KEEGAN WERLIN LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

RECEIVED
2006 MAR -1 PM 3:46
R.I. PUBLIC UTILITIES COMMISSION

March 1, 2006

VIA HAND DELIVERY

Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

RE: Docket No. 3690, Earnings Sharing Mechanism and Distribution Adjustment Charge Filing

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of New England Gas Company's ("Company") responses to the Commission's fifth set of data requests. Thank you for your attention to this filing.

Sincerely,

Cheryl M. Kimball (CKFP)

Cheryl M. Kimball
(R.I. Bar #6458)

Enclosure

cc: Luly Massaro, Commission Clerk (nine copies)
Service List, Docket No. 3690

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: February 24, 2006

Q. COMM 5-01 What is the policy of NEGas regarding the level of contributions that will be made to its pension fund(s) for each fiscal period?

A. COMM 5-01 Consistent with general utility practice, cash contributions into the pension fund(s) are regarded to be analogous to a capital investment. This means that the Company determines the appropriate level of contribution looking at a number of factors, including the level of available capital funds, the opportunity value of those funds, the funding status of the pension plan(s) and the U.S. Internal Revenue Service ("IRS") calculations of the minimum and maximum tax-deductible contribution.

Under the IRS rules, a tax-deductible maximum and minimum limit is set annually for cash contributions made into the pension fund based on the funding status of the plan. Plan sponsors are required to make cash contributions to the plan each year in an amount that is between this annual minimum and maximum calculation. In general, the calculation of the minimum and maximum contribution amounts is a function of the amount of benefits earned during the year by plan participants and the funded position of the plan as of the beginning of the year. More specifically, the maximum pension contribution is based on normal cost, which is defined as the portion of the cost of the participants' anticipated retirement allocated to the current plan year. A company is always able to deduct an amount up to the unfunded current liability of the plan, which is the difference between the adjusted current liability of the plan at the end of the year as compared to the actuarial value of the assets at the end of the year. In some cases, the tax-deductible minimum amount may be zero, which means that a cash contribution is not required. This can occur even when the pension plan is not fully funded. However, since the IRS formula reflects the funded position of the Plan, the tax deductible minimum will not be zero when the Plan is substantially under-funded.

Record Request and Response

Therefore, the Company will make a determination as to whether it is necessary and/or appropriate to make a contribution of capital into the fund based on the level of available capital funds, the funded status of the pension plan(s) and the tax deductibility of the contribution. The pension evaluation is similar to the evaluation that is undertaken in relation to other capital expenditures required of the Company, and therefore, is performed in conjunction with the Company's consideration of other capital needs on an annual basis.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: February 24, 2006

Q. COMM 5-02 **During the last three fiscal years, NEGas has apparently made pension fund contributions which are less than the allowed maximum tax deductible amount. Please explain why the Company has not funded the maximum tax deductible amount allowed for pension contributions when a larger amount of pension expense has actually been reflected in the earnings sharing calculation.**

A. COMM 5-02 The pension expense recorded on the Company's books for a given fiscal year is determined by FAS 87 ("Employers' Accounting for Pensions"). The level of cash contribution that is allowed or required by IRS rules in a fiscal period has no direct relation to the level of expense recorded under FAS 87 in the same period. This is because FAS 87 provides specific parameters for the assumptions and factors that are used in calculating both the projected benefit obligation and the projected value of the fund assets. These parameters differ substantially from those encompassed in the IRS rules governing the tax-deductible amount of periodic cash contributions.

Under FAS 87, the costs to provide pension benefits to employees are generally recognized during their working lives, offset by the earnings on the funds that are set aside specifically to provide funding for those benefits. For example, FAS 87 requires that gains and losses on the investment of plan assets must be amortized, i.e., for accounting purposes gains and losses are "matched" with the working lives of employees covered by the Plan. This requirement has the impact of moderating fluctuations in the annual pension expense reported in the Company's financial statements. Therefore, the basic principles of FAS 87 are that: (1) trust assets and plan obligations, as well as trust earnings and benefits earned, are netted for financial reporting purposes; and (2) the recognition of differences between accounting assumptions and actual plan experience are delayed and recognized over time.

Record Request and Response

The most significant difference between the IRS tax-deduction rules and the FASB accounting rules relates to consideration of the "funded status" of the Plan. The IRS formula is geared to encourage employers to maintain sufficient asset balances in the plan to fund projected benefit obligations. Therefore, the maximum contribution each year is based on the "unfunded current liability," as defined by the IRS, and the maximum contribution for the year is generally equal to the unfunded current liability. Therefore, an increase or decrease in the funded position of the plan is immediately reflected in the current tax-deductible thresholds for cash contributions. Under the FAS 87 accounting rules, however, the changes in plan liabilities and assets are always recognized through expense over time because the rules are designed to match expenses with an employee's working life. This timing difference between the funded amount and the expense amount has the potential during any given year to create a prepayment (cumulative funding greater than expense) or an accrual (cumulative expense greater than funding) balance on the company's books. However, the concept is that, over the long term, FAS 87 booked expense will equal the cash contributions to the fund.

The exercise involved in this proceeding is the calculation of the Company's annual earnings for purposes of determining whether there are earnings available for sharing with customers. The level of pension expense recorded on the Company's books in accordance with FAS 87 factors directly into the Company's calculation of profits in a given fiscal year. Therefore, the level of expense recorded by the Company under FAS 87 is the appropriate amount for inclusion in the ESM calculation. Because cash contributions are a capital expenditure, they are not recorded as an expense on the statement for the fiscal period and have no impact whatsoever on the Company's earnings in a year.

As stated above, the Company may decide to make a cash contribution that is less than the maximum tax deductible amount because of its determinations on the appropriate use of its capital. However, this decision is unrelated to the annual calculation of earnings.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: February 24, 2006

Q. **COMM 5-03** **Is the Maximum Tax Deductible Amount for the fiscal year ending June 30, 2005 based on an actuary's report for that fiscal year for some other fiscal period? If it is based on another fiscal/calendar year period, state what that period is.**

A. **COMM 5-03** The Maximum Tax Deductible Amount for the fiscal year ending June 30, 2005 is based on an actuary's report valuating employee data for the short calendar year ended December 31, 2004.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: February 24, 2006

Q. **COMM 5-04 If the Maximum Tax Deductible Amount associated with fiscal year 2005 is now available, please provide it. If it is not available, please provide it when available.**

A. **COMM 5-04** Since the Company operates on a calendar year basis, the Maximum Tax Deductible Amount associated with calendar year 2005 is calculated in accordance with the Company's annual tax filings and therefore is not currently available.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: February 24, 2006

Q. COMM 5-05 Regarding the response to Commission Request 4-3 (as revised), what are the annual periods that are the basis for calculating the "Maximum Tax Deductible Amount" shown for fiscal years 2003 and 2004?

A. COMM 5-05 The Company's fiscal year historically has run July 1 through June 30 of each year. However, in 2004, the Company moved its fiscal year to a calendar year basis, thereby also creating a stub year running from July 1 through December 31, 2004.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: February 24, 2006

Q. COMM 5-06 Provide the actuary's reports(s) for the period associated with fiscal year 2005. [Note – in last year's DAC docket, NEGas provided their actuary's report(s) dated June 30, 2004; presumably, reports dated June 30, 2005 would be available. If they are not available, please provide these reports when available.]

A. COMM 5-06 Enclosed please find the draft of the report compiled by Rudd and Wisdom, Inc., for calendar year 2005. The Company receives this draft, reviews and, if necessary, a final report is prepared.

SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR BARGAINING UNIT EMPLOYEES

APPLICATION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NOs. 87 AND 132(R) TO THE FISCAL YEAR ENDING DECEMBER 31, 2005

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Frammolino, F.S.A.
Christopher S. Johnson, A.S.A.
Joe C. Lopez, A.S.A.
Robert M. May, F.S.A.

9500 Arboretum Blvd., Suite 200
Austin, Texas 78759

Post Office Box 204209
Austin, Texas 78720-4209

Phone: (512) 346-1590
Fax: (512) 345-7437
E-mail: rw@ruddwisdom.com

J. Christopher McCaul, F.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.
Michael J. Muth, F.S.A.
Julie L. Normand, F.S.A.
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

January 20, 2006

PERSONAL AND CONFIDENTIAL

Ms. Julie Edwards
Southern Union Company
5444 Westheimer Road
Houston, Texas 77056

Re: Application of Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and No. 132(R) (Employers' Disclosures about Pensions and Other Postretirement Benefits) to the Fiscal Year Ending December 31, 2005

Dear Ms. Edwards:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company ProvEnergy Pension Plan for Bargaining Unit Employees as of January 1, 2005. The purpose of this valuation is to provide the employer and its auditors with the pension cost information required by the Statement of Financial Accounting Standards No. 87 (SFAS No. 87) and the associated disclosure information required by the Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS No. 132(R)) for the employer's December 31, 2005 financial statement. The results of this valuation are appropriate for these purposes only. The guidelines for determining an appropriate level of funding (contribution) for the year may be found in our Actuarial Valuation report for the 2005 plan year. Separate reports are also issued for other plans sponsored by Southern Union Company.

Background

SFAS Nos. 87 and 132(R) together establish the standards of financial reporting and accounting for an employer that offers pension benefits to its employees. These standards include provisions for a liability or asset related to the pension plan to be shown directly on the employer's financial statements. Also, the pension expense shown on the financial statements may vary from the actual contribution. This report will provide you and your auditor with the information required by SFAS No. 87 and SFAS No. 132(R).

Recognition of Plan Liabilities and Assets on Employer's Financial Statements

The procedures for accounting under SFAS No. 87 and SFAS No. 132(R) may be summarized as follows.

Net periodic pension cost is an expense/(income) entry on the income statement. This amount is determined separately from the employer contribution amount and is $3,195,614 for period January 1, 2005 to December 31, 2005. The determination of this number involves actuarial calculations performed in accordance with rules set forth in SFAS No. 87.

A liability (unfunded accrued pension cost) is recognized on the balance sheet if the sum of current and prior years' accumulated net periodic pension cost exceeds cumulative employer contributions. An asset (prepaid pension cost) is recognized on the balance sheet if cumulative net periodic pension costs are less than the cumulative amount the employer has contributed.

The accumulated benefit obligation is the present discounted value of benefits deemed to have accrued by the statement date. If the accumulated benefit obligation exceeds the fair value of plan assets, the employer must recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation.

Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation.

If an additional minimum liability is recognized, under certain circumstances an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost. If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess shall be reported as a separate component of equity, i.e. a reduction in equity, net of any tax benefits that may result from considering such losses as timing differences. Changes, if any, in the amount of additional liability recognized from year to year which are not offset by an intangible asset, are recorded in "Accumulated Other Comprehensive Income".

Executive Summary

The report indicates the Net Periodic Pension Cost, the expense/(income) entry the period January 1, 2005 to December 31, 2005, is $3,195,614. An additional liability will result from the comparison of the unfunded Accumulated Benefit Obligation (ABO) to the Prepaid Pension Expense. The amount of the Additional Liability as of December 31, 2004, the maximum Intangible Asset available to offset the Additional Liability, and the resulting change in Accumulated Other Comprehensive Income may be found in Exhibit WS-3 on page 2.5.

The information required to be disclosed in your company financial statement is presented in the required format in Exhibits WS-7, WS-8 and WS-9.

Note that SFAS Nos. 87 and 132(R) require that the year-end liability amounts in these reports be calculated using an appropriate discount rate based on September 30, 2005 financial markets. We have used 5.50% and 5.75% as discount rates for year-end disclosure calculations. If management selects a discount rate other than 5.50% or 5.75% for year end disclosure purposes the exhibits in this report will need to be updated to reflect the chosen discount rate.

To the best of our knowledge, no actions were taken during this period that would cause recognition of a curtailment, a settlement or any special termination benefits under SFAS No. 88.

If you have any questions concerning this information, please do not hesitate to call or write.

Respectfully submitted,

RUDD AND WISDOM, INC.

Michael J. Muth, F.S.A.

MJM:dsw

Enclosures

cc: Ron Weaver
Mark Kashuda
Gary Smith

J:\WPFILES\SU\Prov\2006\Bargaining\FASB-0120.doc

SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR
BARGAINING UNIT EMPLOYEES

SFAS Nos. 87 AND 132(R)

ACTUARIAL VALUATION

AS OF

JANUARY 1, 2005

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE

FOR THE FISCAL YEAR ENDING

DECEMBER 31, 2005

Prepared by:

January 20, 2006
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

TABLE OF CONTENTS

		Page No.
Section 1:	Certification of Actuarial Valuation	1.1
Section 2:	Summary of Valuation Data and Results	2.1
Section 3:	Summary of Assets	3.1
Section 4:	Actuarial Funding Method and Assumptions	4.1
Section 5:	Outline of Principal Plan Provisions	5.1
Section 6:	Summary of Participant Data	6.1

Section 1

SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR
BARGAINING UNIT EMPLOYEES

Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation
(As of January 1, 2005)

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2005 under SFAS Nos. 87 and 132(R). The purpose of this report is to present the results of our valuation providing the information necessary to determine financial statement entries consistent with the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and the Statement of Financial Accounting Standards No. 132(R) (Employers' Disclosures about Pensions and Other Post-retirement Benefits) for the fiscal year ending December 31, 2005.

Actuarial computations under SFAS Nos. 87 and 132(R) are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of SFAS Nos. 87 and 132(R). Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination or adequacy of funding for an ongoing plan.

We have based our valuation on employee data as of January 1, 2005 provided by Ron Weaver of Southern Union Company and Anne Duffy of New England Gas Company and asset information as of October 1, 2004 and September 30, 2005 provided by JPMorgan. To the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. However, with respect to employees who have transferred between this plan and the ProvEnergy Non-Bargaining Plan, the employer has not maintained records adequate to distinguish the liabilities from each plan prior to retirement. This necessitated that we value each non-retired participant as if his/her entire period of service were performed for the plan in which he/she is currently an active participant. As a result of a computer system change, the employer experienced difficulty providing compensation records for 2004 that matched the plan definition. In this report, we have assumed that the 2004 compensation was equal to the 2003 compensation increased by 3.0%. This rate is based on the negotiated increase pursuant to the collective bargaining agreement. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have used the actuarial funding methods and assumptions described in Section 4 of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section 5. Liabilities have been projected to the measurement date (September 30, 2005) consistent with procedures described in SFAS Nos. 87 and 132(R).

All current employees eligible to participate in the plan as of the valuation date and all other individuals who have a remaining vested benefit under the plan have been included in the valuation. Further, all plan benefits have been considered in the development of plan costs.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. The discount rate used for the calculation of the net periodic pension cost is that rate which the employer has determined to be consistent with SFAS Nos. 87 and 132(R). The discount rates used for projecting liabilities to the measurement date are rates which the employer may consider in selecting a discount rate that is consistent with SFAS Nos. 87 and 132(R) for that purpose. In our opinion, each other assumption used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

Mark R. Fenlaw, F.S.A.
Member of American Academy of Actuaries

Michael J. Muth, F.S.A.
Member of American Academy of Actuaries

Section 2

Summary of Valuation Data and Results

Valuation Data	January 1, 2005
1. Participants:	
a. Actives	267
b. Vested Terminated and Transferred	53
c. Retirees	186
d. Total	506
2. Valuation Payroll	$14,499,871

Valuation Results	As of September 30, 2004 for Expense	As of September 30, 2005 for Disclosure	
1. a. Fair Value of Assets	$ 44,628,751	$ 50,537,742	$ 50,537,742
b. Market-Related Value of Assets	$ 44,628,751	$ 50,537,742	$ 50,537,742
2. Discount Rate	5.75%	5.50%	5.75%
3. Accumulated Benefit Obligation (ABO)			
a. Actives	$ 31,966,948	$ 37,815,635	$ 36,493,871
b. Vested Terminated	2,086,418	1,867,154	1,773,978
c. Retirees	26,906,435	26,522,709	25,976,297
d. Total	$ 60,959,801	$ 66,205,498	$ 64,244,146
4. Obligation for Future Salary Increases	7,742,480	7,742,843	7,769,429
5. Projected Benefit Obligation (PBO)	$ 68,702,281	$ 73,948,341	$ 72,013,575
6. Service Cost	$ 1,795,158	N/A	N/A
-as % of payroll	12.38%	N/A	N/A
7. Net Periodic Pension Cost	$ 3,195,614	N/A	N/A
-as % of payroll	22.04%	N/A	N/A

DETERMINATION OF NET PERIODIC PENSION COST

1. Service Cost		
a. Amount due at valuation date	$ 1,697,549	
b. Interest at 5.75% to measurement date	97,609	
c. Total Service Cost [(a) + (b)]		$ 1,795,158
2. Interest Cost		
a. Pension Benefit Obligation (PBO) at previous measurement date	$ 68,702,281	
b. Expected distributions, weighted for timing	1,430,425	
c. Interest Cost Basis [(a) - (b)]	$ 67,271,856	
d. Discount rate	.0575	
e. Interest Cost [(c) x (d)]		$ 3,868,132
3. Expected Return on Assets		
a. Market-Related Value at previous measurement date	$ 44,628,751	
b. Expected distributions, weighted for timing	1,430,425	
c. Expected contributions, weighted for timing	1,408,875	
d. Expected Return Basis [(a) - (b) + (c)]	$ 44,607,201	
e. Long-term rate of return	.09	
f. Expected Return on Assets [(d) x (e)]		$ 4,014,648
4. Amortization of Transition (Asset) or Obligation		$ 0
5. Amortization of Prior Service Cost		$ 47,278
6. Amortization of Net (Gain) or Loss		$ 1,499,694
7. Net Periodic Pension Cost [(1c) + (2e) - (3f) + (4) + (5) + (6)]		$ 3,195,614

Determination of Net Periodic Pension Cost
By Fiscal Year Quarter

Pension Cost Component	Fiscal Year Quarter 01/01/2005 to 03/31/2005	04/01/2005 to 06/30/2005	07/01/2005 to 09/30/2005	10/01/2005 to 12/31/2005	**Total for Fiscal Year**
Service Cost	$ 448,790	$ 448,789	$ 448,790	$ 448,789	$ 1,795,158
Interest Cost	967,033	967,033	967,033	967,033	3,868,132
Expected Return on Assets	(1,003,662)	(1,003,662)	(1,003,662)	(1,003,662)	(4,014,648)
Amortized Recognition of:					
- Transition Amount	0	0	0	0	0
- Prior Service Cost	11,820	11,819	11,819	11,820	47,278
- Net (Gain)/Loss	374,924	374,923	374,924	374,923	1,499,694
Net Periodic Pension Cost	$ 798,905	$ 798,902	$ 798,904	$ 798,903	$ 3,195,614

DETERMINATION OF DECEMBER 31, 2005
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability as of Measurement Date (September 30, 2005)	5.50%	5.75%
1. Accumulated Benefit Obligation (ABO) projected to measurement date	$ 66,205,498[1]	$ 64,244,146[1]
2. Fair Value of Plan Assets at measurement date	$ 50,537,742	$ 50,537,742
3. Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	$ 15,667,756	$ 13,706,404
Adjustment of Fiscal Year-End (Accrued)/Prepaid Pension Expense for the Purpose of Determining Additional Liability		
4. (Accrued)/Prepaid Pension Expense as of Fiscal Year-End	$ (2,287,262)	$ (2,287,262)
5. Contributions during October 1, 2005 to December 31, 2005	$ 669,622	$ 669,622
6. Adjusted Fiscal Year-End (Accrued)/Prepaid Pension Expense [(4) – (5)]	$ (2,956,884)	$ (2,956,884)
Additional Liability		
7. Additional Liability [(3) + (6)] (not less than zero)	$ 12,710,872	$ 10,749,520
Intangible Asset		
8. Unrecognized Obligation from Transition	$ 0	$ 0
9. Unrecognized Prior Service Cost	$ 309,672	$ 309,672
10. Maximum Intangible Asset [(8) + (9)]	$ 309,672	$ 309,672
11. Actual Intangible Asset - lesser of (7) or (10)	$ 309,672	$ 309,672
12. Accumulated Other Comprehensive Income [(7) - (11)]	$ 12,401,200	$ 10,439,848

[1] Year-end recalculation will be necessary if one of the rates shown is not an appropriate discount rate based on September 30, 2005 financial markets.

DEVELOPMENT OF CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

	5.50%	5.75%
1. Accumulated Other Comprehensive Income as of previous Fiscal Year End (December 31, 2004)	$ 12,684,396	$ 12,684,396
2. Change in Accumulated Other Comprehensive Income		
a. Change in Additional Liability		
i. Additional Liability as of current Fiscal Year End	$ 12,710,872	$ 10,749,520
ii. Additional Liability as of previous Fiscal Year End	13,041,346	13,041,346
iii. Change in Additional Liability [(i) - (ii)]	$ (330,474)	$ (2,291,826)
b. Change in Intangible Asset		
i. Intangible Asset as of current Fiscal Year End	$ 309,672	$ 309,672
ii. Intangible Asset as of previous Fiscal Year End	356,950	356,950
iii. Change in Intangible Asset [(i) - (ii)]	$ (47,278)	$ (47,278)
c. Change in Accumulated Other Comprehensive Income [(a.iii.) - (b.iii.)]	$ (283,196)	$ (2,244,548)
3. Accumulated Other Comprehensive Income as of Current Fiscal Year End (December 31, 2005) [(1) + (2c.)]	$ 12,401,200	$ 10,439,848

SEPTEMBER 30, 2005 DEVELOPMENT OF RECONCILIATION OF FUNDED STATUS[1]

	5.50%	5.75%
1. Projected Benefit Obligation	$ (73,948,341)[1]	$ (72,013,575)[1]
2. Plan assets at Fair Value	50,537,742	50,537,742
3. Funded Status	$ (23,410,599)	$ (21,475,833)
4. Unrecognized Transition Amount	0	0
5. Unrecognized Prior Service Cost	309,672	309,672
6. Unrecognized Net (Gain) or Loss	20,144,043	18,209,277
7. (Accrued)/Prepaid Pension Cost at December 31, 2005 before 4th Quarter Contributions	$ (2,956,884)	$ (2,956,884)
8. Contributions during October 1, 2005 to December 31, 2005	669,622	669,622
9. (Accrued)/Prepaid Pension Cost at Fiscal year End	$ (2,287,262)	$ (2,287,262)
10. Adjustment required to recognize Minimum Liability	(12,710,872)	(10,749,520)
11. (Pension Liability)/Prepaid Pension Cost	$ (14,998,134)	$ (13,036,782)
12. Accumulated Benefit Obligation	$ (66,205,498)	$ (64,244,146)
13. Unfunded Accumulated Benefit Obligation	$ (15,667,756)	$ (13,706,404)

[1] Year end recalculation will be necessary if one of the rates shown is not an appropriate discount rate based on September 30, 2005 financial markets.

(ACCRUED) OR PREPAID PENSION EXPENSE

1.	(Accrued)/Prepaid Pension Expense at September 30, 2004	$ (1,822,239)
2.	Net Periodic Pension Cost for 3 months ending December 31, 2004	756,781
3.	Contributions[1] made during the 3 months ending December 31, 2004	599,990
4.	(Accrued)/Prepaid Pension Expense at December 31, 2004 [(1) - (2) + (3)]	$ (1,979,030)
5.	Net Periodic Pension Cost for 9 months ending September 30, 2005	2,396,711
6.	Contributions[1] made during the 9 months ending September 30, 2005	2,217,760
7.	(Accrued)/Prepaid Pension Expense at September 30, 2005 [(4) – (5) + (6)]	$ (2,157,981)
8.	Net Periodic Pension Cost for 3 months ending December 31, 2005	798,903
9.	(Accrued)/Prepaid Pension Expense at December 31, 2005 before 4th Quarter Contributions [(7) - (8)]	$ (2,956,884)
10.	Contributions[1] made during the 3 months ending December 31, 2005	669,622
11.	(Accrued)/Prepaid Pension Expense at December 31, 2005 [(9) + (10)]	$ (2,287,262)

[1] Actual Contributions:

Date	Amount	Event
October 15, 2004	$ 599,990	2004 3rd Quarter
January 15, 2005	599,990	2004 4th Quarter
May 10, 2005	669,622	2005 1st Quarter
July 15, 2005	669,622	2005 2nd Quarter
September 15, 2005	278,526	2004 Final for Minimum Required
October 15, 2005	669,622	2005 3rd Quarter (assumed)

RECONCILIATION OF BENEFIT OBLIGATIONS, PLAN ASSETS AND BALANCE SHEET POSITION

	Measurement Period		
	04/01/2004 - 09/30/2004	10/01/2004 - 09/30/2005	
1. Reconciliation of beginning and ending balances of the Benefit Obligation			
a. Benefit Obligation at Beginning of Period	$ 64,895,388	$ 68,046,590	$ 68,046,590
b. Service Cost	884,219	1,795,158	1,795,158
c. Interest Cost	1,927,581	3,868,132	3,868,132
d. Amendments	0	0	0
e. Liability Actuarial (Gain)/Loss	1,665,070	3,099,311	1,164,545
f. Benefits Paid	(1,325,668)	(2,860,850)	(2,860,850)
g. Benefit Obligation at End of Period	$ 68,046,590	$ 73,948,341[1]	$ 72,013,575[1]
2. Reconciliation of beginning and ending balances of Plan Assets			
a. Fair Value of Plan Assets at Beginning of Period	$ 42,432,270	$ 44,628,751	$ 44,628,751
b. Return on Plan Assets	338,078	5,952,091	5,952,091
c. Employer Contributions	3,184,071	2,817,750	2,817,750
d. Benefits Paid	(1,325,668)	(2,860,850)	(2,860,850)
e. Fair Value of Plan Assets at End of Period	$ 44,628,751	$ 50,537,742	$ 50,537,742
3. Recognized/Unrecognized Amounts			
a. Funded Status [2(e) - 1(g)]	$ (23,417,839)	$(23,410,599)	$ (21,475,833)
b. Unrecognized Transition Obligation/(Asset)	0	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	20,481,869	20,144,043	18,209,277
d. Unrecognized Prior Service Cost	356,950	309,672	309,672
e. Net Amount Recognized at Fiscal Year End Prior to Last Quarter Contributions	$ (2,579,020)	$ (2,956,884)	$ (2,956,884)
f. Contributions made during the Last Quarter of the Fiscal Year	599,990	669,622	669,622
g. Net Amount Recognized at End of Fiscal Year	$ (1,979,030)	$ (2,287,262)	$ (2,287,262)
4. Amounts Recognized in the Statement of Financial Position:			
a. Prepaid Benefit Cost	$ 0	$ 0	$ 0
b. Accrued Benefit Cost	(15,020,376)	(14,998,134)	(13,036,782)
c. Intangible Assets	356,950	309,672	309,672
d. Accumulated Other Comprehensive Income	12,684,396	12,401,200	10,439,848
e. Net amount recognized	$ (1,979,030)	$ (2,287,262)	$ (2,287,262)
5. Weighted Average Assumptions used to determine benefit obligations:			
a. Discount Rate	5.75%	5.50%	5.75%
b. Rate of Compensation Increase	3.35%	3.20%	3.35%

[1] Year end recalculation will be necessary if one of the rates shown is not an appropriate discount rate based on September 30, 2005 financial markets.

COMPONENTS OF NET PERIODIC BENEFIT COST

	Fiscal Period	
	07/01/2004 - 12/31/2004	01/01/2005 - 12/31/2005
1. Service Cost	$ 884,219	$ 1,795,158
2. Interest Cost	1,927,581	3,868,132
3. Expected Return on Plan Assets	(1,923,971)	(4,014,648)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	23,639	47,278
6. Amortization of Net (Gain)/Loss	602,095	1,499,694
7. Net Periodic Benefit Cost	$ 1,513,563	$ 3,195,614

Weighted-average assumptions used to determine net periodic benefit cost:

	Fiscal Period Ending	
	12/31/2004	12/31/2005
Discount Rate	6.00%	5.75%
Expected Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Compensation Increase	3.55%	3.35%

The Company employs a building block approach in determining the expected long-term rate of return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

	09/30/2004	09/30/2005	
		5.50%	5.75%
Projected Benefit Obligation	$ 68,046,590	$ 73,948,341	$ 72,013,575
Accumulated Benefit Obligation	60,249,117	66,205,498	64,244,146
Fair Value of Plan Assets	44,628,751	50,537,742	50,537,742

Increase in minimum liability included in accumulated other comprehensive income:

09/30/2004	09/30/2005	
	5.50%	5.75%
$ 2,857,851	$ (330,474)	$ (2,291,826)

PLAN ASSET INFORMATION

The employer's pension plan weighted-average asset allocations by asset category are as follows:

	09/30/2004	09/30/2005
Equity securities	65.9%	74.5%
Debt securities	27.9%	17.7%
Other	6.2%	7.8%
Total	100.0%	100.0%

The Plan Sponsor employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The Bargaining Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust. The Master Trust owns 868,988 shares of common stock of the employer as of September 30, 2005 with a fair market value of $22,393,821. As of September 30, 2005, the Bargaining Plan held a 16.9% interest in the Master Trust. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.

CASH FLOW INFORMATION

For the upcoming fiscal year, the employer has minimum funding obligations as follows:

	Date	Amount	Contributions
1.	January 15, 2006	$ 669,622	4th Quarter Installment for Plan Year ending December 31, 2005
2.	April 15, 2006	753,337*	1st Quarter Installment for Plan Year ending December 31, 2006
3.	July 15, 2006	887,739*	2nd Quarter Installment for Plan Year ending December 31, 2006
4.	September 15, 2006	801,613	2005 Final Installment for (prior) Plan Year ending December 31, 2005
5.	October 15, 2006	887,739*	3rd Quarter Installment for Plan Year ending December 31, 2006
	Total	$ 4,000,050	

* Estimated

The following table illustrates the estimated pension benefit payments, which reflect expected future service, as appropriate, that are projected to be paid:

	5.50%	5.75%
2006	$ 2,843,857	$ 2,843,879
2007	3,115,709	3,115,948
2008	3,338,124	3,338,979
2009	3,559,276	3,561,260
2010	4,058,435	4,063,097
Years 2011 through 2015	23,982,792	24,046,092

OTHER ACCOUNTING-RELATED INFORMATION

Reconciliation of Unrecognized Net Actuarial (Gain)/Loss:

	5.50%	5.75%
a. Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2004	$ 20,481,869	$ 20,481,869
b. Liability Actuarial (Gain)/Loss	3,099,311	1,164,545
c. Asset (Gain)/Loss	(1,937,443)	(1,937,443)
d. Amount Recognized in Pension Expense	(1,499,694)	(1,499,694)
e. Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2005	$ 20,144,043	$ 18,209,277

Evaluation of Settlement Accounting Requirement for FYE 12/31/2005:

1. Service Cost	$ 1,795,158
2. Interest Cost	$ 3,868,132
3. Annual lump sum distributions, annuity purchases or other settlements (expected)	$ 20,000
4. Item (1) + Item (2) - Item (3)	$ 5,643,290

Item (4) is equal to or greater than zero. No Settlement Accounting necessary at this time, because Settlements are less than the sum of Service Cost and Interest Cost.

AMORTIZATION OF PRIOR SERVICE COST

Amendment #1[1] Dated July 1, 2002

1. PBO after amendment	$	51,655,922
2. PBO before amendment	$	51,192,596
3. Prior service cost = (1) - (2)	$	463,326
4. Amortization Factor[2]		9.8
5. Amortization Amount[3]	$	47,278

Amortization Schedule

Fiscal Year	Amount Recognized	Unrecognized PSC at End of Measurement Year	Unrecognized PSC at End of Fiscal Year
2003	$ 35,459	$ 427,867	$ 416,048
2004	47,278	380,589	368,770
2005	47,278	333,311	321,492
2006	47,278	286,033	274,214
2007	47,278	238,755	226,936
2008	47,278	191,477	179,658
2009	47,278	144,199	132,380
2010	47,278	96,921	85,102
2011	47,278	49,643	37,824
2012	47,278	2,365	0
2013	2,365	0	0

[1] Note: Numerical sequence of amendments refers to those being amortized under SFAS 87; does not refer to amendment number in plan document since many amendments do not address issues requiring separate amortization

[2] A fixed table of factors based on expected future service years of plan participants expected to receive benefits as of the date of amendment

[3] Amortization Amount = Prior Service Cost at date of amendment (line 3) divided by amortization factor

AMORTIZATION OF NET (GAIN) OR LOSS

	Beginning of Measurement Year	September 30, 2005 for Disclosure	
		5.50%	5.75%
1. Projected Benefit Obligation	$ 68,046,590	$ 73,948,341	$ 72,013,575
2. Fair Value of Plan Assets at measurement date	$ 44,628,751	$ 50,537,742	$ 50,537,742
3. Unrecognized Transition Obligation/(Asset)	$ 0	$ 0	$ 0
4. Unrecognized Prior Service Cost	$ 356,950	$ 309,672	$ 309,672
5. (Accrued)/Prepaid Pension Expense at Fiscal Year End Prior to Last Quarter Contributions	$ (2,579,020)	$ (2,956,884)	$ (2,956,884)
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	$ 20,481,869	$ 20,144,043	$ 18,209,277
7. Net (Gain)/Loss not reflected in Market-Related value			
a. Fair Value	$ 44,628,751	$ 50,537,742	$ 50,537,742
b. Market-Related Value (MRV)	$ 44,628,751	$ 50,537,742	$ 50,537,742
c. Amount included in unrecognized transition obligation or (asset), not yet reflected in MRV	$ 0	$ 0	$ 0
d. Amount not reflected in MRV [(a) - (b) - (c)]	$ 0	$ 0	$ 0
8. Net (Gain)/Loss subject to amortization [(6) + (7d)]	$ 20,481,869	$ 20,144,043	$ 18,209,277
9. Greater of (1) or (7b)	$ 68,046,590	$ 73,948,341	$ 72,013,575
10. 10% of (9)	$ 6,804,659	$ 7,394,834	$ 7,201,358
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	$ 13,677,210	$ 12,749,209	$ 11,007,919
12. Average future service of plan participants expected to receive benefits	9.12	9.18*	9.18*
13. Amortization amount [(11)/(12)]	$ 1,499,694	$ 1,388,803*	$ 1,199,120*

* Estimated; actual results will be based on January 1, 2006 data.

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2005 (measurement date)	$	50,537,742
2. Actual benefit distributions	$	2,860,850
3. Actual contributions	$	2,817,750
4. Fair Value at September 30, 2004 (measurement date)	$	44,628,751
5. Actual return on assets [(1) + (2) - (3) - (4)]	$	5,952,091
6. Expected return	$	4,014,648
7. Asset (Gain) or Loss [(6) - (5)]	$	(1,937,443)

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

Investment Category	09/30/2004	09/30/2005
1. Cash	$ 0	$ 0
2. Cash equivalents	0	0
3. Government securities	0	0
4. Corporate		
a. Debt	0	0
b. Equity	0	0
5. Interest in SU Master Trust	44,634,134	50,537,742
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Benefits payable to Non-Bargaining Plan	(5,383)	0
9. Fair value of assets	$ 44,628,751	$ 50,537,742

Section 4

Actuarial Funding Method and Assumptions

1. ***Actuarial Funding Method***

The Projected Unit Credit Funding Method is used in computing the service cost component of pension expense. The Projected Unit Credit Funding Method computes the projected benefit for each participant at expected retirement age and attributes a pro rata portion of the projected benefit to each year of employment. Each participant's normal cost for the year is the present value of such pro rata portion. The plan's normal cost (service cost component of the pension expense) is the sum of all participants' individual normal costs.

The Accrued (Actuarial) Liability under the funding method is the Projected Benefit Obligation. Each participant's Accrued Liability is the product of their normal cost multiplied by their years of service at the valuation date. The plan's Accrued Liability is the sum of all participants' individual Accrued Liability.

2. ***Market-Related Value of Assets***

Assets are valued at market value as determined by the plan trustee, including any receivable contributions made for a prior plan year after the asset valuation date.

Market-Related value of assets equals fair value which excludes such receivables.

3. ***Actuarial Assumptions***

a. Mortality: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

<u>As of October 1, 2004 Measurement Date of Net Periodic Pension Cost</u>

i. Pre-retirement Mortality: 1983 GAM Table for Males and Females
ii. Post-retirement Mortality: 1983 GAM Table for Males and Females

<u>As of September 30, 2005 Measurement Date for Fiscal Year End Disclosure</u>

i. Pre-retirement Mortality: UP-1994 table for Males and Females projected to 2002
ii. Post-retirement Mortality:UP-1994 table for Males and Females projected to 2002
iii. Post-disability Mortality: 1965 Rail Road Board

b. Withdrawal: The active participants are assumed to terminate their employment for causes other than death, disability or retirement in accordance with annual rates as illustrated below.

Attained Age	Terminations per 1,000 Participants
20	278
25	199
30	139
40	58
50	14
55 and above	0

c. Discount Rate:

	As of 10/01/2004 Net Periodic Pension Cost	End of Year Disclosure 09/30/2005 Measurement Date (and 2006 Fiscal Year NPPC)
Pre-retirement:	5.75%	5.50% and 5.75% illustrated
Post-retirement:	5.75%	5.50% and 5.75% illustrated

d. Expected Long-Term Rate of Return: 9.0% per year.

e. Earnings Progression: The increase in the levels of participant compensation is assumed to occur at an annual rate of 3.35% for the net periodic pension cost determination and at an annual rate of 3.20% and 3.35% illustrated for year-end disclosure calculations.

f. Retirement Rates: Active participants are expected to retire under the plan in accordance with annual rates as illustrated below:

	Retirements per 1,000 Participants	
Attained Age	Before Meeting the Rule of 85	After Meeting the Rule of 85
55-59	20	20
60	50	500
61	50	400
62	100	300
63	100	250
64	100	250
65	1,000	1,000

g. Social Security: The benefits of this plan are determined, in part, by developments in Social Security benefits. The following assumptions are made to reflect the future benefits expected to be paid by Social Security:

Beginning of Year for Net Periodic Pension Cost:

i. Future compensation increases: 3.35% per year
ii. Cost of living adjustments: 2.00% per year
iii. Taxable wage base increases: 2.50% per year
iv. Prior compensation increases: same as national average wage increases

End of Year Disclosure:

i. Future compensation increases: 3.20% and 3.35% per year illustrated
ii. Cost of living adjustments: 2.00% per year
iii. Taxable wage base increases: 2.50% per year
iv. Prior compensation increases: same as national average wage increases

h. Disability: Active participants are expected to become disabled as defined under the plan in accordance with annual rates as illustrated below:

Attained Age	Disabilities per 1,000 Participants
20	0.65
25	0.80
30	1.10
40	2.15
50	5.90
60	13.00

i. Expenses: Administration and investment expenses necessary to the operation of this plan are assumed to be paid directly by the plan sponsor and not from plan assets.

j. Recognition of IRC Section 415 Limitations: Consistent with Paragraph 46 of SFAS No. 87, the benefit limitations under IRC Section 415(b) have been reflected in the determination of plan costs.

Consistent with Paragraph 46 of SFAS No. 87, we have assumed that the Section 415 dollar limitation and the Section 401(a)(17) compensation limit will increase at the rate of 2.0% per year for the net periodic pension cost determination and for year-end disclosure calculations.

k. Treatment of Employees Who Transferred To/From ProvEnergy Non-Bargaining Unit Plan: Active liabilities include full career service credits for employees who transferred from the Non-Bargaining Unit Plan, without any offset for liabilities ultimately payable from the Non-Bargaining Unit Plan. Liabilities for vested terminated participants do not include any amount for former employees who transferred to the Non-Bargaining Unit Plan. (Non-Bargaining Unit Plan utilizes same simplifying assumption in reverse.) These assumptions were made because the employer could not provide timely the historical records necessary to compute the liabilities for the plan from which the employee transferred, and the prior actuary's records did not contain reliable data on these matters.

l. Unused Sick Leave: Unused sick leave available for conversion to increase age for various purposes (primarily early retirement eligibility and social security supplement commencement eligibility) is assumed to be 1 year as of an employee's early retirement date, which converts under the plan to an increase in age of 6 months.

Section 5

Outline of Principal Plan Eligibility and Benefit Provisions

1. ***Identifying Data***

   a. Plan name: Southern Union Company ProvEnergy Pension Plan for Bargaining Unit Employees
   b. Type of plan: Defined benefit
   c. Plan sponsor: Southern Union Company (effective September 28, 2000)
   d. Plan Year: January 1 – December 31

2. ***Participation***

   a. Minimum Age: 21
   b. Maximum Age at Hire: none
   c. Service: one year
   d. Employee Classification: employee member of the bargaining unit
   e. Entry Date: first January 1 or July 1 after eligible

3. ***Contributions***

   a. Participant: none required
   b. Employer: all amounts necessary to adequately finance plan benefits

4. ***Eligibility for Retirement***

   a. Normal Retirement: age 65
   b. Early Retirement: age 55 plus five years of vesting service
   c. Disability Retirement: wholly and permanently disabled and receiving a Social Security disability award

5. ***Retirement Benefit Monthly Amounts***

   a. Normal Retirement: equal to (i) for Local 12431-01 and the greater of (ii) or (iii) for Local 12431-02
      i. 1.6% of average monthly compensation per year of service
      ii. 1.5% of average monthly compensation per year of service
      iii. 2.0% of average monthly compensation per year of service less 1 $^{2}/_{3}$% of expected monthly social security benefit per year of service not in excess of 30 years, plus 1.5% of average monthly compensation per year of service in excess of 30 years

   b. Late Retirement: same formula as normal retirement

c. Early Retirement:

i. amount equal to monthly normal retirement benefit accrued at early retirement date reduced 5/9% for each month early retirement precedes normal retirement up to 60 months and reduced 5/18% for each additional such month. No reduction for participants at least age 60 if age plus service equals at least 85 (Rule of 85).

ii. if a participant is at least age 60 but less than 63 upon benefit commencement date and satisfies the Rule of 85, the participant is eligible for a Social Security supplement from the benefit commencement date to the month in which the participant attains age 63. The monthly supplement shall equal the estimated Social Security benefit the participant would receive at age 62 or age at retirement if later.

d. Disability:

i. same formula as normal retirement (but not less than $100) if not receiving a benefit from the company long term disability plan.

ii. if receiving a benefit from the company long term disability plan, amount at normal retirement with service credited for the period during which the long term disability benefits are received.

6. ***Normal Form of Monthly Payment***

Single life annuity; other actuarially equivalent payment forms are available; is subject to applicable spousal consent requirements.

7. ***Vested Termination Benefits***

a. Benefit: entitlement to vested percentage of accrued normal retirement benefit

b. Vesting Schedule:

Years of Vesting Service	Vesting Percent
Less than 5	0%
5 or more	100%

Benefits may commence as early as 55, but they will be reduced in the same manner as for early retirement.

c. Accrued Normal Retirement Benefit: The monthly benefit that a participant has accrued before reaching normal retirement age payable in the normal form of payment beginning at normal retirement age; the amount of the accrued benefit is determined when a participant terminates his employment and is calculated like the normal retirement benefit but using only years of service and compensation credited at date of termination.

8. ***Pre-retirement Death Benefits***

Payment to the spouse of a participant with at least five years of service of benefit which is calculated as though the participant had terminated immediately before dying and had elected a 50% QJSA, commencing immediately if the participant was eligible for early retirement or on the date the participant would have attained 55.

9. ***Basis of Actuarial Equivalence***

7% and the UP-1984 Mortality Table for monthly benefits.

10. ***Average Monthly Compensation***

Averaged over highest three consecutive plan years in last ten plan years of employment; plan compensation is based on rate of pay and excludes overtime pay, bonuses, premium pay, etc.

11. ***Lump Sum Benefit***

Upon the death, termination, or retirement of a participant who was a participant as of December 31, 1972, the excess of the accumulated credited contributions to his credit as of such date over the amount distributed to him is accumulated with specified rates of annual interest and is payable as a lump sum. The lump sum is in addition to the previously described benefits.

12. ***Unused Sick Leave***

Effective July 1, 2002, if a participant with at least 20 years of vesting service retires and begins receiving benefits upon retirement, his age at retirement shall be increased by a period equivalent to one-half of his unused sick leave for determining his early retirement eligibility and age for commencement of benefits.

Section 6

Summary of Participant Data

Participant Data Reconciliation

		Active Participants[1]	Current Payment Status	Vested Terminated and Deferred Disabled	Total
1.	As of January 1, 2004	281	176	52	509
2.	Change of status				
	a. normal retirement	0	1	(1)	0
	b. late retirement	-	-	-	-
	c. early retirement	(10)	12	(2)	0
	d. disability	(3)	0	3	0
	e. death	-	-	-	-
	f. nonvested termination	-	-	-	-
	g. vested termination	(2)	0	2	0
	h. completion of payment	0	(4)	0	(4)
	i. transfers from/(to) Non-Bargaining Plan[2]	(5)	1	0	(4)
	j. other	-	-	-	-
	k. net changes	(20)	10	2	(8)
3.	New participants[3]	6	0	(1)	5
4.	As of January 1, 2005	267	186	53	506

[1] includes any participant who might be beyond Normal Retirement Date
[2] not valued under this plan
[3] includes transfers in from other Southern Union Co. plans

SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR
NON-BARGAINING UNIT EMPLOYEES

APPLICATION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NOs. 87 AND 132(R) TO THE FISCAL YEAR ENDING DECEMBER 31, 2005

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Frammolino, F.S.A.
Christopher S. Johnson, A.S.A.
Joe C. Lopez, A.S.A.
Robert M. May, F.S.A.

9500 Arboretum Blvd., Suite 200
Austin, Texas 78759

Post Office Box 204209
Austin, Texas 78720-4209

Phone: (512) 346-1590
Fax: (512) 345-7437
E-mail: rw@ruddwisdom.com

J. Christopher McCaul, F.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.
Michael J. Muth, F.S.A.
Julie L. Normand, F.S.A.
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

January 20, 2006

PERSONAL AND CONFIDENTIAL

Ms. Julie Edwards
Southern Union Company
5444 Westheimer Road
Houston, Texas 77056

Re: Application of Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and No. 132(R) (Employers' Disclosures about Pensions and Other Postretirement Benefits) to the Fiscal Year Ending December 31, 2005

Dear Ms. Edwards:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company ProvEnergy Pension Plan for Non-Bargaining Unit Employees as of January 1, 2005. The purpose of this valuation is to provide the employer and its auditors with the pension cost information required by the Statement of Financial Accounting Standards No. 87 (SFAS No. 87) and the associated disclosure information required by the Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS No. 132(R)) for the employer's December 31, 2005 financial statement. The results of this valuation are appropriate for these purposes only. The guidelines for determining an appropriate level of funding (contribution) for the year may be found in our Actuarial Valuation report for the 2005 plan year. Separate reports are also issued for other plans sponsored by Southern Union Company.

Background

SFAS Nos. 87 and 132(R) together establish the standards of financial reporting and accounting for an employer that offers pension benefits to its employees. These standards include provisions for a liability or asset related to the pension plan to be shown directly on the employer's financial statements. Also, the pension expense shown on the financial statements may vary from the actual contribution. This report will provide you and your auditor with the information required by SFAS No. 87 and SFAS No. 132(R).

Recognition of Plan Liabilities and Assets on Employer's Financial Statements

The procedures for accounting under SFAS No. 87 and SFAS No. 132(R) may be summarized as follows.

Net periodic pension cost is an expense/(income) entry on the income statement. This amount is determined separately from the employer contribution amount and is $2,204,257 for period January 1, 2005 to December 31, 2005. The determination of this number involves actuarial calculations performed in accordance with rules set forth in SFAS No. 87.

A liability (unfunded accrued pension cost) is recognized on the balance sheet if the sum of current and prior years' accumulated net periodic pension cost exceeds cumulative employer contributions. An asset (prepaid pension cost) is recognized on the balance sheet if cumulative net periodic pension costs are less than the cumulative amount the employer has contributed.

The accumulated benefit obligation is the present discounted value of benefits deemed to have accrued by the statement date. If the accumulated benefit obligation exceeds the fair value of plan assets, the employer must recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation.

Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation.

If an additional minimum liability is recognized, under certain circumstances an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost. If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess shall be reported as a separate component of equity, i.e. a reduction in equity, net of any tax benefits that may result from considering such losses as timing differences. Changes, if any, in the amount of additional liability recognized from year to year which are not offset by an intangible asset, are recorded in "Accumulated Other Comprehensive Income".

Executive Summary

The report indicates the Net Periodic Pension Cost, the expense/(income) entry the period January 1, 2005 to December 31, 2005, is $2,204,257. An additional liability will result from the comparison of the unfunded Accumulated Benefit Obligation (ABO) to the Prepaid Pension Expense. The amount of the Additional Liability as of December 31, 2004, the maximum Intangible Asset available to offset the Additional Liability, and the resulting change in Accumulated Other Comprehensive Income may be found in Exhibit WS-3 on page 2.5.

The information required to be disclosed in your company financial statement is presented in the required format in Exhibits WS-7, WS-8 and WS-9.

Note that SFAS Nos. 87 and 132(R) require that the year-end liability amounts in these reports be calculated using an appropriate discount rate based on September 30, 2005 financial markets. We have used 5.50% and 5.75% as discount rates for year-end disclosure calculations. If management selects a discount rate other than 5.50% or 5.75% for year end disclosure purposes the exhibits in this report will need to be updated to reflect the chosen discount rate.

To the best of our knowledge, no actions were taken during this period that would cause recognition of a curtailment, a settlement or any special termination benefits under SFAS No. 88.

If you have any questions concerning this information, please do not hesitate to call or write.

Respectfully submitted,

RUDD AND WISDOM, INC.

Michael J. Muth, F.S.A.

MJM:dsw

Enclosures

cc: Ron Weaver
Mark Kashuda
Gary Smith

J:\WPFILES\SU\Prov\2006\NonBargaining\FASB-0120.doc

SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR
NON-BARGAINING UNIT EMPLOYEES

SFAS Nos. 87 AND 132(R)

ACTUARIAL VALUATION

AS OF

JANUARY 1, 2005

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE

FOR THE FISCAL YEAR ENDING

DECEMBER 31, 2005

Prepared by:

January 20, 2006
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

TABLE OF CONTENTS

		Page No.
Section 1:	Certification of Actuarial Valuation	1.1
Section 2:	Summary of Valuation Data and Results	2.1
Section 3:	Summary of Assets	3.1
Section 4:	Actuarial Funding Method and Assumptions	4.1
Section 5:	Outline of Principal Plan Provisions	5.1
Section 6:	Summary of Participant Data	6.1

Section 1

SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR
NON-BARGAINING UNIT EMPLOYEES

Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation
(As of January 1, 2005)

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2005 under SFAS Nos. 87 and 132(R). The purpose of this report is to present the results of our valuation providing the information necessary to determine financial statement entries consistent with the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and the Statement of Financial Accounting Standards No. 132(R) (Employers' Disclosures about Pensions and Other Post-retirement Benefits) for the fiscal year ending December 31, 2005.

Actuarial computations under SFAS Nos. 87 and 132(R) are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of SFAS Nos. 87 and 132(R). Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination or adequacy of funding for an ongoing plan.

We have based our valuation on employee data as of January 1, 2005 provided by Ron Weaver of Southern Union Company and Anne Duffy of New England Gas Company and asset information as of October 1, 2004 and September 30, 2005 provided by JPMorgan. To the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. However, with respect to employees who have transferred between this plan and the ProvEnergy Bargaining Plan, the employer has not maintained records adequate to distinguish the liabilities from each plan prior to retirement. This necessitated that we value each nonretired participant as if his/her entire period of service were performed for the plan in which he/she is currently an active participant. As a result of a computer system change, the employer experienced difficulty providing compensation records for 2004 that matched the plan definition. In this report, we have assumed that the 2004 compensation was equal to the 2003 compensation increased by 3.50%. Subsequent to preparing this report we received compensation records. We have confirmed that the accumulated benefit obligation determined using the above assumption varies from actual results by less than 1.0%. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have used the actuarial funding methods and assumptions described in Section 4 of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section 5. Liabilities have been projected to the measurement date (September 30, 2005) consistent with procedures described in SFAS Nos. 87 and 132(R).

All current employees eligible to participate in the plan as of the valuation date and all other individuals who have a remaining vested benefit under the plan have been included in the valuation. Further, all plan benefits have been considered in the development of plan costs.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. The discount rate used for the calculation of the net periodic pension cost is that rate which the employer has determined to be consistent with SFAS Nos. 87 and 132(R). The discount rates used for projecting liabilities to the measurement date are rates which the employer may consider in selecting a discount rate that is consistent with SFAS Nos. 87 and 132(R) for that purpose. In our opinion, each other assumption used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

Mark R. Fenlaw, F.S.A..
Member of American Academy of Actuaries

Michael J. Muth, F.S.A.
Member of American Academy of Actuaries

Section 2

Summary of Valuation Data and Results

Valuation Data	January 1, 2005
1. Participants:	
a. Actives	135
b. Vested Terminated and Transferred	107
c. Retirees	189
d. Total	431
2. Valuation Payroll	$ 10,522,290

Valuation Results	As of September 30, 2005 for Expense	As of September 30, 2005 for Disclosure	
1. a. Fair Value of Assets	$ 43,373,279	$ 46,826,707	$ 46,826,707
b. Market-Related Value of Assets	$ 43,373,279	$ 46,826,707	$ 46,826,707
2. Discount Rate	5.75%	5.50%	5.75%
3. Accumulated Benefit Obligation (ABO)			
a. Actives	$ 17,611,026	$ 21,080,612	$ 20,329,781
b. Vested Terminated	5,634,046	6,446,778	6,151,581
c. Retirees	29,070,363	28,574,572	28,034,347
d. Total	$ 52,315,435	$ 56,101,962	$ 54,515,709
4. Obligation for Future Salary Increases	5,408,643	5,200,507	5,231,413
5. Projected Benefit Obligation (PBO)	$ 57,724,078	$ 61,302,469	$ 59,747,122
6. Service Cost	$ 1,229,728	N/A	N/A
-as % of payroll	11.69%	N/A	N/A
7. Net Periodic Pension Cost	$ 2,204,257	N/A	N/A
-as % of payroll	20.95%	N/A	N/A

DETERMINATION OF NET PERIODIC PENSION COST

1. Service Cost		
a. Amount due at valuation date	$ 1,162,863	
b. Interest at 5.75% to measurement date	66,865	
c. Total Service Cost [(a) + (b)]		$ 1,229,728
2. Interest Cost		
a. Pension Benefit Obligation (PBO) at previous measurement date	$ 57,724,078	
b. Expected distributions, weighted for timing	1,564,551	
c. Interest Cost Basis [(a) - (b)]	$ 56,159,527	
d. Discount rate	.0575	
e. Interest Cost [(c) x (d)]		$ 3,229,173
3. Expected Return on Assets		
a. Market-Related Value at previous measurement date	$ 43,373,279	
b. Expected distributions, weighted for timing	1,564,551	
c. Expected contributions, weighted for timing	0	
d. Expected Return Basis [(a) - (b) + (c)]	$ 41,808,728	
e. Long-term rate of return	.09	
f. Expected Return on Assets [(d) x (e)]		$ 3,762,786
4. Amortization of Transition (Asset) or Obligation		$ 0
5. Amortization of Prior Service Cost		$ 93
6. Amortization of Net (Gain) or Loss		$ 1,508,049
7. Net Periodic Pension Cost [(1c) + (2e) - (3f) + (4) + (5) + (6)]		$ 2,204,257

Determination of Net Periodic Pension Cost
By Fiscal Year Quarter

Pension Cost Component	Fiscal Year Quarter 01/01/2005 to 03/31/2005	04/01/2005 to 06/30/2005	07/01/2005 to 09/30/2005	10/01/2005 to 12/31/2005	**Total for Fiscal Year**
Service Cost	$ 307,432	$ 307,432	$ 307,432	$ 307,432	$ 1,229,728
Interest Cost	807,294	807,293	807,293	807,293	3,229,173
Expected Return on Assets	(940,697)	(940,696)	(940,697)	(940,696)	(3,762,786)
Amortized Recognition of:					
- Transition Amount	0	0	0	0	0
- Prior Service Cost	23	23	24	23	93
- Net (Gain)/Loss	377,012	377,012	377,013	377,012	1,508,049
Net Periodic Pension Cost	$ 551,064	$ 551,064	$ 551,065	$ 551,064	$ 2,204,257

DETERMINATION OF DECEMBER 31, 2005
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability as of Measurement Date (September 30, 2005)	5.50%	5.75%
1. Accumulated Benefit Obligation (ABO) projected to measurement date	$ 56,101,962[1]	$ 54,515,709[1]
2. Fair Value of Plan Assets at measurement date	$ 46,826,707	$ 46,826,707
3. Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	$ 9,275,255	$ 7,689,002
Adjustment of Fiscal Year-End (Accrued)/Prepaid Pension Expense for the Purpose of Determining Additional Liability		
4. (Accrued)/Prepaid Pension Expense as of Fiscal Year-End	$ 6,408,336	$ 6,408,336
5. Contributions during October 1, 2005 to December 31, 2005	$ 0	$ 0
6. Adjusted Fiscal Year-End (Accrued)/Prepaid Pension Expense [(4) – (5)]	$ 6,408,336	$ 6,408,336
Additional Liability		
7. Additional Liability [(3) + (6)] (not less than zero)	$ 15,683,591	$ 14,097,338
Intangible Asset		
8. Unrecognized Obligation from Transition	$ 0	$ 0
9. Unrecognized Prior Service Cost	$ 738	$ 738
10. Maximum Intangible Asset [(8) + (9)]	$ 738	$ 738
11. Actual Intangible Asset - lesser of (7) or (10)	$ 738	$ 738
12. Accumulated Other Comprehensive Income [(7) - (11)]	$ 15,682,853	$ 14,096,600

[1] Year-end recalculation will be necessary if one of the rates shown is not an appropriate discount rate based on September 30, 2005 financial markets.

DEVELOPMENT OF CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

	5.50%	5.75%
1. Accumulated Other Comprehensive Income as of previous Fiscal Year End (December 31, 2004)	$ 16,322,429	$ 16,322,429
2. Change in Accumulated Other Comprehensive Income		
a. Change in Additional Liability		
i. Additional Liability as of current Fiscal Year End	$ 15,683,591	$ 14,097,338
ii. Additional Liability as of previous Fiscal Year End	16,323,260	16,323,260
iii. Change in Additional Liability [(i) - (ii)]	$ (639,669)	$ (2,225,922)
b. Change in Intangible Asset		
i. Intangible Asset as of current Fiscal Year End	$ 738	$ 738
ii. Intangible Asset as of previous Fiscal Year End	831	831
iii. Change in Intangible Asset [(i) - (ii)]	$ (93)	$ (93)
c. Change in Accumulated Other Comprehensive Income [(a.iii.) - (b.iii.)]	$ (639,576)	$ (2,225,829)
3. Accumulated Other Comprehensive Income as of Current Fiscal Year End (December 31, 2005) [(1) + (2c.)]	$ 15,682,853	$ 14,096,600

SEPTEMBER 30, 2005 DEVELOPMENT OF RECONCILIATION OF FUNDED STATUS[1]

		5.50%	5.75%
1.	Projected Benefit Obligation	$ (61,302,469)[1]	$ (59,747,122)[1]
2.	Plan assets at Fair Value	46,826,707	46,826,707
3.	Funded Status	$ (14,475,762)	$ (12,920,415)
4.	Unrecognized Transition Amount	0	0
5.	Unrecognized Prior Service Cost	738	738
6.	Unrecognized Net (Gain) or Loss	20,883,360	19,328,013
7.	(Accrued)/Prepaid Pension Cost at December 31, 2005 before 4th Quarter Contributions	$ 6,408,336	$ 6,408,336
8.	Contributions during October 1, 2005 to December 31, 2005	0	0
9.	(Accrued)/Prepaid Pension Cost at Fiscal year End	$ 6,408,336	$ 6,408,336
10.	Adjustment required to recognize Minimum Liability	(15,683,591)	(14,097,338)
11.	(Pension Liability)/Prepaid Pension Cost	$ (9,275,255)	$ (7,689,002)
12.	Accumulated Benefit Obligation	$ (56,101,962)	$ (54,515,709)
13.	Unfunded Accumulated Benefit Obligation	$ (9,275,255)	$ (7,689,002)

[1] Year end recalculation will be necessary if one of the rates shown is not an appropriate discount rate based on September 30, 2005 financial markets.

(ACCRUED) OR PREPAID PENSION EXPENSE

1.	(Accrued)/Prepaid Pension Expense at September 30, 2004	$ 8,127,684
2.	Net Periodic Pension Cost for 3 months ending December 31, 2004	463,359
3.	Contributions[1] made during the 3 months ending December 31, 2004	0
4.	(Accrued)/Prepaid Pension Expense at December 31, 2004 [(1) - (2) + (3)]	$ 7,664,325
5.	Net Periodic Pension Cost for 9 months ending September 30, 2005	$ 1,653,193
6.	Contributions[1] made during the 9 months ending September 30, 2005	948,268
7.	(Accrued)/Prepaid Pension Expense at September 30, 2005 [(4) – (5) + (6)]	$ 6,959,400
8.	Net Periodic Pension Cost for 3 months ending December 31, 2005	551,064
9.	(Accrued)/Prepaid Pension Expense at December 31, 2005 before 4th Quarter Contributions [(7) - (8)]	$ 6,408,336
10.	Contributions[1] made during the 3 months ending December 31, 2005	0[2]
11.	(Accrued)/Prepaid Pension Expense at December 31, 2005 [(9) + (10)]	$ 6,408,336

[1] Actual Contributions:

Date	Amount	Event
September 15, 2005	$ 948,268	Minimum Required

[2] Assumed

RECONCILIATION OF BENEFIT OBLIGATIONS, PLAN ASSETS AND BALANCE SHEET POSITION

	Measurement Period		
	04/01/2004 - 09/30/2004	10/01/2004 - 09/30/2005	
1. Reconciliation of beginning and ending balances of the Benefit Obligation			
a. Benefit Obligation at Beginning of Period	$ 55,413,206	$ 57,405,491	$ 57,405,491
b. Service Cost	597,852	1,229,728	1,229,728
c. Interest Cost	1,639,017	3,229,173	3,229,173
d. Amendments	0	0	0
e. Liability Actuarial (Gain)/Loss	1,318,974	2,567,180	1,011,833
f. Benefits Paid	(1,563,558)	(3,129,103)	(3,129,103)
g. Benefit Obligation at End of Period	$ 57,405,491	$ 61,302,469[1]	$ 59,747,122[1]
2. Reconciliation of beginning and ending balances of Plan Assets			
a. Fair Value of Plan Assets at Beginning of Period	$ 43,749,552	$ 43,373,279	$ 43,373,279
b. Return on Plan Assets	313,218	5,634,263	5,634,263
c. Employer Contributions	874,067	948,268	948,268
d. Benefits Paid	(1,563,558)	(3,129,103)	(3,129,103)
e. Fair Value of Plan Assets at End of Period	$ 43,373,279	$ 46,826,707	$ 46,826,707
3. Recognized/Unrecognized Amounts			
a. Funded Status [2(e) - 1(g)]	$ (14,032,212)	$(14,475,762)	$ (12,920,415)
b. Unrecognized Transition Obligation/(Asset)	0	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	21,695,706	20,883,360	19,328,013
d. Unrecognized Prior Service Cost	831	738	738
e. Net Amount Recognized at Fiscal Year End Prior to Last Quarter Contributions	$ 7,664,325	$ 6,408,336	$ 6,408,336
f. Contributions made during the Last Quarter of the Fiscal Year	0	0	0
g. Net Amount Recognized at End of Fiscal Year	$ 7,664,325	$ 6,408,336	$ 6,408,336
4. Amounts Recognized in the Statement of Financial Position:			
a. Prepaid Benefit Cost	$ 0	$ 0	$ 0
b. Accrued Benefit Cost	(8,658,935)	(9,275,255)	(7,689,002)
c. Intangible Assets	831	738	738
d. Accumulated Other Comprehensive Income	16,322,429	15,682,853	14,096,600
e. Net amount recognized	$ 7,664,325	$ 6,408,336	$ 6,408,336
5. Weighted Average Assumptions used to determine benefit obligations:			
a. Discount Rate	5.75%	5.50%	5.75%
b. Rate of Compensation Increase	3.35%	3.20%	3.35%

[1] Year end recalculation will be necessary if one of the rates shown is not an appropriate discount rate based on September 30, 2005 financial markets.

COMPONENTS OF NET PERIODIC BENEFIT COST

	Fiscal Period	
	07/01/2004 - 12/31/2004	01/01/2005 - 12/31/2005
1. Service Cost	$ 597,852	$ 1,229,728
2. Interest Cost	1,639,017	3,229,173
3. Expected Return on Plan Assets	(1,936,938)	(3,762,786)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	47	93
6. Amortization of Net (Gain)/Loss	626,741	1,508,049
7. Net Periodic Benefit Cost	$ 926,719	$ 2,204,257

Weighted-average assumptions used to determine net periodic benefit cost:

	Fiscal Period Ending	
	12/31/2004	12/31/2005
Discount Rate	6.00%	5.75%
Expected Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Compensation Increase	3.55%	3.35%

The Company employs a building block approach in determining the expected long-term rate of return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

	09/30/2004	09/30/2005	
		5.50%	5.75%
Projected Benefit Obligation	$ 57,405,491	$ 61,302,469	$ 59,747,122
Accumulated Benefit Obligation	52,032,214	56,101,962	54,515,709
Fair Value of Plan Assets	43,373,279	46,826,707	46,826,707

Increase in minimum liability included in accumulated other comprehensive income:

09/30/2004	09/30/2005	
	5.50%	5.75%
$ 2,466,590	$ (639,669)	$ (2,225,922)

PLAN ASSET INFORMATION

The employer's pension plan weighted-average asset allocations by asset category are as follows:

	09/30/2004	09/30/2005
Equity securities	65.9%	74.5%
Debt securities	27.9%	17.7%
Other	6.2%	7.8%
Total	100.0%	100.0%

The Plan Sponsor employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The Non-Bargaining Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust. The Master Trust owns 868,988 shares of common stock of the employer as of September 30, 2005 with a fair market value of $22,393,821. As of September 30, 2005, the Non-Bargaining Plan held a 15.7% interest in the Master Trust. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.

CASH FLOW INFORMATION

For the 2006 plan year, the estimated minimum required contribution is $1,000,000.

The following table illustrates the estimated pension benefit payments, which reflect expected future service, as appropriate, that are projected to be paid:

	5.50%	5.75%
2006	$ 3,150,217	$ 3,150,216
2007	3,173,196	3,173,263
2008	3,288,163	3,288,566
2009	3,424,805	3,425,911
2010	3,562,969	3,565,208
Years 2011 through 2015	20,690,732	20,732,989

OTHER ACCOUNTING-RELATED INFORMATION

Reconciliation of Unrecognized Net Actuarial (Gain)/Loss:

	5.50%	5.75%
a. Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2004	$ 21,695,706	$ 21,695,706
b. Liability Actuarial (Gain)/Loss	2,567,180	1,011,833
c. Asset (Gain)/Loss	(1,871,477)	(1,871,477)
d. Amount Recognized in Pension Expense	(1,508,049)	(1,508,049)
e. Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2005	$ 20,883,360	$ 19,328,013

Evaluation of Settlement Accounting Requirement for FYE 12/31/2005:

1. Service Cost	$ 1,229,728
2. Interest Cost	$ 3,229,173
3. Annual lump sum distributions, annuity purchases or other settlements (expected)	$ 9,000
4. Item (1) + Item (2) - Item (3)	$ 4,449,901

Item (4) is equal to or greater than zero. No Settlement Accounting necessary at this time, because Settlements are less than the sum of Service Cost and Interest Cost.

AMORTIZATION OF PRIOR SERVICE COST

Amendment #1[1] Dated January 1, 2002

1. PBO after amendment	$	45,530,989
2. PBO before amendment	$	45,529,902
3. Prior service cost = (1) - (2)	$	1,087
4. Amortization Factor[2]		11.69
5. Amortization Amount[3]	$	93

Amortization Schedule

Fiscal Year Ending	Amount Recognized	Unrecognized PSC at End of Measurement Year	Unrecognized PSC at End of Fiscal Year
06/30/2002	$ 23	$ 1,064	$ 1,041
06/30/2003	93	971	948
06/30/2004	93	878	855
12/31/2004	47	831	808
12/31/2005	93	738	715
12/31/2006	93	645	622
12/31/2007	93	552	529
12/31/2008	93	459	436
12/31/2009	93	366	343
12/31/2010	93	273	250
12/31/2011	93	180	157
12/31/2012	93	87	64
12/31/2013	87	0	0

1 Note: Numerical sequence of amendments refers to those being amortized under SFAS 87; does not refer to amendment number in plan document since many amendments do not address issues requiring separate amortization

2 A fixed factor based on expected future service years of plan participants expected to receive benefits as of the date of amendment

3 Amortization Amount = Prior Service Cost at date of amendment (line 3) divided by amortization factor

AMORTIZATION OF NET (GAIN) OR LOSS

	Beginning of Measurement Year	September 30, 2005 for Disclosure	
		5.50%	5.75%
1. Projected Benefit Obligation	$ 57,405,491	$ 61,302,469	$ 59,747,122
2. Fair Value of Plan Assets at measurement date	$ 43,373,279	$ 46,826,707	$ 46,826,707
3. Unrecognized Transition Obligation/(Asset)	$ 0	$ 0	$ 0
4. Unrecognized Prior Service Cost	$ 831	$ 738	$ 738
5. (Accrued)/Prepaid Pension Expense at Fiscal Year End Prior to Last Quarter Contributions	$ 7,664,325	$ 6,408,336	$ 6,408,336
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	$ 21,695,706	$ 20,883,360	$ 19,328,013
7. Net (Gain)/Loss not reflected in Market-Related value			
a. Fair Value	$ 43,373,279	$ 46,826,707	$ 46,826,707
b. Market-Related Value (MRV)	$ 43,373,279	$ 46,826,707	$ 46,826,707
c. Amount included in unrecognized transition obligation or (asset), not yet reflected in MRV	$ 0	$ 0	$ 0
d. Amount not reflected in MRV [(a) - (b) - (c)]	$ 0	$ 0	$ 0
8. Net (Gain)/Loss subject to amortization [(6) + (7d)]	$ 21,695,706	$ 20,883,360	$ 19,328,013
9. Greater of (1) or (7b)	$ 57,405,491	$ 61,302,469	$ 59,747,122
10. 10% of (9)	$ 5,740,549	$ 6,130,247	$ 5,974,712
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	$ 15,955,157	$ 14,753,113	$ 13,353,301
12. Average future service of plan participants expected to receive benefits	10.58	10.63*	10.63*
13. Amortization amount [(11)/(12)]	$ 1,508,049	$ 1,387,875*	$ 1,256,190*

* Estimated; actual results will be based on January 1, 2006 data.

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2005 (measurement date)	$	46,826,707
2. Actual benefit distributions	$	3,129,103
3. Actual contributions	$	948,268
4. Fair Value at September 30, 2004 (measurement date)	$	43,373,279
5. Actual return on assets [(1) + (2) - (3) - (4)]	$	5,634,263
6. Expected return	$	3,762,786
7. Asset (Gain) or Loss [(6) - (5)]	$	(1,871,477)

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

Investment Category	09/30/2004	09/30/2005
1. Cash	$ 0	$ 0
2. Cash equivalents	0	0
3. Government securities	0	0
4. Corporate		
a. Debt	0	0
b. Equity	0	0
5. Interest in SU Master Trust	43,367,896	46,826,707
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Benefits receivable from Bargaining Plan	5,383	0
9. Fair value of assets	$ 43,373,279	$ 46,826,707

Section 4

Actuarial Funding Method and Assumptions

1. ***Actuarial Funding Method***

The Projected Unit Credit Funding Method is used in computing the service cost component of pension expense. The Projected Unit Credit Funding Method computes the projected benefit for each participant at expected retirement age and attributes a pro rata portion of the projected benefit to each year of employment. Each participant's normal cost for the year is the present value of such pro rata portion. The plan's normal cost (service cost component of the pension expense) is the sum of all participants' individual normal costs.

The Accrued (Actuarial) Liability under the funding method is the Projected Benefit Obligation. Each participant's Accrued Liability is the product of their normal cost multiplied by their years of service at the valuation date. The plan's Accrued Liability is the sum of all participants' individual Accrued Liability.

2. ***Market-Related Value of Assets***

Assets are valued at market value as determined by the plan trustee, including any receivable contributions made for a prior plan year after the asset valuation date.

Market-Related value of assets equals fair value which excludes such receivables.

3. ***Actuarial Assumptions***

a. Mortality: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

As of October 1, 2004 Measurement Date of Net Periodic Pension Cost

i. Pre-retirement Mortality: 1983 GAM Table for Males and Females
ii. Post-retirement Mortality: 1983 GAM Table for Males and Females

As of September 30, 2005 Measurement Date for Fiscal Year End Disclosure

i. Pre-retirement Mortality: UP-1994 table for Males and Females projected to 2002
ii. Post-retirement Mortality:UP-1994 table for Males and Females projected to 2002
iii. Post-disability Mortality: 1965 Rail Road Board

b. Withdrawal: The active participants are assumed to terminate their employment for causes other than death, disability or retirement in accordance with annual rates as illustrated below.

Attained Age	Terminations per 1,000 Participants
20	139
25	99
30	69
40	28
50	4
55 and above	0

c. Discount Rate:

	As of 10/01/2004 for Net Periodic Pension Cost	End of Year Disclosure 9/30/2005 Measurement Date (and 2006 Fiscal Year NPPC)
Pre-retirement:	5.75%	5.50% and 5.75% illustrated
Post-retirement:	5.75%	5.50% and 5.75% illustrated

d. Expected Long-Term Rate of Return: 9.0% per year.

e. Earnings Progression: The increase in the levels of participant compensation is assumed to occur at an annual rate of 3.35% for the net periodic pension cost determination and at an annual rate of 3.20% and 3.35% illustrated for year-end disclosure calculations.

f. Retirement Rates: Active participants are expected to retire under the plan in accordance with annual rates as illustrated below:

	Retirements per 1,000 Participants	
Attained Age	Before Meeting the Rule of 85	After Meeting the Rule of 85
55-59	20	20
60	50	500
61	50	400
62	100	300
63	100	250
64	100	250
65	1,000	1,000

g. Social Security: The benefits of this plan are determined, in part, by developments in Social Security benefits. The following assumptions are made to reflect the future benefits expected to be paid by Social Security:

Beginning of Year for Net Periodic Pension Cost:

i. Future compensation increases: 3.35% per year
ii. Cost of living adjustments: 2.00% per year
iii. Taxable wage base increases: 2.50% per year
iv. Prior compensation increases: same as national average wage increases

End of Year Disclosure:

i. Future compensation increases: 3.20% and 3.35% per year illustrated
ii. Cost of living adjustments: 2.00% per year
iii. Taxable wage base increases: 2.50% per year
iv. Prior compensation increases: same as national average wage increases

h. Disability: Active participants are expected to become disabled as defined under the plan in accordance with annual rates as illustrated below:

Attained Age	Disabilities per 1,000 Participants
20	0.65
25	0.80
30	1.10
40	2.15
50	5.90
60	13.00

i. Expenses: Administration and investment expenses necessary to the operation of this plan are assumed to be paid directly by the plan sponsor and not from plan assets.

j. Recognition of IRC Section 415 Limitations: Consistent with Paragraph 46 of SFAS No. 87, the benefit limitations under IRC Section 415(b) have been reflected in the determination of plan costs.

Consistent with Paragraph 46 of SFAS No. 87, we have assumed that the Section 415 dollar limitation and the Section 401(a)(17) compensation limit will increase at the rate of 2.0% per year for net periodic pension expense and for year-end disclosure.

k. Treatment of Employees Who Transferred To/From ProvEnergy Bargaining Unit Plan: Active liabilities include full career service credits for employees who transferred from the Bargaining Unit Plan, without any offset for liabilities ultimately payable from the Bargaining Unit Plan. Liabilities for vested terminated participants do not include any amount for former employees who transferred to the Bargaining Unit Plan. (Bargaining Unit Plan utilizes same simplifying assumption in reverse.) These assumptions were made because the employer could not provide timely the historical records necessary to compute the liabilities for the plan from which the employee transferred, and the prior actuary's records did not contain reliable data on these matters.

Section 5

Outline of Principal Plan Eligibility and Benefit Provisions

1. ***Identifying Data***

   a. Plan name: Southern Union Company ProvEnergy Pension Plan for Non-Bargaining Unit Employees
   b. Type of plan: Defined benefit
   c. Plan sponsor: Southern Union Company (effective September 28, 2000)
   d. Plan Year: January 1 – December 31

2. ***Participation***

   a. Minimum Age: 21
   b. Maximum Age at Hire: none
   c. Service: one year
   d. Employee Classification: employee member of the non-bargaining unit
   e. Entry Date: first January 1 or July 1 after eligible

3. ***Contributions***

   a. Participant: none required
   b. Employer: all amounts necessary to adequately finance plan benefits

4. ***Eligibility for Retirement***

   a. Normal Retirement: age 65
   b. Early Retirement: age 55 plus five years of vesting service
   c. Disability Retirement: wholly and permanently disabled and receiving a Social Security disability award

5. ***Retirement Benefit Monthly Amounts***

   a. Normal Retirement: the greater of (i) or (ii), except for employees at the North Attleboro Gas Co. for whom it is the sum of (iii) and (iv)
      i. $^{15}/_{16}$% of the first $333 of average monthly compensation plus 1.5% of average monthly compensation in excess of $333 per year of service
      ii. 2.0% of average monthly compensation per year of service less 1 $^{2}/_{3}$% of expected monthly social security benefit per year of service not in excess of 30 years, plus 1.5% of average monthly compensation per year of service in excess of 30 years
      iii. 0.75% of the average monthly compensation for the three years 1987-1989 per year of service as of April 30, 1990
      iv. 0.75% of compensation received after April 30, 1990

b. Late Retirement: same formula as normal retirement

c. Early Retirement:

i. amount equal to monthly normal retirement benefit accrued at early retirement date reduced $^{5}/_{9}$% for each month early retirement precedes normal retirement up to 60 months and reduced $^{5}/_{18}$% for each additional such month. No reduction for participants (other than North Attleboro Gas Co. employees) at least age 60 if age plus service equals at least 85 (Rule of 85).

ii. if a participant is at least age 60 but less than 63 upon benefit commencement date and satisfies the Rule of 85, the participant is eligible for a Social Security supplement from the benefit commencement date to the month in which the participant attains age 63. The monthly supplement shall equal the estimated Social Security benefit the participant would receive at age 62 or age at retirement if later.

d. Disability:

i. same formula as normal retirement (but not less than $100) if not receiving a benefit from the company long term disability plan.

ii. if receiving a benefit from the company long term disability plan, amount at normal retirement with service credited for the period during which the long term disability benefits are received.

6. ***Normal Form of Monthly Payment***

Single life annuity; other actuarially equivalent payment forms are available; is subject to applicable spousal consent requirements.

7. ***Vested Termination Benefits***

a. Benefit: entitlement to vested percentage of accrued normal retirement benefit

b. Vesting Schedule:

Years of Vesting Service	Vesting Percent
Less than 5	0%
5 or more	100%

Benefits may commence as early as 55, but they will be reduced in the same manner as for early retirement.

c. Accrued Normal Retirement Benefit: The monthly benefit that a participant has accrued before reaching normal retirement age payable in the normal form of payment beginning at normal retirement age; the amount of the accrued benefit is determined when a participant terminates his employment and is calculated like the normal retirement benefit but using only years of service and compensation credited at date of termination.

8. ***Pre-retirement Death Benefits***

Payment to the spouse of a participant with at least five years of service of benefit which is calculated as though the participant had terminated immediately before dying and had elected a 50% QJSA, commencing immediately if the participant was eligible for early retirement or on the date the participant would have attained age 55.

9. ***Basis of Actuarial Equivalence***

7% and the UP-1984 Mortality Table for monthly benefits.

10. ***Average Monthly Compensation***

Averaged over highest 36 consecutive months in last 120 months of employment; plan compensation is based on rate of pay and excludes overtime pay, bonuses, premium pay, etc.

11. ***Lump Sum Benefit***

Upon the death, termination, or retirement of a participant who was a participant as of December 31, 1972, the excess of the accumulated credited contributions to his credit as of such date over the amount distributed to him is accumulated with specified rates of annual interest and is payable as a lump sum. The lump sum is in addition to the previously described benefits.

Section 6

Summary of Participant Data

Participant Data Reconciliation

		Active Participants[1]	Current Payment Status	Vested Terminated and Deferred Disabled	Total
1.	As of January 1, 2004	139	186	105	430
2.	Change of status				
	a. normal retirement	0	2	(2)	0
	b. late retirement	-	-	-	-
	c. early retirement	(4)	5	(1)	0
	d. disability	-	-	-	-
	e. death	-	-	-	-
	f. nonvested termination	(3)	0	0	(3)
	g. vested termination	(4)	0	4	0
	h. completion of payment	0	(4)	0	(4)
	i. net transfers from/(to) Bargaining Plan[2]	5	0	0	5
	j. transfer out of ProvEnergy	(1)	0	1	0
	k. net changes	(7)	3	2	(2)
3.	New participants[3]	3	0	0	3
4.	As of January 1, 2005	135	189	107	431

[1] includes any participant who might be beyond Normal Retirement Date
[2] not valued under this plan
[3] includes transfers in from other Southern Union Co. plans

SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES' RETIREMENT PLAN

APPLICATION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NOs. 87 AND 132(R) TO THE FISCAL YEAR ENDING DECEMBER 31, 2005

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Frammolino, F.S.A.
Christopher S. Johnson, A.S.A.
Joe C. Lopez, A.S.A.
Robert M. May, F.S.A.

9500 Arboretum Blvd., Suite 200
Austin, Texas 78759

Post Office Box 204209
Austin, Texas 78720-4209

Phone: (512) 346-1590
Fax: (512) 345-7437
E-mail: rw@ruddwisdom.com

J. Christopher McCaul, F.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.
Michael J. Muth, F.S.A.
Julie L. Normand, F.S.A.
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

January 20, 2006

Ms. Julie Edwards
Chief Financial Officer
Southern Union Company
5444 Westheimer Road
Houston, Texas 77056-5306

Re: Application of Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and No. 132(R) (Employers' Disclosures about Pensions and Other Postretirement Benefits) to the 2005 Fiscal Year

Dear Ms. Edwards:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company Valley Resources Employees' Retirement Plan as of January 1, 2005. The purpose of this valuation is to provide the employer and its auditors with the pension cost information required by the Statement of Financial Accounting Standards No. 87 (SFAS No. 87) and the associated disclosure information required by the Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS No. 132(R)) for the employer's December 31, 2005 financial statement. The results of this valuation are appropriate for these purposes only. The guidelines for determining an appropriate level of funding (contribution) for the year may be found in our Actuarial Valuation report covering the 2005 plan year.

Background

SFAS Nos. 87 and 132(R) together establish the standards of financial reporting and accounting for an employer that offers pension benefits to its employees. These standards include provisions for a liability or asset related to the pension plan to be shown directly on the employer's financial statements. Also, the pension expense shown on the financial statements may vary from the actual contribution. This report will provide you and your auditor with the information required by SFAS No. 87 and SFAS No. 132(R).

Recognition of Plan Liabilities and Assets on Employer's Financial Statements

The procedures for accounting under SFAS No. 87 and SFAS No. 132(R) may be summarized as follows.

Net periodic pension cost is an expense/(income) entry on the income statement. This amount is determined separately from the employer contribution amount and is $(491,772) for 2005. The determination of this number involves actuarial calculations performed in accordance with rules set forth in SFAS No. 87.

A liability (unfunded accrued pension cost) is recognized on the balance sheet if the sum of current and prior years' accumulated net periodic pension cost exceeds cumulative employer contributions. An asset (prepaid pension cost) is recognized on the balance sheet if cumulative net periodic pension costs are less than the cumulative amount the employer has contributed.

The accumulated benefit obligation is the present discounted value of benefits deemed to have accrued by the statement date. If the accumulated benefit obligation exceeds the fair value of plan assets, the employer must recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation.

If an additional minimum liability is recognized, under certain circumstances an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost. If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess shall be reported as a separate component of equity, i.e. a reduction in equity, net of any tax benefits that may result from considering such losses as timing differences. Changes, if any, in the amount of additional liability recognized from year to year which are not offset by an intangible asset, are recorded in "Accumulated Other Comprehensive Income".

Executive Summary

The report indicates the Net Periodic Pension Cost, the expense/(income) entry for 2005, is $(491,772). No liability will result from the comparison of accumulated benefit obligations to plan assets at the end of the measurement year.

The information required to be disclosed in your company financial statement is presented in the required format on pages 2.7 through 2.9

Note that SFAS Nos. 87 and 132(R) require that the year-end liability amounts in these reports be calculated using an appropriate discount rate based on September 30, 2005 financial markets. We have used 5.50% as the discount rate for year-end disclosure calculations as selected by management.

To the best of our knowledge, no actions were taken during this period that would cause recognition of a curtailment, a settlement or any special termination benefits under SFAS No. 88.

SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES' RETIREMENT PLAN

SFAS Nos. 87 AND 132(R)

ACTUARIAL VALUATION

AS OF

JANUARY 1, 2005

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE

FOR THE FISCAL YEAR ENDING

DECEMBER 31, 2005

Prepared by:

January 20, 2006
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

TABLE OF CONTENTS

		Page No.
Section 1:	Certification of Actuarial Valuation	1.1
Section 2:	Summary of Valuation Data and Results	2.1
Section 3:	Summary of Assets	3.1
Section 4:	Actuarial Funding Method and Assumptions	4.1
Section 5:	Outline of Principal Plan Provisions	5.1
Section 6:	Summary of Participant Data	6.1

DRAFT

Section 1

SOUTHERN UNION COMPANY VALLEY RESOURCES EMPLOYEES' RETIREMENT PLAN

Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation (As of January 1, 2005)

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2005 under SFAS Nos. 87 and 132(R). The purpose of this report is to present the results of our valuation providing the information necessary to determine financial statement entries consistent with the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and the Statement of Financial Accounting Standards No. 132(R) (Employers' Disclosures about Pensions and Other Post-retirement Benefits) for the fiscal year ending December 31, 2005.

Actuarial computations under SFAS Nos. 87 and 132(R) are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of SFAS Nos. 87 and 132(R). Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination.

We have based our valuation on employee data as of January 1, 2005 provided by Southern Union Company and asset information as of September 30, 2004 and September 30, 2005 provided by JP Morgan. To the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any data imperfections existed in the historical compensation database, we have addressed the imperfections by application of the increase assumptions specified in Section 4. To the extent any imperfections exist in service records we have relied on best estimates provided by the employer. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have used the actuarial funding methods and assumptions described in Section 4 of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section 5. Liabilities have been projected to the measurement date (September 30, 2005) consistent with procedures described in SFAS Nos. 87 and 132(R).

All current employees eligible to participate in the plan as of the valuation date and all other individuals who have a remaining vested benefit under the plan have been included in the valuation. Further, all plan benefits have been considered in the development of plan costs.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. The discount rate used for the calculation of the net periodic pension cost is that rate which the employer has determined to be consistent with SFAS Nos. 87 and 132(R). The discount rate used for projecting liabilities to the measurement date is that rate which the employer has determined to be consistent with SFAS Nos. 87 and 132(R) for that purpose. In our opinion, each other assumption used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

Carl L. Frammolino, F.S.A.
Member of American Academy of Actuaries

Michael J. Muth, F.S.A.
Member of American Academy of Actuaries

Section 2

Summary of Valuation Data and Results

Valuation Data	Beginning of Year
1. Participants:	
a. Actives	103
b. Vested Terminated*	58
c. Retirees	109
d. Total	270
2. Valuation Payroll	$ 5,342,822

Valuation Results	Beginning of Year for Expense	End of Year for Disclosure
1. a. Fair Value of Assets	$ 33,794,994	$ 36,972,073
b. Market-Related Value of Assets	$ 33,794,994	$ 36,972,073
2. Discount Rate	5.75%	5.50%
3. Accumulated Benefit Obligation (ABO)		
a. Actives	$ 5,904,607	$ 7,146,135
b. Vested Terminated*	2,979,931	3,283,451
c. Retirees	13,530,035	13,255,739
d. Total	$ 22,414,573	$ 23,685,325
4. Obligation for Future Salary Increases	2,810,414	2,904,636
5. Projected Benefit Obligation (PBO)	$ 25,224,987	$ 26,589,961
6. Service Cost	$ 566,482	N/A
-as % of payroll	10.6%	N/A
7. Net Periodic Pension Cost	$ (491,772)	N/A
-as % of payroll	(9.2)%	N/A

* Includes 7 transfers to union and one deferred beneficiary.

Determination of 2005 Net Periodic Pension Cost
By Fiscal Year Quarter

Pension Cost Component	2005 Fiscal Year Quarter 01/01/2005 to 03/31/2005	04/01/2005 to 06/30/2005	07/01/2005 to 09/30/2005	10/01/2005 to 12/31/2005	**Total for Fiscal Year**
Service Cost	$ 141,621	$ 141,621	$ 141,620	$ 141,620	$ 566,482
Interest Cost	353,332	353,332	353,333	353,333	1,413,330
Expected Return on Assets	(745,867)	(745,867)	(745,867)	(745,868)	(2,983,469)
Amortized Recognition of:					
- Transition Amount	0	0	0	0	0
- Prior Service Cost	12,313	12,313	12,312	12,313	49,251
- Net (Gain)/Loss	115,658	115,658	115,659	115,659	462,634
Net Periodic Pension Cost	$(122,943)	$ (122,943)	$ (122,943)	$(122,943)	$ (491,772)

DETERMINATION OF DECEMBER 31, 2005
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability

1.	Accumulated Benefit Obligation (ABO) projected to measurement date	$ 23,685,325[1]
2.	Fair Value of Plan Assets at measurement date	$ 36,972,073
3.	Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	$ (13,286,748)
4.	(Accrued)/Prepaid Pension Expense as of Fiscal Year-End	N/A
5.	Contributions during September 30, 2005 to December 31, 2005	N/A
6.	Adjusted Fiscal Year-End (Accrued)/Prepaid Pension Expense [(4) – (5)]	N/A

Additional Liability

7.	Additional Liability [(3) + (6)] (not less than zero)	N/A

Intangible Asset

8.	Unrecognized Obligation from Transition	N/A
9.	Unrecognized Prior Service Cost	N/A
10.	Maximum Intangible Asset [(8) + (9)]	N/A
11.	Actual Intangible Asset - lesser of (7) or (10)	N/A
12.	Accumulated Other Comprehensive Income [(7) - (11)]	N/A

[1] Based on a 5.50% discount rate. Year-end recalculation will be necessary if the rate shown is not an appropriate discount rate based on September 30, 2005 financial markets.

DEVELOPMENT OF CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

1. Accumulated Other Comprehensive Income as of previous Fiscal Year End	$	0
2. Change in Accumulated Other Comprehensive Income		
a. Change in Additional Liability		
i. Additional Liability as of current Fiscal Year End	$	0
ii. Additional Liability as of previous Fiscal Year End		0
iii. Change in Additional Liability [(i) - (ii)]	$	0
b. Change in Intangible Asset		
i. Intangible Asset as of current Fiscal Year End	$	0
ii. Intangible Asset as of previous Fiscal Year End		0
iii. Change in Intangible Asset [(i) - (ii)]	$	0
c. Change in Accumulated Other Comprehensive Income [(a.iii.) - (b.iii.)]	$	0
3. Accumulated Other Comprehensive Income as of Current Fiscal Year End [(1) + (2c)]	$	0

SEPTEMBER 30, 2005 DEVELOPMENT OF RECONCILIATION OF FUNDED STATUS[1]

1.	Projected Benefit Obligation	$ (26,589,961)[1]
2.	Plan assets at Fair Value	36,972,073
3.	Funded Status	$ 10,382,112
4.	Unrecognized Transition Amount	0
5.	Unrecognized Prior Service Cost	596,780
6.	Unrecognized Net (Gain) or Loss	9,078,020
7.	(Accrued)/Prepaid Pension Cost at December 31, 2005 prior to Last Quarter Contribution	$ 20,056,912
8.	Contributions made during the Last Quarter	0
9.	(Accrued)/Prepaid Pension Cost at December 31, 2005	$ 20,056,912

[1] Based on a 5.50% discount rate. Year-end recalculation will be necessary if the rate shown is not an appropriate discount rate based on September 30, 2005 financial markets.

(ACCRUED) OR PREPAID PENSION EXPENSE

1.	(Accrued)/Prepaid Pension Expense at December 31, 2004	$	19,565,140
2.	Net Periodic Pension Cost for nine months ending September 30, 2005	$	(368,829)
3.	Contributions[1] made during the nine months ending September 30, 2005	$	0
4.	(Accrued)/Prepaid Pension Expense at September 30, 2005 (1) - (2) + (3)]	$	19,933,969
5.	Net Periodic Pension Cost for three months ending December 31, 2005	$	(122,943)
6.	(Accrued)/Prepaid Pension Expense at December 31, 2005 before 4th Quarter Contributions [(4) – (5)]	$	20,056,912
7.	Contributions[1] made during the three months ending December 31, 2005	$	0
8.	(Accrued)/Prepaid Pension Expense at December 31, 2005 [(6) + (7)]	$	20,056,912

[1] Amounts not segregated in a trust or otherwise restricted are not considered contributions even though they may be deemed contributions for Schedule B of Form 5500.

RECONCILIATION OF BENEFIT OBLIGATIONS, PLAN ASSETS AND BALANCE SHEET POSITION

	Measurement Period 04/01/2004 - 09/30/2004	Measurement Period 10/01/2004 - 09/30/2005
1. Reconciliation of beginning and ending balances of the Benefit Obligation		
a. Benefit Obligation at Beginning of Period	$ 23,594,391	$ 25,009,845
b. Service Cost	268,744	566,482
c. Interest Cost	713,707	1,413,330
d. Amendments	0	0
e. Liability Actuarial (Gain)/Loss	1,060,235	882,876
f. Benefits Paid	(627,232)	(1,282,572)
g. Benefit Obligation at End of Period	$ 25,009,845	$ 26,589,961[1]
2. Reconciliation of beginning and ending balances of Plan Assets		
a. Fair Value of Plan Assets at Beginning of Period	$ 34,180,855	$ 33,794,994
b. Return on Plan Assets	241,371	4,459,651
c. Employer Contributions	0	0
d. Benefits Paid	(627,232)	(1,282,572)
e. Fair Value of Plan Assets at End of Period	$ 33,794,994	$ 36,972,073
3. Recognized/Unrecognized Amounts		
a. Funded Status [2(e) - 1(g)]	$ 8,785,149	$ 10,382,112
b. Unrecognized Transition Obligation/(Asset)	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	10,133,960	9,078,020
d. Unrecognized Prior Service Cost	646,031	596,780
e. Net Amount Recognized at Fiscal Year End Prior to Last Quarter Contributions	$ 19,565,140	$ 20,056,912
f. Contributions made during the Last Quarter of the Fiscal Year	0	0
g. Net Amount Recognized at End of Fiscal Year	$ 19,565,140	$ 20,056,912
4. Weighted Average Assumptions used to determine benefit obligations:		
a. Discount Rate	5.75%	5.50%
b. Rate of Compensation Increase	3.85%	3.65%

[1] Based on a 5.50% discount rate. Year end recalculation will be necessary if the rate shown is not an appropriate discount rate based on September 30, 2005 financial markets.

COMPONENTS OF NET PERIODIC BENEFIT COST

	Fiscal Period	
	07/01/2004 - 12/31/2004	01/01/2005 - 12/31/2005
1. Service Cost	$ 268,744	$ 566,482
2. Interest Cost	713,207	1,413,330
3. Expected Return on Plan Assets	(1,523,936)	(2,983,469)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	24,626	49,251
6. Amortization of Net (Gain)/Loss	155,074	462,634
7. Net Periodic Benefit Cost	$ (361,785)	$ (491,772)

Weighted-average assumptions used to determine net periodic benefit cost:

Discount Rate	6.00%	5.75%
Expected Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Compensation Increase	4.05%	3.85%

The Plan Sponsor employs a building block approach in determining the expected long-term rate on return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

PLAN ASSET INFORMATION

The employer's pension plan weighted-average asset allocations by asset category are as follows:

	09/30/2004	09/30/2005
Equity securities	65.9%	72.6%
Debt securities	27.9%	19.6%
Cash Equivalents	6.2%	7.8%
Total	100.0%	100.0%

The Plan Sponsor employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations

Valley Resources Employees' Retirement Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust. As of September 30, 2004, the Master Trust owned 827,608 shares of common stock of the employer with a fair value of $16,965,964. The Master Trust owns 868,988 shares of common stock of the employer as of September 30, 2005, with a fair market value of $22,393,821. Valley Resources Employees' Retirement Plan held a 12.2% and 12.4% interest in the Master Trust as of September 30, 2004 and September 30, 2005, respectively. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.

CASH FLOW INFORMATION

For the 2006 fiscal year, the estimated minimum required contribution is $0 and the estimated maximum deductible contribution is $0.

The following table illustrates the estimated pension benefit payments which reflect expected future service, as appropriate, that are projected to be paid:

Years	
2006	$ 1,267,509
2007	1,313,908
2008	1,291,888
2009	1,348,959
2010	1,412,876
2011 through 2015	8,762,333

OTHER ACCOUNTING-RELATED INFORMATION

Reconciliation of Unrecognized Net Actuarial (Gain)/Loss:

a.	Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2004	$ 10,133,960
b.	Liability Actuarial (Gain)/Loss	882,876
c.	Asset (Gain)/Loss	(1,476,182)
d.	Amount Recognized in Pension Expense	(462,634)
e.	Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2005	$ 9,078,020

AMORTIZATION OF PRIOR SERVICE COST

Summary for Fiscal Year 2005

	Balance at Beginning of Year	Amount Recognized	Balance at End of Year
1. Schedule B-1	$ 579,284	$ 44,220	$ 535,064
2. Schedule B-2	66,747	5,031	61,716
Total	$ 646,031	$ 49,251	$ 596,780

AMORTIZATION OF PRIOR SERVICE COST

Amendments Reflected April 1, 2003

1.	PBO after amendment	$ 21,843,931
2.	PBO before amendment	$ 21,198,317
3.	Prior service cost (PSC) [(1) - (2)]	$ 645,614
4.	Amortization Factor	14.6
5.	Annual Amortized Recognition	$ 44,220

Amortization Schedule

Measurement Period	Amount Recognized During the Measurement Period	Unrecognized PSC at End of the Measurement Period
04/01/03-03/31/04	$ 44,220	$ 601,394
04/01/04-09/30/04	22,110	579,284
10/01/04-09/30/05	44,220	535,064
10/01/05-09/30/06	44,220	490,844
10/01/06-09/30/07	44,220	446,624
10/01/07-09/30/08	44,220	402,404
10/01/08-09/30/09	44,220	358,184
10/01/09-09/30/10	44,220	313,964
10/01/10-09/30/11	44,220	269,744
10/01/11-09/30/12	44,220	225,524
10/01/12-09/30/13	44,220	181,304
10/01/13-09/30/14	44,220	137,084
10/01/14-09/30/15	44,220	92,864
10/01/15-09/30/16	44,220	48,644
10/01/16-09/30/17	44,220	4,424
10/01/17-09/30/18	4,424	0

AMORTIZATION OF PRIOR SERVICE COST

Amendment Reflected June 1, 2003

1. PBO after amendment	$	22,529,954
2. PBO before amendment	$	22,456,498
3. Prior service cost (PSC) [(1) - (2)]	$	73,456
4. Amortization Factor		14.6
5. Annual Amortized Recognition	$	5,031

Amortization Schedule

Measurement Period	Amount Recognized During the Measurement Period	Unrecognized PSC at End of the Measurement Period
04/01/03-03/31/04	$ 4,193	$ 69,263
04/01/04-09/30/04	2,516	66,747
10/01/04-09/30/05	5,031	61,716
10/01/05-09/30/06	5,031	56,685
10/01/06-09/30/07	5,031	51,654
10/01/07-09/30/08	5,031	46,623
10/01/08-09/30/09	5,031	41,592
10/01/09-09/30/10	5,031	36,561
10/01/10-09/30/11	5,031	31,530
10/01/11-09/30/12	5,031	26,499
10/01/12-09/30/13	5,031	21,468
10/01/13-09/30/14	5,031	16,437
10/01/14-09/30/15	5,031	11,406
10/01/15-09/30/16	5,031	6,375
10/01/16-09/30/17	5,031	1,344
10/01/17-09/30/18	1,344	0

AMORTIZATION OF NET (GAIN) OR LOSS

	As of 09/30/2004 for Disclosure	As of 09/30/2005 for Disclosure
1. Projected Benefit Obligation	$ 25,009,845	$ 26,589,961[1]
2. Fair Value of Plan Assets at measurement date	$ 33,794,994	$ 36,972,073
3. Unrecognized Transition Obligation/(Asset)	$ 0	$ 0
4. Unrecognized Prior Service Cost	$ 646,031	$ 596,780
5. (Accrued)/Prepaid Pension Expense Prior to Last Quarter Contributions	$ 19,565,140	$ 20,056,912
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	$ 10,133,960	$ 9,078,020
7. Net (Gain)/Loss not reflected in Market-Related value		
a. Fair Value	$ 33,794,994	$ 36,972,073
b. Market-Related Value (MRV)	$ 33,794,994	$ 36,972,073
c. Amount included in unrecognized transition obligation or (asset), not yet reflected in MRV	$ 0	$ 0
d. Amount not reflected in MRV [(a) - (b) - (c)]	$ 0	$ 0
8. Net (Gain)/Loss subject to amortization [(6) + (7d)]	$ 10,133,960	$ 9,078,020
9. Greater of (1) or (7b)	$ 33,794,494	$ 36,972,073
10. 10% of (9)	$ 3,379,499	$ 3,697,207
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	$ 6,754,461	$ 5,380,813
12. Average future service of plan participants expected to receive benefits	14.6	15.2
13. Amortization amount [(11)/(12)]	$ 462,634	$ 354,001

[1] Based on a 5.50% discount rate.

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2005	$	36,972,073
2. Actual benefit distributions	$	1,282,572
3. Actual contributions	$	0
4. Fair Value at September 30, 2004	$	33,794,994
5. Actual return on assets [(1) + (2) - (3) - (4)]	$	4,459,651
6. Expected return	$	2,983,469
7. Asset (Gain) or Loss [(6) - (5)]	$	(1,476,182)

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

Investment Category	09/30/2004	09/30/2005
1. Cash	$ 0	$ 0
2. Cash equivalents	0	0
3. Government securities	0	0
4. Corporate		
a. Debt	0	0
b. Equity	0	0
5. Interest in SU Master Trust	33,794,994	36,972,073
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Receivable contributions	0	0
9. Fair value of assets	$ 33,794,994	$ 36,972,073

Section 4

Actuarial Funding Method and Assumptions

1. ***Actuarial Funding Method***

The Projected Unit Credit Funding Method is used in computing the service cost component of pension expense. The Projected Unit Credit Funding Method computes the projected benefit for each participant at expected retirement age and attributes a pro rata portion of the projected benefit to each year of employment. Each participant's normal cost for the year is the present value of such pro rata portion. The plan's normal cost (service cost component of the pension expense) is the sum of all participants' individual normal costs.

The Accrued (Actuarial) Liability under the funding method is the Projected Benefit Obligation. Each participant's Accrued Liability is the product of their normal cost multiplied by their years of service at the valuation date. The plan's Accrued Liability is the sum of all participants' individual Accrued Liability.

2. ***Market-Related Value/Fair Value of Assets***

Assets are valued at market value as determined by the plan trustee, including any receivable contributions made for a prior plan year after the asset valuation date.

Market-Related value of assets equals Fair Value which excludes such receivables.

3. ***Actuarial Assumptions***

a. Mortality: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

i. Pre-retirement Mortality: UP-1994 Mortality Table Projected to 2002 for Males and Females

ii. Post-retirement Mortality: UP-1994 Mortality Table Projected to 2002 for Males and Females

b. Withdrawal: The active participants are assumed to terminate their employment for causes other than death, disability or retirement in accordance with annual rates as illustrated below.

Attained Age	Terminations per 1,000 Participants
20	53.30
25	39.80
30	29.30
40	15.60
50	7.15
55 and above	0

(not applicable in the determination of the actuarial present value of vested accumulated plan benefits in the Summary of Financial Reporting Data section of this report)

c. Discount Rate:

	As of 09/30/2004 for Net Periodic Pension Cost	End of Year Disclosure Based on 09/30/2005 Measurement Date (& 2006 FY NPPC)
Pre-retirement	5.75%	5.50%
Post-retirement	5.75%	5.50%

d. Expected Long-Term Rate of Return: 9.0% per year.

e. Earnings Progression: The increase in the levels of participant compensation is assumed to occur at an annual rate of 3.85% for the expense determination and 3.65% for End-of-Year Disclosure Calculations.

f. Retirement Age: A participant is assumed to retire in accordance with annual rates as illustrated below. Any participant who has attained his expected retirement age and is still working is assumed to retire immediately. Benefits for deferred vested participants are assumed to commence at age 65.

Attained Age	Annual Rates of Retirement per 10,000 Eligible Participants
60	500
61	0
62	6,316
63	1,429
64	1,667
65	10,000

g. Social Security: The benefits of this plan are determined, in part, by developments in Social Security benefits. The following assumptions are made to reflect the future benefits expected to be paid by Social Security:

	Beginning of Measurement Year for Expense	For 09/30/2004 Disclosure
i. Future compensation increases:	3.85% p.a.	3.65% p.a.
ii. Cost of living adjustments:	2.00% p.a.	2.00% p.a.
iii. Taxable wage base increases:	2.50% p.a.	2.25% p.a.
iv. Prior compensation increases:	3.85% p.a.	3.65% p.a.

h. Disability Incidence: None assumed.

i. Expenses: Administration and investment expenses necessary to the operation of this plan are assumed to be paid directly by the plan sponsor and not from plan assets.

j. Recognition of IRC Sections 401(a)(17) and 415(b) Limitations: Consistent with Paragraph 46 of SFAS No. 87, the limitations under IRC Sections 401(a)(17) and 415(b) have been reflected in the determination of plan costs and we have assumed that the Section 415 dollar limitation and the Section 401(a)(17) compensation limit will increase at the annual rate of 2.00% for the expense determination and End-of-Year Disclosure calculations.

k. Marital Status: 85% of the plan population is assumed to be married at the time of separation from service. Female spouses are assumed to be three years younger than their mail counterparts.

l. Imputed Service from Future Unused Sick Leave: Service imputed from unused sick leave hours upon retirement from active service is assumed to increase active retirement decrement liabilities by 2.5%.

4. ***Changes in Actuarial Assumptions***

a. Mortality:

i. Prior to January 1, 2005: 1983 GAM Table for Males and Females

ii. After December 31, 2004: UP-1994 Mortality Table projected to 2002 for Males and Females

Section 5

Outline of Principal Plan Eligibility and Benefit Provisions

1. ***Identifying Data***

   a. Plan name: Southern Union Company Valley Resources Employees' Retirement Plan
   b. Type of plan: Defined benefit
   c. Plan sponsor: Southern Union Company (effective September 20, 2000)
   d. Plan Year: January 1 to December 31

2. ***Participation***

   a. Minimum Age: 21
   b. Maximum Age at Hire: none
   c. Service: one year where 1,000 hours in 12-month period is one year
   d. Employee Classification: All employees of Valley Gas Company or Bristol and Warren Gas Company who are not members of a collective bargaining unit.
   e. Entry Date: first of month after eligible

3. ***Contributions***

   a. Participant: none required
   b. Employer: all amounts necessary to adequately finance plan benefits

4. ***Eligibility for Retirement***

   a. Normal Retirement: age 65
   b. Early Retirement: age 55 plus ten years of service
   c. Disability Retirement: N/A

5. ***Retirement Benefit Monthly Amounts***

   a. Normal Retirement: 1.75% of average monthly compensation per year of service up to 20 years plus 1.5% of average monthly compensation per year of service in excess of 20 years (but not more than 20 years) minus 1% of expected monthly social security benefit per year of service up to 40 years

   b. Late Retirement: greater of (a) benefit computed at late retirement date using same formula as normal retirement or (b) monthly amount actuarially equivalent to normal retirement benefit at normal retirement age

   c. Early Retirement: amount actuarially equivalent to accrued normal retirement benefit with no reduction for age 62 and beyond

   d. Disability: N/A

e. Effective July 1, 2003, for participants who worked an hour of service on or after April 1, 2002, 50% of the participant's unused sick leave balance may be first used as imputed age years to qualify for early retirement benefits, and then, with the balance remaining, as imputed years added to both age and service for purposes of determining the early or normal retirement benefit payable.

f. Effective June 1, 2003, former employees of Bristol and Warren Gas Company receive one year of credited service for every three full years of pre-1997 service with the Bristol and Warren Gas Company.

6. ***Normal Form of Monthly Payment***

Life annuity; other actuarially equivalent payment forms are available; is subject to applicable spousal consent requirements.

7. ***Vested Termination Benefits***

a. Benefit: entitlement to vested percentage of accrued normal retirement benefit

b. Vesting Schedule:

Years of Vesting Service	Vesting Percent
Less than 5	0%
5 or more	100%

c. Accrued Normal Retirement Benefit: The monthly benefit that a participant has accrued before reaching normal retirement age payable in the normal form of payment beginning at normal retirement age; the amount of the accrued benefit is determined when a participant terminates his employment and is calculated like the normal retirement benefit using only years of service and compensation credited at date of termination.

d. Effective January 1, 2003, a vested terminated participant who terminated after December 31, 1988 but before January 1, 2004 may elect to commence payment as early as age 62 without reduction.

8. ***Pre-retirement Death Benefits***

Payment of benefit (to the spouse of a participant with at least 5 years of service) which is calculated as though the participant had terminated immediately before dying and had elected a 50% Qualified and Joint Survivor Annuity, commencing immediately if the participant was eligible for early retirement or on the date the participant would have attained age 55.

9. ***Basis of Actuarial Equivalence***

6.5% and Unisex Pensioner 1984 Mortality Table; Minimum single payment amounts calculated pursuant to IRC Section 417(e)(3).

10. ***Average Monthly Compensation***

Averaged over highest five consecutive calendar years in last ten calendar years. Effective July 1, 2003, for participants who worked on hour of service on or after April 1, 2002, average monthly compensation is averaged over the highest three consecutive calendar years in the last ten calendar years.

Section 6

Summary of Participant Data

Participant Data Reconciliation

	Active Participants*	Current Payment Status	Vested Terminated	Total
1. As of January 1, 2004	103	107	45	255
2. Change of status				
a. normal retirement	-	-	-	-
b. late retirement	-	-	-	-
c. early retirement	(4)	4	-	0
d. disability	-	-	-	-
e. death	-	(2)	-	(2)
f. nonvested termination	-	-	-	-
g. vested termination	(6)	-	6	0
h. completion of payment	-	-	-	-
i. other	(1)	-	-	(1)
j. net changes	(11)	2	6	(3)
3. New participants	18	-	-	18
4. As of January 1, 2005	110	109	51	270

* includes any participant who might be beyond Normal Retirement Date and participants who transferred from this plan to the Southern Union Company Valley Resources Employees' Retirement Plan

SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES' PENSION PLAN

APPLICATION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NOs. 87 AND 132(R) TO THE FISCAL YEAR ENDING DECEMBER 31, 2005

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Frammolino, F.S.A.
Christopher S. Johnson, A.S.A.
Joe C. Lopez, A.S.A.
Robert M. May, F.S.A.

9500 Arboretum Blvd., Suite 200
Austin, Texas 78759

Post Office Box 204209
Austin, Texas 78720-4209

Phone: (512) 346-1590
Fax: (512) 345-7437
E-mail: rw@ruddwisdom.com

J. Christopher McCaul, F.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.
Michael J. Muth, F.S.A.
Julie L. Normand, F.S.A.
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

January 20, 2006

Ms. Julie Edwards
Chief Financial Officer
Southern Union Company
5444 Westheimer Road
Houston, Texas 77056-5306

Re: Application of Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and No. 132(R) (Employers' Disclosures about Pensions and Other Postretirement Benefits) to the 2005 Fiscal Year

Dear Ms. Edwards:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company Valley Resources Employees' Pension Plan as of January 1, 2005. The purpose of this valuation is to provide the employer and its auditors with the pension cost information required by the Statement of Financial Accounting Standards No. 87 (SFAS No. 87) and the associated disclosure information required by the Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS No. 132(R)) for the employer's December 31, 2005 financial statement. The results of this valuation are appropriate for these purposes only. The guidelines for determining an appropriate level of funding (contribution) for the year may be found in our Actuarial Valuation report covering the 2005 plan year.

Background

SFAS Nos. 87 and 132(R) together establish the standards of financial reporting and accounting for an employer that offers pension benefits to its employees. These standards include provisions for a liability or asset related to the pension plan to be shown directly on the employer's financial statements. Also, the pension expense shown on the financial statements may vary from the actual contribution. This report will provide you and your auditor with the information required by SFAS No. 87 and SFAS No. 132(R).

Recognition of Plan Liabilities and Assets on Employer's Financial Statements

The procedures for accounting under SFAS No. 87 and SFAS No. 132(R) may be summarized as follows.

Net periodic pension cost is an expense/(income) entry on the income statement. This amount is determined separately from the employer contribution amount and is $(258,604) for 2005. The determination of this number involves actuarial calculations performed in accordance with rules set forth in SFAS No. 87.

A liability (unfunded accrued pension cost) is recognized on the balance sheet if the sum of current and prior years' accumulated net periodic pension cost exceeds cumulative employer contributions. An asset (prepaid pension cost) is recognized on the balance sheet if cumulative net periodic pension costs are less than the cumulative amount the employer has contributed.

The accumulated benefit obligation is the present discounted value of benefits deemed to have accrued by the statement date. If the accumulated benefit obligation exceeds the fair value of plan assets, the employer must recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation.

If an additional minimum liability is recognized, under certain circumstances an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost. If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess shall be reported as a separate component of equity, i.e. a reduction in equity, net of any tax benefits that may result from considering such losses as timing differences. Changes, if any, in the amount of additional liability recognized from year to year which are not offset by an intangible asset, are recorded in "Accumulated Other Comprehensive Income".

Executive Summary

The report indicates the Net Periodic Pension Cost, the expense/(income) entry, for 2005 is $(258,604). No liability will result from the comparison of accumulated benefit obligations to plan assets at the end of the measurement year.

The information required to be disclosed in your company financial statement is presented in the required format on pages 2.7 through 2.9.

Note that SFAS Nos. 87 and 132(R) require that the year-end liability amounts in these reports be calculated using an appropriate discount rate based on September 30, 2005 financial markets. We have used 5.50% as the discount rate for year-end disclosure calculations as selected by management.

To the best of our knowledge, no actions were taken during this period that would cause recognition of a curtailment, a settlement or any special termination benefits under SFAS No. 88.

If you have any questions concerning this information, please do not hesitate to call or write.

Respectfully submitted,

RUDD AND WISDOM, INC.

Michael J. Muth, F.S.A.

MJM:dsw

Enclosures

cc: Mark Kushuda
Gary P. Smith
Ron Weaver

J:\WPFILES\SU\VR\2006\Union\F87F132-0120.doc

SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES'
PENSION PLAN

SFAS Nos. 87 AND 132(R)

ACTUARIAL VALUATION

AS OF

JANUARY 1, 2005

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE

FOR THE FISCAL YEAR ENDING

DECEMBER 31, 2005

Prepared by:

January 20, 2006
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

TABLE OF CONTENTS

		Page No.
Section 1:	Certification of Actuarial Valuation	1.1
Section 2:	Summary of Valuation Data and Results	2.1
Section 3:	Summary of Assets	3.1
Section 4:	Actuarial Funding Method and Assumptions	4.1
Section 5:	Outline of Principal Plan Provisions	5.1
Section 6:	Summary of Participant Data	6.1

Section 1

SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES' PENSION PLAN

Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation
(As of January 1, 2005)

At the request of Southern Union Company we have performed an actuarial valuation of the plan as of January 1, 2005 under SFAS Nos. 87 and 132(R). The purpose of this report is to present the results of our valuation providing the information necessary to determine financial statement entries consistent with the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and the Statement of Financial Accounting Standards No. 132(R) (Employers' Disclosures about Pensions and Other Post-retirement Benefits) for the fiscal year ending December 31, 2005.

Actuarial computations under SFAS Nos. 87 and 132(R) are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of SFAS Nos. 87 and 132(R). Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination.

We have based our valuation on employee data as of January 1, 2005 provided by Southern Union Company and asset information as of September 30, 2004 and September 30, 2005 provided by JP Morgan. To the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any data imperfections existed in the historical compensation database, we have addressed the imperfections by application of the increase assumptions specified in Section 4. To the extent any imperfections exist in service records we have relied on best estimates provided by the employer. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have used the actuarial funding methods and assumptions described in Section 4 of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section 5. Liabilities have been projected to the measurement date (September 30, 2005) consistent with procedures described in SFAS Nos. 87 and 132(R).

All current employees eligible to participate in the plan as of the valuation date and all other individuals who have a remaining vested benefit under the plan have been included in the valuation. Further, all plan benefits have been considered in the development of plan costs.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. The discount rate used for the calculation of the net periodic pension cost is that rate which the employer has determined to be consistent with SFAS Nos. 87 and 132(R). The discount rate used for projecting liabilities to the measurement date is that rate which the employer has determined to be consistent with SFAS Nos. 87 and 132(R) for that purpose. In our opinion, each other assumption used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

Carl L. Frammolino, F.S.A.
Member of American Academy of Actuaries

Michael J. Muth, F.S.A.
Member of American Academy of Actuaries

Section 2

Summary of Valuation Data and Results

Valuation Data

	1/1/2005
1. Participants:	
a. Actives	49
b. Vested Terminated*	49
c. Retirees	34
d. Total	132
2. Valuation Payroll	$ 2,402,544

Valuation Results	Beginning of Year for Expense	End of Year for Disclosure
1. a. Fair Value of Assets	$ 13,242,152	$ 14,745,412
b. Market-Related Value of Assets	$ 13,242,152	$ 14,745,412
2. Discount Rate	5.75%	5.50%
3. Accumulated Benefit Obligation (ABO)		
a. Actives	$ 2,917,698	$ 3,440,641
b. Vested Terminated*	1,609,094	1,820,507
c. Retirees	2,372,864	2,289,463
d. Total	$ 6,899,656	$ 7,550,611
4. Obligation for Future Salary Increases	1,692,191	1,723,155
5. Projected Benefit Obligation (PBO)	$ 8,591,847	$ 9,273,766
6. Service Cost	$ 227,255	N/A
-as % of payroll	9.5%	N/A
7. Net Periodic Pension Cost	$ (258,604)	N/A
-as % of payroll	(10.8)%	N/A

* Includes 20 transfers to non-union and 1 deferred beneficiary.

Determination of 2005 Net Periodic Pension Cost
By Fiscal Year Quarter

Pension Cost Component	2005 Fiscal Year Quarter				
	01/01/2005 to 03/31/2005	04/01/2005 to 06/30/2005	07/01/2005 to 09/30/2005	10/01/2005 to 12/31/2005	**Total for Fiscal Year**
Service Cost	$ 56,814	$ 56,814	$ 56,814	$ 56,813	$ 227,255
Interest Cost	121,560	121,560	121,561	121,561	486,242
Expected Return on Assets	(294,901)	(294,900)	(294,901)	(294,900)	(1,179,602)
Amortized Recognition of:					
- Transition Amount	0	0	0	0	0
- Prior Service Cost	4,971	4,971	4,970	4,971	19,883
- Net (Gain)/Loss	46,905	46,904	46,905	46,904	187,618
Net Periodic Pension Cost	$ (64,651)	$ (64,651)	$ (64,651)	$(64,651)	$ (258,604)

DETERMINATION OF DECEMBER 31, 2005
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability

1. Accumulated Benefit Obligation (ABO) projected to measurement date	$	7,550,611[1]
2. Fair Value of Plan Assets at measurement date	$	14,745,412
3. Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	$	(7,194,801)
4. (Accrued)/Prepaid Pension Expense as of September 30, 2005		N/A
5. Contributions during September 30, 2005 to December 31, 2005		N/A
6. Adjusted Fiscal Year-End (Accrued)/Prepaid Pension Expense [(4) – (5)]		N/A

Additional Liability

7. Additional Liability [(3) + (6)] (not less than zero)	N/A

Intangible Asset

8. Unrecognized Obligation from Transition	N/A
9. Unrecognized Prior Service Cost	N/A
10. Maximum Intangible Asset [(8) + (9)]	N/A
11. Actual Intangible Asset - lesser of (7) or (10)	N/A
12. Accumulated Other Comprehensive Income [(7) - (11)]	N/A

[1] Based on a 5.50% discount rate. Year-end recalculation will be necessary if the rate shown is not an appropriate discount rate based on September 30, 2005 financial markets.

DEVELOPMENT OF CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

1. Accumulated Other Comprehensive Income as of previous Fiscal Year End	$	0
2. Change in Accumulated Other Comprehensive Income		
a. Change in Additional Liability		
i. Additional Liability as of current Fiscal Year End	$	0
ii. Additional Liability as of previous Fiscal Year End		0
iii. Change in Additional Liability [(i) - (ii)]	$	0
b. Change in Intangible Asset		
i. Intangible Asset as of current Fiscal Year End	$	0
ii. Intangible Asset as of previous Fiscal Year End		0
iii. Change in Intangible Asset [(i) - (ii)]	$	0
c. Change in Accumulated Other Comprehensive Income [(a.iii.) - (b.iii.)]	$	0
3. Accumulated Other Comprehensive Income as of Current Fiscal Year End [(1) + (2c)]	$	0

SEPTEMBER 30, 2005 DEVELOPMENT OF RECONCILIATION OF FUNDED STATUS[1]

1.	Projected Benefit Obligation	$ (9,273,766)[1]
2.	Plan assets at Fair Value	14,745,412
3.	Funded Status	$ 5,471,646
4.	Unrecognized Transition Amount	0
5.	Unrecognized Prior Service Cost	239,165
6.	Unrecognized Net (Gain) or Loss	3,688,198
7.	(Accrued)/Prepaid Pension Cost at December 31, 2005 prior to Last Quarter Contributions	$ 9,399,009
8.	Contributions made during Last Quarter	0
9.	(Accrued)/Prepaid Pension Cost at December 31, 2005	$ 9,399,009

[1] Based on a 5.50% discount rate. Year-end recalculation will be necessary if the rate shown is not an appropriate discount rate based on September 30, 2005 financial markets.

(ACCRUED) OR PREPAID PENSION EXPENSE

1.	(Accrued)/Prepaid Pension Expense at December 31, 2004	$	9,140,405
2.	Net Periodic Pension Cost for 9 months ending September 30, 2005	$	(193,953)
3.	Contributions[1] made during the 9 months ending September 30, 2005	$	0
4.	(Accrued)/Prepaid Pension Expense at September 30, 2005 [(1) - (2) + (3)]	$	9,334,358
5.	Net Periodic Pension Cost for 3 months ending December 31, 2005	$	(64,651)
6.	(Accrued)/Prepaid Pension Expense at December 31, 2005 before 4th Quarter Contributions [(4) – (5)]	$	9,399,009
7.	Contributions[1] made during the 3 months ending December 31, 2005	$	0
8.	(Accrued)/Prepaid Pension Expense at December 31, 2005	$	9,399,009

[1] Amounts not segregated in a trust or otherwise restricted are not considered contributions even though they may be deemed contributions for Schedule B of Form 5500

RECONCILIATION OF BENEFIT OBLIGATIONS, PLAN ASSETS AND BALANCE SHEET POSITION

	Measurement Period	
	04/01/2004 - 09/30/2004	10/01/2004 - 09/30/2005
1. Reconciliation of beginning and ending balances of the Benefit Obligation		
a. Benefit Obligation at Beginning of Period	$ 7,803,544	$ 8,405,473
b. Service Cost	108,513	227,255
c. Interest Cost	238,061	486,242
d. Amendments	0	0
e. Liability Actuarial (Gain)/Loss	373,809	412,454
f. Benefits Paid	(118,454)	(257,658)
g. Benefit Obligation at End of Period	$ 8,405,473	$ 9,273,766[1]
2. Reconciliation of beginning and ending balance of Plan Assets		
a. Fair Value of Plan Assets at Beginning of Period	$ 13,269,645	$ 13,242,152
b. Return on Plan Assets	90,961	1,760,918
c. Employer Contributions	0	0
d. Benefits Paid	(118,454)	(257,658)
e. Fair Value of Plan Assets at End of Period	$ 13,242,152	$ 14,745,412
3. Recognized/Unrecognized Amounts		
a. Funded Status [2(e) - 1(g)]	$ 4,836,679	$ 5,471,646
b. Unrecognized Transition Obligation/(Asset)	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	4,044,678	3,688,198
d. Unrecognized Prior Service Cost	259,048	239,165
e. (Accrued)/Prepaid Benefit Cost at Fiscal Year End Prior to Last Quarter Contributions	$ 9,140,405	$ 9,399,009
f. Contributions made during the Last Quarter of the Fiscal Year	0	0
g. Net Amount Recognized at End of Fiscal Year	$ 9,140,405	$ 9,399,009
4. Weighted Average Assumptions used to determine benefit obligations:		
a. Discount Rate	5.75%	5.50%
b. Rate of Compensation Increase	3.85%	3.65%

[1] Based on a 5.50% discount rate. Year-end recalculation will be necessary if the rate shown is not an appropriate discount rate based on September 30, 2005 financial markets.

COMPONENTS OF NET PERIODIC BENEFIT COST

	Fiscal Period	
	07/01/2004 - 12/31/2004	01/01/2005 - 12/31/2005
1. Service Cost	$ 108,513	$ 227,255
2. Interest Cost	238,061	486,242
3. Expected Return on Plan Assets	(594,512)	(1,179,602)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	9,942	19,883
6. Amortization of Net (Gain)/Loss	65,727	187,618
7. Net Periodic Benefit Cost	$ (172,269)	$ (258,604)

Weighted-average assumptions used to determine net periodic benefit cost:

Discount Rate	6.00%	5.75%
Expected Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Compensation Increase	4.05%	3.85%

The Plan Sponsor employs a building block approach in determining the expected long-term rate on return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

PLAN ASSET INFORMATION

The employer's pension plan weighted-average asset allocations by asset category are as follows:

	09/30/2004	09/30/2005
Equity securities	65.9%	72.6%
Debt securities	27.9%	19.6%
Cash Equivalents	6.2%	7.8%
Total	100.0%	100.0%

The Plan Sponsor employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations

Valley Resources Employees' Pension Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust. As of September 30, 2004, the Master Trust owned 827,608 shares of common stock of the employer with a fair value of $16,965,964. The Master Trust owns 868,988 shares of common stock of the employer as of September 30, 2005, with a fair market value of $22,393,821. Valley Resources Employees' Pension Plan held a 4.8% and 4.9% interest in the Master Trust as of September 30, 2004 and September 30, 2005, respectively. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.

CASH FLOW INFORMATION

For the 2006 fiscal year, the estimated minimum required contribution is $0 and the estimated maximum deductible contribution is $0.

The following table illustrates the estimated pension benefit payments which reflect expected future service, as appropriate, that are projected to be paid:

Years	
2006	$ 273,432
2007	279,974
2008	309,882
2009	370,779
2010	416,408
2011 through 2015	2,617,531

OTHER ACCOUNTING-RELATED INFORMATION

Reconciliation of Unrecognized Net Actuarial (Gain)/Loss:

a.	Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2004	$ 4,044,678
b.	Liability Actuarial (Gain)/Loss	412,454
c.	Asset (Gain)/Loss	(581,316)
d.	Amount Recognized in Pension Expense	(187,618)
e.	Unrecognized Net Actuarial (Gain)/Loss as of September 30, 2005	$ 3,688,198

AMORTIZATION OF PRIOR SERVICE COST

Summary for Fiscal Year 2005

	Balance at Beginning of Year	Amount Recognized	Balance at End of Year
1. Schedule B-1	$ 213,665	$ 16,436	$ 197,229
2. Schedule B-2	45,383	3,447	41,936
Total	$ 259,048	$ 19,883	$ 239,165

* Note: Numerical sequence of amendments refers to those being amortized under SFAS 87; does not refer to amendment number in plan document since many amendments do not address issues requiring separate amortization

AMORTIZATION OF PRIOR SERVICE COST

Amendments Reflected April 1, 2003

1. PBO after amendment	$	6,975,935
2. PBO before amendment	$	6,737,616
3. Prior service cost (PSC) [(1) - (2)]	$	238,319
4. Amortization Factor		14.5
5. Annual Amortized Recognition	$	16,436

Amortization Schedule

Measurement Period	Amount Recognized During the Measurement Period	Unrecognized PSC at End of the Measurement Period
04/01/03-03/31/04	$ 16,436	$ 221,883
04/01/04-09/30/04	8,218	213,665
10/01/04-09/30/05	16,436	197,229
10/01/05-09/30/06	16,436	180,793
10/01/06-09/30/07	16,436	164,357
10/01/07-09/30/08	16,436	147,921
10/01/08-09/30/09	16,436	131,485
10/01/09-09/30/10	16,436	115,049
10/01/10-09/30/11	16,436	98,613
10/01/11-09/30/12	16,436	82,177
10/01/12-09/30/13	16,436	65,741
10/01/13-09/30/14	16,436	49,305
10/01/14-09/30/15	16,436	32,869
10/01/15-09/30/16	16,436	16,433
10/01/16-09/30/17	16,433	0

AMORTIZATION OF PRIOR SERVICE COST

Amendment Reflected June 1, 2003

1.	PBO after amendment	$	7,260,545
2.	PBO before amendment	$	7,210,565
3.	Prior service cost (PSC) [(1) - (2)]	$	49,980
4.	Amortization Factor		14.5
5.	Annual Amortized Recognition	$	3,447

Amortization Schedule

Measurement Period	Amount Recognized During the Measurement Period	Unrecognized PSC at End of the Measurement Period
04/01/03-03/31/04	$ 2,873	$ 47,107
04/01/04-09/30/04	1,724	45,383
10/01/04-09/30/05	3,447	41,936
10/01/05-09/30/06	3,447	38,489
10/01/06-09/30/07	3,447	35,042
10/01/07-09/30/08	3,447	31,595
10/01/08-09/30/09	3,447	28,148
10/01/09-09/30/10	3,447	24,701
10/01/10-09/30/11	3,447	21,254
10/01/11-09/30/12	3,447	17,807
10/01/12-09/30/13	3,447	14,360
10/01/13-09/30/14	3,447	10,913
10/01/14-09/30/15	3,447	7,466
10/01/15-09/30/16	3,447	4,019
10/01/16-09/30/17	3,447	572
10/01/17-09/30/18	572	0

AMORTIZATION OF NET (GAIN) OR LOSS

	As of 9/30/2004 for Disclosure	As of 9/30/2005 for Disclosure
1. Projected Benefit Obligation	$ 8,405,473	$ 9,273,766[1]
2. Fair Value of Plan Assets at measurement date	$ 13,242,152	$ 14,745,412
3. Unrecognized Transition Obligation/(Asset)	$ 0	$ 0
4. Unrecognized Prior Service Cost	$ 259,048	$ 239,165
5. (Accrued)/Prepaid Pension Expense Prior to Last Quarter Contributions	$ 9,140,405	$ 9,399,009
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	$ 4,044,678	$ 3,688,198
7. Net (Gain)/Loss not reflected in Market-Related value		
a. Fair Value	$ 13,242,152	$ 14,745,412
b. Market-Related Value (MRV)	$ 13,242,152	$ 14,745,412
c. Amount included in unrecognized transition obligation or (asset), not yet reflected in MRV	$ 0	$ 0
d. Amount not reflected in MRV [(a) - (b) - (c)]	$ 0	$ 0
8. Net (Gain)/Loss subject to amortization [(6) + (7d)]	$ 4,044,678	$ 3,688,198
9. Greater of (1) or (7b)	$ 13,242,152	$ 14,745,412
10. 10% of (9)	$ 1,324,215	$ 1,474,541
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	$ 2,720,463	$ 2,213,657
12. Average future service of plan participants expected to receive benefits	14.5	14.9
13. Amortization amount [(11)/(12)]	$ 187,618	$ 148,568

[1] Based on a 5.50% discount rate.

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2005	$	14,745,412
2. Actual benefit distributions	$	257,658
3. Actual contributions	$	0
4. Fair Value at September 30, 2004	$	13,242,152
5. Actual return on assets [(1) + (2) - (3) - (4)]	$	1,760,918
6. Expected return	$	1,179,602
7. Asset (Gain) or Loss [(6) - (5)]	$	(581,316)

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

Investment Category	9/30/2004	9/30/2005
1. Cash	$ 0	$ 0
2. Cash equivalents	0	0
3. Government securities	0	0
4. Corporate		
a. Debt	0	0
b. Equity	0	0
5. Interest in SU Master Trust	13,242,152	14,745,412
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Receivable contributions	0	0
9. Fair value of assets	$ 13,242,152	$ 14,745,412

Section 4

Actuarial Funding Method and Assumptions

1. ***Actuarial Funding Method***

The Projected Unit Credit Funding Method is used in computing the service cost component of pension expense. The Projected Unit Credit Funding Method computes the projected benefit for each participant at expected retirement age and attributes a pro rata portion of the projected benefit to each year of employment. Each participant's normal cost for the year is the present value of such pro rata portion. The plan's normal cost (service cost component of the pension expense) is the sum of all participants' individual normal costs.

The Accrued (Actuarial) Liability under the funding method is the Projected Benefit Obligation. Each participant's Accrued Liability is the product of their normal cost multiplied by their years of service at the valuation date. The plan's Accrued Liability is the sum of all participants' individual Accrued Liability.

2. ***Market-Related Value/Fair Value of Assets***

Assets are valued at market value as determined by the plan trustee, including any receivable contributions made for a prior plan year after the asset valuation date.

Market-Related value of assets equals Fair Value which excludes such receivables.

3. ***Actuarial Assumptions***

a. Mortality: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

i. Pre-retirement Mortality: UP-1994 Mortality Table Projected to 2002 for Males and Females

ii. Post-retirement Mortality: UP-1994 Mortality Table Projected to 2002 for Males and Females

b. Withdrawal: The active participants are assumed to terminate their employment for causes other than death, disability or retirement in accordance with annual rates as illustrated below.

Attained Age	Terminations per 1,000 Participants
20	53.30
25	39.80
30	29.30
40	15.60
50	7.15
55 and above	0

(not applicable in the determination of the actuarial present value of vested accumulated plan benefits in the Summary of Financial Reporting Data section of this report)

c. Discount Rate:

	As of 09/30/2004 for Net Periodic Pension Cost	End of Year Disclosure Based on 09/30/2005 Measurement Date (& 2006 FY NPPC)
Pre-retirement	5.75%	5.50%
Post-retirement	5.75%	5.50%

d. Expected Long-Term Rate of Return: 9.0% per year.

e. Earnings Progression: The increase in the levels of participant compensation is assumed to occur at an annual rate of 3.85% for the expense determination and 3.65% for End-of-Year Disclosure Calculations.

f. Retirement Age: A participant is assumed to retire in accordance with annual rates as illustrated below. Any participant who has attained his expected retirement age and is still working is assumed to retire immediately. Benefits for deferred vested participants are assumed to commence at age 65.

Attained Age	Annual Rates of Retirement per 10,000 Eligible Participants
60	500
61	0
62	6,316
63	1,429
64	1,667
65	10,000

g. Social Security: The benefits of this plan are determined, in part, by developments in Social Security benefits. The following assumptions are made to reflect the future benefits expected to be paid by Social Security:

	Beginning of Measurement Year for Expense	For 09/30/2004 Disclosure
i. Future compensation increases:	3.85% p.a.	3.65% p.a.
ii. Cost of living adjustments:	2.00% p.a.	2.00% p.a.
iii. Taxable wage base increases:	2.50% p.a.	2.25% p.a.
iv. Prior compensation increases:	3.85% p.a.	3.65% p.a.

h. Disability Incidence: None assumed.

i. Expenses: Administration and investment expenses necessary to the operation of this plan are assumed to be paid directly by the plan sponsor and not from plan assets.

j. Recognition of IRC Sections 401(a)(17) and 415(b) Limitations: Consistent with Paragraph 46 of SFAS No. 87, the limitations under IRC Sections 401(a)(17) and 415(b) have been reflected in the determination of plan costs and we have assumed that the Section 415 dollar limitation and the Section 401(a)(17) compensation limit will increase at the annual rate of 2.00% for the expense determination and End-of-Year Disclosure calculations.

k. Marital Status: 85% of the plan population is assumed to be married at the time of separation from service. Female spouses are assumed to be three years younger than their mail counterparts.

l. Imputed Service from Future Unused Sick Leave: Service imputed from unused sick leave hours upon retirement from active service is assumed to increase active retirement decrement liabilities by 2.5%.

4. ***Changes in Actuarial Assumptions***

a. Mortality:

i. Prior to January 1, 2005: 1983 GAM Table for Males and Females

ii. After December 31, 2004: UP-1994 Mortality Table projected to 2002 for Males and Females

Section 5

Outline of Principal Plan Eligibility and Benefit Provisions

1. ***Identifying Data***

   a. Plan name: Southern Union Company Valley Resources Employees' Pension Plan
   b. Type of plan: Defined benefit
   c. Plan sponsor: Southern Union Company (effective September 20, 2000)
   d. Plan Year: January 1 to December 31

2. ***Participation***

   a. Minimum Age: 21
   b. Maximum Age at Hire: none
   c. Service: one year where 1,000 hours in 12-month period is one year
   d. Employee Classification: All employees of Valley Gas Company or Bristol Warren and Gas Company who are members of a collective bargaining unit which has accepted this plan.
   e. Entry Date: first of month after eligible

3. ***Contributions***

   a. Participant: none required
   b. Employer: all amounts necessary to adequately finance plan benefits

4. ***Eligibility for Retirement***

   a. Normal Retirement: age 65
   b. Early Retirement: age 55 plus ten years of service
   c. Disability Retirement: N/A

5. ***Retirement Benefit Monthly Amounts***

   a. Normal Retirement: 1.75% of average monthly compensation per year of service up to 20 years plus 1.5% of average monthly compensation per year of service in excess of 20 years (but not more than 20 years) minus 1% of expected monthly social security benefit per year of service up to 40 years

   b. Late Retirement: greater of (a) benefit computed at late retirement date using same formula as normal retirement or (b) monthly amount actuarially equivalent to normal retirement benefit at normal retirement age

   c. Early Retirement: amount actuarially equivalent to accrued normal retirement benefit with no reduction for age 62 and beyond

   d. Disability: N/A

e. Effective July 1, 2003, for participants who worked an hour of service on or after April 1, 2002, 50% of the participant's unused sick leave balance may be first used as imputed age years to qualify for early retirement benefits, and then, with the balance remaining, as imputed years added to both age and service for purposes of determining the early or normal retirement benefit payable.

f. Effective June 1, 2003, former employees of Bristol and Warren Gas Company receive one year of credited service for every three full years of pre-1997 service with the Bristol and Warren Gas Company.

6. ***Normal Form of Monthly Payment***

Life annuity; other actuarially equivalent payment forms are available; is subject to applicable spousal consent requirements.

7. ***Vested Termination Benefits***

a. Benefit: entitlement to vested percentage of accrued normal retirement benefit

b. Vesting Schedule:

Years of Vesting Service	Vesting Percent
Less than 5	0%
5 or more	100%

c. Accrued Normal Retirement Benefit: The monthly benefit that a participant has accrued before reaching normal retirement age payable in the normal form of payment beginning at normal retirement age; the amount of the accrued benefit is determined when a participant terminates his employment and is calculated like the normal retirement benefit using only years of service and compensation credited at date of termination.

d. Effective January 1, 2003, a vested terminated participant who terminated after December 31, 1988 but before January 1, 2004 may elect to commence payment as early as age 62 without reduction.

8. ***Pre-retirement Death Benefits***

Payment of benefit (to the spouse of a participant with at least 5 years of service) which is calculated as though the participant had terminated immediately before dying and had elected a 50% Qualified and Joint Survivor Annuity, commencing immediately if the participant was eligible for early retirement or on the date the participant would have attained age 55.

9. ***Basis of Actuarial Equivalence***

6.5% and Unisex Pensioner 1984 Mortality Table; Minimum single payment amounts calculated pursuant to IRC Section 417(e)(3).

10. ***Average Monthly Compensation***

Averaged over highest five consecutive calendar years in last ten calendar years. Effective July 1, 2003, for participants who worked on hour of service on or after April 1, 2002, average monthly compensation is averaged over the highest three consecutive calendar years in the last ten calendar years.

Section 6

Summary of Participant Data

Participant Data Reconciliation

	Active Participants*	Current Payment Status	Vested Terminated	Total
1. As of January 1, 2004	69	34	28	131
2. Change of status				
a. normal retirement	-	1	(1)	0
b. late retirement	-	-	-	-
c. early retirement	(2)	2	-	0
d. disability	-	-	-	-
e. death	-	(2)	-	(2)
f. nonvested termination	-	-	-	-
g. vested termination	(1)	-	1	0
h. completion of payment	-	-	-	-
i. other	-	(1)	1	0
j. net changes	(3)	0	1	(2)
3. New participants	3	0	0	3
4. As of January 1, 2005	69	34	29	132

* includes any participant who might be beyond Normal Retirement Date and participants who transferred from this plan to the Southern Union Company Valley Resources Employees' Retirement Plan

If you have any questions concerning this information, please do not hesitate to call or write.

Respectfully submitted,

RUDD AND WISDOM, INC.

Michael J. Muth, F.S.A.

MJM:dsw

Enclosures

cc: Mark Kashuda
Gary P. Smith
Ron Weaver

J:\WPFILES\SU\VR\2006\NonUnion\F87F132-0120.doc