

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by 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, F.S., and Chapter 25-8, F.A.C.; and request for approval to borrow funds for short-term financing purposes.

DOCKET NO. 000691-GU
ORDER NO. PSC-00-1525-FOF-GU
ISSUED: August 22, 2000

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
E. LEON JACOBS, JR.
LILA A. JABER

FINAL ORDER GRANTING APPROVAL FOR AUTHORITY TO ISSUE AND SELL
SECURITIES

BY THE COMMISSION:

Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas (Southern Union) filed an application on June 5, 2000, seeking authority pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code, to issue and sell securities, and to borrow funds for short-term financing purposes during the twelve month period ending July 31, 2001. Notice of Southern Union's application was given in the Florida Administrative Weekly on July 21, 2000. The Company filed an amendment to their original application on July 5, 2000, which includes an interim step to the long-term financing described in its original filing.

Southern Union seeks authority to issue and sell and/or exchange any combination of the long-term debt and equity securities and/or to assume liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed \$1 billion during the twelve month period from August 1, 2000

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through July 31, 2001. Southern Union also seeks authority to borrow up to \$300,000,000 for short-term financing purposes, as well as to incur short-term debt to provide interim financing for the New England Acquisitions in an amount not to exceed \$500,000,000.

Southern Union asserts that the long-term securities may include first mortgage bonds, medium-term notes, debentures, convertible or exchangeable debentures, notes, convertible or exchangeable notes, or other straight debt or hybrid debt securities, whether secured or unsecured, with maturities ranging from one to fifty years. Southern Union may enter into related options, rights, interest rate swaps or other derivative instruments.

Southern Union states that the equity securities may include common stock, preferred stock, preference stock, convertible preferred or preference stock, or warrants, options or rights to acquire such securities, or other equity securities, with such par values, terms and conditions and relative rights and preferences as deemed appropriate by Southern Union any consolidated financing subsidiary, and as are permitted by Southern Union's Restated Certificate of Incorporation, as amended from time to time, and by any such financing subsidiary's organizational documents.

Southern Union also states that any such consolidated financing subsidiary of Southern Union may issue preferred securities similar to that currently outstanding, whereby Southern Union would establish and make an equity investment in a special limited partnership, trust or other entity. Southern Union, a wholly-owned subsidiary of Southern Union or Southern Union designees would act as the general partner, trustee or trustees, or similar manager of the entity. The entity would offer preferred securities to the public and lend their proceeds to Southern Union. Southern Union asserts that it would issue debt securities to the entity equal to the aggregate of its equity investment and the amount of preferred securities issued. Southern Union may also guarantee, among other things, the distribution to be paid by the affiliated entity to the holders of the preferred securities.

According to Southern Union, the interest rate it could pay on debt securities will vary depending on the type of debt instruments and the term thereof, including specifically the length of maturity as well as market conditions. On May 31, 2000, a new issue of 10-year senior notes of Southern Union would have carried a yield to

maturity of approximately 8.9%. The dividend rate for preferred securities is similarly affected by the terms of the offering. On May 31, 2000, a new issue of thirty-year tax deductible preferred securities of Southern Union would have carried a dividend yield of approximately 10.5%.

In addition, Southern Union may from time to time issue instruments of guaranty, collateralize debt and other obligations, issue securities, and arrange for the issuance of letters of credit and guaranties, in any such case to be issued by or on behalf of one or more of its subsidiaries or affiliates for the benefit of Southern Union's utility operations, or in connection with other financings by Southern Union and its subsidiaries, or on its or any of their behalf.

Southern Union asserts that the net proceeds to be received from the issuance and sale and/or exchange of the additional long-term debt and equity securities will be added to Southern Union's general funds and will be used in connection with the mergers of Providence Energy Corporation ("PVY"), Valley Resources, Inc. ("VR"), and Fall River Gas Company ("FRG"), (together the "New England Acquisitions") into Southern Union, to reacquire, by redemption, purchase, exchange or otherwise, any of its outstanding debt securities and equity securities as market conditions warrant; to repay all or a portion of any maturing long-term debt obligations; to repay all or a portion of short-term bank borrowings; and/or for other general corporate purposes. Excess proceeds, if any, will be temporarily invested in short-term instruments pending their application to the foregoing purposes.

Southern Union has for some time had the goal of selected growth and expansion within the utility industry, including the acquisition of natural gas distribution or transmission businesses. Over the past eight years, Southern Union has acquired a number of such businesses, adding approximately 700,000 customers to its operations (including the recent PNT merger). The pending mergers with PVY, VR, and FRG will further contribute to Southern Union's goal of selected growth and expansion. Up to \$150,000,000 of common equity, up to \$200 million in preferred securities or preferred stock, and/or up to \$625,000,000 of debt securities as previously described will be used to accomplish this merger.

In connection with these mergers, Southern Union may assume and/or issue up to \$250,000,000 of debt securities as described in the previous section to refinance certain short-term debt of these

companies, the current portion of long-term debt of these companies, and depending on market conditions and the terms and covenants for each issue, assume and/or refinance some or all of the long-term debt of these companies. Some or all of the debt securities of these companies, if assumed upon closing of the mergers, may be refinanced after such merger.

As an interim step to the long-term financing described in its original Application, Southern Union states that it will use interim bank financing as the major component of the financing for the mergers of the New England Acquisitions.

According to Southern Union, interim financing will involve a 364-day credit facility to finance approximately \$450,000,000 with an option to extend (with an extension fee) for an additional 364 days. This amount may be increased to refinance certain long-term debt of the New England Acquisitions if consents to certain amendment changes cannot be obtained. However, the total amount financed may not exceed \$500,000,000. This short-term credit facility would authorize Southern Union to prepay the interim loan without penalty. Southern Union anticipates converting this interim financing mechanism to the long-term structure described in its original Application.

Southern Union asserts that it maintains a continuous construction program, principally for gas distribution facilities. Southern Union estimates that construction expenditures under its fiscal year 2001 construction program will approximate \$120,000,000.

Southern Union's 9.48% preferred securities (face value of \$100,000,000) issued in May, 1995, become callable by Southern Union in May, 2000. Depending on market conditions, any mixture of debt, preferred or equity may be issued to redeem some or all of those securities.

Under future market conditions, the interest rate on new issue long-term debt or the dividend rate on new issue preferred securities of Southern Union may be such that it becomes economically attractive to reacquire a portion or all of certain of its long-term debt securities or equity securities, providing an opportunity for Southern Union to reduce interest or dividend expense, or simplify or reduce covenant restrictions and/or requirements. Other important considerations in making such a decision would include an assessment of anticipated future interest

and dividend rates and Southern Union's ability to raise enough new capital to finance its expansion and construction programs while currently pursuing any refinancing opportunities.

Remaining funds would be used for general corporate purposes that may include, but not be limited to, investments in new technologies to provide quality service to Southern Union's customers, development of related energy businesses or expansion opportunities in the gas distribution business.

Southern Union, from time to time, may issue instruments of guaranty, collateralized debt and other obligations, issue securities and arrange for issuance of letters of credit and guaranties by or on behalf of itself or of one or more of its subsidiaries or affiliates.

Southern Union will require short-term borrowing not to exceed \$300,000,000 to provide funds for working capital needs, temporary financing of its construction program and capital commitments, temporary funding of maturing or called long-term debt or preferred securities, and any other corporate purposes. Southern Union's working capital requirements arise largely from the seasonality of its natural gas business. Southern Union's borrowing requirements of up to \$300,000,000 will be priced based on the London Inter Bank Offer Rate and/or the prime rate of interest, and thus will fluctuate with market conditions.

Having reviewed the application, it is the finding of this Commission that the issuance and sale of the aforementioned securities will not impair the ability of Southern Union to perform the services of a public utility. These transactions are for such lawful purposes within Southern Union's corporate powers and, as such, the application is granted subject to the conditions stated herein.

Our approval of the proposed issuance of securities by Southern Union does not indicate specific approval of any rates, terms, or conditions associated with the issuance. Such matters are properly reserved for review by the Commission within the context of a rate proceeding.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas, to issue and sell securities during the twelve months ending July 31, 2001, be approved. It is further

ORDERED by the Florida Public Service Commission that Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas, shall file a consummation report in compliance with Rule 25-8.009, Florida Administrative Code, within 90 days of the end of the fiscal year in which it issues any securities authorized by this Order. It is further

ORDERED by the Florida Public Service Commission that this docket remain open pending the submission of the consummation report by Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas.

By ORDER of the Florida Public Service Commission this 22nd day of August, 2000.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.