transactions in the gas distribution utility industry: Northeast Utilities/Yankee Energy; Eastern/Colonial Gas; Carolina Power/North Carolina Natural Gas; EnergyEast/Connecticut Energy; Southern Union/PEI; SCANA Corp./Public Service Co. of North Carolina; Eastern Enterprises/Colonial Gas Co.; Energy East Corp./Connecticut Energy Corp.; Carolina Power and Light/North Carolina Natural Gas; Dominion Resources, Inc./Consolidated Natural Gas; NiSource Inc./Bay State Gas; Eastern Enterprises/Essex County Gas Co.; and Atmos Energy Corp./United Cities Gas Co. (the "Selected Transactions"). Such analysis indicated that for the Selected Transactions, (i) total transaction value as a multiple of LTM revenue ranged from 1.6x to 3.2x with a mean of 2.3x compared to 1.7x for the contemplated transaction, (ii) total transaction value as a multiple of LTM EBITDA ranged from 7.5x to 13.9x with a mean of 10.6x, as compared to 13.1x for the contemplated transaction, (iii) equity value as a multiple of LTM net income ranged from 20.0x to 31.8x (exclusive of a transaction at 83.3x and 47.4 which was not included in the mean) with a mean of 24.3x, as compared to 25.6x for the contemplated transaction, and (iv) equity value as a multiple of stockholders' equity ranged from 1.9x to 3.0x with a median of 2.5x as compared to 2.9x for the contemplated transaction.

No company, transaction, or business used in the comparison with comparable companies or selected transactions analysis as a comparison is identical to Fall River Gas or the merger. Accordingly, an analysis of the results of the foregoing is not entirely mathematical. Instead, it involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the comparable companies, selected transactions or the company or transaction to which they are being compared.

DISCOUNTED CASH FLOW ANALYSIS. Legg Mason performed a discounted cash flow analysis of Fall River Gas. Legg Mason calculated a net present value of estimated free cash flows for the years 1999 through 2003 using discount rates ranging from 5.9% to 7.5%. Legg Mason calculated Fall River Gas' terminal values in the year 2003 based on multiples ranging from 10.4x EBIT to 12.8x EBIT. These terminal values were then discounted to present value using discount rates from 7.2% to 9.2%. Using the foregoing terminal values and discounted cash flows for Fall River Gas, the equity value ranged from $7.30 to $14.90, as compared to the equity value implied by the exchange ratio of $23.50 per share.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to practical analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Legg Mason's opinion. In arriving at its fairness determination, Legg Mason considered the results of all such analyses. The analyses were prepared solely for purposes of Legg Mason providing its opinion to the

Fall River Gas board as to the fairness of the merger consideration pursuant to the merger agreement to the holders of shares of Fall River Gas common stock and do not purport to be appraisals that necessarily reflect the prices at which assets, businesses or securities actually may be sold. Analyses based on forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties, none of Fall River Gas, Southern Union, Legg Mason or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Legg Mason's opinion to the Fall River Gas board was one of the many factors taken into consideration by the Fall River Gas board in making its determination to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Legg Mason and is qualified by reference to the written opinion of Legg Mason set forth in Appendix B hereto.

Legg Mason, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Fall River Gas selected Legg Mason as its financial adviser because Legg Mason is a nationally recognized investment banking firm that has substantial experience in transactions similar to the merger.

Legg Mason provides a full range of financial, advisory and brokerage services and in the course of its normal trading activities may from time to time effect transactions and hold positions in the securities or options on securities of Fall River Gas and/or Southern Union for its own account and for the accounts of customers.

Pursuant to an engagement letter dated August 24, 1999, Fall River Gas engaged Legg Mason to act as its financial advisor in connection with the possible merger of Fall River Gas and Southern Union. Pursuant to the terms of the engagement letter, Fall River Gas agreed to pay Legg Mason $100,000 upon delivery of a written fairness opinion to the board. Fall River Gas has agreed to reimburse Legg Mason for its reasonable out-of-pocket expenses, including attorney's fees, and to indemnify Legg Mason against certain liabilities, including certain liabilities under federal securities laws.

SOUTHERN UNION BACKGROUND OF THE MERGER; REASONS FOR APPROVAL BY THE SOUTHERN UNION BOARD OF DIRECTORS

For the past several years, Southern Union has pursued acquisition and business combination opportunities. After the announcement of its merger agreement with PEI, Southern Union management sought additional opportunities in the northeastern United States that could expand its presence in that region.

On August 24, 1999, the Southern Union board unanimously approved an all stock merger agreement with Fall River Gas. In reaching its determination that a merger with Fall River Gas is in the best interest of Southern Union and its stockholders, the Southern Union board consulted with and relied upon information and reports prepared or presented by Southern Union's management and Southern Union's legal advisors. The following are the material factors considered by the Southern Union board, including its Executive

Committee, in pursuing acquisition opportunities, generally, which are relevant to their approval of the merger agreement with Fall River Gas, some of which contained both positive and negative elements:

- the terms of a proposed form merger agreement consistent with those terms described under "The Merger Agreement" except that the consideration was all stock;

- the likelihood of receipt of timely and satisfactory regulatory approvals for the merger;

- the risk that the merger would not be consummated;

- other recent and potential mergers involving utilities in the northeastern region of the country, particularly PEI, ProvEnergy and Valley Resources;

- the substantial management time and effort that will be required to consummate all aspects of the recent and potential mergers, including to integrate the operations of those companies, and the risks inherent in such integration;

- other matters described under "Risk Factors and Other Considerations" and "Forward-Looking Statements May Prove Inaccurate"; and

- the results of Southern Union's business investigation of Fall River Gas and its subsidiary.

On September 27, 1999, the Executive Committee of Southern Union's board approved a revised offer in order to permit the substitution of cash for some portion of the consideration Fall River Gas stockholders would receive in connection with the merger.

Subsequent to the execution of the merger agreement, the issue arose as to whether Southern Union was required under Massachusetts law to obtain the approval of the Fall River Gas transaction by holders of two-thirds of the outstanding shares of Southern Union common stock in connection with obtaining the approval by the Massachusetts Department of Telecommunications and Energy of the transaction. In order to eliminate any uncertainty concerning this issue and to facilitate the closing of the transaction, Southern Union advised Fall River Gas and the Massachusetts Department of Telecommunications and Energy that it intended to seek such stockholder approval. On May 31, 2000 the Southern Union Board of Directors approved a resolution recommending that the stockholders of Southern Union approve the Fall River Gas merger at a special meeting of stockholders, due to the merger being in the best interests of Southern Union, its stockholders, employees and customers.

The foregoing discussion of the information and factors considered by the Southern Union board, including its Executive Committee, is not intended to be all-inclusive. In view of the wide variety of factors considered in connection with its evaluation of acquisition opportunities, including this proposed merger, the Southern Union board, including its Executive Committee did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the foregoing factors. Rather, the Southern Union board, including its Executive Committee based its decision on the totality of the information presented to and considered by it.

POTENTIAL CONFLICTS AND INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the recommendation of the Fall River Gas board with respect to approving the merger, Fall River Gas stockholders should be aware that members of Fall River Gas' management and the Fall River Gas board have the following interests in the merger that may be different from, or in addition to, the interests of Fall River Gas stockholders generally and represent conflicts of interest. The Fall River Gas board was aware of these interests and considered them in approving the merger agreement.

EMPLOYMENT AGREEMENTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS. Effective September 30, 1991, Fall River Gas entered into employment agreements with its President and Chief Executive Officer, Bradford J. Faxon and with its Senior Vice President, Treasurer and Chief Financial Officer, Peter H. Thanas.

Under the terms of these employment agreements, Mr. Faxon is compensated for his duties as an officer and director, and Mr. Thanas is compensated for his duties as an officer. The amounts of their respective salaries are determined from time to time by the board of directors. The term of each employment agreement was initially five years, subject to earlier termination by an act of Fall River Gas or the respective officer. Beginning in September 1993 and annually thereafter, the remaining term of each employment agreement is automatically extended for an additional one-year period. On November 30, 1998, Fall River Gas entered into a similar employment agreement with John F. Fanning, a Fall River Gas officer.

These employment agreements provide that if the respective officer is terminated without cause or terminates his employment as a result of certain adverse actions by Southern Union, during a period of thirty-six months following a "change in control" of Fall River Gas, the officer shall receive a lump sum severance amount and continuation of certain welfare plan benefits. A "change of control" will be considered to have occurred on the date the merger is completed.

The lump sum severance payment is an amount equal to three times the annual (or annualized) compensation paid to the respective officer during the period as of the date of termination. The maximum value of the severance payments which may become payable to these three officers in the aggregate under the terms of their agreements is approximately $1,692,000.

On October 4, 1999, these employment agreements were amended. These amendments will become effective as of the date the merger is completed. These amendments provide for payment to Messrs. Faxon, Thanas and Fanning of $1,000,000; $700,000 and $300,000, respectively. If Messrs. Faxon, Thanas and Fanning continue their employment with Fall River Gas, these payments will be made in equal monthly installments over an eighteen month period beginning on the effective date of the merger. These payments would be offset against any severance payments that may become owed under any of the agreements in certain circumstances.

DEFENSE, INDEMNIFICATION AND INSURANCE FOR FALL RIVER GAS OFFICERS AND DIRECTORS. For a period of six years after the completion of the merger, Southern Union has agreed to indemnify and hold harmless the present and former officers and directors of Fall River Gas and its subsidiary in respect of acts or omissions occurring prior to the completion of the merger to the extent provided under Fall River Gas' restated articles of incorporation and bylaws in effect on the date hereof; PROVIDED, HOWEVER, that if any claim or claims are

asserted or made within such six-year period, all rights to indemnification in respect of such claims shall continue until the final disposition of any and all such claims.

For six years after the completion of the merger, Southern Union will use its reasonable best efforts to provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the completion of the merger covering each such person currently covered by Fall River Gas' officers' and directors' liability insurance policy on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date hereof; PROVIDED THAT, in satisfying this obligation, if the annual premiums of such insurance coverage exceed 200% of the previous year's premiums, Southern Union will be obligated to obtain a policy with the best coverage available, in the reasonable judgment of Southern Union's board, for a cost not exceeding such amount. See "The Merger Agreement - Indemnification and Insurance for Fall River Gas Officers and Directors."

SIGNIFICANT U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following discussion is intended only as a summary of the material U.S. federal income tax consequences of the merger to Southern Union, Fall River Gas and Fall River Gas stockholders and does not purport to be a complete analysis or description of all potential tax effects of the merger. The discussion assumes that holders of Fall River Gas common stock hold such stock as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code. In addition, the discussion does not address all of the tax consequences that may be relevant to particular taxpayers in light of their personal circumstances or to taxpayers subject to special tax rules (for example, insurance companies, financial institutions, dealers in securities, tax-exempt organizations, banks, foreign taxpayers and taxpayers holding common stock as parts of straddles). No information is provided with respect to the tax consequences, if any, of the merger under applicable foreign, state, local or other tax laws.

The discussion is based upon the provisions of the Internal Revenue Code, applicable Treasury regulations thereunder, IRS rulings and judicial

decisions, as in effect as of the date of this proxy statement/prospectus. There can be no assurance that future legislative, administrative or judicial changes or interpretations will not affect the accuracy of the statements or conclusions included in this proxy statement/prospectus. Any such change could apply retroactively and could affect the accuracy of such discussion.

Each stockholder of Fall River Gas is urged to consult such stockholder's own tax advisor as to the specific tax consequences to such stockholder of the merger under U.S. federal, state, local or any other applicable tax laws.

THIS SUMMARY DOES NOT PURPORT TO BE A COMPREHENSIVE DESCRIPTION OF ALL OF THE TAX CONSIDERATIONS THAT MAY BE RELEVANT TO A DECISION WHETHER TO APPROVE THE MERGER. THIS SUMMARY IS PROVIDED FOR GENERAL INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE LEGAL OR TAX ADVICE.

TAX OPINIONS. The obligation of Southern Union to consummate the merger is conditioned on its receipt on the closing date of an opinion from Hughes Hubbard & Reed LLP, tax counsel to Southern Union, that the merger will qualify as a reorganization under Section 368(a) of the Internal Revenue Code (the "Southern Union Tax Opinion"). The obligation of Fall River Gas to consummate the merger is conditioned on its receipt on the closing date of an opinion from Rich, May, Bilodeau & Flaherty, P.C., Fall River Gas' counsel, that the merger will qualify as a reorganization under Section 368(a) of the Internal Revenue Code (the "Fall River Gas Tax Opinion").

Each of the Southern Union Tax Opinion and the Fall River Gas Tax Opinion will be based on certain representations contained in letters from Southern Union, Fall River Gas and others delivered for the purpose of the opinions and will be subject to certain limitations and qualifications similar to those set forth in this discussion of significant U.S. federal income tax consequences of the merger. Each of the Southern Union Tax Opinion and the Fall River Gas Tax Opinion will be based on certain assumptions, including that the merger will be consummated exactly as described in this proxy statement/prospectus and in the merger agreement.

An opinion of counsel represents only counsel's best judgment and has no binding effect or official status of any kind; and no assurance can be given that contrary positions will not be taken by the IRS or by a court

considering the issues. Neither Southern Union nor Fall River Gas has requested or intends to request a ruling from the IRS with regard to any of the federal income tax consequences of the merger.

The discussions below of "CONSEQUENCES TO FALL RIVER GAS STOCKHOLDERS" and "CONSEQUENCES TO SOUTHERN UNION AND FALL RIVER GAS" assume that the merger will qualify as a reorganization under Section 368(a) of the Internal Revenue Code.

CONSEQUENCES TO FALL RIVER GAS STOCKHOLDERS RECEIVING SOLELY SOUTHERN UNION COMMON STOCK. A Fall River Gas stockholder will generally recognize neither gain nor loss for U.S. federal income tax purposes with respect to the receipt solely of Southern Union common stock in exchange for Fall River Gas common stock pursuant to the merger. The aggregate tax basis of the Southern Union common stock received by a Fall River Gas stockholder will be the same as the aggregate tax basis of the Fall River Gas common stock surrendered in exchange therefor pursuant to the merger. The holding period of the Southern Union common stock will include the holding period of the Fall River Gas common stock surrendered in exchange therefor.

CONSEQUENCES TO FALL RIVER GAS STOCKHOLDERS RECEIVING SOLELY CASH. A Fall River Gas stockholder will generally recognize gain or loss for U.S. federal income tax purposes with respect to the receipt solely of cash in exchange for Fall River Gas common stock pursuant to the merger. Any gain or loss recognized by a Fall River Gas stockholder will be capital gain or loss, and will be long-term capital gain or loss if the holding period for the Fall River Gas common stock surrendered is more than one year. The amount of gain or loss will be equal to the difference between the amount of cash received and the tax basis of the Fall River Gas common stock surrendered.

CONSEQUENCES TO FALL RIVER GAS STOCKHOLDERS RECEIVING CASH AND SOUTHERN UNION COMMON STOCK. A Fall River Gas stockholder will generally recognize gain, but not loss, for U.S. federal income tax purposes with respect to the receipt of Southern Union common stock and cash in exchange for Fall River Gas common stock pursuant to the merger. The amount of gain, if any, recognized by a Fall River Gas stockholder will be equal to the lesser of (i) the amount of gain realized (i.e., the excess of the amount of cash, including cash received in lieu of fractional shares, and the fair market value of Southern Union common stock received in the merger over the tax basis of the Fall River Gas common stock surrendered) or (ii) the amount of cash, including cash received in lieu of fractional shares, received in the merger. In the case of a Fall River Gas stockholder that owns more than one "block" of Fall River Gas common stock, the amount of gain recognized should be calculated separately with respect to each "block" surrendered in the merger. For purposes of such calculation, the aggregate amount of cash and Southern Union common stock received by the Fall River Gas stockholder will be allocated proportionally among the "blocks" of Fall River Gas common stock surrendered in exchange therefor pursuant to the merger. The aggregate tax basis of the Southern Union common stock received by a Fall River Gas stockholder will be the same as the aggregate tax basis of the Fall River Gas common stock surrendered in exchange therefor pursuant to the merger, decreased by the total amount of cash received and increased by the amount of gain recognized. The holding period of the Southern Union common stock will include the holding period of the Fall River Gas common stock surrendered in exchange therefor.

Any gain recognized by a Fall River Gas stockholder receiving both Southern Union common stock and cash will be capital gain, and will be long-term capital gain if the holding period for the Fall River Gas

common stock surrendered is more than one year, unless the receipt of cash has "the effect of the distribution of a dividend" within the meaning of Section 356 of the Internal Revenue Code. If the receipt of cash has such an effect, the recognized gain will be taxed as ordinary income to the extent of the Fall River Gas stockholder's ratable share of Fall River Gas', and arguably Southern Union's, undistributed earnings and profits, and any remaining gain will be taxed as capital gain.

In determining whether cash received by a stockholder who also receives stock in a reorganization has the effect of a dividend distribution, principles similar to those governing redemptions under Section 302 of the Internal Revenue Code apply. In applying those principles, Fall River Gas stockholders will be treated as if they had received solely Southern Union common stock in the merger (instead of the combination of shares of Southern Union common stock and cash actually received) and Southern Union had then redeemed for cash a portion of the Southern Union common stock the Fall River Gas stockholders would be treated as having received. Generally, under Section 302 of the Internal Revenue Code, amounts distributed in redemption of a stockholder's stock will not be taxed as a dividend if (a) the distribution is "substantially disproportionate" with respect to the stockholder, or (b) the

"substantially disproportionate" with respect to the stockholder, or (b) the distribution is "not essentially equivalent to a dividend" with respect to the stockholder. A distribution in redemption is "substantially disproportionate" with respect to a stockholder if the percentage of outstanding voting shares of the issuing corporation owned by such stockholder immediately after the redemption is less than 50% of the total outstanding and less than 80% of the percentage of voting shares owned by such stockholder immediately prior to the redemption. Whether a distribution in redemption is "not essentially equivalent to a dividend" depends on whether, under the particular stockholder's facts and circumstances, the redemption results in a "meaningful reduction" of the stockholder's proportionate interest in the issuer. The IRS has indicated in published rulings that even a small reduction in the proportionate interest of a stockholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control or management power over the affairs of the corporation may constitute such a "meaningful reduction." In applying these tests, a stockholder is treated as owning shares owned by certain related persons, and sales or acquisitions of Fall River Gas common stock or Southern Union common stock which occur contemporaneously with the merger may be taken into account. Because of the complexity of the tests under Section 302 of the Internal Revenue Code, Fall River Gas stockholders are urged to consult their own tax advisors regarding the proper treatment of the gain recognized by such stockholder in the merger.

BACKUP WITHHOLDING TAX. Unless an exemption applies, the paying agent will be required to withhold 31% of any cash payments to which a Fall River Gas stockholder or other payee is entitled pursuant to the merger, unless the stockholder or other payee provides his or her tax identification number (social security number or employer identification number) and certifies that such number is correct. Each Fall River Gas stockholder and, if applicable, each other payee is required to complete and sign the Form W-9 that will be included as part of the transmittal letter sent to Fall River Gas stockholders by Southern Union to avoid backup withholding, unless an applicable exemption exists and is proved in a manner satisfactory to Southern Union and the paying agent.

CONSEQUENCES TO SOUTHERN UNION AND FALL RIVER GAS. No gain or loss will be recognized by Southern Union or Fall River Gas by reason of the merger.

REGULATORY MATTERS

The following is a summary of the material regulatory requirements affecting the merger. There can be no guarantee if and when any of the consents or approvals required for the merger will be obtained or as to the conditions that they may contain. Southern Union and Fall River Gas have filed for the required approvals from all of the agencies discussed. The managements of Southern Union and Fall River Gas believe that the necessary approvals can be obtained in 2000, and presently expect that they all will be received by September, 2000. See "Risk Factors and Other Considerations - Approvals May Not Be Obtained or May Contain Unacceptable Restrictions."

STATE APPROVALS AND RELATED MATTERS. The utility operations of Southern Union are subject to the regulatory jurisdiction of the Missouri Public Service Commission ("MPSC"), the Pennsylvania Public Utility Commission ("PPUC"), the Railroad Commission of Texas ("RRC") and various municipalities in Texas where Southern Union conducts business, and the Florida Public Service Commission ("FPSC"). On May 11, 2000, the PPUC approved the Fall River Gas merger. The MPSC approved the Fall River Gas merger on June 28, 2000. The approvals of the PPUC and the FPSC for the securities issuance and debt assumption in connection with the merger are still required. None of the other required state approvals had been received as of the date of this proxy statement. No

state approvals had been received as of the date of this proxy statement. No RRC or Texas municipality approvals are required in connection with the merger.

The utility operations of Fall River Gas are subject to the regulatory jurisdiction of the Massachusetts Department of Telecommunications and Energy ("MDTE") and subsequent to the merger, those operations, conducted as a division of Southern Union, will remain subject to MDTE jurisdiction. Among the key provisions are those addressing rates and charges, standards of service, and accounting and approval of certain financing transactions.

Subsequent to the execution of the merger agreement, the issue arose as to whether Southern Union was required under Massachusetts law to obtain the approval of the transaction by holders of two-thirds of the outstanding shares of Southern Union common stock in connection with obtaining the approval of the transaction by the MDTE. In order to eliminate any uncertainty concerning this issue and to facilitate the closing of the transaction, Southern Union has advised Fall River Gas and the MDTE that it intends to seek, and through its proxy statement, is seeking such stockholder approval at the Southern Union special meeting.

Assuming the requisite regulatory approvals are obtained, the combined company and its utility operations will remain subject to the regulatory jurisdiction of the MDTE, MPSC, PPUC, RRC and various municipalities in Texas, and the FPSC. Upon completion of the Valley Resources and ProvEnergy mergers, the combined company and its utility operations will also be subject to the regulatory jurisdiction of the Rhode Island Public Utilities Commission and the Rhode Island Division of Public Utilities and Carriers.

ANTI-TRUST CONSIDERATIONS. Under the HSR Act, Southern Union and Fall River Gas cannot complete the Fall River Gas merger until we give notification and furnish information to the Federal Trade Commission ("FTC") and the Antitrust Division of the Department of Justice, and the specified waiting period requirements have been satisfied. Southern Union and Fall River Gas filed the required notification and report forms with the FTC and the Antitrust Division on March 1, 2000. A request for additional information from the FTC was received on March 31, 2000, to which Southern Union and Fall River Gas have responded. At any time before or after the effective time of the mergers, and notwithstanding that the

waiting period has terminated or the mergers may have been consummated, the Federal Trade Commission, the Antitrust Division or any state could take any action under the applicable antitrust or competition laws as it deems necessary or desirable. This action could include seeking to enjoin the completion of the Fall River Gas merger. Private parties may also institute legal actions under the antitrust laws under some circumstances. If the merger is not consummated within twelve months after the expiration or earlier termination of the HSR Act waiting period, Southern Union and Fall River Gas would be required to submit new filings to the Department of Justice and the FTC, and a new HSR Act waiting period would have to expire or be earlier terminated before the merger could be consummated.

GENERAL. Fall River Gas possesses rights and franchises, and environmental permits and licenses. Some of these may need to be transferred, renewed or replaced as a result of the merger. The companies do not anticipate any difficulties at the present time in making or obtaining such transfers, renewals or replacements.

Under the merger agreement, Southern Union and Fall River Gas have agreed to use their reasonable best efforts to obtain all necessary material permits,

licenses, franchises and other governmental authorizations needed to consummate or effect the transactions contemplated by the merger agreement. Various parties may seek intervention in the proceedings associated with the regulatory approval process in an attempt to oppose the merger or to have conditions imposed upon the receipt of the necessary approvals. Although Southern Union and Fall River Gas believe that they will receive the requisite regulatory approvals for the merger, the timing of their receipt cannot be determined. It is a condition to the consummation of the merger (subject to waiver by Southern Union and Fall River Gas) that final non-appealable orders approving the merger be obtained from the various federal and state commissions described above. See "The Merger Agreement - Conditions to the Completion of the Merger."

ACCOUNTING TREATMENT

The Unaudited Pro Forma Combined Condensed Financial Statements appearing elsewhere in this proxy statement/prospectus are based upon certain assumptions, as described in the pro forma combined condensed financial statements, and are included for informational purposes only. The merger will be accounted for under the purchase method of accounting, in accordance with generally accepted accounting principles. Under the purchase method of accounting, Southern Union's historical results for periods before the merger will remain unchanged. On the closing date, the combined company will record Fall River Gas' assets and liabilities of regulated entities at their historical cost basis, and Fall River Gas' assets and liabilities of non-regulated entities will be recorded at fair value, with any excess recorded as additional purchase cost assigned to utility plant. See "Unaudited Pro Forma Combined Condensed Financial Statements."

NO APPRAISAL RIGHTS

Under Massachusetts law, stockholders of Fall River Gas who object to approval of the merger agreement are not entitled to demand separate payment or an appraisal of their shares in connection with the merger.

LISTING OF SOUTHERN UNION COMMON STOCK

It is a condition to the completion of the merger that the shares of Southern Union common stock to be issued in connection with the merger be approved for listing on the NYSE at or before the time the merger is completed. See "The Merger Agreement - Conditions to the Completion of the Merger."

FEDERAL SECURITIES LAW CONSEQUENCES

All shares of Southern Union common stock received by Fall River Gas stockholders in connection with the merger will be freely transferable, except that shares of Southern Union common stock received by individuals and entities who are deemed to be "affiliates" (as such term is defined under the Securities Act) of Fall River Gas before the merger may be resold by them only in transactions permitted by the resale provisions of Rule 145 under the Securities Act (or Rule 144 under the Securities Act, in the case of individuals and entities who become affiliates of Southern Union) or as otherwise permitted under the Securities Act.

Persons who may be deemed to be affiliates of Southern Union or Fall River Gas generally include individuals or entities that control, are controlled by, or are under common control with, Southern Union or Fall River Gas and may include certain officers and directors of Southern Union or Fall River Gas as well as principal stockholders of Southern Union or Fall River Gas. The merger

agreement requires Fall River Gas to use commercially reasonable efforts to cause each of its affiliates to execute and deliver to Southern Union a letter to the effect that such affiliate will not offer or sell or otherwise dispose of Southern Union common stock issued to such affiliate in or pursuant to the merger in violation of the Securities Act or the rules and regulations adopted by the SEC thereunder. See "The Merger Agreement - Covenants and Other Agreements - Certain Other Covenants and Agreements." The delivery of such agreements is also a condition to Southern Union's obligation to complete the merger. See "The Merger Agreement - Conditions to the Completion of the Merger - Additional Closing Conditions for Southern Union's Benefit."

This proxy statement/prospectus does not cover resales of Southern Union common stock received by any person who may be deemed to be an affiliate of Fall River Gas.

MERGER-RELATED FINANCING

Southern Union's management is evaluating various sources and methods of financing the amount necessary to fund the cash portion of the consideration to be paid to Fall River Gas stockholders under the merger agreement, the all cash consideration to be paid to the ProvEnergy and Valley Resources stockholders, and all related costs and refinancings anticipated in connection with these mergers. See "The Merger Agreement - Merger Consideration." Southern Union's management currently anticipates that substantially all of these costs will be financed through external sources. The financings may include the refinancing by Southern Union of some or all of the approximately $19.5 million of outstanding debt of Fall River Gas in connection with or soon after the consummation of the merger. Southern Union anticipates soliciting consents from the holders of Fall River Gas' mortgage bonds to revise or eliminate certain of their indenture terms, primarily to conform to certain terms in the indenture for Southern Union's outstanding senior notes.

Southern Union's pending acquisitions of Fall River Gas, ProvEnergy and Valley Resources would require up to approximately $600 million of new financing if Fall River Gas shareholders choose to receive the maximum of 50% of the aggregate merger consideration that may be paid to them in cash and if all of the

approximately $140 million of existing long-term debt of the three companies being acquired must be refinanced rather than amended and assumed as planned. Presently, Southern Union expects to be able to amend the terms of outstanding long-term debt of the three companies being acquired in order to assume such debt. Southern Union presently plans to fund all other costs for the three acquisitions with bank borrowings, although it has not yet received commitments.

After closing the mergers, Southern Union may choose or need to refinance some portion or all of the bank borrowings that it plans for funding the pending acquisitions. Sources of future or alternative financing that Southern Union may consider include commercial and investment banks, institutional lenders, institutional investors and public securities markets. The methods of financing that Southern Union may consider include bank lines of credit, debt and preferred securities of various maturities and terms, and common stock. Southern Union's management believes that Southern Union will have access if and when needed to many sources and types of short-term and long-term capital sources at reasonable rates.

All of these considerations and assumptions relate to the financing required for mergers and acquisitions that Southern Union has agreed to consummate but

not completed. See "Risk Factors and Other Considerations The Terms of Merger-Related Financings May Adversely Affect the Combined Company." As a result of its planned financing and as shown in the Pro Forma Combined Condensed Financial Statements, the consolidated capitalization of Southern Union after completion of Southern Union's three pending mergers is expected to consist of at least 32% common equity, approximately 5% preferred equity and approximately 63% long-term debt.

THE MERGER AGREEMENT

This section is a summary of the material terms of the merger agreement, a copy of which is attached as Appendix A to this document. The following description does not purport to be complete and is qualified in its entirety by reference to the merger agreement. You should refer to the full text of the merger agreement for details of the merger and the terms and conditions of the merger agreement.

STRUCTURE OF THE MERGER

Under the merger agreement, Fall River Gas will be merged with and into Southern Union. After the merger, Southern Union will continue as the surviving corporation. Southern Union's existing certificate of incorporation and bylaws will remain in effect after the merger, and Southern Union's management and Board of Directors will remain the same as a result of the merger, except as specifically discussed in this proxy statement/prospectus. See "Comparison of Fall River Gas and Southern Union Stockholder Rights."

As a result of the merger, Fall River Gas will be a division of Southern Union. Fall River Gas' non-regulated subsidiary will become a subsidiary of Southern Union.

CLOSING; EFFECTIVE TIME

On the closing date, we will file articles of merger and a certificate of merger with the Secretary of State of the Commonwealth of Massachusetts in accordance with the Massachusetts General Laws ("MGL") and a certificate of merger with the Secretary of State of the State of Delaware in accordance with the Delaware

General Corporation Law ("DGCL"). The merger will become effective upon filing of these documents. This moment is referred to as the "effective time."

MERGER CONSIDERATION

You will have the option to elect either cash or Southern Union common stock or a combination of both in exchange for your shares of Fall River Gas, subject to certain limitations.

Each share of your Fall River Gas common stock that you elect to exchange for cash will be converted into the right to receive $23.50 in cash, unless too many Fall River Gas stockholders elect to receive cash. No more than 50% of the aggregate consideration paid to all Fall River Gas stockholders may consist of cash, including cash paid to Fall River Gas stockholders in lieu of issuing them fractional shares of Southern Union common stock. If the Fall River Gas stockholders exceed this cash limitation, the amount of cash paid to each Fall River Gas stockholder electing cash will be reduced proportionately. Thus, if too many Fall River Gas stockholders elect to receive cash, consequently exceeding the cash limitation, a combination of cash and Southern Union common stock having a deemed value of $23.50 will be delivered to Fall

Union common stock having a deemed value of $23.50 will be delivered to Fall River Gas stockholders in exchange for each share they selected to be exchanged for cash.

Each share of your Fall River Gas common stock that you elect to exchange for Southern Union common stock will be converted into the right to receive that number of whole shares of Southern Union common stock having a value of $23.50, except as described below. Southern Union will not issue any fractional shares of its common stock in connection with the merger. Instead, you will be given cash for any fractional shares of Southern Union common stock you would otherwise receive.

You will be entitled to receive Southern Union common stock in the merger if:

- you elect to receive Southern Union common stock;
- you elect to receive cash and Fall River Gas stockholders exceed the cash limitation;
- you do not indicate a preference as to the type of consideration you want to receive; or
- you do not properly complete the form of election provided to you by the company Southern Union has selected to be the paying agent in connection with the merger.

The exact number of shares of Southern Union common stock you will receive for each share of your Fall River Gas common stock will depend on the average trading price of Southern Union common stock on the New York Stock Exchange for the ten trading day period beginning on the twelfth trading day and ending on the third trading day before the closing of the merger (counting from and including the trading day immediately preceding the closing).

If the average price of Southern Union's common stock during this ten trading-day period is:

- Above $19.6875, the number of shares of Southern Union common stock will be fixed at 1.19365 for each share of Fall River Gas common stock.

- Between $16.875 and $19.6875, the number of shares of Southern Union common stock will be adjusted so that each share of Fall River Gas' common stock will be exchanged for Southern Union common stock having a value equal to $23.50 divided by the average trading price during the period of time described above.
- Below $16.875, but at least $15.00, the number of shares of Southern Union common stock will be fixed at 1.39259 for each share of Fall River Gas common stock.
- Below $15.00, Fall River Gas has the option to terminate the merger agreement. If Fall River Gas does not terminate the merger agreement, you will receive 1.39259 shares of Southern Union common stock per share of Fall River Gas common stock.

PROCEDURE FOR FILING ELECTIONS AND CONVERTING FALL RIVER GAS COMMON STOCK INTO MERGER CONSIDERATION

A form of election and complete instructions for properly making an election to receive either cash or Southern Union common stock or a combination of cash

and Southern Union common stock will be delivered under separate cover to stockholders of record of Fall River Gas (determined as of a record date as close as practicable to the date of mailing) at least 15 business days prior to the anticipated closing date of the merger, which is expected to occur in September 2000.

Fall River Gas stockholders will be entitled to choose one of the following consideration options, which will be listed on their form of election:

- to receive cash for each share of Fall River Gas they own;
- to receive Southern Union common stock for each share of Fall River Gas they own;
- to exchange some of their shares of Fall River Gas for cash and some for Southern Union common stock; or
- to indicate no preference as to type of consideration.

You will be eligible to receive cash only if the paying agent has received a properly completed form of election at its designated office or offices by 4:00 p.m., Eastern Time, on the third business day prior to the closing date of the merger. You will be eligible to receive as consideration only shares of Southern Union common stock if:

- the form of election you submit indicates a preference to receive only shares of Southern Union common stock;
- the form of election you submit indicates no preference as to form of consideration; or

- you fail to submit a properly completed form of election prior to the deadline for submitting cash elections.

An election may be revoked only if Southern Union's paying agent receives written notice of revocation prior to the deadline for submitting cash elections.

PAYING AGENT; LOST CERTIFICATES

BankBoston, N.A. c/o EquiServe, L.P. will act as paying agent for you in connection with the merger.

Promptly following the effective time, the exchange agent will mail to you a letter of transmittal and instructions regarding the surrender of your Fall River Gas common stock certificates for cancellation. Promptly after receiving your certificates together with the letter of transmittal, duly executed, the exchange agent will send you the Southern Union common stock and/or the cash you will be entitled to receive.

No fractional shares of Southern Union common stock will be issued in the merger. Instead of fractional shares, you will receive cash in an amount equal to the value of the fractional shares to which you would otherwise have been entitled based on the closing price of a share of Southern Union common stock on the NYSE on the trading day immediately prior to the closing date.

If the merger consideration is to be paid to a person other than the person in whose name the surrendered certificate is registered, the surrendered certificate must be properly endorsed and the person requesting payment must

have paid any transfer and other taxes required in connection with payment of the merger consideration to a person other than the registered holder of the surrendered certificate or must establish to the satisfaction of Southern Union that taxes do not apply.

If your certificates have been lost, stolen or destroyed, you must provide the exchange agent with an affidavit to that effect. In addition, you will be required to give the paying agent a bond in an amount as it may ordinarily require and you must indemnify Southern Union against any claim that may be made against Southern Union with respect to the certificate claimed to have been lost, stolen or destroyed.

Southern Union will not be liable to you for merger consideration delivered to a public official pursuant to applicable law. Seven years after the effective time, any portion of the merger consideration that remains unclaimed by Fall River Gas' stockholders will, to the extent permitted by applicable law, become the property of Southern Union.

YOU SHOULD NOT SEND IN YOUR STOCK CERTIFICATES UNTIL YOU RECEIVE A TRANSMITTAL LETTER.

FALL RIVER GAS INDENTURE

Fall River Gas will use its reasonable best efforts to obtain, prior to the effective time of the merger, consents from all holders of First Mortgage Bonds outstanding under the Indenture of First Mortgage, dated as of December 1, 1952, between Fall River Gas and State Street Bank and Trust Company (the "Fall River Gas Indenture"), to amendments to the Fall River Gas Indenture requested by Southern Union pursuant to

Section 6.1(n) of agreement. Fall River Gas and its subsidiaries, however, will not be required to make any payment to any bondholder prior to the effective time of the merger.

REPRESENTATIONS AND WARRANTIES

The merger agreement contains certain substantially mutual representations and warranties made by Southern Union and Fall River Gas to each other, relating to, among other things:

- corporate organization, existence, qualification, standing and power;
- capitalization;
- subsidiaries and investments;
- authorization, execution, delivery, performance and enforceability of the merger agreement, and absence of violations, breaches or defaults under organizational documents, certain agreements and government orders as a result of execution, delivery and performance of the merger agreement;
- governmental approvals and authorizations necessary to complete the merger;
- public utility holding company status and regulation as a public utility;
- absence of violations of applicable legal requirements and material compliance with governmental authorizations;
- legal proceedings;

- documents filed by each of Southern Union and Fall River Gas with the SEC;
- tax matters;
- intellectual property matters;
- disclosure of indebtedness;
- absence of defaults under material contracts;
- employee benefit matters;
- environmental matters;
- absence of material adverse changes since specified balance sheet dates;
- broker's or finder's fees;

- information provided for inclusion in this proxy statement/prospectus, Southern Union's proxy statement and the registration statement; and
- required stockholder votes in connection with the merger.

In addition, Fall River Gas has made representations and warranties to Southern Union relating to:

- title to assets;
- machinery and equipment;
- insurance policies;
- labor and employment matters;
- regulatory proceedings; and
- delivery of a fairness opinion of Legg Mason Wood Walker, Incorporated.

COVENANTS AND OTHER AGREEMENTS

Each of Southern Union and Fall River Gas has undertaken certain covenants and other agreements in the merger agreement. The following summarizes the more significant of these covenants:

INTERIM OPERATIONS. In the merger agreement, Southern Union and Fall River Gas have agreed that, except as provided by the merger agreement or as consented to by the other party, during the period from the date of the merger agreement until the effective time, each of Southern Union and Fall River Gas and its subsidiary will:

- not make or permit any material change in the general nature of its business;
- maintain its ordinary course of business (for Southern Union, only with respect to its present operations) in accordance with prudent business judgment and consistent with past practice and policy, and maintain its assets in good repair, order and condition, reasonable wear and tear excepted, subject to retirements in the ordinary course of business;

- preserve its ongoing business and use reasonable efforts to maintain its goodwill; and

- preserve its franchises, tariffs, certificates of public convenience and necessity, licenses, authorizations and other governmental rights and permits.

In addition, except as provided by the merger agreement or as consented to by Southern Union, during the period from the date of the merger agreement until the effective time, Fall River Gas and its subsidiary will:

- not enter into any material transaction or contract other than in the ordinary course of business;

- not purchase, sell, lease, dispose of or otherwise transfer or subject to lien, any of its assets other than in the ordinary course of business;

- not hire any new employee unless the employee is a bona fide replacement for a presently-filled position;

- not file any material applications, petitions, motions, orders, briefs, settlements or agreements in any material proceeding or related appeal before a government body;

- not engage in any new or modify any existing material intercompany transactions, except in the ordinary course of business, involving any subsidiary of Fall River Gas;

- not voluntarily change in any material respect or terminate any of Fall River Gas' insurance policies unless equivalent coverage is obtained;

- not make any capital expenditure or capital expenditure commitment;

- not make any changes in financial policies or practices, or strategic or operating policies or practices, subject to adjustments in the ordinary course of business and other deviations (which in the aggregate will not exceed 5% on an annualized basis during the period from the date the merger agreement was signed until the completion of the merger);

- comply in all material respects with all applicable legal requirements and permits;

- not adopt, amend or assume an obligation to contribute to any of Fall River Gas' employee benefit plans or collective bargaining agreements or enter into any employment, severance or similar contract or amend any such existing contracts;

- not grant any increase or change in total compensation, benefits or pay any bonus to any employees, directors or consultants, except in the ordinary course of business or in accordance with the terms of any existing contract, employee benefit plan of Fall River Gas or collective bargaining agreement;

- not grant or enter into or extend the term of any contract, written or oral, with respect to continued employment for any employee, officer, director or consultant;

- not make any loan or advance to any officer, director, stockholder, employee, individual or entity other than in the ordinary course of business;

- not terminate any existing, or enter into any new, gas purchase, exchange, storage, supply or transportation contract or renew, extend or negotiate any existing gas purchase, exchange, storage, supply or transportation contract that is not terminable within sixty days without penalty;

- not amend its organizational documents; and

- not issue or assume any note, debenture or other evidence of indebtedness which by its terms does not mature within one year.

FALL RIVER GAS SPECIAL MEETING; SOLICITATION OF PROXIES. Fall River Gas has agreed:

- to use its reasonable best efforts to solicit from its stockholders proxies in favor of the merger;

- to take all steps necessary to duly call, give notice of, convene and hold a meeting of its stockholders for the purpose of securing the approval and adoption of the merger agreement and the consummation of transactions related to the merger agreement by its stockholders;

- to distribute proxy statements to its stockholders in accordance with applicable federal and state law and its organizational documents; and

- to recommend to its stockholders the approval of the merger agreement, subject to the fiduciary duties of its board of directors.

FALL RIVER GAS VOTING AGREEMENT. In connection with the merger, Barbara N. Jarabek, as trustee of The Jarabek Family Limited Partnership, Ronald J. Ferris, Bradford J. Faxon, Raymond H. Faxon, Cindy L.J. Audette, Gilbert C. Oliveira, Jr. and Thomas H. Bilodeau entered into a voting agreement with Southern Union. According to the terms of the voting agreement, these stockholders agreed: 1) to vote or cause to be voted their shares of Fall River Gas common stock in favor of the merger and the adoption and approval of the merger agreement, and 2) to grant Southern Union an irrevocable proxy to vote their shares of Fall River Gas common stock for the approval and adoption by the Fall River Gas stockholders of the merger agreement and the performance of transactions related to the merger. As of the special meeting record date, the number of shares beneficially owned by the Fall River Gas stockholders who entered the voting agreement and granted this irrevocable proxy represent approximately 25.6% of the outstanding shares of Fall River Gas common stock entitled to vote on the approval and adoption of the merger agreement and performance of transactions related to the merger agreement.

Of the 572,510 shares of Fall River Gas common stock represented by the stockholders who are parties to the voting agreement, as of May 31, 2000, 276,800 shares were beneficially owned by executive officers and directors of Fall River Gas. The voting agreement is attached as Appendix C to this proxy statement/prospectus.

EMPLOYEES; BENEFITS. For employees (excluding unionized employees) of Fall River Gas and its subsidiary, Southern Union has agreed:

- to provide such employees who continue their service with Southern Union with benefits no less favorable in the aggregate than the benefits provided under Fall River Gas' benefit plans during the 12 months immediately

following the closing date;

- to recognize, for purposes of eligibility, vesting and benefit accrual under all benefit plans provided to such employees after the closing date, the tenure of employment, as recognized by Fall River Gas or of its subsidiary as of the closing date;

- that all vacation time earned by such employees prior to the closing date must be taken by the end of the calendar year of the closing date, except where Fall River Gas or Southern Union requests that an employee forgo his or her vacation for business-related reasons; and

- to recognize, for purposes of awarding vacation time at the beginning of each calendar year following the closing date, the tenure of employment, as recognized by Fall River Gas or of its subsidiary as of the closing date.

Southern Union has also agreed to assume, at the effective time, all collective bargaining agreements covering employees of Fall River Gas and its subsidiary, and to discharge when due any and all liabilities of Fall River Gas and its subsidiary under the collective bargaining agreements relating to periods after the effective time.

CERTAIN OTHER COVENANTS AND AGREEMENTS. The merger agreement contains certain mutual covenants and other agreements of the parties, including covenants and other agreements relating to: filings with the SEC; access to offices, properties, financial statements and other records; use of reasonable efforts to obtain all necessary consents; approvals and waivers from governmental bodies and other third parties; and further assurances.

The merger agreement also contains additional covenants by Fall River Gas to, except as provided in the merger agreement:

- permit Southern Union to insert preprinted single-page customer education materials into billing documentation to be delivered to customers affected by the merger agreement;

- not declare or pay or permit its subsidiary to declare or pay any dividends, or make other distributions in respect of Fall River Gas' or its subsidiary's capital stock, except for regular dividends on Fall River Gas common stock;

- not redeem or repurchase or otherwise acquire any shares of its capital stock or the capital stock of its subsidiary other than in connection with the administration of employee benefit and dividend reinvestment and customer stock purchase plans that were in effect on October 4, 1999;

- not split, combine, reclassify, issue or encumber or permit its subsidiary to split, combine, reclassify, issue or encumber any shares of its capital stock or securities convertible into any such shares;

- not make any changes or permit its subsidiary to make changes in its accounting methods, principles or practices except as required by law, rule, regulation or generally accepted accounting principles;

- identify persons who are "affiliates" of Fall River Gas within the meaning of Rule 145 under the Securities Act and to use its reasonable efforts to provide to Southern Union letters from such persons to the effect that they will not dispose of their shares of Southern Union common stock received in the merger except in accordance with the applicable provisions of Rule 145

or in a transaction exempt from registration under the Securities Act ("Rule 145 Letters");

- cooperate and cause its subsidiaries to cooperate with Southern Union's requests with respect to the refinancing, repurchase, redemption or repayment of Fall River Gas or its subsidiary's indebtedness that may be required or that Southern Union may request prior to the merger;

- except in certain instances, not initiate or encourage any inquiry or proposal about mergers with other parties, sales of substantial assets, sales of shares representing a majority or greater interest in Fall River Gas or its subsidiary or other business combinations or, except in certain instances, negotiate, discuss, approve or recommend any such alternative acquisition proposal (see "-No Solicitation by Fall River Gas"); and

- obtain consents for the merger from all holders of each series of First Mortgage Bonds issued and outstanding under the Fall River Gas Indenture.

The merger agreement also contains certain additional covenants of Southern Union to, except as provided in the merger agreement:

- use its reasonable best efforts to obtain, prior to the effective date of the merger agreement, all necessary state securities laws or "blue sky" permits and approvals and pay all related expenses; and

- cause the shares of Southern Union's common stock required to be reserved for issuance in connection with the merger to be listed on the NYSE.

NO SOLICITATION BY FALL RIVER GAS

The merger agreement provides that Fall River Gas must terminate all existing discussions or negotiations with third parties, if any, with respect to a "Business Combination," which we define below, and that Fall River Gas may not, and may not authorize or permit its or its subsidiary's officers, directors, agents, financial advisors, attorneys, accountants or other representatives to, directly or indirectly:

- solicit, initiate or encourage submission of proposals or offers relating to, or that could reasonably be expected to lead to, a Business Combination; or

- participate in any negotiations or discussions regarding, furnish to any person any information with respect to, or otherwise cooperate, assist, participate in, facilitate or encourage any effort or attempt by any other person to do or seek, a Business Combination.

A "Business Combination" is, except as provided in the merger agreement:

- a merger, consolidation or other business combination, share exchange, sale of shares of capital stock, tender offer or exchange offer or similar transaction involving Fall River Gas or its subsidiary;

- the acquisition in any manner, directly or indirectly, of a material interest in any capital stock of, or a material equity interest in a substantial portion of the assets of, Fall River Gas or of its subsidiary, including any single or multi-step transaction or series of related transactions that is structured to permit

a third party to acquire beneficial ownership of a majority or greater equity interest in Fall River Gas or its subsidiary; or

- the acquisition in any manner, directly or indirectly, of any material portion of the business or assets (other than immaterial or insubstantial assets or inventory in the ordinary course of business or assets held for sale) of Fall River Gas or its subsidiary.

Prior to receiving the approval of the merger by Fall River Gas stockholders, if the Fall River Gas board of directors receives an unsolicited written proposal from a third party with respect to a Business Combination that the Fall River Gas board of directors determines, in its good faith judgment, after consulting with its financial advisor and outside counsel, with customary qualifications, is a "Superior Proposal," which we define below, Fall River Gas may:

- furnish information to, and negotiate, explore or otherwise engage in substantive discussions with the third party that submitted the unsolicited Superior Proposal if the Fall River Gas board determines that it is reasonably necessary to engage in such discussions in order to comply with its fiduciary duties under applicable law; and

- take and disclose to Fall River Gas' stockholders a position with respect to another Business Combination proposal, or amend or withdraw such position, pursuant to Rule 14d-9 and 14e-2 under the Exchange Act, or make such disclosure to Fall River Gas' stockholders which in the good faith judgment of the Fall River Gas board of directors is required by applicable law, based on the advice of its outside counsel.

A proposed Business Combination is a "Superior Proposal" if it involves at least 50% of the shares of capital stock or a material portion of the assets of Fall River Gas and the Fall River Gas board determines, after consulting with Fall River Gas' financial advisor and outside counsel, that:

- the proposal is financially superior to the merger; and

- it appears that the party making the proposal is reasonably likely to have the funds necessary to consummate the Business Combination.

The merger agreement also prohibits the Fall River Gas board from withdrawing or modifying, or proposing publicly to withdraw or modify, in a manner adverse to Southern Union, its approval or recommendation of the merger agreement or the merger, approving or recommending, or proposing publicly to approve or recommend, a Business Combination, or causing Fall River Gas to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any Business Combination unless the following conditions are satisfied:

- the Fall River Gas board determines, in its good faith judgment, after consulting with its financial advisor and outside counsel, that an unsolicited proposal regarding a Business Combination is a Superior Proposal; and

- the Fall River Gas board determines, in its good faith judgment, after

- the Fall River Gas board determines, in its good faith judgment, after consulting with its financial advisor and outside counsel, that the failure to either withdraw or modify its approval or recommendation of the merger agreement or the merger, approve or recommend a Business Combination, or cause Fall River Gas to enter into any agreement related to any Business Combination would create a reasonable possibility of a breach of the fiduciary duties of the Fall River Gas board under applicable law.

Fall River Gas must promptly notify Southern Union of the receipt of any alternative acquisition proposal regarding a Business Combination, the material terms and conditions of any such proposal, the identity of the person or entity making the proposal and the status and details of any such request or proposal within one business day of Fall River Gas' receipt of any such proposal. Fall River Gas is required to use all reasonable efforts to keep Southern Union informed of the status and details of any such inquiry, offer or proposal and provide notice, consisting of two days, to Southern Union prior to the first delivery of non-public information to any such person or entity. If any such inquiry, offer or proposal is in writing, Fall River Gas has agreed to promptly deliver to Southern Union a copy of such inquiry, offer or proposal. If Fall River Gas decides to accept such a Business Combination proposal and enter into a definitive agreement with respect to such proposal, Fall River Gas must give Southern Union notice, consisting of five business days, of its intent to enter into a definitive agreement. In addition, during this five-day period, Fall River Gas must give Southern Union an opportunity to adjust the terms of the merger agreement so that the parties can proceed with the merger and negotiate in good faith with Southern Union with respect to any such adjustments. Concurrently with the termination of the merger agreement in connection with a Business Combination, Fall River Gas must also pay the required termination fee (see "-Termination of the Merger Agreement" and "-Termination Fees and Expenses - Fall River Gas Termination Fee").

Prior to furnishing any non-public information to, entering into negotiations with or accepting a Superior Proposal from a third party, Fall River Gas will provide written notice to Southern Union to the effect that it is furnishing information to or entering into discussions or negotiations with such third party and receive from such third party an executed confidentiality agreement containing substantially the same terms and conditions as the confidentiality agreement between Fall River Gas and Southern Union.

CONDITIONS TO THE COMPLETION OF THE MERGER

MUTUAL CLOSING CONDITIONS. The obligations of Southern Union and Fall River Gas to complete the merger are subject to the satisfaction or, to the extent legally permissible and permitted by the merger agreement, waiver of the following conditions:

- Accuracy as of the closing date of the representations and warranties made by the other party to the extent specified in the merger agreement.

- Performance in all material respects by the other party of the obligations required to be performed by it at or before the closing date.

- All governmental approvals required in order to complete the merger having been obtained without conditions that would be reasonably likely to be materially adverse to Fall River Gas' or Southern Union's businesses, operations, properties, financial condition, or results of operations. To facilitate

obtaining the approval of the transaction by the Massachusetts Department

of Telecommunications and Energy, Southern Union is seeking approval of the transaction by holders of two-thirds of the outstanding shares of Southern Union common stock.

- No court, administrative agency, governmental body or arbitrator having issued an order to restrain, enjoin or otherwise prevent the consummation of the merger agreement or the merger.

- Southern Union's registration statement on Form S-4, which includes portions of this proxy statement/prospectus, being effective and not subject to any stop order by the SEC.

- Authorization for listing on the NYSE of the shares of Southern Union common stock to be issued in the merger.

ADDITIONAL CLOSING CONDITIONS FOR SOUTHERN UNION'S BENEFIT. Southern Union's obligation to complete the merger is subject to the following additional conditions:

- Receipt of third party consents required to consummate the merger, other than any consents which, if not obtained, are not, individually or in the aggregate, reasonably likely to result in a material adverse effect on the business, operations, properties, financial condition or results of operations of Fall River Gas and its subsidiary after the closing.

- Receipt of all consents and approvals required, under the terms of any note, bond or indenture to which Fall River Gas or its subsidiary is a party.

- The resignation of each director of Fall River Gas or its subsidiary of his or her position as a director of Fall River Gas or its subsidiary effective as of the closing date.

- The receipt by Southern Union on the closing date of an opinion of its counsel to the effect that the merger will constitute a "reorganization" within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code, and that no gain or loss will be recognized by Southern Union or Fall River Gas with respect to the merger.

- Each of the individuals and entities who are "affiliates" of Fall River Gas within the meaning of Rule 145 have delivered to Southern Union a Rule 145 Letter.

- Receipt of all consents required and necessary to approve any amendments requested by Southern Union to the Fall River Gas Indenture from the holders of each series of First Mortgage Bonds issued and outstanding under the Indenture.

ADDITIONAL CLOSING CONDITION FOR FALL RIVER GAS' BENEFIT. Fall River Gas' obligation to complete the merger is subject to the additional condition that on the closing date, Fall River Gas shall have received an opinion of its counsel to the effect that the merger will be treated for federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code, and that no gain or loss will be recognized for federal income tax purposes by the stockholders of Fall River Gas upon their

receipt of the merger consideration, except that any realized gain will be recognized to the extent of the amount of cash received.

INDEMNIFICATION AND INSURANCE FOR FALL RIVER GAS OFFICERS AND DIRECTORS

For six years after the completion of the merger, Southern Union will indemnify and hold harmless the present and former officers and directors of Fall River Gas and its subsidiary in respect of acts or omissions which occurred prior to the effective time. In addition, for six years after the effective time, Southern Union will use its reasonable best efforts to provide officers' and directors' liability insurance regarding acts or omissions occurring prior to the effective time covering each such person covered by Fall River Gas' officers' and directors' liability insurance policy on the date of the merger agreement on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date of the merger agreement. However, if the annual premiums of such insurance coverage exceed 200% of the previous year's premiums, Southern Union will be obligated to obtain a policy with the best coverage available for a cost not exceeding such amount. See "The Merger - Potential Conflicts and Interests of Certain Persons in the Merger."

AMENDMENTS

Fall River Gas and Southern Union may amend in writing the terms of the merger agreement before the closing.

TERMINATION OF THE MERGER AGREEMENT

The merger agreement may be terminated at any time before the closing:

- by mutual written consent of Southern Union and Fall River Gas;
- by either Fall River Gas or Southern Union:
  - if a court issues a non-appealable order that prohibits the consummation of the merger; or
  - at any time after 5:00 p.m., Eastern Time on October 15, 2000, if the closing of the merger has not occurred and the party asserting its right to terminate is not in material breach of its representations, warranties, covenants or agreements contained in the merger agreement; however, this date will be extended to February 28, 2001, even though all other conditions to the closing of the merger have been fulfilled or are capable of being fulfilled if: (i) all approvals, consents, opinions, rulings or authorizations of any federal state and local

governmental agencies required in order to consummate the merger have not been obtained or become a final order or (ii) the applicable waiting period under the Hart-Scott-Rodino Act relating to the merger has not expired or been terminated;

- by Southern Union if:
  - there is a breach of any representation, warranty, covenant or agreement of Fall River Gas, where the breach cannot be cured and would make Fall River Gas' representations and warranties substantially inaccurate;
  - less than two-thirds of the holders of Fall River Gas' outstanding common stock vote to approve the merger and there has not been a material misrepresentation or a material breach by Southern Union of any of its covenants, warranties or agreements contained in the merger agreement;
  - the Fall River Gas board or any committee thereof: (i) withdraws or modifies, or proposes publicly to withdraw or modify, in a manner adverse to Southern Union, its approval or recommendation of the merger agreement or the merger, (ii) approves or recommends, or proposes publicly to approve or recommend, a Business Combination, (iii) causes Fall River Gas to enter into a definitive agreement related to any Business Combination or (iv) resolves to take any of the foregoing actions; or
  - a third party, including a group (as defined under the Exchange Act), acquires securities representing greater than 50% of the voting power of the outstanding voting securities of Fall River Gas; and
- by Fall River Gas if:
  - there is a breach of any representation, warranty, covenant or agreement of Southern Union, where the breach cannot be cured and would make Southern Union's representations and warranties materially inaccurate;

  - (i) Fall River Gas gives Southern Union at least five business days' notice of its intent to enter into a definitive agreement with respect to a Business Combination proposal, and during this five-day period gives Southern Union an opportunity to adjust the terms of the merger agreement so that the parties can proceed with the merger and negotiate in good faith with Southern Union with respect to any such adjustments, (ii) Fall River Gas has paid the required termination fees and (iii) Fall River Gas has entered into a definitive agreement with respect to a Business Combination proposal;
  - less than two-thirds of the holders of Fall River Gas' outstanding common stock approve the merger agreement and there has not been a material misrepresentation or a material breach by Fall River Gas of any of its covenants, warranties or agreements contained in the merger agreement; or
  - the average trading price of Southern Union common stock as of the closing date is lower than $15.00. For this purpose, "average trading price" means the average of the reported closing prices of Southern Union common stock on the NYSE for the ten consecutive trading days ending on the third trading day before the closing date (counting from

ending on the third trading day before the closing date (counting from and including the trading day immediately before the closing date). The closing price for each day in question will be the last sale price, regular way, or, if no sale takes place on that day, the average of the closing bid and asked prices, regular way.

If the merger agreement is validly terminated, no provision of the merger agreement will survive (except for the provisions relating to expenses, termination fees and miscellaneous provisions of general application) and termination shall be without any liability on the part of any party, unless such party is negligent or in willful breach of any provision of the merger agreement.

TERMINATION FEES AND EXPENSES

PAYMENT OF THE MERGER EXPENSES GENERALLY. Each of Fall River Gas and Southern Union will pay all costs and expenses of its performance of and compliance with the merger agreement except as expressly provided in the merger agreement and as follows:

- Fall River Gas will pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken by Southern Union to collect the termination fee payable to Southern Union under the merger agreement, together with interest on the amount of any portion of the unpaid termination fee. This interest will be calculated using an annual percentage rate of interest equal to the prime rate published in THE WALL STREET JOURNAL on the date (or preceding business day if this date is not a business day) the fee was required to be paid, compounded on a daily basis using a 360-day year;

- Fall River Gas will pay all fees and expenses of counsel for Fall River Gas;

- Southern Union will pay all real estate transfer taxes and real estate recording fees, if any, including expenses of counsel associated with real estate title, transfer and recording issues in connection with the merger, and all filing and application fees paid to federal, state or local government agencies in connection with the merger; and

- Southern Union and Fall River Gas will each pay half of the combined costs of printing and mailing to Fall River Gas' stockholders this proxy statement/prospectus.

FALL RIVER GAS TERMINATION FEE. Fall River Gas has agreed to pay Southern Union $1.5 million in cash if:

- Fall River Gas provides Southern Union at least five business days' notice of its intent to terminate the merger agreement and has entered into a definitive agreement with respect to a Business Combination proposal;

- Southern Union terminates the merger agreement because the Fall River Gas board or any committee thereof has (i) withdrawn or modified, or proposed publicly to withdraw or modify, in a manner adverse to Southern Union, its approval or recommendation of the merger agreement; (ii) approved or recommended, or proposed publicly to approve or recommend, a Business Combination; (iii) caused Fall River Gas to enter into a definitive agreement related to any Business Combination; or

- Southern Union terminates the merger agreement because a third party,

including a group (as defined under the Exchange Act), has acquired securities representing greater than 50% of the voting power of the outstanding voting securities of Fall River Gas.

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following Unaudited Pro Forma Combined Condensed Financial Statements present the combined financial data of Southern Union, PEI, Fall River Gas, ProvEnergy and Valley Resources, including their respective subsidiaries, after giving effect to Southern Union's merger with each of them. The PEI merger, completed on November 4, 1999, was, and the Fall River Gas, ProvEnergy and Valley Resources mergers will be, accounted for as a purchase. The Unaudited Pro Forma Combined Condensed Financial Statements also give effect to Southern Union's issuance of $300 million of senior notes that was completed on November 3, 1999, in anticipation of the PEI merger, prospective financing for the pending acquisitions by merger of Fall River Gas, ProvEnergy and Valley Resources, and the assumption of certain debt of the acquired companies.

The Unaudited Pro Forma Combined Condensed Balance Sheet as of March 31, 2000, gives effect to the previously identified acquisitions and financing transactions as if they had occurred on that date. The Unaudited Pro Forma Combined Condensed Statements of Operations for the year ended June 30, 1999, and the nine months ended March 31, 2000, give effect to the previously identified acquisitions and financing transactions as if they had occurred on July 1, 1998, and July 1, 1999, respectively, which are the beginning dates for such periods.

The fiscal year of Southern Union ends on June 30. The fiscal year of PEI ended on December 31. The fiscal years of Fall River Gas and ProvEnergy end on September 30. The fiscal year of Valley Resources ends on August 31. Accordingly, the Unaudited Pro Forma Combined Condensed Balance Sheet as of March 31, 2000, is derived from the March 31, 2000, balance sheets for each of Southern Union, Fall River Gas and ProvEnergy, and the February 29, 2000, balance sheet of Valley Resources. Also, the Unaudited Pro Forma Combined Condensed Statements of Operations for the year ended June 30, 1999, and the nine months ended March 31, 2000, have been prepared using comparable financial statement periods of PEI, Fall River Gas and ProvEnergy, and the results of operations for the twelve-month period ended May 31, 1999 and the nine-month period ended February 29, 2000 of Valley Resources. The foregoing financial statements have all been incorporated by reference to previous filings with the SEC made by Southern Union or such other company. The following Unaudited Pro Forma Combined Condensed Financial Statements have been prepared from, and should be read in conjunction with, those historical

financial statements and related notes thereto of Southern Union, PEI, Fall River Gas, ProvEnergy and Valley Resources. See "Where You Can Find More Information."

The historical financial statements of the acquired companies that appear in or were used for the Unaudited Pro Forma Combined Condensed Financial Statements include or required certain reclassifications to conform to Southern Union's presentation. These reclassifications have no impact on net income or total stockholders' equity.

The pro forma adjustments reflect an estimated additional purchase cost assigned to utility plant based on the historical cost of the regulated assets and liabilities of the acquired companies and an estimate of the fair value of the non-regulated assets and liabilities of the acquired companies, plus estimated acquisition costs for the pending transactions. The estimate of the fair value of the non-regulated assets are preliminary and may be revised, including to reflect independent appraisals, which have not been completed.

The Unaudited Pro Forma Combined Condensed Financial Statements are based on the assumption that upon completion of the Fall River Gas merger each Fall River Gas stockholder will receive, in exchange for each share of Fall River Gas common stock he or she owns, a combination of Southern Union common stock and/or cash worth in the aggregate $23.50; the cash consideration is limited to 50% of the aggregate consideration paid to all Fall River Gas stockholders. The following pro forma adjustments reflect a payment of 50% cash and 50% Southern Union common stock for each share of Fall River Gas common stock.

The following Unaudited Pro Forma Combined Condensed Financial Statements are presented in accordance with the assumptions set forth below for purposes of illustration only and are not necessarily indicative of the financial position or operating results that would have occurred if the previously identified acquisitions and financing transactions had been consummated on the date as of which, or at the beginning of the periods for which, they are being given effect nor are they necessarily indicative of the future operating results or financial position of the combined enterprise. The Unaudited Pro Forma Combined Condensed Financial Statements do not contain any adjustments to reflect cost savings or other synergies anticipated as a result of the mergers. The weighted average shares of common stock and common stock equivalents outstanding have been adjusted for the 5% stock dividend distributed on June 30, 2000. Operating results for the nine months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the entire fiscal year ending June 30, 2000.

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SH
MARCH 31, 2000

ASSETS

	HISTORICAL		
	SOUTHERN UNION COMPANY (1)	FALL RIVER GAS COMPANY	PROVI ENE CORPO
			(THO
Property, plant and equipment	$ 1,582,405	$ 63,101	$ 347
Less accumulated depreciation and amortization	(497,227)	(23,934)	(128
	1,085,178	39,167	219
Additional purchase cost assigned to utility plant, net	378,085	--	
Net property, plant and equpment	1,463,263	39,167	219
Current assets	216,529	13,395	75
Deferred charges	160,154	370	42
Investment securities	15,587	--	13
Real estate and other	9,438	4,240	3
Total	$ 1,864,971	$ 57,172	$ 354

STOCKHOLDERS' EQUITY AND LIABILITIES

Common stockholders' equity	$ 630,953	$ 19,369	$ 103
Company-obligated mandatorily redeemable preferred securities of subsidiary trust	100,000	--	
Long-term debt and capital lease obligation	734,320	19,500	88
Total capitalization	1,465,273	38,869	191
Current liabilities	160,956	10,200	127
Deferred credits and other	112,581	3,570	10
Accumulated deferred income taxes	126,161	4,533	24
Commitments and contingencies			
Total	$ 1,864,971	$ 57,172	$ 354

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(1) Amounts include Pennsylvania Enterprises, Inc.
(2) Amounts presented are as of February 29, 2000.

See accompanying notes to Unaudited Pro Forma Combined Condensed Financial Statements.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OP
FOR THE TWELVE MONTHS ENDED JUNE 30, 1999

HISTORICAL

	SOUTHERN UNION COMPANY	PENNSYLVANIA ENTERPRISES INC.	FALL RIVER GAS COMPANY	PROV EN CORP
		(THOUSANDS OF DOLLARS, EXCEPT S		
Operating revenues	$ 605,231	$ 233,605	$ 42,967	$ 2
Cost of gas and other energy	342,301	145,319	23,291	1
Operating margin	262,930	88,286	19,676	1
Operating expenses:				
Operating, maintenance and general	109,693	36,696	12,659	
Depreciation and amortization	41,855	10,291	2,118	
Taxes, other than on income	46,535	12,415	1,528	
Total operating expenses	198,083	59,402	16,305	
Net operating revenues	64,847	28,884	3,371	
Other income (expenses):				
Interest	(35,999)	(11,395)	(1,647)	
Dividends on preferred securities	(9,480)	--	--	
Other, net	(1,814)	1,173	1,561	
Total other expenses, net	(47,293)	(10,222)	(86)	
Earnings (loss) before income taxes (benefit)	17,554	18,662	3,285	
Federal and state income taxes (benefit)	7,109	7,090	1,247	
Net earnings (loss) before preferred stock dividend requirements	10,445	11,572	2,038	
Preferred stock dividend requirements	--	(653)	--	
Net earnings (loss) available for common stock	$ 10,445	$ 10,919	$ 2,038	$
Net earnings (loss) per share:				
Basic	$ 0.32			
Diluted	$ 0.31			
Weighted average shares outstanding:				
Basic	32,437,516			
Diluted	34,217,262			

(1) Amounts presented are for twelve months ended May 31, 1999.

See accompanying notes to Unaudited Pro Forma Combined Condensed Financial Statements.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OP
FOR THE NINE MONTHS ENDED MARCH 31, 2000

	HISTORICAL			
	SOUTHERN UNION COMPANY	PENNSYLVANIA ENTERPRISES INC. (1)	FALL RIVER GAS COMPANY	PROV EN CORP
	(THOUSANDS OF DOLLARS, EXCEPT S			
Operating revenues	$ 669,170	$ 48,486	$ 34,422	$ 2
Cost of gas and other energy	402,182	30,342	18,998	1

Operating margin	266,988	18,144	15,424	
Operating expenses:				
Operating, maintenance and general	98,647	14,116	9,750	
Depreciation and amortization	39,539	3,549	1,719	
Taxes, other than on income	43,195	2,629	1,196	
Total opeating expenses	181,381	20,294	12,665	
Net operating revenues	85,607	(2,150)	2,759	
Other income (expenses):				
Interest	(36,603)	(3,935)	(1,240)	
Dividends on preferred securities	(7,110)	--	--	
Other, net	(5,527)	(2,351)	1,104	
Total other expenses, net	(49,240)	(6,286)	(136)	
Earnings (loss) before income taxes (benefit)	36,367	(8,436)	2,623	
Federal and state income taxes (benefit)	15,820	(3,206)	1,058	
Net earnings (loss) before preferred stock dividend requirements	20,547	(5,230)	1,565	
Preferred stock dividend requirements	--	(68)	--	
Net earnings (loss) available for common stock	$ 20,547	$ (5,298)	$ 1,565	$
Net earnings (loss) per share:				
Basic	$ 0.49			
Diluted	$ 0.47			
Weighted average shares outstanding:				
Basic	41,688,408			
Diluted	43,733,332			

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(1) Amounts presented are for four months ended October 31, 1999 (five months ended March 31, 2000 are included in Southern Union's amounts).
(2) Amounts presented are for nine months ended February 29, 2000.

See accompanying notes to Unaudited Pro Forma Combined Condensed Financial Statements.

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

ADJUSTMENTS TO THE UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET

(A) Reflects the estimated excess of the purchase price and other transaction costs over the historical cost of the regulated net assets and the estimated fair value of the non-regulated net assets of Fall River Gas, ProvEnergy, and Valley Resources, collectively "the pending acquisitions."

(B) Reflects excess cash after application of the net proceeds from the merger financing of the pending acquisitions. See Note (F).

(C) Reflects the capitalization of estimated costs associated with the bank borrowings as more specifically described in Note (G) to be incurred in connection with the pending acquisitions. These financing costs are amortized on a straight-line basis over the life of the bank borrowings.

(D) Reflects the elimination of common stockholders' equity of Fall River Gas, ProvEnergy, and Valley Resources.

(E) Reflects the issuance of Southern Union common stock to Fall River Gas stockholders. See Notes (L) and (N).

(F) Reflects bank borrowings at an estimated annual interest rate of 7.60%, which Southern Union believes would be obtained based on current market rates. The bank borrowings are assumed to be utilized: to finance the cash portion of the purchase of Fall River Gas, ProvEnergy, and Valley Resources and the settlement of any respective stock options; and to pay various professional fees and change of control agreements expected to be incurred

professional fees and change of control agreements expected to be incurred in connection with the pending acquisitions estimated to total $9 million. See Notes (H) and (M).

ADJUSTMENTS TO THE UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF OPERATIONS

(G) Reflects amortization of the estimated excess purchase price over the historical cost of the regulated net assets and the estimated fair value of the non-regulated net assets of PEI, Fall River Gas, ProvEnergy, and Valley Resources on a straight-line basis over a 40-year period based on the estimated useful lives of these assets. The pro forma adjustment for the nine-month period ended March 31, 2000 reflects only four months of amortization of additional purchase cost related to the acquisition of PEI, as five months of actual are included in Southern Union's historical balances due to the closing of this merger on November 4, 1999.

(H) Reflects interest expense on bank borrowings for the pending acquisitions at an estimated annual interest rate of 7.60%, which Southern Union believes would be obtained based on current market rates, and interest expense on the $300 million of long-term debt at 8.25% issued on November 3, 1999 in connection with the PEI merger. The bank borrowings and long-term debt are assumed to be utilized:

to finance the cash portion of the purchase of PEI, Fall River Gas, ProvEnergy and Valley Resources and the settlement of any respective stock options; to refinance certain debt of PEI, and Southern Union; to fund PEI's Director Retirement Plan, Director Deferred Compensation Plan and supplemental retirement benefits and the payments for severance benefits for certain PEI executives; and to pay various professional fees and change of control agreements expected to be incurred in connection with all mergers estimated to total $12 million. For every 1/8 percent change in the interest rate assumed for the bank borrowings, expense for the 12-month period would change by approximately $550,000. The rate on the $300 million issued for PEI is fixed at 8.25%, so no variation in the rate for this long-term debt was calculated.

(I) Reflects the elimination of historical interest expense of PEI as a result of refinancing certain debt in connection with the PEI merger. See Notes (H) and (M).

(J) Reflects the income tax consequences at the federal statutory rate of the pro forma adjustments after excluding nondeductible goodwill amortization.

(K) Reflects the elimination of preferred stock dividend requirement due to the repurchase of all outstanding PEI and ProvEnergy preferred stock prior to the closing of the mergers for PEI and ProvEnergy.

(L) Reflects the issuance of 16,713,735 pre-stock dividend shares of Southern Union stock for the purchase of PEI. Also reflects the estimated issuance of 1,541,867 shares of Southern Union stock for the purchase of Fall River Gas, based on an average trading price of $15.7954 for the ten trading-day period ending on the third trading day before June 30, 2000 and an exchange ratio of 1.39259. The actual exchange ratio for the Fall River Gas merger will be based upon the average closing price per share for Southern Union common stock for the ten trading day period ending on the third full trading day the day the merger is completed. The exchange ratio will not be lower than 1.19365 nor greater than 1.39259. Due to the loss position resulting from the pro forma adjustments, the diluted shares outstanding

were adjusted for 1,779,747 shares of common stock equivalents that had been included in Southern Union's historical amounts.

(M) Reflects interest expense on bank borrowings for the pending acquisitions at an estimated annual interest rate of 7.60%, which Southern Union believes would be obtained based on current market rates, and interest expense on the $300 million of long-term debt at 8.25% issued on November 3, 1999 in connection with the PEI merger. The non-PEI merger-related long-term debt is assumed to be utilized: to finance the cash portion of the purchase of Fall River Gas, ProvEnergy, and Valley Resources; and the settlement of any respective stock options; and to pay various professional fees and change of control agreements incurred in connection with the three pending mergers estimated to total $9 million. The pro forma adjustment for the nine-month period ended March 31, 2000 reflects only four months of interest expense related to the $300 million of long-term debt issued for the acquisition of PEI, as five months of actual are included in Southern Union's historical balances due to the closing of this merger on November 4, 1999. For every 1/8 percent change in the interest rate assumed for the bank borrowings, expense for the nine-month period would change by approximately $400,000. The rate on the $300 million issued for PEI is fixed at 8.25%, so no variation in the rate for this portion of debt was calculated.

(N) Reflects the issuance of 16,713,735 pre-stock dividend shares of Southern Union stock for the purchase of PEI. Also reflects the estimated issuance of 1,541,867 shares of Southern Union stock for the purchase of Fall River Gas, based on an average trading price of $15.7954 for the ten trading-day period ending on the third trading day before June 30, 2000 and an exchange ratio of 1.39259. The actual exchange ratio for the Fall River Gas merger will be based upon the average closing price per share for Southern Union common stock for the ten trading day period ending on the third full trading day prior to the day the merger is completed. The exchange ratio will not be lower than 1.19365 nor greater than 1.39259. Due to the loss position resulting from the pro forma adjustments, the diluted shares outstanding were adjusted for 2,044,899 shares of common stock equivalents that had been included in Southern Union's historical amounts.

THE COMPANIES

SOUTHERN UNION

GENERAL

Southern Union was incorporated under the laws of the State of Delaware in 1932 and is one of the fifteen largest gas utility companies in the United States, as measured by number of customers. Southern Union's principal line of business is the distribution of natural gas as a public utility through Southern Union Gas, Missouri Gas Energy ("MGE"), PG Energy, and Atlantic Utilities, doing business as South Florida Natural Gas ("SFNG"), each of which is a division of Southern Union.

Southern Union Gas, headquartered in Austin, Texas, serves 523,000 customers in Texas (including the cities of Austin, El Paso, Brownsville, Galveston, Harlingen, McAllen and Port Arthur). MGE, headquartered in Kansas City, Missouri, serves 491,000 customers in central and western Missouri (including the cities of Kansas City, St. Joseph, Joplin and Monett). PG Energy, headquartered in Wilkes-Barre, Pennsylvania, serves 154,000 customers in northeastern and central Pennsylvania (including the cities of Wilkes-Barre, Scranton and Williamsport). SFNG, headquartered in New Smyrna Beach, Florida, serves 5,000 customers in central Florida (including the cities of New Smyrna Beach, Edgewater and areas of Volusia County, Florida). The diverse geographic area of Southern Union's natural gas distribution systems reduces the sensitivity of Southern Union's operations to weather risk and local economic conditions.

Subsidiaries of Southern Union have been established to support and expand natural gas and other energy sales and to capitalize on Southern Union's energy expertise. These subsidiaries market natural gas and electricity to end-users, operate natural gas pipeline systems, generate electricity, distribute propane, and sell commercial gas air conditioning and other gas-fired engine-driven applications. By providing "one-stop shopping," Southern Union can serve its various customers' specific energy needs, which encompass substantially all of the natural gas distribution and sales businesses from natural gas sales to specialized energy consulting services. Southern Union distributes propane to 11,000, 1,800 and 1,100 customers in Texas, Pennsylvania and Florida, respectively. Through PG Energy Services, Southern Union markets electricity and other products and services under the name PG Energy Power Plus, principally in northeastern and central Pennsylvania. Through PEI Power Corporation, an exempt wholesale generator (within the meaning of the Public Utility Holding Company Act of 1935), Southern Union generates and sells electricity in northeastern and central Pennsylvania. Through Keystone Pipeline Services, Inc. (a wholly owned subsidiary of PG Energy Services, Inc.) Southern Union is engaged primarily in the construction, maintenance and rehabilitation of natural gas distribution pipelines. Additionally, certain subsidiaries own or hold interests in real estate and other assets. Central to all of Southern Union's present businesses and strategies are the sale and transportation of natural gas and related energy services.

Southern Union is a sales and market-driven energy company whose management is committed to achieving profitable growth of its utility businesses in an increasingly competitive business environment. Southern Union's strategies for achieving these objectives principally consist of: (i) promoting new sales opportunities and markets for natural gas and propane; (ii) enhancing financial and operating performance; and (iii) expanding Southern Union

through development of existing utility businesses and selective acquisition of new utility businesses. Southern Union's management develops and continually evaluates these strategies

and their implementation by applying their experience and expertise in analyzing the energy industry, technological advances, market opportunities and general business trends. Each of these strategies, as implemented throughout Southern Union's existing businesses, reflects Southern Union's commitment to its core gas utility business.

Southern Union has a goal of selected growth and expansion, primarily in the utilities industry. To that extent, Southern Union intends to consider, when appropriate, and if financially practicable to pursue, the acquisition of other utility distribution or transmission businesses. The nature and location of any such properties, the structure of any such acquisitions and the method of financing any such expansion or growth will be determined by Southern Union's management and the Southern Union board. See "Forward-Looking Statements May Prove Inaccurate."

ACQUISITIONS

ACQUISITION OF PEI. Effective November 4, 1999, Southern Union acquired PEI and its subsidiaries for approximately 17 million shares of Southern Union common stock and approximately $36 million in cash plus the assumption of approximately $150 million of debt. PEI's natural gas utility businesses are being operated as PG Energy, a division of Southern Union, which provides service to approximately 154,000 natural gas customers in northeastern and central Pennsylvania (including the cities of Wilkes-Barre, Scranton and Williamsport). Through the acquisition of PEI, Southern Union acquired and now operates a subsidiary that markets electricity and other products and services under the name PG Energy Power Plus, principally in northeastern and central Pennsylvania. Other subsidiaries that Southern Union acquired in the PEI merger engage in nonregulated activities, including the construction, maintenance and rehabilitation of natural gas distribution pipelines.

MERGER WITH PROVENERGY. On November 14, 1999, Southern Union and ProvEnergy (NYSE: "PVY") entered into a definitive merger agreement. The agreement calls for ProvEnergy to merge into Southern Union in a transaction valued at approximately $400 million, including the assumption of debt. ProvEnergy's utility subsidiaries will also be merged into Southern Union. ProvEnergy shareholders will receive $42.50 in cash for each of the approximately 6.1 million shares of ProvEnergy common stock outstanding. ProvEnergy, headquartered in Providence, Rhode Island, is the parent of two natural gas subsidiaries. Providence Gas, founded in 1847, is Rhode Island's largest gas distributor and serves approximately 168,000 natural gas customers in Providence and Newport and 23 other cities and towns in Rhode Island. North Attleboro Gas serves approximately 6,000 customers in North Attleboro and Plainville, Massachusetts. ProvEnergy's oil business serves over 14,000 residential and commercial customers. ProvEnergy's utility service territories encompass approximately 760 square miles with a population of approximately 850,000. Southern Union anticipates completing the ProvEnergy merger in September 2000 once all remaining conditions are satisfied, including receipt of all regulatory approvals. On May 22, 2000, the stockholders of ProvEnergy approved the terms of the ProvEnergy merger.

MERGER WITH VALLEY RESOURCES. On November 30, 1999, Southern Union, SUG Acquisition Corporation, a Rhode Island corporation and wholly-owned subsidiary of Southern Union and Valley Resources (AMEX: "VR") entered into a definitive merger agreement. The agreement calls for Valley Resources to merge into Southern Union in a transaction valued at approximately $160 million

into Southern Union in a transaction valued at approximately $[illegible] million, including the assumption of debt. Valley Resources shareholders will receive $25.00 in cash for each of the approximately 4.98 million shares

of Valley Resources common stock outstanding. Valley Resources, headquartered in Cumberland, Rhode Island, provides natural gas utility service to more than 64,000 customers through its subsidiaries, Valley Gas Company and Bristol & Warren Gas Company, each of which will also be merged into Southern Union. Valley Gas Company's service area covers a 92 square mile area in the Blackstone Valley Region located in the northeastern portion of Rhode Island that has a population of approximately 250,000. Bristol & Warren Gas Company's service area covers approximately 15 square miles in the eastern portion of Rhode Island that has a population of approximately 35,000. Other Valley Resources subsidiaries rent and sell gas appliances primarily for residential use in its service area, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Valley Resources also has an 80% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI fuel cell, holds a patent for a natural gas/diesel co-firing system and has a patent pending for a device to control the flow of fuel on dual-fuel equipment. Southern Union anticipates completing the Valley Resources merger in September 2000 once all remaining conditions are satisfied, including receipt of all regulatory approvals for the Valley Resources merger. Valley Resources shareholders approved the Valley Resources merger at their special meeting on June 13, 2000.

FALL RIVER GAS

Fall River Gas was organized as a Massachusetts corporation on September 25, 1880 and is an investor-owned public utility company that sells, distributes and transports natural gas (mixed with propane and liquefied natural gas during winter months) at retail through a pipeline distribution system throughout its 50 square mile service territory in the City of Fall River and the towns of Somerset, Swansea and Westport, all located within the southeastern portion of the Commonwealth of Massachusetts. This area has a population of approximately 140,000. The principal markets served by Fall River Gas are (1) residential customers using gas for heating, cooking and water heating, (2) industrial customers using gas for processing items such as textile and metal goods, (3) commercial customers using gas for cooking and heating, and (4) federal and state housing projects using gas for heating, cooking and water heating.

Fall River Gas is engaged in only one line of business as described above, and in activities incidental to this business. Fall River Gas has one wholly-owned subsidiary, Fall River Gas Appliance Company, Ltd. (the "Appliance Company"), a Massachusetts corporation, which rents water heaters and conversion burners (primarily for residential use) in Fall River Gas' gas service area. Earnings from the Appliance Company are primarily the result of revenues from the rental of water heaters and conversion burners. The Appliance Company also derives revenues from the sale of central heating and air-conditioning systems and water heaters.

As of May 1, 2000, Fall River Gas provided service to approximately 48,000 natural gas customers.

Fall River Gas and its subsidiary employed approximately 175 persons as of May 1, 2000.

DESCRIPTION OF SOUTHERN UNION CAPITAL STOCK

GENERAL

Under the provisions of the Delaware General Corporation Law ("DGCL"), a corporation may not issue a greater number of shares than have been authorized by its certificate of incorporation. Southern Union's restated certificate of incorporation provides that the authorized capital stock of Southern Union consists of (i) 200,000,000 shares of common stock, par value $1.00 per share, and (ii) 6,000,000 shares of preferred stock, no par value. At the close of business on July 3, 2000, 49,509,738 shares of Southern Union common stock were issued and outstanding and no shares of Southern Union preferred stock were issued and outstanding.

SOUTHERN UNION COMMON STOCK

VOTING RIGHTS. Except with respect to the election of directors, the holders of Southern Union common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. At all elections of directors of Southern Union, the holders of Southern Union common stock have cumulative voting rights. Accordingly, each holder of Southern Union common stock is entitled to that number of votes which equals the number of shares held by such stockholder multiplied by the number of directors to be elected, and such stockholder may cast all of such votes for a single nominee or distribute them among the nominees as such stockholder deems appropriate.

DIVIDENDS. The holders of Southern Union common stock are entitled to receive dividends as and when declared by the Southern Union board out of funds legally available therefor, subject to any preferential dividend rights of outstanding shares of Southern Union preferred stock.

LIQUIDATION RIGHTS. Subject to the rights of holders of Southern Union cumulative preferred stock, upon liquidation, dissolution or winding up of Southern Union, the holders of Southern Union common stock are entitled to receive ratably the net assets of Southern Union available after the payment of all debts and other liabilities.

NO OTHER RIGHTS. Holders of Southern Union common stock have no preemptive, subscription, redemption or conversion rights.

EFFECT OF THE MERGER. Upon completion of the merger, Fall River Gas' stockholders will receive shares of Southern Union common stock. Accordingly, the total number of outstanding shares of Southern Union common stock will change.

SOUTHERN UNION PREFERRED STOCK

GENERAL. Southern Union, by resolution of the Southern Union board and without any further vote or action by the holders of Southern Union common stock, has the authority, subject to certain limitations, to issue up to an aggregate of 6,000,000 shares of Southern Union preferred stock in one or more classes or series, and to determine the designation and the number of shares of any class or series and to fix the designation, powers, preferences and rights of each such series and the qualifications, limitations or restrictions thereof.

As of July 3, 2000, there were no shares of Southern Union preferred stock

outstanding and Southern Union presently has no plans to issue any shares of Southern Union preferred stock.

TRANSFER AGENT AND REGISTRAR

BankBoston, N.A. c/o EquiServe, L.P. acts as transfer agent and registrar for the Southern Union common stock.

COMPARISON OF FALL RIVER GAS AND SOUTHERN UNION STOCKHOLDER RIGHTS

Southern Union is a Delaware corporation. The rights of a holder of Southern Union common stock are presently governed by Southern Union's restated certificate of incorporation and bylaws and the Delaware General Corporation Law ("DGCL"). Fall River Gas is a Massachusetts corporation. The rights of a holder of Fall River Gas common stock are governed by Fall River Gas' restated articles of organization and bylaws. In addition, Chapter 164 of the Massachusetts General Laws ("MGL, Chapter 164") provides that the rights of stockholders of Massachusetts gas companies, such as Fall River Gas, are also governed by certain provisions of MGL, Chapter 164, as well as certain provisions of MGL, Chapter 156B (Massachusetts' general business corporation statute).

Even though Southern Union will continue to exist as a Delaware corporation following its merger with Fall River Gas and Southern Union's restated certificate of incorporation and bylaws will survive rather than those of Fall River Gas, there are certain areas where the provisions of MGL, Chapter 164 differ from those of the DGCL with respect to certain corporate governance matters, including, more specifically, with regard to requirements for shareholder approval in certain instances. While Southern Union believes that following the merger, the provisions of the DGCL should take precedence with regard to these areas where differences exist, it is uncertain whether in any or all of these instances, the corporate affairs, including the rights of stockholders to vote on certain matters, of the combined company may be subject to some or all of the corporate governance provisions of Chapter 164 which are applicable to Massachusetts gas companies subject to that Chapter.

Neither the Massachusetts Department of Telecommunications and Energy ("MDTE"), which regulates Massachusetts gas distribution companies, nor the Courts of the Commonwealth of Massachusetts, have determined whether under MGL, Chapter 164, a utility that distributes gas to customers within Massachusetts but is not incorporated under Massachusetts law is subject to all or any portions of MGL, Chapter 164's corporate governance provisions that would otherwise pertain to a gas distribution company incorporated domestically in Massachusetts.

There are also differences between the restated certificate of incorporation and bylaws of Southern Union and the articles of organization and bylaws of Fall River Gas. As a result, the rights of a holder of Southern Union common stock differ from the rights of a holder of Fall River Gas common stock.

In addition, a company operating as a utility in either Massachusetts or Rhode Island cannot issue a stock dividend without approval from the MDTE or the RIDPUC, whichever is applicable. Because we have a policy of declaring and distributing an annual 5% stock dividend, we intend to seek approval for our dividend policy from both agencies after the mergers are completed. We will seek such approvals before we declare and distribute the first such anticipated dividend after the anticipated closing of the pending mergers, which would be the 2001 stock dividend.

The following information is a summary of some of the important differences between the DGCL and the restated certificate of incorporation and bylaws of Southern Union, on one hand, and the MGL, Chapter 164 and the articles of organization and bylaws of Fall River Gas, on the other. The provisions of the MGL, Chapter 164, that could be applicable to Southern Union after the merger are highlighted in the right hand columns of this summary. This summary does not purport to be a complete discussion of, and is qualified in its entirety by reference to, the DGCL and MGL, Chapter 164, as well as the restated certificate of

incorporation and bylaws of Southern Union and the articles of organization and bylaws of Fall River Gas, copies of which are on file with the SEC.

SOUTHERN UNION	FALL RIVE
CORPORATE GOVERNANCE GENERALLY	
Currently governed by Delaware law and the restated certificate of incorporation and bylaws of Southern Union.	Currently governed by Mas ically including MGL, Cha companies subject to that provisions of MGL, Chapte cifically enumerated in M Section 4; also governed organization and bylaws o
Upon completion of the merger, the rights of stockholders of the combined company will be governed by Delaware law and the restated certificate of incorporation and bylaws of Southern Union, subject to the discussion set forth immediately above regarding certain areas involving shareholder voting requirements where differences exist with	Upon completion of the me stockholders of the combi governed by Delaware law cate of incorporation and Union, subject to the dis ately above regarding cer shareholder voting requir

respect to MGL, Chapters 164 and 156B.	exist with respect to MGL
AUTHORIZED CAPITAL STOCK	
200,000,000 shares of common stock, par value $1 per share. 6,000,000 shares of preferred stock, no par value per share.	2,951,334 shares of commo value per share.
SIZE OF THE BOARD OF DIRECTORS	
Not less than five nor more than fifteen. The Southern Union board may increase or decrease the number of directors within these limits without a stockholder vote. Holders of cumulative preferred stock may elect additional directors if dividends are in arrears. The Southern Union board currently is comprised of twelve members.	Not less than three nor m River Gas board may incre number of directors withi stockholder vote. The Fa currently consists of nin
ELECTION AND CLASSIFICATION OF BOARD OF DIRECTORS	
The Southern Union board is divided into three classes, with the term of office of one class expiring each year. In the case of any increase in the number of directors, the number of directors in each class shall be as nearly equal as possible.	The Fall River Gas board classes, with the term of each year. In the case o number of directors, the each class shall be as ne

SOUTHERN UNION	FALL RIVE
Each director elected for a three-year term.	Each director elected for
VOTING RIGHTS	
The stockholders have cumulative voting rights at all elections of directors. Any stockholder who intends to cumulate votes must give written notice to the secretary no later than ten days after the notice of meeting was first sent to the stockholders.	Each stockholder is entit share held. Stockholders voting rights.
REMOVAL OF DIRECTORS; FILLING VACANCIES	
Any and all of the directors may be removed with cause by a vote of the holders of a majority of shares entitled to vote at an election of directors. New directorships resulting from an increase in the authorized number of directors or any vacancy on the Southern Union board may be filled by a majority vote of the directors then in office, though less than a quorum.	Any one or more of the di with or without cause, at vote of the stockholders regular or annual meeting directors then in office) director so removed shall remaining directors.
INTERESTED DIRECTOR TRANSACTIONS	
Under the DGCL, certain contracts or transactions in which one or more of a corporation's directors has an interest are not void or voidable because of such interest, provided that either: - the stockholders or the disinterested directors must approve any such contract or transaction	Pursuant to Section 62 of MGL, which is made applic and other corporations su 164, by application of Ch directors who vote for an participate in any loan o Gas to any of its officer

must approve any such contract or transaction after full disclosure of material facts, or

- the contract or transaction must have been fair as to the corporation at the time it was approved. If board approval is sought, the contract or transactions must be approved by a majority of the disinterested directors (even though less than a quorum).

Gas to any of its officer severally liable for any not repaid. This provisi loan is approved or ratif reasonably expected to be either a majority of the or indirect recipients of who are not direct or ind and hold a majority of th directors.

Southern Union's bylaws provide that no contract, transaction or act of Southern Union shall be affected by the fact that a director is in any way interested in, or connected with, any party to such contract, transaction or act, if the interested director, at least five days prior to the date of any

SOUTHERN UNION

FALL RIVE

regular or special meeting of the Southern Union board at which such contract, transaction or act is to be considered, gives notice in writing to each of the remaining directors of his interest in or in connection with the proposed contract, transaction or act. If this condition is complied with, the interested director may be counted in determining a quorum at any meeting of the Southern Union board at which the contract, transaction or act will be authorized, but may not vote on the resolution pertaining to the interested director transaction.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Southern Union's bylaws provide that Southern Union shall indemnify each of its directors and officers to the fullest extent permitted by law in connection with any actual or threatened action or proceeding (including civil, criminal, administrative or investigative proceedings) arising out of their service to Southern Union or to any other organization at Southern Union's request. Employees and agents of Southern Union who are not directors and officers may be similarly indemnified in respect of such service to the extent authorized at any time by the Southern Union board.

Fall River Gas' bylaws pr prohibited by law, Fall R every director, officer o Gas against expenses reas connection with any actio which he may be made a pa person being or having be employee of Fall River Ga that such person is or wa Fall River Gas as a direc another corporation, exce to which he shall be fina action, suit or proceedin negligence or misconduct.

Under the DGCL, other than an action brought by or in the right of the corporation, such indemnification is available if it is determined that the proposed indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his or her conduct was unlawful. In actions brought by or in the right of the corporation, such indemnification is limited to expenses actually and reasonably incurred and permitted only if the indemnitee acted

in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such person is adjudged to be

liable to the corporation, unless and only to the extent that the court in which the action was brought determines that, despite the adjudication of liability, but in view of all of the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses which the court deems proper. To the extent that the proposed indemnitee has been successful in defense of any action, suit or proceeding, he must be indemnified against expenses actually and reasonably incurred by him in connection with the action.

LIMITATION OF DIRECTOR LIABILITY

Section 102(b)(7) of the DGCL provides that the certificate of incorporation of a Delaware corporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director. This provision can not eliminate or limit the director's liability for:

- any breach of the director's duty of loyalty to the corporation or its shareholders,
- any acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law,
- under section 174 of the DGCL, which governs liability of directors for unlawful payment of dividends or unlawful stock repurchases, or
- any transaction from which the director derived an improper personal benefit. Article TWELFTH of the Restated Certificate of Incorporation of Southern Union eliminates personal liability of directors to the fullest extent permitted by Delaware law.

Pursuant to Section 65 of MGL, which is made applic and other corporations su 164, by application of Ch fact that a director perf be a complete defense to him or her, except as exp by reason of his or her b director of a corporation

Fall River Gas' articles provide that to the fulle MGL, no director shall be corporation or its stockh damages for any breach of director as a director no of law imposing such liab not eliminate or limit th any act or omission occur which this provision beca amendment or repeal of th a director of the benefit act or omission occurring or repeal.

AMENDMENTS TO THE CERTIFICATE OF INCORPORATION OR ARTICLES OF OR

The restated certificate of incorporation may be amended by the affirmative vote of the Southern Union board followed by the affirmative vote of the holders of a majority of the outstanding stock entitled to vote thereon and the majority of the outstanding stock entitled to vote thereon as a class.	THE ARTICLES OF ORGANIZAT AFFIRMATIVE VOTE OF THE F FOLLOWED BY THE AFFIRMATI EACH CLASS OF STOCK OUTST following actions require majority of the shares of entitled to vote: (i) ch capital stock; (ii) amoun authorized; and (iii) cha (MGL, Chapter 164, Sectio River Gas' articles of or any amendment relating to and the staggered electio affirmative vote of the h of the shares entitled to
AMENDMENT OF BYLAWS	
The stockholders may amend, alter or repeal the bylaws by the affirmative vote of the holders of a majority of the voting power of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class. In addition, the Southern Union board, by the affirmative vote of a majority of the directors, may at any meeting, if the substance of the proposed amendment shall have been stated in the notice of meeting, amend, alter or repeal the bylaws.	Only the stockholders, by the holders of a majority outstanding of the class may at any meeting, provi proposed amendment shall notice of the meeting, am bylaws; provided, however River's articles of organ relating to business comb election of directors req the holders of not less t entitled to vote. Chapter is made applicable to gas corporations subject to M application of Chapter 16 directors alone may amend pany's articles of organi for this power. Fall Rive tion do not currently con
POWER TO CALL SPECIAL STOCKHOLDERS MEETING	
Special meetings of stockholders may be called only by the Southern Union board pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not	A stockholders meeting fo called at any time by: th majority of the board of called by the chairman, t

SOUTHERN UNION	FALL RIVE
there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Southern Union board for adoption) or by the holders of not less than a majority of the voting power of all of the then-outstanding shares of any class or series of capital stock entitled to vote generally in the election of directors.	upon the request of stock at least 33 1/3% of the i voting stock. The MGL pro owning 10% of the voting meeting, unless the compa incorporation require a h more than 50%.
ACTION BY WRITTEN CONSENT	

Any action required or permitted to be taken by the stockholders must be effected at a duly called annual or special meeting of the stockholders, and may not be effected by the written consent of the stockholders.	Any action required or pe stockholders meeting may meeting but only if, befo consents thereto by all t be entitled to vote at a filed with the secretary.

INSPECTION OF STOCKHOLDERS LIST

The officer who has charge of the stock ledger must prepare and make, at least 10 days before every stockholders meeting, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The list must be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days before the meeting. The list must also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder present.	Stockholders of Fall Rive statutory right to inspec the company, for any purp stockholder relative to t corporation. The original Articles of Organization, meetings of incorporators stock and transfer record all stockholders and the amount of stock held by e River Gas for inspection principal office or an of of its clerk or of its re records need not all be k

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DIVIDENDS AND REPURCHASES OF SHARES

Dividends on the stock of Southern Union of any class are payable only out of assets, profits or funds of the corporation at the time legally available therefor, and only when and as declared by the Southern Union board. Dividends may be paid upon common stock as and when declared by the Southern Union board, subject to all of the rights of the preferred stockholders. See "Description of Southern Union Capital Stock - Southern Union Preferred Stock." In addition, the DGCL generally provides that a corporation may redeem or repurchase its shares only if such redemption or repurchase would not impair the capital of the corporation. The ability of a Delaware corporation to pay dividends on, or to make repurchases or redemptions of, its shares is dependent on the financial status of the corporation standing alone and not on a consolidated basis. In determining the amount of surplus of a Delaware corporation, the assets of the corporation, including stock of subsidiaries owned by the corporation, must be valued at their fair market value as determined by the Southern Union board, regardless of their historical book value.	The directors, in their d time declare dividends pa of the earned surplus of

MERGERS AND MAJOR TRANSACTIONS

Under the DGCL, whenever the approval of the stockholders of a corporation is required for an agreement of merger or consolidation or for a sale	Under Section 96 of MGL, or consolidation of, or s substantially all corpora

agreement of merger or consolidation, or for a sale, lease or exchange of all or substantially all of its assets, such agreement, sale, lease or exchange must be approved by the affirmative vote of the holders of a majority of outstanding shares entitled to vote thereon. Notwithstanding the foregoing, unless required by its certificate of incorporation, no vote of the stockholders of a constituent corporation surviving a merger is necessary to authorize such merger if:	substantially all corpora companies both or all of Chapter 164 by virtue of operations in the Commonw must be approved by each two-thirds of the shares

SOUTHERN UNION	FALL RIVE

- the agreement of merger does not amend the certificate of incorporation of such constituent corporation;

- each share of stock of such constituent corporation outstanding prior to such merger is to be an identical outstanding or treasury share of the surviving corporation after the merger;

- either no shares of common stock of the surviving corporation and no shares, securities or obligations convertible into such common stock are to be issued under such agreement of merger, or the number of shares of common stock issued or so issuable does not exceed 20% of the number thereof outstanding immediately prior to such merger.

In addition, the DGCL provides that a parent corporation that is the record holder of at least 90% of the outstanding shares of each class of stock of a subsidiary may merge such subsidiary into such parent corporation without the approval of such subsidiary's stockholders or board and without the approval of the parent's stockholders.

APPRAISAL RIGHTS/DISSENTERS RIGHTS

Under the DGCL, unless the certificate of incorporation of a corporation provides otherwise, there are no appraisal rights provided in the case of certain mergers, a sale or transfer of all or substantially all of the corporation's assets or an amendment to the corporation's certificate of incorporation. Moreover, the DGCL does not provide appraisal rights in connection with a merger or consolidation, unless the certificate of incorporation provides otherwise, to stockholders of a constituent corporation that:	The stockholders of Fall appraisal rights.

- has its common stock listed on a national securities exchange or designated as a national market system security by the National

SOUTHERN UNION	FALL RIVE

Association of Securities Dealers or

- held of record by more than 2,000 stockholders, unless the applicable agreement of merger or consolidation requires that such stockholders will be entitled to receive, in exchange for their shares of such constituent corporation, anything except:

- shares of stock of the resulting or surviving corporation;

- shares of stock of any other corporation listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, or held of record by more than 2,000 holders;

- cash in lieu of fractional shares; or

- any combination of the prior three bullets.

The DGCL denies appraisal rights to the stockholders of the surviving corporation if such merger did not require for its approval the vote of the stockholders of such surviving corporation.

ANTI-TAKEOVER PROVISIONS

Southern Union is subject to DGCL Section 203, which generally prohibits a Delaware corporation from engaging in a "business combination" (defined as a variety of transactions, including mergers, asset sales, issuance of stock and other transactions resulting in a financial benefit to the interested stockholder) with an "interested stockholder" (defined generally as a person that is the beneficial owner of 15% or more of a corporation's outstanding voting stock) for a period of three years following the date that such person became an interested stockholder unless certain conditions are met.

Chapter 110F of the MGL p combination with an "inte (defined generally as a p of a corporation's outsta three years after that pe stockholder unless: (i) t approval to the 5% purcha stockholder; (ii) upon co action that resulted in t interested stockholder, t owns at least 90% of the corporation, excluding ce currently with or subsequ becoming an interested st

SOUTHERN UNION	FALL RIVE

directors and two-thirds approve the business comb has not opted out of Chap the provisions of Chapter to an acquisition of Fall

	Gas board has given its a merger.
	In addition, the Articles River Gas require the aff the outstanding voting sh authorization of any busi another entity unless the been authorized by a two- directors. The directors unanimously authorized th
DISSOLUTION	
Under the DGCL, if the Southern Union board deems it advisable that the corporation should be dissolved and a majority of the outstanding stock of the corporation entitled to vote thereon votes in favor of the proposed dissolution, the corporation shall be dissolved upon the filing of a certificate of dissolution with the Secretary of State of the State of Delaware. The corporation shall continue after dissolution for the purposes of defending suits and settling its affairs for a three-year period. The DGCL sets forth certain payment and distribution procedures a dissolving corporation must follow in connection with winding down notification requirements, and, under certain circumstances, obtaining the approval of the Delaware Court of Chancery. Directors of a dissolved corporation that comply with the DGCL's payment and distribution procedures shall not be personally liable to the claimants of the dissolved corporation.	Under MGL 156B, the disso Gas may be authorized by each class of its stock o vote. Within thirty days of the of dissolution, notice of by the corporation to the Then articles of dissolut the State Secretary. The effective either at the t articles of dissolution o articles. The corporation three-year period after d of prosecuting and defend affairs, disposing of its distributions to its stoc remaining after payment o obligations. For purpose against the corporation p year period, the existenc continue beyond the three additional ninety days af the suit. The MGL provid distribution of assets up

judicial or superior cour of receivers.

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MORTGAGE AND CERTAIN OTHER FINANCINGS

Under the DGCL, Southern Union may enter into a mortgage of, or issue a bond in which a lien may be placed on, all or substantially all of the assets of the company without submitting this action for shareholder approval.

A GAS COMPANY OR OTHER CO
MGL, CHAPTER 164, MAY ENT
OR ISSUE A BOND IN WHICH
SUBSTANTIALLY ALL OF THE
ESSENTIALLY ONLY WITH THE
MAJORITY OF ITS SHAREHOLD

Fall River Gas obtained o
shareholder authorization
Directors to take such ac
shareholder approval.

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PRINCIPAL STOCKHOLDERS

BENEFICIAL OWNERS OF MORE THAN 5% OF SOUTHERN UNION'S OUTSTANDING COMMON STOCK

The following table shows, as of June 30, 2000, any person who is known by Southern Union to be the beneficial owner individually or collectively of more than five percent of the outstanding Southern Union common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND BENEFICIAL NUMBER OF BENEFICIAL
George L. and Frayada B. Lindemann 767 Fifth Avenue, 50th Floor New York, New York 10153	5,320,998
Adam M. Lindemann 767 Fifth Avenue, 50th Floor New York, New York 10153	2,893,420
George Lindemann, Jr. 11950 Maidstone Drive Wellington, Florida 33414	2,897,599
Sloan N. Lindemann 767 Fifth Avenue, 50th Floor New York, New York 10153	2,896,544
Bass Reporting Persons 201 Main Street	3,145,661

201 Main Street Fort Worth, Texas 76102	
Baron Capital Group, 767 Fifth Avenue, 49th Floor New York, New York 10153	4,897,244

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(1) Includes options to acquire shares of Southern Union common stock that are exercisable within 60 days of June 30, 2000.

(2) Includes: 2,180,560 shares owned by SUG 1 L.P. in which Mr. Lindemann is the sole general partner; 2,578,242 shares owned by SUG 2 L.P. in which Mr. Lindemann's wife, Dr. F.B. Lindemann, is the sole general partner; 14,441 vested shares held through the Southern Union Supplemental Deferred Compensation Plan (the "Supplemental Plan") for Mr. Lindemann; 9,653 vested shares held by the 401(k) Southern Union Savings Plan (the "401(k) Plan") for Mr. Lindemann; and 538,102 shares of Southern Union common stock Mr. Lindemann is entitled to purchase upon the exercise of stock options exerciseable presently or within 60 days of June 30, 2000 pursuant to the Southern Union 1992 Long-Term Incentive Plan (the "1992 Plan"). Substantially all shares beneficially held by Mr. and Dr. Lindemann and their three children (Adam M., George, Jr., and Sloan N.) (together, the "Lindemann Family") have been pledged to Activated Communications Limited Partnership ("Activated"). Activated, which is owned and managed by or for the benefit of the Lindemann Family, provided the funds used to purchase certain of such shares. Mr. Lindemann is the Chairman of the Board and President, and, Dr. Lindemann and Adam Lindemann are each a director of the sole general partner of Activated.

(3) This information regarding direct share ownership by members of the Lindemann Family generally was obtained from and is reported herein in reliance upon a Schedule 13D (as amended through April 19, 2000) as adjusted for any stock dividends and splits since the date of such report filed by George L. Lindemann, Adam M. Lindemann, Sloan N. Lindemann, SUG 1 L.P., SUG 2 L.P., and SUG 3 L.P. In addition, information regarding share ownership by George L. Lindemann (including shares beneficially owned by his wife, Dr. F.B. Lindemann) and Adam M. Lindemann reflects information derived from their respective reports on Form 4 and Form 5 under the Exchange Act filed to date. Each member of the Lindemann Family disclaims beneficial ownership of any shares owned by any other member of the Lindemann Family. Accordingly, with respect to each member of the Lindemann Family, the above table reflects only individual share ownership except that the shares beneficially held by Dr. F. B. Lindemann are reflected as owned by George L. Lindemann, as explained in Note (2).

(4) Includes 4,431 vested shares pursuant to the Southern Union Directors' Deferred Compensation Plan (the "Directors' Plan").

(5) These shares are owned by SUG 3 L.P. in which George Lindemann Jr. is the sole general partner.

(6) The information set forth in the table above with respect to the Bass reporting persons and the information in this note were obtained from and are reported herein in reliance upon a Schedule 13G filed by: Sid R. Bass Management Trust, 820 Management Trust, Bass Enterprises Production Company, the Bass Foundation, and the Lee and Ramona Bass Foundation (collectively, the "Bass Reporting Persons"), on November 3, 1999 (as adjusted for any stock dividends since the date of such report). Because of their relationships with certain of these persons, Sid R. Bass, Perry M. Bass and Lee M. Bass may be considered controlling persons with respect to certain of the Bass Reporting Persons, all as described in said Schedule 13G.

(7) This information regarding share ownership by Baron Capital Group, ("BCG") was obtained from and is reported herein in reliance upon a Schedule 13G, as amended through December 31, 1999 (as adjusted for any stock dividends since the date of such report) (the "Baron Filing") filed by BCG, BAMCO, ("BAMCO"), Baron Capital Management, ("BCM"), Baron Asset Fund ("BAF") and Ronald Baron (collectively, the "Baron Filing Group"). Pursuant to the

Ronald Baron (collectively, the "Baron Filing Group"). Pursuant to the Baron Filing, the members of the Baron Filing Group own beneficially and have shared power to vote or direct the vote of and to dispose or direct the disposition of the following number of shares of Southern Union common stock: BCG--4,765,994 shares; BAMCO--3,832,500 shares; BCM--933,494

shares; BAF--2,572,500 shares; and Mr. Baron--4,765,994 shares. The members of the Baron Filing Group disclaim beneficial ownership in each other's shares.

SOUTHERN UNION MANAGEMENT OWNERSHIP

The following table shows the number of shares of Southern Union common stock, beneficially owned, directly or indirectly, as of June 30, 2000, by individual directors and named executive officers, and all directors and named executive officers as a group, who held such positions as of the Southern Union record date. Unless otherwise specified, shares are beneficially owned directly by the director or officer.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP NUMBER OF SHARES BENEFICIALLY OWNED (1)

George L. Lindemann	5,320,998	(2)(3)
Adam M. Lindemann	2,893,420	(3)(4)
John E. Brennan	692,375	(5)
Frank W. Denius	67,480	(6)
Aaron I. Fleischman	564,302	(7)
Kurt A. Gitter, M.D	194,229	(8)
Thomas F. Karam	660,759	(9)
Peter H. Kelley	554,825	(10)
Roger J. Pearson	42,446	(11)
George Rountree, III	63,502	(12)
Ronald W. Simms	630,346	(13)
Dan K. Wassong	59,471	(14)
Steve W. Cattron	12,758	(15)
Ronald J. Endres	379,070	(16)
David J. Kvapil	59,001	(17)
Dennis K. Morgan	80,805	(18)
David W. Stevens	89,791	(19)
All directors and officers as a group (17 persons)	12,971,583	(20)

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* Less than one percent.

(1) Includes options to acquire shares of Southern Union common stock that are exercisable presently or within 60 days of June 30, 2000.

(2) For a description of the shares of Southern Union common stock beneficially owned by Mr. George L. Lindemann and included in the above table, see note (2) to the table set forth in "--Beneficial Owners of More Than 5% of Southern Union's Outstanding Securities."

(3) For information regarding beneficial share ownership by members of the Lindemann Family, see note (3) to the table set forth in "--Beneficial Owners of More Than 5% of Southern Union's Outstanding Securities."

(4) For a description of the shares of Southern Union common stock beneficially owned by Mr. Adam M. Lindemann and included in the above table, see note (4) to the table set forth in "--Beneficial Owners of More Than 5% of Southern Union's Outstanding Securities."

(5) Of these shares, 5,079 vested shares are held by the 401(k) Plan; 6,284 vested shares are held through the Supplemental Plan; 4,993 shares are owned by his wife; 211,806 are held in two separate trusts for the benefit of members of his family; 56,010 are held in an irrevocable trust under the Southern Union Executive Deferred Stock Plan (the "Stock Plan"); and 247,506 represent shares that Mr. Brennan is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000 pursuant to the 1992 Plan.

(6) Includes: 955 shares owned by his wife; 44,017 shares that The Effie and Wofford Cain Foundation (the "Foundation"), in which Mr. Denius is a director, owns; and 8,360 vested shares pursuant to the Directors' Plan. Mr. Denius disclaims beneficial ownership of those shares held by the Foundation since he does not have a pecuniary interest in or control of the Foundation's assets.

(7) Includes: 105,531 shares that Fleischman and Walsh, L.L.P., in which Mr. Fleischman is Senior Partner, is entitled to purchase upon exercise of a Warrant exercisable presently or within 60 days of June 30, 2000; 13,737 vested shares pursuant to the Directors' Plan; 112,215 shares owned by the Fleischman and Walsh 401(k) Profit Sharing Plan for which Mr. Fleischman is a trustee and a beneficiary; and 22,204 shares owned by the Aaron I. Fleischman Foundation for which Mr. Fleischman is the sole trustee. Mr. Fleischman disclaims beneficial ownership of those shares held by the Fleischman and Walsh 401(k) Profit Sharing Plan, to the extent that he does not have a pecuniary interest, and those shares held by the Aaron I. Fleischman Foundation.

(8) Includes 6,829 vested shares pursuant to the Directors' Plan.

(9) Includes: 89,983 shares held by various entities through which Mr. Karam has voting power; 21,703 shares held in the name of Lakeside Drive

Association, in which Mr. Karam's wife has an interest; 2,619 vested shares held by the Southern Union Pennsylvania Division Employees' Savings Plan for Mr. Karam; 1,160 vested shares held through the Supplemental Plan; and 474,784 shares of Southern Union common stock Mr. Karam is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000.

(10) Includes 309,913 shares that Mr. Kelley is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000 pursuant to the 1992 Plan. Such number also includes: 35,306 shares held in the Stock Plan; 22,818 vested shares held by the 401(k) Plan; 3,708 shares held through the Southern Union Company Direct Stock Purchase Plan; and 38,332 vested shares held through the Supplemental Plan.

(11) Includes 3,082 shares held by Mr. Pearson as Custodian (pursuant to the Uniform Gifts to Minors Act) for his children; and 4,998 vested shares pursuant to the Directors' Plan.

(12) Includes 1,444 shares owned by his wife and 16,032 vested shares allocated to Mr. Rountree pursuant to the Directors' Plan. Also includes 3,150 shares owned by the Rountree & Seagle Profit Sharing Plan & Trust for which Mr. Rountree is a co-trustee and co-administrator. Mr. Rountree disclaims beneficial ownership of shares held by such plan to the extent that he has no pecuniary interest.

(13) Includes: 149,364 shares owned by Mr. Simms's wife; 178,796 shares for which Mr. Simms has voting power; and 59,348 shares of Southern Union common stock Mr. Simms is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000.

(14) Includes 6,362 vested shares pursuant to the Directors' Plan.

(15) Includes 2,187 vested shares held through the Supplemental Plan, 153 vested shares held by the 401(k) Plan and 10,418 shares Mr. Cattron is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000 pursuant to the 1992 Plan.

(16) Includes 253,526 shares Mr. Endres is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000 pursuant to the 1992 Plan. Such number also includes: 12,776 vested shares held through the 401(k) Plan; 23,228 vested shares held through the Supplemental Plan; and 315 shares owned by Mr. Endres's children.

(17) Includes 34,779 shares that Mr. Kvapil is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000 pursuant to thel992 Plan. Such number also includes 11,571 vested shares held through the Supplemental Plan; 4,248 vested shares held by the 401(k) Plan; and 3,804 shares held through the Southern Union Company Direct Stock Purchase Plan.

(18) Includes 60,182 shares Mr. Morgan is entitled to purchase upon the exercise of stock options presently or within 60 days of June 30, 2000 pursuant to the 1992 Plan. Such number also includes 4,664 vested shares held through the 401(k) Plan and 12,678 vested shares held through the Supplemental Plan.

(19) Includes 58,430 shares that Mr. Stevens is entitled to purchase upon the exercise of stock options exercisable presently or within 60 days of June 30, 2000 pursuant to the 1992 Plan. Such number also includes: 12,722 vested shares held by the 401(k) Plan; 1,825 vested shares held through the Southern Union Company Direct Stock Purchase Plan and 14,061 vested shares held through the Supplemental Plan.

(20) Excludes options granted pursuant to the 1992 Plan to acquire shares of Southern Union common stock that are not presently exercisable or do not become exercisable within 60 days of June 30, 2000. Includes vested shares held through certain Southern Union benefit and deferred savings plans for

which certain executive officers and directors may be deemed beneficial owners, but excludes shares which have not vested under the terms of such plans. Also, includes 606,005 shares held by a "Rabbi Trust" known as the Trust for Miscellaneous Southern Union Company Deferred Compensation Arrangements ("Rabbi Trust"). The shares are held as a part of Southern Union's efforts to provide funding for a portion of the future liability under the Southern Union Supplemental Executive Retirement Plan ("SERP"). Any assets held for the benefit of the SERP are held in the Rabbi Trust. Southern Union management directly or indirectly controls the investment of any assets, and the voting of any securities, held for the SERP.

BENEFICIAL OWNERS OF MORE THAN 5% OF FALL RIVER GAS' COMMON STOCK

At the close of business on May 31, 2000, directors and officers of Fall River Gas beneficially owned and were entitled to vote approximately 297,216 shares of Fall River Gas common stock, which represented approximately 13.3% of the shares of Fall River Gas common stock outstanding on that date. Each of them has indicated his or her present intention to vote, or cause to be voted, the Fall River Gas common stock owned by him or her for the proposal to approve and adopt the merger agreement. Ronald J. Ferris and Barabara N. Jarabek, as trustee to The Jarabek Family Limited Partnership, entered into a voting agreement with Southern Union along with certain other stockholders of Fall River Gas, each of whom own less than 5% of the common stock of Fall River Gas. Under the terms of the voting agreement, they have agreed to vote or cause to be voted the Fall River Gas common stock owned by them for the approval and adoption of the merger agreement and they have granted Southern Union an irrevocable proxy to vote the shares of Fall River Gas common stock owned by them (see "The Fall River Gas Merger Agreement--Covenants and Other Agreements-Fall River Gas Voting Agreement"). No person or group owns of record or is known by Fall River Gas to own beneficially more than 5% of Fall River Gas's outstanding common stock, other than as set forth in the following table.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED AS OF MAY 31, 2000	PERCENT OF CLASS
Ronald J. Ferris 75 GAR Highway Swansea, Massachusetts	145,059 Shares (1)	6.6%
Barbara N. Jarabek 103 South Washington Drive Sarasota, Florida	295,710 Shares (2)	13.2%

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(1) Includes 5,852 shares owned jointly with Dale Ferris; 4,000 shares owned jointly with children of Mr. Ferris; 36,990 shares owned by Lee's River Realty, Inc., 3,926 shares held in trusts for the children of Mr. Ferris; and 53,594 shares owned by the Swansea Lounge, Inc. Pension Trust for which Mr. Ferris is a co-trustee. Mr. Ferris has shared voting and investment power with respect to all shares beneficially owned by him except for 40,697 shares owned directly and of record by him, with respect to which he has sole voting and investment power. Mr. Ferris disclaims beneficial ownership with respect to the 3,926 shares held in trust for his children and the 53,594 shares owned by the Swansea Lounge, Inc. Pension Trust.

(2) Consists of shares held in two trusts for which Barbara N. Jarabek is

(2) Consists of shares held in two trusts for which Barbara N. Jarabek is trustee, and with respect to which Mrs. Jarabek possesses sole power to vote and sole investment power.

FALL RIVER GAS MANAGEMENT OWNERSHIP

The following table shows the number of shares of Fall River Gas common stock, beneficially owned, directly or indirectly, as of May 31, 2000, by individual directors and officers, and all directors and officers as a group, who held such positions as of May 31, 2000. Unless otherwise specified, shares are beneficially owned directly by the director or officer. Bradford J. Faxon, Raymond H. Faxon, Ronald J. Ferris, Cindy L.J. Audette, Thomas H. Bilodeau and Gilbert C. Oliveira, Jr., each has entered a voting agreement with Southern Union. Under the terms of the voting agreement, each has agreed to vote or cause to be voted the Fall River Gas common stock owned by him or her for the approval and adoption of the merger agreement and each has granted Southern Union an irrevocable proxy to vote the shares of Fall River Gas common stock owned by them (see "The Merger Agreement - Covenants and Other Agreements -- Fall River Gas Voting Agreement").

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE O BENEFICIAL OWNERSHI NUMBER OF SHARES BENEFICIALLY OWNED
Bradford J. Faxon	40,306(1)
Raymond H. Faxon	57,370(2)
Ronald J. Ferris	145,059(3)
Cindy L.J. Audette	13,190(4)
Jack R. McCormick	4,901
Donald R. Patnode	1,750
Thomas K. Barry	2,200
Thomas H. Bilodeau.	9,006(5)
Gilbert C. Oliveira, Jr.	12,530(6)
Peter H. Thanas	6,125(7)
Robert J. Pollock	5,140
All directors and officers as a group (13 persons)	297,216

* Less than one percent.

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(1) Includes 4,952 shares held as custodian for Bradford J. Faxon's children.

(2) Comprised of 57,370 shares held in trust, for which Raymond H. Faxon is a trustee.

(3) Includes 5,852 shares owned jointly with Dale Ferris, 4,000 shares owned jointly with children of Mr. Ferris, 36,990 shares owned by Lee's River Realty, Inc., 3,926 shares held in trusts for the children of Mr. Ferris, and 53,594 shares owned by the Swansea Lounge, Inc. Pension Trust for which Mr. Ferris is a co-trustee. Mr. Ferris has shared voting and investment power with respect to all shares beneficially owned by him except for 40,697 shares owned directly and of record by him, with respect to which he has sole voting and investment power. Mr. Ferris disclaims beneficial ownership with respect to the 3,926 shares held in trust for his children and the 53,594 shares owned by the Swansea Lounge, Inc. Pension Trust.

(4) Includes 660 shares held jointly with spouse (with shared voting and investment power).

(5) Includes 7,746 shares held in trust for Thomas H. Bilodeau's children.

(6) Comprised of 9,529 shares held by Mr. Oliveira's spouse as custodian for a minor child of Mr. Oliveira.

(7) Includes 2,528 shares held jointly with spouse (with shared voting and investment power), 671 shares held as custodian for Mr. Thanas's minor son and 671 shares held as custodian for Mr. Thanas' minor daughter (with sole voting and investment power).

PROPOSALS OF STOCKHOLDERS

We expect the merger to be completed before Fall River Gas would have its next annual meeting of stockholders in 2001. If the merger is not completed by then, and if a stockholder intends to present a proposal at the Fall River Gas' 2000 annual meeting of stockholders and wants that proposal to be included in the Fall River Gas' proxy statement and form of proxy for that meeting, the proposal must be received by the Office of the Clerk, Fall River Gas, 155 North Main Street, P.O. Box 911, Fall River, Massachusetts 02722-0911 by August 18, 2000. The proxies named in management's proxy for that meeting will be entitled to exercise their discretionary authority on any proposal, which a stockholder intends to present to stockholders, that was not included in the Fall River Gas' proxy statement for the 2001 annual meeting, unless Fall River Gas receives notice of the matter to be proposed before November 1, 2000. Even if proper notice is received on or prior to November 1, 2000, the proxies named in management's proxy for that meeting may nevertheless exercise their discretionary authority with respect to such matter by advising stockholders of such proposals and how they intend to exercise their discretion to vote on such matter, unless the stockholder making the proposal solicits proxies with respect to the proposal as detailed in Rule 14a-4(c)(2) of the Securities Exchange Act of 1934.

OTHER MATTERS

Except for the matters set forth above, the board of directors knows of no other matters which may be presented to the special meeting of stockholders, but if any other matters properly come before such meeting, it is the intention of the persons named in the accompanying form of proxy to vote such proxies in accordance with their judgment.

LEGAL MATTERS

The validity of the Southern Union common stock issued pursuant to this prospectus will be passed upon for Southern Union by Fleischman and Walsh L.L.P. Certain tax matters in connection with the merger will be passed upon for Southern Union by Hughes Hubbard & Reed, LLP and for Fall River Gas by Rich, May, Bilodeau & Flaherty, P.C.

EXPERTS

The consolidated financial statements of Southern Union for the years ended June 30, 1999, 1998 and 1997, included in its Annual Report on Form 10-K for the year ended June 30, 1999, and incorporated in this proxy statement/prospectus by reference, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of PEI for the years ended December 31, 1998 and 1997 included in PEI's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated in this proxy statement/prospectus by reference, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements and schedules of PEI for the year ended December 31, 1996 included in PEI's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated in this proxy statement/prospectus by reference, were audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are incorporated by reference herein in reliance upon the authority of said firm as experts in giving said report.

The consolidated financial statements and schedules of Fall River Gas incorporated by reference in this proxy statement/prospectus have been audited by Arthur Andersen LLP, independent accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The consolidated financial statements and schedules of ProvEnergy incorporated by reference in this proxy statement/prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein by reference to a Southern Union Current Report on Form 8-K in reliance upon the authority of said firm as experts in giving said report.

The consolidated financial statements of Valley Resources for the years ended August 31, 1999, 1998 and 1997 included in Southern Union's Form 8-K filed on June 5, 2000, have been incorporated in this proxy statement/prospectus by reference to Southern Union's Current Report on Form 8-K in reliance on the report of Grant Thornton LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

OTHER BUSINESS

The Fall River Gas board does not intend to bring any other business before the Fall River Gas special meeting, and, so far as is known to the Fall River Gas board, no other business is to be brought before the meeting. It is intended that proxies, in the form enclosed, will be voted in regards to any

business that may properly come before the meeting in accordance with the judgment of the persons voting such proxies.

All holders of common stock of Fall River Gas may obtain, without charge, a copy of Fall River Gas' Annual Report on Form 10-K for the fiscal year ended September 30, 1999, including the financial statements and schedules thereto, required to be filed with the Securities and Exchange Commission. The report will be furnished upon request made in writing to:

Bradford J. Faxon, President
Fall River Gas
155 North Main Street
Post Office Box 911
Fall River, Massachusetts 02722-0911

PLEASE DATE, SIGN AND RETURN THE ENCLOSED PROXY.

By Order of the Board of Directors,

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Robert J. Pollock, Clerk

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APPENDIX A

AGREEMENT OF MERGER

BETWEEN

SOUTHERN UNION COMPANY

AND

FALL RIVER GAS COMPANY

DATED AS OF OCTOBER 4, 1999

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AGREEMENT OF MERGER

This AGREEMENT OF MERGER (this "Agreement") is made as of the 4th day of October, 1999, by and between SOUTHERN UNION COMPANY, a Delaware corporation ("SUG"), and FALL RIVER GAS COMPANY, a Massachusetts corporation ("FAL").

RECITALS

WHEREAS, the Board of Directors of each of SUG and FAL has approved and deems it advisable and in the best interests of their respective stockholders to consummate the merger of FAL with and into SUG upon the terms and subject to the conditions set forth herein; and

WHEREAS, in furtherance thereof, the Board of Directors of each of SUG and FAL has approved this Agreement and the merger of FAL with and into SUG, with SUG being the surviving corporation (the "Merger");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, SUG and FAL hereby agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1 CERTAIN DEFINED TERMS. For purposes of this Agreement,

[illegible] the following terms have the meanings specified or referred to in this Article I (such definitions to be equally applicable to both the singular and plural forms of the terms defined):

"ACQUIRED COMPANIES"--FAL and its Subsidiaries, collectively, and each, an "Acquired Company."

"AFFILIATE"--with respect to any Person, any other Person that directly, or through one or more intermediaries, controls or is controlled by or is under common control with such first Person. As used in this definition, "control" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"APPLICABLE CONTRACT"--any Contract (a) under which any Acquired Company has any rights, (b) under which any Acquired Company has any obligation or liability, or (c) by which any Acquired Company or any of the assets owned or used by it is bound.

"AVERAGE TRADING PRICE"--of SUG Common Stock, as of any date, will equal the average of the reported closing market prices of such stock for the ten consecutive trading days ending on the third trading day prior to such date (counting from and including the trading day immediately preceding such date). The closing market price for each day in question will be the last sale price, regular way or, if no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system of the principal national securities exchange on which SUG Common Stock is listed or admitted to trading.

"CERCLA"--the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"CLOSING DATE"--the date on which the Closing actually takes place.

"CONTRACT"--any agreement, contract, document, instrument, obligation, promise or undertaking (whether written or oral) that is legally binding.

"DGCL"--the Delaware General Corporation Law.

"ENCUMBRANCE"--any charge, adverse claim, lien, mortgage, pledge, security interest or other encumbrance.

"ENVIRONMENT"--soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

"ENVIRONMENTAL LAW"--any Legal Requirement that requires or relates to:

(a) advising appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;

(b) preventing or reducing to acceptable levels the release of

(b) preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the Environment;

(c) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated;

(d) reducing to acceptable levels the risks inherent in the transportation of hazardous substances, pollutants, oil, or other potentially harmful; or

(e) making responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or permitting self-appointed representatives of the public interest to recover for injuries done to public assets or for damages to natural resources.

"ERISA"--the Employee Retirement Income Security Act of 1974, as amended, or any successor law, and regulations and rules issued pursuant to that act or any successor law.

"EXCHANGE ACT"--the Securities Exchange Act of 1934, as amended, or any successor law, and regulations and rules issued by the SEC pursuant to that act or any successor law.

"FACILITIES"--any real property, leaseholds, or other interests currently or formerly owned or operated by any Acquired Company and any buildings, plants, structures, or equipment (including motor vehicles, tank cars, and rolling stock) currently or formerly owned or operated by any Acquired Company.

"FAL BALANCE SHEET"--the audited consolidated balance sheet of the Acquired Companies at September 30, 1998 (including the notes thereto), provided by FAL to SUG as part of the FAL Financial Statements.

"FAL COMMON STOCK"--the common stock, par value $.831/3 per share, of FAL.

"FAL DISCLOSURE SCHEDULE"--the disclosure schedule delivered by FAL to SUG concurrently with the execution and delivery of this Agreement.

"FAL MATERIAL ADVERSE EFFECT"--a material adverse effect (i) on the business, operations, financial condition or results of operations of FAL and its Subsidiaries, taken as a whole, or (ii) on the ability of FAL and its Subsidiaries to consummate the Merger in accordance with this Agreement.

"FAL PERMITTED LIENS"--Encumbrances securing Taxes, assessments, governmental charges or levies, or the claims of materialmen, mechanics, carriers and like persons, all of which are not yet due and payable or which are being contested in good faith; Encumbrances (other than any Encumbrance imposed by ERISA) incurred on deposits made in the Ordinary Course of Business in connection with worker's compensation, unemployment insurance or other types of social security; the Encumbrances created by the Indenture of First Mortgage, dated as of December 1, 1952, between FAL and State Street Bank and Trust Company, successor in interest to the First National Bank of Boston, successor by merger to Old Colony Trust Company, as Trustee, as amended or supplemented from time to time; in the case of leased real property, Encumbrances (not attributable to an Acquired Company as lessee) affecting the landlord's (and any underlying landlord's) interest in any leased real property; and such other Encumbrances which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

"FINAL ORDER"--an action by a Governmental Body as to which: (a) no request for stay of the action is pending, no such stay is in effect and if any time period is permitted by statute or regulation for filing any request for such stay, such time period has passed; (b) no petition for rehearing, reconsideration or application for review of the action is pending and the time for filing any such petition or application has passed; (c) such Governmental Body does not have the action under reconsideration on its own motion and the time in which such reconsideration is permitted has passed; and (d) no appeal to a court, or a request for stay by a court of the Governmental Body's action is pending or in effect and the deadline for filing any such appeal or request has passed.

"GAAP"--generally accepted United States accounting principles, applied on a consistent basis.

"GOVERNMENTAL AUTHORIZATION"--any approval, consent, license, franchise, certificate of public convenience and necessity, permit, waiver or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"GOVERNMENTAL BODY"--any:

(a) nation, state, county, city, town, village, district or other jurisdiction of any nature;

(b) federal, state, county, local, municipal or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official or entity and any court or other tribunal); or

(d) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.

"HAZARDOUS ACTIVITY"--the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, treatment, or use (including any withdrawal or other use of groundwater) of Hazardous Materials in, on, under, about, or from the Facilities or any part thereof into the Environment, any other act, business, operation, or thing that increases the danger, or risk of danger, or poses an unreasonable risk of harm to persons or property on or off the Facilities, or that may affect the value of the Facilities or the Acquired Companies.

"HAZARDOUS MATERIALS"--any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials.

"HSR ACT"--the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or any successor law, and regulations and rules issued by the U.S. Department of Justice or the Federal Trade Commission pursuant to that act or any successor law.

"IRC"--the Internal Revenue Code of 1986, as amended.

"IRS"--the Internal Revenue Service or any successor agency.

"KNOWLEDGE"--an individual will be deemed to have "Knowledge" of a particular fact or other matter if such individual is actually aware of such fact or other matter. A Person (other than an individual) will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving as a director or officer of such Person or any material Subsidiary of it or other management employee with direct responsibility for such particular fact or other matter of such Person or any material Subsidiary of it (or in any similar capacity) has actual knowledge of such fact or other matter.

"LEGAL REQUIREMENT"--any federal, state, county, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, ordinance, principle of common law, regulation, rule, tariff, franchise agreement, statute or treaty.

"MATERIAL CONTRACT"--a Contract involving a total commitment by or to any party thereto of at least $65,000 on an annual basis or at least $250,000 on its remaining term which cannot be terminated on no more than sixty (60) days' notice without penalty or additional cost to the Acquired Company as the terminating party.

"MBCL"--the Massachusetts Business Corporation Law.

"ORDER"--any award, decision, decree, injunction, judgment, order, writ, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

"ORDINARY COURSE OF BUSINESS"--an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if:

(a) such action and authorization therefor is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

(b) such action is not required by law to be authorized by the board of directors (or similar authority) of such Person or of such Person's parent company (if any).

"ORGANIZATIONAL DOCUMENTS"--(a) the articles or certificate of incorporation or organization and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) the certificate of formation and the members, operating or similar agreement of a limited liability company; (e) any charter or similar document adopted or filed in connection with the creation, formation or organization of a Person; and (f) any amendment to any of the foregoing.

"PERSON"--any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, organized group of persons, entity of any other type, or Governmental Body.

"PROCEEDING"--any action, arbitration, hearing, litigation or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"PUHCA"--the Public Utility Holding Company Act of 1935, as amended, or

any successor law, and regulations and rules issued by the SEC pursuant to that act or any successor law.

"RELATED DOCUMENTS"--any Contract provided for in this Agreement to be entered into by one or more of the parties hereto or their respective Subsidiaries in connection with the Merger.

"RELEASE"--any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping, or other releasing into the Environment, whether intentional or unintentional.

"REPRESENTATIVE"--with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

"SEC"--the United States Securities and Exchange Commission or any successor agency.

"SECURITIES ACT"--the Securities Act of 1933, as amended, or any successor law, and regulations and rules issued by the SEC pursuant to that act or any successor law.

"SUBSIDIARY"--with respect to any Person (the "Owner"), any Person of which securities or other interests having the power to elect a majority of that other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries; when used without reference to a particular Person, "Subsidiary" means a Subsidiary of FAL.

"SUG BALANCE SHEET"--the audited consolidated balance sheet of SUG at June 30, 1999 (including the notes thereto), provided by SUG to FAL as part of the SUG Financial Statements.

"SUG COMMON STOCK"--the common stock, par value $1.00 per share, of SUG.

"SUG DISCLOSURE SCHEDULE"--the disclosure schedule delivered by SUG to FAL concurrently with the execution and delivery of this Agreement.

"SUG MATERIAL ADVERSE EFFECT"--a material adverse effect (i) on the business, operations, financial condition or results of operations of SUG and its Subsidiaries, taken as a whole, or (ii) on the ability of SUG to consummate the Merger in accordance with this Agreement.

"TAX"--any tax (including any income tax, capital gains tax, value-added tax, sales and use tax, franchise tax, payroll tax, withholding tax or property tax), levy, assessment, tariff, duty (including any customs duty), deficiency, franchise fee or payment, payroll tax, utility tax, gross receipts tax or other fee or payment, and any related charge or amount (including any fine, penalty, interest or addition to tax), imposed, assessed or collected by or under the authority of any Governmental Body or payable pursuant to any tax-sharing agreement or any other Contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency or fee.

"TAX RETURN"--any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment

Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

"THREATENED"--a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" if any demand or statement has been made (orally or in writing) or any notice has been given (orally or in writing), or if any other event has occurred or any other circumstance exists, that would lead a director, officer or management employee of a comparable gas distribution company to conclude that such a claim, Proceeding, dispute, action, or other matter is likely to be asserted, commenced, taken or otherwise pursued in the future.

SECTION 1.2 OTHER DEFINED TERMS. In addition to the terms defined in Section 1.1, certain other terms are defined elsewhere in this Agreement as indicated below and, whenever such terms are used in this Agreement, they shall have their respective defined meanings.

TERM	SECTION
Agreement	Introductory Paragraph
Business Combination	6.1(h)(4)
Cash Consideration	3.1(a)
Cash Election	3.1(b)
Cash Election Number	3.1(b)
Cash Election Shares	3.1(c)
Cash Fraction	3.1(c)
Certificates	3.2(c)
Closing	2.3
Confidentiality Agreement	6.1(c)(1)
Dissenting Shares	3.3
Effective Time	2.2
Election Deadline	3.2(b)
Employees	6.2(b)
Exchange Ratio	3.1(a)
FAL	Introductory Paragraph
FAL Benefit Plans	5.18(a)
FAL Controlled Entities	5.18(a)

FAL Commonly Controlled Entity	5.18(e)
FAL Financial Statements	5.9
FAL Meeting	6.1(j)(1)
FAL Proxy Statement	4.18
FAL SEC Documents	5.9
FAL Stockholders' Approval	5.24
Form of Election	3.2(b)
Indemnified Parties	9.1(a)
Initial Termination Date	8.1(k)
Maximum Value	3.1(a)

Merger	Recitals
Merger Consideration	3.1(a)
Minimum Value	3.1(a)
NYSE	3.1(e)
Paying Agent	3.2(a)
PBGC	4.14(b)
PEI	4.2
PEI Merger Agreement	4.2
Registration Statement	4.18
Rule 145 Affiliates	6.1(k)
Rule 145 Letters	6.1(k)
Stock Consideration	3.1(a)
SUG	Introductory Paragraph
SUG Benefit Plans	4.14(a)
SUG Commonly Controlled Entity	4.14(d)
SUG Financial Statements	4.9
SUG SEC Documents	4.9
Superior Proposal	6.1(h)(4)
Surviving Corporation	2.1
Third Party Beneficiary	10.11

Total Consideration 3.1(e)

ARTICLE II
THE MERGER; OTHER TRANSACTIONS

SECTION 2.1 THE MERGER. Upon the terms and subject to the conditions of this Agreement, at the Effective Time, FAL will be merged with and into SUG in accordance with the laws of the State of Delaware and the Commonwealth of Massachusetts. SUG will be the surviving corporation in the Merger (the "Surviving Corporation") and will continue its corporate existence under the laws of the State of Delaware. The Merger will have the effect as provided in the applicable provisions of the DGCL and the MBCL. Without limiting the generality of the foregoing, upon the Merger, all the rights, privileges, immunities, powers and franchises of FAL and SUG will vest in the Surviving Corporation and all

obligations, duties, debts and liabilities of FAL and SUG will be the obligations, duties, debts and liabilities of the Surviving Corporation.

SECTION 2.2 EFFECTIVE TIME OF THE MERGER. On the Closing Date, with respect to the Merger, (i) a duly executed certificate of merger complying with the requirements of the DGCL will be executed and filed with the Secretary of State of the State of Delaware and (ii) duly executed articles of merger complying with the requirements of the MBCL will be filed with the Secretary of State of the Commonwealth of Massachusetts. The Merger will become effective upon filing the certificate of merger with the Secretary of State of the State of Delaware and the articles of merger with the Secretary of State of the Commonwealth of Massachusetts (the "Effective Time").

SECTION 2.3 CLOSING. Unless this Agreement has been terminated and the transactions contemplated herein have been abandoned pursuant to Article VIII hereof, the closing of the transactions contemplated by this Agreement (the "Closing") will take place at 10:00 a.m., Eastern Time, on the Closing Date to be specified by the parties, which shall be no later than the tenth business day after satisfaction or waiver of all of the conditions set forth in Article VII hereof (other than Sections 7.1(a), 7.1(b), 7.1(c), 7.1(f), 7.1(g), 7.1(h), 7.1(k), 7.1(l), 7.2(a), 7.2(b), 7.2(c), 7.2(e), 7.2(f) and 7.2(h), which shall be satisfied or waived on the Closing Date) at the offices of Hughes Hubbard & Reed LLP, New York, counsel to SUG, unless another date or place is agreed to in writing by the parties hereto.

SECTION 2.4 CERTIFICATE OF INCORPORATION; BYLAWS. Pursuant to the Merger, the Restated Certificate of Incorporation of SUG, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by law and (ii) the bylaws of SUG as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation until thereafter amended as provided by law.

SECTION 2.5 DIRECTORS AND OFFICERS. The directors and officers of SUG immediately prior to the Effective Time will be the directors and officers of the Surviving Corporation, each to hold office in accordance with the Certificate of Incorporation and bylaws of the Surviving Corporation.

ARTICLE III
CONVERSION OF SHARES

SECTION 3.1 EFFECT OF THE MERGER. As of the Effective Time, by

virtue of the Merger and without any action on the part of the holders of any shares of FAL Common Stock:

(a) Each issued and outstanding share of FAL Common Stock (other than Dissenting Shares) will be converted into the right of each holder thereof to receive (i) that number of fully paid and nonassessable shares of SUG Common Stock (the "Stock Consideration") equal to $23.50 divided by the Exchange Ratio rounded to the nearest hundred-thousandth or (ii) upon a valid Cash Election as provided in Section 3.1(b), $23.50 in cash (the "Cash Consideration"), subject to the limitations set forth in Section 3.1(b), 3.1(c), and 3.1(e). In the case of the consideration to be received by the holders of FAL Common Stock in the aggregate, "Merger Consideration" shall mean the Cash Consideration together with the Stock Consideration. In the case of the consideration to be received by an individual holder of FAL Common Stock, "Merger Consideration" shall mean the Cash Consideration and/or the Stock Consideration to be received by such holder, as the case may be.

"Exchange Ratio" shall mean the Average Trading Price of SUG Common Stock as of the Closing Date. Notwithstanding the foregoing, if the Exchange Ratio as calculated pursuant to the preceding sentence and without regard to this sentence (i) is less than the Minimum Value, then the Exchange Ratio will be equal to the "Minimum Value," or (ii) is greater than the "Maximum Value," then the Exchange Ratio will be equal to the "Maximum Value." "Minimum Value" will be $16.875 and "Maximum Value" will be $19.6875.

(b) Subject to the immediately following sentence and to Section 3.1(c) and 3.1(e), each record holder of shares of FAL Common Stock immediately prior to the Effective Time shall be entitled to elect to receive cash for all or any part of such shares of FAL Common Stock (a "Cash Election"). Notwithstanding the foregoing, the aggregate number of shares of FAL Common Stock that may be converted into the right to receive cash consideration shall not exceed the Cash Election Number. To the extent not covered by a properly given Cash Election, all shares of FAL Common Stock issued and outstanding immediately prior to the Effective Time shall, except as provided in Section 3.1(g), be converted solely into shares of SUG Common Stock.

"Cash Election Number" shall equal, subject to reduction pursuant to Section 3.1(e), the amount by which (i) 50% of the number of shares of FAL Common Stock outstanding immediately prior to the Effective Time, exceeds (ii) the sum of (a) the number of shares of FAL Common Stock to be exchanged for cash in lieu of fractional shares pursuant to Section 3.1(g), and (b) the number of Dissenting Shares.

(c) If the aggregate number of shares of FAL Common Stock covered by Cash Elections (the "Cash Election Shares") exceeds the Cash Election Number, each Cash Election Share shall be converted into (i) the right to receive an amount in cash, without interest, equal to the product of (a) $23.50 and (b) a fraction (the "Cash Fraction"), the numerator of which shall be the Cash Election Number and the denominator of which shall be the total number of Cash Election Shares, and (ii) a number of shares of SUG Common Stock equal to the product of (a) $23.50 divided by the Exchange Ratio and (b) a fraction equal to one minus the Cash Fraction.

(d) SUG will make all computations to give effect to this Section 3.1.

(e) If, after having made the calculation under Section 3.1(b), the value of the SUG Common Stock (excluding fractional shares to be paid in cash) to be issued in the Merger, valued at the lesser of the Average Trading

Price as of the Closing Date and the closing price of SUG Common Stock on the last trading day before the Closing Date (or, if determined to be more appropriate to ensure the status of the Merger as a reorganization under Section 368(a)(1)(A) of the IRC, the trading price as of the time of the Closing), as reported on the New York Stock Exchange ("NYSE"), is less than 50% of the total consideration to be paid in exchange for the shares of FAL Common Stock (including, without limitation, the amount of cash to be paid in lieu of fractional shares and treating any Dissenting Shares as having been exchanged for the Cash Consideration) (the "Total Consideration"), then the Cash Election Number shall be reduced to the extent necessary so that the value of the SUG Common Stock to be issued in the Merger (as determined above) is 50% of the Total Consideration.

(f) Each holder of FAL Common Stock shall surrender all such holder's certificates formerly representing ownership of FAL Common Stock in the manner provided in Section 3.2. All such shares of FAL Common Stock, when so converted, shall no longer be outstanding and shall be canceled and automatically converted into the right to receive the Merger Consideration (and cash in lieu of fractional shares) therefor upon the surrender of such certificate in accordance with Section 3.2. Any payment made pursuant to this Section 3.1 shall be made net of applicable withholding taxes to the extent such withholding is required by law.

(g) No fractional share of SUG Common Stock shall be issued in connection with the Merger. Each holder of shares of FAL Common Stock shall be entitled to receive in lieu of any fractional share of SUG Common Stock to which such holder otherwise would have been entitled pursuant to this Section 3.1 (after taking into account all shares of FAL Common Stock then held of record by such holder) a cash payment in an amount equal to the product of (i) the fractional interest of a share of SUG Common Stock to which such holder otherwise would have been entitled and (ii) the closing price of a share of SUG Common Stock on the NYSE on the trading day immediately prior to the Effective Time. Payment of such amounts shall be made by SUG.

SECTION 3.2 EXCHANGE OF FAL COMMON STOCK CERTIFICATES.

(a) SUG's registrar and transfer agent, or such other bank or trust company as may be selected by SUG and be reasonably acceptable to FAL, will act as paying agent ("Paying Agent") for the holders of FAL Common Stock in connection with the Merger, pursuant to an agreement providing for the matters set forth in this Section 3.2 and such other matters as may be appropriate and the terms of which shall be reasonably satisfactory to SUG and FAL.

(b) (i) Not fewer than 15 business days prior to the Closing Date, SUG will cause the Paying Agent to mail a form of election (the "Form of Election") to holders of record of shares of FAL Common Stock (as of a record date as close as practicable to the date of mailing). In addition, the Paying Agent will use its reasonable efforts to make the Form of Election available to the Persons who become stockholders of FAL during the period between such record date and the Election Deadline. Any election to receive Cash Consideration contemplated by Section 3.1(b) will have been properly made only if the Paying Agent shall have received at its designated office or offices, by 4:00 p.m., Eastern Time, on the third business day prior to the Closing Date (the "Election Deadline"), a Form of Election properly completed, as set forth in such Form of Election. An election may be revoked only by written notice received by the Paying Agent prior to the Election Deadline. In addition, all elections shall automatically be revoked if the Paying Agent is notified by SUG and FAL that the Merger has been abandoned

Paying Agent is notified by SUG and FAL that the Merger has been abandoned. SUG shall have the discretion, which it may delegate in whole or in part to the Paying Agent, to determine whether Forms of Election have been properly completed, signed and submitted or revoked pursuant to this Section 3.2(b), and to disregard immaterial defects in Forms of Election. The decision of SUG (or the Paying Agent, as the case may be) in such matters shall be conclusive and binding.

(c) At the Effective Time of the Merger, SUG will instruct the Paying Agent to promptly, and in any event not later than three (3) business days following the Effective Time, mail (and to make available for collection by hand) to each holder of record of a certificate or certificates, which immediately prior to the Effective Time represented outstanding shares of FAL Common Stock (the

"Certificates"), whose shares of FAL Common Stock were converted pursuant to Section 3.1(a) into the right to receive the Merger Consideration (and cash in lieu of fractional shares) (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form and have such other provisions as SUG may reasonably specify) and (ii) instructions (which shall provide that at the election of the surrendering holder Certificates may be surrendered, and payment therefor collected, by hand delivery) for use in effecting the surrender of the Certificates in exchange for payment of the Merger Consideration (and cash in lieu of fractional shares). Upon surrender of a Certificate for cancellation to the Paying Agent or to such other agent or agents as may be appointed by SUG, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration for each share of FAL Common Stock formerly represented by such Certificate (and cash in lieu of fractional shares), to be mailed (or made available for collection by hand if so elected by the surrendering holder) within three (3) business days of receipt thereof, and the Certificate so surrendered shall forthwith be canceled. If payment of the Merger Consideration (and cash in lieu of fractional shares) is to be made to a Person other than the Person in whose name the surrendered Certificate is registered, it shall be a condition of payment that the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the Person requesting such payment shall have paid any transfer and other Taxes required by reason of the payment of the Merger Consideration (and cash in lieu of fractional shares) to a Person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction f the Surviving Corporation that such Tax either has been paid or is not applicable. Until surrendered as contemplated by this Section 3.2, each Certificate (other than Certificates representing FAL Common Stock held by SUG or Dissenting Shares) shall be deemed at any time after the Effective Time to represent only the right to receive the Merger Consideration (and cash in lieu of fractional shares) as contemplated by this Section 3.2.

(d) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, the Paying Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration (and cash in lieu of fractional shares) deliverable in respect thereof as determined in accordance with this Article III, PROVIDED THAT the Person to whom the Merger Consideration (and cash in lieu of fractional shares) is paid shall, as a condition precedent to the payment thereof, give the Paying Agent a bond in such sum as it may ordinarily require and indemnify the Surviving Corporation in a manner satisfactory to

it against any claim that may be made against the Surviving Corporation with respect to the Certificate claimed to have been lost, stolen or destroyed.

(e) After the Effective Time, the stock transfer books of FAL shall be closed and there shall be no transfers on the stock transfer books of the Surviving Corporation of shares of FAL Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be canceled and exchanged for the Merger Consideration (and cash in lieu of fractional shares) as provided in this Article III.

(f) The Surviving Corporation shall not be liable to any holder of FAL Common Stock for Merger Consideration (and cash in lieu of fractional shares) delivered to a public official pursuant to any applicable abandonment, escheat or similar law. Any amounts remaining unclaimed by holders of any such shares of FAL Common Stock seven years after the Effective Time (or such earlier date immediately prior

to the time at which such amounts would otherwise escheat to or become property of any Governmental Body) shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of any claims or interest of any such holders or their successors, assigns or personal representatives previously entitled thereto.

SECTION 3.3 DISSENTING SHARES. Notwithstanding any provision of this Agreement to the contrary, the shares of any holder of FAL Common Stock who has demanded and perfected appraisal rights for such shares in accordance with the MBCL and who, as of the Effective Time, has not effectively withdrawn or lost such appraisal rights ("Dissenting Shares"), shall not be converted into or represent a right to receive the Merger Consideration (and cash in lieu of fractional shares) pursuant to Section 3.1, but the holder thereof shall only be entitled to such rights as are granted by the MBCL. Notwithstanding the foregoing, if any holder of shares of FAL Common Stock who demands appraisal of such shares under the MBCL shall effectively withdraw the request for appraisal or lose the right to appraisal, then, as of the later of the Effective Time and the occurrence of such event, such holder's shares shall automatically be converted into and represent only the right to receive the Merger Consideration and cash in lieu of fractional shares, without interest thereon, upon surrender of the certificate representing such shares. FAL shall give SUG prompt notice of any demands received by FAL for appraisal of FAL Common Stock, and, prior to the Effective Time, SUG shall have the right to participate in all negotiations and proceedings with respect to such demands. Prior to the Effective Time, FAL shall not, except with the prior written consent of SUG, make any payment with respect to or offer to settle, any such demands.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SUG

SUG, as to SUG and its Subsidiaries, represents and warrants to FAL that:

SECTION 4.1 ORGANIZATION, EXISTENCE AND QUALIFICATION. SUG is a corporation duly incorporated, validly existing, and in good standing under the laws of the State of Delaware, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, to perform its obligations under all Contracts to which it is a party, and to execute and deliver this Agreement. SUG is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or

used by it, or the nature of the business conducted by it, requires such qualification as a foreign corporation except for such failures to be so qualified or in good standing as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

SECTION 4.2 CAPITALIZATION. As of the date of this Agreement, the authorized capital stock of SUG consists of (i) 50,000,000 shares of SUG Common Stock, of which 31,288,321 shares were issued and 31,236,696 were outstanding on September 30, 1999, and (ii) 1,500,000 shares of Cumulative Preferred Stock, no par value, none of which are issued or outstanding. The issued and outstanding shares of SUG Common Stock have been validly issued and are fully paid and nonassessable. The shares of SUG Common Stock to be issued as the Merger Consideration have been duly authorized and when issued and delivered in accordance with the terms of this Agreement, will have been validly issued and will be fully paid and nonassessable and the issuance thereof is not subject to any preemptive or other similar right. Except as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, as of the date of this Agreement, no shares of SUG Common Stock are held, in treasury or otherwise, by SUG

or any of its Subsidiaries and except as set forth in Section 4.2 of the SUG Disclosure Schedule, as of the date of this Agreement, there are no outstanding (i) securities convertible into SUG Common Stock or other capital stock of SUG or any of its material Subsidiaries, (ii) warrants or options to purchase SUG Common Stock or other securities of SUG or any of its material Subsidiaries or (iii) commitments to issue shares of SUG Common Stock (other than pursuant to the Merger and other than pursuant to the Agreement of Merger, dated as of June 7, 1999 (the "PEI Merger Agreement"), by and between SUG and Pennsylvania Enterprises, Inc. ("PEI")) or other securities of SUG or any of its material Subsidiaries.

SECTION 4.3 SUBSIDIARIES; INVESTMENTS. Except as set forth in Section 4.3 of the SUG Disclosure Schedule, as of the date of this Agreement, SUG has no Subsidiaries or investments in any Person except for marketable securities reflected in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and SUG is the registered owner and holder of all of the issued and outstanding shares of capital stock of its Subsidiaries and has good title to such shares. The outstanding capital stock of each material Subsidiary of SUG has been validly issued and is fully paid and nonassessable.

SECTION 4.4 AUTHORITY RELATIVE TO THIS AGREEMENT AND BINDING EFFECT. The execution, delivery and performance of this Agreement and the Related Documents by SUG have been duly authorized by all requisite corporate action. The execution, delivery and performance of this Agreement and the Related Documents by SUG will not result in a violation or breach of any term or provision of, constitute a default, or require a consent, approval or notification, or accelerate the performance required under, the Organizational Documents of SUG, any indenture, mortgage, deed of trust, security agreement, loan agreement, or other Contract to which SUG is a party or by which its assets are bound, or violate any Order, with such exceptions as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect. This Agreement constitutes and the Related Documents to be executed by SUG when executed and delivered will constitute valid and binding obligations of SUG, enforceable against SUG in accordance with their terms, except as enforceability may be limited by (i) bankruptcy or similar laws from time to time in effect affecting the enforcement of creditors' rights generally or (ii) the availability of equitable remedies generally.

SECTION 4.5 GOVERNMENTAL APPROVALS. Except as set forth in Section

4.5 of the SUG Disclosure Schedule and as required by the HSR Act, no approval or authorization of any Governmental Body with respect to performance under this Agreement or the Related Documents by SUG is required to be obtained by SUG in connection with the execution and delivery by SUG of this Agreement or the Related Documents or the consummation by SUG of the transactions contemplated hereby or thereby, the failure to obtain which are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

SECTION 4.6 PUBLIC UTILITY HOLDING COMPANY STATUS; REGULATION AS A PUBLIC UTILITY. SUG is a "gas utility company" (as such term is defined in PUHCA). SUG indirectly owns a minority interest in a "foreign utility company" (as such term is defined in PUHCA) that is exempt from, and is deemed not to be a public utility company for purposes of, PUHCA pursuant to Section 33 thereof with respect to which SUG has filed with the SEC a Form U-57 notification of foreign utility company status. Except as stated above in this Section 4.6, neither SUG nor any of its Subsidiaries is a "holding company," a "subsidiary company," a "public utility company" or an "affiliate" of a "public utility company," or a "holding company" within the meaning of such terms in PUHCA.

SECTION 4.7 COMPLIANCE WITH LEGAL REQUIREMENTS; GOVERNMENTAL AUTHORIZATIONS.

(a) Except as set forth in Section 4.7 of the SUG Disclosure Schedule or specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and subject to Section 4.15 of this Agreement, to the Knowledge of SUG, SUG is not in violation of any Legal Requirement that is applicable to it, to the conduct or operation of its business, or to the ownership or use of any of its assets, other than such violations, if any, which are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

(b) The SUG SEC Documents delivered to FAL prior to the date of this Agreement accurately describe all material regulation of SUG that relates to the utility business of SUG as of the date of this Agreement. Except as set forth in Section 4.7 of the SUG Disclosure Schedule, SUG has, and is in material compliance with, all material Governmental Authorizations necessary to conduct its business and to own, operate and use all of its assets as currently conducted.

SECTION 4.8 LEGAL PROCEEDINGS; ORDERS. Except as set forth in Section 4.8 of the SUG Disclosure Schedule or as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, there is no pending Proceeding:

(1) that has been commenced by or against, or that otherwise relates to, SUG or, if the merger with PEI is consummated, PEI, that is reasonably likely to have a SUG Material Adverse Effect; or

(2) as of the date of this Agreement, that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, the Merger or any of the transactions contemplated hereby.

To the Knowledge of SUG, no such Proceedings, audits or investigations have been Threatened that are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect. As of the date of this Agreement, SUG is not subject to any Orders that are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect

reasonably likely to have a SUG Material Adverse Effect.

SECTION 4.9 SEC DOCUMENTS. SUG has made (and, with respect to such documents filed after the date hereof through the Closing Date, will make) available to FAL a true and complete copy of each report, schedule, registration statement (other than on Form S-8), and definitive proxy statement filed by SUG with the SEC since September 16, 1999 and through the Closing Date in substantially the form filed with the SEC (the "SUG SEC Documents"). As of their respective dates, the SUG SEC Documents, including without limitation any financial statements or schedules included therein, complied (or will comply), in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such SUG SEC Documents, and did not (or will not) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of SUG included in the SUG SEC Documents (collectively, the "SUG Financial Statements") were (or will be) prepared in accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q) and fairly present (or will fairly present) in all material respects the financial position of

SUG as of the respective dates thereof or the results of operations and cash flows for the respective periods then ended, as the case may be, subject, in the case of unaudited interim financial statements, to normal, recurring adjustments which are not material in the aggregate.

SECTION 4.10 TAXES. Except as set forth in Section 4.10 of the SUG Disclosure Schedule:

(a) SUG and its Subsidiaries have timely filed all United States federal, state and local income Tax Returns required to be filed by or with respect to them or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired, and SUG and its Subsidiaries have timely paid and discharged all Taxes due in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due or made adequate provision therefor in accordance with GAAP except where the failures to so file, pay or discharge are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect. As of the date of this Agreement, there are no pending audits or other examinations relating to any Tax matters. There are no Tax liens on any assets of SUG or its Subsidiaries. As of the date of this Agreement, SUG and its Subsidiaries have not granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax. The accruals and reserves (including deferred taxes) reflected in the SUG Balance Sheet are in all material respects adequate to cover all material Taxes accruable through the date thereof (including interest and penalties, if any, thereon and Taxes being contested) in accordance with GAAP.

(b) Neither SUG nor any of its Subsidiaries is obligated under any Contract with respect to industrial development bonds or other obligations with respect to which the excludability from gross income of the holder for federal or state income tax purposes could be affected by the Merger or any of the transactions contemplated by this Agreement.

(c) SUG has no present plan or intention after the Merger to (i) sell or otherwise dispose of any of the assets of the Surviving Corporation,

including the assets of FAL acquired pursuant to the Merger, except for dispositions made in the ordinary course of business or to a corporation controlled by the Surviving Corporation within the meaning of Section 368(a)(2)(C) of the IRC, or (ii) reacquire any of the SUG Common Stock included in the Merger Consideration, other than repurchases in the open market pursuant to stock repurchase plans undertaken for reasons unrelated to the transactions contemplated by this Agreement.

SECTION 4.11 INTELLECTUAL PROPERTY. SUG has no Knowledge of (i) any infringement or claimed infringement by it of any patent rights or copyrights of others or (ii) any infringement of the patent or patent license rights, trademarks or copyrights owned by or under license to it, except for any such infringements of the type described in clause (i) or (ii) that are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect.

SECTION 4.12 CONTRACTS. Except as described in Section 4.12 of the SUG Disclosure Schedule or as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this Agreement, and with such exceptions as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect, all of SUG's Contracts are in full force and effect and neither SUG nor, to the Knowledge of SUG, any other party thereto is in default thereunder nor has any event occurred or is any event occurring that, with notice or the passage of time or otherwise, is reasonably likely to give rise to an event of default thereunder by any party thereto.

SECTION 4.13 INDEBTEDNESS. All outstanding principal amounts of indebtedness for borrowed money of SUG as of October 1, 1999 are set forth in Section 4.13 of the SUG Disclosure Schedule.

SECTION 4.14 EMPLOYEE BENEFIT PLANS.

(a) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, each of the SUG Benefit Plans has been operated and administered in all material respects in accordance with its governing documents and applicable federal and state laws (including, but not limited to, ERISA and the IRC). For purposes of this Agreement, "SUG Benefit Plans" shall mean all employee retirement, welfare, stock option, stock ownership, deferred compensation, bonus or other benefit plans, agreements, practices, policies, programs, or arrangements that are applicable to any employee, director or consultant of SUG or its Subsidiaries or maintained by or contributed to by SUG or its Subsidiaries.

(b) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, as to any SUG Benefit Plan subject to Title IV of ERISA, there is no event or condition which presents the material risk of plan termination, no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, no reportable event within the meaning of Section 4043 of ERISA (for which the notice requirements of Regulation Section 4043 promulgated by the Pension Benefit Guaranty Corporation ("PBGC") have not been waived) has occurred within the last six years, no notice of intent to terminate the SUG Benefit Plan has been given under Section 4041 of ERISA, no proceeding has been instituted under Section 4042 of ERISA to terminate the SUG Benefit Plan, there has been no termination or partial termination of the SUG Benefit Plan within the meaning of Section 411(d)(3) of the IRC within the last six years, except with respect to the conversion of the retirement income plan to a cash balance plan for which full vesting was granted with respect to affected employees, no event described in

Sections 4062 or 4063 of ERISA has occurred, all PBGC premiums have been timely paid and no liability to the PBGC has been incurred, except for PBGC premiums not yet due.

(c) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, each trust funding a SUG Benefit Plan, which trust is intended to be exempt from federal income taxation pursuant to Section 501(c)(9) of the IRC, satisfies the requirements of such section and has, whenever required by law, received a favorable determination letter from the IRS regarding such exempt status, and to the Knowledge of SUG has not, since receipt of the most recent favorable determination letter, been amended or operated in any way which would adversely affect such exempt status.

(d) Except as set forth in Section 4.14 of the SUG Disclosure Schedule, with respect to any SUG Benefit Plan or any other "employee benefit plan" as defined in Section 3(3) of ERISA which is established, sponsored, maintained or contributed to, or has been established, sponsored, maintained or contributed to or, to the Knowledge of SUG, with respect to any such plan which has been established, sponsored, maintained or contributed to within six years prior to the Closing Date, by SUG or its Subsidiaries or any corporation, trade, business or entity under common control or being a part of an affiliated service group with SUG, within the meaning of Section 414(b), (c) or (m) of the IRC or Section 4001 of ERISA ("SUG Commonly Controlled Entity"), (i) no withdrawal liability, within the meaning of Section 4201 of ERISA, has been incurred, which withdrawal liability has not been satisfied and no such withdrawal liability is reasonably expected to be incurred, (ii) no liability under Title IV of ERISA

(including, but not limited to, liability to the PBGC) has been incurred by SUG or any SUG Commonly Controlled Entity, which liability has not been satisfied (other than for PBGC premiums not yet due), (iii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, (iv) there has been no failure to make any contribution (including installments) to such plan required by Section 302 of ERISA and Section 412 of the IRC which has resulted in a lien under Section 302 of ERISA or Section 412 of the IRC and for which any liability is currently outstanding, (v) to the Knowledge of SUG, no action, omission or transaction has occurred with respect to any such plan or any other SUG Benefit Plan which could subject SUG or the plan or trust forming a part thereof to a material civil liability or penalty under ERISA or other applicable laws, or a material Tax under the IRC, (vi) any such plan which is a Group Health Plan has complied in all material respects with the provisions of Sections 601-608 of ERISA and Section 4980B of the IRC, (vii) there are no pending or, to the Knowledge of SUG, Threatened claims by or on behalf of any such plan or any other SUG Benefit Plan, by any employees, former employees or plan beneficiaries covered by such plan or otherwise by or on behalf of any person involving any such plan (other than routine non-contested claims for benefits) which could result in a material liability to SUG and its Subsidiaries, taken as a whole, and (viii) neither SUG nor any SUG Commonly Controlled Entity has engaged in, or is a successor or parent corporation to any entity or person that has engaged in, a transaction described in Section 4069 of ERISA.

(e) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) increase the amount of benefits otherwise payable under any SUG Benefit Plan, (ii) result in the acceleration of the time of eligibility to participate in any SUG Benefit Plan, or of any payment, exercisability, funding or vesting of any benefit under any SUG Benefit Plan, (iii) result in payment becoming due

or with respect to any current or former employee, director or consultant, or (iv) result in any payment becoming due in the event of a termination of employment or service of any employee, director or consultant.

(f) SUG is not a party to any Contract nor has it established any policy or practice, which would require SUG to make a payment or provide any other form of compensation or benefit to any Person performing (or who within the past twelve months performed) services for SUG during or upon termination of such services which would not be payable or provided in the absence of the consummation of the transactions contemplated by this Agreement.

(g) Except as would affect unionized employees and/or retirees who are covered by bargaining agreements, if any, and as otherwise set forth in Section 4.14 of the SUG Disclosure Schedule, each SUG Benefit Plan which is an "employee welfare benefit plan," as such term is defined in Section 3(1) of ERISA, may be unilaterally amended or terminated in its entirety without any liability being incurred by SUG or any Affiliate of SUG, except as to benefits accrued thereunder prior to such amendment or termination.

(h) As of the date of this Agreement, SUG has not contributed nor been obligated to contribute to any "multi-employer plan" within the meaning of Section 3(37) of ERISA within the last six years and has no outstanding liability with respect to any such plan.

SECTION 4.15 ENVIRONMENTAL MATTERS. Except as set forth in Section 4.15 of the SUG Disclosure Schedule or as specifically described in the SUG SEC Documents delivered to FAL prior to the date of this

Agreement, and with such other exceptions as are not, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect:

(a) To the Knowledge of SUG, SUG and any Person for whose conduct SUG is reasonably likely to be held responsible, is currently and at all times has been, in material compliance with any Environmental Law. SUG has not received any Order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any violation or failure to comply with any Environmental Law, or of any obligation to undertake or bear the cost of any environmental cleanup, or with respect to any property or Facility at which Hazardous Materials generated by SUG or any other Person for whose conduct SUG may be held responsible were transported for disposal; and

(b) There are no pending or, to the Knowledge of SUG, Threatened claims or Encumbrances arising under or pursuant to any Environmental Law with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which SUG has or had a direct or indirect interest (including by ownership or use).

SECTION 4.16 NO MATERIAL ADVERSE CHANGE. Except as described in the SUG SEC Documents that have been provided to FAL prior to the date of this Agreement, since the date of the SUG Balance Sheet, there has not been any SUG Material Adverse Effect, and no events have occurred or circumstances exist that are, individually or in the aggregate, reasonably likely to have a SUG Material Adverse Effect, except that any SUG Material Adverse Effect that results from or relates to (a) general business or economic conditions, (b) conditions generally affecting the industries in which SUG competes or (c) the announcement of the transactions contemplated by this Agreement shall be disregarded.

SECTION 4.17 BROKERS. SUG is not a party to, or in any way obligated under any Contract, and there are no outstanding claims against SUG, for the payment of any broker's or finder's fees in connection with the origin, negotiation, execution or performance of this Agreement.

SECTION 4.18 PROXY STATEMENT; REGISTRATION STATEMENT. None of the information supplied or to be supplied to FAL by or on behalf of SUG for inclusion in the proxy statement, in definitive form, relating to the FAL Meeting to be held in connection with the Merger (the "FAL Proxy Statement"), or supplied by or on behalf of SUG in the Registration Statement on Form S-4 (and any amendments thereto) to be filed by SUG with the SEC pursuant to the Securities Act to register the shares of SUG Common Stock constituting the Stock Consideration (the "Registration Statement") will, in the case of the Registration Statement, at the effective time of the Registration Statement, at any time the Registration Statement is amended or supplemented, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented, at the time of the FAL Meeting and at the Effective Time, and in the case of the FAL Proxy Statement, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented and at the time of the FAL Meeting (giving effect to any documents incorporated by reference therein), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement will comply as to form and in substance in all material respects with the applicable provisions of the Securities Act and the rules and regulations thereunder.

SECTION 4.19 NO VOTE REQUIRED. No vote of the holders of any class or series of the capital stock of SUG is required to approve this Agreement and the Merger.

SECTION 4.20 DISCLAIMER OF REPRESENTATIONS AND WARRANTIES. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE IV, SUG MAKES NO OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AND SUG HEREBY DISCLAIMS ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES, WHETHER BY SUG, ANY SUBSIDIARY OF SUG, OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO FAL OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, OF ANY DOCUMENTATION OR OTHER INFORMATION BY SUG, ANY SUBSIDIARY OF SUG, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO ANY OF THE FOREGOING.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF FAL

FAL, as to the Acquired Companies, represents and warrants to SUG as follows:

SECTION 5.1 ORGANIZATION, EXISTENCE AND QUALIFICATION.

(a) Each Acquired Company is a corporation duly incorporated, validly existing, and in good standing under the laws of its state of incorporation or organization, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under all Applicable Contracts. Section 5.1(a) of the FAL

obligations under all Applicable Contracts. Section 5.1(a) of the FAL Disclosure Schedule sets forth the name of each Acquired Company, the state or jurisdiction of its incorporation or organization, and each state or jurisdiction where such Acquired Company is duly qualified as a foreign corporation. Each Acquired Company is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the business conducted by it, requires such qualification as a foreign corporation except for such failures to be so qualified or in good standing as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

(b) FAL has delivered to SUG copies of the Organizational Documents, as currently in effect, of each Acquired Company.

SECTION 5.2 CAPITALIZATION. The capital stock of FAL consists of 2,951,334 shares of FAL Common Stock, of which 2,220,086 shares are issued and outstanding. The issued and outstanding shares of FAL Common Stock have been validly issued and are fully paid and nonassessable. Except as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, no shares of FAL Common Stock are held, in treasury or otherwise, by FAL or any of its Subsidiaries and there are no outstanding (i) securities convertible into FAL Common Stock or other capital stock of FAL or any of its Subsidiaries, (ii) warrants or options to purchase FAL Common Stock or other securities of FAL or

any of its Subsidiaries or (iii) other commitments to issue shares of FAL Common Stock or other securities of FAL or any of its Subsidiaries.

SECTION 5.3 SUBSIDIARIES; INVESTMENTS. Except as set forth in Section 5.3 of the FAL Disclosure Schedule, FAL has no Subsidiaries or investments in any Person (except for marketable securities disclosed to SUG prior to the date of this Agreement) and FAL is the registered owner and holder of all of the issued and outstanding shares of capital stock of its Subsidiaries and has good title to such shares. The outstanding capital stock of each Subsidiary has been validly issued and is fully paid and nonassessable. All such capital stock owned by any Acquired Company is free and clear of any Encumbrance (except for any Encumbrance disclosed in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, or created or incurred by this Agreement in favor of SUG, or imposed by federal or state securities laws).

SECTION 5.4 AUTHORITY RELATIVE TO THIS AGREEMENT AND BINDING EFFECT. The execution, delivery and performance of this Agreement and the Related Documents by FAL have been duly authorized by all requisite corporate action, except, as of the date of this Agreement, for the FAL Stockholders' Approval. Except as set forth in Section 5.4 of the FAL Disclosure Schedule, the execution, delivery and performance of this Agreement and the Related Documents by FAL will not result in a violation or breach of any term or provision of, or constitute a default, require a consent, approval or notification, or accelerate the performance required under, the Organizational Documents of any of the Acquired Companies, any indenture, mortgage, deed of trust, security agreement, loan agreement, or other Applicable Contract to which any of the Acquired Companies is a party or by which its assets are bound, or violate any Order, with such exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. This Agreement constitutes and the Related Documents to be executed by any of the Acquired Companies when executed and delivered will constitute valid and binding obligations of such Acquired Company, enforceable against such Acquired Company in accordance with their

terms, except as enforceability may be limited by (i) bankruptcy or similar laws from time to time in effect affecting the enforcement of creditors' rights generally or (ii) the availability of equitable remedies generally.

SECTION 5.5 GOVERNMENTAL APPROVALS. Except as set forth in Section 5.5 of the FAL Disclosure Schedule and as required by the HSR Act, no approval or authorization of any Governmental Body with respect to performance under this Agreement or the Related Documents by any Acquired Company is required to be obtained by FAL in connection with the execution and delivery by FAL of this Agreement or the Related Documents or the consummation by the Acquired Companies of the transactions contemplated hereby or thereby, the failure to obtain which are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

SECTION 5.6 PUBLIC UTILITY HOLDING COMPANY STATUS; REGULATION AS A PUBLIC UTILITY. None of the Acquired Companies is a "holding company," a "subsidiary company," a "public utility company," or an "affiliate" of a "public utility company" or a "holding company" within the meaning of such terms in PUHCA.

SECTION 5.7 COMPLIANCE WITH LEGAL REQUIREMENTS; GOVERNMENTAL AUTHORIZATIONS.

(a) Except as set forth in Section 5.7(a) of the FAL Disclosure Schedule or as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, and subject to Section 5.19 of this Agreement, to the Knowledge of any Acquired Company, no Acquired

Company is in violation of any Legal Requirement that is applicable to it, to the conduct or operation of its business, or to the ownership or use of any of its assets, other than such violations, if any, which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

(b) The FAL SEC Documents delivered to SUG prior to the date of this Agreement accurately describe all material regulation of each Acquired Company that relates to the utility business of any Acquired Company. Except as set forth on Section 5.7(a) of the FAL Disclosure Schedule, each Acquired Company has, and is in material compliance with, all material Governmental Authorizations necessary to conduct its business and to own, operate and use all of its assets as currently conducted.

SECTION 5.8 LEGAL PROCEEDINGS; ORDERS. Except as set forth in Section 5.8 of the FAL Disclosure Schedule or as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, there is no pending Proceeding:

(1) that has been commenced by or against, or that otherwise relates to, any Acquired Company that is reasonably likely to have a FAL Material Adverse Effect; or

(2) as of the date of this Agreement, that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, the Merger or any of the transactions contemplated hereby.

To the Knowledge of FAL, except as set forth in Section 5.8 of the FAL Disclosure Schedule, as of the date of this Agreement, no such Proceedings, audits or investigations have been Threatened that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. As

of the date of this Agreement, none of the Acquired Companies is subject to any Orders that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

SECTION 5.9 SEC DOCUMENTS. FAL has made (and, with respect to such documents filed after the date hereof through the Closing Date, will make) available to SUG a true and complete copy of each report, schedule, registration statement (other than on Form S-8), and definitive proxy statement filed by FAL with the SEC since September 30, 1998 through the Closing Date in substantially the form filed with the SEC (the "FAL SEC Documents"). As of their respective dates, the FAL SEC Documents, including without limitation any financial statements or schedules included therein, complied (or will comply), in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such FAL SEC Documents, and did not (or will not) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of FAL included in the FAL SEC Documents (collectively, the "FAL Financial Statements") were (or will be) prepared in accordance with GAAP (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q) and fairly present (or will fairly present) in all material respects the financial position of FAL and its Subsidiaries, as of the respective dates thereof or the results of operations and cash flows for the respective periods then ended, as the case may be, subject, in the case of unaudited interim financial statements, to normal, recurring adjustments which are not material in the aggregate.

SECTION 5.10 TAXES. Except as set forth in Section 5.10 of the FAL Disclosure Schedule:

(a) The Acquired Companies have timely filed all United States federal, state and local income Tax Returns required to be filed by or with respect to them or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired, and the Acquired Companies have timely paid and discharged all Taxes due in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due or made adequate provision therefor in accordance with GAAP except where failures to so file, pay or discharge are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. There are no pending audits or other examinations relating to any Tax matters. There are no Tax liens on any assets of the Acquired Companies. As of the date of this Agreement, none of the Acquired Companies has granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax. The accruals and reserves (including deferred taxes) reflected in the FAL Balance Sheet are in all material respects adequate to cover all material Taxes accruable through the date thereof (including interest and penalties, if any, thereon and Taxes being contested) in accordance with GAAP.

(b) None of the Acquired Companies is obligated under any Applicable Contract with respect to industrial development bonds or other obligations with respect to which the excludability from gross income of the holder for federal or state income tax purposes could be affected by the Merger or any of the transactions contemplated by this Agreement.

SECTION 5.11 INTELLECTUAL PROPERTY. No Acquired Company has any Knowledge of (i) any infringement or claimed infringement by any Acquired

Company of any patent rights or copyrights of others or (ii) any infringement of the patent or patent license rights, trademarks or copyrights owned by or under license to any Acquired Company, except for any such infringements of the type described in clause (i) or (ii) that are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

SECTION 5.12 TITLE TO ASSETS. Except (i) as set forth in Section 5.12 of the FAL Disclosure Schedule, (ii) as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, (iii) as set forth in Section 5.19 of this Agreement or (iv) as set forth in Section 5.19 of the FAL Disclosure Schedule, none of the Acquired Companies' assets are subject to any Encumbrance other than FAL Permitted Liens.

SECTION 5.13 INDEBTEDNESS. All outstanding principal amounts of indebtedness for borrowed money of the Acquired Companies as of October 4, 1999 are set forth in Section 5.13 of the FAL Disclosure Schedule.

SECTION 5.14 MACHINERY AND EQUIPMENT. Except for normal wear and tear, and with such exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect, the machinery and equipment of the Acquired Companies necessary for the conduct by the Acquired Companies of their respective businesses as presently conducted are in good operating condition and in a state of reasonable maintenance and repair.

SECTION 5.15 APPLICABLE CONTRACTS. Set forth in Section 5.15(a) of the FAL Disclosure Schedule is a list as the date hereof of all Applicable Contracts to which any Acquired Company is a party

involving a total commitment by or to any party thereto of more than $65,000 on an annual basis or more than $250,000 on its remaining term which cannot be terminated on no more than sixty (60) days' notice without penalty or additional cost to the Acquired Company as the terminating party. Except as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, and with such exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect, all Applicable Contracts of the Acquired Companies are in full force and effect and no Acquired Company nor, to the Knowledge of FAL, any other party thereto is in default thereunder nor has any event occurred or is any event occurring that with notice or the passage of time or otherwise, is reasonably likely to give rise to an event of default thereunder by any party thereto.

SECTION 5.16 INSURANCE. Section 5.16(a) of the FAL Disclosure Schedule sets forth a list of all policies of insurance held by the Acquired Companies as of the date of this Agreement. Since June 30, 1994, the assets and the business of the Acquired Companies have been continuously insured with what FAL believes are reputable insurers against all risks and in such amounts normally insured against by companies of the same type and in the same line of business as any of the Acquired Companies. As of the date of this Agreement, no notice of cancellation, non-renewal or material increase in premiums has been received by any of the Acquired Companies with respect to such policies, and no Acquired Company has Knowledge of any fact or circumstance that could reasonably be expected to form the basis for any cancellation, non-renewal or material increase in premiums, except for such cancellations, non-renewals and increases which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. None of the Acquired Companies is in default with respect to any provision contained in any such policy or binder nor has there been any failure to give notice or to present any claim relating to the business or the assets of the Acquired Companies under any such policy or binder in a timely fashion or in the manner or detail required by the policy or binder, except for such defaults or failures which are not, individually or in the

except for such defaults or failures which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. As of the date of this Agreement, there are no outstanding unpaid premiums (except premiums not yet due and payable), and no notice of cancellation or renewal with respect to, or disallowance of any claim under, any such policy or binder has been received by the Acquired Companies as of the date hereof, except for such non-payments of premiums, cancellations, renewals or disallowances which are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect.

SECTION 5.17 EMPLOYEES. Section 5.17(a) of the FAL Disclosure Schedule sets forth a list as of no more than thirty (30) days prior to the date of this Agreement of all the present officers and employees of the Acquired Companies, indicating each employee's base salary or wage rate and identifying those who are union employees and those who are part-time employees. Except as set forth in Section 5.17(b) of the FAL Disclosure Schedule, as of the date of this Agreement, no labor union or other collective bargaining unit has been certified or recognized by any of the Acquired Companies, and, to the Knowledge of the Acquired Companies, as of the date of this Agreement, there are no elections, organizing drives or material controversies pending or Threatened between any of the Acquired Companies and any labor union or other collective bargaining unit representing any of the Acquired Companies' employees. There is no pending or, to the Knowledge of FAL, Threatened labor practice complaint, arbitration, labor strike or other material labor dispute (excluding grievances) involving any of the Acquired Companies which are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect. Except for collective bargaining agreements or as set forth in Section 5.17(c) of the FAL Disclosure Schedule, none

of the Acquired Companies is a party to any employment agreement with any employee pertaining to any of the Acquired Companies.

SECTION 5.18 EMPLOYEE BENEFIT PLANS.

(a) Each of the FAL Benefit Plans has been operated and administered in all material respects in accordance with its governing documents and applicable federal and state laws (including, but not limited to, ERISA and the IRC). For purposes of this Agreement, "FAL Benefit Plans" shall mean all employee retirement, welfare, stock option, stock ownership, deferred compensation, bonus or other benefit plans, agreements, practices, policies, programs, or arrangements, that are applicable to any employee, director or consultant of the Acquired Companies or maintained by or contributed to by any of the Acquired Companies.

(b) As to any FAL Benefit Plan subject to Title IV of ERISA, there is no event or condition which presents the material risk of plan termination, no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, no reportable event within the meaning of Section 4043 of ERISA (for which the notice requirements of Regulation Section 4043 promulgated by the PBGC have not been waived) has occurred within the last six years, no notice of intent to terminate the FAL Benefit Plan has been given under Section 4041 of ERISA, no proceeding has been instituted under Section 4042 of ERISA to terminate the FAL Benefit Plan, there has been no termination or partial termination of the FAL Benefit Plan within the meaning of Section 411(d)(3) of the IRC within the last six years, no event described in Sections 4062 or 4063 of ERISA has occurred, all PBGC premiums have been timely paid and no liability to the PBGC has been incurred, except for PBGC premiums not yet due.

(c) There is no matter pending (other than qualification determination applications and filings and other required periodic filings) with respect to any of the FAL Benefit Plans before the IRS, the Department of Labor, the PBGC or in or before any other governmental authority.

(d) Each trust funding a FAL Benefit Plan, which trust is intended to be exempt from federal income taxation pursuant to Section 501(c)(9) of the IRC, satisfies the requirements of such section and has received a favorable determination letter from the IRS regarding such exempt status and to the Knowledge of any Acquired Company has not, since receipt of the most recent favorable determination letter, been amended or operated in any way which would adversely affect such exempt status.

(e) With respect to any FAL Benefit Plan or any other "employee benefit plan" as defined in Section 3(3) of ERISA which is established, sponsored, maintained or contributed to, or to the Knowledge of the Acquired Companies, with respect to any such plan which has been established, sponsored, maintained or contributed to within six years prior to the Closing Date, by the Acquired Companies or any corporation, trade, business or entity under common control or being a part of an affiliated service group with any of the Acquired Companies, within the meaning of Section 414(b), (c) or (m) of the IRC or Section 4001 of ERISA ("FAL Commonly Controlled Entity"), (i) no withdrawal liability, within the meaning of Section 4201 of ERISA, has been incurred, which withdrawal liability has not been satisfied and no such withdrawal liability is reasonably expected to be incurred, (ii) no liability under Title IV of ERISA (including, but not limited to, liability to the PBGC) has been incurred by the Acquired Companies or any FAL Commonly Controlled Entity, which liability has not been satisfied (other than for PBGC

premiums not yet due), (iii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the IRC has been incurred for which any liability is outstanding, (iv) there has been no failure to make any contribution (including installments) to such plan required by Section 302 of ERISA and Section 412 of the IRC which has resulted in a lien under Section 302 of ERISA or Section 412 of the IRC and for which any liability is currently outstanding, (v) to the Knowledge of any Acquired Company, no action, omission or transaction has occurred with respect to any such plan or any other FAL Benefit Plan which could subject any of the Acquired Companies, the plan or trust forming a part thereof, or SUG to a material civil liability or penalty under ERISA or other applicable laws, or a material Tax under the IRC, (vi) any such plan which is a Group Health Plan has complied in all material respects with the provisions of Sections 601-608 of ERISA and Section 4980B of the IRC, (vii) there are no pending or, to the Knowledge of any Acquired Company, Threatened claims by or on behalf of any such plan or any other FAL Benefit Plan, by any employees, former employees or plan beneficiaries covered by such plan or otherwise by or on behalf of any person involving any such plan (other than routine non-contested claims for benefits) which could result in a material liability to the Acquired Companies taken as a whole, and (viii) neither the Acquired Companies nor any FAL Commonly Controlled Entity has engaged in, or is a successor or parent corporation to any entity or person that has engaged in, a transaction described in Section 4069 of ERISA.

(f) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) increase the amount of benefits otherwise payable under any FAL Benefit Plan, (ii) result in the acceleration of the time of eligibility to participate in any FAL Benefit Plan, or any payment, exercisability, funding or vesting of any benefit under any FAL Benefit Plan, (iii) result in any payment becoming due to or with respect to any current or former employee, director or consultant, or (iv) result in any

payment becoming due in the event of a termination of employment or service of any employee, director or consultant.

(g) None of the Acquired Companies is a party to any Applicable Contract nor has it established any policy or practice, which would require it or SUG to make a payment or provide any other form of compensation or benefit to any Person performing (or who within the past twelve months performed) services for any of the Acquired Companies during or upon termination of such services which would not be payable or provided in the absence of the consummation of the transactions contemplated by this Agreement.

(h) Except as would affect unionized employees and/or retirees who had been unionized employees, each FAL Benefit Plan which is an "employee welfare benefit plan," as such term is defined in Section 3(1) of ERISA, may be unilaterally amended or terminated in its entirety without any liability being incurred by any of the Acquired Companies, SUG or any Affiliate of SUG, except as to benefits accrued thereunder prior to such amendment or termination.

(i) None of the Acquired Companies has contributed nor been obligated to contribute to any "multi-employer plan" within the meaning of Section 3(37) of ERISA within the last six years, and none of the Acquired Companies has any outstanding liability with respect to any such plan.

(j) Section 5.18(j) of the FAL Disclosure Schedule contains a true and complete list of each FAL Benefit Plan, and any management, employment, deferred compensation, severance (including any payment, right or benefit resulting from a change in control), bonus, or other contract for

personal services with any current or former officer, director or employee, any consulting contract with any person who prior to entering this such contract was a director or officer or owner of 5% or more of the stock of any Acquired Company or family member of any such director, officer or stockholder, or any plan, agreement, arrangement or understanding similar to any of the foregoing. There are no outstanding options to purchase FAL capital stock or other securities. FAL has provided to SUG a complete and correct copy of each FAL Benefit Plan (or written summary of any unwritten FAL Benefit Plan), and with respect to each FAL Benefit Plan, the current summary plan description, related trust agreements, related insurance contracts, the latest IRS determination letter, the last three annual reports on Form 5500 series (including all required schedules), and the most recent actuarial report and annual financial statements.

SECTION 5.19 ENVIRONMENTAL MATTERS. Except as set forth in Section 5.19 of the FAL Disclosure Schedule or as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, and with such other exceptions as are not, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect:

(a) To the Knowledge of any Acquired Company, no Facility owned or operated by any Acquired Company is currently, or was at any time, listed on the National Priorities List promulgated under CERCLA, or on any comparable state list, and no Acquired Company has received any written notification of potential or actual liability or a written request for information from any Person under or relating to CERCLA or any comparable Legal Requirement with respect to any Acquired Company or the Facilities;

(b) To the Knowledge of any Acquired Company, each Acquired Company and any Person for whose conduct any Acquired Company is reasonably likely to be held responsible, is currently and at all times has been, in material compliance with any Environmental Law. No Acquired Company has received any Order,

notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any violation or failure to comply with any Environmental Law, or of any obligation to undertake or bear the cost of any environmental cleanup, or with respect to any property or Facility at which Hazardous Materials generated by any Acquired Company were transported for disposal;

(c) There are no pending or, to the Knowledge of any Acquired Company, Threatened claims arising under or pursuant to any Environmental Law with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which any Acquired Company has or had a direct or indirect interest (including by ownership or use); and

(d) FAL has delivered or made available to SUG true and complete copies and results of any environmental site assessments, studies, analyses, tests or monitoring possessed by any Acquired Company of which any Acquired Company has Knowledge pertaining to Hazardous Materials or Hazardous Activities in, on or under the Facilities, or concerning compliance by any Acquired Company or any other Person for whose conduct any Acquired Company is reasonably likely to be held responsible, with Environmental Laws.

SECTION 5.20 NO MATERIAL ADVERSE CHANGE. Since the date of the FAL Balance Sheet, except as specifically described in the FAL SEC Documents delivered to SUG prior to the date of this Agreement, there has not been any FAL Material Adverse Effect, and no events have occurred or

circumstances exist that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect, except that any FAL Material Adverse Effect that results from or relates to (a) general business or economic conditions, (b) conditions generally affecting the industries in which the Acquired Companies compete or (c) the announcement of the transactions contemplated by this Agreement shall be disregarded.

SECTION 5.21 BROKERS. No Acquired Company is a party to, or in any way obligated under any Applicable Contract, and there are no outstanding claims against any Acquired Company, for the payment of any broker's or finder's fees in connection with the origin, negotiation, execution or performance of this Agreement.

SECTION 5.22 REGULATORY PROCEEDINGS. Except as set forth in Section 5.22 of the FAL Disclosure Schedule, other than purchase gas adjustment provisions, none of FAL or its Subsidiaries all or part of whose rates or services are regulated by a Governmental Body (a) has rates that have been or are being collected subject to refund, pending final resolution of any rate proceeding pending before a Governmental Body or on appeal to the courts, or (b) is a party to any rate proceeding before a Governmental Body that are, individually or in the aggregate, reasonably likely to result in any Orders having a FAL Material Adverse Effect.

SECTION 5.23 PROXY STATEMENT; REGISTRATION STATEMENT. None of the information supplied or to be supplied by or on behalf of the Acquired Companies in either the FAL Proxy Statement or supplied or to be supplied by the Acquired Companies to SUG for inclusion in the Registration Statement, will, in the case of the Registration Statement, at the effective time of the Registration Statement, at any time the Registration Statement is amended or supplemented, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented, at the time of the FAL Meeting and at the Effective Time, and in the case of the FAL Proxy Statement, at the date the FAL Proxy Statement is first mailed to FAL's stockholders, at any time the FAL Proxy Statement is amended or supplemented and at the time of

any time the FAL Proxy Statement is amended or supplemented and at the time of the FAL Meeting (giving effect to any documents incorporated by reference therein), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The FAL Proxy Statement will comply as to form and in substance in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder.

SECTION 5.24 VOTE REQUIRED. Other than the approval of the Merger by the holders of two thirds of the outstanding shares of FAL Common Stock entitled to vote on the question (the "FAL Stockholders' Approval"), no vote of the holders of any class or series of the capital stock of any Acquired Company is required to approve this Agreement and the Merger.

SECTION 5.25 OPINION OF FINANCIAL ADVISOR. FAL has provided SUG a copy of the opinion of Legg Mason Wood Walker, Incorporated, dated as of the date hereof, with respect to the Merger Consideration to be received by the holders of FAL Common Stock pursuant to the transactions contemplated by this Agreement.

SECTION 5.26 DISCLAIMER OF REPRESENTATIONS AND WARRANTIES. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE V, FAL MAKES NO

OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AND FAL HEREBY DISCLAIMS ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES, WHETHER BY FAL, ANY SUBSIDIARY OF FAL, OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO SUG OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, OF ANY DOCUMENTATION OR OTHER INFORMATION BY FAL, ANY SUBSIDIARY OF FAL, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES, OR ANY OTHER PERSON, WITH RESPECT TO ANY OF THE FOREGOING.

ARTICLE VI
COVENANTS

SECTION 6.1 COVENANTS OF FAL. FAL agrees to observe and perform the following covenants and agreements:

(a) CONDUCT OF THE BUSINESS PRIOR TO THE CLOSING DATE. With respect to the Acquired Companies, except (i) as contemplated in this Agreement, (ii) as required by law or regulation, or (iii) as otherwise expressly consented to in writing by SUG which consent shall not be unreasonably withheld or delayed, prior to the Closing, FAL will cause each Acquired Company to:

(1) Not make or permit any material change in the general nature of its business;

(2) Maintain its Ordinary Course of Business in accordance with prudent business judgment and consistent with past practice and policy, and maintain its assets in good operating repair, order and condition, reasonable wear and tear excepted, subject to retirements in the Ordinary Course of Business;

(3) Preserve the Acquired Company as an ongoing business and use reasonable efforts to maintain the goodwill associated with the Acquired Company;

(4) [illegible]

(4) Preserve all of the Acquired Companies' franchises, tariffs, certificates of public convenience and necessity, licenses, authorizations and other governmental rights and permits;

(5) Not enter into any material transaction or Material Contract;

(6) Not purchase, sell, lease, dispose of or otherwise transfer or make any contract for the purchase, sale, lease, disposition or transfer of, or subject to lien, any of the assets of the Acquired Company other than in the Ordinary Course of Business;

(7) Not hire any new employee unless such employee is a bona fide replacement for a presently-filled position with the Acquired Company as of the date hereof;

(8) Not file any material applications, petitions, motions, orders, briefs, settlement or agreements in any material Proceeding before any Governmental Body which involves any Acquired Company, and appeals related thereto;

(9) Not engage in or modify, except in the Ordinary Course of Business, any material intercompany transactions involving any other Acquired Company;

(10) Not voluntarily change in any material respect or terminate any insurance policies disclosed on Section 5.16(a) of the FAL Disclosure Schedule that presently are in effect unless equivalent coverage is obtained;

(11) Except as disclosed or specifically contemplated in this Agreement or in Section 6.1(a)(11) of the FAL Disclosure Schedule, and with respect to budgeted expenditures known and specifically disclosed in writing to SUG, subject to adjustments in the Ordinary Course of Business and other deviations (which in the aggregate shall not exceed 5% on an annualized basis during the period from the date of this Agreement until the Closing Date), not make any capital expenditure or capital expenditure commitment;

(12) Not make any changes in financial policies or practices, or strategic or operating policies or practices, in each case which involve any Acquired Company;

(13) Comply in all material respects with all applicable material Legal Requirements and permits, including without limitation those relating to the filing of reports and the payment of Taxes due to be paid prior to the Closing, other than those contested in good faith;

(14) Not adopt, amend (other than amendments that reduce the amounts payable by SUG or any of its Subsidiaries or amendments required by law) or assume an obligation to contribute to any FAL Benefit Plan or collective bargaining agreement or enter into any employment, consulting, severance or similar Contract with any Person (including without limitation, contracts with management of any Acquired Company or any of its Affiliates that might require payments be made upon consummation of the transactions contemplated hereby) or amend any such existing contracts;

(15) Except in the Ordinary Course of Business or as required by the terms of any existing Contract, FAL Benefit Plan or collective

bargaining agreement, not grant any increase or change in total compensation, benefits or pay any bonus to any employee, director or consultant;

(16) Not grant or enter into or extend the term of any Contract with respect to continued employment or service for any employee, officer, director or consultant;

(17) Not make any loan or advance to any Person other than to any officer, director, stockholder or employee in the Ordinary Course of Business;

(18) Not terminate any existing gas purchase, exchange or transportation contract necessary to supply firm gas at all city gate delivery points or enter into any new contract for the supply, transportation, storage or exchange of gas with respect to the Acquired Companies' regulated gas distribution operations or renew or extend or negotiate any existing contract providing for the same where such contract is not terminable within sixty (60) days without penalty;

(19) Not amend any of its Organizational Documents; and

(20) Subject to Section 6.1(l), not issue or assume any note, debenture or other evidence of indebtedness which by its terms does not mature within one year from the date of execution or issuance thereof, unless otherwise redeemable or subject to prepayment at any time at the option of the Acquired Company on not more than thirty (30) days notice without penalty for such redemption or prepayment.

(b) CUSTOMER NOTIFICATIONS. At any time and from time to time reasonably requested by SUG prior to the Closing Date, each Acquired Company will permit SUG at FAL's expense to insert preprinted single-page customer education materials into billing documentation to be delivered to customers affected by this Agreement; PROVIDED, HOWEVER, that FAL has reviewed in advance and consented to the content of such materials, which consent shall not be unreasonably withheld or delayed. Other means of notifying customers may be employed by either party, at the expense of the initiating party, but in no event shall any notification be initiated without the prior consent of the other party (which consent shall not be unreasonably withheld or delayed).

(c) ACCESS TO THE ACQUIRED COMPANIES' OFFICES, PROPERTIES AND RECORDS; UPDATING INFORMATION.

(1) From and after the date hereof and until the Closing Date, the Acquired Companies shall permit SUG and its Representatives to have, on reasonable notice and at reasonable times, reasonable access to such of the offices, properties and employees of the Acquired Companies, and shall disclose, and make available to SUG and its Representatives all books, papers and records to the extent that they relate to the ownership, operation, obligations and liabilities of or pertaining to the Acquired Companies, their businesses, assets and liabilities. Without limiting the application of the Confidentiality Agreement dated October 4, 1999 between FAL and SUG (the "Confidentiality Agreement"), all documents or information furnished by the Acquired Companies hereunder shall be subject to the Confidentiality Agreement.

(2) FAL will notify SUG as promptly as practicable of any significant change in the Ordinary Course of Business or operation of

any of the Acquired Companies and of any material complaints, investigations or hearings (or communications indicating that the same may be contemplated) by any Governmental Body, or the institution or overt threat or settlement of any material Proceeding involving or affecting any of the Acquired Companies or the transactions contemplated by this Agreement, and shall use reasonable efforts to keep SUG fully informed of such events and permit SUG's Representatives access to all materials

prepared in connection therewith, consistent with any applicable Legal Requirement or Contract.

(3) As promptly as practicable after SUG's request, FAL will furnish such financial and operating data and other information pertaining to the Acquired Companies and their businesses and assets as SUG may reasonably request; PROVIDED, HOWEVER, that nothing herein will obligate any of the Acquired Companies to take actions that would unreasonably disrupt its Ordinary Course of Business or violate the terms of any Legal Requirement or Contract to which the Acquired Company is a party or to which any of its assets is subject in providing such information, or to incur any costs with respect to SUG's external auditors (or the Acquired Companies' external auditors in the event a report by such auditors is requested by SUG) providing accounting services with respect to issuing an auditor's report required by or for SUG.

(d) GOVERNMENTAL APPROVALS; THIRD PARTY CONSENTS. FAL will use its reasonable best efforts to obtain all necessary consents, approvals and waivers from any Person required in connection with the transactions contemplated hereby under any license, lease, permit or Contract applicable to the Acquired Companies, including, without limitation, the approvals of those Governmental Bodies and the consents of those third parties listed in Section 5.4 and Section 5.5 of the FAL Disclosure Schedule and as required by the HSR Act.

(e) DIVIDENDS. FAL shall not, nor shall it permit any of its Subsidiaries to: (i) declare or pay any dividends on or make other distributions in respect of any of its or their capital stock other than (A) dividends by a wholly-owned Subsidiary to FAL or another wholly-owned Subsidiary, or (B) regular quarterly dividends on FAL Common Stock with usual record and payment dates that do not exceed the current rate of $0.96 per fiscal year; (ii) split, combine or reclassify any of its capital stock or the capital stock of any Subsidiary or issue or authorize or propose the issuance of any other securities in respect of, or in substitution for, shares of its capital stock or the capital stock of any Subsidiary; or (iii) redeem, repurchase or otherwise acquire any shares of its capital stock or the capital stock of any Subsidiary other than redemptions, repurchases and other acquisitions of shares of capital stock in connection with the administration of employee benefit and dividend reinvestment and customer stock purchase plans as in effect on the date hereof in the ordinary course of the operation of such plans consistent with past practice.

(f) ISSUANCE OF SECURITIES. FAL shall not, nor shall it permit any of its Subsidiaries to, issue, agree to issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, sale, award, pledge, disposal or other encumbrance of, any shares of its or their capital stock of any class or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or convertible or exchangeable securities, other than as provided for in the FAL Benefit Plans, and its dividend reinvestment plan in effect as of the date hereof.

(g) ACCOUNTING. FAL shall not, nor shall it permit any of its Subsidiaries to, make any changes in their accounting methods, principles or practices except as required by law, rule, regulation or GAAP.

(h) NO SHOPPING.

(1) FAL shall not, and shall not authorize or permit any of its (or any of its Subsidiaries') officers, directors, agents, financial advisors, attorneys, accountants or other Representatives to, directly or indirectly, solicit, initiate or encourage submission of proposals or offers from any Person relating to, or that could reasonably be expected to lead to, a Business Combination or participate in any negotiations or discussions regarding, or furnish to any other Person any information with respect to, or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any other Person to do or seek a Business Combination; PROVIDED, HOWEVER, that, prior to the FAL Stockholders' Approval, FAL may, in response to an unsolicited written proposal from a third party with respect to a Business Combination that FAL's Board of Directors determines, in its good faith judgment, after consultation with and the receipt of the advice of its financial advisor and outside counsel with customary qualifications, is a Superior Proposal, (i) furnish information to, and negotiate, explore or otherwise engage in substantive discussions with such third party, only if FAL's Board of Directors determines, in its good faith judgment after consultation with its financial advisors and outside legal counsel, that it is reasonably necessary in order to comply with its fiduciary duties under applicable law and (ii) take and disclose to FAL's stockholders a position with respect to another Business Combination proposal, or amend or withdraw such position, pursuant to Rule 14d-9 and 14e-2 under the Exchange Act, or make such disclosure to FAL's stockholders which in the good faith judgment of FAL's Board of Directors is required by applicable law, based on the advice of its outside counsel. Prior to furnishing any non-public information to, entering into negotiations with or accepting a Superior Proposal from such third party, FAL will (i) provide written notice to SUG to the effect that it is furnishing information to or entering into discussions or negotiations with such third party and (ii) receive from such third party an executed confidentiality agreement containing substantially the same terms and conditions as the Confidentiality Agreement. FAL will immediately cease and cause to be terminated any existing solicitation, initiation, encouragement, activity, discussion or negotiations with any parties conducted heretofore by FAL or any of its representatives with respect to any Business Combination.

(2) Except as expressly permitted by this Section 6.1(h), neither the FAL Board of Directors nor any committee thereof may, (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to SUG, the approval or recommendation by such Board of Directors or such committee of the Merger or this Agreement, (ii) approve or recommend, or propose publicly to approve or recommend, a Business Combination or (iii) cause FAL to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any Business Combination. Notwithstanding the foregoing, prior to the time at which the FAL Stockholders' Approval has been obtained, in response to an unsolicited Business Combination proposal from a third party, if FAL's Board of Directors determines, in its good faith judgment, after consultation with and the receipt of the advice of its financial advisor and outside counsel with customary

the advice of its financial advisor and outside counsel with customary qualifications, that such proposal is a Superior Proposal and that failure to do any of the actions set forth in clauses (i), (ii) or (iii) above would create a reasonable possibility of a breach of the fiduciary duties of FAL's Board of Directors under applicable law, FAL's Board of Directors may

(i) withdraw or modify its approval or recommendation of the Merger or this Agreement, approve or recommend a Business Combination or cause FAL to enter into a Business Combination and (ii) negotiate with a third party with respect to such Business Combination proposal and, subject to FAL having paid to SUG the fees described in Section 8.3(a) hereof and having entered into a definitive agreement with respect to such Business Combination proposal, terminate this Agreement; PROVIDED, HOWEVER, that prior to entering into a definitive agreement with respect to a Business Combination proposal, FAL shall give SUG at least five (5) day's notice thereof, and shall cause its Representatives to, negotiate with SUG to make such adjustments in the terms and conditions of this Agreement as would enable FAL to proceed with the transactions contemplated herein on such adjusted terms; PROVIDED, FURTHER, that if FAL and SUG are unable to reach an agreement on such adjustments within five (5) days after such notice from FAL, FAL may enter into such definitive agreement, subject to the provisions of Article VIII.

(3) FAL shall notify SUG orally and in writing of any such inquiries, offers or proposals (including, without limitation, the material terms and conditions of any such offer or proposal and the identity of the Person making it), within one business day of the receipt thereof, shall use all reasonable efforts to keep SUG informed of the status and details of any such inquiry, offer or proposal and shall give SUG two (2) days advance notice of the first delivery of non-public information to such Person. If any such inquiry, offer or proposal is in writing, FAL shall promptly deliver to SUG a copy of such inquiry, offer or proposal.

(4) For purposes of this Agreement, (i) "Business Combination" means (other than the transactions contemplated or permitted by this Agreement) (A) a merger, consolidation or other business combination, share exchange, sale of shares of capital stock, tender offer or exchange offer or similar transaction involving FAL or any of its Subsidiaries, (B) acquisition in any manner, directly or indirectly, of a material interest in any capital stock of, or a material equity interest in a substantial portion of the assets of, FAL or any of its Subsidiaries, including any single or multi-step transaction or series of related transactions that is structured to permit a third party to acquire beneficial ownership of a majority or greater equity interest in FAL or any of its Subsidiaries, or (C) the acquisition in any manner, directly or indirectly, of any material portion of the business or assets (other than immaterial or insubstantial assets or inventory in the Ordinary Course of Business) of FAL or any of its Subsidiaries and (ii) "Superior Proposal" means a proposed Business Combination involving at least 50% of the shares of capital stock or a material portion of the assets of FAL that FAL's Board of Directors determines, after consulting with FAL's financial advisors and outside counsel, is financially superior to the transactions contemplated hereby and it appears that the party making the proposal is reasonably likely to have the funds necessary to consummate the Business Combination.

(i) SOLICITATION OF PROXIES; FAL PROXY STATEMENT. Subject to Section 6.1(h), FAL shall use its reasonable best efforts to solicit from its stockholders proxies in favor of the Merger and shall take all other action necessary or, in the reasonable opinion of SUG, advisable to secure the FAL Stockholders' Approval.

(j) FAL STOCKHOLDERS' APPROVAL.

(1) Subject to the provisions of Section 6.1(h) and Section 6.1(j)(2), FAL shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its stockholders (including all adjournments thereof, the "FAL Meeting") for the purpose of securing the FAL Stockholders' Approval, (ii) distribute to its stockholders the FAL Proxy Statement in accordance with applicable federal and state law and with its Organizational Documents, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its stockholders the approval and adoption of this Agreement and the transactions contemplated hereby and (iv) cooperate and consult with SUG with respect to each of the foregoing matters.

(2) The FAL Meeting for the purpose of securing the FAL Stockholders' Approval, including any adjournments thereof, will be held on such date or dates as FAL and SUG mutually determine.

(k) RULE 145 LETTERS. FAL shall promptly identify to SUG all officers and directors of any Acquired Company and any other persons who are "affiliates" within the meaning of such term as used in Rule 145 under the Securities Act ("Rule 145 Affiliates"), and FAL shall use its reasonable efforts to provide to SUG undertakings from such persons ("Rule 145 Letters") to the effect that no disposition of shares of SUG Common Stock received in the Merger will be made by such persons except within the limits and in accordance with the applicable provisions of said Rule 145, as amended from time to time, or except in a transaction which, in the opinion of legal counsel satisfactory to SUG, is exempt from registration under the Securities Act.

(l) FINANCING ACTIVITIES. FAL shall, and shall cause its Subsidiaries to, cooperate, to the fullest extent commercially reasonable and practicable, with SUG's requests with respect to refinancing by the Acquired Companies of the current maturities of any of their indebtedness, and any repurchase, redemption or prepayment by any of the Acquired Companies of any of its indebtedness that may be required prior to or because of the Merger or that SUG may request that the Acquired Companies effect prior to the Merger, so as to permit SUG to have the maximum opportunity to refinance, on or promptly after the Closing Date without any penalty except as may be due pursuant to the terms of the Acquired Companies' indebtedness as in effect on the date of this Agreement, any of the Acquired Companies' indebtedness outstanding on the Closing Date; PROVIDED, HOWEVER, that no Acquired Company shall be required to consummate prior to the Effective Time any such refinancing, repurchase, redemption or repayment requested by SUG.

(m) FAL DISCLOSURE SCHEDULE. On the date hereof, FAL has delivered to SUG the FAL Disclosure Schedule, accompanied by a certificate signed by an executive officer of FAL stating the FAL Disclosure Schedule is being delivered pursuant to this Section 6.1(m). The FAL Disclosure Schedule constitutes an integral part of this Agreement and modifies the representations, warranties, covenants or agreements of FAL contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the FAL Disclosure Schedule.

(n) FAL BONDHOLDERS' CONSENT. FAL shall use its reasonable best efforts to obtain consents from all holders of each series of First Mortgage Bonds issued and outstanding under the Indenture of First Mortgage, dated as of December 1, 1952, between FAL and State Street Bank and Trust Company,

successor in interest to the First National Bank of Boston, successor by merger to Old Colony Trust Company, as Trustee, as amended or supplemented from time to time, to such amendments to such Indenture as requested by SUG.

SECTION 6.2 COVENANTS OF SUG. SUG agrees to observe and perform the following covenants and agreements:

(a) GOVERNMENTAL APPROVALS; THIRD PARTY CONSENTS. SUG will use its reasonable best efforts at SUG's sole expense to obtain all necessary consents, approvals and waivers from any Person required in connection with the transactions contemplated hereby under any license, lease, permit, Contract or agreement applicable to SUG, including, without limitation, the approvals of those Governmental Bodies and the consents of those third parties listed in Section 4.5 of the SUG Disclosure Schedule and as required by the HSR Act.

(b) EMPLOYEES; BENEFITS. With respect to the employees (excluding unionized employees) listed in Section 5.17(a) of the FAL Disclosure Schedule (or their successors employed pursuant to Section 6.1(a)(7) above) (the "Employees"), except as otherwise specified herein, SUG agrees as follows:

(1) During the 12 months immediately following the Closing Date, to make available to the Employees who continue their service with the Surviving Corporation or any Subsidiary of the Surviving Corporation employee benefit plans or arrangements that are no less favorable, in the aggregate, than the FAL Benefit Plans listed in Section 5.18(j) of the FAL Disclosure Schedule offered to the Employees immediately prior to the date of this Agreement.

(2) For purposes of eligibility, vesting and benefit accrual under all benefit plans provided to the Employees after the Closing Date, SUG will recognize the tenure of employment, as recognized by the Acquired Companies as of the Closing Date.

(3) All vacation time earned by the Employees prior to the Closing Date must be taken by the end of the calendar year in which the Closing Date occurs, except where the Employee is requested by FAL or SUG to forego their vacation for business-related reasons. For purposes of awarding vacation time at the beginning of each calendar year following the Closing Date, SUG will recognize the tenure of employment, as recognized by the Acquired Company as of the Closing Date.

(c) BLUE SKY PERMITS. SUG shall use its reasonable best efforts to obtain, prior to the effective date of the Registration Statement, all necessary state securities laws or "blue sky" permits and approvals required to carry out the transactions contemplated by the Agreement, and will pay all expenses incident thereto.

(d) LISTING APPLICATION. Prior to the Closing, SUG shall cause the shares of SUG Common Stock constituting the Stock Consideration to be listed on the NYSE, subject to official notice of issuance thereof.

(e) COLLECTIVE BARGAINING AGREEMENTS. At the Effective Time, SUG agrees to assume all collective bargaining agreements covering employees of any Acquired Company, and shall discharge when due any and all liabilities of any Acquired Company under such collective bargaining agreements relating to periods after the Effective Time.

(f) SUG DISCLOSURE SCHEDULE. On the date hereof, SUG has delivered to FAL the SUG Disclosure Schedule, accompanied by a certificate signed by an executive officer of SUG stating that the SUG Disclosure Schedule is being delivered pursuant to this Section 6.2(f). The SUG Disclosure Schedule constitutes an integral part of this Agreement and modifies the representations, warranties, covenants or agreements of SUG contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the SUG Disclosure Schedule.

(g) CONDUCT OF THE BUSINESS PRIOR TO THE CLOSING DATE. Except (i) as contemplated in this Agreement, (ii) in connection with the transactions contemplated by the PEI Merger Agreement, (iii) as required by law or regulation or (iv) as otherwise expressly consented to in writing by FAL which consent will not be unreasonably withheld or delayed, prior to the Closing, SUG will:

(1) Not make or permit any material change in the general nature of its business;

(2) Maintain its present operations in the Ordinary Course of Business in accordance with prudent business judgment and consistent with past practice and policy, and maintain its assets in good repair, order and condition, reasonable wear and tear excepted, subject to retirements in the Ordinary Course of Business;

(3) Preserve SUG as an ongoing business and use reasonable efforts to maintain the goodwill associated with SUG; and

(4) Preserve all of SUG's franchises, tariffs, certificates of public convenience and necessity, licenses, authorizations and other governmental rights and permits.

(h) ACCESS TO SUG'S OFFICES, PROPERTIES AND RECORDS; UPDATING INFORMATION.

(1) From and after the date hereof and until the Closing Date, SUG and its Subsidiaries shall permit FAL and its Representatives to have, on reasonable notice and at reasonable times, reasonable access to such of the offices, properties and employees of SUG and its Subsidiaries, and shall disclose, and make available to FAL and its Representatives all books, papers and records to the extent that they relate to the ownership, operation, obligations and liabilities of or pertaining to SUG, its Subsidiaries and their respective businesses and assets. Without limiting the application of the Confidentiality Agreement, all documents or information furnished by SUG and its Subsidiaries hereunder shall be subject to the Confidentiality Agreement.

(2) SUG will notify FAL as promptly as practicable of any significant change in the Ordinary Course of Business or operation of SUG or any of its Subsidiaries and of any material complaints, investigations or hearings (or communications indicating that the same may be contemplated) by any Governmental Body, or the institution or overt threat or

settlement of any material Proceeding involving or affecting SUG or any of its Subsidiaries or the transactions contemplated by this Agreement, and shall use reasonable efforts to keep FAL fully informed of such events and permit FAL's Representatives access to all materials prepared in connection therewith consistent with any applicable Legal Requirement or Contract.

SECTION 6.3 ADDITIONAL AGREEMENTS.

(a) THE REGISTRATION STATEMENT AND THE FAL PROXY STATEMENT. As soon as practicable after the date hereof, FAL and SUG shall take such reasonable steps as are necessary for the prompt preparation and filing with the SEC of (i) the FAL Proxy Statement by FAL and (ii) the Registration Statement, which will include certain information contained in the FAL Proxy Statement, by SUG. The foregoing shall include without limitation: (i) obtaining and furnishing the information required to be included therein, (ii) after consultation between FAL and SUG, responding promptly to any comments made by the SEC with respect to the FAL Proxy Statement and the Registration Statement and any amendments and preliminary version thereof and (iii) causing the Registration Statement to become effective, and the FAL Proxy Statement to be mailed to FAL's stockholders at the earliest practicable date. FAL agrees, as to information with respect to FAL, its officers, directors, stockholders and Subsidiaries contained in the Registration Statement and the FAL Proxy Statement, and SUG agrees, as to information with respect to SUG, its officers, directors, stockholders and Subsidiaries contained in the Registration Statement and the FAL Proxy Statement, that such information, in the case of the FAL Proxy Statement at the time of the mailing of the FAL Proxy Statement and (as then amended or supplemented) at the time of the FAL Meeting, or in the case of the Registration Statement at the time of the mailing of the FAL Proxy Statement (as then amended or supplemented), at the time of the FAL Meeting and at the effective time of the Registration Statement, will not contain any untrue statement of material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. No representation, warranty, covenant or agreement is made by or on behalf of FAL with respect to information supplied by any other Person for inclusion in the FAL Proxy Statement or the Registration Statement. No representation, warranty, covenant or agreement is made by or on behalf of SUG with respect to information supplied by any other Person for inclusion in the FAL Proxy Statement or the Registration Statement. No filing of, or amendment or supplement to, the FAL Proxy Statement or the Registration Statement shall be made by any party hereto without providing the other party with the opportunity to review and comment thereon (except for any ongoing SEC reporting required of SUG or FAL that will be incorporated by reference). If at any time prior to the Effective Time any information relating to any party hereto or any of their respective officers, directors, stockholders or Subsidiaries, should be discovered by any party hereto which should be set forth in an amendment or supplement to the FAL Proxy tatement or the Registration Statement so that the FAL Proxy Statement or the Registration Statement would not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party hereto and an appropriate amendment or supplement describing such information shall be promptly prepared, filed with the SEC and, to the extent required by law, disseminated to the stockholders of FAL, as may be necessary.

(b) FURTHER ASSURANCES. Each of SUG and FAL agrees, and FAL agrees to cause its Subsidiaries, to take all such reasonable and lawful action as may be necessary or appropriate in order to

effectuate the Merger in accordance with this Agreement as promptly as possible. If, at any time after the Effective Time, any such further action is necessary or desirable to carry out the purpose of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Acquired Companies, the officers and directors of the Surviving Corporation will be fully authorized to take, and will take, all such lawful and necessary action.

(c) FINANCIAL STATEMENTS TO BE PROVIDED. Upon SUG's request, FAL shall (i) provide to SUG audited and unaudited financial statements required to be included in the proxy statements and the registration statement contemplated by the PEI Merger Agreement and (ii) cause its independent accountants to deliver to SUG and PEI the required consents in connection therewith.

ARTICLE VII
CONDITIONS

SECTION 7.1 CONDITIONS TO SUG'S OBLIGATION TO EFFECT THE MERGER. The obligation of SUG to effect the transactions contemplated by this Agreement shall be subject to fulfillment at or prior to the Closing of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES TRUE AS OF THE CLOSING DATE. FAL's representations and warranties in this Agreement shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on the Closing Date; PROVIDED, HOWEVER, that any such representation or warranty that is qualified by any standard of materiality (including, but not limited to, FAL Material Adverse Effect) shall have then been, and shall then be, accurate in all respects.

(b) COMPLIANCE WITH AGREEMENTS. The covenants, agreements and conditions required by this Agreement to be performed and complied with by any of the Acquired Companies shall have been performed and complied with in all material respects prior to or at the Closing Date.

(c) CERTIFICATE. FAL shall execute and deliver to SUG a certificate of an authorized officer of FAL, dated the Closing Date, stating that the conditions specified in Sections 7.1(a) and 7.1(b) of this Agreement applicable to the Acquired Companies have been satisfied.

(d) GOVERNMENTAL APPROVALS. All approvals, consents, opinions or rulings of all Governmental Bodies required in order to consummate the transactions contemplated hereby shall have been obtained by Final Order in such form as is, and with no conditions that are, individually or in the aggregate, reasonably likely to have a FAL Material Adverse Effect or a material adverse effect on the business, operations, properties, financial condition or results of operations of the Surviving Corporation, or which would otherwise, in the reasonable determination of SUG, be unduly burdensome to the Surviving Corporation or any of its Affiliates. In addition, and without limitation of the condition set forth in the immediately preceding sentence, the Massachusetts Department of Telecommunications and Energy shall have resolved, by means of a Final Order, the manner in which the Surviving Corporation as a whole and its operating division in Massachusetts will be regulated under Chapter 164 of the Massachusetts General Laws, and such resolution shall be acceptable to SUG in its sole discretion. The applicable waiting period under the HSR Act with respect to the transactions contemplated hereby shall have expired or have been terminated.

(e) THIRD PARTY CONSENTS. Each of the consents required under Section 5.4 of this Agreement shall have been obtained to the reasonable satisfaction of SUG, other than any such consents which, if not obtained, are not, individually or in the aggregate, reasonably likely to result in a FAL Material Adverse Effect after the Closing. In addition, all consents and approvals required, under the terms of any note, bond or indenture listed in Section 5.4 of the FAL Disclosure Schedule to which any of the Acquired Companies is a party, shall have been obtained.

(f) INJUNCTIONS. On the Closing Date, there shall be no Orders which operate to restrain, enjoin or otherwise prevent the consummation of this Agreement or the Merger.

(g) RESIGNATIONS. Each director of each Acquired Company shall resign any position as a director of an Acquired Company effective as of the Closing Date in accordance with such Acquired Company's Organizational Documents and applicable provisions of the MBCL; PROVIDED, HOWEVER, that such resignations shall not cause the termination of any such Person's employment as an employee of an Acquired Company or reduce any such employee's then current level of compensation.

(h) OPINION OF TAX COUNSEL. On the Closing Date, SUG shall have received from Hughes Hubbard & Reed LLP, counsel to SUG, an opinion to the effect that the Merger will constitute a "reorganization" within the meaning of IRC Section 368(a)(1)(A), and that no gain or loss will be recognized by SUG or FAL with respect to the Merger.

(i) FAL STOCKHOLDERS' APPROVAL. The FAL Stockholders' Approval shall have been obtained.

(j) APPRAISAL RIGHTS. Demand for payment for shares and appraisal thereof by stockholders of FAL in accordance with the MBCL with respect to the Merger shall not equal or exceed 5 percent of the shares of FAL Common Stock entitled to vote on the Merger.

(k) RULE 145 LETTERS. Each Rule 145 Affiliate shall have executed and delivered to SUG a Rule 145 Letter, in form and substance reasonably satisfactory to SUG and its counsel.

(l) REGISTRATION STATEMENT. The Registration Statement shall have become effective, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(m) LISTING OF SUG COMMON STOCK. The shares of SUG Common Stock constituting the Stock Consideration shall have been authorized for listing, upon official notice of issuance, on the NYSE.

(n) FAL BONDHOLDERS' CONSENT. All holders of each series of First Mortgage Bonds issued and outstanding under the Indenture of First Mortgage, dated as of December 1, 1952, between FAL and State Street Bank and Trust Company, successor in interest to the First National Bank of Boston, successor by merger to Old Colony Trust Company, as Trustee, as amended or supplemented from time to time, shall have consented to such amendments to such Indenture as requested by SUG.

SECTION 7.2 CONDITIONS TO FAL'S OBLIGATIONS TO EFFECT THE MERGER. The obligation of FAL to effect the transactions contemplated by this Agreement shall be subject to fulfillment at or prior to the Closing of the following

conditions:

(a) REPRESENTATIONS AND WARRANTIES TRUE AS OF THE CLOSING DATE. SUG's representations and warranties in this Agreement shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on the Closing Date; PROVIDED, HOWEVER, that any such representation or warranty that is qualified by any standard of materiality (including, but not limited to, SUG Material Adverse Effect) shall have then been, and shall then be, accurate in all respects.

(b) COMPLIANCE WITH AGREEMENTS. The covenants, agreements and conditions required by this Agreement to be performed and complied with by SUG shall have been performed and complied with in all material respects prior to or at the Closing Date.

(c) CERTIFICATE. SUG shall execute and deliver to FAL a certificate of an authorized officer of SUG, dated the Closing Date, stating that the conditions specified in Sections 7.2(a) and 7.2(b) of this Agreement applicable to SUG have been satisfied.

(d) GOVERNMENTAL APPROVALS. All approvals, consents, opinions or rulings of all Governmental Bodies required in order to consummate the transactions contemplated hereby shall have been obtained by Final Order in such form as is, and with no conditions that are, individually or in the aggregate, reasonably likely to have a material adverse effect on the business, operations, properties, financial condition or results of operations of the Surviving Corporation. The applicable waiting period under the HSR Act with respect to the transactions contemplated hereby shall have expired or have been terminated.

(e) INJUNCTIONS. On the Closing Date, there shall be no Orders which operate to restrain, enjoin or otherwise prevent the consummation of this Agreement or the Merger.

(f) OPINION OF COUNSEL. On the Closing Date, FAL shall have received from Rich, May, Bilodeau & Flaherty, P.C., counsel to FAL, an opinion to the effect that the Merger will be treated for federal income tax purposes as a "reorganization" within the meaning of IRC Section 368(a), and that no gain or loss will be recognized for federal income tax purposes by the stockholders of FAL who receive SUG Common Stock in the Merger upon their receipt of the Merger Consideration, except that any realized gain will be recognized to the extent of the amount of cash received (including cash in lieu of the fractional shares).

(g) FAL STOCKHOLDERS' APPROVAL. The FAL Stockholders' Approval shall have been obtained.

(h) REGISTRATION STATEMENT. The Registration Statement shall have become effective, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(i) LISTING OF SUG COMMON STOCK. The shares of SUG Common Stock constituting the Stock Consideration shall have been authorized for listing, upon official notice of issuance, on the NYSE.

ARTICLE VIII
TERMINATION

SECTION 8.1 TERMINATION RIGHTS. This Agreement may be terminated in its entirety at any time prior to the Closing:

(a) By the mutual written consent of SUG and FAL;

(b) By FAL, on the one hand, or SUG, on the other hand, in writing if there shall be in effect a non-appealable order of a court of competent jurisdiction prohibiting the consummation of the Merger in accordance with this Agreement;

(c) By FAL, by written notice to SUG, if there is a breach of any representation, warranty, covenant or agreement of SUG, which breach cannot be cured and would cause the conditions set forth in Section 7.2(a) or (b) to be incapable of being satisfied;

(d) By SUG, by written notice to FAL, if there is a breach of any representation, warranty, covenant or agreement of FAL, which breach cannot be cured and would cause the conditions set forth in Section 7.1(a) or (b) to be incapable of being satisfied;

(e) By FAL, by written notice to SUG in accordance with Section 6.1(h)(2); PROVIDED, HOWEVER, that the termination described in this clause (e) shall not be effective unless and until FAL shall have paid SUG the fee described in Section 8.3(a) and FAL has substantially contemporaneously entered into a definitive agreement with respect to the proposed Business Combination;

(f) By FAL, by written notice to SUG, if the FAL Stockholders' Approval is not obtained at the FAL Meeting or by SUG, by written notice to FAL, if the FAL Stockholders' Approval is not obtained at the FAL Meeting; PROVIDED, HOWEVER, that there has not been a material misrepresentation or a material breach of covenant, warranty or agreement contained herein on the part of the party asserting its right to terminate pursuant to this Section 8.1(f);

(g) By SUG, by written notice to FAL, if the Board of Directors of FAL or any committee thereof (i) withdraws or modifies, or proposes publicly to withdraw or modify, in a manner adverse to SUG, the approval or recommendation by the Board of Directors or such committee of the Merger or this Agreement, (ii) approves or recommends, or proposes publicly to approve or recommend, a Business Combination, (iii) causes FAL to enter into a definitive agreement related to any Business Combination or (iv) resolves to take any of the actions specified in clause (i), (ii) and (iii) above;

(h) By SUG, by written notice to FAL, if a third party, including a group (as defined under the Exchange Act) acquires securities representing greater than 50% of the voting power of the outstanding voting securities of FAL; or

(i) By FAL, by written notice to SUG, if the Average Trading Price of the SUG Common Stock as of the Closing is lower than $15.00.

(j) By either party in writing at any time after 5:00 p.m., Eastern Time, on October 15, 2000 (the "Initial Termination Date"), if the Closing has not occurred prior thereto; PROVIDED, HOWEVER, that the right to terminate this Agreement under this Section 8.1(j) will not be available to any party that is in material breach of its representations, warranties, covenants or agreements contained herein; and PROVIDED, FURTHER, that if on the Initial Termination Date (i) the conditions to closing set forth in Sections 7.1(d) and 7.2(d) shall not have been fulfilled or (ii) any approval or authorization of any Governmental Body required in connection with the consummation of the Merger shall have not been obtained and such approval or authorizations shall not have become a Final Order, but all other conditions

authorizations shall not have become a final Order, but all other conditions to Closing shall be fulfilled or shall be capable of being fulfilled, then the Initial Termination Date will be extended to February 28, 2001.

SECTION 8.2 EFFECT OF TERMINATION. If this Agreement is terminated pursuant to Section 8.1, this Agreement shall be of no further force and effect and there shall be no further liability hereunder on the part of any party or its Affiliates, directors, officers, stockholders, agents or other Representatives; PROVIDED, HOWEVER, that (i) any fee payable under Section 8.3(a) is paid to SUG and (ii) no such termination shall relieve any party of liability for any claims, damages or losses suffered by the other party as a result of the negligent or willful failure of a party to perform any obligations required to be performed by it hereunder on or prior to the date of termination. Notwithstanding anything to the contrary contained herein, the provisions of Section 8.2, Sections 10.1 through 10.6 and Sections 10.8 through 10.11 of this Agreement shall survive any termination of this Agreement.

SECTION 8.3 TERMINATION FEE; EXPENSES.

(a) TERMINATION FEE. If this Agreement is terminated pursuant to Section 8.1(e), 8.1(g) or 8.1(h), then FAL shall pay to SUG promptly (but not later than five business days after notice is received from FAL) an amount equal to $1.5 million in cash.

(b) EXPENSES. The parties agree that the agreements contained in this Section 8.3 are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty. Notwithstanding anything to the contrary contained in this Section 8.3, if FAL fails to pay promptly to SUG the fee due under Section 8.3(a), in addition to any amounts paid or payable pursuant to Section 8.3(a), FAL shall pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee calculated using an annual percentage rate of interest equal to the prime rate published in the WALL STREET JOURNAL on the date (or preceding business day if such date is not a business day) such fee was required to be paid, compounded on a daily basis using a 360-day year.

ARTICLE IX
INDEMNIFICATION; REMEDIES

SECTION 9.1 DIRECTORS' AND OFFICERS' INDEMNIFICATION.

(a) INDEMNIFICATION AND INSURANCE. For a period of six years after the Effective Time, the Surviving Corporation will indemnify and hold harmless the present and former officers and directors of FAL and its Subsidiaries (the "Indemnified Parties") in respect of acts or omissions occurring prior to the Effective Time to the extent provided under FAL's articles of organization and bylaws in effect on the date

hereof; PROVIDED, HOWEVER, that if any claim or claims are asserted or made within such six-year period, all rights to indemnification in respect of such claims shall continue until the final disposition of any and all such claims. For six years after the Effective Time, the Surviving Corporation will use its reasonable best efforts to provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each such person currently covered by FAL's officers' and directors' liability insurance policy on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date

hereof; PROVIDED, HOWEVER, that in satisfying its obligation under this Section, if the annual premiums of such insurance coverage exceed 200% of the previous year's premiums, the Surviving Corporation will be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Board of Directors of the Surviving Corporation for a cost not exceeding such amount.

(b) SUCCESSORS. In the event the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then and in either such case, proper provisions must be made so that the successors and assigns of the Surviving Corporation will assume the obligations set forth in this Section 9.1.

(c) SURVIVAL OF INDEMNIFICATION. To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of any Acquired Company with respect to their activities as such prior to the Effective Time, as provided in their respective Organizational Documents in effect on the date hereof, or otherwise in effect on the date hereof, will survive the Merger and will continue in full force and effect except for amendments to make changes permitted by law that would enhance the rights of past or present officers and directors to indemnification or advancement of expenses in respect of acts or omissions occurring prior to the Effective Time for a period of not less than six years from the Effective Time (or, in the case of matters occurring prior to the Effective Time which have not been resolved prior to the sixth anniversary of the Effective Time, until such matters are finally resolved).

SECTION 9.2 REPRESENTATIONS AND WARRANTIES. Each and every representation and warranty of either party shall expire at, and be terminated and extinguished with, the Effective Time.

ARTICLE X
GENERAL PROVISIONS

SECTION 10.1 EXPENSES. Each of the parties will pay all costs and expenses of its performance of and compliance with this Agreement, except (i) as provided in Section 8.3 and as expressly provided otherwise herein, (ii) FAL shall pay all fees and expenses of counsel for FAL, (iii) SUG will pay all real estate transfer taxes and real estate recording fees, if any, including expenses of counsel associated with real estate title, transfer and recording issues in connection with the Merger, and all filing and application fees paid to Governmental Bodies in connection with the Merger and (iv) SUG and FAL will each pay half of the combined costs of printing and mailing to the FAL stockholders the prospectus that is a part of the Registration Statement and the FAL Proxy Statement.

SECTION 10.2 NOTICES. All notices, requests and other communications hereunder shall be in writing and shall be deemed to have been given upon receipt if either (a) personally delivered, (b) sent by

prepaid first class mail, and registered or certified and a return receipt requested or (c) by facsimile telecopier with completed transmission acknowledged:

if to SUG, to: Southern Union Company
504 Lavaca Street, Suite 800
Austin, Texas 78701

Attention: Peter H. Kelley
President and Chief Operating Officer
Telecopier: (512) 477-3879

with a copy to: Pennsylvania Enterprises, Inc. One PEI Center
Wilkes-Barre, Pennsylvania 18711-0601
Attention: Thomas F. Karam
President and Chief Executive Officer
Telecopier: (570) 829-8900

and

Hughes Hubbard & Reed LLP
One Battery Park Plaza
New York, New York 10004
Attention: Garett J. Albert
Telecopier: (212) 422-4726

if to FAL, to: Fall River Gas Company 155 North Main Street
Fall River, Massachusetts 02722
Attention: Bradford J. Faxon
President and Chief Executive Officer
Telecopier: (508) 675-7811

with a copy to: Rich, May, Bilodeau & Flaherty, P.C.
176 Federal Street
Boston, Massachusetts 02110
Attention: Eric J. Krathwohl
Telecopier: (617) 556-3889

or at such other address or number as shall be given in writing by a party to the other parties.

SECTION 10.3 ASSIGNMENT. This Agreement may not be assigned by any party hereto without the prior written consent of the other parties hereto. Any assignment in violation of the terms of this Agreement shall be null and void AB INITIO.

SECTION 10.4 SUCCESSOR BOUND. Subject to the provisions of Section 10.3, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 10.5 GOVERNING LAW; FORUM; CONSENT TO JURISDICTION. This Agreement shall be construed in accordance with and governed by the laws of the State of New York except to the extent that the terms and consummation of the Merger are subject to the DGCL or the MBCL in which case such laws shall govern. Each party to this Agreement hereby irrevocably and unconditionally (i) consents to submit to the exclusive jurisdiction of the federal courts of the Southern District of New York in the county of New York and the borough of Manhattan and the jurisdiction of the federal courts of the District of Massachusetts in the county of Suffolk and the city of Boston for any proceeding arising in connection with this Agreement (and each such party agrees not to commence any such proceeding, except in such courts), (ii) to the extent such party is not a resident of the State of New York or the Commonwealth of Massachusetts, agrees to appoint agents in the State of New York and the Commonwealth of Massachusetts as such party's agents for acceptance of legal process in any such proceeding against such party with the same legal force and validity as if served upon such party personally within the State of New York or the Commonwealth of Massachusetts, respectively, and to notify promptly each other party hereto of the name and address of each such agent, (iii) waives any objection to the laying of venue of any such proceeding in the federal courts of

the Southern District of New York in the county of New York and the borough of Manhattan or the federal courts of the District of Massachusetts in the county of Suffolk and the city of Boston, and (iv) waives, and agrees not to plead or to make, any claim that any such proceeding brought in any federal court of the Southern District of New York or the District of Massachusetts has been brought in an improper or otherwise inconvenient forum.

SECTION 10.6 WAIVER OF TRIAL BY JURY. EACH PARTY TO THIS AGREEMENT HEREBY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH ANY SUCH PARTY MAY BE A PARTY ARISING OUT OF OR IN ANY WAY PERTAINING TO (i) THIS AGREEMENT, (ii) THE MERGER, (iii) THE CONFIDENTIALITY AGREEMENT OR (iv) ANY RELATED DOCUMENTS. IT IS AGREED AND UNDERSTOOD THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES WHO ARE PARTIES TO THIS AGREEMENT. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY EACH PARTY HERETO, AND EACH SUCH PARTY HEREBY REPRESENTS AND WARRANTS THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY PERSON TO INDUCE THIS WAIVER OR TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. EACH PARTY TO THIS AGREEMENT FURTHER REPRESENTS AND WARRANTS THAT EACH SUCH PARTY HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF EACH SUCH PARTY'S OWN FREE WILL, AND THAT EACH SUCH PARTY HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

SECTION 10.7 COOPERATION; FURTHER DOCUMENTS.

(a) Each of the parties hereto agrees to use its 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 under applicable laws, regulations or otherwise, to consummate and to make effective the transactions contemplated by this Agreement, including, without limitation, the timely performance of all actions and things contemplated by this Agreement to be taken or done by each of the parties hereto.

(b) Each party shall cooperate with the other party in such other party's discharge of the obligations hereunder, which shall include making reasonably available to the other party such of its personnel as have relevant information, with respect thereto.

SECTION 10.8 CONSTRUCTION OF AGREEMENT. The terms and provisions of this Agreement represent the results of negotiations between the parties hereto and their Representatives, each of which has been represented by counsel of its own choosing, and neither of which has acted under duress or compulsion, whether legal, economic or otherwise. Accordingly, the terms and provisions of this Agreement shall be interpreted and construed in accordance with their usual and customary meanings, and FAL and SUG hereby waive the application in connection with the interpretation and construction of this Agreement of any rule of law to the effect that ambiguous or conflicting terms or provisions contained in this Agreement shall be interpreted or construed against the party whose attorney prepared the executed draft or any earlier draft of this Agreement.

SECTION 10.9 PUBLICITY; ORGANIZATIONAL AND OPERATIONAL ANNOUNCEMENTS. No party hereto shall issue, make or cause the publication of any press release or other announcement with respect to this Agreement or the transactions contemplated hereby, or otherwise make any disclosures relating thereto, without the consent of the other party, such consent not to be unreasonably withheld or delayed; PROVIDED, HOWEVER, that such consent shall

unreasonably withheld or delayed, PROVIDED, HOWEVER, that such consent shall not be required where such release or announcement is required by applicable law or the rules or regulations of a securities exchange, in which event the party so required to issue such release or announcement shall endeavor, wherever possible, to furnish an advance copy of the proposed release to the other party.

SECTION 10.10 WAIVER. Except as otherwise expressly provided in this Agreement, neither the failure nor any delay on the part of any party to exercise any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise or waiver of any such right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege available to each party at law or in equity.

SECTION 10.11 PARTIES IN INTEREST. This Agreement (including the documents and instruments referred to herein) is not intended to confer upon any Person, other than the parties hereto and their successors and permitted assigns, any rights or remedies hereunder, except that the parties hereto agree and acknowledge that the agreements and covenants contained in Section 9.1 are intended for the direct and irrevocable benefit of the Indemnified Parties described therein and their respective heirs or legal representatives (each such director or Indemnified Party, a "Third Party Beneficiary"), and that each such Third Party Beneficiary, although not a party to this Agreement, shall be and is a direct and irrevocable third party beneficiary of such agreements and covenants and shall have the right to enforce such agreements and covenants against the Surviving Corporation in all respects fully and to the same extent as if such Third Party Beneficiary were a party hereto.

SECTION 10.12 SPECIFIC PERFORMANCE. The parties hereto agree that irreparable damage would occur to a party in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that any party shall be entitled to an injunction or injunctions to prevent breaches of this agreement by any other party and to enforce specifically, to the fullest extent available, the terms and provisions hereof, including each party's obligation to close, in any court of the United States or any state having jurisdiction, this being in addition to any other right or remedy to which any party is entitled at law or in equity.

SECTION 10.13 SECTION AND PARAGRAPH HEADINGS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 10.14 AMENDMENT. This Agreement may be amended only by an instrument in writing executed by the parties hereto.

SECTION 10.15 ENTIRE AGREEMENT. This Agreement, the exhibits, annexes and schedules hereto and the documents specifically referred to herein and the Confidentiality Agreement constitute the entire agreement, understanding, representations and warranties of the parties hereto with respect to the subject matter hereof.

SECTION 10.16 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SOUTHERN UNION COMPANY

By: /s/ RONALD J. ENDRES

Name: Ronald J. Endres
Title: Executive Vice President

FALL RIVER GAS COMPANY

By: /s/ BRADFORD J. FAXON

Name: Bradford J. Faxon
Title: President and Chief Executive Officer

By: /s/ PETER H. THANAS

Name: Peter H. Thanas
Title: Senior Vice President and Treasurer

[SEAL]

APPENDIX B

[LEGG MASON WOOD WALKER, INCORPORATED LETTERHEAD]

October 4, 1999

The Board of Directors
Fall River Gas Company
155 North Main Street
Fall River, Massachusetts 02720
Attention: Bradford J. Faxon

Members of the Board of Directors:

We are advised that Fall River Gas Company (collectively, "Fall River" or the "Company") has entered into an Agreement of Merger (the "Agreement") with Southern Union Company ("Southern Union"), pursuant to which Fall River will merge into Southern Union and each outstanding share of Fall River common stock will be converted into the right to receive $23.50 in cash or in value of common stock of Southern Union on terms and conditions as more fully set forth in the Agreement (the transaction is referred to herein as the "Transaction").

You have requested our opinion, as investment bankers, as to the fairness to the shareholders of the Company, from a financial point of view, of the consideration to be received by the shareholders of the Company in the Transaction.

For purposes of rendering this opinion, we have, among other things:

(i) reviewed the form of the definitive Agreement and certain related documents;

(ii) reviewed the audited consolidated financial statements of Fall River for the twelve month periods ended September 30, 1998, 1997, 1996 and 1995;

(iii) reviewed the unaudited financial statements of Fall River for the nine month period ended June 30, 1999;

(iv) reviewed the audited consolidated financial statements of Southern Union for the twelve month periods ended June 30, 1999, 1998, 1997, 1996 and 1995;

(v) reviewed certain publicly available information concerning Fall River and Southern Union;

(vi) reviewed forecast financial statements of Fall River furnished to us by the senior management of Fall River;

(vii) reviewed and analyzed certain publicly available financial and stock market data with respect to operating statistics relating to selected public companies that we deemed relevant to our inquiry;

(viii) reviewed the reported prices and trading activity of the publicly-traded securities of Fall River and Southern Union;

(ix) analyzed certain publicly available information concerning the terms of selected merger and acquisition transactions that we considered relevant to our inquiry;

(x) held meetings and discussions with certain officers and employees of Fall River and Southern Union concerning the operations, financial condition and future prospects of Fall River and Southern Union; and

(xi) conducted such other financial studies, analyses and investigations and considered such other information as we deemed necessary or appropriate for purposes of our opinion.

In connection with our review, we have assumed and relied upon the accuracy and completeness of all financial and other information supplied to us by Southern Union and Fall River or publicly available, and we have not independently verified such information. We have further relied upon the assurances of management of Southern Union and Fall River that they are unaware of any facts that would make such information incomplete or misleading. We also have relied upon the managements of Southern Union and Fall River, as to the reasonableness and achievability of the financial projections (and the assumptions and bases therein) provided to us or prepared for Fall River and Southern Union, and we have assumed that such projections have been reasonably prepared on bases reflecting the best currently available estimates and judgments of management as to the future operating performance of Fall River and Southern Union, including without limitation the tax benefits, cost savings and operating synergy to be enjoyed by Southern Union after the Transaction. Neither Southern Union nor Fall River publicly discloses internal management projections of the type provided to Legg Mason in connection with Legg Mason's review of the Transaction. Such projections were not prepared with the expectation of public disclosure. The projections were based on numerous variables and assumptions that are inherently uncertain, including without limitation, factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projections.

We have not been requested to make, and have not made, an independent appraisal or evaluation of the assets, properties or liabilities of Fall River and we have not been furnished with any such appraisal or evaluation. We have not reviewed any of the books and records of Fall River or assumed any responsibility for conducting a physical inspection of the properties or facilities of Fall River. Further, this opinion is based upon prevailing market conditions and other circumstances and conditions existing on the date hereof. We have assumed that the

Transaction will be consummated on the terms and conditions described in the form of the Agreement reviewed by us. It is understood that subsequent developments may affect the conclusions reached in this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

It is understood that this letter is directed to the Company's Board of Directors. The opinion expressed herein is provided for the use of the Company's Board of Directors in its evaluation of the proposed Transaction and does not constitute a recommendation to any shareholder of the Company either of the Transaction or as to how such shareholder should vote on or otherwise respond to the Transaction. In addition, this letter does not constitute a recommendation of the Transaction over any other alternative transaction which may be available to the Company and does not address the underlying business decision of the Board of Directors of the Company to proceed with or effect the Transaction. This letter is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other document used in connection with the

of proxy statement, or in any other document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, without the prior written consent of Legg Mason Wood Walker, Incorporated; provided that this Opinion may be included in its entirety in any filing made by the Company with the Securities and Exchange Commission with respect to the Transaction.

Legg Mason will receive a fee for providing this Opinion to the Board of Directors of Fall River. Legg Mason has previously provided a fairness opinion to a company that has agreed to be acquired by Southern Union.

Based upon and subject to the foregoing, we are of the opinion that, as of the date hereof, the consideration to be received by the shareholders of Fall River in the Transaction is fair to such shareholders from a financial point of view.

Very truly yours,

LEGG MASON WOOD WALKER, INCORPORATED

By: /s/ ALEXSANDER M. STEWART

Alexsander M. Stewart
Managing Director

APPENDIX C

VOTING AGREEMENT

VOTING AGREEMENT, dated this 4th day of October, 1999, by and between SOUTHERN UNION COMPANY, a Delaware corporation ("SUG"), and The Jarabek Family Limited Partnership, Ronald J. Ferris, Bradford J. Faxon, Raymond H. Faxon, Cindy L.J. Audette, Gilbert C. Oliveira, Jr. and Thomas H. Bilodeau (each a "Stockholder" and collectively the "Stockholders").

RECITALS:

WHEREAS, the Stockholders currently beneficially own (as such term is used under the Securities Exchange Act of 1934, as amended, and the rules and regulations issued thereunder) the shares of common stock, par value $.83 per share ("Shares"), of Fall River Gas Company, a Massachusetts corporation ("FAL") shown on Schedule A.

WHEREAS, as a condition of entering into the Agreement of Merger, made as of the date hereof, by and between SUG and FAL (the "Merger Agreement"), SUG has requested that the Stockholders agree, and the Stockholders have agreed (i) to enter into a voting agreement and (ii) to give SUG an irrevocable proxy, coupled with an interest, to vote the Shares held by the Stockholders, in each case as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties hereby agree as follows:

1. AGREEMENT TO VOTE SHARES. Each Stockholder agrees during the term of this Agreement to vote, or cause to be voted, the Shares shown opposite the Stockholder's name on Schedule A hereto and any other Shares acquired after the date hereof, in person or by proxy, in favor of the

Merger, the adoption and approval of the Merger Agreement and the approval of the transactions contemplated by the Merger Agreement at every meeting of the stockholders of FAL at which such matters are considered and at every adjournment thereof.

2. GRANT OF IRREVOCABLE PROXY. Each Stockholder hereby grants to SUG an irrevocable proxy, which proxy is coupled with an interest because of the consideration recited herein, to exercise, at any time and from time to time, all rights and powers of the Stockholder with respect to the Shares shown opposite the Stockholder's name on Schedule A hereto to vote, give approvals, and receive and waive notices of meetings for the purpose of securing the approval and adoption by the stockholders of FAL of the Merger Agreement and the consummation of the transactions contemplated thereby and to prevent any action that would prevent or hinder in any material respect such approval or consummation. By giving this proxy each Stockholder hereby revokes any other proxy granted by the Stockholder to vote any of the Shares in a manner inconsistent with the foregoing grant. The power and authority hereby conferred shall not be terminated by any act of the Stockholder or by operation of law, by the dissolution of, by lack of appropriate power or authority, or by the occurrence of any other event or events and shall be binding upon all its successors and assigns. If after the execution of this

Agreement the Stockholder shall dissolve, cease to have appropriate power or authority, or if any other such event or events shall occur, SUG is nevertheless authorized and directed to vote the Shares in accordance with the terms of this Agreement as if such dissolution, lack of appropriate power or authority or other event or events had not occurred and regardless of notice thereof.

3. NO OTHER GRANT OF PROXY. Each Stockholder will not, directly or indirectly, grant any proxies or powers of attorney with respect to the Shares shown opposite the Stockholder's name on Schedule A hereto or acquired after the date hereof to any person in connection with its vote, consent or other approval sought, in favor of the Merger (as defined in the Merger Agreement), the adoption and approval of the Merger Agreement and the approval of the transactions contemplated by the Merger Agreement, other than as set forth in Sections 1 and 2 hereof.

4. TRANSFERS. Each Stockholder will not, nor will such Stockholder permit any entity under such Stockholder's control to, sell, transfer, pledge, assign or otherwise dispose of (including by gift) (collectively, "Transfer"), or consent to any Transfer of, any Shares or any interest therein or enter into any contract, option or other agreement or arrangement (including any profit sharing or other derivative arrangement) with respect to the Transfer of, any Shares or any interest therein to any person, unless prior to any such Transfer the transferee of such Shares agrees to be subject to the provisions of this Agreement.

5. NO SOLICITATION. Until the Merger is consummated or the Merger Agreement is terminated in accordance with its terms, each Stockholder shall not, nor shall it permit any investment banker, attorney or other advisor or representative of such Stockholder to, directly or indirectly through another person, solicit, initiate, encourage or otherwise facilitate any takeover proposal.

6. REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS. Each Stockholder as to such Stockholder hereby represents and warrants to, and covenants with, SUG as follows:

(a) The Stockholder beneficially owns with power to vote the number of Shares shown opposite the Stockholder's name on Schedule A free and clear of any and all claims, liens, charges, encumbrances, covenants, conditions, restrictions, voting trust arrangements, options and adverse claims or rights whatsoever, except as granted hereby or as would have no adverse effect on this Agreement and/or the proxy granted hereby. The Stockholder does not own of record or beneficially any shares of capital stock of FAL or other securities representing or convertible into shares of capital stock of FAL except as set forth in the preceding sentence, Shares purchased after the date hereof which shall become subject to this Agreement and the proxy granted hereby, and Shares which any of them may have the right to purchase upon exercise of options or warrants;

(b) The Stockholder has the full right, power and authority to enter into this Agreement and to grant an irrevocable proxy to SUG with respect to the Shares; there are no options, warrants, calls, commitments or agreements of any nature whatsoever pursuant to which any person will have the right to purchase or otherwise acquire the Shares owned by the Stockholder except as would, if exercised, require such purchaser or acquiror to abide by this

Agreement and the proxy granted hereby with respect thereto; except as provided in this Agreement, the Stockholder has not granted or agreed to grant any proxy or entered into any voting trust, vote pooling or other agreement with respect to the right to vote or give consents or approval of any kind as to the Shares which proxy, trust, pooling or other agreement remains in effect as of the date hereof and is in conflict with this Agreement or the proxy granted hereby;

(c) The Stockholder is not a party to, subject to or bound by any agreement or judgment, order, writ, prohibition, injunction or decree of any court or other governmental body that would prevent the execution, delivery or performance of this Agreement by the Stockholder or the exercise of proxy rights by SUG with respect to the Shares;

(d) This Agreement has been duly and validly executed and delivered by the Stockholder and constitutes a legal, valid and binding obligation of the Stockholder, enforceable in accordance with its terms, subject only to (i) the effect of bankruptcy, insolvency, reorganization or moratorium laws or other laws generally affecting the enforceability of creditors' rights and (ii) general equitable principles which may limit the right to obtain specific performance or other equitable remedies; and

(e) The Stockholder will take all commercially reasonable action necessary in order that its representations and warranties set forth in this Agreement shall remain true and correct.

7. STOCKHOLDERS' COVENANTS. Each Stockholder shall not enter into any voting trust agreement, give any proxy or other right to vote the Shares or take any action that would limit the rights of any holder of the Shares to exercise fully the right to vote such Shares that would be in conflict with this Agreement or the proxy granted hereby.

8. SEVERABILITY. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

9. ASSIGNMENT. This Agreement shall not be assigned or delegated by any party hereto, except that SUG may transfer its rights hereunder to any wholly-owned subsidiary of SUG, and except that any assignment of any of the Shares by any Stockholder shall require that such Shares remain subject to this Agreement and the proxy granted hereby. This Agreement shall be binding upon and inure to the benefit of SUG and its successors and assigns and shall be binding upon and inure to the benefit of the Stockholders and their permitted successors and any permitted assigns.

10. SPECIFIC PERFORMANCE. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement and that the obligations of the parties hereto shall be specifically enforceable. In addition to any other legal or equitable remedies to which SUG would be entitled, in the event of a breach or a threatened breach of this Agreement by any Stockholder, SUG shall have the right to obtain equitable relief, including

(but not limited to) an injunction or order of specific performance of the terms hereof from a court of competent jurisdiction.

11. AMENDMENTS. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by all of the parties hereto.

12. NOTICES. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally, by cable, telegram or telex, or mailed by a party hereto by registered or certified mail (return receipt requested) or by a nationally recognized overnight mail deliver service, to the other party at the following addresses (or such other address for a party as shall be specified by like notice):

if to SUG:

Southern Union Company
504 Lavaca Street, Suite 800
Austin, Texas 78701
Attention: Peter H. Kelley
President and Chief Operating Officer
Fax Number: (512) 477-3879

with a copy to:

Pennsylvania Enterprises, Inc.
One PEI Center
Wilkes-Barre, Pennsylvania 18711-0601
Attn: Thomas F. Karam
President and Chief Executive Officer
Fax Number: (570) 829-8900

and:

Hughes Hubbard & Reed LLP
One Battery Park Plaza
New York, New York 10004
Attn: Garett J. Albert, Esq.
Fax Number: (212) 422-4726

if to any Stockholder, to such Stockholder:

c/o Fall River Gas Company
155 North Main Street
Fall River, Massachusetts 02722

Fax Number: (508) 675-7811

with a copy to:

Rich, May, Bilodeau & Flaherty, P.C.
176 Federal Street
Boston, Massachusetts 02110

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Attn: Eric J. Krathwohl, Esq.
Fax Number: (617) 556-3889

Any party may change its address for notice by notice so given.

13. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts regardless of the laws that might otherwise govern under applicable principles of conflicts of laws.

14. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be an original, but all of which together shall constitute one and the same agreement.

15. TERM. This Agreement shall terminate, and the proxy granted herein shall cease to be irrevocable, upon the consummation of the Merger in accordance with and as defined in the Merger Agreement or such other expiration or termination of the Merger Agreement in accordance with its terms, and thereafter this Agreement shall be of no further force or effect and there shall be no liability on the part of any party with respect thereto except nothing herein will relieve any party from liability for any prior breach hereof.

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IN WITNESS WHEREOF, SUG has caused this Agreement to be duly executed, and each Stockholder has duly executed this Agreement, on the day and year first above written.

SOUTHERN UNION COMPANY

By: /s/ RONALD J. ENDRES

Name: Ronald J. Endres
Title: Executive Vice President

THE JARABEK FAMILY LIMITED PARTNERSHIP

/s/ BARBARA N. JARABEK

Barbara N. Jarabek, General Partner

/s/ RONALD J. FERRIS

/s/ RONALD J. FERRIS

Ronald J. Ferris

/s/ BRADFORD J. FAXON

Bradford J. Faxon

/s/ RAYMOND H. FAXON

Raymond H. Faxon

/s/ CINDY L.J. AUDETTE

Cindy L.J. Audette

/s/ GILBERT C. OLIVEIRA, JR.

Gilbert C. Oliveira, Jr.

/s/ THOMAS H. BILODEAU

Thomas H. Bilodeau

SCHEDULE A

Stockholder	Number of Shares
The Jarabek Family Limited Partnership	295,710
Ronald J. Ferris	145,059
Bradford J. Faxon	40,306
Raymond H. Faxon	57,370
Cindy L.J. Audette	13,190
Gilbert C. Oliveira, Jr.	12,539
Thomas H. Bilodeau	9,006

APPENDIX D

FORM OF VOTING AGREEMENT AND IRREVOCABLE PROXY

Ladies and Gentlemen:

Reference is made to the Agreement and Plan of Merger among Southern Union Company ("Southern Union"), and Fall River Gas Company ("Fall River"), dated as of October 4,1999 (as amended, supplemented or otherwise modified from time to time, the "Merger Agreement").

In connection therewith, the undersigned agrees, upon each and every oral or written request or direction by Fall River, and in accordance with such request or direction, (a) to vote each of the shares of common stock (par value $.83 1/3 per share) of Fall River beneficially owned by the undersigned (the "Shares") entitled to vote as of the record date for the Special Meeting of Shareholders of Fall River called for the purpose of voting on the Merger Agreement, either in person or by proxy, in favor of the approval of the Merger Agreement and the transactions contemplated thereby and (b) to vote the Shares, either in person or by proxy, on any other matter that is not inconsistent with the Merger Agreement and the transactions contemplated thereby submitted to Fall River's shareholders for approval in the same proportion as the votes cast by the shareholders of Fall River other than Southern Union. The undersigned irrevocably appoints each of Bradford J. Faxon and Peter H. Thanas attorney-in-fact and proxy of the undersigned, with full power of substitution, to vote the Shares on its behalf pursuant to the preceding sentence. This appointment is effective upon execution of this proxy and shall be valid until (A) in the case of clause (a) of the second preceding sentence, the earlier to occur of (i) the termination of the Merger Agreement in accordance with its terms or (ii) the

consummation of the transactions contemplated by the Merger Agreement and (B) in the case of clause (b) of the second preceding sentence, the earliest to occur of (i) February 28, 2001, (ii) the sale of the Shares to one or more parties unaffiliated with Southern Union in open market transactions or (iii) the consummation of the transactions contemplated by the Merger Agreement. This proxy is irrevocable and shall be deemed to be coupled with an interest. The execution of this proxy shall revoke all prior proxies or written consents given by the undersigned at any time with respect to the Shares and no subsequent proxies or written consents may be given (and if given will be deemed not to be effective) by the undersigned with respect to the Shares.

The undersigned hereby represents and warrants that the undersigned has full power and authority to execute this proxy, and has, or will have, good and unencumbered title to the Shares, free and clear of all liens, restrictions, charges and encumbrances, and not subject to any adverse claim, in any such case that would preclude the effectiveness of this proxy. The undersigned will, upon request, execute and deliver any additional documents and take such further actions necessary or desirable to carry out the purposes of the proxy. All authority conferred or agreed to be conferred in this proxy shall be binding upon the successors, assigns, executors, administrators, trustees in bankruptcy and legal representatives of the undersigned.

SOUTHERN UNION COMPANY

By: /s/ PETER H. KELLEY

Peter H. Kelley

President and Chief Operating Officer

DATED: April 25, 2000

PART II

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article TWELFTH of the Restated Certificate of Incorporation of Southern Union eliminates personal liability of directors to the fullest extent permitted by Delaware law. Section 145 of the Delaware General Corporation Law provides that a Delaware corporation may indemnify any person against expenses, fines and settlements actually and reasonably incurred by any such person in connection with a threatened, pending or completed action, suit or proceeding in which he is involved by reason of the fact that he is or was a director, officer, employee or agent of such corporation, provided that (i) he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (ii) with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful. If the action or suit is by or in the name of the corporation, the corporation may indemnify any such person against expenses actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation, unless and only to the extent that the Delaware Court of Chancery or the court in which the action or suit is brought determines upon application that, despite the adjudication of liability but in the light of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expense as the court deems proper.

The directors and officers of Southern Union are covered by insurance policies indemnifying against certain liabilities, including certain liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), which might be incurred by them in such capacities and against which they cannot be indemnified by Southern Union. Southern Union has entered into an Indemnification Agreement with each member of its Board of Directors. The Indemnification Agreement provides the Directors with the contractual right to indemnification for any acts taken in their capacity as a director of Southern Union to the fullest extent permitted under Delaware law.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits.

EXHIBIT NUMBER	DESCRIPTION
(2)	PLAN OF ACQUISITION
2.1	- Agreement of Merger between Southern Union Company and Fall River Gas Company dated as of October 4, 1999. (Filed as Exhibit 2 to Southern Union's Current Report on Form 8-K filed on October 4, 1999 and incorporated herein by reference; also included in the Proxy Statement/Prospectus as Appendix A).
2.2	- Agreement and Plan of Merger among Southern Union Company,

GUS Acquisition Corporation and Providence Energy Corporation dated November 15, 1999. (Filed as Exhibit 2 to Southern Union's Current Report on Form 8-K filed on November 19, 1999 and incorporated herein by reference.)

2.3 - Agreement and Plan of Merger among Southern Union Company, SUG Acquisition Corporation and Valley Resources, Inc. dated November 30, 1999. (Filed as Exhibit 2 to

Southern Union's Current Report on Form 8-K filed on December 6, 1999 and incorporated herein by reference.)

(3)(i) ARTICLES OF INCORPORATION

3.1 - Restated Certificate of Incorporation of Southern Union Company. (Filed as Exhibit 3(a) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

3.2 - Amendment to Restated Certificate of Incorporation of Southern Union Company which was filed with the Secretary of State of Delaware and became effective on October 26, 1999. (Filed as Exhibit 3(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)

(3)(ii) BY-LAWS

3.3 - Southern Union Company Bylaws, as amended. (Filed as Exhibit 3(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)

(4) INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

4.1 - Specimen Common Stock Certificate. (Filed as Exhibit 4(a) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1989 and incorporated herein by reference.)

4.2 - Indenture between Chase Manhattan Bank, N.A., as trustee, and Southern Union Company dated January 31, 1994. (Filed as Exhibit 4.1 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)

4.3 - Officers' Certificate dated January 31, 1994 setting forth the terms of the 7.60% Senior Debt Securities due 2024. (Filed as Exhibit 4.2 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)

4.4 - Officer's Certificate of Southern Union Company dated November 3, 1999 with respect to 8.25% Senior Notes due 2029. (Filed as Exhibit 99.1 to Southern Union's Current Report on Form 8-K filed on November 19, 1999 and incorporated herein by reference.)

4.5 - Certificate of Trust of Southern Union Financing I. (Filed as Exhibit 4-A to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.6 - Certificate of Trust of Southern Union Financing II. (Filed as Exhibit 4-B to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.7 - Certificate of Trust of Southern Union Financing III. (Filed as Exhibit 4-C to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.8 - Form of Amended and Restated Declaration of Trust of Southern Union Financing I. (Filed as Exhibit 4-D to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and

Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.9 - Form of Subordinated Debt Securities Indenture among Southern Union Company and Chase Manhattan Bank, N.A., as Trustee. (Filed as Exhibit 4-G to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.10 - Form of Supplemental Indenture to Subordinated Debt Securities Indenture with respect to the Subordinated Debt Securities issued in connection with the Southern Union Financing Preferred Securities. (Filed as Exhibit 4-H to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.11 - Form of Southern Union Financing I Preferred Security (included in 4.7 above). (Filed as Exhibit 4-I to Southern Union's Registration Statement on Form S-3 (Filed as Exhibit 3(a) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

4.12 - Form of Subordinated Debt Security (included in 4.9 above.) (Filed as Exhibit 4-J to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.13 - Form of Guarantee with respect to Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-K to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4.14 - First Mortgage Bonds Indenture of Mortgage and Deed of Trust dated as of March 15, 1946 by Southern Union Company (as successor to PG Energy, Inc. formerly, Pennsylvania Gas and Water Company, and originally, Scranton-Spring Brook Water Service Company) to Guaranty Trust Company of New York. (Filed as Exhibit 4.1 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)

4.15 - Twenty-Third Supplemental Indenture dated as of August 15, 1989 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and Morgan Guaranty Trust Company of New York (formerly Guaranty Trust Company of New York). (Filed as Exhibit 4.2 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)

4.16 - Twenty-Sixth Supplemental Indenture dated as of December 1, 1992 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and Morgan Guaranty Trust Company of New York. (Filed as Exhibit 4.3 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)

4.17 - Thirtieth Supplemental Indenture dated as of December 1, 1995 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and First Trust of New York, National Association (as successor trustee to Morgan Guaranty Trust Company of New York). (Filed as Exhibit 4.4 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)

4.18 - Thirty-First Supplemental Indenture dated as of November 4, 1999 (Supplemental to Indenture dated as of March 15, 1946)

between Southern Union Company and U. S. Bank Trust, National Association (formerly, First Trust of New York, National Association). (Filed as Exhibit 4.5 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)

4.19 - Pennsylvania Gas and Water Company Bond Purchase Agreement dated September 1, 1989. (Filed as Exhibit 4.6 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)

4.20 - Southern Union is a party to other debt instruments, none of which authorizes the issuance of debt securities in an amount which exceeds 10% of the total assets of Southern Union. Southern Union hereby agrees to furnish a copy of any of these instruments to the Commission upon request.

(5) OPINION RE LEGALITY

5.1 - Opinion of Fleischman and Walsh, L.L.P. including the consent of such firm.

(8) OPINIONS RE TAX MATTERS

8.1 - Opinion of Rich, May, Bilodeau & Flaherty, P.C. including the consent of such firm.

8.2 - Opinion of Hughes Hubbard & Reed LLP including the consent of such firm.

(10) MATERIAL CONTRACTS

10.1 - Amended and Restated Revolving Credit Agreement (Long-Term Credit Facility) between Southern Union Company and the Banks named therein dated May 31, 2000.

10.2 - Amended and Restated Revolving Credit Agreement (Short-Term Credit Facility) between Southern Union Company and the Banks named therein dated May 31, 2000.

10.3 - Southern Union Company 1982 Incentive Stock Option Plan and form of related Stock Option Agreement. (Filed as Exhibits 4.1 and 4.2 to Form S-8, File No. 2-79612 and incorporated herein by reference.)

10.4 - Form of Indemnification Agreement between Southern Union Company and each of the Directors of Southern Union Company. (Filed as Exhibit 10(I) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1986 and incorporated herein by reference.)

10.5 - Southern Union Company 1992 Long-Term Stock Incentive Plan, as Amended. (Filed as Exhibit 10(l) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated herein by reference.)*

10.6 - Southern Union Company Director's Deferred Compensation Plan. (Filed as Exhibit 10(g) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.)*

10.7 - Southern Union Company Amended Supplemental Deferred Compensation Plan with Amendments. (Filed as Exhibit 4 to Southern Union's Form S-8 filed March 27, 1999 and incorporated herein by reference.)*

10.8 - Form of Warrant granted to Fleischman and Walsh, L.L.P. (Filed as Exhibit 10(j) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)

10.9 - Renewal of Promissory Note Agreement between Peter H. Kelley and Southern Union Company dated May 31, 1995. (Filed as

Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1995 and incorporated herein by reference.)

10.10 - Employment agreement between Thomas F. Karam and Southern Union Company dated December 28, 1999. (Filed as Exhibit 10(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)

10.11 - Secured Promissory Note and Security Agreements between Thomas F. Karam and Southern Union Company dated December 20, 1999. (Filed as Exhibit 10(b) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)

10.12 - Southern Union Company Pennsylvania Division Stock Incentive Plan. (Filed as Exhibit 4 to Form S-8, SEC File No. 333-36146, filed on May 3, 2000 and incorporated herein by reference.)*

10.13 - Southern Union Company Pennsylvania Division 1992 Stock Option Plan. (Filed as Exhibit 4 to Form S-8, SEC File No. 333-36150, filed on May 3, 2000 and incorporated herein by reference.)*

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* Indicates Management Compensation Plan

(21) SUBSIDIARIES OF THE COMPANY

21 - Subsidiaries of the Company.

(23) CONSENT OF EXPERTS

23.1 - Consent of Independent Accountants, PricewaterhouseCoopers LLP

23.2 - Consent of Independent Accountants, PricewaterhouseCoopers LLP

23.3 - Consent of Independent Accountants, Arthur Andersen LLP

23.4 - Consent of Independent Public Accountants, Arthur Andersen LLP

23.5 - Consent of Independent Public Accountants, Arthur Andersen LLP

23.6 - Consent of Independent Certified Public Accountants, Grant Thornton LLP

23.7 - Consent of Fleischman and Walsh, L.L.P. is included in the opinion of counsel filed as Exhibit 5.1.

23.8 - Consent of Rich, May, Bilodeau & Flaherty, P.C. is included in the opinion of counsel filed as Exhibit 8.1.

23.9 - Consent of Hughes Hubbard & Reed LLP is included in the opinion of counsel filed as Exhibit 8.2.

23.10 - Consent of Legg Mason Wood Walker, Incorporated.

(24) POWER OF ATTORNEY

24 - Power of Attorney of Directors of Registrant

(99) ADDITIONAL EXHIBITS

99 - Form of Proxy of Fall River

All supporting schedules have been omitted because they are not required or the information required to be set forth therein is included in the consolidated financial statements or in the notes thereto.

ITEM 22. UNDERTAKINGS.

(A) The undersigned Registrant hereby undertakes, that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(B) The undersigned Registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(C) The undersigned Registrant hereby undertakes as follows:

(1) that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(2) that every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(D) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the

policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(E) The undersigned Registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11 or 13 of this Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

(F) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Austin, State of Texas, on July 6, 2000.

SOUTHERN UNION COMPANY

/s/ RONALD J. ENDRES

Ronald J. Endres
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities indicated as of July 6, 2000.

SIGNATURE	CAPACITY
George L. Lindemann*	Director and Chief Executive Officer
/s/PETER H. KELLEY --- Peter H. Kelley	Director and Chief Operating Officer
John E. Brennan*	Director
Frank W. Denius*	Director
Adam J. Fleischman*	Director

Aaron I. Fleischman*	Director
Kurt A. Gitter, M.D.*	Director
Adam M. Lindemann*	Director
Roger J. Pearson*	Director
George Rountree, III*	Director
Dan K. Wassong*	Director
Thomas F. Karam*	Director
Ronald W. Simms*	Director
/s/RONALD J. ENDRES Ronald J. Endres	Executive Vice President and Chief Financial Officer
/s/DAVID J. KVAPIL David J. Kvapil	Senior Vice President and Controller (Principal Accounting Officer)

*By: /s/ RONALD J. ENDRES
Ronald J. Endres
Attorney-in-Fact

SOUTHERN UNION COMPANY
LEGAL DEPARTMENT
504 LAVACA, SUITE 800
AUSTIN, TEXAS 78701
(512) 477-5852

August 28, 2000

To Each of the Financial Institutions Identified on Schedule I hereto co/
The Chase Manhattan Bank as agent for such Financial Institutions
700 Lavaca, 2nd Floor
P.O. Box 550
Austin, Texas 78769

Gentlemen:

In my capacity as managing attorney for Southern Union Company, a Delaware corporation (the "Company"), and its subsidiaries listed on Schedule II hereto, I have acted as counsel to the Company in connection with the negotiation, preparation and execution of that certain Term Loan Credit Agreement (the "Credit Agreement") among the Company, The Chase Manhattan Bank individually ("Chase") and as agent (the "Agent") and each of the other financial institutions which as a signatory to the Credit Agreement, or which may from time to time become a party thereto (together with Chase and the Agent, the "Lenders"). This opinion is delivered to the Agent pursuant to Section 7.6 of the Credit Agreement. Unless otherwise specified, all terms defined in the Credit Agreement have the same meanings when used herein.

In such capacity, have reviewed the Credit Agreement and the Notes, each dated as of the date hereof (collectively, the "Loan Documents").

I have also examined originals or copies of such corporate records of the Company and the Subsidiaries, public records, agreements and other instruments, certificates of public officials, certificates of officers and representatives of the Company and the Subsidiaries, and such other documents as I have deemed relevant in connection with rendering this opinion:

Based on the foregoing, I am of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its property and to carry on its business as now conducted and is duly qualified and is in good standing in the states indicated on Schedule II attached hereto, which are, to my knowledge, the only jurisdictions where, because of the nature of activities conducted or properties owned or operated, such qualification is required, except where the failure to be so qualified

would not have a material adverse effect upon the Company and/or any of the Subsidiaries.

2. Each of the Subsidiaries is a corporation, partnership or limited liability company duly organized, validly existing and in good standing under the laws of the state of its incorporation or formation and has all requisite corporate, partnership or limited liability company power and authority to own its property and to carry on its business as now conducted. Each of the Subsidiaries is duly qualified and is in good standing in the states indicated on Schedule II attached hereto, which, to my knowledge, are the only jurisdictions where, because of the nature of the activities conducted or properties owned or operated, such qualification is required, except where the failure to be so qualified would not have a material adverse effect upon the Company and/or any of its Subsidiaries.

3. The Loan Documents have been duly and validly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms, except that enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights and the availability of equitable remedies may be limited by equitable principles of general applicability.

4. The execution, delivery and performance by the Company of the Loan Documents and the borrowings thereunder:

   (a) have been duly authorized by all necessary corporate (or, as applicable, partnership or limited liability company) action on the part of the Company;

   (b) are within the corporate power and authority of the Company;

   (c) do not contravene, violate or conflict with any law, rule or regulation or the organizational documents of the Company;

   (d) to my actual knowledge, do not result in the breach of, or constitute a default under, any written agreement or instrument, license, writ, order, decree or permit, to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound; and

   (e) except for the Liens permitted by the Loan Documents, do not result in the creation or imposition of any Lien upon any of the revenues or property of the Company or any Subsidiary.

5. No authorization, consent, approval, license or permission of, and no registration, qualification or filing with, any governmental authority or, to my actual knowledge, any other person or entity, is required in connection with the

execution , delivery or performance of the Loan Documents, except (i) for routine filings that may be required after the date hereof to maintain corporate, partnership or limited liability company qualification and good standing; and (ii) for obligations relating solely to the conduct of the operations of the Company and the Subsidiaries.

6. I confirm to you that there is, to my actual knowledge, no litigation or legal, arbitral or administrative proceeding pending against the Company or any Subsidiary which could reasonably be expected, if adversely determined, to affect, nor any outstanding judgment, order, writ, decree or award against the Company or any Subsidiary and which does affect, materially and adversely, the financial condition of the Company or any Subsidiary.

7. To my actual knowledge, neither the Company nor any Subsidiary is in default under any judgment, order, writ, decree or award known to me.

8. Neither the Company nor any Subsidiary is an "investment company," or is directly or indirectly controlled by or acting on behalf of an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

9. Neither the Company nor any Subsidiary is a "holding company," or an "affiliate" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

My opinions above are subject to the following qualifications, assumptions, limitation and exceptions:

A. I express no opinion as to the enforceability of any provisions of the Loan Documents purporting to: (i) completely waive subrogation rights; (ii) waive the benefits of any statute of limitation or an applicable bankruptcy, insolvency or usury law, or waive any rights under any applicable statutes or rules hereunder enacted or promulgated; (iii) waive, release or agree not to assert setoffs, claims, counterclaims, defenses or causes of action; (iv) preserve and maintain a guarantor's liability despite the fact the guaranteed debt is unenforceable due to illegality, or to the fact that a lender has voluntarily released the primary obligor's liability on the guaranteed debt, or to the fact that any collateral securing the guaranteed debt has been willfully, unreasonably or unjustifiably impaired; (v) prohibit oral amendment to or waivers of the provisions of the Loan Documents or limit the effect of a course of dealing between the parties thereto; and (vi) indemnify any Person for its own negligence.

B. The words "to my knowledge" or "to my actual knowledge" mean that I have not become aware of any information during the course of my representation of the Company and the Subsidiaries in connection with the transactions contemplated

by the Credit Agreement which could give me actual knowledge of the existence of documents, facts or other information being so qualified. Notwithstanding the foregoing, I have not undertaken any independent investigation to determine the existence of such documents, facts or other information, and nothing contained in this opinion or otherwise should create any inference to the contrary.

C. I have assumed that each of the Loan Documents executed by the Lenders has been duly authorized, executed and delivered on behalf of the Lenders and is legally binding upon and enforceable against the Lenders to the extent that each of such Loan Documents purports to be.

D. I have assumed the genuineness of all signatures, the authenticity of all documents submitted as originals, the conformity to authentic originals of all documents submitted to me as copies and the accuracy of all factual recitations contained in certificates or similar documents examined by me.

I am a member of the Bar of the State of Texas and the Bar of the State of Oklahoma only, and do not purport to be an expert on, generally familiar with, or qualified to express legal conclusions based on, laws of states other than the State of Texas.

This opinion is limited to the matters expressly stated herein and no opinions are to be inferred or may be implied beyond the opinions expressly set forth herein. This opinion is as of the date hereof, and I undertake no obligation, and hereby disclaim any obligation to advise you of any change in any matter set forth herein, whether based on a change in the law, a change in any fact relating to the Company or the Subsidiaries or any other person, or any other circumstance.

This opinion is being delivered solely for the benefit of the Agent and the Lenders and their counsel; accordingly, it may not be quoted, filed with any governmental authority or other regulatory agency or otherwise circulated or utilized for any purpose without my prior written consent.

Very truly yours,

Susan M. Westbrook

Susan M. Westbrook
Managing Attorney

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K/A
Amendment No. 1

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2000

OR

— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 1-6407

SOUTHERN UNION COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**75-0571592** (I.R.S. Employer Identification No.)
504 Lavaca Street, Eighth Floor **Austin, Texas** (Address of principal executive offices)	**78701** (Zip Code)

Registrant's telephone number, including area code: **(512) 477-5852**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ___

The aggregate market value of the voting stock held by non-affiliates of the registrant on September 15, 2000, was $673,574,656. The number of shares of the registrant's Common Stock outstanding on September 15, 2000 was 49,589,799.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended June 30, 2000, are incorporated by reference in Parts II and IV.

Portions of the registrant's proxy statement for its annual meeting of stockholders to be held on November 14, 2000, are incorporated by reference into Part III.

PART I

ITEM 1. *Business.*

Introduction

Southern Union Company (*Southern Union* and together with its subsidiaries, the *Company*) was incorporated under the laws of the State of Delaware in 1932. Southern Union is one of the top ten natural gas utilities in the United States, as measured by number of customers. The Company's principal line of business is the distribution of natural gas as a public utility through its operating divisions principally in Texas, Missouri, Florida, Pennsylvania since November 1999, and Rhode Island and Massachusetts effective with three acquisitions completed in September 2000 (see *Acquisitions Subsequent to Year-End*).

Southern Union Gas, headquartered in Austin, Texas, serves approximately 523,000 customers in Texas (including Austin, Brownsville, El Paso, Galveston, Harlingen, McAllen and Port Arthur). Missouri Gas Energy, headquartered in Kansas City, Missouri, serves approximately 491,000 customers in central and western Missouri (including Kansas City, St. Joseph, Joplin and Monett). PG Energy, headquartered in Wilkes-Barre, Pennsylvania, serves approximately 154,000 customers in northeastern and central Pennsylvania (including Wilkes-Barre, Scranton and Williamsport). SFNG, headquartered in New Smyrna Beach, Florida, serves approximately 5,000 customers in central Florida (including New Smyrna Beach, Edgewater and areas of Volusia County, Florida.) With the acquisition of Providence Energy Corporation, Valley Resources, Inc. and Fall River Gas Company in September 2000 (collectively hereafter referred to as the *New England Division*), the Company now serves approximately 286,000 customers in Rhode Island and Massachusetts (including Providence, Newport and Cumberland, Rhode Island and Fall River, North Attleboro and Somerset, Massachusetts.) This diverse geographic area of the Company's natural gas distribution systems should reduce the overall sensitivity of Southern Union's operations to weather risk and local economic conditions.

Pennsylvania Enterprises, Inc. Acquisition

On November 4, 1999, the Company acquired Pennsylvania Enterprises, Inc. (hereafter referred to as the *Pennsylvania Operations*) for approximately 16.7 million pre-stock dividend shares of Southern Union common stock and approximately $36 million in cash plus the assumption of approximately $115 million in long-term debt. The acquisition was accounted for using the purchase method. The income from the acquired Pennsylvania Operations is consolidated with the Company beginning on November 4, 1999. Thus, the results of operations for the year ended June 30, 2000 are not comparable to prior periods. PG Energy, the regulated gas utility within the Pennsylvania Operations, is a division of the Company serving approximately 154,000 customers in northeastern and central Pennsylvania. Other subsidiaries of the Company acquired in the acquisition of the Pennsylvania Operations include PG Energy Services Inc., (Energy Services), PEI Power Corporation (PEI Power), and Theta Land Corporation. Theta Land Corporation, which was engaged in the sale of property for residential and commercial development, was sold for $12.1 million in January 2000. Through Energy Services, the Company markets a diversified range of energy-related products and services under the name PG Energy PowerPlus, principally in northeastern and central Pennsylvania. Through PEI Power, an exempt wholesale generator (within the meaning of the Public Utility Holding Company Act of 1935), the Company generates and sells electricity in Pennsylvania and surrounding states. Also included in the acquisition of the Pennsylvania Operations was Keystone Pipeline Services, Inc. (*Keystone*, a wholly-owned subsidiary of Energy Services). Keystone is engaged primarily in the construction, maintenance and rehabilitation of natural gas distribution pipelines. Concurrent with the acquisition, the Company decided to dispose of Keystone and the propane operations of Energy Services; these operations are not material to the Company.

Acquisitions Subsequent to Year-End

On September 20, 2000, Southern Union completed the acquisition of Valley Resources, Inc. (Valley Resources) for approximately $125 million in cash plus the assumption of $30 million in long-term debt. Valley Resources is engaged in natural gas distribution operating as Valley Gas Company and Bristol and Warren Gas Company which are now included as part of the New England Division of Southern Union. The non-utility subsidiaries of Valley

Resources are now subsidiaries of Southern Union. Valley Resources, which is headquartered in Cumberland, Rhode Island, provides natural gas utility service to more than 64,000 customers within a 92 square mile area in the northeastern portion of Rhode Island that has a population of approximately 250,000 and an approximately 15 square mile area in the eastern portion of Rhode Island that has a population of approximately 35,000. The non-utility subsidiaries rent and sell appliances, offer a service contract program, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Included in the acquisition was Valley Resources' 90% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI Corporation fuel cell, holds patents for a natural gas/diesel co-firing system and for a device to control the flow of fuel on dual-fuel equipment.

On September 28, 2000, Southern Union completed the acquisition of Providence Energy Corporation (ProvEnergy) for approximately $270 million in cash plus the assumption of $90 million in long-term debt. The ProvEnergy natural gas distribution operations are Providence Gas and North Attleboro Gas. Providence Gas serves approximately 168,000 natural gas customers in Providence and Newport, Rhode Island, and 23 other cities and towns in Rhode Island and Massachusetts. North Attleboro Gas serves approximately 6,000 customers in North Attleboro and Plainville, Massachusetts, towns adjacent to the northeastern Rhode Island border. The ProvEnergy utility service territories encompass approximately 760 square miles with a population of approximately 850,000. These operations are also now included as part of the New England Division of the Company. Subsidiaries of the Company acquired in the ProvEnergy merger are ProvEnergy Oil Enterprises, Inc., Providence Energy Services, Inc., and ProvEnergy Power Company, LLC. ProvEnergy Oil Enterprises, Inc. operates a fuel oil distribution business through its subsidiary. ProvEnergy Fuels, Inc. (ProvEnergy Fuels). ProvEnergy Fuels serves over 14,000 residential and commercial customers in Rhode Island and Massachusetts. Providence Energy Services, Inc., whose operations are planned to be sold, markets natural gas and energy services throughout New England. ProvEnergy Power Company owns 50% of Capital Center Energy Company, LLC., a joint venture formed between ProvEnergy and ERI Services, Inc. to provide retail power.

Also on September 28, 2000, Southern Union completed the acquisition of Fall River Gas Company (Fall River Gas) for approximately 1.5 million shares of Southern Union common stock and approximately $27 million in cash plus assumption of $20 million in long-term debt. Also now included as a part of the New England Division of the Company, Fall River Gas serves approximately 48,000 customers in the city of Fall River and the towns of Somerset, Swansea and Westport, all located in southeastern Massachusetts. Fall River Gas' non-regulated subsidiary, Fall River Gas Appliance Company, Inc., is now a subsidiary of Southern Union. Headquartered in Fall River, Massachusetts, Fall River Gas Appliance Company, Inc., rents water heaters and conversion burners (primarily for residential use) in Fall River Gas' service area.

The aforementioned acquisitions subsequent to year-end will be accounted for under the purchase method.

Company Operations

The Company's principal line of business is the distribution of natural gas through its Southern Union Gas, Missouri Gas Energy, PG Energy, and SFNG divisions, and, effective with the September 2000 acquisitions, its New England Division. (See *Acquisitions Subsequent to Year-End*) . The Company's gas utility operations are generally seasonal in nature, with a significant percentage of its annual revenues and earnings occurring in the traditional winter heating season. As such, the Company is a sales and market-driven energy company whose management is committed to achieving profitable growth of its utility businesses in an increasingly competitive business environment and partnering with companies which complement Southern Union's existing customer service and core utility business. Management's strategies for achieving these objectives principally consist of: (i) promoting new sales opportunities and markets for natural gas; (ii) enhancing financial and operating performance; (iii) expanding the Company through development of existing utility businesses and selective acquisition of new utility businesses; and (iv) selective investments in complementary businesses. Management develops and continually evaluates these strategies and their implementation by applying their experience and expertise in analyzing the energy industry, technological advances, market opportunities and general business trends. Each of these strategies, as implemented throughout the Company's existing businesses, reflects the Company's commitment to its core natural gas utility business.

The Company may consider, when appropriate and if financially practicable to pursue, the acquisition of other utility distribution or transmission businesses. The nature and location of any such properties, the structure of any such acquisitions, and the method of financing any such expansion or growth will be determined by management and the

Southern Union Board of Directors. See *Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) -- Cautionary Statement Regarding Forward-Looking Information.*

Subsidiaries of Southern Union have been established to support and expand natural gas sales and other energy sales and to capitalize on the Company's energy expertise. These subsidiaries market natural gas and electricity to end-users, operate natural gas pipeline systems, generate electricity, distribute propane and sell commercial gas air conditioning and other gas-fired engine-driven applications. The Company distributes propane to 7,500, 2,000 and 1,000 customers in Texas, Pennsylvania and Florida, respectively. With the subsequent acquisition of the companies in New England, the Company will now also serve 14,000 and 3,700 fuel oil and propane customers, respectively, in Rhode Island and Massachusetts. Additionally, certain subsidiaries own or hold interests in real estate and other assets, which are primarily used in the Company's utility business. Central to all of the Company's present businesses and strategies is the sale and transportation of natural gas.

Southern Union Energy International, Inc. (SUEI) and Southern Union International Investments, Inc. (Investments), both wholly-owned subsidiaries of Southern Union, participate in energy-related projects internationally. Energía Estrella del Sur, S. A. de C. V. (Estrella), a wholly-owned Mexican subsidiary of SUEI and Investments, seeks to participate in energy-related projects in Mexico. Estrella has a 43% equity ownership in a natural gas distribution company, along with other related operations, which currently serves 22,000 customers in Piedras Negras, Mexico, across the border from Southern Union Gas' Eagle Pass, Texas service area.

Mercado Gas Services Inc. (Mercado), a wholly-owned subsidiary of Southern Union, markets natural gas to commercial and industrial customers. Mercado's sales and purchasing activities are made through short-term and long-term contracts. These contracts and business activities are not subject to direct rate regulation.

Southern Transmission Company (STC), a wholly-owned subsidiary of Southern Union, owns and operates 165.3 miles of intrastate pipeline that serves commercial, industrial and utility customers in central, south and coastal Texas.

Norteño Pipeline Company (Norteño), a wholly-owned subsidiary of Southern Union, owns and operates interstate pipelines that serve the gas distribution properties of Southern Union Gas and the Public Service Company of New Mexico. Norteño also transports gas through its interstate network to the country of Mexico for Pemex Gas y Petroquimica Basica (PEMEX).

SUPro Energy Company (SUPro), a wholly-owned subsidiary of Southern Union, provides propane gas services to customers located principally in Austin, El Paso and Alpine, Texas as well as Las Cruces, New Mexico and surrounding communities.

Atlantic Gas Corporation, a wholly-owned subsidiary of Southern Union, provides propane gas services to 1,000 customers located in and around the communities of New Symrna Beach, Lauderhill and Dunnellon, Florida. Atlantic Gas Corporation sold 1,193,000 and 1,348,000 gallons of propane for the year ended June 30, 2000 and 1999, respectively.

PG Energy Services Inc. (Energy Services), a wholly-owned subsidiary of Southern Union, markets a broad array of energy and energy-related products and services under the name PG Energy PowerPlus. Presently, PG Energy PowerPlus offers the sale of natural gas and electricity to 17,000 residential, commercial and industrial users primarily in central and northeastern Pennsylvania; and the inspection, maintenance and servicing of residential and small commercial gas-fired equipment.

PEI Power Corporation (Power Corp.), a wholly-owned subsidiary of Southern Union, an exempt wholesale generator (within the meaning of the Public Utility Holding Company Act of 1935), generates and sells electricity provided by a cogeneration facility it acquired in November 1997. This 25-megawatt facility, located in Archbald, Pennsylvania, is fueled by a combination of natural gas and methane recovered from a nearby landfill.

Southern Union Total Energy Systems, Inc., a wholly-owned subsidiary of Southern Union, markets and sells gas-fired engine-driven applications and related services to the industrial and commercial marketplace.

See *Acquisitions Subsequent to Year-End* for a description of other subsidiaries subsequently acquired in the acquisitions of ProvEnergy, Valley Resources and Fall River Gas.

The Company also holds investments in commercially developed real estate in Austin, El Paso, Harlingen and Kansas City through Southern Union's wholly-owned subsidiary, Lavaca Realty Company (Lavaca Realty). Additionally, through the acquisition of the Pennsylvania Operations, the Company has investments in several tracts of land, certain of which is being prepared for development, situated in northeastern Pennsylvania, primarily Lackawanna County. Depending upon market conditions the Company may sell certain of these investments from time to time.

Southern Union's strategy for long-term growth includes acquiring the right assets that will position the Company favorably in an evolving competitive marketplace. The Pennsylvania Operations acquisition, which closed in November 1999, provides Southern Union with a strong presence in the attractive northeastern market. In addition, the acquisitions of Fall River Gas, ProvEnergy and Valley Resources completed subsequent to year-end have further expanded Southern Union's territory into New England. These four acquisitions also provide geographic and weather diversity to the Company's service areas. Within the past several years, the Company's growth strategy also has resulted in Southern Union expanding its gas service into Mexico in a service area adjacent to Southern Union Gas, and Florida. Going forward, Southern Union may consider other acquisitions which will financially enhance growth and take advantage of future market opportunities.

The information about the Company in the remainder of *Item 1 -- Business* does not include information related to Fall River Gas, ProvEnergy or Valley Resources, the companies acquired subsequent to year-end. (See *Acquisitions Subsequent to Year-End.*)

Company Investments

Southern Union's culture promotes independent thinking and encourages innovation. Southern Union is involved in several strategic projects.

Over the past several years, the Company acquired an equity interest in Capstone Turbine Corporation (Capstone). This company has developed a microturbine fueled by natural gas or propane that produces electricity and creates less pollution than conventional systems. The refrigerator-sized microturbine unit can efficiently provide nearly 30 kilowatts of electricity to a small business. Additionally, this technology is highly reliable and requires low maintenance. The Company's cost basis in Capstone is $10,625,000. In late June 2000, Capstone completed its initial public offering (IPO). As of June 30, 2000 and August 31, 2000, the value of the Company's investment on Capstone was $187,817,000 and $384,753,000, respectively, based on the closing prices for Capstone shares on those days.

Southern Union also holds a $2,586,000 equity interest in PointServe, Inc. (PointServe) a business-to-business online scheduling solution for Internet portals seeking to enrich the consumer value of their site, and service industries seeking to harness the power of the Internet. Patent-pending, online scheduling technology should enable service providers to spend less and earn more by creating accountability of marketing dollars, increasing operational efficiencies, and increasing customer satisfaction and loyalty. PointServe technology is intended to allow consumers to "wait less and do more" by making it easier to find, select and schedule a service provider.

Southern Union has a $3,000,000 equity interest in Servana.com, Inc. (Servana). Based in Austin, Texas Servana partners with utility companies to deliver comprehensive e-commerce solutions to the customer's home. The company is positioning itself to become the dominant utility-based home-service portal, leveraging the utility's brand identity and prominence in local markets. For example, a new resident who moves to Austin, Texas and needs to establish gas service will be able to access Southern Union's website, schedule service through PointServe, and register for a variety of other services (i.e., electric, pest control, lawn service, etc.).

As of June 30, 2000, Southern Union had a $2,000,000 equity interest in Advent Networks, Inc. (Advent), headquartered in Austin, Texas. Southern Union intends to make an additional investment of up to approximately $2,500,000 in Advent this Fall. Advent is developing a next generation UltraBand™ platform, which is expected to deliver digital broadband services 50 times faster than digital subscriber lines (DSL) or cable modems, and 1,000 times faster than dial-up modems, over the "last mile". UltraBand™ should provide cable network overbuilders a

competitive advantage with its capability to deliver content at a quality and speed that cannot be provided over cable modem. Beta testing of UltraBand™ is expected in Spring 2001 in Missouri Gas Energy's Kansas City service area.

Competition

Natural gas distribution has been evolving from a highly regulated environment to one where competition and customer choice is being promoted. The restructuring of natural gas distribution began in the 1990's when the Federal Energy Regulatory Commission (FERC) required interstate pipeline companies to separate, or unbundle, the merchant function of selling natural gas from the transportation and storage services they provide and offer those services to end users on the same terms as local distribution companies. As a result, certain large volume customers, primarily industrial and significant commercial customers, have had opportunities to access alternative natural gas supplies and, in some instances, delivery service from other pipeline systems. The Company has offered transportation arrangements to customers who secure their own gas supplies. These transportation arrangements, coupled with the efforts of Southern Union's unregulated marketing subsidiaries, enable the Company to provide competitively priced gas service to these large volume customers. In addition, the Company has successfully used flexible rate provisions, when needed, to retain customers who may have access to alternative energy sources.

As energy providers, Southern Union Gas, Missouri Gas Energy, PG Energy and SFNG have historically competed with alternative energy sources, particularly electricity and also propane, coal, natural gas liquids and other refined products available in the Company's service areas. At present rates, the cost of electricity to residential and commercial customers in the Company's service areas generally is higher than the effective cost of natural gas service. There can be no assurance, however, that future fluctuations in gas and electric costs will not reduce the cost advantage of natural gas service. The cost of expansion for peak load requirements of electricity in some of Southern Union Gas' and Missouri Gas Energy's service areas has historically provided opportunities to allow energy switching to natural gas pursuant to integrated resource planning techniques. Electric competition has responded by offering equipment rebates and incentive rates.

Competition between the use of fuel oils, natural gas and propane, particularly by industrial, electric generation and agricultural customers, has also increased due to the volatility of natural gas prices and increased marketing efforts from various energy companies. In order to be more competitive with certain alternate fuels in Pennsylvania, PG Energy offers an Alternate Fuel Rate for eligible customers. This rate applies to large commercial and industrial accounts that have the capability of using fuel oils or propane as alternate sources of energy. Whenever the cost of such alternate fuel drops below the cost of natural gas at PG Energy's normal tariff rates, PG Energy is permitted by the Pennsylvania Public Utility Commission (PPUC) to lower its price to these customers so that PG Energy can remain competitive with the alternate fuel. However, in no instance may PG Energy sell gas under this special arrangement for less than its average commodity cost of gas purchased during the month. While competition between such fuels is generally more in Pennsylvania than the Company's other service areas, this competition affects the nationwide market for natural gas. Additionally, the general economic conditions in the Company's service areas continue to affect certain customers and market areas, thus impacting the results of the Company's operations.

The Company's gas distribution divisions are not currently in significant direct competition with any other distributors of natural gas to residential and small commercial customers within their service areas, other than in Pennsylvania. In 1999, the Commonwealth of Pennsylvania enacted the Natural Gas Choice and Competition Act, which extended the ability to choose suppliers to small commercial and residential customers as well. In accordance with the provisions of the legislation, PG Energy submitted a restructuring plan to the PPUC on August 2, 1999. This plan describes the terms and conditions, including the tariffs, by which PG Energy proposed to offer unbundled transportation service and the rules alternate natural gas suppliers must follow to operate on PG Energy's distribution system. Following extensive review and negotiations by PG Energy and various interested stakeholders, including representatives of the PPUC, a Settlement Agreement was reached in November 1999. PG Energy filed revised tariffs in accordance with the Settlement Agreement on February 1, 2000 for PPUC review and approval. Based upon the legislation, the Settlement Agreement and the tariffs as filed, PG Energy does not believe any significant amount of transition costs will be incurred and that any transition costs that are incurred will generally be recoverable through rates or other customer charges.

Following PPUC review, PG Energy filed final tariffs, with modifications, on April 28, 2000. Effective April 29, 2000, all of PG Energy's customers have the ability to select an alternate supplier of natural gas, which PG Energy will continue to deliver through its distribution system. Customers can also choose to remain with PG Energy as their

supplier under regulated natural gas rates. In either case, PG Energy serves as the supplier of last resort. To date, few small commercial and residential customers have switched due to the lack of supplier offers that provide any savings over PG Energy's current regulated gas rates. The natural gas industry is currently experiencing higher than normal wholesale prices for natural gas, which is preventing suppliers from offering competitive rates. However, the number of supplier offers and the occurrence of customers switching suppliers may likely increase as the wholesale market moderates over time and PG Energy's regulated rates are adjusted to reflect the market.

Gas Supply

The historically low cost of natural gas service is dependent upon the Company's ability to contract for natural gas using favorable mixes of long-term and short-term supply arrangements and favorable transportation contracts. The Company has been directly acquiring its gas supplies since the mid-1980s when interstate pipeline systems opened their systems for transportation service. The Company has the organization, personnel and equipment necessary to dispatch and monitor gas volumes on a daily, hourly and even a real-time basis to ensure reliable service to customers.

The FERC required the "unbundling" of services offered by interstate pipeline companies beginning in 1992. As a result, gas purchasing and transportation decisions and associated risks have been shifted from the pipeline companies to the gas distributors. The increased demands on distributors to effectively manage their gas supply in an environment of volatile gas prices provides an advantage to distribution companies such as Southern Union who have demonstrated a history of contracting favorable and efficient gas supply arrangements in an open market system.

The majority of Southern Union Gas' 2000 gas requirements for utility operations were delivered under short- and long-term transportation contracts through five major pipeline companies. The majority of Missouri Gas Energy's 2000 gas requirements were delivered under short- and long-term transportation contracts through four major pipeline companies. The majority of PG Energy's 2000 gas requirements were delivered under short- and long-term transportation contracts through four major pipeline companies. The majority of SFNG's 2000 gas requirements were delivered under a management supply contract through one major pipeline company. These contracts have various expiration dates ranging from calendar year 2000 through 2018. Southern Union Gas also purchases significant volumes of gas under long- and short-term arrangements with suppliers. The amounts of such short-term purchases are contingent upon price. Southern Union Gas, Missouri Gas Energy and SFNG all have firm supply commitments for all areas that are supplied with gas purchased under short-term arrangements. Missouri Gas Energy also holds contract rights to over 16 Bcf of storage capacity and PG Energy holds contract rights to over 11 Bcf of storage capacity to assist in meeting peak demands.

Due to the operation of purchase gas adjustment (PGA) clauses, gas purchase costs generally do not directly affect earnings of our regulated utility operations. However, the Company's unregulated gas marketing operations are subject to price risk related to fixed price sales commitments that are not matched with corresponding fixed price purchase agreements. At June 30, 2000, the Company had fixed-price sales commitments with various customers that provide for the delivery of approximately 1,922,201 Dekatherms of natural gas through April 2001 at an average sales price per Dekatherm of $3.00. The Company has exposure to the changes in gas prices related to fluctuating commodity prices, which can impact the Company's financial position or results of operations, either favorably or unfavorably. The Company's open positions are actively managed, and the impact of changing prices on the Company's financial position at a point in time is not necessarily indicative of the impact of price movements throughout the year.

Gas sales and/or transportation contracts with interruption provisions, whereby large volume users purchase gas with the understanding that they may be forced to shut down or switch to alternate sources of energy at times when the gas is needed for higher priority customers, have been utilized for load management by Southern Union and the gas industry as a whole. In addition, during times of special supply problems, curtailments of deliveries to customers with firm contracts may be made in accordance with guidelines established by appropriate federal and state regulatory agencies. There have been no supply-related curtailments of deliveries to Southern Union Gas, Missouri Gas Energy, PG Energy or SFNG utility sales customers during the last ten years except for one instance relating to PG Energy in January 1997.

The Company is committed under various agreements to purchase certain quantities of gas in the future. At June 30, 2000, the Company has purchase commitments for certain quantities of gas at variable, market-based prices that have an annual value of $113,666,000. The Company's purchase commitments may extend over a period of several years depending upon when the required quantity is purchased. The Company has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies.

In August 1997, the Missouri Public Service Commission (MPSC) issued an order authorizing Missouri Gas Energy to begin making semi-annual PGAs in November and April, instead of more frequent adjustments as previously made. Additionally, the order authorized Missouri Gas Energy to establish an Experimental Price Stabilization Fund for purposes of procuring natural gas financial instruments to hedge a minimal portion of its gas purchase costs for the winter heating season. The cost of purchasing these financial instruments and any gains derived from such activities are passed on to the Missouri customers through the PGA. Accordingly, there is no earnings impact as a result of the use of these financial instruments. These procedures help stabilize the monthly heating bills for Missouri customers. The Company believes it bears minimal risk under the authorized transactions.

The MPSC approved a three year, experimental gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers shared in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas was acquired above benchmark levels, both the Company and customers shared in such costs. For the years ended June 30, 1999 and 1998, the incentive plan achieved a reduction of overall gas costs of $6,900,000 and $9,200,000, respectively, resulting in savings to Missouri customers of $4,000,000 and $5,100,000, respectively. The Company recorded revenues of $2,900,000 and $4,100,000 in 1999 and 1998, respectively, under this plan. Missouri Gas Energy received authorization from the MPSC for a new gas supply incentive plan that became effective August 31, 2000. Earnings under the plan are primarily dependent on market prices for natural gas declining to certain preauthorized levels which are now below current market prices. There is no assurance that the Company will have an opportunity to generate earnings under this aspect of the plan during fiscal 2001.

Utility Regulation and Rates

The Company's rates and operations are subject to regulation by local, state and federal authorities. In Texas, municipalities have primary jurisdiction over natural gas rates within their respective incorporated areas. Rates in adjacent environs and appellate matters are the responsibility of the Railroad Commission of Texas (RRC). In Missouri, natural gas rates are established by the MPSC on a system-wide basis. In Pennsylvania, natural gas rates for PG Energy are approved by the PPUC on a system-wide basis. In Florida, natural gas rates are established by the Florida Public Service Commission on a system-wide basis. The FERC has jurisdiction over rates, facilities and services of Norteño and Power Corp., and the RRC has jurisdiction over STC.

The Company holds non-exclusive franchises with varying expiration dates in all incorporated communities where it is necessary to carry on its business as it is now being conducted. Kansas City, Missouri; El Paso, Texas; Austin, Texas; Port Arthur, Texas; and St. Joseph, Missouri are the five largest cities in which the Company's utility customers are located. The franchises in the following cities expire as follows: El Paso, Texas in 2030; Austin, Texas in 2006; Port Arthur, Texas in 2013; and Kansas City, Missouri in 2010. The Company fully expects these franchises to be renewed upon their expiration. The franchise in St. Joseph, Missouri is perpetual.

Gas service rates are established by regulatory authorities to permit utilities the opportunity to recover operating, administrative and financing costs, and the opportunity to earn a reasonable return on equity. Gas costs are billed to customers through PGA clauses which permit the Company to adjust its sales price as the cost of purchased gas changes. This is important because the cost of natural gas accounts for a significant portion of the Company's total expenses. The appropriate regulatory authority must receive notice of such adjustments prior to billing implementation.

Other than in Pennsylvania, the Company supports any service rate changes to its regulators using a historic test year of operating results adjusted to normal conditions and for any known and measurable revenue or expense changes. Because the regulatory process has certain inherent time delays, rate orders may not reflect the operating costs at the time new rates are put into effect. In Pennsylvania, a future test year is utilized for ratemaking purposes, therefore, there is no delay and rate orders more closely reflect the operating costs at the time new rates are put into effect.

The monthly customer bill contains a fixed service charge, a usage charge for service to deliver gas, and a charge for the amount of natural gas used. While the monthly fixed charge provides an even revenue stream, the usage charge increases the Company's annual revenue and earnings in the traditional heating load months when usage of natural gas increases. In recent years, the majority of the Company's rate increases in Texas have resulted in increased monthly fixed charges which help stabilize earnings. Weather normalization clauses, in place in the City of Austin, El Paso environs, Galveston, Port Arthur and two other service areas in Texas, also help stabilize earnings.

On April 3, 2000, PG Energy filed an application with the PPUC seeking an increase in its base rates designed to produce $17,900,000 in additional annual revenues, to be effective June 2, 2000. On May 11, 2000, the PPUC suspended this rate increase request for seven months, until January 2, 2001, in order to investigate the reasonableness of the proposed rates. On August 30, 2000, PG Energy and the principal parties to the base rate proceeding informed the Administrative Law Judge (ALJ) assigned to the proceeding that a complete settlement of the proceeding had been reached. The proposed settlement is designed to produce $10,800,000 of additional annual revenue. The parties are currently in the process of finalizing a Settlement Agreement and Joint Petition for Settlement of Rate Investigation (the *Settlement Petition*) which will be filed with the ALJ upon its completion. The Settlement Petition will request PPUC approval for the rate increase to become effective on January 1, 2001. It is not presently possible to determine what action either the ALJ or the PPUC will ultimately take with respect to this rate increase request or the Settlement Petition.

On October 18, 1999, Southern Union Gas filed a $1,696,000 rate increase request for the El Paso service area with the City of El Paso. In February 2000, the City of El Paso approved a $650,000 revenue increase, and an improved rate design that collects a greater portion of the Company's revenue stream from the monthly customer charge. Additionally, the City of El Paso approved a new 30-year franchise for Southern Union Gas.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs requiring a non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas Energy's rehearing request. On June 15, 2000, the MPSC ruled that it would not rehear or reconsider its decision on one issue valued at $1,500,000. If the MPSC adopts Missouri Gas Energy's positions on rehearing, then Missouri Gas Energy would be authorized an additional $700,000 of base revenues increasing the $13,300,000 initially authorized in its August 21, 1998 order to $14,000,000. The MPSC is expected to rule on this rehearing in October 2000. The MPSC's orders may be subject to judicial review and although certain parties may argue for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

On April 13, 1998, Southern Union Gas filed a $2,228,000 request for a rate increase from the city of El Paso, a request the city subsequently denied. On April 21, 1998, the city council of El Paso voted to reduce the Company's rates by $1,570,000 annually and to order a one-time cost of gas refund of $475,000. On May 21, 1998, Southern Union Gas filed with the RRC an appeal of the city of El Paso's actions to reduce the Company's rates and require a one-time cost of gas refund. On December 21, 1998, the RRC issued its order implementing an $884,000 one-time cost of gas refund and a $99,000 base rate reduction. The cost of gas refund was completed in February 1999.

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective on February 1, 1997. Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program in its service area (Missouri Safety Program). In connection with this program, the MPSC issued an accounting authority order (AAO) in Case No. GO-92-234 in 1994 which authorized Missouri Gas Energy to defer depreciation expenses, property taxes and carrying costs at a rate of 10.54% on the costs incurred in the Missouri Safety Program. This AAO was consistent with those which were issued by the MPSC from 1990 to 1993 to Missouri Gas Energy's prior owner. The MPSC rate order of January 22, 1997, however, retroactively reduced the carrying cost rate applied by the Company on the expenditures incurred on the Missouri Safety Program since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate of approximately 6%. The Company filed an appeal of that portion of the rate order in the Missouri State Court of Appeals, Western District. On August 18, 1998, the Missouri State Court of Appeals denied the Company's appeal resulting in a one-time non-cash write-off of $5,942,000 of previously recorded deferred costs which was recorded as of June 30, 1998. The Company believes that the inconsistent treatment by the MPSC in subsequently changing to the AFUDC rate from

the previously ordered 10.54% rate constitutes retroactive ratemaking. Unfortunately, the decision by the Missouri State Court of Appeals failed to address certain specific language within the 1994 AAO that the Company believed prevented the MPSC from retroactively changing the carrying cost rate. Southern Union requested transfer to the Missouri Supreme Court, but was denied that request.

The approval of the January 31, 1994 acquisition of the Missouri properties by the MPSC was subject to the terms of a stipulation and settlement agreement, which, among other things, requires Missouri Gas Energy to reduce rate base by $30,000,000 (amortized over a ten-year period on a straight-line basis) to compensate rate payers for rate base reductions that were eliminated as a result of the acquisition.

During the three-year period ended June 30, 2000, the Company did not file for any other rate increases in any of its major service areas, although several annual cost of service adjustments were filed.

In addition to the regulation of its utility and pipeline businesses, the Company is affected by numerous other regulatory controls, including, among others, pipeline safety requirements of the United States Department of Transportation, safety regulations under the Occupational Safety and Health Act, and various state and federal environmental statutes and regulations. The Company believes that its operations are in compliance with applicable safety and environmental statutes and regulations.

Environmental

The Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant (MGP) sites in its former service territories, principally in Arizona and New Mexico, and present service territories in Texas, Missouri and its newly acquired service territories in Pennsylvania. While the Company's evaluation of these Texas, Missouri, Arizona, New Mexico and Pennsylvania MGP sites is in its preliminary stages, it is likely that some compliance costs may be identified and become subject to reasonable quantification. See *MD&A -- Cautionary Statement Regarding Forward-Looking Information* and *Commitments and Contingencies* in the Notes to the Consolidated Financial Statements.

Investments in Real Estate

Lavaca Realty owns a commercially developed tract of land in the central business district of Austin, Texas, containing a combined 11-story office building, parking garage and drive-through bank (Lavaca Plaza). Approximately 52% of the office space at Lavaca Plaza is used in the Company's business while the remainder is leased to non-affiliated entities. Lavaca Realty also owns a two-story office building in El Paso, Texas as well as a one-story office building in Harlingen, Texas. Other significant real estate investments held at June 30, 2000 include 39,341 square feet of undeveloped land in McAllen, Texas and 25,000 square feet of improved property in Kansas City, Missouri, of which 40% is occupied by Missouri Gas Energy and the remainder by a non-affiliated entity. Additionally, through the acquisition of the Pennsylvania Operations, the Company owns several tracts of land, certain of which is being prepared for development, situated in northeastern Pennsylvania, primarily Lackawanna County. Depending upon market conditions the Company may sell certain of these investments from time to time.

Employees

As of July 31, 2000, the Company had 2,296 employees, of whom 1,757 are paid on an hourly basis and 539 are paid on a salary basis. Of the 1,757 hourly paid employees, 44% are represented by unions. Of those employees represented by unions, 68% are employed by Missouri Gas Energy, 29% are employed by PG Energy and 3% by Southern Union Gas. During fiscal 2000, the Company agreed to a one-year contract and a three-year contract with bargaining units representing Pennsylvania employees, which were effective on April 1, 2000 and August 1, 2000, respectively. In December 1998, the Company agreed to five-year contracts with each bargaining-unit representing Missouri employees, which were effective in May 1999.

From time to time the Company may be subject to labor disputes; however, such disputes have not previously disrupted its business. The Company believes that its relations with its employees are good.

Statistics of Principal Utility and Related Operations

The following table shows certain operating statistics of the Company's gas distribution divisions with operations in Texas, Missouri and Pennsylvania, which the Company owned during part or all of the year ended June 30, 2000:

	Year Ended June 30,		
	2000	1999	1998
Southern Union Gas:			
Average number of gas sales customers served:			
Residential	483,220	473,563	465,844
Commercial	31,860	30,847	29,828
Industrial and irrigation	253	258	252
Public authorities and other	2,862	2,849	2,755
Total average customers served	518,195	507,517	498,679
Gas sales in millions of cubic feet (MMcf):			
Residential	19,524	19,553	23,217
Commercial	8,677	8,539	9,425
Industrial and irrigation	969	1,082	1,208
Public authorities and other	2,377	2,266	2,752
Gas sales billed	31,547	31,440	36,602
Net change in unbilled gas sales	137	175	(82)
Total gas sales	31,684	31,615	36,520
Weather:			
Degree days (a)	1,516	1,576	2,118
Percent of 30-year measure (b)	71%	74%	99%
Gas transported in MMcf	17,472	16,668	16,535
Missouri Gas Energy:			
Average number of gas sales customers served:			
Residential	424,771	418,266	413,703
Commercial	58,323	57,247	57,693
Industrial	309	313	312
Total average customers served	483,403	475,826	471,708
Gas sales in MMcf:			
Residential	34,999	36,578	41,104
Commercial	15,640	16,842	18,705
Industrial	412	375	400
Gas sales billed	51,051	53,795	60,209
Net change in unbilled gas sales	37	204	35
Total gas sales	51,088	53,999	60,244
Weather:			
Degree days (a)	4,176	4,438	4,723
Percent of 30-year measure (b)	80%	85%	90%
Gas transported in MMcf	31,644	31,774	30,165

(a) "Degree days" are a measure of the coldness of the weather experienced. A degree day is equivalent to each degree that the daily mean temperature for a day falls below 65 degrees Fahrenheit.

(b) Information with respect to weather conditions is provided by the National Oceanic and Atmospheric Administration. Percentages of 30-year measure are computed based on the weighted average volumes of gas sales billed.

	Eight Months Ended June 30, 2000(a)
PG Energy:	
Average number of gas sales customers served:	
Residential	140,019
Commercial	13,872
Industrial	209
Public Authorities and Other	314
Total average customers served	154,414
Gas sales in MMcf:	
Residential	14,830
Commercial	4,969
Industrial	215
Public Authorities and Other	213
Gas sales billed	20,227
Net change in unbilled gas sales	(314)
Total gas sales	19,913
Weather:	
Degree days (b)	5,287
Percent of 30-year measure (c)	92%
Gas transported in MMcf	19,403

(a) PG Energy was acquired on November 4, 1999. See *Pennsylvania Enterprises, Inc. Acquisition.*

(b) "Degree days" are a measure of the coldness of the weather experienced. A degree day is equivalent to each degree that the daily mean temperature for a day falls below 65 degrees Fahrenheit.

(c) Information with respect to weather conditions is provided by the National Oceanic and Atmospheric Administration. Percentages of 30-year measure are computed based on the weighted average volumes of gas sales billed.

Customers. The following table shows the number of customers served by the Company, through its divisions, subsidiaries and affiliates, as of the end of its last three fiscal years.

	Gas Utility Customers as of June 30,		
	2000	1999	1998
Southern Union Gas:			
Austin and other central and south Texas communities	183,872	175,596	173,228
El Paso and other west Texas communities	187,189	182,516	178,812
Galveston and Port Arthur	50,237	50,543	50,673
Panhandle and north Texas communities	24,584	24,728	24,900
Rio Grande Valley communities and Eagle Pass	75,608	75,983	76,840
	521,490	509,366	504,453
Missouri Gas Energy:			
Kansas City, Missouri Metropolitan Area	379,804	354,189	348,543
St. Joseph, Joplin, Monett and others	104,432	122,883	121,766
	484,236	477,072	470,309
PG Energy	154,399	--	--
Other (a)	25,971	24,947	20,874
Total	1,186,096	1,011,385	995,636

(a) Includes Mercado, South Florida Natural Gas, Atlantic Gas Corporation, SUPro Energy Services, PG Energy Services, Inc. and 43% (the Company's equity ownership) of the customers of a natural gas distribution company serving Piedras Negras, Mexico, in each case for the year-end in which the Company had such operations or investments.

ITEM 2. *Properties.*

See Item 1, *Business*, for information concerning the general location and characteristics of the important physical properties and assets of the Company.

Southern Union Gas has 9,651 miles of mains, 4,428 miles of service lines and 164 miles of transmission lines. STC and Norteño have 171 miles and 7 miles, respectively, of transmission lines. Missouri Gas Energy has 7,709 miles of mains, 5,004 miles of service lines and 47 miles of transmission lines. PG Energy has 2,449 miles of mains, 1,452 miles of service lines and 9 miles of transmission lines. SFNG has 140 miles of mains and 85 miles of service lines. The Company considers its systems to be in good condition and well-maintained, and it has continuing replacement programs based on historical performance and system surveillance.

Power Corp. owns a 25-megawatt cogeneration facility located in Lackawanna County, Pennsylvania which burns methane and natural gas. Power Corp. also owns a methane recovery facility at a nearby landfill which supplies methane gas burned at its cogeneration facility.

The information above does not include Fall River Gas, ProvEnergy or Valley Resources, the companies acquired subsequent to year-end. (See Item 1 *Business -- Acquisitions Subsequent to Year-End.*)

ITEM 3. *Legal Proceedings.*

See *Commitments and Contingencies* in the Notes to Consolidated Financial Statements for a discussion of the Company's legal proceedings. See *MD&A -- Cautionary Statement Regarding Forward-Looking Information.*

ITEM 4. *Submission of Matters to a Vote of Security Holders.*

There were no matters submitted to a vote of security holders of Southern Union during the quarter ended June 30, 2000.

PART II

ITEM 5. ***Market for the Registrant's Common Stock and Related Stockholder Matters.***

Market Information

Southern Union's common stock is traded on the New York Stock Exchange under the symbol "SUG". The high and low sales prices (adjusted for any stock dividends and stock splits) for shares of Southern Union common stock since July 1, 1998 are set forth below:

	$/Share	
	High	Low
July 1 to September 15, 2000	$ 20.75	$ 16.00
(Quarter Ended)		
June 30, 2000	17.27	14.41
March 31, 2000	18.16	12.63
December 31, 1999	20.00	16.61
September 30, 1999	20.66	17.14
(Quarter Ended)		
June 30, 1999	20.75	16.78
March 31, 1999	22.11	15.77
December 31, 1998	22.22	16.80
September 30, 1998	19.33	13.50

Holders

As of August 31, 2000, there were 7,888 holders of record of Southern Union's common stock. This number does not include persons whose shares are held of record by a bank, brokerage house or clearing agency, but does include any such bank, brokerage house or clearing agency that is a holder of record.

There were 49,589,799 shares of Southern Union's common stock outstanding on August 31 2000 of which 33,547,896 shares were held by non-affiliates (i.e., not beneficially held by directors, executive officers, their immediate family members, or holders of 10% or more of shares outstanding).

Dividends

Provisions in certain of Southern Union's long-term debt and its bank credit facilities limit the payment of cash or asset dividends on capital stock. Under the most restrictive provisions in effect, Southern Union may not declare or pay any cash or asset dividends on its common stock or acquire or retire any of Southern Union's common stock, unless no event of default exists and the Company meets certain financial ratio requirements, which presently are met.

Southern Union has a policy of reinvesting its earnings in its businesses, rather than paying cash dividends. Since 1994, Southern Union has distributed an annual stock dividend of 5%. There have been no cash dividends on its common stock during this period. On June 30, 2000, August 6, 1999, December 9, 1998 and December 10, 1997, the Company distributed its annual 5% common stock dividend to stockholders of record on June 19, 2000, July 23, 1999, November 23, 1998 and November 21, 1997, respectively. A portion of each of the 5% stock dividends distributed on June 30, 2000, August 6, 1999 and December 9, 1998 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. On July 13, 1998, Southern Union effected a 3-for-2 stock split by distributing a 50% stock dividend to holders of record on June 30, 1998. The Massachusetts Department of Telecommunications and Energy order approving the Company's acquisitions of Fall River Gas and ProvEnergy's North Attleboro Gas requires that Southern Union cease distributing stock dividends because of a Massachusetts law prohibition. Rhode Island law may also restrict Southern Union's

ability to distribute stock dividends, or at least require prior regulatory approval. Southern Union intends to seek relief from or authority under Massachusetts and Rhode Island law, including, if appropriate, legislative action, in order to continue distributing its annual stock dividend. Although it hopes to resolve these issues successfully prior to next summer, there can be no assurance that Southern Union will be able to distribute any stock dividends in the future including its next anticipated annual 5% stock dividend in summer 2001.

ITEM 6. ***Selected Financial Data.***

	As of and for the Year Ended June 30,				
	2000(a) (Restated)	1999(b)	1998(b)	1997	1996
	(dollars in thousands, except per share amounts)				
Total operating revenues	$ 831,704	$ 605,231	$ 669,304	$ 717,031	$ 620,391
Earnings from continuing operations (c)	9,845	10,445	12,229	19,032	20,839
Earnings per common and common share equivalents (d)	.22	.31	.37	.59	.65
Total assets	2,021,460	1,087,348	1,047,764	990,403	964,460
Common stockholders' equity	734,647	301,058	296,834	267,462	245,915
Short-term debt and capital lease obligation	2,193	2,066	1,777	687	615
Long-term debt and capital lease obligation, excluding current portion	733,774	390,931	406,407	386,157	385,394
Company-obligated mandatorily redeemable preferred securities of subsidiary trust	100,000	100,000	100,000	100,000	100,000
Average customers served	1,132,699	998,476	979,186	955,838	952,934

(a) The Pennsylvania Operations were acquired on November 4, 1999 and were accounted for as a purchase. The Pennsylvania Operations' assets were included in the Company's consolidated balance sheet at June 30, 2000 and its results of operations have been included in the Company's consolidated results of operations since November 4, 1999. For these reasons, the consolidated results of operations of the Company for the periods subsequent to the acquisition are not comparable to the same periods in prior years.

(b) On December 31, 1997, Southern Union acquired Atlantic for 755,650 pre-split and pre-stock dividend shares of common stock valued at $18,041,000 and cash of $4,436,000.

(c) In March 2001, the Company discovered unauthorized financial derivative energy trading activity by a non-regulated, wholly-owned subsidiary. All such transactions were subsequently closed in April 2001, resulting in a cumulative cash expense of $191,000, net of tax. As of June 30, 2000 the related contracts were marked to market resulting in non-cash losses of $1,207,000, net of tax. As a result, the Company has restated fiscal year 2000 financial information. See *Item 7 -- Management's Discussion and Analysis of Results of Operations and Financial Condition.* As of June 30, 1998, Missouri Gas Energy wrote off $8,163,000 pre-tax in previously recorded regulatory assets as a result of announced rate orders and court rulings.

(d) Earnings per share for all periods presented were computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year adjusted for (i) the 5% stock dividends distributed on June 30, 2000, August 6, 1999, December 9, 1998, December 10, 1997 and December 10, 1996, and (ii) the 50% stock dividend distributed on July 13, 1998, and the 33⅓% stock dividend distributed on March 11, 1996.

ITEM 7. *Management's Discussion and Analysis of Results of Operations and Financial Condition.*

Overview Southern Union Company's core business is the distribution of natural gas as a public utility through: Southern Union Gas; Missouri Gas Energy; Atlantic Utilities, doing business as South Florida Natural Gas (SFNG); PG Energy, acquired on November 4, 1999; and, effective with the acquisitions subsequent to year-end of Providence Energy Corporation, Valley Resources, Inc. and Fall River Gas Company, its New England Division. Southern Union Gas serves 523,000 customers in Texas (including Austin, Brownsville, El Paso, Galveston, Harlingen, McAllen and Port Arthur). Missouri Gas Energy serves 491,000 customers in central and western Missouri (including Kansas City, St. Joseph, Joplin and Monett). PG Energy serves 154,000 customers in northeastern and central Pennsylvania (including Wilkes-Barre, Scranton and Williamsport). SFNG serves 5,000 customers in portions of central Florida (including New Smyrna Beach, Edgewater and areas of Volusia County, Florida). The New England Division serves approximately 286,000 customers in Rhode Island and Massachusetts (including Providence, Newport and Cumberland, Rhode Island, and Fall River, North Attleboro and Somerset, Massachusetts).

On November 4, 1999, the Company acquired Pennsylvania Enterprises, Inc. (hereafter referred to as the *Pennsylvania Operations*) for approximately 16.7 million pre-stock dividend shares of Southern Union common stock and approximately $36 million in cash plus the assumption of approximately $115 million in long-term debt. The acquisition was accounted for using the purchase method. Pennsylvania Operations' natural gas utility businesses are being operated as the PG Energy division of the Company. Through the acquisition of the Pennsylvania Operations, the Company acquired and now operates a subsidiary that markets a diversified range of energy-related products and services under the name of PG Energy PowerPlus, principally in northeastern and central Pennsylvania. Other subsidiaries that the Company acquired in the Pennsylvania Operations engage in non-regulated activities. The income from the acquired Pennsylvania Operations is consolidated with the Company beginning on November 4, 1999. Thus, the results of operations for the year ended June 30, 2000 are not comparable to prior periods.

See *Other Matters -- Acquisitions Subsequent to Year-End* for a discussion of acquisitions completed after June 30, 2000.

Results of Operations

Net Earnings Southern Union Company's 2000 (fiscal year ended June 30) net earnings were $9,845,000 ($.22 per common share, diluted for outstanding options and warrants -- hereafter referred to as *per share*), compared with $10,445,000 ($.31 per share) in 1999. The acquisition of the Pennsylvania Operations, net of interest expense on $300,000,000 of 8.25% Senior Notes issued on November 3, 1999, contributed $4,266,000 in net earnings. Throughout fiscal year 2000, the Company continued to experience extremely warm winter weather in all of its service territories. In addition, the Company expended costs associated with unsuccessful acquisition activities and related litigation. Also, during fiscal year 2000, the Company incurred non-cash losses of $1,207,000, net of tax from unauthorized financial derivative energy trading activity. This was partially offset by an increase in the average number of customers served. Though weather in the Southern Union Gas service territories during 2000 was 4% warmer than 1999, gas sales volumes in the corresponding period remained constant due to an increase of 11,000 average number of customers served. In the Missouri service territories weather was 6% warmer during 2000 than 1999 and gas sales volumes in the corresponding period decreased 5%. An increase of 8,000 average number of customers served in Missouri partially offset the decrease in gas sales volumes in 2000. During fiscal years 2000 and 1999, the Company incurred pre-tax costs of $10,363,000 and $3,839,000, respectively, related to an unsuccessful acquisition effort and related litigation, impacting per share earnings by $.13 and $.07, respectively. Average common and common share equivalents outstanding increased 33% in 2000 due to the issuance of 16,713,735 pre-stock dividend shares of the Company's common stock on November 4, 1999 in connection with the acquisition of the Pennsylvania Operations. The Company earned 1.9% on average common equity in 2000.

The Company's 1999 net earnings were $10,445,000 ($.31 per share), compared with $12,229,000 ($.37 per share) in 1998. The decrease was primarily due to the extremely warm winter of 1998/1999, which was experienced in all of the Company's service territories. Weather in the Southern Union Gas service territories during 1999 was 25% warmer than 1998 while gas sales volumes in the corresponding period decreased 13%. Weather in the Missouri service territories during 1999 was 6% warmer than 1998 while gas sales volumes in the corresponding period decreased 10%. A $13,300,000 annual rate increase to be earned volumetrically was granted by the Missouri Public Service Commission (MPSC) to Missouri Gas Energy effective as of September 2, 1998. As a result of the volumetric nature of revenues and unusual warm weather, 1999 net earnings were only marginally impacted by the

rate increase. The decrease in net earnings for 1999 is also attributed to $3,839,000 of pre-tax costs associated with various acquisition efforts, impacting per share earnings by $.07. Average common and common share equivalents outstanding increased 3.2% in 1999 due to the issuance of 755,650 pre-split and pre-stock dividend shares of the Company's common stock on December 31, 1997 in connection with the acquisition of Atlantic Utilities Corporation and Subsidiaries (Atlantic). The Company earned 3.5% and 4.3% on average common equity in 1999 and 1998, respectively.

Operating Revenues Operating revenues in 2000 increased $226,473,000, or 37%, to $831,704,000, while gas purchase and other energy costs increased $155,397,000, or 45%, to $497,698,000.

The increase in both operating revenues and gas purchase and other energy costs was primarily due to a 14% increase in gas sales volumes from 105,156 MMcf in 1999 to 119,778 MMcf in 2000 and by a 14% increase in the average cost of gas from $3.23 per Mcf in 1999 to $3.67 per Mcf in 2000. The acquisition of PG Energy contributed 19,913 MMcf of the increase while the remaining operations of the Company resulted in a gas sales volume decrease of 5,291 MMcf. The increase in the average cost of gas is due to increases in average spot market gas prices throughout the Company's distribution system as a result of seasonal impacts on demands for natural gas as well as the current competitive pricing occurring within the entire energy industry. Additionally impacting operating revenues in 2000 was a $2,862,000 increase in gross receipt taxes primarily due to the acquisition of the Pennsylvania Operations. Gross receipt taxes are levied on sales revenues billed to the customers and remitted to the various taxing authorities. Operating revenues in 2000 compared with 1999 were also impacted by a $2,900,000 decrease in revenues under a gas supply incentive plan approved by the MPSC in July, 1996. Under the plan, Southern Union and its Missouri customers shared in certain savings below benchmark levels of gas costs incurred as a result of the Company's gas procurement activities. Operating revenues were marginally impacted by the $13,300,000 annual increase to revenues granted to Missouri Gas Energy, effective as of September 2, 1998, as this rate increase is primarily earned volumetrically and therefore was impacted by the warmer than normal weather in both 2000 and 1999.

Gas purchase costs generally do not directly affect earnings since these costs are passed on to customers pursuant to purchase gas adjustment (PGA) clauses. Accordingly, while changes in the cost of gas may cause the Company's operating revenues to fluctuate, net operating margin is generally not affected by increases or decreases in the cost of gas. Increases in gas purchase costs indirectly affect earnings as the customer's bill increases, usually resulting in increased bad debt and collection costs being recorded by the Company.

Gas transportation volumes in 2000 increased 21,323 MMcf to 77,015 MMcf at an average transportation rate per Mcf of $.43 compared with $.36 in 1999. PG Energy contributed 19,403 MMcf of the increase in 2000. Transportation volumes at Missouri Gas Energy in 2000 were relatively flat and increased from 23,918 MMcf to 25,969 MMcf in 2000 for Southern Union Gas and the Company's pipeline subsidiaries. This increase was primarily due to a 15% increase, or 990 MMcf, in the amount of volumes transported into Mexico by Norteño Pipeline Company (Norteño), a subsidiary of the Company.

Operating revenues in 1999 compared with 1998 decreased $64,073,000, or 10%, to $605,231,000, while gas purchase and other energy costs decreased $63,279,000, or 16%, to $342,301,000.

Operating revenues and gas purchase and other energy costs in 1999 were affected by both a reduction in gas sales volumes and decreases in the cost of gas. Gas sales volumes decreased 9% in 1999 to 105,156 MMcf due to the significantly warmer winter weather in the Missouri and Texas service territories. Gas sales volumes were also impacted by a reduction in average usage per customer throughout the Company's service territories as a result of more energy efficient housing and appliances. The average cost of gas decreased $.26 to $3.23 per Mcf in 1999 due to decreases in average spot market gas prices. The average spot market price of natural gas decreased 16% to $1.88 per MMBtu in 1999. Additionally impacting operating revenues in 1999 was a $2,852,000 decrease in gross receipt taxes due to the mild weather in 1999. Operating revenues in 1999 compared with 1998 were also impacted by a $1,200,000 decrease in revenues under the previously discussed gas supply incentive plan. Operating revenues were favorably impacted by the $13,300,000 annual increase to revenues granted to Missouri Gas Energy, effective as of September 2, 1998. However, as previously stated, the impact from this rate increase was marginal as it is earned volumetrically.

Gas transportation volumes in 1999 decreased 3,461 MMcf to 55,692 MMcf at an average transportation rate per Mcf of $.36 compared with $.33 in 1998. Transportation volumes increased from 30,165 MMcf to 31,774 MMcf in

1999 for Missouri Gas Energy and decreased from 28,988 MMcf to 23,918 MMcf in 1999 for Southern Union Gas and the Company's pipeline subsidiaries. This decrease was mainly caused by a 45% decrease, or 5,190 MMcf, in the amount of volumes transported into Mexico by Norteño.

In 2000, 1999 and 1998, the gas distribution operations in Texas contributed 25%, 29% and 32%, respectively, of the Company's consolidated operating revenues. In 2000, 1999 and 1998, the gas distribution operations in Missouri contributed 44%, 61% and 59%, respectively, of the Company's consolidated operating revenues. In 2000 the gas distribution operations in Pennsylvania contributed 17% of the Company's consolidated operating revenues. Four suppliers provided 55%, 50% and 45% of gas purchases in 2000, 1999 and 1998, respectively.

Net Operating Margin Net operating margin in 2000 (operating revenues less gas purchase and other energy costs and revenue-related taxes) increased by $68,214,000, compared with an increase of $2,058,000, in 1999. Operating margins and earnings are primarily dependent upon gas sales volumes, gas service rates, and in 2000, the timing of the acquisition of the Pennsylvania Operations. The level of gas sales volumes is sensitive to the variability of the weather. If normal weather had been present throughout the Company's service territories in 2000, 1999 and 1998, net operating margin would have increased by approximately $21,214,000, $20,334,000 and $8,443,000, respectively. Texas and Missouri accounted for 32% and 42%, respectively, of the Company's net operating margin in 2000 and 40% and 55%, respectively, in 1999. Pennsylvania accounted for 23% of the Company's net operating margin in 2000.

Weather Weather in the Missouri Gas Energy service territories in 2000 was 80% of a 30-year measure, 6% warmer than in 1999. Weather in the Southern Union Gas service territories in 2000 was 71% of a 30-year measure, 4% warmer than in 1999. Weather in the PG Energy service territories was 92% of a 30-year measure for the eight months ended June 30, 2000. Weather in Missouri in 1999 was 85% of a 30-year measure, 6% warmer than in 1998, while weather in Texas in 1999 was 74% of a 30-year measure, 25% warmer than in 1998.

Customers The average number of customers served in 2000, 1999 and 1998 was 1,132,699, 998,476 and 979,186, respectively. These customer totals exclude Southern Union's 43% equity ownership in a natural gas distribution company in Piedras Negras, Mexico which currently serves 22,000 customers. Southern Union Gas served 518,195 customers in Texas during 2000. Missouri Gas Energy served 483,403 customers in central and western Missouri and PG Energy served 154,414 customers in northeastern and central Pennsylvania during the eight months ended June 30, 2000. SFNG and Atlantic Gas Corporation, a propane subsidiary of the Company, served 4,303 and 1,036 customers, respectively, during 2000. SUPro Energy Company (SUPro), a subsidiary of the Company, served 9,274 propane customers while PG Energy Services Inc. (Energy Services), a subsidiary of the Company, served 19,971 electric, propane and natural gas customers during the eight months ended June 30, 2000.

Operating Expenses Operating, maintenance and general expenses in 2000 increased $26,894,000, or 25%, to $136,587,000. An increase of $23,804,000 was the result of the acquisition of the Pennsylvania Operations. Increased expenses associated with increased bad debt expense and inventory write-downs for SUPro, as well as increases in Company employee benefit costs also contributed to the increase in 2000.

Depreciation and amortization expense in 2000 increased $13,285,000 to $55,140,000. The increase was primarily due to the acquisition of the Pennsylvania Operations and normal growth in plant. Taxes other than on income and revenues, principally consisting of property, payroll and state franchise taxes increased $2,768,000 to $17,269,000 in 2000. The increase was also primarily the result of the acquisition of the Pennsylvania Operations.

Operating, maintenance and general expenses in 1999 increased $2,166,000, or 2%, to $109,693,000. The increase is a result of increased expenses associated with various claims and litigation and increases in employee benefit costs.

Depreciation and amortization expense in 1999 increased $3,416,000 to $41,855,000 as a result of including certain costs into rate base that were previously deferred as provided in the Missouri Gas Energy revenue increase effective as of September 2, 1998 and normal growth in plant. Taxes other than on income and revenues, principally consisting of property, payroll and state franchise taxes increased $296,000 to $14,501,000 in 1999. The increase was primarily due to increases in property taxes resulting from the inclusion of certain plant assets pursuant to the Missouri Gas Energy Safety Program that were previously deferred prior to the September 2, 1998 revenue increase in Missouri.

Employees The Company employed 2,285, 1,554, and 1,594 individuals as of June 30, 2000, 1999, and 1998, respectively. After gas purchases and taxes, employee costs and related benefits are the Company's most significant expense. Such expense includes salaries, payroll and related taxes and employee benefits such as health, savings, retirement and educational assistance. During fiscal 2000, the Company agreed to a one-year contract and a three-year contract with two bargaining units representing Pennsylvania employees, which were effective on April 1, 2000 and August 1, 2000, respectively. In December 1998, the Company agreed to five-year contracts with each of the bargaining units representing Missouri employees, which were effective in May 1999.

Interest Expense and Dividends on Preferred Securities Total interest expense in 2000 increased by $15,493,000, or 43%, to $51,492,000. Interest expense on long-term debt and capital leases increased by $17,736,000 in 2000 primarily due to the issuance of $300,000,000 of 8.25% Senior Notes on November 3, 1999, (8.25% Senior Notes) which was used to extinguish $136,000,000 of existing debt of the Pennsylvania Operations at the time of the merger, and the assumption of $45,000,000 of Pennsylvania Operations' debt by the Company.

Interest expense on short-term debt in 2000 decreased $284,000 to $1,266,000 primarily due to the decrease in the average short-term debt outstanding by $6,472,000 to $21,002,000. The average rate of interest on short-term debt increased from 5.6% in 1999 to 6% in 2000.

Total interest expense in 1999 increased by $1,115,000, or 3%, to $35,999,000. Interest expense on long-term debt and capital leases increased by $752,000 in 1999 primarily due to an increase of $14,984,000 in the average capital lease obligation outstanding associated with the installation of an Automated Meter Reading (AMR) system at Missouri Gas Energy. The installation of the AMR system was completed during the first quarter of fiscal year 1999.

Interest expense on short-term debt in 1999 decreased $849,000 to $1,550,000 due to the average short-term debt outstanding during 1999 decreasing $11,631,000 to $27,474,000. The average rate of interest on short-term debt also decreased from 6.1% in 1998 to 5.6% in 1999. Interest expense incurred on PGA liabilities increased $850,000 during 1999 due to lower than anticipated gas supply costs.

Write-Off of Regulatory Assets During 1998, the Company was impacted by pre-tax non-cash write-offs totaling $8,163,000 of previously recorded regulatory assets. Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program. In connection with this program, the MPSC issued an accounting authority order in 1994 which authorized Missouri Gas Energy to defer carrying costs at a rate of 10.54%. The MPSC rate order of January 22, 1997, however, retroactively reduced the 10.54% carrying cost rate used since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate of approximately 6%. The Company filed an appeal of this portion of the rate order in the Missouri State Court of Appeals, Western District, and on August 18, 1998 was notified that the appeal was denied. This resulted in a one-time non-cash write-off of $5,942,000 by the Company of previously deferred costs in its fiscal year ended June 30, 1998. See *Commitments and Contingencies* in the Notes to Consolidated Financial Statements.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs associated with the rate filing, requiring a non-cash write-off of $2,221,000. Though the Company has requested a rehearing on significant portions of these disallowances, the Company recorded this charge to earnings in its fiscal year ended June 30, 1998.

Trading Losses In March 2001, the Company discovered unauthorized financial derivative energy trading activity by a non-regulated, wholly-owned subsidiary. During March 2001 and April 2001, all unauthorized trading activity was closed resulting in a cumulative cash expense of $191,000, net of tax. However, due to certain accounting rules, such trading contracts must be recorded at fair value as of each balance sheet date with gains and losses included in earnings. As a result, a restatement of financial information for the fiscal year ended June 30, 2000 and the two subsequent quarters was required. This restatement resulted in non-cash losses of $1,207,000, net of tax, for the fiscal year ended June 30, 2000; $1,726,000, net of tax, for the three-month period ended September 30, 2000; and $3,158,000, net of tax, for the three-month period ended December 31, 2000.

The Audit Committee of the Board of Directors promptly initiated an investigation through the Company's Legal Department with the assistance of outside counsel and independent accountants of the financial derivative trading

activities. The Company believes that the investigation has identified all unauthorized trading transactions by the subsidiary. Certain personnel changes have occurred at the subsidiary. Outside counsel and independent accountants have been engaged to review the relevant policies and procedures for possible enhancements.

Other Income (Expense), Net Other expense, net, in 2000 was $9,708,000, compared to $1,814,000 in 1999. Other expense in 2000 included $10,363,000 of costs associated with unsuccessful acquisition efforts and related litigation and $2,236,000 of non-cash trading losses, previously discussed. This was partially offset by net rental income of Lavaca Realty Company (Lavaca Realty) of $1,757,000.

Other expense in 1999 included $3,839,000 of costs associated with various acquisition efforts and a net expense of $619,000 related to the amortization and current deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program. This was partially offset by net rental income of Lavaca Realty of $1,448,000 and equity earnings of $609,000 from Southern Union's 43% equity ownership of a natural gas distribution company in Piedras Negras, Mexico.

Other income in 1998 included $1,671,000 in deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; realized gains on the sale of investment securities of $1,088,000; and net rental income of Lavaca Realty of $1,119,000. This was partially offset by $885,000 of costs associated with various acquisition efforts.

Federal and State Income Taxes Federal and state income tax expense in 2000, 1999, and 1998 was $9,589,000, $7,109,000 and $7,984,000, respectively. The Company's consolidated federal and state effective income tax rate was 49%, 40% and 39% in 2000, 1999 and 1998, respectively. The increase in the effective federal and state income tax rate is a result of non-tax deductible amortization of additional purchase cost.

Liquidity and Capital Resources

Operating Activities The seasonal nature of Southern Union's business results in a high level of cash flow needs to finance gas purchases and other energy costs, outstanding customer accounts receivable and certain tax payments. To provide these funds, as well as funds for its continuing construction and maintenance programs, the Company has historically used its credit facilities along with internally-generated funds. Because of available short-term credit and the ability to obtain various market financing, management believes it has adequate financial flexibility to meet its cash needs.

The Company has increased the scale of its operations and the size of its customer base by pursuing and consummating business combination transactions. On November 4, 1999, the Company acquired the Pennsylvania Operations and, subsequent to year-end, the Company acquired Valley Resources, Inc. (Valley Resources), Fall River Gas Company (Fall River Gas) and Providence Energy Corporation (ProvEnergy). See *Other Matters -- Acquisitions Subsequent to Year-End.* Acquisitions require substantial financial expenditures which may need to be financed through cash flow from operations or future debt and equity offerings. The availability and terms of any such financing sources will depend upon various factors and conditions such as the Company's combined cash flow and earnings, the Company's resulting capital structure, and conditions in financial markets at the time of such offerings. Acquisitions and financings also affect the Company's combined results due to factors such as the Company's ability to realize any anticipated benefits from the acquisitions, successful integration of new and different operations and businesses, and effects of different regional economic and weather conditions. Future acquisitions or merger-related refinancing may involve the issuance of shares of the Company's common stock, which could have a dilutive effect on the then-current stockholders of the Company. See *Other Matters -- Cautionary Statement Regarding Forward-Looking Information.*

Cash flow from operating activities in 2000 decreased by $6,331,000 to $70,522,000, and increased by $8,596,000 to $76,853,000 in 1999. Operating activities were impacted by the timing of acquisitions, the non-cash write-off of previously recorded regulatory assets in 1998 discussed above, the timing of natural gas stored in inventory at Missouri Gas Energy and PG Energy and general changes in other operating accounts.

At June 30, 2000, 1999 and 1998, the Company's primary source of liquidity included borrowings available under the Company's credit facilities. A balance of nil and $21,000,000 was outstanding under the credit facilities at

June 30, 2000 and 1999, respectively. In May 2000, the Company amended and restated these credit facilities. As of August 31, 2000 there was a balance of $26,320,000 outstanding under these credit facilities.

Investing Activities Cash flow used in investing activities in 2000 increased by $73,314,000 to $154,523,000, and increased by $15,575,000 to $81,209,000 in 1999. Investing activity cash flow was primarily affected by additions to property, plant and equipment, acquisition and sales of operations and sales and purchases of investment securities.

During 2000, 1999 and 1998, the Company expended $100,446,000, $73,147,000 and $77,018,000, respectively, for capital expenditures excluding acquisitions. These expenditures primarily related to distribution system replacement and expansion. Included in these capital expenditures were $14,286,000, $17,951,000 and $21,125,000 for the Missouri Gas Energy Safety Program in 2000, 1999 and 1998, respectively. Cash flow from operations has historically been utilized to finance capital expenditures and is expected to be the primary source for future capital expenditures.

On November 4, 1999, Southern Union acquired the Pennsylvania Operations for 16,713,735 pre-stock dividend shares of common stock and $36,152,000 in cash. On the date of acquisition, Pennsylvania Operations had $576,000 in cash and cash equivalents. In January 2000, a former subsidiary of the Pennsylvania Operations was sold for $12,150,000. No gain or loss was recognized on this transaction. On December 31, 1997, Southern Union acquired Atlantic for 755,650 pre-split and pre-stock dividend shares of common stock and $4,436,000 of cash. On the date of acquisition, Atlantic had $11,683,000 of cash and cash equivalents.

During 2000, the Company purchased investment securities of $21,001,000. In late June 2000, Capstone Turbine Corporation (Capstone) completed its initial public offering (IPO). As of June 30, 2000 and August 31, 2000, the value of the Company's investment in Capstone was $187,817,000 and $384,753,000, respectively. The Company has classified this investment as current, as it plans to monetize its investment as soon as practicable following the completion of the applicable lock-up periods to which it was subject in connection with the IPO and use the proceeds to reduce outstanding debt. During 1999, the Company purchased investment securities of $7,000,000. During 1998, the Company purchased investment securities of $5,000,000 and had proceeds from the sale of investment securities of $6,531,000.

The Company completed the installation of an AMR system at Missouri Gas Energy during the first quarter of fiscal year 1999. The installation of the AMR system involved an investment of approximately $30,000,000 which is accounted for as a capital lease obligation. As of June 30, 2000, the capital lease obligation outstanding was $25,104,000.

Financing Activities Cash flow from financing activities was $111,830,000 in 2000. Cash flow from financing activities was $4,356,000 in 1999, while a cash flow used in financing activities was $2,623,000 in 1998. Financing activity cash flow changes were primarily due to acquisition financing, repayment of debt, net activity under the revolving credit facilities, purchase of treasury stock and changes in cash overdrafts. As a result of these financing transactions, the Company's total debt to total capital ratio at June 30, 2000 was 46.8%, compared with 49.0% and 50.6% at June 30, 1999 and 1998, respectively. The Company's effective debt cost rate under the current debt structure is 8.03% (which includes interest and the amortization of debt issuance costs and redemption premiums on refinanced debt).

In connection with the acquisition of the Pennsylvania Operations, the Company issued $300,000,000 of 8.25% Senior Notes due 2029 which were used to: (i) fund the cash portion of the consideration to be paid to the Pennsylvania Operations shareholders; (ii) refinance and repay certain debt of Pennsylvania Operations, and (iii) repay outstanding borrowings under the Company's various credit facilities. These senior notes are senior unsecured obligations and will rank equally in right of payment with each other and with the Company's other unsecured and unsubordinated obligations, including the 7.60% Senior Notes due 2024. In connection with the acquisition of the Pennsylvania Operations, the Company assumed $30,000,000 of 8.375% Series First Mortgage Bonds due in December 2002 and $15,000,000 of 9.34% Series First Mortgage Bonds due in 2019.

On August 28, 2000 the Company entered into a short-term bank note (the *Term Note*) to fund (i) the cash portion of the consideration to be paid to the Fall River Gas' stockholders, (ii) the all cash consideration to be paid to the ProvEnergy and Valley Resources stockholders, and (iii) all related acquisition costs and refinancing of debt done

in connection with these mergers. In September 2000, draws totaling $480,000,000 were made under this Term Note. Remaining commitments under the Term Note are $95,000,000 as of September 28, 2000 to cover any trailing costs. The Term Note expires August 21, 2001 but may be extended at the Company's option through August 26, 2002 for a 12.5 basis point fee. The interest rate on borrowings under the Term Note is a floating rate based on LIBOR or prime interest rates. See *Quantitative and Qualification Disclosures About Market Risk.* In connection with the acquisitions subsequent to year-end, the Company will assume all these companies' long-term debt outstanding except for approximately $20,000,000 outstanding of Valley Resources' 8% First Mortgage Bonds.

In fiscal year 2001, the Company may choose or need to refinance some portion or all of the short-term bank note. Sources of future or alternative financing that the Company may consider include commercial and investment banks, institutional lenders, institutional investors and public securities markets. The availability and terms of any such financing sources will depend upon various factors and conditions such as the Company's combined cash flow and earnings, the Company's resulting capital structure, and conditions in financial markets at the time of such offerings. Acquisitions and financings will also affect the Company's combined results due to factors such as the Company's ability to realize any anticipated benefits from the mergers and any other acquisitions, successful integration of new and different operations and businesses, and effects of different regional economic and weather conditions. See *Other Matters -- Cautionary Statement Regarding Forward-Looking Information.*

Southern Union Financing I, a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of Preferred Securities in May 1995. The issuance of the Preferred Securities was part of a $300,000,000 shelf registration filed with the Securities and Exchange Commission on March 29, 1995. Southern Union may sell a combination of preferred securities of financing trusts and senior and subordinated debt securities of Southern Union of up to $196,907,200 (the remaining shelf) from time to time, at prices determined at the time of any offering.

In June 1999, the Company repurchased $20,000,000 of Senior Notes. Depending upon market conditions and available cash balances, the Company may repurchase additional debt securities in the future. See *Preferred Securities of Subsidiary Trust* and *Debt and Capital Lease* in the Notes to the Consolidated Financial Statements.

On May 31, 2000, the Company restated and amended its short-term and long-term credit facilities (together referred to as *Revolving Credit Facilities*). The Company has available $90,000,000 under the short-term facility, which expires May 30, 2001, and $135,000,000 under the long-term facility, which expires on May 31, 2003. The Company has additional availability under uncommitted line of credit facilities (Uncommitted Facilities) with various banks. Borrowings under the facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. The Revolving Credit Facility is subject to a commitment fee based on the rating of the Senior Notes. As of June 30, 2000, the commitment fee was an annualized 0.14%.

The Company had standby letters of credit outstanding of $6,199,000 at June 30, 2000 and $1,622,000 at June 30, 1999, which guarantee payment of various insurance premiums and state taxes.

Quantitative and Qualitative Disclosures About Market Risk

The Company has long-term debt, Preferred Securities and Revolving Credit Facilities, which subject the Company to the risk of loss associated with movements in market interest rates.

At June 30, 2000, the Company had issued fixed-rate long-term debt, capital lease and Preferred Securities aggregating $835,967,000 in principal amount and having a fair value of $800,934,000. These instruments are fixed-rate and, therefore, do not expose the Company to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would increase by approximately $42,660,000 if interest and dividend rates were to decline by 10% from their levels at June 30, 2000. In general, such an increase in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company presently has no balance outstanding under its Revolving Credit Facilities. The floating-rate obligations under the Revolving Credit Facilities expose the Company to the risk of increased interest expense in the event of increases in short-term interest rates. In connection with the acquisitions subsequent to year-end, the Company entered into the Term Note, as discussed above. At September 28, 2000, the Term Note has a balance outstanding of approximately $480,000,000. The floating rate obligations under the Term Note expose the Company to risk of

increased interest expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from September 28, 2000 levels, the Company's consolidated interest expense would increase by a total of approximately $300,000 each month in which such increase continued.

The risk of an economic loss is mitigated at this time as a result of the Company's regulated status. Any unrealized gains or losses are accounted for in accordance with the Financial Accounting Standards Board *Accounting for the Effects of Certain Types of Regulation* as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate-making process will be adjusted for these gains and losses.

The change in exposure to loss in earnings and cash flow related to interest rate risk from June 30, 1999 to June 30, 2000 is not material to the Company.

See *Preferred Securities of Subsidiary Trust* and *Debt and Capital Lease* in the Notes to the Consolidated Financial Statements.

The Company owns approximately 4.2 million shares of Capstone common stock. This investment is classified as "available for sale" under the Financial Accounting Standards Board *Accounting for Certain Investments in Debt and Equity Securities*. Unrealized gains and losses resulting from changes in the market value of Capstone are recorded in Other Comprehensive Income. The Capstone investment exposes the Company to losses in the fair value of Capstone common stock. A 10% decline in the market value per share of Capstone common stock from the June 30, 2000 levels would result in an $18,800,000 loss in value to the Company.

Due to the operation of purchase gas adjustment clauses, gas purchase costs generally do not directly affect earnings of our regulated utility operations. However, the Company's unregulated gas marketing operations are subject to price risk related to fixed-price sales commitments that are not matched with corresponding fixed-price purchase agreements. At June 30, 2000, the Company had fixed-price sales commitments with various customers that provide for the delivery of approximately 1,922,201 Dekatherms of natural gas through April 2001 at an average sales price per Dekatherm of $3.00. The Company has exposure to the changes in gas prices related to fluctuating commodity prices, which can impact the Company's financial position or results of operations, either favorably or unfavorably. The Company's open positions are actively managed, and the impact of changing prices on the Company's financial position at a point in time is not necessarily indicative of the impact of price movements throughout the year.

As a result of the unauthorized financial derivative energy trading activity, an open contract of a non-regulated, wholly-owned subsidiary was present at June 30, 2000 for 10,000 MMBtu's of natural gas per day for the contract period of January 2001 to December 2001 at a fixed price of $2.72 per MMBtu. During the contract period, such subsidiary would receive funds if the respective monthly price of natural gas falls below $2.72 and will be required to pay for any amount over $2.72 per MMBtu. The Company has exposure to the changes in gas prices related to fluctuating commodity prices, which can impact the Company's financial position or results of operations, either favorably or unfavorably. A 10% increase in natural gas commodity prices from June 30, 2000 levels would result in a $1,300,000 loss to the Company.

In connection with the acquisition of the Pennsylvania Operations, the Company assumed a guaranty with a bank whereby the Company unconditionally guaranteed payment of financing obtained for the development of PEI Power Park. In March 1999, the Borough of Archbald, the County of Lackawanna, and the Valley View School District (together the *Taxing Authorities*) approved a Tax Incremental Financing Plan (TIF Plan) for the development of PEI Power Park. The TIF Plan requires that: (i) the Redevelopment Authority of Lackawanna County raise $10,600,000 of funds to be used for infrastructure improvements of the PEI Power Park; (ii) the Taxing Authorities create a tax increment district and use the incremental tax revenues generated from new development to service the $10,600,000 debt; and (iii) PEI Power Corporation, a subsidiary of the Company, guarantee the debt service payments. In May 1999, the Redevelopment Authority of Lackawanna County borrowed $10,600,000 from a bank under a promissory note (TIF Debt). The TIF Debt has a 12-year term, with a 7.75% annual interest rate, and requires semi-annual principal and interest payments of approximately $725,000 (interest only for the first year). As of June 30, 2000, incremental tax revenues cover approximately 17% of the annual debt service. The balance outstanding on the TIF Debt was $9,805,000 as of June 30, 2000.

Other Matters

Acquisitions Subsequent to Year-End On September 20, 2000, Southern Union completed the acquisition of Valley Resources for approximately $125 million in cash plus the assumption of $30 million in long-term debt. Valley Resources is engaged in natural gas distribution operating as Valley Gas Company and Bristol and Warren Gas Company which are now included as part of the New England Division of Southern Union. The non-utility subsidiaries of Valley Resources are now subsidiaries of Southern Union. Valley Resources, which is headquartered in Cumberland, Rhode Island, provides natural gas utility service to more than 64,000 customers within a 92 square mile area in the northeastern portion of Rhode Island that has a population of approximately 250,000 and an approximately 15 square mile area in the eastern portion of Rhode Island that has a population of approximately 35,000. The non-utility subsidiaries rent and sell appliances, offer a service contract program, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Included in the acquisition was Valley Resources' 90% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI Corporation fuel cell, holds patents for a natural gas/diesel co-firing system and for a device to control the flow of fuel on dual-fuel equipment.

On September 28, 2000, Southern Union completed the acquisition of ProvEnergy for approximately $270 million in cash plus the assumption of $90 million in long-term debt. The ProvEnergy natural gas distribution operations are Providence Gas and North Attleboro Gas. Providence Gas serves approximately 168,000 natural gas customers in Providence and Newport, Rhode Island, and 23 other cities and towns in Rhode Island and Massachusetts. North Attleboro Gas serves approximately 6,000 customers in North Attleboro and Plainville, Massachusetts, towns adjacent to the northeastern Rhode Island border. The ProvEnergy utility service territories encompass approximately 760 square miles with a population of approximately 850,000. These operations are also now included as part of the New England Division of the Company. Subsidiaries of the Company acquired in the ProvEnergy merger are ProvEnergy Oil Enterprises, Inc., Providence Energy Services, Inc., and ProvEnergy Power Company, LLC. ProvEnergy Oil Enterprises, Inc. operates a fuel oil distribution business through its subsidiary, ProvEnergy Fuels, Inc. (ProvEnergy Fuels). ProvEnergy Fuels serves over 14,000 residential and commercial customers in Rhode Island and Massachusetts. Providence Energy Services, Inc., whose operations are planned to be sold, markets natural gas and energy services throughout New England. ProvEnergy Power Company owns 50% of Capital Center Energy Company, LLC., a joint venture formed between ProvEnergy and ERI Services, Inc. to provide retail power.

Also on September 28, 2000, Southern Union completed the acquisition of Fall River Gas for approximately 1.5 million shares of Southern Union common stock and approximately $27 million in cash plus assumption of $20 million in long-term debt. Also now included as a part of the New England Division of the Company, Fall River Gas serves approximately 48,000 customers in the city of Fall River and the towns of Somerset, Swansea and Westport, all located in southeastern Massachusetts. Fall River Gas' non-regulated subsidiary, Fall River Gas Appliance Company, Inc., is now a subsidiary of Southern Union. Headquartered in Fall River, Massachusetts, Fall River Gas Appliance Company, Inc., rents water heaters and conversion burners (primarily for residential use) in Fall River Gas' service area.

The aforementioned acquisitions subsequent to year-end will be accounted for under the purchase method.

Foreign Operations On July 23, 1997, Energía Estrella del Sur, S. A. de C. V., a wholly-owned subsidiary of Southern Union Energy International, Inc. and Southern Union International Investments, Inc., both subsidiaries of the Company, acquired an equity ownership in a natural gas distribution company and other operations which currently serves 22,000 customers in Piedras Negras, Mexico, which is across the border from the Company's Eagle Pass, Texas service area. Southern Union currently has a 43% equity ownership in this company. Financial results of foreign operations did not have a significant impact on the Company's financial results during 2000, 1999 and 1998.

Stock Splits and Dividends On June 30, 2000, August 6, 1999 and December 9, 1998, Southern Union distributed a 5% common stock dividend to stockholders of record on June 19, 2000, July 23, 1999 and November 23, 1998. A portion of each of these 5% stock dividends was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. Additionally, Southern Union distributed an annual 5% common stock dividend on December 10, 1997. On July 13, 1998, a three-for-two stock split was distributed in the form of a 50% stock dividend. Unless otherwise stated, all per share data included herein

and in the accompanying Consolidated Financial Statements and Notes thereto have been restated to give effect to the stock split and stock dividends.

Contingencies The Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant (MGP) sites in its former service territories, principally in Arizona and New Mexico, and present service territories in Texas, Missouri and its newly acquired service territories in Pennsylvania. While the Company's evaluation of these Texas, Missouri, Arizona, New Mexico and Pennsylvania MGP sites is in its preliminary stages, it is likely that some compliance costs may be identified and become subject to reasonable quantification. Certain MGP sites located within the Company's service territories are currently the subjects of governmental actions.

On February 1, 1999, Southern Union submitted a proposal to the Board of Directors of Southwest Gas Corporation (Southwest) to acquire all of Southwest's outstanding common stock for $32.00 per share. Southwest then had a pending merger agreement with ONEOK, Inc. (ONEOK) at $28.50 per share. On February 22, 1999, Southern Union and Southwest both publicly announced Southern Union's proposal, after the Southwest Board of Directors determined that Southern Union's proposal was a Superior Proposal (as defined in the Southwest merger agreement with ONEOK). At that time Southern Union entered into a Confidentiality and Standstill Agreement with Southwest at Southwest's insistence. (This agreement expired on its own terms in August 2000.) On April 25, 1999, Southwest's Board of Directors rejected Southern Union's $32.00 per share offer and accepted an amended offer of $30.00 per share from ONEOK. On April 27, 1999, Southern Union increased its offer to $33.50 per share and agreed to pay interest which, together with dividends, would provide Southwest shareholders with a 6% annual rate of return on its $33.50 offer, commencing February 15, 2000, until closing. According to public statements by Southwest, Southern Union's revised proposal was also rejected by Southwest's Board of Directors. On January 21, 2000, ONEOK terminated its agreement to merge with Southwest.

There are several lawsuits pending that relate to activities surrounding Southern Union's efforts to acquire Southwest. In addition, there is before the U. S. Court of Appeals for the Tenth Circuit, an appeal by Southern Union of a preliminary injunction entered by the U. S. District Court for the Northern District of Oklahoma. Southern Union intends to pursue vigorously pursue its claims against Southwest, ONEOK, and certain individual defendants, and defend itself vigorously against the claims by Southwest and ONEOK. See *Commitments and Contingencies* in the Notes to Consolidated Financial Statements for a discussion of these lawsuits.

In August 1998, a jury in Edinburg, Texas concluded deliberations on the City of Edinburg's franchise fee lawsuit against PG&E Gas Transmission, Texas Corporation (formerly Valero Energy Corporation (Valero)) and a number of its subsidiaries, as well as former Valero subsidiary Rio Grande Valley Gas Company (RGV) and RGV's successor company, Southern Union Company. The case, based upon events that occurred between 1985-1987, centers on specific contractual language in the 1985 franchise agreement between RGV and the City of Edinburg. Southern Union purchased RGV from Valero in October 1993. The jury awarded the plaintiff damages, against all defendants under several largely overlapping but mutually exclusive claims, totaling approximately $13,000,000. The trial judge subsequently reduced the award to approximately $700,000 against Southern Union and $7,800,000 against Valero and Southern Union together. The Company is pursuing reversal on appeal. The Company believes it will ultimately prevail, and that the outcome of this matter will not have a material adverse impact on the Company's results of operations, financial position or cash flows. Furthermore, the Company has not determined what impact, if any, this jury decision may have on other city franchises in Texas.

Southern Union and its subsidiaries are parties to other legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject, and not to be material to the Company's overall business or financial condition, results of operations or cash flows.

See *Commitments and Contingencies* in the Notes to Consolidated Financial Statements.

Inflation The Company believes that inflation has caused and will continue to cause increases in certain operating expenses and has required and will continue to require assets to be replaced at higher costs. The Company continually reviews the adequacy of its gas service rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those rates.

Regulatory The majority of the Company's business activities are subject to various regulatory authorities. The Company's financial condition and results of operations have been and will continue to be dependent upon the receipt of adequate and timely adjustments in rates. Gas service rates, which consist of a monthly fixed charge and a gas usage charge, are established by regulatory authorities and are intended to permit utilities the opportunity to recover operating, administrative and financing costs and to have the opportunity to earn a reasonable return on equity. The monthly fixed charge provides a base revenue stream while the usage charge increases the Company's revenues and earnings in colder weather when natural gas usage increases.

On April 3, 2000, PG Energy filed an application with the Pennsylvania Public Utility Commission (PPUC) seeking an increase in its base rates designed to produce $17,900,000 in additional annual revenues, to be effective June 2, 2000. On May 11, 2000, the PPUC suspended this rate increase request for seven months, until January 2, 2001, in order to investigate the reasonableness of the proposed rates. On August 30, 2000, PG Energy and the principal parties to the base rate proceeding informed the Administrative Law Judge (ALJ) assigned to the proceeding that a complete settlement of the proceeding had been reached. The proposed settlement is designed to produce $10,800,000 of additional annual revenue. The parties are currently in the process of finalizing a Settlement Agreement and Joint Petition for Settlement of Rate Investigation (the *Settlement Petition*) which will be filed with the ALJ upon its completion. The Settlement Petition will request PPUC approval for the rate increase to become effective on January 1, 2001. It is not presently possible to determine what action either the ALJ or the PPUC will ultimately take with respect to this rate increase request or the Settlement Petition.

On October 18, 1999, Southern Union Gas filed a $1,696,000 rate increase request for the El Paso service area with the City of El Paso. In February 2000, the City of El Paso approved a $650,000 revenue increase, and an improved rate design that collects a greater portion of the Company's revenue stream from the monthly customer charge. Additionally, the City of El Paso approved a new 30-year franchise for Southern Union Gas.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs requiring a non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas Energy's rehearing request. On June 15, 2000, the MPSC ruled that it would not rehear or reconsider its decision on one issue valued at $1,500,000. If the MPSC adopts Missouri Gas Energy's positions on rehearing, then Missouri Gas Energy would be authorized an additional $700,000 of base revenues increasing the $13,300,000 initially authorized in its August 21, 1998 order to $14,000,000. The MPSC is expected to rule on this rehearing in October 2000. The MPSC's orders may be subject to judicial review and although certain parties may argue for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

On April 13, 1998, Southern Union Gas filed a $2,228,000 request for a rate increase from the city of El Paso, a request the city subsequently denied. On April 21, 1998, the city council of El Paso voted to reduce the Company's rates by $1,570,000 annually and to order a one-time cost of gas refund of $475,000. On May 21, 1998, Southern Union Gas filed with the RRC an appeal of the city of El Paso's actions to reduce the Company's rates and require a one-time cost of gas refund. On December 21, 1998, the RRC issued its order implementing an $884,000 one-time cost of gas refund and a $99,000 base rate reduction. The cost of gas refund was completed in February 1999.

Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program in its service territories. This program includes replacement of company- and customer-owned gas service and yard lines, the movement and resetting of meters, the replacement of cast iron mains and the replacement and cathodic protection of bare steel mains. In recognition of the significant capital expenditures associated with this safety program, the MPSC permits the deferral, and subsequent recovery through rates, of depreciation expense, property taxes and associated carrying costs. The continuation of the Missouri Gas Energy Safety Program will result in significant levels of future capital expenditures. The Company estimates incurring capital expenditures of $15,631,000 in fiscal 2001 related to this program which are expected to be financed through cash flow from operations. See *Utility Regulation and Rates* and *Commitments and Contingencies* in the Notes to Consolidated Financial Statements.

In August 1997, the MPSC issued an order authorizing Missouri Gas Energy to begin making semi-annual purchase gas adjustments (PGA) in November and April, instead of more frequent adjustments as previously made.

Additionally, the order authorized Missouri Gas Energy to establish an Experimental Price Stabilization Fund for purposes of procuring natural gas financial instruments to hedge a minimal portion of its gas purchase costs for the winter heating season. The cost of purchasing these financial instruments and any gains derived from such activities are passed on to the Missouri customers through the PGA. Accordingly, there is no earnings impact as a result of the use of these financial instruments. These procedures help stabilize the monthly heating bills for Missouri customers. The Company believes it bears minimal risk under the authorized transactions.

The MPSC approved a three year, experimental gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers shared in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas was acquired above benchmark levels, both the Company and customers shared in such costs. For the years ended June 30, 1999 and 1998, the incentive plan achieved a reduction of overall gas costs of $6,900,000 and $9,200,000, respectively, resulting in savings to Missouri customers of $4,000,000 and $5,100,000, respectively. The Company recorded revenues of $2,900,000 and $4,100,000 in 1999 and 1998, respectively, under this plan. Missouri Gas Energy received authorization from the MPSC for a new gas supply incentive plan that became effective August 31, 2000. Earnings under the plan are primarily dependent on market prices for natural gas declining to certain preauthorized levels which are now below current market prices. There is no assurance that the Company will have an opportunity to generate earnings under this aspect of the plan during fiscal 2001.

The Company is continuing to pursue certain changes to rates and rate structures that are intended to reduce the sensitivity of earnings to weather including weather normalization clauses and higher monthly fixed service charges. Southern Union Gas has weather normalization clauses in the City of Austin, El Paso environs, Port Arthur, Galveston and in two other service areas in Texas. These clauses allow for the adjustments that help stabilize customers' monthly bills and the Company's earnings from the varying effects of weather.

Year 2000 The Company did not experience any significant malfunctions or errors in its operating or business systems when the date changed from 1999 to 2000. Based on operations since January 1, 2000, the Company does not expect any significant impact to its ongoing business as a result of the Year 2000 problem. The Year 2000 problem is the inability of computer application software programs to distinguish between the year 1900 and 2000 due to a commonly-used programming convention. Unless such programs were modified or replaced prior to 2000, calculations and interpretations based on date-based arithmetic or logical operations performed by such programs may have been incorrect.

It is possible that the full impact of the date change has not been fully recognized. The Company believes that any such problems are not likely. In addition, the Company could still be negatively affected if its customers or suppliers are adversely affected by the Year 2000 or similar issues. The Company currently is not aware of any significant Year 2000 or similar problems that have arisen for its customers and suppliers.

The Company incurred costs of approximately $2,922,000 to complete this project. The Company also expects to spend approximately $1,500,000 in equipment leasing expenses that will be incurred over the life of the equipment that were incurred in order to be Year 2000 compliant.

Accounting Pronouncements In June 1998, the Financial Accounting Standards Board (FASB) issued *Accounting for Derivative Instruments and Hedging Activities.* The Statement, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000; the Company as required will adopt the Statement on July 1, 2000. The Statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. During the Company's implementation procedures, the Company identified a fair value hedge, cash flow hedges and gas purchase contracts that are considered derivatives under the Statement. Based on the Company's risk exposure, the Company does not anticipate a material effect on its financial position, results of operations or cash flows resulting from counterparty non-performance.

The Company entered into an interest rate swap to reduce exposure to changes in fair value of fixed interest payments related to a lease commitment. For fair-value hedge transactions in which the Company is hedging changes in an asset's, liability's or firm commitment's fair value, changes in the fair value of the derivative instrument

will generally be offset in the income statement by changes in the hedged item's fair value. The Company estimates that the transition adjustment related to the fair value hedge will be immaterial to the financial statements.

The Company is party to two interest rate swaps designed to hedge exposure to variability in cash flows from interest rate changes on variable rate debt. For cash flow hedges related to a variable-rate asset, liability or a forecasted transaction, changes in the fair value attributed to the effective portion of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings. The Company estimates that it will record a net-of-tax cumulative-effect-type adjustment of $960,000 gain in accumulated other comprehensive income to recognize at fair value all derivative instruments that will be designated as cash flow hedging instruments.

The Company's assessment also identified two gas purchase contracts at its recently acquired PG Energy Division that have been determined to be derivatives that do not qualify for hedge accounting treatment under the Statement. The Company estimates that it will record a net-of-tax cumulative effect-type adjustment of $700,000 gain in earnings to recognize the fair value of the derivative instruments that do not qualify for hedge accounting treatment under the Statement. These derivatives will be reflected at quoted or estimated market value with resulting gains and losses included in operating income in the Consolidated Statement of Income.

Energy trading contracts entered into for speculative purposes are recorded at fair value as of each balance sheet date with gains and losses included in earnings.

In December 1999, the Securities Exchange Commission staff issued a Staff Accounting Bulletin, *Revenue Recognition*, which provides guidance on the recognition and disclosure of revenues. Implementation of this Staff Accounting Bulletin is required by the fourth quarter of 2001 and will have no effect on the Company's Consolidated Financial Statements.

See the Notes to Consolidated Financial Statements for other accounting pronouncements followed by the Company.

Cautionary Statement Regarding Forward-Looking Information This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report on Form 10-K/A contain forward-looking statements that are based on current expectations, estimates and projections about the industry in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are outside the Company's control. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to put undue reliance on such forward-looking statements. Stockholders may review the Company's reports filed in the future with the Securities and Exchange Commission for more current descriptions of developments that could cause actual results to differ materially from such forward-looking statements.

Factors that could cause or contribute to actual results differing materially from such forward-looking statements include the following: cost of commodity prices; gas sales volumes; weather conditions in the Company's service territories; the achievement of operating efficiencies and the purchases and implementation of new technologies for attaining such efficiencies; impact of relations with labor unions of bargaining-unit employees; the receipt of timely and adequate rate relief; the outcome of pending and future litigation; governmental regulations and proceedings affecting or involving the Company; unanticipated environmental liabilities; changes in business strategy; the risk that the businesses acquired and any other businesses or investments that Southern Union has acquired or may acquire may not be successfully integrated with the businesses of Southern Union; and the nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets. These are representative of the factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions, and general economic conditions, including interest rate fluctuations, federal, state and local laws and regulations affecting the retail gas industry or the energy industry generally, and other factors.

ITEM 8. ***Financial Statements and Supplementary Data.***

The information required here is included in the report as set forth in the *Index to Consolidated Financial Statements* on page F-1.

ITEM 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

PART III

ITEM 10. ***Directors and Executive Officers of Registrant.***

There is incorporated in this Item 10 by reference the information in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders under the captions *Board of Directors -- Board Size and Composition* and *Executive Officers and Compensation -- Executive Officers Who Are Not Directors.*

ITEM 11. ***Executive Compensation.***

There is incorporated in this Item 11 by reference the information in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders under the captions *Executive Officers and Compensation -- Executive Compensation* and *Certain Relationships*.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management.***

There is incorporated in this Item 12 by reference the information in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders under the caption *Security Ownership.*

ITEM 13. ***Certain Relationships and Related Transactions.***

There is incorporated in this Item 13 by reference the information in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders under the caption *Certain Relationships.*

PART IV

ITEM 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K.***

(a)(1) and (2) **Financial Statements and Financial Statement Schedules.** See *Index to Consolidated Financial Statements* set forth on page F-1.

(a)(3) **Exhibits**.

Exhibit No.	**Description**
2(a)	Agreement of Merger between Southern Union Company and Fall River Gas Company dated as of October 4, 1999. (Filed as Exhibit 2 to Southern Union's Current Report on Form 8-K filed on October 4, 1999 and incorporated herein by reference.)
2(b)	Agreement and Plan of Merger among Southern Union Company, GUS Acquisition Corporation and Providence Energy Corporation dated November 15, 1999. (Filed as Exhibit 2 to Southern Union's Current report on Form 8-K filed on November 19, 1999 and incorporated herein by reference.)

Exhibit No.	Description
2(c)	Agreement and Plan of Merger among Southern Union Company, SUG Acquisition Corporation and Valley Resources, Inc. dated November 30, 1999. (Filed as Exhibit 2 to Southern Union's Current Report on Form 8-K filed on December 6, 1999 and incorporated herein by reference.)
2(d)	Agreement of Merger between Southern Union Company and Pennsylvania Enterprises, Inc. dated as of June 7, 1999. (Filed as Exhibit 2 to Southern Union's Current Report on Form 8-K filed on June 15, 1999 and incorporated herein by reference.)
3(a)	Restated Certificate of Incorporation of Southern Union Company. (Filed as Exhibit 3(a) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)
3(b)	Amendment to Restated Certificate of Incorporation of Southern Union Company which was filed with the Secretary of State of Delaware and became effective on October 26, 1999. (Filed as Exhibit 3(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)
3(c)	Southern Union Company Bylaws, as amended. (Filed as Exhibit 3(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)
4(a)	Specimen Common Stock Certificate. (Filed as Exhibit 4(a) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1989 and incorporated herein by reference.)
4(b)	Indenture between Chase Manhattan Bank, N.A., as trustee, and Southern Union Company dated January 31, 1994. (Filed as Exhibit 4.1 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)
4(c)	Officers' Certificate dated January 31, 1994 setting forth the terms of the 7.60% Senior Debt Securities due 2024. (Filed as Exhibit 4.2 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)
4(d)	Officer's Certificate of Southern Union Company dated November 3, 1999 with respect to 8.25% Senior Notes due 2029. (Filed as Exhibit 99.1 to Southern Union's Current Report on Form 8-K filed on November 19, 1999 and incorporated herein by reference.)
4(e)	Certificate of Trust of Southern Union Financing I. (Filed as Exhibit 4-A to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(f)	Certificate of Trust of Southern Union Financing II. (Filed as Exhibit 4-B to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(g)	Certificate of Trust of Southern Union Financing III. (Filed as Exhibit 4-C to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(h)	Form of Amended and Restated Declaration of Trust of Southern Union Financing I. (Filed as Exhibit 4-D to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(i)	Form of Subordinated Debt Securities Indenture among Southern Union Company and The Chase Manhattan Bank, N. A., as Trustee. (Filed as Exhibit 4-G to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

Exhibit No.	Description
4(j)	Form of Supplemental Indenture to Subordinated Debt Securities Indenture with respect to the Subordinated Debt Securities issued in connection with the Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-H to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(k)	Form of Southern Union Financing I Preferred Security (included in 4(g) above.) (Filed as Exhibit 4-I to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(l)	Form of Subordinated Debt Security (included in 4(i) above.) (Filed as Exhibit 4-J to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(m)	Form of Guarantee with respect to Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-K to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(n)	First Mortgage Bonds Debenture of Mortgage and Deed of Trust dated as of March 15, 1946 by Southern Union Company (as successor to PG Energy, Inc. formerly, Pennsylvania Gas and Water Company, and originally, Scranton-Spring Brook Water Service Company to Guaranty Trust Company of New York. (Filed as Exhibit 4.1 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)
4(o)	Twenty-Third Supplemental Indenture dated as of August 15, 1989 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and Morgan Guaranty Trust Company of New York (formerly Guaranty Trust Company of New York). (Filed as Exhibit 4.2 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)
4(p)	Twenty-Sixth Supplemental Indenture dated as of December 1, 1992 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and Morgan Guaranty Trust Company of New York. (Filed as Exhibit 4.3 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)
4(q)	Thirtieth Supplemental Indenture dated as of December 1, 1995 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and First Trust of New York, National Association (as successor trustee to Morgan Guaranty Trust Company of New York). (Filed as Exhibit 4.4 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)
4(r)	Thirty-First Supplemental Indenture dated as of November 4, 1999 (Supplemental to Indenture dated as of March 15, 1946) between Southern Union Company and U. S. Bank Trust, National Association (formerly, First Trust of New York, National Association). (Filed as Exhibit 4.5 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)
4(s)	Pennsylvania Gas and Water Company Bond Purchase Agreement dated September 1, 1989. (Filed as Exhibit 4.6 to Southern Union's Current Report on Form 8-K filed on December 30, 1999 and incorporated herein by reference.)
4(t)	Southern Union is a party to other debt instruments, none of which authorizes the issuance of debt securities in an amount which exceeds 10% of the total assets of Southern Union. Southern Union hereby agrees to furnish a copy of any of these instruments to the Commission upon request.
10(a)	Amended and Restated Revolving Credit Agreement (Long-Term Credit Facility) between Southern Union Company and the Banks named therein dated May 31, 2000.

Exhibit No.	Description
10(b)	Amended and Restated Revolving Credit Agreement (Short-Term Credit Facility) between Southern Union Company and the Banks named therein dated May 31, 2000.
10(c)	Term Loan Credit Agreement between Southern Union Company and the Banks named therein dated August 28, 2000.
10(d)	Southern Union Company 1982 Incentive Stock Option Plan and form of related Stock Option Agreement. (Filed as Exhibits 4.1 and 4.2 to Form S-8, File No. 2-79612 and incorporated herein by reference.)(*)
10(e)	Form of Indemnification Agreement between Southern Union Company and each of the Directors of Southern Union Company. (Filed as Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1986 and incorporated herein by reference.)
10(f)	Southern Union Company 1992 Long-Term Stock Incentive Plan, As Amended. (Filed as Exhibit 10(l) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated herein by reference.)(*)
10(g)	Southern Union Company Director's Deferred Compensation Plan. (Filed as Exhibit 10(g) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.)(*)
10(h)	Southern Union Company Amended Supplemental Deferred Compensation Plan with Amendments. (Filed as Exhibit 4 to Southern Union's Form S-8 filed March 27, 1999 and incorporated herein by reference.)(*)
10(i)	Form of warrant granted to Fleischman and Walsh L.L.P. (Filed as Exhibit 10(j) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)
10(j)	Renewal Promissory Note Agreement between Peter H. Kelley and Southern Union Company dated May 31, 1995. (Filed as Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1995 and incorporated herein by reference.)
10(k)	Employment agreement between Thomas F. Karam and Southern Union Company dated December 28, 1999. (Filed as Exhibit 10(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)
10(l)	Secured Promissory Note and Security Agreements between Thomas F. Karam and Southern Union Company dated December 20, 1999. (Filed as Exhibit 10(b) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999 and incorporated herein by reference.)
10(m)	Southern Union Company Pennsylvania Division Stock Incentive Plan. (Filed as Exhibit 4 to Form S-8, SEC File No. 333-36146, filed on May 3, 2000 and incorporated herein by reference.)*
10(n)	Southern Union Company Pennsylvania Division 1992 Stock Option Plan. (Filed as Exhibit 4 to Form S-8, SEC File No. 333-36150, filed on May 3, 2000 and incorporated herein by reference.)*
13	Portions of Company's Annual Report to Stockholders.
21	Subsidiaries of the Company.

* Indicates Management Compensation Plan.

Exhibit No.	Description
23	Consent of Independent Accountants.
24	Power of Attorney.
27	Financial Data Schedule.

(b) **Reports on Form 8-K**. Southern Union's Current Report on Form 8-K dated June 5, 2000 providing certain historical financial statements and related notes thereto of Valley Resources, Inc. and Providence Energy Corporation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Southern Union has duly caused this report to be signed by the undersigned, thereunto duly authorized, on April 25, 2001.

SOUTHERN UNION COMPANY

By RONALD J. ENDRES
Ronald J. Endres
Executive Vice President and Chief Financial Officer

By DAVID J. KVAPIL
David J. Kvapil
Senior Vice President and Corporate Controller
(Principal Accounting Officer)

SOUTHERN UNION COMPANY AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended June 30,		
	2000 (Restated)	1999	1998
	(thousands of dollars, except shares and per share amounts)		
Operating revenues	$ 831,704	$ 605,231	$ 669,304
Cost of gas and other energy	497,698	342,301	405,580
Operating margin	334,006	262,930	263,724
Revenue related taxes	(34,896)	(32,034)	(34,886)
Net operating margin	299,110	230,896	228,838
Operating expenses:			
Operating, maintenance and general	136,587	109,693	107,527
Depreciation and amortization	55,140	41,855	38,439
Taxes, other than on income and revenues	17,269	14,501	14,205
Total operating expenses	208,996	166,049	160,171
Net operating revenues	90,114	64,847	68,667
Other income (expenses):			
Interest	(51,492)	(35,999)	(34,884)
Dividends on preferred securities of subsidiary trust	(9,480)	(9,480)	(9,480)
Write-off of regulatory assets	--	--	(8,163)
Other, net	(9,708)	(1,814)	4,073
Total other expenses, net	(70,680)	(47,293)	(48,454)
Earnings before income taxes	19,434	17,554	20,213
Federal and state income taxes	9,589	7,109	7,984
Net earnings available for common stock	$ 9,845	$ 10,445	$ 12,229
Net earnings per share:			
Basic	$ .23	$ .32	$ .38
Diluted	$ .22	$ .31	$ .37
Weighted average shares outstanding:			
Basic	43,427,728	32,437,242	31,925,072
Diluted	45,400,778	34,216,984	33,169,295

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

	June 30, 2000 (Restated)	June 30, 1999
	(thousands of dollars)	
Property, plant and equipment:		
Plant in service	$ 1,580,077	$1,106,905
Construction work in progress	30,192	13,271
	1,610,269	1,120,176
Less accumulated depreciation and amortization	(509,947)	(376,212)
	1,100,322	743,964
Additional purchase cost assigned to utility plant, net of accumulated amortization of $39,551,000 and $31,115,000, respectively	386,839	134,296
Net property, plant and equipment	1,487,161	878,260
Current assets:		
Cash and cash equivalents	27,829	--
Accounts receivable, billed and unbilled, net	74,959	50,693
Inventories, principally at average cost	60,259	29,373
Investment securities	187,817	--
Prepayments and other	877	4,692
Total current assets	351,741	84,758
Deferred charges	145,006	96,635
Investment securities	10,489	12,000
Real estate	9,461	9,420
Other	17,602	6,275
Total assets	$ 2,021,460	$1,087,348

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (Continued)

STOCKHOLDERS' EQUITY AND LIABILITIES

	June 30, 2000 (Restated)	June 30, 1999
	(thousands of dollars)	
Common stockholders' equity:		
Common stock, $1 par value; authorized 200,000,000 shares; issued 50,521,004 shares at June 30, 2000	$ 50,521	$ 31,240
Premium on capital stock	599,835	276,610
Less treasury stock: 1,010,077 and 51,625 shares at cost at June 30, 2000 and 1999, respectively	(15,554)	(794)
Less common stock held in Trust: 964,577 and 281,939, respectively, shares	(15,330)	(5,562)
Accumulated other comprehensive income	115,175	(436)
Retained earnings	--	--
	734,647	301,058
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated notes of Southern Union	100,000	100,000
Long-term debt and capital lease obligation	733,774	390,931
Total capitalization	1,568,421	791,989
Current liabilities:		
Long-term debt and capital lease obligation due within one year	2,193	2,066
Notes payable	3	21,003
Accounts payable	77,488	37,834
Federal, state and local taxes	7,359	13,300
Accrued interest	15,922	12,176
Customer deposits	17,255	17,682
Deferred gas purchases	11,708	22,955
Other	30,778	16,612
Total current liabilities	162,706	143,628
Deferred credits and other	106,823	81,493
Accumulated deferred income taxes	183,510	70,238
Commitments and contingencies	--	--
Total stockholders' equity and liabilities	$2,021,460	$1,087,348

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended June 30,		
	2000 (Restated)	1999	1998
	(thousands of dollars)		
Cash flows from operating activities:			
Net earnings	$ 9,845	$ 10,445	$ 12,229
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	55,140	41,855	38,439
Deferred income taxes	435	7,867	6,363
Provision for bad debts	4,998	3,279	5,461
Write-off of regulatory assets	--	--	8,163
Financial derivative trading losses	2,236	--	--
Deferred interest expense	(312)	619	(1,671)
Gain on sale of investment securities	--	--	(1,088)
Other	1,708	1,004	1,447
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, billed and unbilled	(3,830)	(212)	132
Accounts payable	22,602	5,228	(7,066)
Taxes and other liabilities	(5,636)	(1,240)	146
Customer deposits	(3,407)	(4)	201
Deferred gas purchases	(15,114)	10,698	8,693
Inventories	91	(3,213)	(4,361)
Other	1,766	527	1,169
Net cash flows from operating activities	70,522	76,853	68,257
Cash flows from (used in) investing activities:			
Additions to property, plant and equipment	(100,446)	(73,147)	(77,018)
Acquisition of operations, net of cash received	(38,366)	--	6,502
Purchase of investment securities	(21,001)	(7,000)	(5,000)
Increase in customer advances	1,350	2,139	3,562
Decrease in deferred charges and credits	(3,657)	(4,086)	(1,786)
Proceeds from sale of investment securities	--	--	6,531
Proceeds from sale of subsidiary	12,150	--	--
Other	(4,553)	885	1,575
Net cash flows used in investing activities	(154,523)	(81,209)	(65,634)
Cash flows from (used in) financing activities:			
Issuance of long-term debt	300,000	--	--
Issuance cost of debt	(7,292)	--	--
Premium on early extinguishment of debt	(719)	--	--
Purchase of treasury stock	(14,425)	--	--
Repayment of debt and capital lease obligation	(138,791)	(20,837)	(1,309)
Net borrowings (payments) under revolving credit facilities	(21,000)	19,403	--
Increase (decrease) in cash overdrafts	(6,655)	6,033	(945)
Other	712	(243)	(369)
Net cash flows from (used in) financing activities	111,830	4,356	(2,623)
Increase in cash and cash equivalents	27,829	--	--
Cash and cash equivalents at beginning of year	--	--	--
Cash and cash equivalents at end of year	$ 27,829	$ --	$ --

Cash paid for interest, net of amounts capitalized, in 2000, 1999 and 1998 was $57,735,000, $45,039,000 and $33,997,000, respectively. Cash paid for income taxes in 2000, 1999 and 1998 was $4,311,000, $1,194,000 and $4,511,000, respectively.

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock, $1 Par Value	Premium on Capital Stock	Treasury Stock, at Cost	Common Stock Held in Trust	Accumulated Other Comprehen-sive Income	Retained Earnings	Total
	(thousands of dollars)						
Balance July 1, 1997	$ 17,171	$ 225,252	$ (794)	$ --	$ 664	$ 25,169	$ 267,462
Comprehensive income:							
Net earnings	--	--	--	--	--	12,229	12,229
Reclassification adjustment for gains included in net income	--	--	--	--	(664)	--	(664)
Comprehensive income							11,565
5% stock dividend	856	19,802	--	--	--	(20,658)	--
Three-for-two stock split	9,400	(9,400)	--	--	--	(2)	(2)
Issuance of stock for acquisition	756	17,285	--	--	--	--	18,041
Exercise of stock options	69	(301)	--	--	--	--	(232)
Balance June 30, 1998	28,252	252,638	(794)	--	--	16,738	296,834
Comprehensive income:							
Net earnings	--	--	--	--	--	10,445	10,445
Minimum pension liability adjustment; net of tax	--	--	--	--	(436)	--	(436)
Comprehensive income							10,009
Common stock held in trust	--	--	--	(5,562)	--	--	(5,562)
5% stock dividend -- declared November 11, 1998	1,411	7,483	--	--	--	(8,898)	(4)
5% stock dividend -- declared July 13, 1999	1,485	16,797	--	--	--	(18,285)	(3)
Exercise of stock options	92	(308)	--	--	--	--	(216)
Balance June 30, 1999	31,240	276,610	(794)	(5,562)	(436)	--	301,058
Comprehensive income:							
Net earnings (restated)	--	--	--	--	--	9,845	9,845
Unrealized gain in investment securities, net of tax	--	--	--	--	115,175	--	115,175
Minimum pension liability adjustment; net of tax	--	--	--	--	436	--	436
Comprehensive income							125,456
Common stock held in trust	--	--	--	(10,037)	--	--	(10,037)
5% stock dividend (restated)	2,359	7,452	--	--	--	(9,845)	(34)
Purchase of treasury stock	--	--	(14,425)	--	--	--	(14,425)
Issuance of stock for acquisition	16,714	315,235	--	--	--	--	331,949
Exercise of stock options	208	538	(335)	269	--	--	680
Balance June 30, 2000 (restated)	$ 50,521	$ 599,835	$(15,554)	$(15,330)	$ 115,175	$ --	$ 734,647

See accompanying notes.

1 Summary of Significant Accounting Policies

Operations Southern Union Company (*Southern Union* and, together with its wholly-owned subsidiaries, the *Company*), is a public utility primarily engaged in the distribution and sale of natural gas to residential, commercial and industrial customers located (during the periods reflected) primarily in Texas, Missouri and Pennsylvania. See *Acquisitions -- Acquisitions Subsequent to Year-End.* Subsidiaries of Southern Union also market natural gas to end-users, distribute propane, operate natural gas pipeline systems and sell commercial gas air conditioning and other gas-fired engine-driven applications. The Company has also entered the electric generation and marketing business through the recent acquisition of Pennsylvania Enterprises, Inc. (hereafter referred to as the *Pennsylvania Operations*). Certain subsidiaries own or hold interests in real estate and other assets, which are primarily used in the Company's utility business. Substantial operations of the Company are subject to regulation. Accounting policies conform to the Financial Accounting Standards Board (FASB) standard, *Accounting for the Effects of Certain Types of Regulation* in the case of regulated operations.

Principles of Consolidation The consolidated financial statements include the accounts of Southern Union and its wholly-owned subsidiaries. Investments in which the Company has significant influence over the operations of the investee and the Company owns a 20% to 50% interest are accounted for using the equity method. All significant intercompany accounts and transactions are eliminated in consolidation. All dollar amounts in the tables herein, except per share amounts, are stated in thousands unless otherwise indicated.

Gas Utility Revenues and Gas Purchase Costs Gas utility customers are billed on a monthly-cycle basis. The related cost of gas and revenue taxes are matched with cycle-billed revenues through utilization of purchased gas adjustment provisions in tariffs approved by the regulatory agencies having jurisdiction. Revenues from gas delivered but not yet billed are accrued, along with the related gas purchase costs and revenue-related taxes. The distribution and sale of natural gas in Texas, Missouri and Pennsylvania contributed in excess of 85% of the Company's total revenue, net earnings and identifiable assets in 2000, 1999 and 1998. Four suppliers provided 55%, 50% and 45% of the Company's gas purchases in 2000, 1999 and 1998, respectively.

Earnings Per Share The Company's earnings per share presentation conforms to the FASB standard, *Earnings per Share*. All share and per share data have been restated for all stock dividends and stock splits unless otherwise noted.

Accumulated Other Comprehensive Income In 1999, the Company adopted *Reporting Comprehensive Income,* an FASB standard which established rules for the reporting of comprehensive income and its components. The main components of comprehensive income that relate to the Company are net earnings, unrealized holding gains on investments and additional minimum pension liability adjustments, all of which are presented in the consolidated statement of stockholders' equity. Prior to adoption, the unrealized holding gains were presented as part of stockholders' equity and the pension liability adjustments were presented in the consolidated balance sheet.

Unrealized holding gains on investment securities were $115,175,000, nil and nil in 2000, 1999 and 1998, respectively. The reclassification adjustment for gains included in net income, net of tax, for reporting other comprehensive income was nil, nil and $664,000 in 2000, 1999 and 1998, respectively. The unrealized holding gains on investment securities and the reclassification adjustment for gains are combined and reflected on the consolidated statement of stockholders' equity.

Credit Risk Concentrations of credit risk in trade receivables are limited due to the large customer base with relatively small individual account balances. In addition, Company policy requires a deposit from certain customers. The Company has recorded an allowance for doubtful accounts totaling $7,503,000, $6,588,000, $8,267,000 and $10,765,000 at June 30, 2000, 1999, 1998 and 1997, respectively. The allowance for doubtful accounts is increased for estimated uncollectible accounts and reduced for the write-off of trade receivables.

Fair Value of Financial Instruments The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair value. The fair value of the Company's preferred securities of subsidiary trust and long-term debt is estimated using current market quotes and other estimation techniques.

Inventories Inventories consist of natural gas in underground storage and materials and supplies. Natural gas in underground storage of $51,869,420 and $23,680,000 at June 30, 2000 and 1999, respectively, consists of 15,226,000 and 10,429,000 British thermal units, respectively.

Segment Reporting The FASB standard, *Disclosures about Segments of an Enterprise and Related Information*, requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring performance. The Company is principally engaged in the gas distribution industry in the United States and has no other reportable industry segments.

New Pronouncements In June 1998, the FASB issued *Accounting for Derivative Instruments and Hedging Activities*. The Statement, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000; the Company as required will adopt the Statement on July 1, 2000. The Statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. During the Company's implementation procedures, the Company identified a fair value hedge, cash flow hedges and gas purchase contracts that are considered derivatives under the Statement. Based on the Company's risk exposure, the Company does not anticipate a material effect on its financial position, results of operations or cash flows resulting from counterparty non-performance.

The Company entered into an interest rate swap to reduce exposure to changes in fair value of fixed interest payments related to a lease commitment. For fair-value hedge transactions in which the Company is hedging changes in an asset's, liability's or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. The Company estimates that the transition adjustment related to the fair value hedge will be immaterial to the financial statements.

The Company is party to two interest rate swaps designed to hedge exposure to variability in cash flows from interest rate changes on variable rate debt. For cash flow hedges related to a variable-rate asset, liability or a forecasted transaction, changes in the fair value attributed to the effective portion of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings. The Company estimates that it will record a net-of-tax cumulative-effect-type adjustment of $960,000 gain in accumulated other comprehensive income to recognize at fair value all derivative instruments that will be designated as cash flow hedging instruments.

The Company's assessment also identified two gas purchase contracts at its recently acquired PG Energy Division that have been determined to be derivatives that do not qualify for hedge accounting treatment under the Statement. The Company estimates that it will record a net-of-tax cumulative effect-type adjustment of $700,000 gain in earnings to recognize the fair value of the derivative instruments that do not qualify for hedge accounting treatment under the Statement. These derivatives will be reflected at quoted or estimated market value with resulting gains and losses included in operating income in the Consolidated Statement of Income.

Energy trading contracts entered into for speculative purposes are recorded at fair value as of each balance sheet date with gains and losses included in earnings.

In December 1999, the Securities Exchange Commission staff issued a Staff Accounting Bulletin, *Revenue Recognition*, which provides guidance on the recognition and disclosure of revenues. Implementation of this StaffAccounting Bulletin is required by the fourth quarter of 2001 and will have no effect on the Company's Consolidated Financial Statements.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II Restatement

In March 2001, the Company discovered unauthorized financial derivative energy trading activity by a non-regulated, wholly-owned subsidiary. During March 2001 and April 2001, all unauthorized trading activity was closed resulting in a cumulative cash expense of $191,000, net of tax. However, due to certain accounting rules, such trading contracts must be recorded at fair value as of each balance sheet date with gains and losses included in earnings. As a result, a restatement of financial information for the fiscal year ended June 30, 2000 and the two subsequent quarters was required. This restatement resulted in non-cash losses of $1,207,000, net of tax, ($.02 per diluted share) for the fiscal year ended June 30, 2000. Additionally, a portion of the 5% common stock dividend which was previously reported in 2000 as a reduction of retained earnings has been reclassified to premium on capital stock.

III Acquisitions

Pennsylvania Enterprises, Inc.

On November 4, 1999, the Company acquired the Pennsylvania Operations in a transaction valued at approximately $500 million, including assumption of long-term debt of approximately $115 million. The Company issued approximately 16.7 million pre-stock dividend shares of common stock and paid approximately $36 million in cash to complete the transaction. The Pennsylvania Operations are headquartered in Wilkes-Barre, Pennsylvania with natural gas distribution being its primary business. The principal operating division of the Pennsylvania Operations is the PG Energy division of the Company which serves more than 154,000 gas customers in northeastern and central Pennsylvania. Subsidiaries of the Company included in the Pennsylvania Operations include PG Energy Services Inc., (Energy Services), Keystone Pipeline Services, Inc. (*Keystone,* a wholly-owned subsidiary of PG Energy Services Inc.), PEI Power Corporation, and Theta Land Corporation. Through Energy Services the Company markets a diversified range of energy-related products and services under the name of PG Energy PowerPlus and supplies propane under the name of PG Energy Propane. Keystone provides pipeline and fiber optic cable construction, installation, maintenance, and rehabilitation services. PEI Power Corporation operates a cogeneration plant that generates steam and electricity for resale. Theta Land Corporation, which provided land management and development services for more than 44,000 acres of land, was sold for $12,150,000 in January, 2000. No gain or loss was recognized on this transaction. Upon acquiring the Pennsylvania Operations, the Company made the strategic decision to sell Keystone and the propane operations of Energy Services; these operations are not material to the Company. The Company has not yet sold these operations and there can be no assurance that a sale on terms satisfactory to the Company will be completed.

The Company funded the cash portion of the acquisition of the Pennsylvania Operations and related refinancings with the sale of $300,000,000 of 8.25% Senior Notes due 2029 completed on November 3, 1999 (8.25% Senior Notes). See *Debt and Capital Lease.* The assets of the Pennsylvania Operations are included in the consolidated balance sheet of the Company at June 30, 2000 and the results of operations from the Pennsylvania Operations has been included in the statement of consolidated operations since November 4, 1999. The acquisition was accounted for using the purchase method. The additional purchase cost assigned to utility plant of approximately $261,000,000

reflects the excess of the purchase price over the historical book carrying value of the utility plant. Amortization of the additional purchase cost assigned to utility plant is provided on a straight-line basis over forty years.

Prior to the consummation of the acquisition, the Company purchased 358,500 shares of Pennsylvania Enterprises, Inc. stock for $11,887,000 during both the first and second quarters of the Company's fiscal year 2000. As all necessary approvals for the merger had not been obtained, these purchases were treated as investment securities.

Pro Forma Financial Information

The following unaudited pro forma financial information for the year ended June 30, 2000 and 1999 is presented as though the following events had occurred at the beginning of the earliest period presented: (i) the acquisition of Pennsylvania Enterprises, Inc.; (ii) the sale of the 8.25% Senior Notes; and (iii) the refinancing of certain short-term and long-term debt at the time of acquisition. The pro forma financial information is not necessarily indicative of the results which would have actually been obtained had the acquisition of Pennsylvania Enterprises, Inc., the sale of senior notes or the refinancings been completed as of the assumed date for the periods presented or which may be obtained in the future.

	Year Ended June 30,	
	2000 (Restated)	1999
Operating revenues	$ 880,190	$ 838,836
Income before extraordinary item	2,079	5,782
Net earnings available for common stock	2,079	5,782
Net earnings per common stock:		
Basic	.05	.12
Diluted	.05	.11

Other Acquisitions

Effective December 31, 1997, the Company acquired Atlantic Utilities Corporation and Subsidiaries (Atlantic) for 755,650 pre-split and pre-stock dividend shares of common stock valued at $18,041,000 and $4,436,000 of cash. Atlantic is operated as South Florida Natural Gas, a natural gas division of Southern Union, and Atlantic Gas Corporation, a propane subsidiary of the Company. Atlantic currently serves 6,000 customers in central Florida. The assets of Atlantic were included in the Company's consolidated balance sheet at January 1, 1998 and its results of operations have been included in the Company's statements of consolidated operations and cash flows since January 1, 1998. On the date of acquisition, Atlantic had $11,683,000 of cash and cash equivalents. The acquisition was accounted for using the purchase method. The additional purchase cost assigned to utility plant of $10,000,000 reflects the excess of the purchase price over the historical book carrying value of the net assets acquired. The additional purchase cost is amortized on a straight-line basis over forty years.

On July 23, 1997 two subsidiaries of Southern Union acquired an equity ownership in a natural gas distribution company and other related operations currently serving 22,000 customers in Piedras Negras, Mexico (Mexico Operations) for $2,700,000. Southern Union currently has a 43% equity ownership in this company. This system is across the U. S. - Mexico border from the Company's Eagle Pass, Texas service area.

Acquisitions Subsequent to Year-End

On September 20, 2000, Southern Union completed the acquisition of Valley Resources, Inc. (Valley Resources) for approximately $125 million in cash plus the assumption of $30 million in long-term debt. As a result of the Valley Resources merger, Valley Resources' two utility subsidiaries are now one division of Southern Union operating as Valley Gas Company and Bristol and Warren Gas Company, and Valley Resources' two non-utility subsidiaries are

now subsidiaries of Southern Union. Valley Resources, which is headquartered in Cumberland, Rhode Island, provides natural gas utility service to more than 64,000 customers. Valley Resources' utility service area covers a 92 square mile area in the northeastern portion of Rhode Island that has a population of approximately 250,000 and approximately 15 square miles in the eastern portion of Rhode Island that has a population of approximately 35,000. Valley Resources' non-utility subsidiaries rent and sell appliances, offer a service contract program, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Included in the acquisition was Valley Resources' 90% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI Corporation fuel cell, holds patents for a natural gas/diesel co-firing system and for a device to control the flow of fuel on dual-fuel equipment.

On September 28, 2000, Southern Union completed the acquisition of Providence Energy Corporation (ProvEnergy) for approximately $270 million in cash plus the assumption of $90 million in long-term debt. The ProvEnergy natural gas distribution operations are Providence Gas and North Attleboro Gas. Providence Gas serves approximately 168,000 natural gas customers in Providence and Newport, Rhode Island, and 23 other cities and towns in Rhode Island and Massachusetts. North Attleboro Gas serves approximately 6,000 customers in North Attleboro and Plainville, Massachusetts, towns adjacent to the northeastern Rhode Island border. The ProvEnergy utility service territories encompass approximately 760 square miles with a population of approximately 850,000. Subsidiaries of the Company included in the ProvEnergy merger are ProvEnergy Oil Enterprises, Inc., Providence Energy Services, Inc., and ProvEnergy Power Company, LLC. ProvEnergy Oil Enterprises, Inc. operates a fuel oil distribution business through its subsidiary, ProvEnergy Fuels, Inc. (ProvEnergy Fuels). ProvEnergy Fuels serves over 14,000 residential and commercial customers in Rhode Island and Massachusetts. Providence Energy Services, Inc., whose operations may be sold or disbanded, markets natural gas and energy services in New England. ProvEnergy Power Company owns 50% of Capital Center Energy Company, LLC., a joint venture formed between ProvEnergy and ERI Services, Inc. to provide retail power.

On September 28, 2000, Southern Union completed the acquisition of Fall River Gas Company (Fall River Gas) for approximately 1.5 million shares of Southern Union common stock and approximately $27 million in cash plus assumption of $20 million in long-term debt. As a result of the merger, Fall River Gas is now a division of Southern Union and Fall River Gas' non-regulated subsidiary, Fall River Gas Appliance Company, Inc., is now a subsidiary of Southern Union. Headquartered in Fall River, Massachusetts, Fall River Gas serves approximately 48,000 customers in the city of Fall River and the towns of Somerset, Swansea and Westport, all located in southeastern Massachusetts. Fall River Gas Appliance Company, Inc., rents water heaters and conversion burners (primarily for residential use) in Fall River Gas' service area.

The aforementioned acquisitions subsequent to year-end shall be accounted for under the purchase method.

IV Write-Off of Regulatory Assets

During 1998, the Company was impacted by pre-tax non-cash write-offs totaling $8,163,000 of previously recorded regulatory assets. Pursuant to a 1989 Missouri Public Service Commission (MPSC) order, Missouri Gas Energy, a division of the Company, is engaged in a major gas safety program. In connection with this program, the MPSC issued an accounting authority order in 1994 which authorized Missouri Gas Energy to defer carrying costs at a rate of 10.54%. The MPSC rate order of January 22, 1997, however, retroactively reduced the 10.54% carrying cost rate used since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate of approximately 6%. TheCompany filed an appeal of this portion of the rate order in the Missouri State Court of Appeals, Western District, and on August 18, 1998 was notified that the appeal was denied. This resulted in a one-time non-cash write-off of $5,942,000 by the Company of previously deferred costs in its fiscal year ended June 30, 1998. See *Commitments and Contingencies.*

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a rate increase which, among other things, disallowed certain previously recorded deferred costs associated with the rate filing, requiring an additional pre-tax non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. See *Utility Regulation and Rates.*

V Other Income (Expense), Net

Other expense of $9,708,000 in 2000 included $10,363,000 of costs associated with unsuccessful acquisition efforts and related litigation and $2,236,000 of pre-tax non-cash financial derivative energy trading losses. This was partially offset by net rental income of Lavaca Realty Company (Lavaca Realty) of $1,757,000.

Other expense of $1,814,000 in 1999 included: $3,839,000 of costs associated with various acquisition efforts and a net expense of $619,000 related to the amortization and current deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program. This was partially offset by net rental income of Lavaca Realty of $1,448,000 and equity earnings of $609,000 from Southern Union's 43% equity ownership of its Mexico Operations.

Other income of $4,073,000 in 1998 included: $1,671,000 related to the deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; realized gains on the sale of investment securities of $1,088,000; and net rental income of Lavaca Realty of $1,119,000. This was partially offset by $885,000 of costs associated with various acquisition efforts.

VI Cash Flow Information

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Short-term investments are highly liquid investments with maturities of more than three months when purchased, and are carried at cost, which approximates market. The Company places its temporary cash investments with a high credit quality financial institution which, in turn, invests the temporary funds in a variety of high-quality short-term financial securities.

Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classified in accounts payable in the consolidated balance sheet.

VII Earnings Per Share

During the three-year period ended June 30, 2000, no adjustments were required in net earnings available for common stock for the earnings per share calculations. Average shares outstanding for basic earnings per share were 43,427,728, 32,437,242 and 31,925,072 for the years ended June 30, 2000, 1999 and 1998, respectively. Diluted earnings per share includes average shares outstanding as well as common stock equivalents from stock optionsand warrants. Common stock equivalents were 1,973,050, 1,779,742 and 1,244,223 for the years ended June 30, 2000, 1999 and 1998, respectively.

VIII Property, Plant and Equipment

Plant Plant in service and construction work in progress are stated at original cost net of contributions in aid of construction. The cost of additions includes an allowance for funds used during construction and applicable overhead charges. Gain or loss is recognized upon the disposition of significant utility properties and other property constitutingoperating units. Gain or loss from minor dispositions of property is charged to accumulated depreciation and amortization. The Company capitalizes the cost of significant internally-developed computer software systems and amortizes the cost over the expected useful life. See *Debt and Capital Lease.*

	June 30, 2000	June 30, 1999
Distribution plant	$ 1,479,426	$1,033,281
General plant	138,206	109,178
Other	19,735	16,648
Total plant	1,637,367	1,159,107
Less contributions in aid of construction	(57,290)	(52,202)
Plant in service	1,580,077	1,106,905
Construction work in progress	30,192	13,271
	1,610,269	1,120,176
Less accumulated depreciation and amortization	(509,947)	(376,212)
	1,100,322	743,964
Additional purchase cost assigned to utility plant, net	386,839	134,296
Net property, plant and equipment	$ 1,487,161	$ 878,260

Acquisitions of rate-regulated entities are recorded at the historical book carrying value of utility plant. On November 4, 1999, Pennsylvania Operations was acquired in which historical utility plant and equipment had a cost and accumulated depreciation and amortization of $408,304,000 and $103,275,000, respectively. On December 31, 1997, Atlantic was acquired in which historical utility plant and equipment had a cost and accumulated depreciation and amortization of $5,253,000 and $2,540,000, respectively.

Additional purchase cost assigned to utility plant is the excess of the purchase price over the book carrying value of the net assets acquired. In general, the Company has not been allowed recovery of additional purchase cost assigned to utility plant in rates. Periodically, the Company evaluates the carrying value of its additional purchase cost assigned to utility plant, long-lived assets, capital leases and other identifiable intangibles by comparing the anticipated future operating income from the businesses giving rise to the respective asset with the original cost or unamortized balance. No impairment was indicated or expected at June 30, 2000.

Depreciation and Amortization Depreciation of utility plant is provided at an average straight-line rate of approximately 3% per annum of the cost of such depreciable properties less applicable salvage. Franchises are amortized over their respective lives. Depreciation and amortization of other property is provided at straight-line rates estimated to recover the costs of the properties, after allowance for salvage, over their respective lives. Internally-developed computer software system costs are amortized over various regulatory-approved periods. Amortization of additional purchase cost assigned to utility plant is provided on a straight-line basis over forty years unless the Company's regulators have provided for the recovery of the additional purchase cost in rates, in which case the Company's policy is to utilize the amortization period which follows the rate recovery period.

Depreciation of property, plant and equipment in 2000, 1999 and 1998 was $46,757,000, $37,771,000 and $34,477,000, respectively.

IX Investment Securities

At June 30, 2000, the Company held securities of Capstone Turbine Corporation (Capstone). In late June 2000, Capstone completed its initial public offering (IPO). This investment is classified as "available for sale" under the Financial Accounting Standards Board Standard *Accounting for Certain Investments in Debt and Equity Securities;* accordingly, these securities are stated at fair value, with unrealized gains and losses recorded in a separatecomponent of common stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations when incurred. As of June 30, 2000, the Company's investment in Capstone had a fair value of $187,817,000 and the unrealized gains, net of tax, related to this investment were $115,175,000 at such date. The Company has classified

this investment as current, as it plans to monetize its investment as soon as practicable following the completion of the applicable lock-up periods to which it was subject in connection with the IPO and use the proceeds to reduce outstanding debt.

At June 30, 2000 and 1999, all other securities owned by the Company are accounted for under the cost method. The Company's other investments in securities consist of preferred stock in non-public companies whose value is not readily determinable. Realized gains and losses on sales of these investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations when incurred, and dividends are recognized as income when received.

X Stockholders' Equity

Stock Splits and Dividends On June 30, 2000, August 6, 1999, December 9, 1998 and December 10, 1997 Southern Union distributed its annual 5% common stock dividend to stockholders of record on June 19, 2000, July 23, 1999, November 23, 1998 and November 21, 1997, respectively. A portion of the 5% stock dividend distributed on June 30, 2000, August 6, 1999 and December 9, 1998 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. On July 13, 1998, Southern Union distributed a three-for-two stock split in the form of a 50% stock dividend to stockholders of record on June 30, 1998. Unless otherwise stated, all per share and share data included herein have been restated to give effect to the dividends and split.

Common Stock The Company maintains its 1992 Long-Term Stock Incentive Plan (1992 Plan) under which options to purchase 6,986,010 shares were provided to be granted to officers and key employees at prices not less than the fair market value on the date of grant. The 1992 Plan allows for the granting of stock appreciation rights, dividend equivalents, performance shares and restricted stock. The Company also had an incentive stock option plan (1982 Plan) which provided for the granting of 787,500 options, until December 31, 1991. Upon exercise of an option granted under the 1982 Plan, the Company may elect, instead of issuing shares, to make a cash payment equal to the difference at the date of exercise between the option price and the market price of the shares as to which such option is being exercised. Options granted under both the 1992 Plan and the 1982 Plan are exercisable for periods of ten years from the date of grant or such lesser period as may be designated for particular options, and become exercisable after a specified period of time from the date of grant in cumulative annual installments. Options typically vest 20% per year for five years but may be a lesser or greater period as designated for particular options.

In connection with the acquisition of the Pennsylvania Operations, the Company adopted the Pennsylvania Division 1992 Stock Option Plan (Pennsylvania Option Plan) and the Pennsylvania Division Stock Incentive Plan (Pennsylvania Incentive Plan). Under the terms of the Pennsylvania Option Plan, a total of 378,002 shares were provided to be granted to eligible employees. Stock options awarded under the Pennsylvania Option Plan may be either Incentive Stock Options or Nonqualified Stock Options. Upon acquisition, individuals not electing a cash payment equal to the difference at the date of acquisition between the option price and the market price of the shares as to which such option related, were converted to Southern Union options using a conversion rate that maintained the same aggregate value and the aggregate spread of the pre-acquisition options. No additional options will be granted under the Pennsylvania Option Plan. Under the terms of the Pennsylvania Incentive Plan, a total of 181,514 shares were provided to be granted to eligible employees, officers and directors. Awards under the Pennsylvania Incentive Plan may take the form of stock options, restricted stock, and other awards where the value of the award is based upon the performance of the Company's stock. Upon acquisition, individuals not electing a cash payment equal to the difference at the date of acquisition between the option price and the market price of the shares as to which such option related, were converted to Southern Union options using a conversion rate that maintained the same aggregate value and the aggregate spread of the pre-acquisition options. During 2000, 12,600 options were granted to a Director of the Company at an exercise price of $17.23. These options granted vest 20% per year for five years. No additional options will be granted under the Pennsylvania Incentive Plan.

The Company accounts for its incentive plans under the Accounting Principles Board opinion, *Accounting for Stock Issued to Employees* and related authoritative interpretations. The Company recorded no compensation expense for 2000, 1999 and 1998. During 1997, the Company adopted the FASB standard, *Accounting for Stock-Based Compensation*, for footnote disclosure purposes only. Had compensation cost for these incentive plans been determined consistent with this standard, the Company's net income and diluted earnings per share would have been $8,179,000 and $.18, respectively, in 2000, $9,429,000 and $.28, respectively, in 1999, and $11,141,000 and $.34, respectively, in 1998. Because this standard has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2000 and 1998, respectively: dividend yield of nil for both years; volatility of 27.5% and 19.5%; risk-free interest rate of 6% and 5.5%; and expected life outstanding of 5.5 to 7.2 years for both years. No options were granted during 1999.

	1992 Plan		1982 Plan	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding July 1, 1997	2,040,966	$ 7.83	476,679	$ 2.93
Granted	780,951	16.12	--	--
Exercised	(89,230)	4.26	(93,724)	2.93
Canceled	(22,713)	11.99	--	--
Outstanding June 30, 1998	2,709,914	10.30	382,955	2.93
Exercised	(113,176)	6.10	(43,789)	2.94
Canceled	(44,531)	14.22	--	--
Outstanding June 30, 1999	2,552,267	10.42	339,166	2.93
Granted	1,026,695	17.25	--	--
Exercised	(117,637)	6.91	(216,381)	2.95
Canceled	(17,018)	15.63	--	--
Outstanding June 30, 2000	3,444,307	12.55	122,785	2.90

The following table summarizes information about stock options outstanding under the 1992 Plan at June 30, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.00 - $ 5.00	344,761	2.3 years	$ 3.67	344,761	$ 3.67
5.01 - 10.00	862,122	4.3 years	7.50	719,558	7.34
10.01 - 15.00	475,084	6.8 years	12.47	288,549	12.44
15.01 - 20.00	1,762,340	8.8 years	16.78	293,755	16.13
	3,444,307			1,646,623	

The shares exercisable under the 1992 Plan and the corresponding weighted average exercise price at June 30, 2000, 1999 and 1998 were 1,646,623 and $9.03; 1,426,417 and $7.89; and 1,084,224 and $6.26, respectively. The shares exercisable under the 1982 Plan and the corresponding weighted average exercise price at June 30, 2000, 1999 and 1998 were 122,785 and $2.90; 339,167 and $2.93; and 382,958 and $2.93, respectively. The shares exercisable under the Pennsylvania Option Plan and the corresponding weighted average exercise price at June 30, 2000 were 378,002 and $11.09. The shares exercisable under the Pennsylvania Incentive Plan and the corresponding weighted average exercise price at June 30, 2000 were 168,913 and $12.69. The weighted average

remaining contractual life of options outstanding under the 1982 Plan at June 30, 2000 was 0.4 years. The weighted average remaining contractual life of options outstanding under the Pennsylvania Option Plan and the Pennsylvania Incentive Plan at June 30, 2000 were 6 and 7.9 years, respectively. There were 3,074,674 shares available for future option grants under the 1992 Plan at June 30, 2000. No shares were available for future option grants under the 1982 Plan at June 30, 2000.

On February 10, 1994, Southern Union granted a warrant which expires on February 10, 2004, to purchase up to 105,531 shares of Common Stock at an exercise price of $6.58 to the Company's outside legal counsel.

Retained Earnings Under the most restrictive provisions in effect, as a result of the sale of Senior Notes, Southern Union will not declare or pay any cash or asset dividends on common stock (other than dividends and distributions payable solely in shares of its common stock or in rights to acquire its common stock) or acquire or retire any shares of Southern Union's common stock, unless no event of default exists and the Company meets certain financial ratio requirements. In addition, Southern Union's charter relating to the issuance of preferred stock limits the payment of cash or asset dividends on capital stock.

XI Preferred Securities of Subsidiary Trust

On May 17, 1995, Southern Union Financing I (Subsidiary Trust), a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of 9.48% Trust Originated Preferred Securities (Preferred Securities). In connection with the Subsidiary Trust's issuance of the Preferred Securities and the related purchase by Southern Union of all of the Subsidiary Trust's common securities (Common Securities), Southern Union issued to the Subsidiary Trust $103,092,800 principal amount of its 9.48% Subordinated Deferrable Interest Notes, due 2025 (Subordinated Notes). The sole assets of the Subsidiary Trust are the Subordinated Notes. The interest and other payment dates on the Subordinated Notes correspond to the distribution and other payment dates on the Preferred Securities and the Common Securities. Under certain circumstances, the Subordinated Notes may be distributed to holders of the Preferred Securities and holders of the Common Securities in liquidation of the Subsidiary Trust. The Subordinated Notes were redeemable at the option of the Company on or after May 17, 2000, at a redemption price of $25 per Subordinated Note plus accrued and unpaid interest. The Preferred Securities and the Common Securities will be redeemed on a pro rata basis to the same extent as the Subordinated Notes are repaid, at $25 per Preferred Security and Common Security plus accumulated and unpaid distributions. Southern Union's obligations under the Subordinated Notes and related agreements, taken together, constitute a full and unconditional guarantee by Southern Union of payments due on the Preferred Securities. As of June 30, 2000, the quoted market price per Preferred Security was $24.31. As of June 30, 2000 and 1999, 4,000,000 shares of Preferred Securities were outstanding.

XII Debt and Capital Lease

	June 30, 2000	June 30, 1999
7.60% Senior Notes due 2024	$ 364,515	$ 364,515
8.25% Senior Notes due 2029	300,000	--
8.375% First Mortgage Bonds, due 2002	30,000	--
9.34% First Mortgage Bonds, due 2019	15,000	--
Capital lease and other	26,452	28,482
Total debt and capital lease	735,967	392,997
Less current portion	2,193	2,066
Total long-term debt and capital lease	$ 733,774	$ 390,931

The maturities of long-term debt and capital lease payments for each of the next five years ending June 30 are: 2001 -- $2,193,000; 2002 -- $2,330,000; 2003 -- $42,660,000; 2004 -- $8,871,000; 2005 -- $216,000 and thereafter -- $679,697,000.

Senior Notes On November 3, 1999, the Company completed the sale of $300,000,000 of 8.25% Senior Notes (8.25% Notes) due 2029. The net proceeds from the sale of these 8.25% Notes were used to: (i) fund the acquisition of Pennsylvania Enterprises, Inc.; (ii) repay approximately $109,900,000 of borrowings under the revolving credit facility, and (iii) repay approximately $136,000,000 of long- and short-term debt assumed in the acquisition. On January 31, 1994, Southern Union also completed the sale of the 7.60% Senior Debt Securities (7.60% Notes). During 1999, $20,000,000 of 7.60% Notes were repurchased at $941 per $1,000 note resulting in a net pre-tax gain of $425,000, net of related debt expense. Debt issuance costs and premiums on the early extinguishment of debt are accounted for in accordance with that required by its various regulatory bodies having jurisdiction over the Company's operations. The Company recognizes gains or losses on the early extinguishment of debt to the extent it is provided for by its regulatory authorities and in some cases such gains or losses are deferred and amortized over the term of the new or replacement debt issues.

The 8.25% Notes and the 7.60% Notes traded at $983 and $918 (per $1,000 note), respectively on June 30, 2000, as quoted by a major brokerage firm. The carrying amount of long-term debt at June 30, 2000 and 1999 was $735,967,000 and $392,997,000, respectively. The fair value of long-term debt at June 30, 2000 and 1999 was $700,934,000 and $369,759,000, respectively.

First Mortgage Bonds In connection with the acquisition of the Pennsylvania Operations, the Company assumed $30,000,000 of 8.375% Series First Mortgage Bonds due in December 2002 and $15,000,000 of 9.34% Series First Mortgage Bonds due in 2019.

Capital Lease The Company completed the installation of an Automated Meter Reading (AMR) system at Missouri Gas Energy during the first quarter of fiscal year 1999. The installation of the AMR system involved an investment of approximately $30,000,000 which is accounted for as a capital lease obligation. As of June 30, 2000, the capital lease obligation outstanding was $25,104,000 with a fixed rate of 5.79%. This system has significantly improved meter reading accuracy and timeliness and provided electronic accessibility to meters in residential customers' basements, thereby assisting in the reduction of the number of estimated bills. Depreciation on the AMR system is provided at an average straight-line rate of approximately 5% per annum of the cost of such property.

Credit Facilities On May 31, 2000, the Company restated and amended its short-term and long-term credit facilities (together referred to as "Revolving Credit Facilities"). The Company has available $90,000,000 under the short-term facility, which expires May 30, 2001, and $135,000,000 under the long-term facility, which expires on May 31, 2003. The Company has additional availability under uncommitted line of credit facilities (Uncommitted Facilities) with various banks. Borrowings under the facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. The Revolving Credit Facilities are subject to a commitment fee based on the rating of the Senior Notes. As of June 30, 2000, the commitment fee was an annualized 0.14% on the unused balance. The interest rate on borrowings on the Revolving Credit Facilities is calculated based on a formula using the LIBOR or prime interest rates. The average interest rate under the facilities was 6.0% for the year ended June 30, 2000 and 5.6% for the year ended June 30, 1999. A nil and $21,000,000 balance was outstanding under the facilities at June 30, 2000 and 1999, respectively. A balance of $26,320,000 was outstanding under the facilities at August 31, 2000.

On August 28, 2000 the Company entered into a short-term bank note (the *Term Note*) to fund (i) the cash portion of the consideration to be paid to the Fall River Gas' stockholders; (ii) the all cash consideration to be paid to the ProvEnergy and Valley Resources stockholders, and (iii) all related acquisition costs and refinancing of debt done in connection with these mergers. In September 2000, draws totaling $480,000,000 were made under this Term Note. Remaining commitments under the Term Note are $95,000,000 as of September 28, 2000 to cover any trailing costs. The Term Note expires August 27, 2001 but may be extended at the Company's option through August 26, 2002 for a 12.5 basis point fee. The interest rate on borrowings under the Term Note is a floating rate based on LIBOR or prime interest rates.

XIII Employee Benefits

Pension and Other Post-retirement Benefits The Company adopted in 1999, *Employers Disclosures About Pensions and Other Post-Retirement Benefits*, a FASB standard which changed the Company's reporting requirements for its pension and post-retirement benefit plans.

The Company maintains three trusteed non-contributory defined benefit retirement plans (Plans) which cover substantially all employees. The Company funds the Plans' cost in accordance with federal regulations, not to exceed the amounts deductible for income tax purposes. The Plans' assets are invested in cash, government securities, corporate bonds and stock, and various funds. The Company also has a supplemental non-contributory retirement plan for certain executive employees and other post-retirement benefit plans for its employees. Post-retirement medical and other benefit liabilities are accrued on an actuarial basis during the years an employee provides services. The following table represents a reconciliation of the plans at June 30, 2000 and 1999.

	2000	1999
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 204,461	$ 188,038
Acquisition	54,261	--
Service cost	2,251	3,364
Interest cost	16,265	13,829
Benefits paid	(17,798)	(13,563)
Actuarial (gain) loss	(20,452)	7,968
Plan amendments	8,115	7,027
Curtailment	--	(2,202)
Benefit obligation at end of year	$ 247,103	$ 204,461
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 162,621	$ 166,353
Acquisition	50,657	--
Return on plan assets	21,499	3,420
Employer contributions	7,445	6,411
Benefits paid	(17,798)	(13,563)
Fair value of plan assets at end of year	$ 224,424	$ 162,621
Funded Status		
Funded status at end of year	$ (22,679)	$ (41,839)
Unrecognized transition obligation	2,637	2,764
Unrecognized net actuarial gain	(31,417)	(7,404)
Unrecognized prior service cost	17,080	9,913
Accrued benefit cost	$ (34,379)	$ (36,566)
Amounts Recognized in the Consolidated Balance Sheet		
Prepaid benefit cost	$ 11,738	$ 4,880
Accrued benefit liability	(62,498)	(52,618)
Intangible asset	16,381	10,501
Accumulated other comprehensive income	--	671
Net amount recognized	$ (34,379)	$ (36,566)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets as of June 30, 2000 were $19,492,000; $19,492,000; and

nil, respectively, and for those same plans were $58,985,000; $58,985,000; and $42,181,000, respectively as of June 30, 1999.

The accumulated post-retirement benefit obligation and fair value of plan assets for post-retirement benefit plans with accumulated post-retirement benefit obligations in excess of fair value of plan assets as of June 30, 2000 were $45,920,000 and $7,859,000 respectively, and for those same plans were $38,035,000 and $3,878,000, respectively as of June 30, 1999.

The weighted-average assumptions used for the year ended June 30, 2000, 1999 and 1998 were:

	2000	1999	1998
Discount rate			
Beginning of year	7.00%	7.00%	7.75%
End of year	8.00%	7.00%	7.00%
Expected return on assets - tax exempt accounts	8.00%	8.00%	8.00%
Expected return on assets - taxable accounts	5.25%	5.25%	8.00%
Rate of compensation increase (average)	5.62%	5.62%	5.62%
Health care cost trend rate	9.00%	7.25%	7.50%

Net periodic benefit cost for the year ended June 30, 2000, 1999 and 1998 includes the following components:

	2000	1999	1998
Service cost	$ 2,251	$ 3,364	$ 3,302
Interest cost	16,265	13,829	13,658
Expected return on plan assets	(14,554)	(13,006)	(11,737)
Amortization of transition amount	127	127	127
Amortization of prior service cost	948	438	340
Recognized actuarial gain	(2,704)	(3,319)	(4,828)
Curtailment	--	131	--
Net periodic pension cost	$ 2,333	$ 1,564	$ 862

The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 9.00% during 2000. This rate was assumed to decrease gradually each year to a rate of 6.0% for 2003 and remain at that level thereafter. For Pennsylvania's participants in the HMO plan who have reached age 65, the assumed health care cost trend rate used was 30.0% and it was assumed to decrease gradually to 6.0% by 2006. (The health care cost trend rate of 30.0% is due to increases in HMO premium rates experienced in 2000.)

Amortization of unrecognized actuarial gains and losses for Missouri Gas Energy plans were determined using a rolling five year average gain or loss position with a five year amortization period pursuant to a stipulation agreement with the MPSC.

Effect of health care trend rate changes on health care plans:

	One Percentage Point Increase in Health Care Trend Rate	One Percentage Point Decrease in Health Care Trend Rate
Effect on total service and interest cost components	$ 40,000	$ (36,000)
Effect on post-retirement benefit obligation	599,000	(561,000)

The Company's three qualified defined benefit retirement Plans cover (i) those Company employees who are not employed by Missouri Gas Energy or the Pennsylvania Operations; (ii) those employees who are employed by Missouri Gas Energy; and (iii) those employees who are employed by the Pennsylvania Operations. On December 31, 1998, the Plans covering (i) and (ii) above, exclusive of Missouri Gas Energy's union employees, were converted from the traditional defined benefit Plans with benefits based on years of service and final average compensation to cash balance defined benefit plans in which an account is maintained for each employee. The initial value of the account was determined as the actuarial present value (as defined in the Plans) of the benefit accrued at transition (December 31, 1998) under the pre-existing traditional defined benefit plan. Future contribution credits to the accounts are based on a percentage of future compensation, which varies by individual. Interest credits to the accounts are based on 30-year Treasury bond yields.

Defined Contribution Plan The Company provides a Savings Plan available to all employees. Since January 1, 1997, the Company had contributed $.50 of Company stock for each $1.00 contributed by a non-Missouri Gas Energy participant up to 5% of the employee's salary. Additionally, the Company contributes $.75 of Company stock for each $1.00 contributed by a non-Missouri Gas Energy participant from 6% to 10% of the employee's salary. Effective July 1, 1998, Company contributions for Missouri Gas Energy non-union employees were revised to coincide with that of non-Missouri Gas Energy participants as described above. For Missouri Gas Energy union employees, the Company contributes $.50 of Company stock for each $1.00 contributed by such a participant up to 7% of the employee's salary. In Pennsylvania, the Company contributes 40% of the first 4% of the participant's compensation paid into the Savings Plan for all participants, other than those employed by Keystone. The matching contribution for Keystone participants is equal to 50% of the first 4% of the participant's compensation paid into the Savings Plan. Company contributions are 100% vested after five years of continuous service. Company contributions to the plan during 2000, 1999 and 1998, were $2,034,000, $1,717,000 and $1,656,000, respectively.

Effective January 1, 1999 the Company amended its defined contribution plan to provide contributions for certain employees who were employed as of December 31, 1998. These contributions were designed to replace certain benefits previously provided under defined benefit plans. Employer contributions to these separate accounts, referred to as Retirement Power Accounts, within the defined contribution plan were determined based on the employee's age plus years of service plus accumulated sick leave as of December 31, 1998. The contribution amounts are determined as a percentage of compensation and range from 3.5% to 8.5%. Company contributions to Retirement Power Accounts during 2000 and 1999 were $2,281,000 and $1,118,000, respectively.

Post-employment Benefits Certain post-employment benefits such as disability and health care continuation coverage provided to former or inactive employees after employment but before retirement, are accrued if attributable to an employees' previously rendered service. The Company has recorded a regulatory asset to the extent it intends to file rate applications to include such costs in rates and such recovery is probable. As of both June 30, 2000 and 1999, the Company has recorded a regulatory asset and a related liability of $1,343,000.

Common Stock Held in Trust From time to time, the Company purchases outstanding shares of common stock of Southern Union to fund certain Company employee stock-based compensation plans. At June 30, 2000 and 1999, 942,395 and 281,939 shares, respectively, of common stock were held by various rabbi trusts for certain of the Company's benefit plans. During 2000 certain employees deferred receipt of Company shares for stock options exercised. At June 30, 2000, 22,182 shares were held in a rabbi trust for these employees.

XIV Taxes on Income

	Year Ended June 30,		
	2000 (Restated)	1999	1998
Current:			
Federal	$ 6,640	$ (516)	$ 1,381
State	345	(242)	240
	6,985	(758)	1,621
Deferred:			
Federal	1,857	7,024	5,984
State	747	843	379
	2,604	7,867	6,363
Total provision	$ 9,589	$ 7,109	$ 7,984

Deferred credits and other liabilities also include $524,000 and $560,000 of unamortized deferred investment tax credit as of June 30, 2000 and 1999, respectively.

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

	June 30,	
	2000 (Restated)	1999
Deferred tax assets:		
Estimated alternative minimum tax credit	$ 21,389	$ 9,557
Insurance accruals	1,100	2,297
Bad debt reserves	1,135	2,715
Post-retirement benefits	1,888	1,466
Minimum pension liability	--	234
Other	11,118	3,020
Total deferred tax assets	36,630	19,289
Deferred tax liabilities:		
Property, plant and equipment	(123,907)	(74,909)
Unamortized debt expense	(4,732)	(5,049)
Deferred state and local taxes	(12,289)	(3,950)
Regulatory liability	(8,769)	--
Unrealized holding gain on securities	(62,017)	--
Other	(7,336)	(2,781)
Total deferred tax liabilities	(219,050)	(86,689)
Net deferred tax liability	(182,420)	(67,400)
Less current tax assets	1,090	2,838
Accumulated deferred income taxes	$(183,510)	$ (70,238)

The Company accounts for income taxes utilizing the liability method which bases the amounts of current and future tax assets and liabilities on events recognized in the financial statements and on income tax laws and rates existing at the time the temporary differences are expected to reverse.

	Year Ended June 30,		
	2000 (Restated)	1999	1998
Computed statutory tax expense at 35%	$ 6,802	$ 6,144	$ 7,075
Changes in taxes resulting from:			
State income taxes, net of federal income tax benefit	710	348	402
Amortization of acquisition adjustment	2,311	830	723
Other	(234)	(213)	(216)
Actual tax expense	$ 9,589	$ 7,109	$ 7,984

XV Utility Regulation and Rates

On April 3, 2000, PG Energy filed an application with the PPUC seeking an increase in its base rates designed to produce $17,900,000 in additional annual revenues, to be effective June 2, 2000. On May 11, 2000, the PPUC suspended this rate increase request for seven months, until January 2, 2001, in order to investigate the reasonableness of the proposed rates. On August 30, 2000, PG Energy and the principal parties to the base rate proceeding informed the Administrative Law Judge (ALJ) assigned to the proceeding that a complete settlement of the proceeding had been reached. The proposed settlement is designed to produce $10,800,000 of additional annual revenue. The parties are currently in the process of finalizing a Settlement Agreement and Joint Petition for Settlement of Rate Investigation (the *Settlement Petition*) which will be filed with the ALJ upon its completion. The Settlement Petition will request PPUC approval for the rate increase to become effective on January 1, 2001. It is not presently possible to determine what action either the ALJ or the PPUC will ultimately take with respect to this rate increase request or the Settlement Petition.

On October 18, 1999, Southern Union Gas filed a $1,696,000 rate increase request for the El Paso service area with the City of El Paso. In February 2000, the City of El Paso approved a $650,000 revenue increase, and an improved rate design that collects a greater portion of the Company's revenue stream from the monthly customer charge. Additionally, the City of El Paso approved a new 30-year franchise for Southern Union Gas.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs requiring a non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas Energy's rehearing request. On June 15, 2000, the MPSC ruled that it would not rehear or reconsider its decision on one issue valued at $1,500,000. If the MPSC adopts Missouri Gas Energy's positions on rehearing, then Missouri Gas Energy would be authorized an additional $700,000 of base revenues increasing the $13,300,000 initially authorized in its August 21, 1998 order to $14,000,000. The MPSC is expected to rule on this rehearing in October 2000. The MPSC's orders may be subject to judicial review and although certain parties may argue for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

On April 13, 1998, Southern Union Gas filed a $2,228,000 request for a rate increase from the city of El Paso, a request the city subsequently denied. On April 21, 1998, the city council of El Paso voted to reduce the Company's rates by $1,570,000 annually and to order a one-time cost of gas refund of $475,000. On May 21, 1998, Southern Union Gas filed with the Railroad Commission of Texas (RRC) an appeal of the city of El Paso's actions to reduce the Company's rates and require a one-time cost of gas refund. On December 21, 1998, the RRC issued its order

implementing an $884,000 one-time cost of gas refund and a $99,000 base rate reduction. The cost of gas refund was completed in February 1999.

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective on February 1, 1997. See *Commitments and Contingencies.*

The MPSC approved a three-year, experimental gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers shared in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas was acquired above benchmark levels, both the Company and customers shared in such costs. For the years ended June 30, 1999 and 1998, the incentive plan achieved a reduction of overall gas costs of $6,900,000 and $9,200,000, respectively, resulting in savings to Missouri customers of $4,000,000 and $5,100,000, respectively. The Company recorded revenues of $2,900,000 and $4,100,000 in 1999 and 1998, respectively, under this plan. Missouri Gas Energy received authorization from the MPSC for a new gas supply incentive plan that became effective August 31, 2000. Earnings under the plan are primarily dependent on market prices for natural gas declining to certain preauthorized levels which are now below current market prices. There is no assurance that the Company will have an opportunity to generate earnings under this aspect of the plan during fiscal 2001.

Under the order of the Federal Energy Regulatory Commission, a major supplier of gas to Missouri Gas Energy is allowed recovery of certain previously unrecovered deferred gas costs with a remaining balance of nil and $669,000 at June 30, 2000 and 1999, respectively. Missouri Gas Energy is allowed to recover these costs from its Missouri customers through a purchase gas adjustment mechanism which is filed with and approved by the MPSC. The receivable and liability associated with these costs have been recorded as a deferred charge and a deferred credit, respectively, on the consolidated balance sheet as of June 30, 2000 and 1999.

As a result of the January 31, 1994 acquisition of Missouri Gas Energy, the MPSC required Missouri Gas Energy to reduce rate base by $30,000,000 to compensate Missouri rate payers for rate base reductions that were eliminated as a result of the acquisition. This is being amortized over a ten-year period on a straight-line basis since the date of acquisition.

XVI Leases

The Company leases certain facilities, equipment and office space under cancelable and noncancelable operating leases. The minimum annual rentals under operating leases for the next five years ending June 30 are as follows: 2001 -- $7,513,000; 2002 -- $6,322,000; 2003 -- $16,905,000; 2004 -- $3,999,000; 2005 -- $4,052,000 and thereafter $10,862,000. Rental expense was $10,384,000, $7,732,000 and $6,054,000 for the years ended June 30, 2000, 1999 and 1998, respectively.

XVII Commitments and Contingencies

Environmental The Company is subject to federal, state and local laws and regulations relating to the protection of the environment. These evolving laws and regulations may require expenditures over a long period of time to control environmental impacts. The Company has established procedures for the on-going evaluation of its operations to identify potential environmental exposures and assure compliance with regulatory policies and procedures.

The Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant (MGP) sites in its former service territories, principally in Arizona and New Mexico, and present service territories in Texas, Missouri and its newly acquired service territories in Pennsylvania. At the present time, the Company is aware of certain MGP sites in these areas and is investigating those and certain other locations. While the Company's evaluation of these Texas, Missouri, Arizona, New Mexico and Pennsylvania MGP sites is in

its preliminary stages, it is likely that some compliance costs may be identified and become subject to reasonable quantification. Certain MGP sites located within the Company's service territories are currently the subject of governmental actions. These sites are as follows:

Kansas City, Missouri MGP Sites In a letter dated May 10, 1999, the Missouri Department of Natural Resources (MDNR) sent notice of a planned Site Inspection/Removal Site Evaluation of the Kansas City Coal Gas Former Manufactured Gas Plant site. This site (comprised of two adjacent MGP operations previously owned by two separate companies and hereafter referred to as Station A and Station B) is located at East 1st Street and Campbell in Kansas City, Missouri and is owned by Missouri Gas Energy. A 1988 investigation of the site performed by an Environmental Protection Agency (EPA) contractor determined that further remedial assessment was not required under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), as amended by the SUPERFUND Amendments and Reauthorization Act of 1986. The MDNR has stated that the reassessment of the Kansas City Coal Gas site is part of a statewide effort to identify, evaluate, and prioritize the potential hazards posed by all of Missouri's MGP sites. During July 1999, the Company sent applications to MDNR submitting the two sites to the agency's Voluntary Cleanup Program. The sites were accepted into the VCP on August 2, 1999 and MDNR subsequently approved the Company's proposed workplans for the environmental assessment of the sites. The final environment reports were sent to the state on March 6, 2000. In a letter dated June 21, 2000, MDNR responded to the Station A environmental report submitted by the Company. In that letter, MDNR stated that soil remediation will be necessary at the site (Station A) but that further exploration and delineation of site contamination should be performed before remedial methods can be determined. MDNR has requested that the Company submit a work plan for further investigation of the site. MDNR has not responded to the Station B environmental report submitted by the Company.

Independence, Missouri MGP Site The Company received a letter dated December 16, 1999 from MDNR notifying the Company of a Pre-CERCLIS Site Screening investigation of a former manufactured gas plant located at Pacific Avenue & South River Boulevard in Independence, Missouri. The Company contacted the MDNR to inform the state that, as this property is not owned by the Company, it cannot grant access to the property for MDNR's investigation. MDNR proceeded to investigate the site in cooperation with the site's current owner. In a letter dated May 17, 2000, MDNR reported that the site is not recommended for CERCLIS (Comprehensive Environmental Response, Compensation and Liability Information System) entry and no futther CERCLA action is recommended. However, due to the presence of characteristic waste, the site is eligible for the state's Registry of Confirmed Abandoned or Uncontrollable Hazardous Waste Disposal Sites in Missouri.

To the extent that potential costs associated with former manufactured gas plants are quantified, the Company expects to provide any appropriate accruals and seek recovery for such remediation costs through all appropriate means, including insurance and regulatory relief. In addition, at the time of the closing of the acquisition of the Company's Missouri service territories, the Company entered into an Environmental Liability Agreement that provides that Western Resources retains financial responsibility for certain liabilities under environmental laws that may exist or arise with respect to Missouri Gas Energy.

Although significant charges to earnings could be required prior to rate recovery, management does not believe that environmental expenditures for MGP sites will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company follows the provisions of an American Institute of Certified Public Accountants Statement of Position, *Environmental Remediation Liabilities,* for recognition, measurement, display and disclosure of environmental remediation liabilities.

Regulatory On August 18, 1998, the Missouri State Court of Appeals, Western District, denied the Company's appeal of the February 1, 1997 rate order which retroactively reduced the carrying cost rate applied by the Company on expenditures incurred on the Missouri Gas Energy Safety Program. The Company believes that the inconsistent

treatment by the MPSC in subsequently changing to the Allowance for Funds Used During Construction rate of approximately 6% from the previously ordered rate of 10.54% constitutes retroactive ratemaking. Unfortunately, the decision by the Missouri State Court of Appeals failed to address certain specific language within a 1994 MPSC accounting authority order that the Company believed prevented the MPSC from retroactively changing the carrying cost rate. Southern Union sought a transfer of the case to the Missouri Supreme Court which was denied on November 24, 1998.

The continuation of the Missouri Safety Program will result in significant levels of future capital expenditures. The Company estimates incurring capital expenditures of $15,631,000 in fiscal 2001 related to this program.

In August 1998, a jury in Edinburg, Texas concluded deliberations on the City of Edinburg's franchise fee lawsuit against PG&E Gas Transmission, Texas Corporation (formerly Valero Energy Corporation (Valero)) and a number of its subsidiaries, as well as former Valero subsidiary Rio Grande Valley Gas Company (RGV) and RGV's successor company, Southern Union Company. The case, based upon events that occurred between 1985-1987, centers on specific contractual language in the 1985 franchise agreement between RGV and the City of Edinburg. Southern Union purchased RGV from Valero in October 1993. The jury awarded the plaintiff damages, against all defendants under several largely overlapping but mutually exclusive claims, totaling approximately $13,000,000. The trial judge subsequently reduced the award to approximately $700,000 against Southern Union and $7,800,000 against Valero and Southern Union together. The Company is pursuing reversal on appeal. The Company believes it will ultimately prevail, and that the outcome of this matter will not have a material adverse impact on the Company's results of operations, financial position or cash flows. Furthermore, the Company has not determined what impact, if any, this jury decision may have on other city franchises in Texas.

Southwest Gas Litigation On February 1, 1999, Southern Union submitted a proposal to the Board of Directors of Southwest Gas Corporation (Southwest) to acquire all of Southwest's outstanding common stock for $32.00 per share. Southwest then had a pending merger agreement with ONEOK, Inc. (ONEOK) at $28.50 per share. On February 22, 1999, Southern Union and Southwest both publicly announced Southern Union's proposal, after the Southwest Board of Directors determined that Southern Union's proposal was a Superior Proposal (as defined in the Southwest merger agreement with ONEOK). At that time Southern Union entered into a Confidentiality and Standstill Agreement with Southwest at Southwest's insistence. On April 25, 1999, Southwest's Board of Directors rejected Southern Union's $32.00 per share offer and accepted an amended offer of $30.00 per share from ONEOK. On April 27, 1999, Southern Union increased its offer to $33.50 per share and agreed to pay interest which, together with dividends, would provide Southwest shareholders with a 6% annual rate of return on its $33.50 offer, commencing February 15, 2000, until closing. Southern Union's revised proposal was rejected by Southwest's Board of Directors. On January 21, 2000, ONEOK announced that it was withdrawing from the Southwest merger agreement.

There are several lawsuits pending that relate to activities surrounding Southern Union's efforts to acquire Southwest. In addition, there is before the U.S. Court of Appeals for the Tenth Circuit, an appeal by Southern Union of a preliminary injunction entered by the U.S. District Court for the Northern District of Oklahoma. Southern Union intends to vigorously pursue its claims against Southwest, ONEOK, and certain individual defendants, and vigorously defend itself against the claims by Southwest and ONEOK.

California Action -- Arthur Klein, et al. v. Southwest Gas Corporation, et al., Southern Union Company, Intervenor, Case No. 726615 (Superior Court of California, County of San Diego) On September 24, 1999, the court dismissed Southern Union's claims against Southwest Gas without prejudice, allowing Southern Union to subsequently refile the claims as of September 24, 1999 if related federal court litigation does not resolve the claims.

Nevada Action -- Southwest Gas Corporation v. Southern Union Company; Case No. CV-S-99-0530-JBR (U.S.D.C., District of Nevada) (transferred to the District of Arizona to Case No. CIV-00-452-PHX-RGS) On April 20, 1999, Southwest filed an action against Southern Union in the United States District Court for the District of Nevada. The complaint alleged breach of the Confidentiality and Standstill Agreement between Southern Union

and Southwest, misappropriation of original trade secrets in violation of California statutes, intentional interference with the ONEOK merger agreement, intentional interference with prospective advantage, breach of a common-law duty of good faith and fair dealing, and unfair business practices in violation of California statutes. On May 6, 1999, Southwest filed an amended complaint that added a claim for breach of the Securities Exchange Act of 1934 to the claims in the original complaint. Southwest seeks declaratory and injunctive relief together with money damages "in excess of $75,000.00." Southern Union has answered the complaint, denying liability under all counts. Southern Union has filed a counterclaim alleging breach of contract, breach of duty of good faith and fair dealing, mistake of fact and fraudulent inducement with respect to the Confidentiality and Standstill Agreement. The counterclaim seeks partial rescission of the Confidentiality and Standstill Agreement and/or declaratory relief. On March 8, 2000, the Nevada Court transferred this case to the District of Arizona where it has been lodged before Judge Roger G. Strand as Case No. CIV-00-452-PHX-RGS.

Oklahoma Action -- ONEOK, Inc. v. Southern Union Company; Case No. 99-CV-0345H(M) (U.S.D.C., Northern District of Oklahoma) On May 5, 1999, ONEOK filed an action against Southern Union in the United States District Court for the Northern District of Oklahoma, asserting third-party beneficiary status under the Confidentiality and Standstill Agreement between Southern Union and Southwest, and alleging a claim for breach of that Agreement as well as a claim for intentional interference with the ONEOK-Southwest merger agreement. That same day, ONEOK moved for a temporary restraining order against Southern Union to bar Southern Union from making any attempt to solicit proxies from or influence the shareholders of Southwest with respect to Southern Union's offer to purchase Southwest, from taking any actions in the regulatory proceedings that concern the proposed merger of ONEOK and Southwest, from taking any actions in the *Klein v. Southwest Gas Corp.* case and from taking any actions to seek to control or influence the shareholders, management, directors or policies of Southwest, either alone or in concert with others. The court entered a preliminary injunction on May 17, 1999. Southern Union has answered the Complaint, denying liability under all counts. Southern Union has asserted a counterclaim seeking declaratory judgment on enforceability of the Confidentiality and Standstill Agreement and a declaration that Southern Union has not breached the Confidentiality and Standstill Agreement. On September 12, 2000, the court entered an order transferring this case from the Northern District of Oklahoma to the District of Arizona.

Appeal of Oklahoma Action -- ONEOK, Inc. v. Southern Union Company; Case No. 99-5103 (Tenth Circuit Court of Appeals) On May 17, 1999 Southern Union noticed its appeal of the Oklahoma District Court's preliminary injunction in the United States District Court of Appeals for the Tenth Circuit. On March 22, 2000, the appellate court returned this matter to the district court for consideration of whether the facts underlying ONEOK's original request for a preliminary injunction have so materially changed that the need for injunctive relief originally granted no longer exists.

Arizona Action -- Southern Union Company v. Southwest Gas Corporation; Case No. CIV-99-1294-PHX-ROS (U.S.D.C., District of Arizona) On July 19, 1999, Southern Union filed an action in the United States Court for the District of Arizona (which was subsequently amended on October 11, 1999 and July 26, 2000). The current defendants are Southwest, ONEOK, Michael O. Maffie (Southwest's President), Thomas Y. Hartley (Southwest's Chairman), Eugene N. Dubay (President of Kansas Gas Service, a division of ONEOK), James M. Irvin (an Arizona Corporation Commissioner), Jack D. Rose (former Executive Director of the Arizona Corporation Commission), John A. Gaberino (ONEOK's General Counsel) and Mark D. Dioguardi (ONEOK's outside counsel). The suit alleges racketeering under federal and state law, fraud in the inducement, breach of contract, Securities Exchange Act violations, breach of the covenant of good faith and fair dealing, rescission, intentional interference with business relationship, tortious interference with contractual relations and civil conspiracy. Southern Union seeks damages of $750 million on each of the two racketeering counts, to be trebled; $750 million on six other counts; punitive damages on four counts; and rescission of its Standstill Agreement with Southwest.

Southwest Action in Arizona -- Southwest Gas Corporation v. ONEOK, Inc. and Southern Union Company; Case No. CIV-00-119-PHX-ERC (U.S.D.C., District of Arizona) On January 21, 2000, ONEOK announced its withdrawal from the Southwest merger and filed a declaratory judgment action against Southwest. On January 24,

2000, Southwest Gas filed an action in Arizona naming ONEOK and Southern Union as defendants. The Complaint asserts claims against Southern Union for breach of contract, breach of the implied covenant of good faith and fair dealing, interference with contract, intentional interference with prospective economic advantage, misappropriation of trade secrets and declaratory relief. Southwest seeks damages against Southern Union in excess of $75,000 as well as exemplary damages. Southern Union has answered the Complaint, denying liability under all counts.

The Company believes that the results of the above-noted Southwest litigation will not have a materially adverse effect on the Company's financial condition, results of operations and cash flows.

Other Southern Union and its subsidiaries are parties to other legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject, and not to be material to the Company's overall business or financial condition, results of operations or cash flows.

Commitments The Company is committed under various agreements to purchase certain quantities of gas in the future. At June 30, 2000, the Company has purchase commitments for certain quantities of gas at variable, market-based prices that have an annual value of $113,666,000. The Company's purchase commitments may extend over a period of several years depending upon when the required quantity is purchased. The Company has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies.

Due to the operation of purchase gas adjustment clauses, gas purchase costs generally do not directly affect earnings of our regulated utility operations. However, the Company's unregulated gas marketing operations are subject to price risk related to fixed-price sales commitments that are not matched with corresponding fixed-price purchase agreements. At June 30, 2000, the Company had fixed-price sales commitments with various customers that provide for the delivery of approximately 1,922,201 Dekatherms of natural gas through April 2001 at an average sales price per Dekatherm of $3.00. The Company has exposure to the changes in gas prices related to fluctuating commodity prices, which can impact the Company's financial position or results of operations, either favorably or unfavorably. The Company's open positions are actively managed, and the impact of changing prices on the Company's financial position at a point in time is not necessarily indicative of the impact of price movements throughout the year.

As a result of the unauthorized financial derivative energy trading activity, an open contract of a non-regulated, wholly-owned subsidiary was present at June 30, 2000 for 10,000 MMBtu's of natural gas per day for the contract period of January 2001 to December 2001 at a fixed price of $2.72 per MMBtu. The Company had exposure to the changes in gas prices related to fluctuating commodity prices, which can impact the Company's financial position or results of operations, either favorably or unfavorably.

In connection with the acquisition of the Pennsylvania Operations, the Company assumed a guaranty with a bank whereby the Company unconditionally guaranteed payment of financing obtained for the development of PEI Power Park. In March 1999, the Borough of Archbald, the County of Lackawanna, and the Valley View School District (together the *Taxing Authorities*) approved a Tax Incremental Financing Plan (TIF Plan) for the development of PEI Power Park. The TIF Plan requires that: (i) the Redevelopment Authority of Lackawanna County raise $10,600,000 of funds to be used for infrastructure improvements of the PEI Power Park; (ii) the Taxing Authorities create a tax increment district and use the incremental tax revenues generated from new development to service the $10,600,000 debt; and (iii) PEI Power Corporation, a subsidiary of the Company, guarantee the debt service payments. In May 1999, the Redevelopment Authority of Lackawanna County borrowed $10,600,000 from a bank under a promissory note (TIF Debt). The TIF Debt has a 12-year term, with a 7.75% annual interest rate, and requires semi-annual principal and interest payments of approximately $725,000 (interest only for the first year). As of June 30, 2000, incremental tax revenues cover approximately 17% of the annual debt service. The balance outstanding on the TIF Debt was $9,805,000 as of June 30, 2000.

During fiscal 2000, the Company agreed to a one-year contract and a three-year contract with each bargaining unit representing Pennsylvania employees, which were effective on April 1, 2000 and August 1, 2000, respectively. In December 1998, the Company agreed to five-year contracts with each bargaining-unit representing Missouri employees, which were effective in May 1999. Of the Company's employees represented by unions, 95% are employed by Missouri Gas Energy.

The Company had standby letters of credit outstanding of $6,199,000 and $1,622,000 at June 30, 2000 and 1999, respectively, which guarantee payment of various insurance premiums and state taxes.

XVIII Quarterly Operations (Unaudited)

Year Ended June 30, 2000	Quarter Ended September 30	December 31	March 31	June 30(1) (Restated)	Total(1) (Restated)
Total operating revenues	$ 84,786	$ 239,595	$344,789	$ 162,534	$ 831,704
Operating margin	45,509	94,483	126,997	67,017	334,006
Net operating revenues	1,807	30,897	52,902	4,508	90,114
Net earnings (loss) available for common stock	(6,100)	7,132	19,516	(10,703)	9,845
Earnings (loss) per share -- diluted[2]	(.19)	.16	.38	(.22)	.22

Year Ended June 30, 1999	Quarter Ended September 30	December 31	March 31	June 30	Total
Total operating revenues	$ 77,455	$ 174,224	$251,863	$ 101,689	$ 605,231
Operating margin	42,781	70,286	98,106	51,757	262,930
Net operating revenues (loss)	(627)	19,986	40,647	4,841	64,847
Net earnings (loss) available for common stock	(7,048)	5,374	17,624	(5,505)	10,445
Earnings (loss) per share -- diluted[2]	(.22)	.16	.51	(.17)	.31

(1) See Note II -- Restatement.
(2) The sum of earnings per share by quarter may not equal the net earnings per common and common share equivalents for the year due to variations in the weighted average common and common share equivalents outstanding used in computing such amounts.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of
Southern Union Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and stockholders' equity after the restatement described in Note II, present fairly, in all material respects, the financial position of Southern Union Company and its subsidiaries at June 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Austin, Texas
August 23, 2000, except for
Notes III, XII and XV, as to which
the date is September 28, 2000
and Note II, as to which the
date is April 9, 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

Exhibit 23

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 33-58297, 333-02965 and 333-10585) and Form S-8 (File Nos. 2-79612, 33-37261, 33-69596, 33-69598, 33-61558, 33-79443, 333-08994, 333-42635, 333-89971, 333-90347, 333-36146, 333-36150 and 333-46382) of Southern Union Company and Subsidiaries of our report dated August 23, 2000, except for Notes III, XII and XV as to which the date is September 28, 2000 and Note II, as to which the date is April 9, 2001, relating to the consolidated financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Austin, Texas
April 25, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

For the quarterly period ended

March 31, 2001

Commission File No. 1-6407

SOUTHERN UNION COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**75-0571592**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
504 Lavaca Street, Eighth Floor Austin, Texas	**78701**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(512) 477-5852**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
Common Stock, par value $1 per share	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

The number of shares of the registrant's Common Stock outstanding on May 4, 2001 was 50,982,246.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
FORM 10-Q
March 31, 2001
Index

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended March 31,	
	2001	2000
	(thousands of dollars, except shares and per share amounts)	
Operating revenues	$ 914,653	$ 344,789
Cost of gas and other energy	685,404	217,793
Operating margin	229,249	126,996
Revenue-related taxes	33,664	14,195
Net operating margin	195,585	112,801
Operating expenses:		
Operating, maintenance and general	69,766	39,189
Depreciation and amortization	24,615	15,191
Taxes, other than on income and revenues	8,480	5,520
Total operating expenses	102,861	59,900
Net operating revenues	92,724	52,901
Other income (expenses):		
Interest	(29,163)	(14,940)
Dividends on preferred securities of subsidiary trust	(2,370)	(2,370)
Other, net	14,364	(1,034)
Total other expenses, net	(17,169)	(18,344)
Earnings before income taxes	75,555	34,557
Federal and state income taxes	34,749	15,042
Net earnings available for common stock	$ 40,806	$ 19,515
Net earnings per share:		
Basic	$ .82	$ .40
Diluted	$ .77	$ .38
Weighted average shares outstanding:		
Basic	49,933,878	49,265,244
Diluted	52,862,818	51,281,397

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Nine Months Ended March 31,	
	2001	2000
	(thousands of dollars, except shares and per share amounts)	
Operating revenues	$ 1,664,461	$ 669,170
Cost of gas and other energy	1,203,862	402,182
Operating margin	460,599	266,988
Revenue-related taxes	62,597	29,416
Net operating margin	398,002	237,572
Operating expenses:		
Operating, maintenance and general	168,935	98,647
Depreciation and amortization	64,319	39,539
Taxes, other than on income and revenues	21,290	13,779
Total operating expenses	254,544	151,965
Net operating revenues	143,458	85,607
Other income (expenses):		
Interest	(75,772)	(36,603)
Dividends on preferred securities of subsidiary trust	(7,110)	(7,110)
Other, net	23,761	(5,527)
Total other expenses, net	(59,121)	(49,240)
Earnings before income taxes and cumulative effect of change in accounting principle	84,337	36,367
Federal and state income taxes	38,789	15,820
Earnings before cumulative effect of change in accounting principle	45,548	20,547
Cumulative effect of change in accounting principle, net of tax	602	--
Net earnings available for common stock	$ 46,150	$ 20,547
Net earnings per share:		
Basic		
Before cumulative effect of change in accounting principle	$ .92	$ .49
Cumulative effect of change in accounting principle, net of tax	.01	--
	$ .93	$ .49
Diluted		
Before cumulative effect of change in accounting principle	$ .87	$ .47
Cumulative effect of change in accounting principle, net of tax	.01	--
	$ .88	$ .47
Weighted average shares outstanding:		
Basic	49,479,253	41,690,742
Diluted	52,191,499	43,636,397

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Twelve Months Ended March 31, 2001	2000
	(thousands of dollars, except shares and per share amounts)	
Operating revenues	$1,826,995	$ 770,858
Cost of gas and other energy	1,299,378	452,113
Operating margin	527,617	318,745
Revenue-related taxes	68,077	34,281
Net operating margin	459,540	284,464
Operating expenses:		
Operating, maintenance and general	206,875	126,563
Depreciation and amortization	79,920	49,946
Taxes, other than on income and revenues	24,780	17,506
Total operating expenses	311,575	194,015
Net operating revenues	147,965	90,449
Other income (expenses):		
Interest	(90,661)	(45,759)
Dividends on preferred securities of subsidiary trust	(9,480)	(9,480)
Other, net	19,580	(7,651)
Total other expenses, net	(80,561)	(62,890)
Earnings before income taxes and cumulative effect of change in accounting principle	67,404	27,559
Federal and state income taxes	32,558	12,516
Earnings before cumulative effect of change in accounting principle	34,846	15,043
Cumulative effect of change in accounting principle, net of tax	602	--
Net earnings available for common stock	$ 35,448	$ 15,043
Net earnings per share:		
Basic		
Before cumulative effect of change in accounting principle	$ .71	$ .38
Cumulative effect of change in accounting principle, net of tax	.01	--
	$ .72	$ .38
Diluted		
Before cumulative effect of change in accounting principle	$ .67	$ .36
Cumulative effect of change in accounting principle, net of tax	.01	--
	$ .68	$ .36
Weighted average shares outstanding:		
Basic	49,245,493	39,582,434
Diluted	51,838,262	41,320,632

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	March 31, 2001	March 31, 2000	June 30, 2000
	(thousands of dollars)		
Property, plant and equipment:			
Plant in service	$2,178,163	$1,545,099	$1,580,077
Construction work in progress	27,158	37,306	30,192
	2,205,321	1,582,405	1,610,269
Less accumulated depreciation and amortization	(758,717)	(497,227)	(509,947)
	1,446,604	1,085,178	1,100,322
Additional purchase cost assigned to utility plant, net	733,921	378,085	386,839
Net property, plant and equipment	2,180,525	1,463,263	1,487,161
Current assets:			
Cash and cash equivalents	8,166	52,327	27,829
Accounts receivable, billed and unbilled, net	462,279	129,650	74,959
Inventories, principally at average cost	41,639	26,698	60,259
Deferred gas purchase costs	99,415	--	--
Investment securities available for sale	92,241	--	187,817
Prepayments and other	14,730	7,854	877
Total current assets	718,470	216,529	351,741
Deferred charges	212,711	139,313	145,006
Investment securities, at cost	20,081	15,587	10,489
Real estate	2,552	9,438	9,461
Other	36,552	20,841	17,602
Total	$3,170,891	$1,864,971	$2,021,460

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Continued)

STOCKHOLDERS' EQUITY AND LIABILITIES

	March 31, 2001	March 31, 2000	June 30, 2000
	(thousands of dollars)		
Common stockholders' equity:			
Common stock, $1 par value; authorized 200,000,000 shares; issued 51,991,624 shares	$ 51,992	$ 48,135	$ 50,521
Premium on capital stock	626,253	592,274	599,835
Less treasury stock, 1,010,077 shares at cost	(15,869)	(14,313)	(15,554)
Less common stock held in trust	(17,547)	(15,254)	(15,330)
Deferred compensation plans	7,499	763	808
Accumulated other comprehensive income (loss)	54,940	(436)	115,175
Retained earnings	46,150	20,547	--
Total common stockholders' equity	753,418	631,716	735,455
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated notes of Southern Union	100,000	100,000	100,000
Long-term debt and capital lease obligation	1,368,817	734,320	733,774
Total capitalization	2,222,235	1,466,036	1,569,229
Current liabilities:			
Long-term debt and capital lease obligation due within one year	5,219	2,169	2,193
Notes payable	211,600	3	3
Accounts payable	227,917	64,660	77,488
Federal, state and local taxes	66,069	22,526	7,359
Accrued interest	18,544	16,067	15,922
Accrued dividends on preferred securities of subsidiary trust	2,370	--	--
Customer deposits	20,584	17,805	17,255
Deferred gas purchase costs	--	21,674	11,708
Other	68,830	16,052	30,778
Total current liabilities	621,133	160,956	162,706
Deferred credits and other	131,726	111,818	106,015
Accumulated deferred income taxes	195,797	126,161	183,510
Commitments and contingencies	--	--	--
Total	$3,170,891	$1,864,971	$2,021,460

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock, $1 Par Value	Premium on Capital Stock	Treasury Stock, at Cost	Common Stock Held in Trust	Accumulated Other Comprehen-sive Income	Retained Earnings/ (Deficit)	Total
	(thousands of dollars)						
Balance July 1, 1999	$ 31,240	$ 276,610	$ (794)	$ (4,927)	$ (436)	$ --	$ 301,693
Comprehensive income:							
Net earnings	--	--	--	--	--	9,845	9,845
Unrealized gain in investment securities, net of tax	--	--	--	--	115,175	--	115,175
Minimum pension liability adjustment; net of tax	--	--	--	--	436	--	436
Comprehensive income							125,456
Purchase of common stock held in trust	--	--	--	(9,864)	--	--	(9,864)
5% stock dividend	2,359	7,452	--	--	--	(9,845)	(34)
Purchase of treasury stock	--	--	(14,425)	--	--	--	(14,425)
Issuance of stock for acquisition	16,714	315,235	--	--	--	--	331,949
Exercise of stock options	208	538	(335)	269	--	--	680
Balance June 30, 2000	50,521	599,835	(15,554)	(14,522)	115,175	--	735,455
Comprehensive income:							
Net earnings	--	--	--	--	--	46,150	46,150
Unrealized loss in investment securities, net of tax benefit	--	--	--	--	(58,605)	--	(58,605)
Cumulative effect of change in accounting principle	--	--	--	--	826	--	826
Unrealized loss on hedging activities	--	--	--	--	(2,456)	--	(2,456)
Comprehensive income (loss)							(14,085)
Payment on note receivable	--	290	--	--	--	--	290
Purchase of common stock held in trust	--	--	--	(2,360)	--	--	(2,360)
Benefit plan restructuring	--	--	--	6,560	--	--	6,560
Issuance of stock for acquisition	1,371	25,505	--	--	--	--	26,876
Exercise of stock options	100	623	(315)	274	--	--	682
Balance March 31, 2001	$ 51,992	$ 626,253	$ (15,869)	$ (10,048)	$ 54,940	$ 46,150	$ 753,418

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended March 31,	
	2001	2000
	(thousands of dollars)	
Cash flows from (used in) operating activities:		
Net earnings	$ 40,806	$ 19,515
Adjustments to reconcile net earnings to net cash flows (used in) from operating activities:		
Depreciation and amortization	24,615	15,191
Deferred income taxes	4,398	3,585
Non-cash compensation expense	(2,216)	--
Provision for bad debts	13,398	2,011
Financial derivative trading gains	(3,360)	--
Gain on sale of investment securities	(12,494)	--
Deferred interest expense	(406)	108
Other	865	428
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, billed and unbilled	(65,258)	17,577
Accounts payable	(54,194)	(10,635)
Taxes and other liabilities	37,932	9,807
Customer deposits	(368)	(29)
Deferred gas purchase costs	(67,305)	2,382
Inventories	76,904	43,706
Other	(4,411)	(10,099)
Net cash flows (used in) from operating activities	(11,094)	93,547
Cash flows used in investing activities:		
Additions to property, plant and equipment	(25,469)	(26,608)
Acquisitions of operations, net of cash received	(1,646)	(2,252)
Proceeds from sale of subsidiary	--	12,150
Purchase of investment securities	--	(2,961)
Increase in customer advances	806	608
Deferred charges and credits	(12,105)	1,667
Proceeds from sale of investment securities	15,405	--
Other	4,691	1,538
Net cash flows used in investing activities	(18,318)	(15,858)
Cash flows from (used in) financing activities:		
Repayment of debt and capital lease obligation	(6,898)	(361)
Net borrowings (payments) under revolving credit facility	36,600	(12,900)
Purchase of treasury stock	--	(12,193)
Other	36	92
Net cash flows from (used in) financing activities	29,738	(25,362)
Change in cash and cash equivalents	326	52,327
Cash and cash equivalents at beginning of period	7,840	--
Cash and cash equivalents at end of period	$ 8,166	$ 52,327
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 30,670	$ 17,295
Income taxes	$ 1,000	$ 1,711

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended March 31, 2001	2000
	(thousands of dollars)	
Cash flows (used in) from operating activities:		
Net earnings	$ 46,150	$ 20,547
Adjustments to reconcile net earnings to net cash flows (used in) from operating activities:		
Depreciation and amortization	64,319	39,539
Deferred income taxes	(1,562)	3,355
Non-cash compensation expense	239	--
Provision for bad debts	19,345	1,665
Financial derivative trading losses	5,684	--
Gain on sale of investment securities	(21,363)	--
Gain on sale of real estate	(13,532)	--
Deferred interest expense	(1,064)	187
Cumulative effect of change in accounting principle	(602)	--
Other	2,560	1,225
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, billed and unbilled	(359,181)	(55,167)
Accounts payable	110,254	10,235
Taxes and other liabilities	56,410	9,719
Customer deposits	(852)	123
Deferred gas purchase costs	(102,120)	(5,149)
Inventories	33,316	33,652
Other	(16,015)	(10,090)
Net cash flows (used in) from operating activities	(178,014)	49,841
Cash flows used in investing activities:		
Additions to property, plant and equipment	(87,172)	(69,430)
Acquisition of operations, net of cash received	(406,949)	(38,083)
Proceeds from sale of subsidiary	--	12,150
Purchase of investment securities	(12,495)	(15,008)
Notes receivable	290	(4,000)
Increase (decrease) in customer advances	790	1,442
Deferred charges and credits	(3,630)	(241)
Proceeds from sale of investment securities	26,777	--
Proceeds from sale of real estate, net of closing costs	20,638	--
Other	4,116	1,959
Net cash flows used in investing activities	(457,635)	(111,211)
Cash flows from financing activities:		
Issuance of long-term debt	535,000	300,000
Issuance cost of debt	(2,538)	(6,643)
Repayment of debt and capital lease obligation	(14,607)	(138,269)
Premium on early extinguishment of acquired debt	--	(745)
Net borrowings (payments) under revolving credit facility	211,597	(21,000)
Purchase of treasury stock	--	(13,519)
Change in cash overdrafts	--	(6,655)
Payment of merger debt assumed	(114,171)	--
Other	705	528
Net cash flows from financing activities	615,986	113,697
Change in cash and cash equivalents	(19,663)	52,327
Cash and cash equivalents at beginning of period	27,829	--
Cash and cash equivalents at end of period	$ 8,166	$ 52,327
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 78,092	$ 40,512
Income taxes	$ 1,052	$ 1,711

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Twelve Months Ended March 31, 2001	2000
	(thousands of dollars)	
Cash flows (used in) from operating activities:		
Net earnings	$ 35,448	$ 15,043
Adjustments to reconcile net earnings to net cash flows from (used in) operating activities:		
Depreciation and amortization	79,920	49,946
Deferred income taxes	(4,482)	11,349
Provision for bad debts	22,678	2,573
Financial derivative trading losses	7,920	--
Deferred interest expense	(1,563)	289
Cumulative effect of change in accounting principle	(602)	--
Gain on sale of investment securities	(21,363)	--
Gain on sale of real estate	(13,532)	--
Other	3,138	1,160
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, billed and unbilled	(307,844)	(5,216)
Accounts payable	122,621	(7,905)
Taxes and other liabilities	41,055	1,490
Customer deposits	(4,382)	(546)
Deferred gas purchase costs	(112,085)	2,839
Inventories	(245)	29,994
Other	(4,015)	(10,956)
Net cash flows (used in) from operating activities	(157,333)	90,060
Cash flows used in investing activities:		
Additions to property, plant and equipment	(118,188)	(92,179)
Acquisition of operations, net of cash received	(407,232)	(38,083)
Proceeds from sale of subsidiary	--	12,150
Purchase of investment securities	(18,488)	(17,008)
Note receivable	290	(4,000)
Customer advances	698	1,971
Deferred charges and credits	(7,046)	(4,398)
Proceeds from sale of investment securities	26,777	--
Proceeds from sale of real estate, net of closing costs	20,638	--
Other	1,604	1,326
Net cash flows used in investing activities	(500,947)	(140,221)
Cash flows from financing activities:		
Issuance of long-term debt	535,000	300,000
Issuance cost of debt	(3,187)	(6,643)
Repayment of debt and capital lease obligation	(15,129)	(157,590)
Premium on early extinguishment of acquired debt	26	(745)
Net borrowings (payments) under revolving credit facility	211,597	(18,600)
Purchase of treasury stock	(906)	(13,519)
Change in cash overdrafts	--	(603)
Payment of merger debt assumed	(114,171)	--
Other	889	188
Net cash flows from financing activities	614,119	102,488
Change in cash and cash equivalents	(44,161)	52,327
Cash and cash equivalents at beginning of period	52,327	--
Cash and cash equivalents at end of period	$ 8,166	$ 52,327
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 95,315	$ 52,117
Income taxes	$ 3,652	$ 3,617

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

These interim financial statements should be read in conjunction with the financial statements and notes thereto contained in Southern Union Company's (*Southern Union* and, together with its wholly-owned subsidiaries, the *Company*) Annual Report on Form 10-K/A for the fiscal year ended June 30, 2000. Certain prior period amounts have been reclassified to conform with the current period presentation.

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments (including both normal recurring as well as any non-recurring) necessary for a fair presentation of the results of operations for such periods. Because of the seasonal nature of the Company's operations, the results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. As further described below, the Company acquired Providence Energy Corporation and Fall River Gas Company on September 28, 2000, Valley Resources, Inc. on September 20, 2000 and Pennsylvania Enterprises, Inc. on November 4, 1999. Accordingly, the operating activities of the acquired operations are consolidated with the Company beginning on the respective acquisition dates. Thus, the results of operations of the Company for the periods subsequent to the acquisitions are not comparable to those periods prior to the acquisitions nor are the fiscal 2001 results of operations comparable with prior periods.

ACQUISITION ACTIVITIES

On September 28, 2000, Southern Union completed the acquisition of Providence Energy Corporation (ProvEnergy) for approximately $270,000,000 in cash plus the assumption of approximately $90,000,000 in long-term debt. The ProvEnergy natural gas distribution operations are Providence Gas and North Attleboro Gas, which collectively serve approximately 176,000 natural gas customers. Providence Gas serves natural gas customers in Providence and Newport, Rhode Island, and 23 other cities and towns in Rhode Island. North Attleboro Gas serves customers in North Attleboro and Plainville, Massachusetts, towns adjacent to the northeastern Rhode Island border. Subsidiaries of the Company acquired in the ProvEnergy merger include ProvEnergy Oil Enterprises, Inc. ("ProvEnergy Oil"), and ProvEnergy Power Company, LLC. ProvEnergy Oil operates a fuel oil distribution business through its subsidiary, ProvEnergy Fuels, Inc. (ProvEnergy Fuels). ProvEnergy Fuels serves over 15,000 residential and commercial customers in Rhode Island and Massachusetts. ProvEnergy Power Company owns 50% of Capital Center Energy Company, LLC., a joint venture formed between ProvEnergy and ERI Services, Inc. to provide retail power.

On September 28, 2000, Southern Union completed the acquisition of Fall River Gas Company (Fall River Gas) for approximately 1,400,000 shares of Southern Union common stock and approximately $27,000,000 in cash plus assumption of approximately $20,000,000 in long-term debt. Fall River Gas serves approximately 49,000 customers in the city of Fall River and the towns of Somerset, Swansea and Westport, all located in southeastern Massachusetts. Also acquired in the Fall River Gas merger was Fall River Gas Appliance Company, Inc., which rents water heaters and conversion burners (primarily for residential use) in Fall River Gas' service area.

On September 20, 2000, Southern Union completed the acquisition of Valley Resources, Inc. (Valley Resources) for approximately $125,000,000 in cash plus the assumption of approximately $30,000,000 in long-term debt. Valley Resources natural gas distribution operations are Valley Gas Company and Bristol and Warren Gas Company, which collectively serve approximately 66,000 natural gas customers. Valley Resources' three non-utility subsidiaries acquired in the merger rent and sell appliances, offer service contract programs, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Also, acquired in the acquisition was Valley Resources' 90% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI Corporation fuel cell, holds patents for a natural gas/diesel co-firing system and for a device to control the flow of fuel on dual-fuel equipment.

The Company funded the cash portion of the above described acquisitions and any related refinancings of assumed debt with a bank note (the Term Note). See *Debt and Capital Lease*.

The assets of ProvEnergy, Fall River Gas and Valley Resources (hereafter referred to as the Company's "New England Operations") have been included in the consolidated balance sheet of the Company at March 31, 2001 and the results of operations from the New England Operations have been included in the statement of consolidated operations since their respective acquisition dates. The New England Operations' primary business is the distribution of natural gas through its public utility companies (collectively referred to as the "New England Division"). The acquisitions were accounted for using the purchase method. The additional purchase cost assigned to utility plant of approximately $360,000,000 reflects the excess of the purchase price over the historical book carrying value of the utility plant. Amortization of the additional purchase cost assigned to utility plant is provided on a straight-line basis over forty years. The final allocation of the purchase price of the New England Operations acquisition is expected to be completed in the fourth quarter of fiscal year 2001. The Company plans to sell or dispose of certain non-core businesses acquired in the New England Operations.

Prior to the consummation of the acquisition of the New England Operations, the Company purchased shares of Providence Energy Corporation, Fall River Gas Company and Valley Resources, Inc. common stock for $2,882,000. As all necessary approvals for the merger had not been obtained when these shares were purchased, these purchases were treated as investment securities prior to closing the mergers.

On November 4, 1999, the Company acquired Pennsylvania Enterprises, Inc. (hereafter referred to as the "Pennsylvania Operations") in a transaction valued at approximately $500,000,000, including assumption of long-term debt of approximately $115,000,000. The Company issued approximately 16,700,000 shares (before adjustment for any subsequent stock dividend) of common stock and paid approximately $36,000,000 in cash to complete the transaction. The Company funded the cash portion of the acquisition of the Pennsylvania Operations and related refinancings with the sale of $300,000,000 of 8.25% Senior Notes due 2029 completed on November 3, 1999 (8.25% Senior Notes). See *Debt and Capital Lease*.

The Pennsylvania Operations are headquartered in Wilkes-Barre, Pennsylvania with natural gas distribution being its primary business. The principal operating division of the Pennsylvania Operations is the PG Energy division of the Company which serves more than 156,000 gas customers in northeastern and central Pennsylvania. Subsidiaries of the Company included in the Pennsylvania Operations merger included PG Energy Services Inc., (Energy Services), Keystone Pipeline Services, Inc. (*Keystone*, a wholly-owned subsidiary of PG Energy Services Inc.), PEI Power Corporation, and Theta Land Corporation. Through Energy Services the Company markets a diversified range of energy-related products and services under the name of PG Energy PowerPlus and supplies propane under the name of PG Energy Propane. Keystone provides pipeline and fiber optic cable construction, installation, maintenance, and rehabilitation services. PEI Power Corporation operates a cogeneration plant that generates steam and electricity for resale. Theta Land Corporation, which owned and provided land management and development services for more than 44,000 acres of land, was sold for $12,150,000 in January 2000. No gain or loss was recognized on this transaction. The Company plans to sell or dispose of both Keystone and the propane operations of Energy Services, which are not material to the Company. The Company has not yet sold these operations and there can be no assurance that a sale on terms satisfactory to the Company will be completed. A letter of intent has been entered into for certain of these operations with the sale expected to be completed during the fourth quarter of fiscal year 2001.

The assets of the Pennsylvania Operations are included in the consolidated balance sheet of the Company at March 31, 2001 and the results of operations from the Pennsylvania Operations have been included in the statement of consolidated operations since November 4, 1999. The acquisition was accounted for using the purchase method. The additional purchase cost assigned to utility plant of approximately $261,000,000 reflects the excess of the

purchase price over the historical book carrying value of the utility plant. Amortization of the additional purchase cost assigned to utility plant is provided on a straight-line basis over forty years.

Prior to the consummation of the acquisition of the Pennsylvania Operations, the Company purchased 358,500 shares of Pennsylvania Enterprises, Inc. stock for $11,887,000 during both the first and second quarters of the Company's fiscal year 2000. As all necessary approvals for the merger had not been obtained, these purchases were treated as investment securities.

Pro Forma Financial Information

The following unaudited pro forma financial information for the nine-month periods ended March 31, 2001 and 2000 is presented as though the following events had occurred at the beginning of the earliest period presented: (i) acquisition of the New England Operations and the Pennsylvania Operations; (ii) the issuance of the Term Note and the sale of the 8.25% Senior Notes; and (iii) the refinancing of certain short-term and long-term debt at the time of the acquisitions. The pro forma financial information is not necessarily indicative of the results which would have actually been obtained had the acquisition of the New England Operations and Pennsylvania Operations, the issuance of the Term Note, the sale of senior notes or the refinancings been completed as of the assumed date for the periods presented or which may be obtained in the future.

	Nine Months Ended March 31,	
	2001	2000
Operating revenues	$ 1,708,121	$ 1,013,239
Income (loss) before extraordinary item	24,575	(2,339)
Net earnings (loss) available for common stock	24,575	(2,339)
Net earnings (loss) per common stock:		
Basic	.49	(.05)
Diluted	.47	(.05)

EARNINGS PER SHARE

Average shares outstanding, which excludes treasury stock, for basic earnings per share were 49,933,878 and 49,265,244 for the three-month period ended March 31, 2001 and 2000, respectively; 49,479,253 and 41,690,742 for the nine-month period ended March 31, 2001 and 2000, respectively; and 49,245,493 and 39,582,434 for the twelve-month period ended March 31, 2001 and 2000, respectively. Diluted earnings per share includes average shares outstanding as well as common stock equivalents from stock options and warrants. Common stock equivalents were 1,886,140 and 1,174,742 for the three-month period ended March 31, 2001 and 2000, respectively; 1,702,361 and 1,423,998 for the nine-month period ended March 31, 2001 and 2000, respectively ;and 1,597,540 and 1,464,315 for the twelve-month period ended March 31, 2001 and 2000, respectively. At March 31, 2001, 1,015,528 shares of common stock were held by various rabbi trusts for certain of the Company's benefit plans and 185,947 shares were held in a rabbi trust for certain employees who deferred receipt of Company shares for stock options exercised.

INVESTMENT SECURITIES

At March 31, 2001, the Company held securities of Capstone Turbine Corporation (Capstone). This investment is classified as "available for sale" under the Statement of Financial Accounting Standards Board (FASB) *Accounting for Certain Investments in Debt and Equity Securities*; accordingly, these securities are stated at fair value, with unrealized gains and losses recorded as a separate component of common stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations when realized. During both the second and third quarters of the Company's fiscal year

2001, the Company sold securities in Capstone, realizing a pre-tax gain of $8,869,000 and $12,494,000, respectively. As of March 31, 2001, the Company's remaining investment in Capstone had a fair value of $92,241,000 and unrealized gain, net of tax, of $56,569,000. From April 1, 2001 to May 4, 2001, additional securities were sold resulting in pre-tax gains of $35,756,000. As of May 4, 2001, the fair value of the Company's remaining investment in Capstone was $53,541,000. Subject to market conditions that are not detrimental to the Company, and as opportunities arise following the completion of the applicable lock-up periods to which it was subject, the Company expects to monetize its investment. The Company intends to use the proceeds from such sales to reduce outstanding debt.

All other securities owned by the Company are accounted for under the cost method. The Company's other investments in securities consist of common and/or preferred stock in non-public companies whose stock is not traded on a securities exchange. Realized gains and losses on sales of these investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations when incurred, and dividends are recognized as income when received.

REAL ESTATE

On December 15, 2000, the Company sold its Austin, Texas headquarters building, Lavaca Plaza. The property, purchased by the Company in 1991, netted pre-tax cash proceeds of $20,638,000, resulting in a pre-tax gain of approximately $13,532,000.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Accounting Policies of Derivatives and Hedging Activities The Company recognizes derivatives on the consolidated balance sheet at their fair value. On the date of the derivative contract, the Company designates the derivative as: (i) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (ii) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (iii) "held for trading" ("trading" instruments). Changes in the fair value of a derivative that qualifies as a fair-value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk (including gains or losses on firm commitments), are recorded in earnings. Changes in the fair value of a derivative that qualifies as a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Lastly, changes in the fair value of derivative trading instruments are reported in current-period earnings.

Adoption of Accounting Pronouncement The Company adopted *Accounting for Derivative Instruments and Hedging Activities* on July 1, 2000. In accordance with that Statement, the Company recorded a net-of-tax cumulative-effect gain of $602,000 in earnings to recognize the fair value of the gas derivative contracts at Energy Services that are not designated as hedges. The Company also recorded $826,000 in accumulated other comprehensive income which recognizes the fair value of two interest rate swap derivatives that were designated as cash flow hedges.

Derivative Activities The Company manages certain business risks through the limited use of derivative instruments. Interest rate swaps are employed to hedge the effect of changes in interest rates related to certain debt instruments and commodity swaps and options to manage price risk associated with certain energy contracts, primarily heating oil. The Company was previously party to an interest rate swap designed to reduce exposure to changes in the fair value of a fixed rate lease commitment. This interest rate swap, designated as a fair value hedge, was terminated in October 2000 resulting in a pre-tax gain of $182,000 which will be amortized into earnings through December 2004. The Company also continues to be obligated under three interest rate swaps created to hedge the exposure to potential volatility in interest payments on variable rate debt. At March 31, 2001 the fair value of these interest rate derivatives was a liability of $3,018,000 and is offset by a matching adjustment to other comprehensive

income. For the three- and nine-month periods ended March 31, 2001 net settlement payments of $362,000 and $97,000, respectively, were made related to these derivatives and recorded to interest expense. The Company expects to reclassify as earnings during the next twelve months $1,556,000 net-of-tax in derivative losses from accumulated other comprehensive income as the settlement of swap payments occur. The maximum term over which the Company is hedging exposures to the variability of cash flows is 31 months.

The Company was also previously committed under two gas derivative contracts related to certain non-regulated operations acquired in conjunction with the acquisition of the Pennsylvania Operations. These two contracts were not designated as hedging instruments and therefore did not qualify to receive hedge accounting treatment under the Statement. During the quarter ended December 31, 2000, these derivative contracts expired and the Company recognized a pre-tax loss of $526,000 in recording the expiration of these derivative contracts. This loss was offset by a pre-tax gain of $494,000 arising from the monthly settlement of the two derivative contracts that expired in November 2000.

In conjunction with the acquisition of Providence Energy Corporation, the Company also acquired ProvEnergy Oil, a distributor of fuel oil to retail and commercial customers. ProvEnergy Oil offers certain retail customers price caps for winter heating oil and purchases heating oil call options as a hedge against price fluctuations on the related anticipated commodity purchases. As of March 31, 2001, the Company owned options representing 294,000 gallons of fuel oil at an average strike price of $.76 a gallon, and the fair value of the hedging options was nil. The maximum term over which the Company is hedging exposures to the variability of cash flows for forecasted purchases of home heating oil is ten months.

Trading Contracts The Company, through one of its non-regulated Pennsylvania subsidiaries, is also a party to certain energy trading contracts for the purchase and sale of energy commodities. These contracts are accounted for in accordance with Emerging Issues Task Force Issue *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* which requires that energy trading contracts be recorded at fair value as of each balance sheet date with gains and losses included in earnings. During the third quarter ended March 31, 2001, the Company received settlements of $340,000. At March 31, 2001 the trading asset was $12,000, which represents the fair market value of the outstanding contracts.

In March 2001, the Company discovered unauthorized financial derivative energy trading activity by a non-regulated, wholly-owned subsidiary. During March 2001 and April 2001, all unauthorized trading activity was closed resulting in a cumulative cash expense of $191,000, net of taxes. As a result of the unauthorized financial derivative energy trading activity, open contracts of a non-regulated, wholly-owned subsidiary were present at March 31, 2001 for: 10,000 MMBtu's of natural gas per day for the contract period of January 2001 to December 2001 at a fixed price of $2.72 per MMBtu; 10,000 MMBtu's of natural gas per day for the contract period of January 2002 to August 2002 at a fixed price of $3.41 per MMBtu; and 10,000 MMBtu's of natural gas per day for the contract period of May 2001 to December 2001 at a fixed price of $4.81 per MMBtu. This unauthorized financial derivative energy trading activity resulted in a non-cash gain of $1,814,000, net of taxes, for the three-month period ended March 31, 2001 and non-cash losses of $3,069,000 and $4,277,000, net of taxes, for the nine- and twelve-month periods ended March 31, 2001. These items are recorded in other, net on the Consolidated Statement of Operations. For the quarter ending March 31, 2001, the Company recorded a liability of $7,921,000 representing the fair market value of the contracts and a pre-tax non-cash gain of $3,360,000.

PREFERRED SECURITIES OF SUBSIDIARY TRUST

On May 17, 1995, Southern Union Financing I (Subsidiary Trust), a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of 9.48% Trust Originated Preferred Securities (Preferred Securities). In connection with the Subsidiary Trust's issuance of the Preferred Securities and the related purchase by Southern Union of all of the Subsidiary Trust's common securities (Common Securities), Southern Union issued to the Subsidiary Trust

$103,092,800 principal amount of its 9.48% Subordinated Deferrable Interest Notes, due 2025 (Subordinated Notes). The sole assets of the Subsidiary Trust are the Subordinated Notes. The interest and other payment dates on the Subordinated Notes correspond to the distribution and other payment dates on the Preferred Securities and the Common Securities. Under certain circumstances, the Subordinated Notes may be distributed to holders of the Preferred Securities and holders of the Common Securities in liquidation of the Subsidiary Trust. The Subordinated Notes are redeemable at the option of the Company on or after May 17, 2000, at a redemption price of $25 per Subordinated Note plus accrued and unpaid interest. The Preferred Securities and the Common Securities will be redeemed on a pro rata basis to the same extent as the Subordinated Notes are repaid, at $25 per Preferred Security and Common Security plus accumulated and unpaid distributions. Southern Union's obligations under the Subordinated Notes and related agreements, taken together, constitute a full and unconditional guarantee by Southern Union of payments due on the Preferred Securities. As of March 31, 2001 and 2000, 4,000,000 shares of Preferred Securities were outstanding.

DEBT AND CAPITAL LEASE

	March 31, 2001	June 30, 2000
	(thousands of dollars)	
7.60% Senior Notes due 2024	$ 364,515	$ 364,515
8.25% Senior Notes due 2029	300,000	300,000
8.375% First Mortgage Bonds, due 2002	30,000	30,000
5.62% First Mortgage Bonds, due 2003	4,800	--
10.25% First Mortgage Bonds, due 2008	2,182	--
6.82% First Mortgage Bonds, due 2018	15,000	--
9.34% First Mortgage Bonds, due 2019	15,000	15,000
9.63% First Mortgage Bonds, due 2020	10,000	--
9.44% First Mortgage Bonds, due 2020	6,500	--
8.09% First Mortgage Bonds, due 2022	12,500	--
8.46% First Mortgage Bonds, due 2022	12,500	--
7.50% First Mortgage Bonds, due 2025	15,000	--
7.99% First Mortgage Bonds, due 2026	7,000	--
7.24% First Mortgage Bonds, due 2027	6,000	--
6.50% First Mortgage Bonds, due 2029	14,428	--
7.70% Debentures, due 2022	6,825	--
Term Note, due 2002	523,000	--
Capital lease and other	28,786	26,452
Total debt and capital lease	1,374,036	735,967
Less current portion	5,219	2,193
Total long-term debt and capital lease	$ 1,368,817	$ 733,774

Senior Notes On November 3, 1999, the Company completed the sale of $300,000,000 of 8.25% Senior Notes (8.25% Notes) due 2029. The net proceeds from the sale of these 8.25% Notes were used to: (i) fund the acquisition of Pennsylvania Enterprises, Inc.; (ii) repay approximately $109,900,000 of borrowings under the revolving credit facility, and (iii) repay approximately $136,000,000 of long- and short-term debt assumed in the acquisition.

Assumed Debt In connection with the acquisition of the Pennsylvania Operations, the Company assumed $45,000,000 of First Mortgage Bonds bearing interest between 8.375% and 9.34%. In connection with the acquisition of ProvEnergy, the Company assumed $86,916,000 of First Mortgage Bonds bearing interest between 5.62% and 10.25%. In connection with the acquisition of Fall River Gas, the Company assumed $19,500,000 of First Mortgage

Bonds bearing interest between 7.24% and 9.44%. In connection with the acquisition of Valley Resources, the Company assumed $6,905,000 of 7.70% Debentures.

Capital Lease The Company completed the installation of an Automated Meter Reading (AMR) system at Missouri Gas Energy during the first quarter of fiscal year 1999. The installation of the AMR system involved an investment of approximately $30,000,000 which is accounted for as a capital lease obligation. As of March 31, 2001, the capital lease obligation outstanding was $23,687,000 with a fixed rate of 5.79%. This system has significantly improved meter reading accuracy and timeliness and provided electronic accessibility to meters in residential customers' basements, thereby assisting in the reduction of the number of estimated bills.

Credit Facilities On May 31, 2000, the Company restated and amended its short-term and long-term credit facilities (together referred to as "Revolving Credit Facilities"). The Company has available $90,000,000 under the short-term facility, which expires May 30, 2001, and $135,000,000 under the long-term facility, which expires on May 31, 2003. The Company has additional availability under uncommitted line of credit facilities with various banks. Borrowings under the Revolving Credit Facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. A balance of $211,600,000 was outstanding under the Revolving Credit Facilities at March 31, 2001.

Term Note On August 28, 2000 the Company entered into the Term Note to fund (i) the cash portion of the consideration to be paid to the Fall River Gas' stockholders; (ii) the all cash consideration to be paid to the ProvEnergy and Valley Resources stockholders, (iii) repayment of approximately $50,000,000 of long- and short-term debt assumed in the mergers, and (iv) all related acquisition costs. As of March 31, 2001, a balance of $523,000,000 was outstanding under this Term Note. The Term Note expires August 27, 2001 but may be extended at the Company's option through August 26, 2002 for a fee. No additional draws can be made on the Term Note.

UTILITY REGULATION AND RATES

Missouri On November 7, 2000, Missouri Gas Energy filed a $39,384,000 request for a rate increase with the Missouri Public Service Commission (MPSC). Statutes require that the MPSC reach a decision in the case within an eleven-month period.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs requiring a non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas Energy's rehearing request. On October 10, 2000, the MPSC issued its decision on rehearing Missouri Gas Energy's request which served to reduce the $13,300,000 annual revenue increase by $70,000. The MPSC's orders are subject to judicial review and although certain parties have argued for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

Rhode Island Effective October 1, 2000, the Rhode Island Public Utilities Commission (RIPUC) approved a settlement agreement between Providence Gas, the Rhode Island Division of Public Utilities and Carriers, the Energy Council of Rhode Island, and The George Wiley Center. The settlement agreement recognizes the need for an increase in distribution system revenues of $4,500,000, recovered through an adjustment to the throughput portion of the gas charge, and provides for a 21-month base rate freeze. In the settlement agreement, the RIPUC authorized system improvement programs. Additionally, higher levels of support for low income bill payment assistance was authorized as well as the continuation of the utility's demand side management and weatherization assistance programs.

The settlement agreement also contains a weather mitigation clause and a non-firm margin incentive mechanism (non-firm margin is margin earned from interruptible customers with the ability to switch to alternative fuels). The weather mitigation clause is designed to mitigate the impact of weather volatility on customer billings, which will assist customers in paying bills and stabilize the revenue stream to Providence Gas. Providence Gas will defer the margin impact of weather that is greater than 2 percent colder-than-normal and will recover the margin impact of weather that is greater than 2 percent warmer-than-normal by making the corresponding adjustment to the deferred revenue account (DRA). The non-firm margin incentive mechanism is designed to encourage Providence Gas to promote the development of non-firm margins, which will reduce the cost of service to all customers. Providence Gas will retain 25 percent of all non-firm margins earned in excess of $1,200,000.

Under the settlement agreement, Providence Gas may earn up to 10.7 percent but not less than 7.0 percent using the average return on equity for the two 12 month periods of October 2000 through September 2001 and July 2001 through June 2002.

Pennsylvania On April 3, 2000, PG Energy filed an application with the Pennsylvania Public Utility Commission (PPUC) seeking an increase in its base rates designed to produce $17,900,000 in additional annual revenues. On December 7, 2000, the PPUC approved a settlement agreement that provides for a rate increase designed to produce $10,800,000 of additional annual revenue. The new rates became effective on January 1, 2001.

El Paso, Texas On October 18, 1999, Southern Union Gas filed a $1,696,000 rate increase request for the El Paso service area with the City of El Paso. In February 2000, the City of El Paso approved a $650,000 revenue increase, and an improved rate design that collects a greater portion of the Company's revenue stream from the monthly customer charge. Additionally, the City of El Paso approved a new 30-year franchise for Southern Union Gas.

COMMITMENTS AND CONTINGENCIES

Environmental The Company is subject to federal, state and local laws and regulations relating to the protection of the environment. These evolving laws and regulations may require expenditures over a long period of time to control environmental impacts. The Company has established procedures for the on-going evaluation of its operations to identify potential environmental exposures and assure compliance with regulatory policies and procedures.

The Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant (MGP) sites in its former service territories, principally in Arizona and New Mexico, and present service territories in Texas, Missouri and its newly acquired service territories in Pennsylvania, Massachusetts and Rhode Island. At the present time, the Company is aware of certain MGP sites in these areas and is investigating those and certain other locations. While the Company's evaluation of these Texas, Missouri, Arizona, New Mexico, Pennsylvania, Massachusetts and Rhode Island MGP sites is in its preliminary stages, it is likely that some compliance costs may be identified and become subject to reasonable quantification. Within the Company's service territories certain MGP sites are currently the subject of governmental actions. Certain of these sites are as follows:

Kansas City, Missouri MGP Sites In a letter dated May 10, 1999, the Missouri Department of Natural Resources (MDNR) sent notice of a planned Site Inspection/Removal Site Evaluation of the Kansas City Coal Gas Former MGP site. This site (comprised of two adjacent MGP operations previously owned by two separate companies and hereafter referred to as Station A and Station B) is located at East 1st Street and Campbell in Kansas City, Missouri and is owned by Missouri Gas Energy. A 1988 investigation of the site performed by an Environmental Protection Agency (EPA) contractor determined that further remedial assessment was not required under the Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA), as amended by the SUPERFUND Amendments and Reauthorization Act of 1986. The MDNR has stated that the reassessment of the Kansas City Coal Gas site is part of a statewide effort to identify, evaluate, and prioritize the potential hazards posed by all of Missouri's

MGP sites. During July 1999, the Company sent applications to MDNR submitting the two sites to the agency's Voluntary Cleanup Program (VCP). The sites were accepted into the VCP on August 2, 1999 and MDNR subsequently approved the Company's proposed work plans for the environmental assessment of the sites. The final environment reports were sent to the state on March 6, 2000. In a letter dated June 21, 2000, MDNR responded to the Station A environmental report submitted by the Company. In that letter, MDNR stated that soil remediation will be necessary at the site (Station A) but that further exploration and delineation of site contamination should be performed before remedial methods can be determined. In response to MDNR's request, the Company submitted a work plan for further investigation of the site to the agency on September 18, 2000. Following MDNR's acceptance of the work plan, additional site assessment work was performed and completed on March 26, 2001. MDNR has not responded to the Station B environmental report submitted by the Company.

Independence, Missouri MGP Site The Company received a letter dated December 16, 1999 from MDNR notifying the Company of a Pre-Comprehensive Environmental Response Compensation and Liability Information System (CERCLIS) Site Screening investigation of a former MGP located at Pacific Avenue & South River Boulevard in Independence, Missouri. The Company contacted the MDNR to inform the state that, as this property is not owned by the Company, it cannot grant access to the property for MDNR's investigation. MDNR proceeded to investigate the site in cooperation with the site's current owner. In a letter dated May 17, 2000, MDNR reported that the site is not recommended for CERCLIS entry and no further CERCLA action is recommended. However, due to the presence of characteristic waste, the site is eligible for the state's Registry of Confirmed Abandoned or Uncontrollable Hazardous Waste Disposal Sites in Missouri.

Providence, Rhode Island Sites During 1995, Providence Gas began an environmental evaluation at its primary gas distribution facility located at 642 Allens Avenue in Providence, Rhode Island. Environmental studies and a subsequent remediation work plan were completed at an approximate cost of $4.5 million. Providence Gas also began a soil remediation project on a portion of the site in July 1999. As of March 31, 2001, approximately $8,900,000 had been expended on soil remediation under the remediation work plan. Based on the results of the environmental investigation and the site information learned during the performance of work under the remediation work plan, the Company is now revising the remediation work plan. Although additional remediation work is planned for the site during calendar year 2001, assessment and remediation costs will not exceed $1,000,000 during calendar year 2001. Because of the uncertainties associated with the revision of the remediation work plan and the development of a remedial solution for the entire site, the Company cannot offer any conclusions as to the total future cost of remediation of the property at this time.

In November 1998, Providence Gas received a letter of responsibility from the Department of Environmental Management (DEM) relating to possible contamination on previously owned property at 170 Allens Avenue in Providence. The current operator of the property has also received a letter of responsibility. A work plan has been created and approved by DEM. An investigation has begun to determine the extent of contamination, as well as the extent of the Company's responsibility. Providence Gas entered into a cost-sharing agreement with the current operator of the property, under which Providence Gas is responsible for approximately twenty percent (20%) of the costs related to the investigation. Costs of testing at this site as of March 31, 2001 were approximately $300,000. Until the results of the investigation are known, the Company cannot offer any conclusions as to its responsibility.

Tiverton, Rhode Island Site Fall River Gas Company is a defendant in a civil action seeking to recover anticipated remediation costs associated with contamination found at property owned by the plaintiffs. This claim is based on alleged dumping of material by Fall River Gas Company trucks at the site in the 1930s and 1940s.

Valley Resources Sites Valley Resources is a party to an action in which Blackstone Valley Electric Company ("Blackstone") brought suit for contribution to its expenses of cleanup of a site on Mendon Road in Attleboro, Massachusetts, to which coal manufacturing waste was transported from a former MGP site in Pawtucket, Rhode Island (the "Blackstone Litigation"). Blackstone Valley Electric Company v. Stone & Webster, Inc., Stone & Webster

Engineering Corporation, Stone & Webster Management Consultants, Inc. and Valley Gas Company, C. A. No. 94-10178JLT, United States District Court, District of Massachusetts. Valley Resources takes the position in that litigation that it is indemnified for any cleanup expenses by Blackstone pursuant to a 1961 agreement signed at the time of Valley Resources' creation. This suit was stayed in 1995 pending the issuance of rulemaking at the United States EPA (Commonwealth of Massachusetts v. Blackstone Valley Electric Company, 67 F.3d 981 (1995)). In January 2001, the EPA issued a Preliminary Administrative Decision on this issue and announced that, until March 21, 2001, it is soliciting comments on the Decision. The EPA subsequently announced that the current period would be extended for an additional three month period. While this suit has been stayed, Valley Resources and Blackstone (merged with Narragansett Electric Company in May 2000) have received letters of responsibility from the Rhode Island DEM with respect to releases from two MGP sites in Rhode Island. DEM issued letters of responsibility to Valley Resources and Blackstone in September 1995 for the Tidewater MGP in Pawtucket, Rhode Island, and in February 1997 for the Hamlet Avenue MGP in Woonsocket, Rhode Island. Valley Resources entered into an agreement with Blackstone (now Narragansett) in which Valley Resources and Blackstone agreed to share equally the expenses for the costs associated with the Tidewater site subject to reallocation upon final determination of the legal issues that exist between the companies with respect to responsibility for expenses for the Tidewater site and otherwise. No such agreement has been reached with respect to the Hamlet site.

To the extent that potential costs associated with former MGPs are quantified, the Company expects to provide any appropriate accruals and seek recovery for such remediation costs through all appropriate means, including in rates charged to customers, insurance and regulatory relief. At the time of the closing of the acquisition of the Company's Missouri service territories, the Company entered into an Environmental Liability Agreement that provides that Western Resources retains financial responsibility for certain liabilities under environmental laws that may exist or arise with respect to Missouri Gas Energy. In addition, at the time it was acquired, Providence Gas had in place a regulatory plan that created a mechanism for the recovery of environmental-related costs. This plan provided for recovery of environmental investigation and remediation costs incurred through September 30, 1997, as well as costs incurred during the three-year term of the plan, are to be amortized over a 10-year period, at a level authorized under the plan. A new plan, effective October 1, 2000 through June 30, 2002, establishes an environmental fund for the recovery of evaluation, remedial and clean-up costs arising out of the Company's MGPs and sites associated with the operation and disposal activities from MGPs.

Although significant charges to earnings could be required prior to rate and insurance recovery, management does not believe that environmental expenditures for MGP sites will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company follows the provisions of an American Institute of Certified Public Accountants Statement of Position, *Environmental Remediation Liabilities,* for recognition, measurement, display and disclosure of environmental remediation liabilities.

Southwest Gas Litigation On February 1, 1999, Southern Union submitted a proposal to the Board of Directors of Southwest Gas Corporation (Southwest) to acquire all of Southwest's outstanding common tock for $32.00 per share. Southwest then had a pending merger agreement with ONEOK, Inc. (ONEOK) at $28.50 per share. On February 22, 1999, Southern Union and Southwest both publicly announced Southern Union's proposal, after the Southwest Board of Directors determined that Southern Union's proposal was a Superior Proposal (as defined in the Southwest merger agreement with ONEOK). At that time Southern Union entered into a Confidentiality and Standstill Agreement with Southwest at Southwest's insistence. On April 25, 1999, Southwest's Board of Directors rejected Southern Union's $32.00 per share offer and accepted an amended offer of $30.00 per share from ONEOK. On April 27, 1999, Southern Union increased its offer to $33.50 per share and agreed to pay interest which, together with dividends, would provide Southwest shareholders with a 6% annual rate of return on its $33.50 offer, commencing February 15, 2000, until closing. Southern Union's revised proposal was rejected by Southwest's Board of Directors. On January 21, 2000, ONEOK announced that it was withdrawing from the Southwest merger agreement.

There are several lawsuits pending in the U. S. District Court for Arizona that relate to activities surrounding Southern Union's efforts to acquire Southwest. In addition, there is before the U. S. Court of Appeals for the Tenth Circuit, an appeal by Southern Union of a preliminary injunction entered by the U. S. District Court for the Northern District of Oklahoma. The Company anticipates that a trial of the consolidated lawsuits in Arizona will begin in November 2001. Southern Union intends to vigorously pursue its claims against Southwest, ONEOK, and certain individual defendants, and vigorously defend itself against the claims by Southwest and ONEOK. With the exception of ongoing legal fees associated with the aforementioned litigation, the Company believes that the results of the above-noted Southwest litigation will not have a materially adverse effect on the Company's financial condition, results of operations or cash flows.

Regulatory In August 1998, a jury in Edinburg, Texas concluded deliberations on the City of Edinburg's franchise fee lawsuit against PG&E Gas Transmission, Texas Corporation (formerly Valero Energy Corporation (Valero)) and a number of its subsidiaries, as well as former Valero subsidiary Rio Grande Valley Gas Company (RGV) and RGV's successor company, Southern Union Company. Southern Union purchased RGV from Valero in October 1993. The jury awarded the plaintiff damages, against all defendants under several largely overlapping but mutually exclusive claims, totaling approximately $13,000,000. The trial judge subsequently reduced the award to approximately $700,000 against Southern Union and $7,800,000 against Valero and Southern Union together. The trial court's decision was appealed to the Thirteenth District of the Texas Court of Appeals (Court of Appeals). In December 2000, the Court of Appeals reversed and modified the trial court's judgment of approximately $8,500,000 and awarded the City of Edinburg $585,000, plus pre-judgment interest of $190,000 against RGV and Valero for breach of contract. The Court of Appeals upheld the award for attorneys' fees of approximately $3,500,000 against Valero, RGV and Southern Union. In April 2001, the Court of Appeals granted the release requested in Southern Union's motion for rehearing, and reformed its earlier opinion so as to exclude Southern Union from any remaining liability. The other parties in the case have contested this opinion. The Company will continue to monitor its position in this case. The Company believes that the outcome of this matter will not have a material adverse impact on the Company's results of operations, financial position or cash flows. The Company also has entered into a settlement agreement to settle a related class action lawsuit with a majority of the cities served by the Company in Texas. The settlement will not have a material adverse impact on the Company's results of operations, financial position or cash flows.

Other Southern Union and its subsidiaries are parties to other legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject, and not to be material to the Company's overall business or financial condition, results of operations or cash flows.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview Southern Union Company's (the "Company") core business is the distribution of natural gas as a public utility through: Southern Union Gas, Missouri Gas Energy (MGE); Atlantic Utilities, doing business as South Florida Natural Gas (SFNG); PG Energy, acquired on November 4, 1999; and, effective with the September 2000 acquisitions of Providence Energy Corporation, Valley Resources, Inc. and Fall River Gas Company, collectively its New England Division. In addition, subsidiaries of Southern Union support and expand natural gas sales and capitalize on the Company's gas energy expertise. These subsidiaries operate natural gas pipeline systems, generate electricity, market natural gas and electricity to end-users and distribute propane and fuel oil. Certain subsidiaries also own or hold interests in real estate and other assets, which are primarily used in the Company's utility business.

Most of the Company's business activities are subject to regulation by federal, state or local authorities where the Company operates. Thus, the Company's financial condition and results of operations have been and will continue to be dependent upon the receipt of adequate and timely adjustments in rates. In addition, the Company's business is affected by seasonal weather impacts, competitive factors within the energy industry and economic development and residential growth in its service areas.

Acquisitions On September 28, 2000, Southern Union completed the acquisition of Providence Energy Corporation (ProvEnergy) for approximately $270,000,000 in cash plus the assumption of $90,000,000 in long-term debt. The ProvEnergy natural gas distribution operations are Providence Gas and North Attleboro Gas, which collectively serve approximately 176,000 natural gas customers. Providence Gas serves natural gas customers in Providence and Newport, Rhode Island, and 23 other cities and towns in Rhode Island. North Attleboro Gas serves customers in North Attleboro and Plainville, Massachusetts, towns adjacent to the northeastern Rhode Island border. Subsidiaries of the Company acquired in the ProvEnergy merger include ProvEnergy Oil Enterprises, Inc. (ProvEnergy Oil), and ProvEnergy Power Company, LLC. ProvEnergy Oil operates a fuel oil distribution business through its subsidiary, ProvEnergy Fuels, Inc. (ProvEnergy Fuels). ProvEnergy Fuels serves over 15,000 residential and commercial customers in Rhode Island and Massachusetts. ProvEnergy Power Company owns 50% of Capital Center Energy Company, LLC., a joint venture formed between ProvEnergy and ERI Services, Inc. to provide retail power.

On September 28, 2000, Southern Union also completed the acquisition of Fall River Gas Company (Fall River Gas) for approximately 1,400,000 shares of Southern Union common stock and approximately $27,000,000 in cash plus assumption of $20,000,000 in long-term debt. Fall River Gas serves approximately 49,000 customers in the city of Fall River and the towns of Somerset, Swansea and Westport, all located in southeastern Massachusetts. Also acquired in the Fall River Gas merger was Fall River Gas Appliance Company, Inc. which rents water heaters and conversion burners in Fall River Gas' service area.

On September 20, 2000, Southern Union completed the acquisition of Valley Resources, Inc. (Valley Resources) for approximately $125,000,000 in cash plus the assumption of $30,000,000 in long-term debt. Valley Resources natural gas distribution operations are Valley Gas Company and Bristol and Warren Gas Company, which collectively serve approximately 66,000 natural gas customers. Valley Resources' three non-utility subsidiaries acquired in the merger rent and sell appliances, offer service contract programs, sell liquid propane in Rhode Island and nearby Massachusetts, and distribute as a wholesaler franchised lines to plumbing and heating contractors. Also acquired in the acquisition was Valley Resources' 90% interest in Alternate Energy Corporation, which sells, installs and designs natural gas conversion systems and facilities, is an authorized representative of the ONSI Corporation fuel cell, holds patents for a natural gas/diesel co-firing system and for a device to control the flow of fuel on dual-fuel equipment.

Collectively, the operations from the above-mentioned acquisitions are referred to as the "New England Operations." The Company plans to sell or dispose of certain non-core businesses acquired in the New England Operations.

On November 4, 1999, the Company acquired Pennsylvania Enterprises, Inc. (hereafter referred to as the "Pennsylvania Operations") in a transaction valued at approximately $500,000,000, including assumption of

long-term debt of approximately $115,000,000. The Company issued approximately 16,700,000 shares (before adjustment for any subsequent stock dividend) of common stock and paid approximately $36,000,000 in cash to complete the transaction. The Pennsylvania Operations are headquartered in Wilkes-Barre, Pennsylvania with natural gas distribution being its primary business. The principal operating division of the Pennsylvania Operations is the PG Energy division of the Company which serves more than 156,000 gas customers in northeastern and central Pennsylvania. Subsidiaries of the Company included in the Pennsylvania Operations include PG Energy Services Inc., (Energy Services); Keystone Pipeline Services, Inc. (*Keystone,* a wholly-owned subsidiary of PG Energy Services Inc.); and PEI Power Corporation. Through Energy Services the Company markets a diversified range of energy-related products and services under the name of PG Energy PowerPlus and supplies propane under the name of PG Energy Propane. Keystone provides pipeline and fiber optic cable construction, installation, maintenance, and rehabilitation services. PEI Power Corporation operates a cogeneration plant that generates steam and electricity for resale. The Company plans to sell or dispose of both Keystone and the propane operations of Energy Services; these operations are not material to the Company. The Company has not yet sold these operations and there can be no assurance that a sale on terms satisfactory to the Company will be completed. A letter of intent has been entered into for certain of these operations with the sale expected to be completed during the fourth quarter of fiscal year 2001.

The operating activities of the acquired operations are consolidated with the Company beginning on their respective acquisition dates. Thus, the results of operations for the three-, nine- and twelve-month periods ended March 31, 2001 are not indicative of results that would necessarily be achieved for a full year since the majority of the Company's operating margin is earned during the winter heating season. For these reasons, the results of operations of the Company for the periods subsequent to the acquisitions are not comparable to those periods prior to the acquisitions nor are the fiscal 2001 results of operations comparable with prior periods.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 and 2000

The Company recorded net earnings available for common stock of $40,806,000 for the three-month period ended March 31, 2001 compared with net earnings of $19,515,000 for the same period in 2000. Earnings per diluted share were $.77 in 2001, compared with $.38 in 2000. Weighted average diluted shares outstanding increased 3% in 2001 due to the issuance of 1,370,629 shares of the Company's common stock on September 28, 2000 in connection with the acquisition of Fall River Gas.

Operating revenues were $914,653,000 for the three-month period ended March 31, 2001, compared with $344,789,000 in 2000. Gas purchase and other energy costs for the three-month period ended March 31, 2001 were $685,404,000, compared with $217,793,000 in 2000. The Company's operating revenues are affected by the level of sales volumes and by the pass-through of increases or decreases in the Company's gas purchase costs through its purchased gas adjustment clauses. Additionally, revenues are affected by increases or decreases in gross receipts taxes (revenue-related taxes) which are levied on sales revenue as collected from customers and remitted to the various taxing authorities. The increase in both operating revenues and gas purchase costs between periods was primarily due to a 46% increase in gas sales volume to 77,671 MMcf in 2001 from 53,101 MMcf in 2000 and by a 123% increase in the average cost of gas from $3.66 per MMcf in 2000 to $8.17 per Mcf in 2001. Changes in the average cost of gas resulted from seasonal impacts on demands for natural gas. The New England Operations contributed $210,500,000 to the overall increase in operating revenues, $135,598,000 in gas purchase and other energy costs and 15,756 MMcf of the increase in gas sales volume. The remaining increases in both operating revenues and gas purchase and other energy costs was primarily due to the previously mentioned increase in the average cost of gas as well as an 8,814 MMcf increase in sales volume in the Texas, Missouri and Pennsylvania

service territories as a result of the colder-than-normal weather in these territories in 2001 as compared to the unusually mild temperatures in 2000.

Weather in MGE's service territories was 100% of a 30-year measure for the three-month period ended March 31, 2001, compared with 79% in 2000. Southern Union Gas service territories experienced weather which was 102% of a 30-year measure in 2001, compared with 62% in 2000. About half of the customers served by Southern Union Gas are weather normalized. Additionally, with the February 2000 revenue increase in El Paso, Texas, the new rate design collects a greater portion of the revenue stream from the monthly customer charge instead of being earned volumetrically. Weather for the PG Energy service territories was 98% of a 30-year measure for the three-month period ended March 31, 2001, compared with 92% in 2000. Weather in the New England division service territories was 100% of a 30-year measure for the three-month period ended March 31, 2001.

Net operating margin (operating margin less revenue-related taxes) increased $82,784,000 for the three-month period ended March 31, 2001, compared with the same period in 2000. Growth in net operating margin is primarily due to the colder-than-normal weather, previously discussed, and the acquisition of the New England Operations which generated $70,208,000 in net operating margin.

Operating expenses, which include operating, maintenance and general expenses, depreciation and amortization, and taxes other than on income and revenues, were $102,861,000 for the three-month period ended March 31, 2001, an increase of $42,961,000, compared with $59,900,000 in 2000. An increase of $36,109,000 was the result of the acquisition of the New England Operations. Also impacting operating expenses was an increase in bad debt expense in the Texas, Missouri and Pennsylvania service territories of $9,326,000 due to an increase in customer receivables as a result of higher gas prices as previously discussed. This was partially offset by a $2,216,000 reversal of non-cash compensation expense associated with shares of common stock held in a trust for one of the Company's benefit plans, resulting from a $5.50 decrease in the Company's common stock price during the period from January 1, 2001 to March 22, 2001. The Company amended this plan effective March 22, 2001 to eliminate future expense, or income volatility, associated with the accounting treatment for such benefit plan.

Interest expense was $29,163,000 for the three-month period ended March 31, 2001, compared with $14,940,000 in 2000. Interest expense increased primarily due to a $535,000,000 bank note (the Term Note) entered into by the Company on August 28, 2000 for the acquisition of the New England Operations. The Company entered into the Term Note to (i) fund the cash consideration paid to stockholders of Fall River Gas, ProvEnergy and Valley Resources, (ii) refinance and repay long- and short-term debt assumed in the New England Operations, and (iii) acquisition costs of the New England Operations. The Company also assumed $113,321,000 in long-term debt of the New England Operations which was not refinanced or extinguished with the Term Note. As a result of the previously discussed high cost of gas, the Company incurred additional interest expense of $2,547,000 under its short-term credit facilities during the three-month period ended March 31, 2001 compared with the same period in 2000. Southern Union is required to make payments to natural gas suppliers in advance of the receipt of cash payments from the Company's customers. See "Debt and Capital Lease" in the Notes to the Consolidated Financial Statements included herein.

Other income for the three-month period ended March 31, 2001 was $14,364,000 compared with other expense of $1,034,000 in 2000. Other income for the three-month period ended March 31, 2001, includes realized gains on the sale of investment securities of $12,494,000, non-cash trading gains of $3,360,000 and interest and dividend income of $1,680,000. This was partially offset by $3,568,000 of legal costs associated with ongoing litigation associated with the unsuccessful acquisition of Southwest Gas Corporation (Southwest). Other expense for the three-month period ended March 31, 2000 primarily consisted of $1,400,000 of legal costs associated with the aforementioned ongoing litigation which was partially offset by $663,000 in net rental income from Lavaca Realty Company ("Lavaca Realty").

The effective federal and state income tax rate is 46% and 43% for the three months ended March 31, 2001 and 2000, respectively. The increase in the effective federal and state income tax rate is a result of non-tax deductible amortization of additional purchase cost recorded at the acquisition of the New England Operations.

Nine Months Ended March 31, 2001 and 2000

The Company recorded net earnings available for common stock of $46,150,000 for the nine-month period ended March 31, 2001, compared with net earnings of $20,547,000 for the same period in 2000. Net earnings per diluted share were $.88 in 2001 compared with $.47 in 2000. Weighted average diluted shares outstanding increased 20% in 2001 due to the issuance of the Company's common stock in connection with the acquisition of Fall River Gas, previously discussed, and the issuance of 16,713,731 shares (before adjustment for any subsequent stock dividend) of the Company's common stock on November 4, 1999 in connection with the acquisition of the Pennsylvania Operations.

Operating revenues were $1,664,461,000 for the nine-month period ended March 31, 2001, compared with $669,170,000 in 2000. Gas purchase and other energy costs for the nine-month period ended March 31, 2001 were $1,203,862,000, compared with $402,182,000 in 2000. The increase in both operating revenues and gas purchase costs between periods was primarily due to a 53% increase in gas sales volume to 154,432 MMcf in 2001 from 101,225 MMcf in 2000 and by a 97% increase in the average cost of gas from $3.59 per Mcf in 2000 to $7.06 per Mcf in 2001 due to increases in average gas prices. The New England Operations contributed $351,679,000 to the overall increase in operating revenues, $224,708,000 in gas purchase and other energy costs and 26,655 MMcf of the increase in gas sales volume. The Pennsylvania Operations generated a net increase of $136,886,000 in operating revenues, $119,029,000 in gas purchase and other energy costs, and 5,501 MMcf of the increase in gas sales volume. The remaining increase in operating revenues, gas purchase and other energy costs, and gas sales volume resulted principally from the colder-than-normal weather in the Texas and Missouri service territories in 2001 as compared to the unusually mild temperatures in 2000.

MGE's service territories experienced weather which was 110% of a 30-year measure for the nine-month period ended March 31, 2001 compared with 79% in 2000. Weather for Southern Union Gas service territories was 113% of a 30-year measure in 2001, compared with 72% in 2000. About half of the customers served by Southern Union Gas are weather normalized. Additionally, with the February 2000 revenue increase in El Paso, Texas, the new rate design collects a greater portion of the revenue stream from the monthly customer charge instead of being earned volumetrically. Weather in the PG Energy service territories was 107% of a 30-year measure for the nine-month period ended March 31, 2001, compared with 91% of a 30-year measure for the five-month period ended March 31, 2000. Weather in the New England division service territories was 107% of a 30-year measure for the six-month period ended March 31, 2001.

Net operating margin increased $160,430,000 for the nine-month period ended March 31, 2001 compared with the same period in 2000. Growth in net operating margin is primarily due to the acquisition of the New England Operations which generated $118,921,000 in net operating margin and the Pennsylvania Operations which contributed a net increase of $19,037,000. The remaining increase is due to the colder-than-normal weather in the Missouri and Texas service territories, previously discussed.

Operating expenses were $254,544,000 for the nine-month period ended March 31, 2001, an increase of $102,579,000, compared with $151,965,000 in 2000. Increases of $69,227,000 and $16,850,000 were the result of the acquisitions of the New England Operations and the Pennsylvania Operations, respectively. Also contributing to the increase was an increase in bad debt expense in the Texas and Missouri service territories of $9,929,000 due to an increase in customer receivables as a result of higher gas prices, previously discussed. Also impacting

operating expenses for the nine-month period ended March 31, 2001 were increases in employee payroll and benefit costs due to the colder-than-normal weather.

Interest expense was $75,772,000 for the nine-month period ended March 31, 2001, compared with $36,603,000 in 2000. Interest expense increased primarily due to the Term Note entered into by the Company for the acquisition of the New England Operations, previously discussed, and the issuance of $300,000,000 of 8.25% Senior Notes on November 3, 1999 (8.25% Senior Notes) for the acquisition of the Pennsylvania Operations. The Company issued 8.25% Senior Notes to fund the acquisition of Pennsylvania Enterprises, Inc. and to extinguish $136,000,000 in existing debt of the Pennsylvania Operations. The Company also assumed long-term debt of the New England Operations, previously discussed, and $45,000,000 in long-term debt of the Pennsylvania Operations which was not refinanced or extinguished with the Term Note or the 8.25% Senior Notes. As a result of the previously discussed high cost of gas, the Company incurred additional interest expense of $4,617,000 under its short-term credit facilities during the nine-month period ended March 31, 2001 compared with the same period in 2000. See "Debt and Capital Lease" in the Notes to the Financial Statements included herein.

Other income for the nine-month period ended March 31, 2001 was $23,761,000, compared with other expense of $5,527,000 in 2000. Other income for the nine-month period ended March 31, 2001 includes realized gains on the sale of investment securities of $21,363,000, a $13,532,000 gain on the sale of non-core real estate, and interest and dividend income of $3,385,000. This was partially offset by $8,466,000 of legal costs associated with ongoing litigation from the unsuccessful acquisition of Southwest and $5,684,000 of non-cash trading losses. Other expense for the nine-month period ended March 31, 2000 primarily consisted of $6,664,000 of legal costs associated with the aforementioned ongoing litigation which was partially offset by $1,327,000 in rental income from Lavaca Realty.

The Company's consolidated federal and state effective income tax rate was 46% and 43% for the nine months ended March 31, 2001 and 2000, respectively. The increase in the effective federal and state income tax rate is a result of non-tax deductible amortization of additional purchase cost associated with the acquisition of the New England Operations and Pennsylvania Operations.

The Company adopted the Statement of Financial Accounting Standards Board (FASB) *Accounting for Derivative Instruments and Hedging Activities* on July 1, 2000. In accordance with the transition provisions of the Statement, the Company recorded a net-of-tax cumulative-effect-type gain of $602,000 in earnings to recognize the fair value of the derivative instruments that do not qualify for hedge accounting treatment under the Statement.

Twelve Months Ended March 31, 2001 and 2000

The Company recorded net earnings available for common stock of $35,448,000 for the twelve-month period ended March 31, 2001, compared with net earnings of $15,043,000 in 2000. Earnings per diluted share were $.68 in 2001 compared with earnings per diluted share of $.36 in 2000. Weighted average diluted shares outstanding increased 25% due to the issuance of the Company's common stock in connection with the acquisition of Fall River Gas and the Pennsylvania Operations, previously discussed.

Operating revenues were $1,826,995,000 for the twelve-month period ended March 31, 2001, compared with $770,858,000 in 2000. Gas purchase and other energy costs for the twelve-month period ended March 31, 2001 were $1,299,378,000, compared with $452,113,000 in 2000. The increase in both operating revenues and gas purchase costs between periods was primarily due to a 47% increase in gas sales volume to 172,986 MMcf in 2001 from 117,777 MMcf in 2000 and by a 93% increase in the average cost of gas from $3.50 per Mcf in 2000 to $6.75 per Mcf in 2001 due to increases in average gas prices. The New England Operations contributed $351,679,000 to the overall increase in operating revenues, $224,708,000 in gas purchase and other energy costs and 26,655 MMcf of the increase in gas sales volume. The Pennsylvania Operations generated a net increase of $182,376,000 in

operating revenues, $148,662,000 in gas purchase and other energy costs and 8,622 MMcf of the increase in gas sales volume. The remaining increases in operating revenues, gas purchase and other energy costs, and gas sales volume resulted principally from the colder weather in the Texas and Missouri Service territories in 2001 as compared to 2000.

MGE's service territories experienced weather which was 108% of the 30-year measure for the twelve-month period ended March 31, 2001 compared with 80% in 2000. Weather for Southern Union Gas service territories was 111% of a 30-year measure compared with 72% in 2000. About half of the customers served by Southern Union Gas are weather normalized. Weather in the PG Energy service territories was 106% of a 30-year measure for the twelve-month period ended March 31, 2001.

Net operating margin increased $175,076,000 for the twelve-month period ended March 31, 2001, compared with the same period in 2000. Growth in net operating margin is primarily due to the acquisition of the New England Operations which generated $118,921,000 and to the Pennsylvania Operations which contributed a net increase of $34,345,000. The remaining increase is due to the colder weather in the Missouri and Texas service territories, previously discussed.

Operating expenses were $311,575,000 for the twelve-month period ended March 31, 2001, an increase of $117,560,000, compared with $194,015,000 in 2000. Increases of $69,227,000 and $32,568,000 were the result of the acquisitions of the New England Operations and the Pennsylvania Operations, respectively. An increase in bad debt expense in the Texas and Missouri service territories of $10,181,000 resulted from an increase in customer receivables as a result of higher gas prices, previously discussed. Also impacting operating expenses for the twelve-month period ended March 31, 2001 were increases in employee payroll and benefit costs due to the colder-than-normal weather and inventory write-downs associated with a propane operation.

Interest expense was $90,661,000 for the twelve-month period ended March 31, 2001, compared with $45,759,000 in 2000. Interest expense increased primarily due to the Term Note entered into by the Company for the acquisition of the New England Operations, the 8.25% Senior Notes issued by the Company for the acquisition of the Pennsylvania Operations and the assumption of debt by the Company from the New England Operations and Pennsylvania Operations, all previously discussed. As a result of the previously discussed high cost of gas, the Company incurred additional interest expense of $4,558,000 under its short-term credit facilities during the twelve-month period ended March 31, 2001 compared with the same period in 2000. See "Debt and Capital Lease" in the Notes to the Consolidated Financial Statements included herein.

Other income for the twelve-month period ended March 31, 2001 was $19,580,000 compared with other expense of $7,651,000 in 2000. Other income for the twelve-month period ended March 31, 2001 includes realized gains on the sale of investment securities of $21,363,000, a $13,532,000 gain on the sale of non-core real estate, and $5,002,000 of interest and dividend income. This was partially offset by $12,165,000 of legal costs associated with ongoing litigation from the unsuccessful acquisition of Southwest and $7,920,000 of non-cash trading losses. Other expense for the twelve-month period ended March 31, 2000 primarily consisted of $10,503,000 of costs associated with unsuccessful acquisition activities and related litigation which was partially offset by $1,841,000 in net rental income from Lavaca Realty.

The Company's consolidated federal and state effective income tax rate was 48% and 45% for the twelve-month period ended March 31, 2001 and 2000, respectively. The increase in the effective federal and state income tax rate is a result of non-tax deductible amortization of additional purchase cost associated with the acquisition of the New England Operations and Pennsylvania Operations.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth certain information regarding the Company's gas utility operations for the three- and twelve-month periods ended March 31, 2001 and 2000:

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2001	2000	2001	2000
Average number of gas sales customers served:				
Residential	1,341,714	1,062,100	1,195,591	965,954
Commercial	132,319	107,699	117,247	95,818
Industrial and irrigation	4,372	764	2,553	651
Pipeline and marketing	356	225	331	232
Public authorities and other	3,177	3,195	3,157	2,992
Total average customers served	1,481,938	1,173,983	1,318,879	1,065,647
Gas sales in millions of cubic feet (MMcf):				
Residential	56,833	36,566	102,539	67,166
Commercial	22,191	14,468	42,035	28,923
Industrial and irrigation	1,871	504	4,195	1,522
Pipeline and marketing	5,113	5,542	16,712	17,253
Public authorities and other	1,450	1,193	3,119	2,548
Gas sales billed	87,458	58,273	168,600	117,412
Net change in unbilled gas sales	(9,787)	(5,172)	4,386	365
Total gas sales	77,671	53,101	172,986	117,777
Gas sales revenues (thousands of dollars):				
Residential	$ 596,129	$ 225,712	$ 1,009,451	$ 450,861
Commercial	224,916	84,356	378,704	167,577
Industrial and irrigation	17,562	2,814	34,045	7,923
Pipeline and marketing	29,126	14,119	73,963	43,664
Public authorities and other	13,937	5,457	25,092	11,428
Gas sales revenues billed	881,670	332,458	1,521,255	681,453
Net change in unbilled gas sales revenues	(47,269)	(28,811)	76,772	3,660
Total gas sales revenues	$ 834,401	$ 303,647	$ 1,598,027	$ 685,113
Gas sales margin (thousands of dollars)	$ 166,236	$ 95,223	$ 363,136	$ 238,484
Gas sales revenue per thousand cubic feet (Mcf) billed:				
Residential	$ 10.49	$ 6.17	$ 9.85	$ 6.71
Commercial	10.14	5.83	9.01	5.79
Industrial and irrigation	9.39	5.59	8.12	5.21
Pipeline and marketing	5.70	2.55	4.43	2.53
Public authorities and other	9.61	4.57	8.04	4.49
Weather:				
Degree days:				
Southern Union Gas service territories	1,259	777	2,372	1,550
Missouri Gas Energy service territories	2,809	2,211	5,643	4,200
PG Energy service territories	3,120	2,929	6,651	4,524
New England service territories	2,980	--	5,174	--
Percent of normal, based on 30-year measure:				
Southern Union Gas service territories	102%	62%	111%	72%
Missouri Gas Energy service territories	100%	79%	108%	80%
PG Energy service territories	98%	92%	106%	91%
New England service territories	100%	--	107%	--
Gas transported in millions of cubic feet (MMcf)	26,822	25,738	91,264	70,093
Gas transportation revenues (thousands of dollars)	$ 17,606	$ 12,174	$ 47,624	$ 29,405

The above information does not include the Company's 43% equity ownership in a natural gas distribution company serving 25,000 customers in Piedras Negras, Mexico. Information for Fall River Gas and ProvEnergy, acquired September 28, 2000, and Valley Resources, acquired September 20, 2000, is included since October 1, 2000. The 30-year measure is used above for consistent external reporting purposes. Measures of normal weather used by the Company's regulatory authorities to set rates vary by jurisdiction. Periods used to measure normal weather for regulatory purposes range from 10 years to 30 years.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

The Company's gas utility operations are seasonal in nature with a significant percentage of the annual revenues and earnings occurring in the traditional heating-load months. This seasonality results in a high level of cash flow needs immediately preceding the peak winter heating season months, resulting from the required payments to natural gas suppliers in advance of the receipt of cash payments from the Company's customers. The Company has historically used internally generated funds and its revolving loan and credit facilities to provide funding for its seasonal working capital, continuing construction and maintenance programs and operational requirements.

On May 31, 2000, the Company restated and amended its short-term and long-term credit facilities (together referred to as "Revolving Credit Facilities"). The Company has available $90,000,000 under the short-term facility, which expires May 30, 2001, and $135,000,000 under the long-term facility, which expires on May 31, 2003. The Company has additional availability under uncommitted line of credit facilities with various banks. Borrowings under the Revolving Credit Facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. A balance of $211,600,000 was outstanding under the Revolving Credit Facilities at March 31, 2001.

On August 28, 2000 the Company entered into the Term Note to fund (i) the cash portion of the consideration to be paid to the Fall River Gas' stockholders; (ii) the all cash consideration to be paid to the ProvEnergy and Valley Resources stockholders, (iii) repayment of approximately $50,000,000 of long- and short-term debt assumed in the New England mergers, and (iv) related acquisition costs. As of March 31, 2001, a balance of $523,000,000 was outstanding on this Term Note. The Term Note expires August 27, 2001 but may be extended at the Company's option through August 26, 2002 for a 12.5 basis point fee. No additional draws can be made on the Term Note.

Concurrent with the closing of the Pennsylvania Enterprises, Inc. merger on November 4, 1999, the Company issued $300,000,000 of 8.25% Senior Notes due 2029 which were used to: (i) fund the cash portion of the consideration to be paid to the Pennsylvania Enterprises, Inc. shareholders; (ii) refinance and repay certain debt of Pennsylvania Enterprises, Inc., and (iii) repay outstanding borrowings under the Company's then existing various credit facilities. These senior notes are senior unsecured obligations and rank equally in right of payment with each other and with the Company's other unsecured and unsubordinated obligations, including the 7.60% Senior Notes due 2024.

The principal sources of funds during the three-month period ended March 31, 2001 were $36,600,000 borrowed under the Company's Revolving Credit Facilities and proceeds from the sale of investment securities of $15,405,000. The principal uses of funds during this period included $25,469,000 for on-going property, plant and equipment additions; $6,898,000 for the retirement of long-term debt; as well as seasonal working capital needs of the Company.

The principal sources of funds during the nine-month period ended March 31, 2001 were $535,000,000 borrowed under the Term Note, $211,597,000 borrowed under the Company's Revolving Credit Facilities, proceeds from the sale of investment securities of $26,777,000 and proceeds from the sale of real estate of $20,638,000. This provided funds of $406,949,000 for acquisition and related expenses of the New England Operations; $114,171,000 for the retirement of merger debt assumed from the New England Operations; $87,172,000 for on-going property, plant and equipment additions; as well as seasonal working capital needs of the Company.

The effective interest rate under the Company's current debt structure is 7.8% (including interest and the amortization of debt issuance costs and redemption premiums on refinanced debt).

The Company retains its borrowing availability under its Revolving Credit Facilities, as discussed above. Borrowings under these credit facilities will continue to be used, as needed, to provide funding for the seasonal working capital needs of the Company. Internally-generated funds from operations will be used principally for the Company's

ongoing construction and maintenance programs and operational needs and may also be used periodically to reduce outstanding debt.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes in market risks faced by the Company from those reported in the Company's Annual Report on Form 10-K/A for the year ended June 30, 2000.

The information contained in Item 3 updates, and should be read in conjunction with, information set forth in Part II, Item 7 in the Company's Annual Report on Form 10-K/A for the year ended June 30, 2000, in addition to the interim consolidated financial statements, accompanying notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations presented in Items 1 and 2 of this Quarterly Report on Form 10-Q.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements that are based on current expectations, estimates and projections about the industry in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are outside the Company's control. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to put undue reliance on such forward-looking statements. Stockholders may review the Company's reports filed in the future with the Securities and Exchange Commission for more current descriptions of developments that could cause actual results to differ materially from such forward-looking statements.

Factors that could cause or contribute to actual results differing materially from such forward-looking statements include the following: cost of gas; availability of cash flow; gas sales volumes; weather conditions in the Company's service territories; the achievement of operating efficiencies and the purchases and implementation of new technologies for attaining such efficiencies; impact of relations with labor unions of bargaining-unit employees; the receipt of timely and adequate rate relief; the outcome of pending and future litigation; governmental regulations and proceedings affecting or involving the Company; and the nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets. These are representative of the factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions, and general economic conditions, including interest rate fluctuations, federal, state and local laws and regulations affecting the retail gas industry or the energy industry generally, and other factors.

OTHER

On May 12, 2001 Peter H. Kelley resigned from all of his current positions as an officer and director of Southern Union Company due to health reasons. The Board of Directors of Southern Union Company elected Thomas F. Karam as its new president and chief operating officer. Mr. Karam is currently the executive vice president of corporate development and president and chief executive officer of PG Energy, Southern Union Company's Pennsylvania division. Mr. Karam served as president and chief executive officer of Pennsylvania Enterprises, Inc. prior to its acquisition by Southern Union Company in 1999.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN UNION COMPANY
(Registrant)

Date May 15, 2001

By RONALD J. ENDRES
Ronald J. Endres
Executive Vice President and Chief Financial Officer

Date May 15, 2001

By DAVID J. KVAPIL
David J. Kvapil
Senior Vice President and Corporate Controller
(Principal Accounting Officer)