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May 5, 2006

VIA FACSIMILE AND U.S. MAIL

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

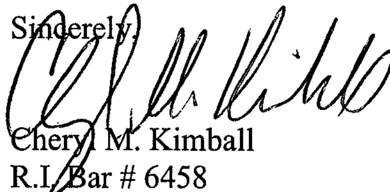
RE: Docket No. D-06-13 Joint Petition of Southern Union Company and The Narragansett Electric Company

Dear Ms. Massaro:

Attached are the responses of Southern Union Company to the Third Set of Discovery issued by the Rhode Island Division of Public Utilities and Carriers in the above-referenced docket.

Thank you for your attention to this matter.

Sincerely,



Cheryl M. Kimball
R.I. Bar # 6458

Cc: Service List

Division Data Request 3-1

Request:

Please provide information relative to the recently signed labor agreement with bargaining unit employees at the legacy Valley Gas operation. Please provide a summary of the major terms of the agreement and identify how many employees are covered and the length of the contract. Please provide a copy of the agreement if it is available.

Response:

On March 31, 2006, New England Gas Company and UWUA Local #472 reached a conceptual-level collective-bargaining agreement covering 53 employees for a two-year period. The major economic components of the agreement are as follows:

- A wage increase of 8% in the first year and 4 % in the second year;
- An increase in the employer 401(k) discretionary match to: (i) 100% up to the first 2% of pre-tax compensation contributed by an employee, and (ii) 50% of the next 4% of pre-tax compensation contributed by an employee. Prior to this change, the employer match was 50% up to 4% of the pre-tax compensation contributed by the employee;
- A change in the employer match from mandatory company stock to employee choice;
- Long Term Disability insurance coverage to be provided at Company expense, at the levels currently provided under Southern Union's existing plan; and
- Signing bonus of $1,200 per employee.

In exchange for the economic enhancements summarized above, the Union agreed to increases in employee contributions to health care premiums, the institution of an absence control policy, the creation of a more flexible Gas Control Technician position, and numerous operational and work rule changes designed to enhance efficiency.

Prepared by or under the supervision of: David L. Black

Division Data Request 3-2

Request:

On page 10 of the Purchase and Sale Agreement between Southern Union Company and National Grid ("PSA") under the "*Retained Environmental Liabilities*" section is a reference to "...litigation related to the Cory's Lane and Bay Street, Tiverton, Rhode Island sites...". Under the PSA, this environmental liability remains with Southern Union if the merger is approved.

As noted in various media accounts as well as in Petitions to Intervene filed by the Town of Tiverton and the Rhode Island Department of Environmental Management (DEM), DEM issued a Notice of Intent to Enforce to Southern Union Company d.b.a New England Gas Company as the Responsible Party in connection with the hazardous materials release in Tiverton.

Please provide information relative to Southern Union's understanding of its liability relative to the Tiverton environmental issue. Include in the response any plans for remediation efforts Southern Union intends to undertake within the next six months to nine months.

Response:

Since March 2003, when RIDEM issued a Letter of Responsibility to Southern Union (as well as to the Town of Tiverton and Starwood Tiverton LLC) in connection with the Bay Street Area, Southern Union has acted responsibly to help RIDEM investigate the claim. In the process, Southern Union has expended millions of dollars testing the soil in the Area, and in completing an extensive site investigation. Although no judge or neutral fact finder has determined that Southern Union bears any liability for any of the contamination identified in the Bay Street Area, Southern Union has attempted to work with RIDEM to develop an appropriate, comprehensive and achievable plan for the remediation of the Area. Southern Union's position in that regard is set forth in its December 13, 2005 letter to Mr. Leo Hellested, P.E., Chief, RIDEM's Office of Waste Management, a copy of which is annexed.

Prepared by or under the supervision of: David L. Black

Division Data Request 3-3

Request:

The Southern Union Company recently filed a document with the Securities and Exchange Commission (SEC) dated April 5, 2006. It is a communication with its shareholders seeking shareholder approval on a number of proposals. Proposal Three in the aforementioned document is as follows:

> TO APPROVE THE RESTRUCTURING OF THE OWNERSHIP OF THE MASSACHUSETTS ASSETS OF SOUTHERN UNION'S NEW ENGLAND GAS COMPANY DIVISION.
>
> "Upon completion of the National Grid Transaction, the Company will retain direct ownership of the remaining assets of its New England Gas Company division, all of which relate to operations in Massachusetts. The Board of Directors, however, has determined that it will be preferable for those assets to be held by a direct or indirect, wholly owned subsidiary of the Company, rather than through the current divisional structure. The recent repeal of the Public Utility Holding Company Act will now permit the Company to adopt this strategically advantageous structure."
>
> "Under Massachusetts law, the Company must obtain the approval of its stockholders in order to transfer the Massachusetts operations of its New England Gas Company division to a subsidiary of the Company. Accordingly, the Company is seeking stockholder approval of such transfer. The Company may determine to transfer the Massachusetts operations of its New England Gas Company division to a subsidiary of the Company regardless of whether it completes the National Grid Transaction."
>
> Board Recommendation
>
> "The Board of Directors recommends a vote FOR approval of the transfer of the Massachusetts operations of the Company's New England Gas Company division to a subsidiary of the Company."

Assume for the purpose of providing this response that there is no dispute that Southern Union Company, through the actions of its Fall River Gas division, is financially responsible for funding environmental remediation efforts associated with the Tiverton site(s).

a. Would shareholder approval of Proposal Three and transfer by Southern Union of the assets of its New England Gas' Massachusetts operations to a direct or indirect wholly owned subsidiary in any way affect the legal or financial responsibility of Southern Union Company to fund or perform the required environmental remediation effort? Please explain.

b. Would shareholder approval of Proposal Three and transfer by Southern Union of the assets of its New England Gas' Massachusetts operations to a direct or indirect wholly owned subsidiary in any way provide additional legal or financial protection for Southern Union Company to fund or perform the required environmental remediation effort? Please explain.

Response:

On May 2, 2006, in connection with the Company's annual meeting, Southern Union Company's shareholders approved Proposal Three, relating to the proposed transfer of the Massachusetts operations of its New England Gas Company division to a wholly-owned subsidiary of Southern Union.

a. The proposed transfer by Southern Union of the Massachusetts operations of its New England Gas Company division to a wholly-owned subsidiary of Southern Union would not affect Southern Union's legal or financial responsibility (if any) to fund or perform the requisite environmental remediation. Southern Union was a recipient of the March 2003 Letter of Responsibility from RIDEM with respect to the Bay Street Area. Southern Union is also a party in pending federal lawsuits brought by owners or residents of property in the Bay Street Area.

b. Southern Union is not aware of any "additional" legal or financial protection to fund or perform the requisite environmental remediation that would arise from the proposed transfer by Southern Union of the Massachusetts operations of its New England Gas Company division to a wholly-owned subsidiary of Southern Union

Prepared by or under the supervision of: David L. Black

Division Data Request 3-4

Request:

Please state all of the reasons why the Board of Directors has determined that "it will be preferable" and "strategically advantageous" for the assets of New England Gas' Massachusetts operations "to be held by a direct or indirect, wholly owned subsidiary of the Company, rather than through the current divisional structure."

Response:

In 2000, when Southern Union Company acquired the Fall River Gas Company ("FRG"), FRG was organized under Massachusetts law (M.G.L. c. 164, § 64) as an incorporated "gas company." Southern Union is organized under Delaware business law and is not a public utility holding company subject to the provisions of the Public Utility Holding Company Act of 1935 ("PUHCA"). Therefore, at the time of the acquisition, Southern Union was required to operate under a "divisional structure," with its utility affiliates organized as "divisions" of the parent company (Southern Union), rather than as a holding company structure with utility affiliates organized into separate operating subsidiaries.

As a result, Southern Union's corporate organization created a unique situation in Massachusetts following its merger with FRG and North Attleboro Gas Company ("NAGC"), which also operates in Massachusetts and is now part of Southern Union's New England operating division. To accomplish the acquisition of FRG, Southern Union had to merge the FRG corporate entity with and into Southern Union with Southern Union as the surviving entity. Other mergers in Massachusetts involved an acquiror organized as a holding company.[1] In those transactions, the surviving company was a subsidiary of the parent holding company, i.e., a separate corporate entity that could be regulated by the state without interfering with the corporate governance of the unregulated parent company. However, by virtue of its merger with FRG, Southern Union *as a whole* qualified as a "gas company" under M.G.L. c. 164, § 1 and became subject (at the parent level) to the full panoply of provisions under Chapter 164, which is designed to govern the rates and terms of service provided by gas and electric utilities serving customers in Massachusetts.

As of February 8, 2006, PUHCA was repealed through the enactment of the Energy Policy Act of 2005. With the repeal of PUHCA, its restrictions on companies that had Southern Union's type of corporate structure are no longer a factor in determining the Company's relationship with its operating affiliates. In Massachusetts, Southern Union is currently subject to a range of corporate governance requirements that are really intended to apply only to a Massachusetts utility corporation, as opposed to Southern Union's multi-state operation, which encompasses both regulated and unregulated operations. For example, Southern Union is required to obtain the approval of the Massachusetts Department of Telecommunications and Energy ("MDTE")

[1] For instance, KeySpan Corporation, Eastern Enterprises, NiSource, Inc., Energy East Corporation, BEC Energy Corporation, New England Electric System and NGG Holdings LLC (National Grid) are holding companies that completed mergers with utility companies in Massachusetts.

under M.G.L. c. 164 any time it issues common stock or debt, loans or invests "utility" funds to a regulated or unregulated operation, or refinances existing debt. These requirements do not apply to any other parent company operating a utility corporation in Massachusetts, and no similar requirements exist under Rhode Island law for companies incorporated outside of Rhode Island.[2]

As a result, these requirements impose a significant burden on Southern Union in terms of its ability to conduct financial operations for its regulated and unregulated operations in a highly competitive market where time is often of the essence. For example, since 2001, Southern Union has had to file for approval of at least 15 separate financial transactions at the corporate level, which were unrelated to the Massachusetts utility operations. Some of these filings involved filing fees of nearly $100,000 or more (e.g., where filing fees are based on the number of common stock shares issued), which is a substantial amount considering that Southern Union serves only 50,000 customers in Massachusetts.

With the elimination of the PUHCA restrictions, Southern Union recognized that transformation of the Massachusetts operations from a division operating within Southern Union to a separate corporate entity subject to Massachusetts utility law would greatly reduce regulatory costs and allow for a more efficient regulatory structure both from the Company's perspective and from that of the MDTE, which is fundamentally interested in the Massachusetts operations. Moreover, in accomplishing this reorganization, the Massachusetts portion of Southern Union's New England Division will achieve a corporate structure that is the same as all other Massachusetts gas and electric utility companies and that will remain fully subject to the jurisdiction of the MDTE. For these reasons, the Board of Directors has deemed the reorganization to be "preferable" and "strategically advantageous."

Prepared by or under the supervision of: Richard N. Marshall

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[2] In Rhode Island, Southern Union is exempt from similar financing requirements pursuant to R.I.G.L. 39-3-20, which states that "no foreign public utility corporation shall be required to apply to the division for authority to issue stocks, bonds, notes, or other evidence of indebtedness."

Division Data Request 3-5

Request:

Please provide all of the documents in the possession, custody or control of Southern Union that reflect and/or explain why the proposed structure to transfer New England Gas' Massachusetts operations to a direct or indirect, wholly owned subsidiary of the Company is "preferable" and "strategically advantageous."

Response:

Please see the response to Data Request DIV-3-4. The statements made on behalf of the Board of Directors in the proxy statement are based on management's knowledge and experience with the regulatory structure in Massachusetts since acquiring the Fall River Gas Company and North Attleboro Gas Company in 2001.

Please note that the Board of Directors obtained a 2/3 vote of shareholders on May 2, 2006, approving the Company's proposal to transition the Massachusetts operations into an operating subsidiary consistent with Massachusetts law.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 3-6

Request:

Please state all of the reasons why the Company may determine to transfer the Massachusetts operations of its New England Gas Company division to a subsidiary of the Company "regardless of whether it completes the National Grid Transaction."

Response:

Please see the response to Data Request DIV-3-4.

Division Data Request 3-7

Request:

In Schedule 6.1 appended to the PSA labeled Conduct of Business Prior to the Closing Date, item III indicates that Southern Union has entered into, or intends to enter into, retention agreements with Tom Robillard, Sharon Partridge, Mike Sullivan, and D'Anna Soehnge. Please provide details regarding these agreements, including the time period covered by the agreements.

Response:

The employee agreements referenced in Schedule 6.1 provide for payment of a retention bonus upon the closing of a sale of the operating division in order to ensure that employees with critical responsibilities remain with the Company throughout the transition period. These agreements expire on February 1, 2007. The retention amount equal approximately 30 percent of actual compensation received by the applicable individuals in 2005. In addition to the employees listed above, a retention agreement was provided to Karen Czaplewski, Vice President of Customer Service. A generic copy of the retention agreements executed by Southern Union is attached.

FORM

RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is entered into by and between Southern Union Company (the "Company") and ___________ (the "Executive").

WHEREAS, the Company is evaluating the possible sale of all or substantially all of the assets of the __________ division of the Company (the "Divestiture");

WHEREAS, in recognition of the value, to the Company, of the continued employment of the Executive with the Company through the closing of the transactions contemplated by the Divestiture (the "Closing Date"), the Company wishes to provide to the Executive an *opportunity* to receive, on the terms and conditions set forth in this Agreement, a "Retention Bonus," as described in Section I. below;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements of the parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

I. RETENTION BONUS

The Executive may become entitled to a payment equal to $ [__________] (gross) (the "Retention Bonus") upon the earliest to occur of the events described in Section I.A., Section I.B.1.(a) or Section I.B.1.(b) below. Notwithstanding anything in this Agreement to the contrary, in no event shall the Executive be entitled hereunder to: (i) a Retention Bonus if a Divestiture has not closed before the Expiration Date (as defined in Section V hereof) or if the Closing Date never occurs, (ii) more than one Retention Bonus, or (iii) a Retention Bonus that exceeds $___________. In the event that the Executive does not become entitled to a Retention Bonus in accordance with the provisions of Section I.A., Section I.B.1.(a) or Section I.B.1.(b) below, no Retention Bonus shall be paid to or on behalf of the Executive hereunder.

A. Retention Bonus upon Continuation of Employment through the Closing Date of the Divestiture. If the Executive's employment with the Company continues through the Closing Date of the Divestiture, and such Closing Date shall occur on or before the Expiration Date, the Executive shall earn a Retention Bonus upon such Closing Date, and the Company shall pay such Retention Bonus to the Executive within a reasonable period of time, as determined by the Company, after the Closing Date of the Divestiture (but in no event later than 60 days following such Closing Date).

B. Retention Bonus upon Termination of Employment

1. Termination of Employment

(a) Termination by Company Other than For Cause. Except as provided in Section I.B.1.(b) below, if the Company terminates the Executive's employment with the Company, other than "For Cause," as defined in the following sentence, on or before the occurrence of either the Closing Date of the Divestiture or the Expiration Date, the Executive shall continue to be eligible to receive a Retention Bonus upon the Closing Date of the Divestiture, as if the Executive had remained employed through the Closing Date, and the Company shall pay the Retention Bonus to the Executive not later than 60 days following such Closing Date. For purposes of this Agreement, "For Cause" means (1) the commission by the Executive of a criminal or other act that causes or is reasonably likely to cause substantial economic damage to the Company or substantial injury to the business reputation of the Company, (2) the commission by the Executive of an act of fraud, theft or financial dishonesty in the performance of the Executive's duties on behalf of the Company, (3) the continuing failure or continuing refusal of the Executive to satisfactorily perform the material duties of the Executive to the Company after written notice thereof (specifying the particulars thereof in reasonable detail) and a reasonable opportunity to be heard and cure such failure are given to the Executive by an officer of the Company, (4) the material disregard or violation by Executive of the legal rights of any employees of the Company or of the Company's written policies regarding harassment or discrimination, or (5) any other conduct materially detrimental to the Company's business,.

(b) Termination upon Death or Disability. If the Executive's employment with the Company is terminated as a result of the Executive's death or the Executive's disability (as determined by the Company), on or before the occurrence of either the Closing Date of the Divestiture or the Expiration Date, the Executive shall continue to be eligible to receive a Retention Bonus upon the Closing Date of the Divestiture, as if the Executive had remained employed through the Closing Date, and the Company shall pay the Retention Bonus to the Executive or to the personal representative of the Executive's estate, as the case may be, not later than 60 days following such Closing Date.

(c) Other Terminations. If the Executive's employment with the Company is terminated and such termination is not covered by Section I.B.1.(a) or Section I.B.1.(b) above or if such termination of employment occurs after the Expiration Date, no Retention Bonus shall be paid to or on behalf of the Executive hereunder.

2. No Offset of Certain Payments. In no event shall any Retention Bonus paid to or on behalf of the Executive under this Agreement reduce any severance payment or retention payment to which the Executive may be entitled pursuant to the Company's Severance Plan.

II. OTHER BENEFITS

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company and for which the Executive may qualify.

III. NOT AN EMPLOYMENT AGREEMENT

This Agreement is not, and nothing herein shall be deemed to create, a contract of employment between the Executive and the Company or any affiliate of the Company. Subject to the terms of this Agreement, the Executive may terminate the Executive's employment with the Company at any time, and the Company may terminate the Executive's employment with the Company at any time, with or without Cause.

IV. ASSIGNMENT

A. Assignment by Company. This Agreement may be assigned or transferred by the Company to, and if assigned or transferred shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor of the Company shall be deemed substituted for the "Company" under the terms of this Agreement for all purposes. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity, which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets of the Company.

B. Assignment by Executive. Neither this Agreement nor any right arising hereunder may be assigned or pledged by the Executive.

V. EXPIRATION DATE

This Agreement shall expire on February 1, 2007 (the "Expiration Date").

VI. MISCELLANEOUS

A. Governing Law. To the extent not preempted by federal law, the provisions of this Agreement shall be construed and enforced in accordance with the laws of the State of Texas, without regard to conflict of laws principles.

B. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable by reason of its scope or breadth, it shall be valid and enforceable only to the extent of the scope or breadth permitted by law.

C. Modification. This Agreement shall not be varied, altered, modified, canceled, changed or in any way amended except by mutual agreement in a written instrument executed by the parties or their legal representatives.

D. Tax Withholding. The Company may withhold from any Retention Bonus under this Agreement all federal, state, city or other taxes or other amounts as may be required pursuant to any law or governmental regulation or ruling.

E. Payment in the Event of the Death of the Executive. If the Executive should die while any amounts payable to the Executive hereunder remain outstanding, all such amounts shall be paid in accordance with the terms of this Agreement to the personal representative of the Executive's estate be held for the benefit of Executive's estate.

F. No Waiver of Rights. Failure of any party at any time to require another party's performance of any obligation under this Agreement shall not affect the right to require performance of that obligation. Any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, or a waiver or modification of the provision itself.

G. Entire Agreement. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party that are not expressly set forth in this Agreement. The Executive affirms that this Agreement is entered into knowingly and voluntarily without reliance upon any statements or representations by any party, including the Company, its divisions, affiliates or its or their officers, employees or representatives, other than those contained in this Agreement, and that no other promise, inducement or agreement has been made to the Executive.

H. Executive's Execution of Agreement. The Executive is advised to exercise the Executive's right to consult with an attorney of the Executive's choice in considering whether to sign this Agreement. The Executive affirms that the Executive has carefully read this Agreement, that the Executive understands the contents and meaning of this Agreement and that Executive's execution of this Agreement is knowing and voluntary.

I. Counterparts. The parties may execute this Agreement in two counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same document.

IN WITNESS WHEREOF, the Company and the Executive have executed this Retention Agreement this ____ day of ______________, 2006.

SOUTHERN UNION COMPANY

By:______________________________
Name:
Title:

EXECUTIVE

____
Name: