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April 6, 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 responses to the Public Utilities Commission's Sixth Set of Data Requests in the above captioned docket. Thank you for your attention to this filing.

Sincerely,



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: March 8, 2006

- Q. COMM 6-01** Provide the actuary's reports for the four pension funds for the short, six-month fiscal period ending December 31, 2004.
- A. COMM 6-01** Attached are the actuarial reports for the period in question, as compiled by the Company's actuary, Rudd & Wisdom, Inc.

**SOUTHERN UNION COMPANY
PROENERGY PENSION PLAN FOR
BARGAINING UNIT EMPLOYEES**

**APPLICATION OF STATEMENT OF FINANCIAL
ACCOUNTING STANDARDS NOS. 87 AND 132(R)
TO THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004**

DRAFT

Rudd and Wisdom, Inc.

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February 15, 2005

PERSONAL AND CONFIDENTIAL

Mr. David Kvapil
Southern Union Company
One PEI Center
Wilkes-Barre, PA 18711

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 short Fiscal Year Ending December 31, 2004

Dear Mr. Kvapil:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company ProvEnergy Pension Plan for Bargaining Unit Employees as of January 1, 2004. 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, 2004 financial statement for the short six-month fiscal year ending December 31, 2004. The results of this valuation are appropriate for these purposes only. The guidelines for determining an appropriate level of funding (contribution) for 2004 may be found in our Actuarial Valuation report for the 2004 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 \$1,513,563 for the period July 1, 2004 to December 31, 2004. 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, for the short six-month fiscal year ending December 31, 2004 is \$1,513,563. 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.

Mr. David Kvapil
Page 3
February 15, 2005

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, 2004 financial markets. We have used 5.75% as the discount rate for year-end disclosure calculations.

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:jc

Enclosures

cc: Ron Weaver
Mark Kashuda
Donna Abdalla

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SOUTHERN UNION COMPANY
PROVENERGY PENSION PLAN FOR
BARGAINING UNIT EMPLOYEES

SFAS Nos. 87 AND 132(R)
ACTUARIAL VALUATION

AS OF
JANUARY 1, 2004

FOR
SFAS Nos. 87 AND 132(R) COMPLIANCE
FOR THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004

Prepared by:

February 15, 2005
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

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Section 1**SOUTHERN UNION COMPANY
PROENERGY PENSION PLAN FOR
BARGAINING UNIT EMPLOYEES****Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation**
(As of January 1, 2004)

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2004 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 short six-month fiscal year ending December 31, 2004.

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, 2004 provided by Joanne Zito of New England Gas Company, and asset information as of April 1, 2004 and September 30, 2004 provided by Bank One Trust Company, N.A. 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. 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, 2004) 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.

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*

	<u>January 1, 2004</u>
1. Participants:	
a. Actives	281
b. Vested Terminated	52
c. Retirees	<u>176</u>
d. Total	509
2. Valuation Payroll	\$ 15,053,041

Valuation Results

	<u>As of 03/31/2004 for Expense</u>	<u>As of 09/30/2004 for Disclosure</u>
1. a. Fair Value of Assets	\$ 42,432,270	\$ 44,628,751
b. Market-Related Value of Assets	\$ 42,432,270	\$ 44,628,751
2. Discount Rate	6.00%	5.75%
3. Accumulated Benefit Obligation (ABO)		
a. Actives	\$ 32,242,853	\$ 35,656,053
b. Vested Terminated	1,901,378	2,056,225
c. Retirees	<u>22,721,062</u>	<u>22,536,839</u>
d. Total	\$ 56,865,293	\$ 60,249,117
4. Obligation for Future Salary Increases	<u>8,030,095</u>	<u>7,797,473</u>
5. Projected Benefit Obligation (PBO)	\$ 64,895,388	\$ 68,046,590
6. Annualized Service Cost	\$ 1,768,438	N/A
-as % of payroll	11.75%	N/A
7. Annualized Net Periodic Pension Cost	\$ 3,027,126	N/A
-as % of payroll	20.11%	N/A

Summary of Employer's Financial Reporting Data

The following is intended to provide the employer and its auditor with information required under 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 Postretirement Benefits. The remainder of this Section 2 of the report provides sample worksheets incorporating assumed year end plan financial data, which, when combined with the actuarial information below, will determine entries on the employer's financial statements.

1. For a description of the plan, including employee groups covered and the type of benefit formula, see Section 5 of this report. For information regarding the types of assets held and significant non-benefit liabilities, see Section 3 of this report. There have been no significant matters affecting comparability of accounting information between periods. The employer's funding policy for the plan has been to contribute amounts in accordance with federal regulations regarding minimum funding standards, but not to exceed amounts deductible for federal income tax purposes.
2. The weighted average assumed discount rate used in computing the service and interest cost components of the net periodic pension cost is 6.00% annual effective rate for the fiscal year. The projected, accumulated and vested benefit obligations were developed using a 5.75% discount rate. The weighted average rate of compensation increase used to measure the projected benefit obligation is 3.35% and for the service cost component of the net periodic pension cost is 3.55% annually. The weighted average expected long term rate of return on plan assets used to compute the expected return on plan assets (used in computing the asset gain or loss) is 9.0% annual effective rate.
3. The Bargaining Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust. The Master Trust owns 827,608 shares of common stock of the employer as of September 30, 2004 valued at \$16,965,964. As of September 30, 2004, the Bargaining Plan held a 16.1% interest in the Master Trust. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.
4. Actuarial items have been computed and projected to the measurement date based on a 5.75% discount rate.

DETERMINATION OF NET PERIODIC PENSION COST
FOR THE SHORT SIX-MONTH FISCAL YEAR ENDING DECEMBER 31, 2004

1. Service Cost	\$ 884,219
2. Interest Cost	1,927,581
3. Expected Return on Assets	(1,923,971)
4. Amortization of Transition (Asset) or Obligation	0
5. Amortization of Prior Service Cost	23,639
6. Amortization of Net (Gain) or Loss	<u>602,095</u>
7. Net Periodic Pension Cost	\$ 1,513,563

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DETERMINATION OF DECEMBER 31, 2004
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability as of Measurement Date (September 30, 2004)

1. Accumulated Benefit Obligation (ABO) projected to measurement date	\$ 60,249,117 ¹
2. Fair Value of Plan Assets at measurement date	\$ 44,628,751
3. Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	\$ 15,620,366

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	\$ (1,979,030)
5. Contributions during October 1, 2004 to December 31, 2004	\$ 599,990
6. Adjusted Fiscal Year-End (Accrued)/Prepaid Pension Expense [(4) - (5)]	\$ (2,579,020)

Additional Liability

7. Additional Liability [(3) + (6)] (not less than zero)	\$ 13,041,346
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Intangible Asset

8. Unrecognized Obligation from Transition	\$ 0
9. Unrecognized Prior Service Cost	\$ 356,950
10. Maximum Intangible Asset [(8) + (9)]	\$ 356,950
11. Actual Intangible Asset - lesser of (7) or (10)	\$ 356,950
12. Accumulated Other Comprehensive Income [(7) - (11)]	\$ 12,684,396

¹ Based on 5.75% discount rate.

**DEVELOPMENT OF CHANGE IN
ACCUMULATED OTHER COMPREHENSIVE INCOME**

1.	Accumulated Other Comprehensive Income as of previous Fiscal Year End (June 30, 2004)	\$ 9,802,906
2.	Change in Accumulated Other Comprehensive Income	
	a. Change in Additional Liability	
	i. Additional Liability as of current Fiscal Year End	\$ 13,041,346
	ii. Additional Liability as of previous Fiscal Year End	<u>10,183,495</u>
	iii. Change in Additional Liability [(i) - (ii)]	\$ 2,857,851
	b. Change in Intangible Asset	
	i. Intangible Asset as of current Fiscal Year End	\$ 356,950
	ii. Intangible Asset as of previous Fiscal Year End	<u>380,589</u>
	iii. Change in Intangible Asset [(i) - (ii)]	\$ (23,639)
	c. Change in Accumulated Other Comprehensive Income [(a.iii.) - (b.iii.)]	\$ 2,881,490
3.	Accumulated Other Comprehensive Income as of Current Fiscal Year End (December 31, 2004) [(1) + (2.c.)]	\$ 12,684,396

**SEPTEMBER 30, 2004 DEVELOPMENT OF
RECONCILIATION OF FUNDED STATUS¹**

1. Projected Benefit Obligation	\$ (68,046,590)
2. Plan assets at Fair Value	<u>44,628,751</u>
3. Funded Status	\$ (23,417,839)
4. Unrecognized Transition Amount	0
5. Unrecognized Prior Service Cost	356,950
6. Unrecognized Net (Gain) or Loss	<u>20,481,869</u>
7. (Accrued)/Prepaid Pension Cost at December 31, 2004 prior to 4 th Calendar Quarter Contributions	\$ (2,579,020)
8. Contributions made during the 4 th Calendar Quarter	<u>599,990</u>
9. (Accrued)/Prepaid Pension Cost at December 31, 2004	\$ (1,979,030)
10. Adjustment required to recognize Minimum Liability	<u>(13,041,346)</u>
11. (Pension Liability)/Prepaid Pension Cost	\$ (15,020,376)
12. Accumulated Benefit Obligation	\$ (60,249,117) ¹
13. Unfunded Accumulated Benefit Obligation	\$ (15,620,366)

¹ Based on 5.75% discount rate.

(ACCRUED) OR PREPAID PENSION EXPENSE

1.	(Accrued)/Prepaid Pension Expense at June 30, 2004	\$ (3,649,538)
2.	Net Periodic Pension Cost for the three months ending September 30, 2004	756,782
3.	Contributions ¹ made during the three months ending September 30, 2004	<u>2,584,081</u>
4.	(Accrued)/Prepaid Pension Expense at September 30, 2004 [(1) - (2) + (3)]	\$ (1,822,239)
5.	Net Periodic Pension Cost for the three months ending December 31, 2004	<u>756,781</u>
6.	(Accrued)/Prepaid Pension Expense at December 31, 2004 prior to 4 th Calendar Quarter Contributions [(4) - (5)]	\$ (2,579,020)
7.	Contributions ¹ made during the three months ending December 31, 2004	<u>599,990</u>
8.	(Accrued)/Prepaid Pension Expense at December 31, 2004 [(6) + (7)]	\$ (1,979,030)

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**

	<u>Measurement Period</u>	
	<u>04/01/2003 - 03/31/2004</u>	<u>04/01/2004 - 09/30/2004</u>
1. Reconciliation of beginning and ending balances of the Benefit Obligation		
a. Benefit Obligation at Beginning of Period	\$ 58,642,846	\$ 64,895,388
b. Service Cost	1,632,707	884,219
c. Interest Cost	3,753,417	1,927,581
d. Amendments	0	0
e. Liability Actuarial (Gain)/Loss	3,274,098	1,665,070
f. Benefits Paid	<u>(2,407,680)</u>	<u>(1,325,668)</u>
g. Benefit Obligation at End of Period	\$ 64,895,388	\$ 68,046,590 ¹
2. Reconciliation of beginning and ending balances of Plan Assets		
a. Fair Value of Plan Assets at Beginning of Period	\$ 35,061,193	\$ 42,432,270
b. Return on Plan Assets	8,428,757	338,078
c. Employer Contributions	1,350,000	3,184,071
d. Benefits Paid	<u>(2,407,680)</u>	<u>(1,325,668)</u>
e. Fair Value of Plan Assets at End of Period	\$ 42,432,270	\$ 44,628,751
3. Recognized/Unrecognized Amounts		
a. Funded Status [2(e) - 1(g)]	\$ (22,463,118)	\$ (23,417,839)
b. Unrecognized Transition Obligation/(Asset)	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	17,833,001	20,481,869
d. Unrecognized Prior Service Cost	<u>380,589</u>	<u>356,950</u>
e. Net Amount Recognized at June 30 prior to Last Calendar Quarter Contributions	\$ (4,249,528)	\$ (2,579,020)
f. Contributions made during Last Calendar Quarter of Period	<u>599,990</u>	<u>599,990</u>
g. Net Amount Recognized at End of Period	\$ (3,649,538)	\$ (1,979,030)
4. Amounts Recognized in the Statement of Financial Position:		
a. Prepaid Benefit Cost	\$ 0	\$ 0
b. Accrued Benefit Liability	(13,833,033)	(15,020,376)
c. Intangible Asset	380,589	356,950
d. Accumulated Other Comprehensive Income	<u>9,802,906</u>	<u>12,684,396</u>
e. Net amount recognized	\$ (3,649,538)	\$ (1,979,030)
5. Weighted Average Assumptions used to determine benefit obligations:		
a. Discount Rate	6.00%	5.75%
b. Rate of Compensation Increase	3.55%	3.35%

¹ Based on 5.75% discount rate.

COMPONENTS OF NET PERIODIC BENEFIT COST

	<u>Fiscal Period</u>	
	<u>07/01/2003 - 06/30/2004</u>	<u>07/01/2004 - 12/31/2004</u>
1. Service Cost	\$ 1,632,707	\$ 884,219
2. Interest Cost	3,753,417	1,927,581
3. Expected Return on Plan Assets	(3,138,287)	(1,923,971)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	47,278	23,639
6. Amortization of Net (Gain)/Loss	<u>1,739,539</u>	<u>602,095</u>
7. Net Periodic Benefit Cost	<u>\$ 4,034,654</u>	<u>\$ 1,513,563</u>

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

	<u>Fiscal Year Ending</u>	
	<u>06/30/2004</u>	<u>12/31/2004</u>
Discount Rate	6.50%	6.00%
Expected Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Compensation Increase	4.00%	3.55%

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.

	<u>03/31/2004</u>	<u>09/30/2004</u>
Projected Benefit Obligation	\$ 64,895,388	\$ 68,046,590
Accumulated Benefit Obligation	56,865,293	60,249,117
Fair Value of Plan Assets	42,432,270	44,628,751

There were no amendments to the plan during the year that increased the projected benefit obligation.

Increase in minimum liability included in other comprehensive income:

	<u>03/31/2004</u>	<u>09/30/2004</u>
	\$ (1,886,517)	\$ 2,857,851

PLAN ASSET INFORMATION

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

	<u>03/31/2004</u>	<u>09/30/2004</u>
Equity securities	67.6%	65.9%
Debt securities	26.6%	27.9%
Other – cash equivalents	<u>5.8%</u>	<u>6.2%</u>
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 827,608 shares of common stock of the employer as of September 30, 2004 valued at \$16,965,964. As of September 30, 2004, the Bargaining Plan held a 16.1% 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 2005 plan year, the estimated minimum required contribution is \$3,000,000 and the estimated maximum deductible contribution is \$7,000,000. The employer may contribute an amount between \$2,929,354* and \$7,920,488** to its pension plan in fiscal year 2005.

*2004 plan year receivable contribution plus current plan year quarterly contributions in fiscal year 2005

**Prior plan year receivable contribution plus the estimated 2005 plan year maximum deductible contribution

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

	<u>Date</u>	<u>Amount</u>	<u>Contributions</u>
1.	January 15, 2005	\$ 558,018	4 th Quarter Installment for Plan Year ending December 31, 2004
2.	April 15, 2005	669,622*	1 st Quarter Installment for Plan Year ending December 31, 2005
3.	July 15, 2005	669,622*	2 nd Quarter Installment for Plan Year ending December 31, 2005
4.	September 15, 2005	362,470	2004 Final Installment for (prior) Plan Year ending December 31, 2004
5.	October 15, 2005	669,622*	3 rd Quarter Installment for Plan Year ending December 31, 2005
	Total	\$ 2,929,354	

* Estimated

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

<u>Calendar Year</u>	
2005	\$ 2,586,192
2006	2,686,735
2007	2,978,869
2008	3,217,143
2009	3,454,387
Years 2010 – 2014	22,639,024

OTHER ACCOUNTING-RELATED INFORMATION

Reconciliation of Unrecognized Net Actuarial (Gain)/Loss:

a. Unrecognized Net Actuarial (Gain)/Loss as of beginning of period	\$ 17,833,001
b. Liability Actuarial (Gain)/Loss	1,665,070
c. Asset (Gain)/Loss	1,585,893
d. Amount Recognized in Pension Expense	<u>(602,095)</u>
e. Unrecognized Net Actuarial (Gain)/Loss as of end of period	\$ 20,481,869

Evaluation of Settlement Accounting Requirement for FYE 12/31/2004:

1. Service Cost	\$ 884,219
2. Interest Cost	\$ 1,927,581
3. Annual lump sum distributions, annuity purchases or other settlements (expected)	\$ 21,300
4. Item (1) + Item (2) – Item (3)	\$ 2,790,500

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 #1¹ 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

<u>Fiscal Year Ending</u>	<u>Amount Recognized</u>	<u>Unrecognized PSC at End of Measurement Year</u>	<u>Unrecognized PSC at End of Fiscal Year</u>
06/30/2003	\$ 35,459	\$ 427,867	\$ 416,048
06/30/2004	47,278	380,589	368,770
12/31/2004	23,639	356,950	345,131
12/31/2005	47,278	309,672	297,853
12/31/2006	47,278	262,394	250,575
12/31/2007	47,278	215,116	203,297
12/31/2008	47,278	167,838	156,019
12/31/2009	47,278	120,560	108,741
12/31/2010	47,278	73,282	61,463
12/31/2011	47,278	26,004	14,185
12/31/2012	26,004	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

	<u>03/31/2004</u>	<u>09/30/2004</u>
1. Projected Benefit Obligation	\$ 64,895,388	\$ 68,046,590
2. Fair Value of Plan Assets at measurement date	\$ 42,432,270	\$ 44,628,751
3. Unrecognized Transition Obligation/(Asset)	\$ 0	\$ 0
4. Unrecognized Prior Service Cost	\$ 380,589	\$ 356,950
5. (Accrued)/Prepaid Pension Expense prior to Last Quarter Pension Expense	\$ (4,249,528)	\$ (2,579,020)
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	\$ 17,833,001	\$ 20,481,869
7. Net (Gain)/ Loss not reflected in Market-Related value		
a. Fair Value	\$ 42,432,270	\$ 44,628,751
b. Market-Related Value (MRV)	\$ 42,432,270	\$ 44,628,751
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)]	\$ 17,833,001	\$ 20,481,869
9. Greater of (1) or (7b)	\$ 64,895,388	\$ 68,046,590
10. 10% of (9)	\$ 6,489,539	\$ 6,804,659
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	\$ 11,343,462	\$ 13,677,210
12. Average future service of plan participants expected to receive benefits	9.42	9.42
13. Amortization amount [(11)/(12)]	\$ 1,204,189	\$ 1,451,933

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2004 (measurement date)	\$ 44,628,751
2. Actual benefit distributions	\$ 1,325,668
3. Actual contributions	\$ 3,184,071
4. Fair Value at March 31, 2004 (measurement date)	\$ 42,432,270
5. Actual return on assets [(1) + (2) - (3) - (4)]	\$ 338,078
6. Expected return	\$ 1,923,971
7. Asset (Gain) or Loss [(6) - (5)]	\$ 1,585,893

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

<u>Investment Category</u>	<u>03/31/2004</u>	<u>09/30/2004</u>
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	42,444,838	44,634,134
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Benefits receivable/(payable)	<u>(12,568)</u>	<u>(5,383)</u>
9. Fair value of Assets	\$ 42,432,270	\$ 44,628,751

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:

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

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

c. Discount Rate:

	As of 04/01/2004	End of Year Disclosure 09/30/2004 Measurement Date (and 2005 Fiscal Year NPPC)
	<u>Net Periodic Pension Cost</u>	
Pre-retirement:	6.00%	5.75%
Post-retirement:	6.00%	5.75%

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 3.55% for the net periodic pension cost determination and 3.35% 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:

Attained Age	<u>Retirements per 1,000 Participants</u>	
	<u>Before Meeting the Rule of 85</u>	<u>After Meeting the Rule of 85</u>
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: 3.55% 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: 3.35% 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

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

<u>Attained Age</u>	<u>Disabilities per 1,000 Participants</u>
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 $1\frac{2}{3}\%$ 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:

<u>Years of Vesting Service</u>	<u>Vesting Percent</u>
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 DataParticipant Data Reconciliation

	<u>Active Participants¹</u>	<u>Current Payment Status</u>	<u>Vested Terminated and Deferred Disabled</u>	<u>Total</u>
1. As of January 1, 2003	291	170	44	505
2. Change of status				
a. normal retirement	-	-	-	-
b. late retirement	-	-	-	-
c. early retirement	(6)	6	0	0
d. disability	(1)	0	1	0
e. death	-	-	-	-
f. nonvested termination	-	-	-	-
g. vested termination	(7)	0	7	0
h. completion of payment	0	(2)	0	(2)
i. transfers (to)/from Non-Bargaining Plan ²	(1)	0	0	(1)
j. other	0	2	0	2
k. net changes	<u>(15)</u>	<u>6</u>	<u>8</u>	<u>(1)</u>
3. New participants	<u>5</u>	<u>0</u>	<u>0</u>	<u>5</u>
4. As of January 1, 2004	281	176	52	509

¹ includes any participant who might be beyond Normal Retirement Date
² not valued under this plan

**SOUTHERN UNION COMPANY
PROENERGY PENSION PLAN FOR
NON-BARGAINING UNIT EMPLOYEES**

**APPLICATION OF STATEMENT OF FINANCIAL
ACCOUNTING STANDARDS NOS. 87 AND 132(R)
TO THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004**

DRAFT

Rudd and Wisdom, Inc.

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February 15, 2005

PERSONAL AND CONFIDENTIAL

Mr. David Kvapil
Southern Union Company
One PEI Center
Wilkes-Barre, PA 18711

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 short Fiscal Year Ending December 31, 2004

Dear Mr. Kvapil:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company ProvEnergy Pension Plan for Non-Bargaining Unit Employees as of January 1, 2004. 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, 2004 financial statement for the short six-month fiscal year ending December 31, 2004. The results of this valuation are appropriate for these purposes only. The guidelines for determining an appropriate level of funding (contribution) for 2004 may be found in our Actuarial Valuation report for the 2004 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 \$926,719 for the period July 1, 2004 to December 31, 2004. 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, for the short six-month fiscal year ending December 31, 2004 is \$926,719. 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, 2004 financial markets. We have used 5.75% as the discount rate for year-end disclosure calculations.

Mr. David Kvapil
Page 3
February 15, 2005

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:jc

Enclosures

cc: Ron Weaver
Mark Kashuda
Donna Abdalla

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

SFAS Nos. 87 AND 132(R)
ACTUARIAL VALUATION

AS OF

JANUARY 1, 2004

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE
FOR THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004

Prepared by:

February 15, 2005
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

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Section 1

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

Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation **(As of January 1, 2004)**

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2004 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 short six-month fiscal year ending December 31, 2004.

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, 2004 provided by Joanne Zito of New England Gas Company and asset information as of April 1, 2004 and September 30, 2004 provided by Bank One Trust Company, N.A. 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. 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, 2004) 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.

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*

	<u>January 1, 2004</u>
1. Participants:	
a. Actives	139
b. Vested Terminated and Transferred	105
c. Retirees	<u>186</u>
d. Total	430
2. Valuation Payroll	\$10,740,994

Valuation Results

	<u>As of 03/31/2004 for Expense</u>	<u>As of 09/30/2004 for Disclosure</u>
1. a. Fair Value of Assets	\$ 43,749,552	\$ 43,373,279
b. Market-Related Value of Assets	\$ 43,749,552	\$ 43,373,279
2. Discount Rate	6.00%	5.75%
3. Accumulated Benefit Obligation (ABO)		
a. Actives	\$ 17,143,148	\$ 19,144,670
b. Vested Terminated	4,795,785	5,179,371
c. Retirees	<u>27,950,312</u>	<u>27,708,173</u>
d. Total	\$ 49,889,245	\$ 52,032,214
4. Obligation for Future Salary Increases	<u>5,523,961</u>	<u>5,373,277</u>
5. Projected Benefit Obligation (PBO)	\$ 55,413,206	\$ 57,405,491
6. Annualized Service Cost	\$ 1,195,704	N/A
-as % of payroll	11.13%	N/A
7. Annualized Net Periodic Pension Cost	\$ 1,853,438	N/A
-as % of payroll	17.26%	N/A

Summary of Employer's Financial Reporting Data

The following is intended to provide the employer and its auditor with information required under 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 Postretirement Benefits. The remainder of this Section 2 of the report provides sample worksheets incorporating assumed year end plan financial data, which, when combined with the actuarial information below, will determine entries on the employer's financial statements.

1. For a description of the plan, including employee groups covered and the type of benefit formula, see Section 5 of this report. For information regarding the types of assets held and significant non-benefit liabilities, see Section 3 of this report. There have been no significant matters affecting comparability of accounting information between periods. The employer's funding policy for the plan has been to contribute amounts in accordance with federal regulations regarding minimum funding standards, but not to exceed amounts deductible for federal income tax purposes.
2. The weighted average assumed discount rate used in computing the service and interest cost components of the net periodic pension cost is 6.00% annual effective rate for the fiscal year. The projected, accumulated and vested benefit obligations were developed using a 5.75% discount rate. The weighted average rate of compensation increase used to measure the projected benefit obligation is 3.35% and for the service cost component of the net periodic pension cost is 3.55% annually. The weighted average expected long term rate of return on plan assets used to compute the expected return on plan assets (used in computing the asset gain or loss) is 9.0% annual effective rate.
3. The Non-Bargaining Plan owns an interest in the Southern Union Company Retirement Income Plan Master Trust. The Master Trust owns 827,608 shares of common stock of the employer as of September 30, 2004 valued at \$16,965,964. As of September 30, 2004, 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.
4. Actuarial items have been computed and projected to the measurement date based on a 5.75% discount rate.

DETERMINATION OF NET PERIODIC PENSION COST
FOR THE SHORT SIX-MONTH FISCAL YEAR ENDING DECEMBER 31, 2004

1. Service Cost	\$ 597,852
2. Interest Cost	1,639,017
3. Expected Return on Assets	(1,936,938)
4. Amortization of Transition (Asset) or Obligation	0
5. Amortization of Prior Service Cost	47
6. Amortization of Net (Gain) or Loss	<u>626,741</u>
7. Net Periodic Pension Cost	\$ 926,719

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DETERMINATION OF DECEMBER 31, 2004
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability as of Measurement Date (September 30, 2004)

1. Accumulated Benefit Obligation (ABO) projected to measurement date	\$ 52,032,214 ¹
2. Fair Value of Plan Assets at measurement date	\$ 43,373,279
3. Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	\$ 8,658,935

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	\$ 7,664,325
5. Contributions during October 1, 2004 to December 31, 2004	\$ 0
6. Adjusted Fiscal Year-End (Accrued)/Prepaid Pension Expense [(4) - (5)]	\$ 7,664,325

Additional Liability

7. Additional Liability [(3) + (6)] (not less than zero)	\$ 16,323,260
--	---------------

Intangible Asset

8. Unrecognized Obligation from Transition	\$ 0
9. Unrecognized Prior Service Cost	\$ 831
10. Maximum Intangible Asset [(8) + (9)]	\$ 831
11. Actual Intangible Asset - lesser of (7) or (10)	\$ 831
12. Accumulated Other Comprehensive Income [(7) - (11)]	\$ 16,322,429

¹ Based on 5.75% discount rate.

**DEVELOPMENT OF CHANGE IN
ACCUMULATED OTHER COMPREHENSIVE INCOME**

1.	Accumulated Other Comprehensive Income as of previous Fiscal Year End (June 30, 2004)	\$ 13,855,792
2.	Change in Accumulated Other Comprehensive Income	
	a. Change in Additional Liability	
	i. Additional Liability as of current Fiscal Year End	\$ 16,323,260
	ii. Additional Liability as of previous Fiscal Year End	<u>13,856,670</u>
	iii. Change in Additional Liability [(i) - (ii)]	\$ 2,466,590
	b. Change in Intangible Asset	
	i. Intangible Asset as of current Fiscal Year End	\$ 831
	ii. Intangible Asset as of previous Fiscal Year End	<u>878</u>
	iii. Change in Intangible Asset [(i) - (ii)]	\$ (47)
	c. Change in Accumulated Other Comprehensive Income [(a.iii.) - (b.iii.)]	\$ 2,466,637
3.	Accumulated Other Comprehensive Income as of Current Fiscal Year End (December 31, 2004) [(1) + (2.c.)]	\$ 16,322,429

**SEPTEMBER 30, 2004 DEVELOPMENT OF
RECONCILIATION OF FUNDED STATUS¹**

1. Projected Benefit Obligation	\$ (57,405,491) ¹
2. Plan assets at Fair Value	<u>43,373,279</u>
3. Funded Status	\$ (14,032,212)
4. Unrecognized Transition Amount	0
5. Unrecognized Prior Service Cost	831
6. Unrecognized Net (Gain) or Loss	<u>21,695,706</u>
7. (Accrued)/Prepaid Pension Cost at December 31, 2004 prior to 4 th Calendar Quarter Contributions	\$ 7,664,325
8. Contributions made during the 4 th Calendar Quarter	<u>0</u>
9. (Accrued)/Prepaid Pension Cost at December 31, 2004	\$ 7,664,325
10. Adjustment required to recognize Minimum Liability	<u>(16,323,260)</u>
11. (Pension Liability)/Prepaid Pension Cost	\$ (8,658,935)
12. Accumulated Benefit Obligation	\$ (52,032,214) ¹
13. Unfunded Accumulated Benefit Obligation	\$ (8,658,935)

¹ Based on 5.75% discount rate.

(ACCRUED) OR PREPAID PENSION EXPENSE

1.	(Accrued)/Prepaid Pension Expense at June 30, 2004	\$ 7,716,977
2.	Net Periodic Pension Cost for the three months ending September 30, 2004	463,360
3.	Contributions ¹ made during the three months ending September 30, 2004	<u>874,067</u>
4.	(Accrued)/Prepaid Pension Expense at September 30, 2004 [(1) - (2) + (3)]	\$ 8,127,684
5.	Net Periodic Pension Cost for the three months ending December 31, 2004	<u>463,359</u>
6.	(Accrued)/Prepaid Pension Expense at December 31, 2004 prior to 4 th Calendar Quarter Contributions [(4) - (5)]	\$ 7,664,325
7.	Contributions ¹ made during the three months ending December 31, 2004	<u>0</u>
8.	(Accrued)/Prepaid Pension Expense at December 31, 2004 [(6) + (7)]	\$ 7,664,325

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.

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**RECONCILIATION OF BENEFIT OBLIGATIONS, PLAN ASSETS
AND BALANCE SHEET POSITION**

	<u>Measurement Period</u>	
	<u>04/01/2003 - 03/31/2003</u>	<u>04/01/2004 - 09/30/2004</u>
1. Reconciliation of beginning and ending balances of the Benefit Obligation		
a. Benefit Obligation at Beginning of Period	\$ 51,119,980	\$ 55,413,206
b. Service Cost	1,101,903	597,852
c. Interest Cost	3,252,710	1,639,017
d. Amendments	0	0
e. Liability Actuarial (Gain)/Loss	3,020,431	1,318,974
f. Benefits Paid	<u>(3,081,818)</u>	<u>(1,563,558)</u>
g. Benefit Obligation at End of Period	\$ 55,413,206	\$ 57,405,491 ¹
2. Reconciliation of beginning and ending balances of Plan Assets		
a. Fair Value of Plan Assets at Beginning of Period	\$ 37,902,610	\$ 43,749,552
b. Return on Plan Assets	8,928,760	313,218
c. Employer Contributions	0	874,067
d. Benefits Paid	<u>(3,081,818)</u>	<u>(1,563,558)</u>
e. Fair Value of Plan Assets at End of Period	\$ 43,749,552	\$ 43,373,279
3. Recognized/Unrecognized Amounts		
a. Funded Status [2(e) - 1(g)]	\$ (11,663,654)	\$ (14,032,212)
b. Unrecognized Transition Obligation/(Asset)	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	19,379,753	21,695,706
d. Unrecognized Prior Service Cost	<u>878</u>	<u>831</u>
e. Net Amount Recognized at June 30 prior to the Last Calendar Quarter Contributions	\$ 7,716,977	\$ 7,664,325
f. Contributions made during the Last Calendar Quarter of Period	<u>0</u>	<u>0</u>
g. Net Amount Recognized at End of Period	\$ 7,716,977	\$ 7,664,325
4. Amounts Recognized in the Statement of Financial Position:		
a. Prepaid Benefit Cost	\$ 0	\$ 0
b. Accrued Benefit Liability	(6,139,693)	(8,658,935)
c. Intangible Asset	878	831
d. Accumulated Other Comprehensive Income	<u>13,855,792</u>	<u>16,322,429</u>
e. Net amount recognized	\$ 7,716,977	\$ 7,664,325
5. Weighted Average Assumptions used to determine benefit obligations:		
a. Discount Rate	6.00%	5.75%
b. Rate of Compensation Increase	3.55%	3.35%

¹ Based on 5.75% discount rate.

COMPONENTS OF NET PERIODIC BENEFIT COST

	<u>Fiscal Period</u>	
	<u>07/01/2003 - 06/30/2004</u>	<u>07/01/2004 - 12/31/2004</u>
1. Service Cost	\$ 1,101,903	\$ 597,852
2. Interest Cost	3,252,710	1,639,017
3. Expected Return on Plan Assets	(3,272,553)	(1,936,938)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	93	47
6. Amortization of Net (Gain)/Loss	<u>1,705,003</u>	<u>626,741</u>
7. Net Periodic Benefit Cost	<u>\$ 2,787,156</u>	<u>\$ 926,719</u>

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

	<u>Fiscal Period</u>	
	<u>06/30/2004</u>	<u>12/31/2004</u>
Discount Rate	6.50%	6.00%
Expected Long-Term Return on Plan Assets	9.00%	9.00%
Rate of Compensation Increase	4.00%	3.55%

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.

	<u>03/31/2004</u>	<u>09/30/2004</u>
Projected Benefit Obligation	\$ 55,413,206	\$ 57,405,491
Accumulated Benefit Obligation	49,889,245	52,032,214
Fair Value of Plan Assets	43,749,552	43,373,279

There were no amendments to the plan during the year that increased the projected benefit obligation.

Increase in minimum liability included in other comprehensive income:

	<u>03/31/2004</u>	<u>09/30/2004</u>
	\$ (4,590,091)	\$ 2,466,590

PLAN ASSET INFORMATION

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

	<u>03/31/2004</u>	<u>09/30/2004</u>
Equity securities	67.6%	65.9%
Debt securities	26.6%	27.9%
Other – cash equivalents	5.8%	6.2%
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 827,608 shares of common stock of the employer as of September 30, 2004, with a fair market value of \$16,965,964. As of September 30, 2004, 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 2005 plan year, the estimated minimum required contribution is \$1,000,000 and the estimated maximum deductible contribution is \$1,000,000. The employer may contribute an amount between \$948,268* and \$1,948,268** to its pension plan in fiscal year 2005.

*Prior plan year receivable contribution plus no current plan year contribution

**Prior plan year receivable contribution plus the estimated current plan year maximum deductible contribution

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

<u>Calendar Year</u>	
2005	\$ 3,092,747
2006	3,096,448
2007	3,156,644
2008	3,278,868
2009	3,448,877
Years 2010 - 2014	19,638,617

OTHER ACCOUNTING-RELATED INFORMATION

Reconciliation of Unrecognized Net Actuarial (Gain)/Loss:

a. Unrecognized Net Actuarial (Gain)/Loss as of beginning of period	\$ 19,379,753
b. Liability Actuarial (Gain)/Loss	1,318,974
c. Asset (Gain)/Loss	1,623,720
d. Amount Recognized in Pension Expense	<u>(626,741)</u>
e. Unrecognized Net Actuarial (Gain)/Loss as of end of period	\$ 21,695,706

Evaluation of Settlement Accounting Requirement for FYE 12/31/2004:

1. Service Cost	\$ 597,852
2. Interest Cost	\$ 1,639,017
3. Annual lump sum distributions, annuity purchases or other settlements (expected)	\$ 10,000
4. Item (1) + Item (2) - Item (3)	\$ 2,226,869

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 #1¹ 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

	<u>03/31/2004</u>	<u>09/30/2004</u>
1. Projected Benefit Obligation	\$ 55,413,206	\$ 57,405,491
2. Fair Value of Plan Assets at measurement date	\$ 43,749,552	\$ 43,373,279
3. Unrecognized Transition Obligation/(Asset)	\$ 0	\$ 0
4. Unrecognized Prior Service Cost	\$ 878	\$ 831
5. (Accrued)/Prepaid Pension Expense prior to last quarter pension expense	\$ 7,716,977	\$ 7,664,325
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	\$ 19,379,753	\$ 21,695,706
7. Net (Gain)/ Loss not reflected in Market-Related value		
a. Fair Value	\$ 43,749,552	\$ 43,373,279
b. Market-Related Value (MRV)	\$ 43,749,552	\$ 43,373,279
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)]	\$ 19,379,753	\$ 21,695,706
9. Greater of (1) or (7b)	\$ 55,413,206	\$ 57,405,491
10. 10% of (9)	\$ 5,541,321	\$ 5,740,549
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	\$ 13,838,432	\$ 15,955,157
12. Average future service of plan participants expected to receive benefits	11.04	\$ 11.04
13. Amortization amount [(11)/(12)]	\$ 1,253,481	\$ 1,445,213

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2004 (measurement date)	\$ 43,373,279
2. Actual benefit distributions	\$ 1,563,558
3. Actual contributions	\$ 874,067
4. Fair Value at March 31, 2004 (measurement date)	\$ 43,749,552
5. Actual return on assets [(1) + (2) - (3) - (4)]	\$ 313,218
6. Expected return	\$ 1,936,938
7. Asset (Gain) or Loss [(6) - (5)]	\$ 1,623,720

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

Investment Category	03/31/2004	09/30/2004
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	43,749,552	43,367,896
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Benefits receivable/(payable)	0	5,383
9. Fair value of Assets*	\$ 43,749,552	\$ 43,373,279

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:

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

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

c. Discount Rate:

	As of 4/01/2004 for <u>Net Periodic Pension Cost</u>	End of Year Disclosure 9/30/2004 Measurement Date (and 2005 Fiscal Year NPPC)
Pre-retirement:	6.00%	5.75%
Post-retirement:	6.00%	5.75%

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 3.55% for the net periodic pension expense and at an annual rate of 3.35% for year-end disclosure.

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

Attained Age	Retirements per 1,000 Participants	
	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: 3.55% 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: 3.35% 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

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

<u>Attained Age</u>	<u>Disabilities per 1,000 Participants</u>
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. $\frac{15}{16}\%$ 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 $1\frac{2}{3}\%$ 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 $\frac{5}{9}\%$ for each month early retirement precedes normal retirement up to 60 months and reduced $\frac{5}{18}\%$ 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:

<u>Years of Vesting Service</u>	<u>Vesting Percent</u>
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 DataParticipant Data Reconciliation

	<u>Active Participants*</u>	<u>Current Payment Status</u>	<u>Vested Terminated and Deferred Disabled</u>	<u>Total</u>
1. As of January 1, 2003	139	189	105	433
2. Change of status				
a. normal retirement	-	-	-	-
b. late retirement	-	-	-	-
c. early retirement	(2)	5	(3)	0
d. disability	-	-	-	-
e. death	-	-	-	-
f. nonvested termination	(4)	0	0	(4)
g. vested termination	(1)	0	1	0
h. completion of payment	0	(8)	0	(8)
i. net transfers from/(to) Bargaining Plan**	1	0	0	1
j. other	<u>(1)</u>	<u>0</u>	<u>2</u>	<u>1</u>
k. net changes	(7)	(3)	0	(10)
3. New participants	<u>7</u>	<u>0</u>	<u>0</u>	<u>7</u>
4. As of January 1, 2004	139	186	105	430

* includes any participant who might be beyond Normal Retirement Date.

** not valued under this plan.

**SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES'
RETIREMENT PLAN**

**APPLICATION OF STATEMENT OF FINANCIAL
ACCOUNTING STANDARDS NOS. 87 AND 132(R)
TO THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004**

DRAFT

Rudd and Wisdom, Inc.

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David G. Wilkes, F.S.A.

February 15, 2005

PERSONAL AND CONFIDENTIAL

Mr. David Kvapil
Southern Union Company
One PEI Center
Wilkes-Barre, PA 18711

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 Short Fiscal Year Ending December 31, 2004

Dear Mr. Kvapil:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company Valley Resources Employees' Retirement Plan as of January 1, 2004. 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, 2004 financial statement for the short six-month fiscal year ending December 31, 2004. 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 2004 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 \$(361,785) for the period July 1, 2004 to December 31, 2004. 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 the short six-month fiscal year ending December 31, 2004 is \$(361,785). 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 2.8 through 2.10.

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, 2004 financial markets. We have used 5.75% as the discount rate for year-end disclosure calculations.

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.

Mr. David Kvapil
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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:jc

Enclosures

cc: Mark Kashuda
Ron Weaver
Donna Abdalla

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SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES'
RETIREMENT PLAN

SFAS Nos. 87 AND 132(R)
ACTUARIAL VALUATION

AS OF

JANUARY 1, 2004

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE
FOR THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004

Prepared by:

February 15, 2005
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

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Section 1**SOUTHERN UNION COMPANY VALLEY RESOURCES
EMPLOYEES' RETIREMENT PLAN****Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation
(As of January 1, 2004)**

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2004 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 short six-month fiscal year ending December 31, 2004.

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, 2004 provided by New England Gas Company and asset information as of April 1, 2004 and September 30, 2004 provided by Bank One. 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, 2004) 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*

January 1, 2004

1. Participants:	
a. Actives	98
b. Vested Terminated*	49
c. Retirees	108
d. Total	255
2. Valuation Payroll	\$ 5,491,795

Valuation Results

	Beginning of Measurement Year for Expense	End of Measurement Year for Disclosure
1. a. Fair Value of Assets	\$ 34,180,855	\$ 33,794,994
b. Market-Related Value of Assets	34,180,855	\$ 33,794,994
2. Discount Rate	6.00%	5.75%
3. Accumulated Benefit Obligation (ABO)		
a. Actives	\$ 6,278,893	\$ 7,611,388
b. Vested Terminated*	2,386,881	2,560,084
c. Retirees	11,786,864	11,712,347
d. Total	\$ 20,452,638	\$ 21,883,819
4. Obligation for Future Salary Increases	3,141,753	3,126,026
5. Projected Benefit Obligation (PBO)	\$ 23,594,391	\$ 25,009,845
6. Annualized Service Cost	\$ 537,488	N/A
-as % of payroll	9.8%	N/A
7. Annualized Net Periodic Pension Cost	\$ (723,570)	N/A
-as % of payroll	(13.2)%	N/A

* Includes 5 transfers to union.

Summary of Employer's Financial Reporting Data

The following is intended to provide the employer and its auditor with information required under 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 Postretirement Benefits. The remainder of this Section 2 of the report provides sample worksheets incorporating assumed year end plan financial data, which, when combined with the actuarial information below, will determine entries on the employer's financial statements.

1. For a description of the plan, including employee groups covered and the type of benefit formula, see Section 5 of this report. For information regarding the types of assets held and significant non-benefit liabilities, see Section 3 of this report. There have been no significant matters affecting comparability of accounting information between periods. The employer's funding policy for the plan has been to contribute amounts in accordance with federal regulations regarding minimum funding standards, but not to exceed amounts deductible for federal income tax purposes.
2. The weighted average assumed discount rate used in computing the service and interest cost components of the net periodic pension cost was an annual effective rate of 6.00%. The projected, accumulated and vested benefit obligations were developed using a 5.75% discount rate. The weighted average annual rate of compensation increase used to measure the projected benefit obligation is 3.85% and for the service cost component of the net periodic pension cost is 4.05%. The weighted average expected long term rate of return on plan assets used to compute the expected return on plan assets (used in computing the asset gain or loss) is 9.0% annual effective rate.
3. The plan owns an interest in the Southern Union Retirement Income Plan Master Trust. The Master Trust held 827,608 shares of employer common stock as of September 30, 2004. The plan held a 12.2% interest in the Master Trust as of that date. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.
4. Actuarial items have been computed and projected to the measurement date based on a discount rate of 5.75%.

COMPONENTS OF NET PERIODIC PENSION COST
FOR THE SHORT SIX-MONTH FISCAL YEAR ENDING DECEMBER 31, 2004

	<u>Fiscal Year Total</u>
1. Service Cost	\$ 268,744
2. Interest Cost	713,707
3. Expected Return on Assets	(1,523,936)
4. Amortization of Transition Amount	0
5. Amortization of Prior Service Cost	24,626
6. Amortization of Net (Gain) or Loss	<u>155,074</u>
7. Net Periodic Pension Cost	\$ (361,785)

DETERMINATION OF DECEMBER 31, 2004
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability as of Measurement Date (September 30, 2004)

1. Accumulated Benefit Obligation (ABO) projected to measurement date	\$ 21,883,819 ¹
2. Fair Value of Plan Assets at measurement date	\$ 33,794,994
3. Minimum Liability (Unfunded ABO) [(1) – (2)] If zero or less, no additional liability is required	\$ (11,911,175)

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	N/A
5. Contributions during October 1, 2004 to December 31, 2004	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
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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 5.75% discount rate.

**DEVELOPMENT OF CHANGE IN
ACCUMULATED OTHER COMPREHENSIVE INCOME**

1. Accumulated Other Comprehensive Income as of previous Fiscal Year End (June 30, 2004)	\$	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		<u>0</u>
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		<u>0</u>
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 (December 31, 2004) [(1) + (2)]	\$	0

**SEPTEMBER 30, 2004 DEVELOPMENT OF
RECONCILIATION OF FUNDED STATUS¹**

1. Projected Benefit Obligation	\$ (25,009,845) ¹
2. Plan assets at Fair Value	<u>33,794,994</u>
3. Funded Status	\$ 8,785,149
4. Unrecognized Transition Amount	0
5. Unrecognized Prior Service Cost	646,031
6. Unrecognized Net (Gain) or Loss	<u>10,133,960</u>
7. (Accrued)/Prepaid Pension Expense at December 31, 2004 prior to Last Quarter Contributions	\$ 19,565,140
8. Contributions made during the Last Quarter	<u>0</u>
9. (Accrued)/Prepaid Pension Cost at December 31, 2004	\$ 19,565,140
10. Accumulated Benefit Obligation	\$ (21,883,819) ¹

¹ Based on 5.75% discount rate.

(ACCRUED) OR PREPAID PENSION EXPENSE

1. (Accrued)/Prepaid Pension Expense at June 30, 2004	\$ 19,203,355
2. Net Periodic Pension Cost for the three months ending September 30, 2004	(180,893)
3. Contributions ¹ made during the three months ending September 30, 2004	<u>0</u>
4. (Accrued)/Prepaid Pension Expense at September 30, 2004 [(1) – (2) + (3)]	\$ 19,384,248
5. Net Periodic Pension Cost for the three months ending December 31, 2004	<u>(180,892)</u>
6. (Accrued)/Prepaid Pension Expense at December 31, 2004 prior to Last Quarter Contributions [(4) – (5)]	19,565,140
7. Contributions ¹ made during the three months ending December 31, 2004	<u>0</u>
8. (Accrued)/Prepaid Pension Expense at December 31, 2004 [(6) + (7)]	\$ 19,565,140

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**

	<u>Measurement Period</u>	
	<u>04/01/2003- 03/31/2004</u>	<u>04/01/2004- 09/30/2004</u>
1. Reconciliation of beginning and ending balances of the Benefit Obligation		
a. Benefit Obligation at Beginning of Period	\$ 21,054,089	\$ 23,594,391
b. Service Cost	481,398	268,744
c. Interest Cost	1,375,771	713,707
d. Amendments	719,070	0
e. Liability Actuarial (Gain)/Loss	1,229,146	1,060,235
f. Benefits Paid	<u>(1,265,083)</u>	<u>(627,232)</u>
g. Benefit Obligation at End of Period	\$ 23,594,391	\$ 25,009,845
2. Reconciliation of beginning and ending balances of Plan Assets		
a. Fair Value of Plan Assets at Beginning of Period	\$ 28,559,881	\$ 34,180,855
b. Return on Plan Assets	6,886,057	241,371
c. Employer Contributions	0	0
d. Benefits Paid	<u>(1,265,083)</u>	<u>(627,232)</u>
e. Fair Value of Plan Assets at End of Period	\$ 34,180,855	\$ 33,794,994
3. Recognized/Unrecognized Amounts		
a. Funded Status [2(e) - 1(g)]	\$ 10,586,464	\$ 8,785,149
b. Unrecognized Transition Obligation/(Asset)	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	7,946,234	10,133,960
d. Unrecognized Prior Service Cost	<u>670,657</u>	<u>646,031</u>
e. Net Amount Recognized at Fiscal Period End prior to Last Quarter Contributions	\$ 19,203,355	\$ 19,565,140
f. Contributions made during Last Quarter	<u>0</u>	<u>0</u>
g. Net Amount Recognized at End of Fiscal Period	\$ 19,203,355	\$ 19,565,140
4. Weighted Average Assumptions used to determine benefit obligations:		
a. Discount Rate	6.00%	5.75%
b. Rate of Compensation Increase	4.05%	3.85%

The accumulated benefit obligation was \$20,452,638 and \$21,883,819 at March 31, 2004 and September 30, 2004, respectively.

COMPONENTS OF NET PERIODIC BENEFIT COST

	<u>Fiscal Period</u>	
	<u>07/01/2003- 6/30/2004</u>	<u>07/01/2004- 12/31/2004</u>
1. Service Cost	\$ 481,398	\$ 268,744
2. Interest Cost	1,375,771	713,207
3. Expected Return on Plan Assets	(2,728,246)	(1,523,936)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	48,413	24,626
6. Amortization of Net (Gain)/Loss	<u>442,469</u>	<u>155,074</u>
7. Net Periodic Benefit Cost	<u>\$ (380,195)</u>	<u>\$ (361,785)</u>
8. Weighted-average assumptions used to determine net periodic benefit cost:		
	<u>First 2 Months/ Last 10 Months</u>	
Discount Rate	6.50% / 6.25%	6.00%
Expected Long-Term Return on Plan Assets	9.00% / 9.00%	9.00%
Rate of Compensation Increase	4.50% / 4.25%	4.05%

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:

	<u>3/31/2004</u>	<u>09/30/2004</u>
Equity securities	67.6%	65.9%
Debt securities	26.6%	27.9%
Cash equivalents	<u>5.8%</u>	<u>6.2%</u>
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.

Equity securities include Southern Union company common stock in the amounts of \$1.85 million (5.4% of total plan assets) and \$2.06 million (6.1% of total plan assets) at March 31, 2004 and September 30, 2004, respectively.

CASH FLOW INFORMATION

For the 2005 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:

<u>Year</u>	
2005	\$ 1,258,095
2006	1,236,346
2007	1,305,124
2008	1,278,825
2009	1,367,657
2010 through 2014	8,405,857

AMORTIZATION OF PRIOR SERVICE COST

Summary for Short Fiscal Year July 1, 2004 to December 31, 2004

	Balance at Beginning of Short Measurement Year (4/1/2004)	Amount Recognized	Balance at End of Short Measurement Year (9/30/2004)
Schedule B-1	\$ 601,394	\$ 22,110	\$ 579,284
Schedule B-2	<u>69,263</u>	<u>2,516</u>	<u>66,747</u>
Total	<u>\$ 670,657</u>	<u>\$ 24,626</u>	<u>\$ 646,031</u>

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

<u>Measurement Period</u>	<u>Amount Recognized During the Measurement Period</u>	<u>Unrecognized PSC at End of the Measurement Period</u>
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

<u>Measurement Period</u>	<u>Amount Recognized During the Measurement Period</u>	<u>Unrecognized PSC at End of the Measurement Period</u>
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 03/31/2004 <u>for Disclosure</u>	As of 09/30/2004 <u>for Disclosure</u>
1. Projected Benefit Obligation	\$ 23,594,391	\$ 25,009,845
2. Fair Value of Plan Assets at measurement date	\$ 34,180,855	\$ 33,794,994
3. Unrecognized Transition Obligation/(Asset)	\$ 0	\$ 0
4. Unrecognized Prior Service Cost	\$ 670,657	\$ 646,031
5. (Accrued)/Prepaid Pension Expense Prior to Final Quarter Contributions	\$ 19,203,355	\$ 19,565,140
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	\$ 7,946,234	\$ 10,133,960
7. Net (Gain)/Loss not reflected in Market-Related value		
a. Fair Value	\$ 34,180,855	\$ 33,794,994
b. Market-Related Value (MRV)	\$ 34,180,855	\$ 33,794,994
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)]	\$ 7,946,234	\$ 10,133,960
9. Greater of (1) or (7b)	\$ 34,180,855	\$ 33,794,994
10. 10% of (9)	\$ 3,418,086	\$ 3,379,499
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	\$ 4,528,148	\$ 6,754,461
12. Average future service of plan participants expected to receive benefits	14.6	14.6
13. Annual amortization amount [(11)/(12)]	\$ 310,147	\$ 462,634

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2004	\$ 33,794,994
2. Actual benefit distributions	\$ 627,232
3. Actual contributions	\$ 0
4. Fair Value at March 31, 2004	\$ 34,180,855
5. Actual return on assets [(1) + (2) - (3) - (4)]	\$ 241,371
6. Expected return	\$ 1,523,936
7. Asset (Gain) or Loss [(6) - (5)]	\$ 1,282,565

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

<u>Investment Category</u>	<u>03/31/2004</u>	<u>09/30/2004</u>
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	34,180,855	33,794,994
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Benefits payable	0	0
9. Fair value of assets	\$ 34,180,855	\$ 33,794,994

Section 4

Actuarial Funding Method and Assumptions1. *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: 1983 GAM Table for Males and Females

ii. Post-retirement Mortality: 1983 GAM Table 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.

<u>Attained Age</u>	<u>Terminations per 1,000 Participants</u>
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 04/01/2004 for Net Periodic Pension Cost	End of Year Disclosure Based on 09/30/2004 Measurement Date (& 2005 FY NPPC)
Pre-retirement	6.00%	5.75%
Post-retirement	6.00%	5.75%

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 4.05% for the expense determination and 3.85% 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:	4.05% p.a.	3.85% p.a.
ii. Cost of living adjustments:	2.00% p.a.	2.00% p.a.
iii. Taxable wage base increases:	2.50% p.a.	2.50% p.a.
iv. Prior compensation increases:	4.05% p.a.	3.85% 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%.

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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:

<u>Years of Vesting Service</u>	<u>Vesting Percent</u>
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.

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Section 6

Summary of Participant DataParticipant Data Reconciliation

	<u>Active Participants*</u>	<u>Current Payment Status</u>	<u>Vested Terminated</u>	<u>Total</u>
1. As of January 1, 2003	101	110	44	255
2. Change of status				
a. normal retirement	-	-	-	-
b. late retirement	-	-	-	-
c. early retirement	-	4	(4)	0
d. disability	-	-	-	-
e. death	-	(7)	-	(7)
f. nonvested termination	(5)	-	-	(5)
g. vested termination	(5)	-	5	0
h. completion of payment	-	-	-	-
i. transfer from Union and AEC	4	-	-	4
j. other	-	-	-	-
k. net changes	(6)	(3)	1	(8)
3. New participants	8	0	0	8
4. As of January 1, 2004	103	107	45	255

* 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' Pension Plan

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**SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES'
PENSION PLAN**

**APPLICATION OF STATEMENT OF FINANCIAL
ACCOUNTING STANDARDS NOS. 87 AND 132(R)
TO THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004**

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Rudd and Wisdom, Inc.

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February 15, 2005

PERSONAL AND CONFIDENTIAL

Mr. David Kvapil
Southern Union Company
One PEI Center
Wilkes-Barre, PA 18711

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 Short Fiscal Year Ending December 31, 2004

Dear Mr. Kvapil:

Enclosed is our Accounting Requirements Actuarial Valuation of the Southern Union Company Valley Resources Employees' Pension Plan as of January 1, 2004. 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, 2004 financial statement for the short six-month fiscal year ending December 31, 2004. 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 2004 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 \$(172,269) for the period July 1, 2004 to December 31, 2004. 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 the short six-month fiscal year ending December 31, 2004 is \$(172,269). 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 2.8 through 2.10.

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, 2004 financial markets. We have used 5.75% as the discount rate for year-end disclosure calculations.

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.

Mr. David Kvapil
Page 3
February 15, 2005

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:jc

Enclosures

cc: Mark Kashuda
Ron Weaver
Donna Abdalla

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SOUTHERN UNION COMPANY
VALLEY RESOURCES EMPLOYEES'
PENSION PLAN

SFAS Nos. 87 AND 132(R)
ACTUARIAL VALUATION

AS OF

JANUARY 1, 2004

FOR

SFAS Nos. 87 AND 132(R) COMPLIANCE
FOR THE SHORT FISCAL YEAR ENDING
DECEMBER 31, 2004

Prepared by:

February 15, 2005
Austin, Texas

RUDD AND WISDOM, INC.
Consulting Actuaries

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Section 1**SOUTHERN UNION COMPANY VALLEY RESOURCES
EMPLOYEES' PENSION PLAN****Certification of SFAS Nos. 87 and 132(R) Actuarial Valuation
(As of January 1, 2004)**

At the request of Southern Union Company, we have performed an actuarial valuation of the plan as of January 1, 2004 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 short six-month fiscal year ending December 31, 2004.

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, 2004 provided by New England Gas Company and asset information as of April 1, 2004 and September 30, 2004 provided by Bank One. 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, 2004) 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*

January 1, 2004

1. Participants:	
a. Actives	49
b. Vested Terminated*	48
c. Retirees	34
d. Total	<u>131</u>
2. Valuation Payroll	\$ 2,411,712

Valuation Results

	Beginning of Measurement Year for Expense	End of Measurement Year for Disclosure
1. a. Fair Value of Assets	\$ 13,269,645	\$ 13,242,152
b. Market-Related Value of Assets	13,269,645	\$ 13,242,152
2. Discount Rate	6.00%	5.75%
3. Accumulated Benefit Obligation (ABO)		
a. Actives	\$ 2,828,619	\$ 3,265,302
b. Vested Terminated*	1,320,242	1,447,534
c. Retirees	<u>1,927,579</u>	<u>1,898,709</u>
d. Total	\$ 6,076,440	\$ 6,611,545
4. Obligation for Future Salary Increases	<u>1,727,104</u>	<u>1,793,928</u>
5. Projected Benefit Obligation (PBO)	\$ 7,803,544	\$ 8,405,473
6. Annualized Service Cost	\$ 217,026	N/A
-as % of payroll	9.0%	N/A
7. Annualized Net Periodic Pension Cost	\$ (344,538)	N/A
-as % of payroll	(14.3)%	N/A

* Includes 20 transfers to non-union.

Summary of Employer's Financial Reporting Data

The following is intended to provide the employer and its auditor with information required under 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 Postretirement Benefits. The remainder of this Section 2 of the report provides sample worksheets incorporating assumed year end plan financial data, which, when combined with the actuarial information below, will determine entries on the employer's financial statements.

1. For a description of the plan, including employee groups covered and the type of benefit formula, see Section 5 of this report. For information regarding the types of assets held and significant non-benefit liabilities, see Section 3 of this report. There have been no significant matters affecting comparability of accounting information between periods. The employer's funding policy for the plan has been to contribute amounts in accordance with federal regulations regarding minimum funding standards, but not to exceed amounts deductible for federal income tax purposes.
2. The weighted average assumed discount rate used in computing the service and interest cost components of the net periodic pension cost was an annual effective rate of 6.00%. The projected, accumulated and vested benefit obligations were developed using a 5.75% discount rate. The weighted average annual rate of compensation increase used to measure the projected benefit obligation is 3.85% and for the service cost component of the net periodic pension cost is 4.05%. The weighted average expected long term rate of return on plan assets used to compute the expected return on plan assets (used in computing the asset gain or loss) is 9.0% annual effective rate.
3. The plan owns an interest in the Southern Union Retirement Income Plan Master Trust. The Master Trust held 827,608 shares of employer common stock as of September 30, 2004. The plan held a 4.8% interest in the Master Trust as of that date. No annual benefits of employees or retirees are covered by annuity contracts issued by the employer or related parties.
4. Actuarial items have been computed and projected to the measurement date based on a discount rate of 5.75%.

COMPONENTS OF NET PERIODIC PENSION COST
FOR THE SHORT SIX-MONTH FISCAL YEAR ENDING DECEMBER 31, 2004

	<u>Fiscal Year Total</u>
1. Service Cost	\$ 108,513
2. Interest Cost	238,061
3. Expected Return on Assets	(594,512)
4. Amortization of Transition Amount	0
5. Amortization of Prior Service Cost	9,942
6. Amortization of Net (Gain) or Loss	<u>65,727</u>
7. Net Periodic Pension Cost	\$ (172,269)

DETERMINATION OF DECEMBER 31, 2004
MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

Minimum Liability as of Measurement Date (September 30, 2004)

1. Accumulated Benefit Obligation (ABO) projected to measurement date	\$ 6,611,545 ¹
2. Fair Value of Plan Assets at measurement date	\$ 13,242,152
3. Minimum Liability (Unfunded ABO) [(1) – (2)] If zero or less, no additional liability is required	\$ (6,630,607)

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	N/A
5. Contributions during October 1, 2004 to December 31, 2004	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 5.75% discount rate.

**DEVELOPMENT OF CHANGE IN
ACCUMULATED OTHER COMPREHENSIVE INCOME**

1. Accumulated Other Comprehensive Income as of previous Fiscal Year End (June 30, 2004)	\$	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		<u>0</u>
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		<u>0</u>
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 (December 31, 2004) [(1) + (2)]	\$	0

**SEPTEMBER 30, 2004 DEVELOPMENT OF
RECONCILIATION OF FUNDED STATUS¹**

1. Projected Benefit Obligation	\$ (8,405,473) ¹
2. Plan assets at Fair Value	<u>13,242,152</u>
3. Funded Status	\$ 4,836,679
4. Unrecognized Transition Amount	0
5. Unrecognized Prior Service Cost	259,048
6. Unrecognized Net (Gain) or Loss	<u>4,044,678</u>
7. (Accrued)/Prepaid Pension Cost at December 31, 2004 prior to Last Quarter Contributions	\$ 9,140,405
8. Contributions made during the Last Quarter	<u>0</u>
9. (Accrued)/Prepaid Pension Cost at December 31, 2004	\$ 9,140,405
10. Accumulated Benefit Obligation	\$ (6,611,545) ¹

¹ Based on 5.75% discount rate.

(ACCRUED) OR PREPAID PENSION EXPENSE

1. (Accrued)/Prepaid Pension Expense at June 30, 2004	\$ 8,968,136
2. Net Periodic Pension Cost for the three months ending September 30, 2004	(86,135)
3. Contributions ¹ made during the three months ending September 30, 2004	<u>0</u>
4. (Accrued)/Prepaid Pension Expense at September 30, 2004 [(1) - (2) + (3)]	\$ 9,054,271
5. Net Periodic Pension Cost for the three months ending December 31, 2004	<u>(86,134)</u>
6. (Accrued)/Prepaid Pension Expense at December 31, 2004 prior to Last Quarter Contributions [(4) - (5)]	\$ 9,140,405
7. Contributions ¹ made during the three months ending December 31, 2004	<u>0</u>
8. (Accrued)/Prepaid Pension Expense at December 31, 2004 [(6) + (7)]	\$ 9,140,405

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

**RECONCILIATION OF BENEFIT OBLIGATIONS, PLAN ASSETS
AND BALANCE SHEET POSITION**

	<u>Measurement Period</u>	
	<u>04/01/2003- 03/31/2004</u>	<u>04/01/2004- 09/30/2004</u>
1. Reconciliation of beginning and ending balances of the Benefit Obligation		
a. Benefit Obligation at Beginning of Period	\$ 6,689,628	\$ 7,803,544
b. Service Cost	194,353	108,513
c. Interest Cost	447,279	238,061
d. Amendments	288,299	0
e. Liability Actuarial (Gain)/Loss	421,732	373,809
f. Benefits Paid	(237,747)	(118,454)
g. Benefit Obligation at End of Period	<u>\$ 7,803,544</u>	<u>\$ 8,405,473</u>
2. Reconciliation of beginning and ending balances of Plan Assets		
a. Fair Value of Plan Assets at Beginning of Period	\$ 10,905,677	\$ 13,269,645
b. Return on Plan Assets	2,601,715	90,961
c. Employer Contributions	0	0
d. Benefits Paid	(237,747)	(118,454)
e. Fair Value of Plan Assets at End of Period	<u>\$ 13,269,645</u>	<u>\$ 13,242,152</u>
3. Recognized/Unrecognized Amounts		
a. Funded Status [2(e) - 1(g)]	\$ 5,466,101	\$ 4,836,679
b. Unrecognized Transition Obligation/(Asset)	0	0
c. Unrecognized Net Actuarial Loss/(Gain)	3,233,045	4,044,678
d. Unrecognized Prior Service Cost	268,990	259,048
e. Net Amount Recognized at Fiscal Period End prior to Last Quarter Contributions	<u>\$ 8,968,136</u>	<u>\$ 9,140,405</u>
f. Contributions made during Last Quarter	0	0
g. Net Amount Recognized at End of Fiscal Period	<u>\$ 8,968,136</u>	<u>\$ 9,140,405</u>
4. Weighted Average Assumptions used to determine benefit obligations:		
a. Discount Rate	6.00%	5.75%
b. Rate of Compensation Increase	4.05%	3.85%

The accumulated benefit obligation was \$6,076,440 and \$6,611,545 at March 31, 2004 and September 30, 2004, respectively.

COMPONENTS OF NET PERIODIC BENEFIT COST

	<u>Fiscal Period</u>	
	<u>07/01/2003- 6/30/2004</u>	<u>07/01/2004- 12/31/2004</u>
1. Service Cost	\$ 194,353	\$ 108,513
2. Interest Cost	447,279	238,061
3. Expected Return on Plan Assets	(1,045,779)	(594,512)
4. Amortization of Transition (Asset)/Obligation	0	0
5. Amortization of Prior Service Cost	19,309	9,942
6. Amortization of Net (Gain)/Loss	<u>190,363</u>	<u>65,727</u>
7. Net Periodic Benefit Cost	<u>\$ (194,475)</u>	<u>\$ (172,269)</u>
8. Weighted-average assumptions used to determine net periodic benefit cost:		
	<u>First 2 Months/ Last 10 Months</u>	
Discount Rate	6.50% / 6.25%	6.00%
Expected Long-Term Return on Plan Assets	9.00% / 9.00%	9.00%
Rate of Compensation Increase	4.50% / 4.25%	4.05%

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:

	<u>3/31/2004</u>	<u>09/30/2004</u>
Equity securities	67.6%	65.9%
Debt securities	26.6%	27.9%
Cash equivalents	<u>5.8%</u>	<u>6.2%</u>
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.

Equity securities include Southern Union company common stock in the amounts of \$0.72 million (5.4% of total plan assets) and \$0.81 million (6.1% of total plan assets) at March 31, 2004 and September 30, 2004, respectively.

CASH FLOW INFORMATION

For the 2005 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:

<u>Year</u>	
2005	\$ 261,733
2006	265,363
2007	273,251
2008	319,643
2009	379,431
2010 through 2014	2,490,579

AMORTIZATION OF PRIOR SERVICE COST

Summary for Short Fiscal Year July 1, 2004 to December 31, 2004

	Balance at Beginning of Short Measurement Year (4/1/2004)	Amount Recognized	Balance at End of Short Measurement Year (9/30/2004)
Schedule B-1	\$ 221,883	\$ 8,218	\$ 213,665
Schedule B-2	<u>47,107</u>	<u>1,724</u>	<u>45,383</u>
Total	<u>\$ 268,990</u>	<u>\$ 9,942</u>	<u>\$ 259,048</u>

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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

<u>Measurement Period</u>	<u>Amount Recognized During the Measurement Period</u>	<u>Unrecognized PSC at End of the Measurement Period</u>
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

<u>Measurement Period</u>	<u>Amount Recognized During the Measurement Period</u>	<u>Unrecognized PSC at End of the Measurement Period</u>
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

	<u>As of</u> 03/31/2004 <u>for Disclosure</u>	<u>As of</u> 09/30/2004 <u>for Disclosure</u>
1. Projected Benefit Obligation	\$ 7,803,544	\$ 8,405,473
2. Fair Value of Plan Assets at measurement date	\$ 13,269,645	\$ 13,242,152
3. Unrecognized Transition Obligation/(Asset)	\$ 0	\$ 0
4. Unrecognized Prior Service Cost	\$ 268,990	\$ 259,048
5. (Accrued)/Prepaid Pension Expense Prior to Final Quarter Contributions	\$ 8,968,136	\$ 9,140,405
6. Net (Gain)/Loss [(1) - (2) - (3) - (4) + (5)]	\$ 3,233,045	\$ 4,044,678
7. Net (Gain)/Loss not reflected in Market-Related value		
a. Fair Value	\$ 13,269,645	\$ 13,242,152
b. Market-Related Value (MRV)	\$ 13,269,645	\$ 13,242,152
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)]	\$ 3,233,045	\$ 4,044,678
9. Greater of (1) or (7b)	\$ 13,269,645	\$ 13,242,152
10. 10% of (9)	\$ 1,326,965	\$ 1,324,215
11. Net (Gain)/Loss to be amortized [Excess of (8) over (10)]	\$ 1,906,080	\$ 2,720,463
12. Average future service of plan participants expected to receive benefits	14.5	14.5
13. Annual amortization amount [(11)/(12)]	\$ 131,454	\$ 187,618

ASSET (GAIN) OR LOSS

1. Fair Value at September 30, 2004	\$ 13,242,152
2. Actual benefit distributions	\$ 118,454
3. Actual contributions	\$ 0
4. Fair Value at March 31, 2004	\$ 13,269,645
5. Actual return on assets [(1) + (2) - (3) - (4)]	\$ 90,961
6. Expected return	\$ 594,512
7. Asset (Gain) or Loss [(6) - (5)]	\$ 503,551

Note - an asset gain is shown as a negative number

Section 3

Summary of Assets at Fair Value

Investment Category	03/31/2004	09/30/2004
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	13,269,645	13,242,152
6. Real estate and mortgages	0	0
7. Unallocated insurance contracts	0	0
8. Other		
a. Accrued income	0	0
b. Benefits payable	0	0
9. Fair value of assets	\$ 13,269,645	\$ 13,242,152

Section 4

Actuarial Funding Method and Assumptions1. *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: 1983 GAM Table for Males and Females
- ii. Post-retirement Mortality: 1983 GAM Table 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.

<u>Attained Age</u>	<u>Terminations per 1,000 Participants</u>
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 04/01/2004 for Net Periodic Pension Cost	End of Year Disclosure Based on 09/30/2004 Measurement Date (& 2005 FY NPPC)
Pre-retirement	6.00%	5.75%
Post-retirement	6.00%	5.75%

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 4.05% for the expense determination and 3.85% 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.

<u>Attained Age</u>	<u>Annual Rates of Retirement per 10,000 Eligible Participants</u>
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:

	<u>Beginning of Measurement Year for Expense</u>	<u>For 09/30/2004 Disclosure</u>
i. Future compensation increases:	4.05% p.a.	3.85% p.a.
ii. Cost of living adjustments:	2.00% p.a.	2.00% p.a.
iii. Taxable wage base increases:	2.50% p.a.	2.50% p.a.
iv. Prior compensation increases:	4.05% p.a.	3.85% 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%.

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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 of 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:

<u>Years of Vesting Service</u>	<u>Vesting Percent</u>
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.

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Section 6

Summary of Participant DataParticipant Data Reconciliation

	<u>Active Participants*</u>	<u>Current Payment Status</u>	<u>Vested Terminated</u>	<u>Total</u>
1. As of January 1, 2003	80	32	19	131
2. Change of status				
a. normal retirement	-	1	(1)	0
b. late retirement	-	-	-	-
c. early retirement	-	-	-	-
d. disability	-	-	-	-
e. death	-	-	-	-
f. nonvested termination	-	-	-	-
g. vested termination	(2)	-	2	0
h. completion of payment	-	-	-	-
i. transfer to Fall River	(9)	-	9	0
j. other	-	1	(1)	0
k. net changes	<u>(11)</u>	<u>2</u>	<u>9</u>	<u>0</u>
3. New participants	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
4. As of January 1, 2004	69	34	28	131

* 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

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-02 Who provides NEGas with the maximum/minimum tax deductible amounts? [i.e. – the Company’s actuary, audit/tax consultant, Southern’s Corporate tax department.]

A. COMM 6-02 The maximum and minimum tax-deductible amounts are calculated by the Company’s actuary, Rudd & Wisdom, Inc.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-03 Are the maximum/minimum tax deductible amounts based on the Company's tax year? [Note response to Commission 1-15.]

A. COMM 6-03 No, the maximum and minimum tax-deductible amounts are based on the plan year, which is calculated on a calendar year basis.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission
Respondent: Sharon Partridge
Issue Date: March 8, 2006

- Q. COMM 6-04** If the answer to #2 is yes, is the Company's tax year a calendar year period?
- A. COMM 6-04** As stated in Data Request COMM 6-03, the annual maximum and minimum tax-deductible amounts for the pension plans are based on the plan year, which is a calendar-year period. The Company's tax year is also a calendar-year period.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission
Respondent: Sharon Partridge
Issue Date: March 8, 2006

- Q. COMM 6-05** If the answer to #3 is yes, what were the maximum/minimum tax deductible amounts for calendar years 2002, 2003, 2004 and 2005? [If the information for calendar year 2005 is not available, please provide it when available.]
- A. COMM 6-05** Please refer to the Company's response to Data Request COMM 6-06 for this information.

**New England Gas Company
Docket No. 3690**

Record Request and Response

Requestor: Commission
Respondent: Sharon Partridge
Issue Date: March 8, 2006

- Q. COMM 6-06** Please provide the following data on pensions using the schedule format shown.
- a. The FAS 87 pension expense amount for the fiscal year used for calculating income for sharing.
 - b. The minimum tax deductible amount of contributions that could be made to pension funds for the fiscal year.
 - c. The maximum tax deductible amount of contributions that could be made to pension funds for the fiscal year.
 - d. The actual contributions NEGas made to its pensions funds for each fiscal year.

New England Gas -- Summary of Pension Expense and Funding

Fiscal Year Ended June 30	FAS 87 Pension Expense (Used in ESM)	Minimum Tax Deductible Amount	Maximum Tax Deductible Amount	NEGas Contribution (in fiscal year)
2003				
2004				
2005				

A. COMM 6-06

After reviewing past responses, it appears to the Company that there is some confusion on the pension issue caused by the fact that the Company's fiscal year covers a July through June time period and the "plan year" for the pension plans cover a calendar-year period. FAS 87 pension expense is calculated on a fiscal-year basis, and therefore, is used in the ESM for the respective fiscal year. However, the minimum and maximum tax-deductible amounts are not calculated on a fiscal year basis; but rather, are calculated based on the plan year, which follows a calendar year. Therefore, the Company has augmented the matrix suggested by the Commission to provide a complete summary of its FAS 87 expense and contribution amounts and to facilitate a reconciliation of these amounts with responses previously submitted by the Company to the Commission.

**New England Gas Company
Docket No. 3690**

Record Request and Response

Summary of Pension Expense and Funding (Per Commission Chart) (Table 1)

Fiscal Year Ended June 30	FAS 87 Pension Expense (used in ESM)	Minimum Tax Deductible Contribution	Maximum Tax Deductible Contribution	NEGas Contributions Coinciding with Fiscal Year
2003	\$1,638,839	See Chart 2 Below		\$1,350,000
2004	\$6,263,958			\$599,990
2005	\$4,424,769			\$5,327,750

Summary of Pension Funding Per Plan Year (Table 2)

Plan Year Ended December 31	Minimum Contribution	Maximum Tax Deductible Contribution	Payment Date	NEGas Actual Contribution (Plan Yr)
2002	\$964,638	\$1,383,853	06/30/03	\$1,350,000
2003	\$2,858,158	\$3,565,408	09/15/04	\$2,858,158
2004	\$3,626,754	\$7,856,609	04/15/04	\$599,990
			07/15/04	\$599,990
			10/15/04	\$599,990
			01/15/05	\$599,990
			09/15/05	\$1,226,794
			Total	\$3,626,754
2005	\$3,401,846	\$36,564,923 (n.1)	04/15/05	\$669,622
			07/15/05	\$669,622
			10/15/05	\$669,622
			01/15/06	\$669,622
			Total To Date	\$2,678,488

As shown in the above chart, an additional complexity results from the fact that IRS rules allow the Company to make contributions for a particular plan (calendar) year through the due date of the funding requirement for the plans (i.e., September 15 of the following plan year). As a result, the Company's total annual contribution for a particular plan year may be paid out over as many as *three* fiscal-year periods.

n.1: The maximum tax deductible contribution for the 2005 plan year is substantially higher than previous years because of certain changes that were implemented this year affecting the IRS calculation. These changes are as follows:

1. Legislative changes adding subsection 404(a)(1)(F) under the Pension Funding Equity Act of 2004 (PFEA) effective for the 2004 plan year;
2. An IRS clarification in 2005 regarding the degree of flexibility permitted under PFEA; and
3. Decreases in the discount rates between 2004 and 2005.

**New England Gas Company
Docket No. 3690**

Record Request and Response

Therefore the increase in the maximum deductible contribution is the result of:

- o A decrease in the discount rate from 6.55% to 6.10% (a 45 basis-point drop); and
- o The combination of the legislative changes and the IRS clarification resulting in a further decrease in the discount rate used for maximum deductible contribution from 6.10% to 4.59% (a 151 basis-point drop).

Generally speaking, the *minimum required contribution* provides an indication of the funded status of the plan as a going concern. In that regard, Table 2 above shows that the minimum required contribution amount declined in 2005 as compared to the 2004 plan year. The *maximum deductible amount* is more representative of the contribution that would be appropriate if the intention were to fund the plan sufficiently to permit its immediate termination, recognizing today's low bond yield rate environment and correspondingly expensive annuity purchase price environment. Although the Company reserves its rights under the plans, the Company has no current intention to terminate the plans. Therefore, the Company can take a longer term perspective with respect to its funding decisions. Moreover, funding up to the plan termination level would create intergenerational transfers of resources that the Company does not believe to be appropriate.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

- Q. COMM 6-07** Regarding the 'Minimum Tax Deductible' and 'Maximum Tax Deductible' amounts shown above for fiscal year 2003, what fiscal period is the calculation based upon? [i.e. - the calendar year ended December 31, 2002.]
- A. COMM 6-07** Please refer to the Company's response to Data Request COMM 6-06.

**New England Gas Company
Docket No. 3690**

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-08 Regarding the 'Minimum Tax Deductible' and 'Maximum Tax Deductible' amounts shown above for fiscal year 2004, what fiscal period is the calculation based upon?

A. COMM 6-08 Please refer to the Company's response to Data Request COMM 6-06.

**New England Gas Company
Docket No. 3690**

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-09 Regarding the 'Minimum Tax Deductible' and 'Maximum Tax Deductible' amounts shown above for fiscal year 2005, what fiscal period is the calculation based upon?

A. COMM 6-09 Please refer to the Company's response to Data Request COMM 6-06.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

- Q. COMM 6-10** What fiscal period is the basis for calculation of the FAS 87 expense used in the earnings sharing calculation for fiscal year 2003? [i.e. – the twelve months ended December 31, 2002.]
- A. COMM 6-10** The fiscal period for the calculation of 2003 FAS 87 expense is the twelve months ended June 30, 2003.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-11 What fiscal period is used to calculate the FAS 87 expense used in the earnings sharing calculation for fiscal year 2004?

A. COMM 6-11 The fiscal period for the calculation of the 2004 FAS 87 expense is the twelve months ended June 30, 2004.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-12 What fiscal period is used to calculate the FAS 87 expense used in the earnings sharing calculation for fiscal year 2005?

A. COMM 6-12 The fiscal period for the calculation of 2005 FAS 87 expense is the twelve months ended June 30, 2005.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission

Respondent: Sharon Partridge

Issue Date: March 8, 2006

Q. COMM 6-13 What amounts did the Company contribute to its pension funds for calendar years 2003, 2004, and 2005? [Note response to Commission 4-3 at 1/6/06.]

A. COMM 6-13 Please refer to the Company's response to Data Request COMM 6-06.

New England Gas Company
Docket No. 3690

Record Request and Response

Requestor: Commission
Respondent: Sharon Partridge
Issue Date: March 8, 2006

- Q. COMM 6-14** In fiscal year 2004 when NEGas' FAS 87/ESM charge was \$6,263,958 and the maximum tax deductible amount was \$7,856,609, the Company made pension fund contributions totaling \$600,000. Can the Company provide any specific information to explain the pension contribution of only \$600,000, when current costs (as determined under FAS 87) and tax deductible funding amounts were significantly higher?
- A. COMM 6-14** As shown in the Company's response to Data Request COMM 6-06, annual contributions to the pension plans are made based on the plan year, which follows a calendar year rather than a fiscal year.

**New England Gas Company
Docket No. 3690**

Record Request and Response

Requestor: Commission
Respondent: Sharon Partridge
Issue Date: March 8, 2006

- Q. COMM 6-15** Starting in the fiscal year ending June 30, 2006, will NEGas commit to contributing to its pension funds the FAS 87 pension expense amount for each fiscal year?
- A. COMM 6-15** The Company will continue to make its contributions consistent with the framework established under FAS 87, IRS rules and ERISA requirements for the funding of the pension plans. Under these rules, there is no requirement for the Company to make an annual contribution to the funds equal to the FAS 87 expense. In fact, although the annual contribution and the FAS 87 expense both relate to the Company's pension obligations, they are not directly correlated to each other in any specific year. Therefore, it is not necessary or appropriate to link these two calculations for purposes of the ESM.

Both FAS 87 and the max/min annual contribution have the potential to vary (sometimes significantly) from year-to-year as a result of changes in the multiple components that are encompassed in each calculation. The resulting variation in the FAS 87 expense and the annual contribution may not be similar in any given year of the plan. For example, losses and gains in the fund are amortized over an extended time period in the FAS 87 calculation, but may have a more direct and near-term effect on the tax-deductible calculation. Therefore, the system is devised so that, over the long term, annual contributions plus changes in fund performance will align with the annual pension expense calculated in accordance with FAS 87. Therefore, as long as the Commission sticks with a methodology (i.e., FAS 87 expense or the annual contribution), the appropriate expense associated with pension obligations will be reflected in rates.

As long as the Company maintains compliance with IRS and ERISA rules governing the plan funding requirements, adherence to the FAS 87 expense computation on for purposes of calculating the ESM is appropriate. If the Company is in compliance with the relevant funding requirements, then over time, the Company's contributions (in combination with fund performance) will track the FAS 87 expense. Requiring the

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Company to make an annual contribution equal to the FAS 87 calculation has the potential to upset this natural balance and result in contributions in excess of what is required to meet the plan's funding obligations. Therefore, to ensure that the cost borne by customers in relation to the Company's pension obligations is no more or no less than the Company's actual cost, the Commission need only ensure that it is calculating the ESM on a consistent basis using the FAS 87 calculation.

As demonstrated in the response to Data Request COMM 6-06, another consideration is that the Company's annual contributions are calculated and paid on a calendar-year basis and the FAS 87 expense is calculated on a fiscal year basis. There is no tax-deductible contribution calculated specifically for the fiscal period. Therefore, if the Commission were to impose a requirement that the contributions made in a *fiscal-year* period must equal the FAS 87 expense, there is the distinct possibility that the amount required by the Commission could actually exceed the maximum tax deductible amount, or fall below the minimum tax deductible amount, for a particular plan year (which is based on a calendar year). This is an unacceptable result for the Company and is not necessary to ensure either (1) the funded status of the plan, or (2) the accuracy or appropriateness of the ESM calculation.

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Requestor: Commission
Respondent: Sharon Partridge
Issue Date: March 8, 2006

Q. COMM 6-16 What are the long-term ramifications of: (1) not funding the maximum tax deductible amount to the pension funds, and (2) funding less than the amount of expense calculated under FAS 87?

A. COMM 6-16 There are no particular "long-term ramifications" of (1) not funding the maximum tax deductible amount to the pension funds, and (2) funding less than the amount of expense calculated under FAS 87.

Funding requirements are governed by IRS and ERISA rules. These rules allow a company to make a contribution in an amount less than the maximum tax-deductible amount *in any plan year*. However, along with fund performance, a company's annual contribution will have an impact on the calculation of the minimum tax-deductible amount for the next year, *i.e.*, the funding requirement continually adjusts to reflect the current funded status of the plan. Therefore, as long as a company contributes at or above the minimum and less than the maximum, the company will be in compliance with IRS and ERISA rules and, over time, these rules will operate to ensure that the plan remains adequately funded.

The FAS 87 calculation is not a funding mechanism and does not in any way dictate the level of contribution necessary or appropriate in a given fiscal period. The FAS 87 calculation is purely an accounting protocol used to ensure that an accurate representation of the cost of the Company's pension obligations to employees is recorded on the books of the Company and is accounted for in determining profitability.

Therefore, a company could contribute (1) less than the maximum tax-deductible amount, and (2) less than the FAS 87 expense in every year of the plan and, depending upon a myriad of other factors including plan performance, the plan could remain in a fully funded status.