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VIA EMAIL, FACSIMILE, AND OVERNIGHT DELIVERY

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 Division Data Request 9-2 in the above-referenced docket.

Thank you for your attention to this matter.

Sincerely,

Cheryl Kimball

Cheryl M. Kimball
R.I. Bar # 6458

cc: Service List

Division Data Request 9-2

Request:

Referring to the response to Division 5-4, why is the $75 million debt assumption excluded from the calculation of the taxable gain? Provide supporting calculations for the present value of the tax deferral of $13 million. Response to Division 1-8 refers to deferring tax payments over 7 years. This response refers to a deferral of 15 years. Which is correct?

Response:

First, the assumption of $75 million in debt by the purchaser of the Rhode Island assets has the effect of (1) reducing the proceeds received by Southern Union from the sale; and also (2) reducing the book value of the assets used to calculate the taxable gain or loss on the transaction. Conversely, if the purchaser did not assume the debt, then Southern Union would receive additional proceeds of $75 million, but the book value would be $75 million higher for purposes of calculating the taxable gain or loss. Therefore, the net impact on the calculation of excluding the assumed debt from the tax gain (or loss) is zero. Please see Attachment DIV 9-2(a) illustrating the impact.

Second, in the Company's response to Division Data Request 1-8, the reference to seven years refers to the depreciable life of the replacement assets not subject to the like-kind exchange. The key to the like-kind exchange is the substitution of relinquished assets with replacement assets to mitigate tax liability. If Southern Union does not qualify for a like-kind exchange, then the Company will incur a higher tax liability in the first year in relation to the relinquished assets. However, this will also mean that, for going forward tax purposes, the replacement assets will have a basis equal to their purchase price, which is relatively higher than the basis that would exist after a like-kind exchange. The Company would be allowed to depreciate the (relatively higher) basis over a period of seven years, which will have the effect of reducing the Company's tax liability in each of those years.

Alternatively, if there is a like-kind exchange, the Company will incur a lower tax liability in the first year, but the tax basis for the replacement assets will be equal to the basis of the relinquished assets, which is relatively low in comparison to the purchase-price basis mentioned above. In addition, the assets will be depreciated over the remaining life of the relinquished assets. This life will vary from zero to 20 years depending on the vintage of each asset. In general, the Company has determined that the average remaining life for the Rhode Island assets is somewhere between 10 and 15 years. For estimation purposes, the Company is assuming an average remaining depreciable life of 10 years.

The total amount of tax liability incurred by the Company is the same regardless of whether the transaction qualifies as a like-kind exchange; however, the net present value of the reduced upfront tax liability is $13 million. Attachment DIV 9-2(b) provides the supporting calculation for the net present value of $13 million (assuming a discount rate of 8% over 10 years). In Division Data Request 5-4, the reference to 15 years should have been 10 years, which represents the average remaining life for the Rhode Island assets. As stated above, the Company is utilizing an average remaining depreciable life of 10-years in its NPV analysis.

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

New England Gas **Attachment DIV 9-2(A)**

Gain \ Loss Computation as of December 31, 2005
(UNAUDITED)

	Original Book Computation	Alternative Approach w/o debt
Book Gain \ (Loss) Computation		
Proceeds		
Closing:		
Purchase Price	575,000,000	575,000,000
Less: Assumed Debt & Accrued/Unpaid Interest	(77,965,645)	-
Working Capital		
At 12/31/2005 per PSA computation	60,228,808	60,228,808
Less: Working Capital Target	(34,529,872)	(34,529,872)
Total Proceeds	522,733,291	600,698,936
Transaction Costs	4,000,000	4,000,000
Book Value	573,297,197	651,262,844
Adjustments (Assets not Included or Liabilities not Assumed)		
Write-off liability balance in prepaid insurance	(241,941)	(241,941)
Other Adjustments:		
Pension Plans - realize loss (Minimum Pension Liability) in AOCI	28,084,053	28,084,053
OPEB Curtailment Gain	-	-
Adjusted Book Basis	601,139,309	679,104,956
Book Gain \ (Loss) Computation	**(82,406,019)**	**(82,406,020)**

Attachment DIV 9-2(B)

Southern Union Company
Net Present Value of Tax Benefit Related to the
NEG Like Kind Exchange
($000,000s)

Year	Gain Fully Taxed	NEG LKE 90% Eff.	Difference	
2006	135.0	36		*(1)
2007		37		
2008		25		
2009		17		
2010		11		
2011		11		
2012		11		
2013		3		
2014		-5		
2015		-5		
2016		-4		
Total	$135	$135		
NPV	$125	$112	$13	

Assumptions
- LDC carryover basis depreciated over 10 years straight line
- SUGS replacement assets depreciated over 7 years MACRS
- discount rate = 8%
- effective Tax Rate = 37.5%

Note:

(1) The $36 million tax in 2006 is composed of $13.5 of tax on 10% of the NEG gain and tax of $22.1 on the reduced depreciation of $59 caused by the like kind exchange.