FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SOUTHERN UNION CO

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Commission File No. 1-6407

SOUTHERN UNION COMPANY
(Exact name of registrant as specified in its charter)

Delaware	75-0571592
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
504 Lavaca Street, Eighth Floor Austin, Texas (Address of principal executive offices)	78701 (Zip Code)

Registrant's telephone number, including area code:
(512) 477-5852

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all

reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes X   No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant on August 31, 1999, was $371,256,150. The number of shares of the registrant's Common Stock outstanding on August 31, 1999 was 31,235,009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended June 30, 1999, are incorporated by reference in Parts II and IV.

Portions of the registrant's proxy statement for its annual meeting of stockholders to be held on October 19, 1999, are incorporated by reference into Part III.

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PART I

ITEM 1.   Business.

Introduction

Southern Union Company (Southern Union and together with its subsidiaries, the Company) was incorporated under the laws of the State of Delaware in 1932. Southern Union is one of the top 15 gas utilities in the United States, as measured by number of customers. The Company's principal line of business is the distribution of natural gas as a public utility through Southern Union Gas, Missouri Gas Energy and Atlantic Utilities, doing business as South Florida Natural Gas (SFNG), each of which is a division of Southern Union. Southern Union Gas, headquartered in Austin, Texas, serves 513,000 customers in Texas (including the cities of Austin, Brownsville, El Paso, Galveston, Harlingen, McAllen and Port Arthur). Missouri Gas Energy, headquartered in Kansas City, Missouri, serves 484,000 customers in central and western Missouri (including the cities of Kansas City, St. Joseph, Joplin and Monett). SFNG, headquartered in New Smyrna Beach, Florida, serves 4,400 customers in central Florida (including the cities of New Smyrna Beach, Edgewater and areas of Volusia County, Florida.) The diverse geographic area of the Company's natural gas distribution systems reduces the sensitivity of Southern Union's operations to weather risk and local economic conditions.

Subsidiaries of Southern Union have been established to support and expand natural gas sales and to capitalize on the Company's gas energy expertise. These subsidiaries market natural gas to end-users, operate natural gas pipeline systems, distribute propane and sell commercial gas air conditioning and other gas-fired engine-driven applications. By providing "one-stop shopping," the Company can serve its various customers' specific energy needs, which encompass substantially all of the natural gas distribution and sales businesses from natural gas sales to specialized energy consulting services. The Company distributes propane to 11,000 and 1,100 customers in Texas and Florida, respectively. Additionally, certain subsidiaries own or hold interests in real estate and other assets, which are primarily used in the Company's utility business. Central to all of the Company's present businesses and strategies is the sale and transportation of natural gas. See Company Operations and Investments.

The Company is a sales and market-driven energy company whose management is committed to achieving profitable growth of its utility businesses in an increasingly competitive business environment. Management's strategies for achieving these objectives principally consist of: (i) promoting new sales opportunities and markets for natural gas and propane; (ii) enhancing financial and operating performance; and (iii) expanding the Company through development of existing utility businesses and selective acquisition of new utility businesses. Management develops and continually evaluates these strategies and their implementation by applying their experience and expertise in analyzing the energy industry, technological advances, market opportunities and general business trends. Each of these strategies, as implemented throughout the Company's existing businesses, reflects the Company's commitment to its core gas utility business.

The Company has a goal of selected growth and expansion, primarily in the utilities industry. To that extent, the Company intends to consider, when appropriate, and if financially practicable to pursue, the acquisition of other utility distribution or transmission businesses. The nature and location of any such properties, the structure of any such acquisitions, and the method of financing any such expansion or growth will be determined by management and the Southern Union Board of Directors. See Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) -- Cautionary Statement Regarding Forward-Looking Information contained in the Company's Annual Report to Stockholders for the year ended June 30, 1999 (the Annual Report), portions of which are filed as Exhibit 13 hereto.

Acquisitions

On June 7, 1999, Southern Union and Pennsylvania Enterprises, Inc. (PEI) announced a definitive merger agreement. The agreement calls for PEI to merge into Southern Union in a transaction valued at approximately $500 million, including assumption of debt. If approved, each PEI shareholder will receive Southern Union common stock having a value of $32.00, plus $3.00 in cash, subject to adjustment. PEI is a multifaceted energy company headquartered in Wilkes-Barre, Pennsylvania with natural gas distribution being its primary business. PEI's principal subsidiary, PG Energy, together with Honesdale Gas Company serve more than 152,000 gas customers in northeastern and central Pennsylvania. In addition, PEI markets electricity to more than 20,000 customers through PG Energy Power Plus. Southern Union anticipates having Southern Union and PEI shareholders approvals and all regulatory approvals for this merger in the second quarter of the Company's fiscal year 2000.

Effective December 31, 1997, Southern Union acquired Atlantic Utilities Corporation and Subsidiaries (Atlantic) for 755,650 pre-split and pre-stock dividend shares of common stock valued at $18,041,000 and cash of $4,436,000. Atlantic is operated as SFNG, a natural gas division of Southern Union, and Atlantic Gas Corporation, a propane subsidiary of the Company. Atlantic currently serves 4,400 natural gas customers and 1,100 propane customers in central Florida.

On July 23, 1997, two subsidiaries of Southern Union acquired an equity ownership in a natural gas distribution company and other related operations in Piedras Negras, Mexico for $2,700,000. Southern Union currently has a 43% equity ownership in this company. The natural gas distribution company currently serves 19,500 customers and is across the border from the Company's Eagle Pass, Texas service area. On September 8, 1997, the Company purchased a 45-mile intrastate pipeline, which augments the Company's gas supply to the city of Eagle Pass and, subject to necessary regulatory approvals, ultimately Piedras Negras.

Company Operations and Investments

The Company's principal line of business is the distribution of natural gas through its Southern Union Gas, Missouri Gas Energy and SFNG divisions. Southern Union Gas provides service to a number of communities and rural areas in Texas, including the municipalities of Austin, Brownsville, El Paso, Galveston, Harlingen, McAllen and Port Arthur. Missouri Gas Energy provides service to various cities and communities in central and western Missouri including Kansas City, St. Joseph, Joplin and Monett. SFNG provides service to various cities and communities in central Florida including New Smyrna Beach and Edgewater. The Company's gas utility operations are generally seasonal in nature, with a significant percentage of its annual revenues and earnings occurring in the traditional winter heating season.

Southern Union Energy International, Inc. (SUEI) and Southern Union International Investments, Inc. (Investments), both wholly-owned subsidiaries of Southern Union, participate in energy-related projects internationally. Energia Estrella del Sur, S. A. de C. V. (Estrella), a wholly-owned Mexican subsidiary of SUEI and Investments, seeks to participate in energy-related projects in Mexico. Estrella has a 43% equity ownership in a natural gas distribution company, along with other related operations, which currently serves 19,500 customers in Piedras Negras, Mexico, across the border from Southern Union Gas' Eagle Pass, Texas service area.

Mercado Gas Services Inc. (Mercado), a wholly-owned subsidiary of Southern Union, markets natural gas to approximately 240 commercial and industrial customers. Mercado's sales and purchasing activities are made through short-term and long-term contracts. These contracts and business activities are not subject to direct rate regulation. Mercado had gas sales of 19,304 MMcf and 18,352 MMcf for the year ended June 30, 1999 and 1998, respectively.

Southern Transmission Company (Southern), a wholly-owned subsidiary of Southern Union, owns and operates intrastate pipelines which connect the cities of Lockhart, Luling, Cuero, Shiner, Yoakum, and Gonzales, Texas, as well as a line that provides gas to an industrial customer in Port Arthur, Texas. Southern also owns a transmission line which supplies gas to the community of Sabine Pass, Texas. On September 8, 1997, Southern purchased a 45-mile intrastate pipeline which augments gas supply to the city of Eagle Pass, Texas, and ultimately into Piedras Negras, Mexico. Southern transported 873 MMcf and 915 MMcf of gas for the year ended June 30, 1999 and 1998, respectively.

Norteno Pipeline Company (Norteno), a wholly-owned subsidiary of Southern Union, operates interstate pipeline systems principally serving the Company's gas distribution properties in the El Paso, Texas area. Norteno transported a combined 6.3 billion cubic feet (Bcf) for the city of Juarez, Mexico and the Samalayuca Power Plant in north Mexico in fiscal 1999. Norteno transported 6,377 MMcf and 11,538 MMcf of gas for the year ended June 30, 1999 and 1998, respectively.

SUPro Energy Company (SUPro), a wholly-owned subsidiary of Southern Union, provides propane gas services to 11,000 customers located principally in El Paso and Alpine, Texas and Las Cruces, New Mexico and surrounding communities. SUPro sold 5,945,000 and 5,125,000 gallons of propane for the year ended June 30, 1999 and 1998, respectively.

Atlantic Gas Corporation, a wholly-owned subsidiary of Southern Union, provides propane gas services to 1,100 customers located in and around the communities of New Symrna Beach, Lauderhill and Dunnellon, Florida. Atlantic Gas Corporation sold 1,348,000 gallons of propane during the twelve months ended June 30, 1999 and 633,000 gallons of propane during the six months ended June 30, 1998.

Energy WorX, a wholly-owned subsidiary of Southern Union, provides interactive computer-based training for the natural gas transmission and distribution industry.

Southern Union Total Energy Systems, Inc., a wholly-owned subsidiary of Southern Union, markets and sells commercial gas air conditioning, irrigation pumps and other gas-fired engine-driven applications and related services.

ConTigo, Inc., a wholly-owned subsidiary of Southern Union formed in January 1996, provides centralized call center services for the majority of the Texas service areas. Effective July 1, 1999, ConTigo was dissolved and became part of Southern Union Gas and will henceforth be operated as Southern Union Gas Customer Service.

During fiscal 1998 and 1999, the Company made equity investments in a leading developer of advanced gas turbine-driven generator technology and a developer of a mobile workforce management system. The Company also holds investments in commercially developed real estate in Austin, El Paso, Harlingen and Kansas City through Southern Union's wholly-owned subsidiary, Lavaca Realty Company (Lavaca Realty).

Competition

The Company's gas distribution divisions are not currently in significant direct competition with any other distributors of natural gas to residential and small commercial customers within their service areas. However, in recent years, certain large volume customers, primarily industrial and significant commercial customers, have had opportunities to access alternative natural gas supplies and, in some instances, delivery service from other pipeline systems. The Company has offered transportation arrangements to customers who secure their own gas supplies. These transportation arrangements, coupled with the efforts of Southern Union's unregulated marketing subsidiary, Mercado, enable the Company to provide competitively priced gas service to these large volume customers. In addition, the Company has successfully used flexible rate provisions, when needed, to retain customers who may have access to alternative energy sources.

As energy providers, Southern Union Gas, Missouri Gas Energy and SFNG have historically competed with alternative energy sources, particularly electricity and also propane, coal, natural gas liquids and other refined products available in the Company's service areas. At present rates, the cost of electricity to residential and commercial customers in the Company's service areas generally is higher than the effective cost of natural gas service. There can be no assurance, however, that future fluctuations in gas and electric costs will not reduce the cost advantage of natural gas service. The cost of expansion for peak load requirements of electricity in some of Southern Union Gas' and Missouri Gas Energy's service areas has historically provided opportunities to allow energy switching to natural gas pursuant to integrated resource planning techniques. Electric competition has responded by offering equipment rebates and incentive rates.

Competition between the use of fuel oils, natural gas and propane, particularly by industrial, electric generation and agricultural customers, has also increased due to the volatility of natural gas prices and increased marketing efforts from various energy companies. While competition between such fuels is generally more intense outside the Company's service areas, this competition affects the nationwide market for natural gas. Additionally, the general economic conditions in its service areas continue to affect certain customers and market areas, thus impacting the results of the Company's operations.

Gas Supply

The low cost of natural gas service is dependent upon the Company's ability to contract for natural gas using favorable mixes of long-term and short-term supply arrangements and favorable transportation contracts. The Company has been directly acquiring its gas supplies since the mid-1980s when interstate pipeline systems opened their systems for transportation service. The Company has the organization, personnel and equipment necessary to dispatch and monitor gas volumes on a daily, hourly and even a real-time basis to ensure reliable service to customers.

The Federal Energy Regulatory Commission (FERC) required the "unbundling" of services offered by interstate pipeline companies beginning in 1992. As a result, gas purchasing and transportation decisions and associated risks have been shifted from the pipeline companies to the gas distributors. The increased demands on distributors to effectively manage their gas supply in an environment of volatile gas prices provides an advantage to distribution companies such as Southern Union who have demonstrated a history of contracting favorable and efficient gas supply arrangements in an open market system.

The majority of Southern Union Gas' 1999 gas requirements for utility operations were delivered under long-term transportation contracts through four major pipeline companies. The majority of Missouri Gas Energy's 1999 gas requirements were delivered under short- and long-term transportation contracts through four major pipeline companies. The majority of SFNG's 1999 gas requirements were delivered under a management supply contract through one major pipeline company. These contracts have various expiration dates ranging from calendar year 2000 through 2018. Southern Union Gas also purchases significant volumes of gas under long- and short-term arrangements with suppliers. The amounts of such short-term purchases are contingent upon price. Southern Union Gas, Missouri Gas Energy and SFNG all have firm supply commitments for all areas that are supplied with gas purchased under short-term arrangements. Missouri Gas Energy also holds contract rights to over 16 Bcf of storage capacity to assist in meeting peak demands.

Gas sales and/or transportation contracts with interruption provisions, whereby large volume users purchase gas with the understanding that they may be forced to shut down or switch to alternate sources of energy at times when the gas is needed for higher priority customers, have been utilized for load management by Southern Union and the gas industry as a whole. In addition, during times of special supply problems, curtailments of deliveries to customers with firm contracts may be made in accordance with guidelines established by appropriate federal and state regulatory agencies. There have been no supply-related curtailments of deliveries to Southern Union Gas, Missouri Gas Energy or SFNG utility sales customers during the last ten years.

The Company is committed under various agreements to purchase certain quantities of gas in the future. At June 30, 1999, the Company has purchase commitments for certain quantities of gas at variable, market-based prices that have an annual value of $94,275,000. The Company's purchase commitments may extend over a period of several years depending upon when the required quantity is purchased. The Company has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies.

In August 1997, the Missouri Public Service Commission (MPSC) issued an order authorizing Missouri Gas Energy to begin making semi-annual purchase gas adjustments (PGA) in November and April, instead of more frequent adjustments as previously made. Additionally, the order authorized Missouri Gas Energy to establish an Experimental Price Stabilization Fund for purposes of procuring natural gas financial instruments to hedge a minimal portion of its gas purchase costs for the winter heating season. The cost of purchasing these financial instruments and any gains derived from such activities are passed on to the Missouri customers through the PGA. Accordingly, there is no earnings impact as a result of the use of these financial instruments. These procedures help stabilize the monthly heating bills for Missouri customers. The Company believes it bears minimal risk under the authorized transactions.

The MPSC approved a three year, experimental gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers share in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas is acquired above benchmark levels, both the Company and customers share in such costs. For the years ended June 30, 1999, 1998 and 1997, the incentive plan achieved a reduction of overall gas costs of $6,900,000, $9,200,000 and $10,200,000, respectively, resulting in savings to Missouri customers of $4,000,000, $5,100,000 and $5,600,000, respectively. The Company recorded revenues of $2,900,000, $4,100,000 and $4,600,000 in 1999, 1998 and 1997, respectively, under this plan. Missouri Gas Energy is currently working with the MPSC to develop an alternate plan due to the July 1, 1999 expiration of the experimental gas supply incentive plan, however, there can be no assurance that this or any similar plan will be approved by the MPSC for Missouri Gas Energy.

Utility Regulation and Rates

The Company's rates and operations are subject to regulation by local, state and federal authorities. In Texas, municipalities have primary jurisdiction over natural gas rates within their respective incorporated areas. Rates in adjacent environs and appellate matters are the responsibility of the Railroad Commission of Texas (RRC). In Missouri, natural gas rates are established by the MPSC on a system-wide basis. In Florida, natural gas rates are established by the Florida Public Service Commission on a system-wide basis. The FERC and the RRC have jurisdiction over rates, facilities and services of Norteno and Southern, respectively.

The Company holds non-exclusive franchises with varying expiration dates in all incorporated communities where it is necessary to carry on its business as it is now being conducted. Kansas City, Missouri; El Paso, Texas; Austin, Texas; Port Arthur, Texas; and St. Joseph, Missouri are the five largest cities in which the Company's utility customers are located. The Kansas City, Missouri franchise expired in May 1998. The Company is currently in franchise renewal negotiations with Kansas City and expects to obtain renewal of such franchise before the end of calendar year 1999. The franchises in the following cities expire as follows: El Paso, Texas in 2000, in which the Company is currently in discussions; Austin, Texas in 2006; and Port Arthur, Texas in 2013. The Company fully expects these franchises to be renewed upon their expiration. The franchise in St. Joseph, Missouri is perpetual.

Gas service rates are established by regulatory authorities to permit utilities the opportunity to recover operating, administrative and financing costs, and the opportunity to earn a reasonable return on equity. Gas costs are billed to customers through purchase gas adjustment clauses which permit the Company to adjust its sales price as the cost of purchased gas changes. This is important because the cost of natural gas accounts for a significant portion of the Company's total expenses. The appropriate regulatory authority must receive notice of such adjustments prior to billing implementation.

The Company must support any service rate changes to its regulators using a historic test year of operating results adjusted to normal conditions and for any known and measurable revenue or expense changes. Because the regulatory process has certain inherent time delays, rate orders may not reflect the operating costs at the time new rates are put into effect.

The monthly customer bill contains a fixed service charge, a usage charge for service to deliver gas, and a charge for the amount of natural gas used. While the monthly fixed charge provides an even revenue stream, the usage charge increases the Company's annual revenue and earnings in the traditional heating load months when usage of natural gas increases. In recent years, the majority of the Company's rate increases in Texas have resulted in increased monthly fixed charges which help stabilize earnings. Weather normalization clauses, in place in the City of Austin, El Paso environs, Galveston, Port Arthur and two other service areas in Texas, also help stabilize earnings.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs requiring a non-cash write-off of $2,221,000. Generally accepted accounting principles required the Company to immediately record this charge to earnings which Southern Union did as of June 30, 1998. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas Energy's rehearing request. The MPSC will conduct further proceedings to take additional evidence on those matters for which it granted Missouri Gas Energy a rehearing. If the MPSC adopts Missouri Gas Energy's positions on rehearing, then Missouri Gas Energy would be authorized an additional $2,200,000 of base revenues increasing the $13,300,000 initially authorized in its August 21, 1998 order to $15,500,000. The MPSC's orders may be subject to judicial review and although certain parties may argue for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

On April 13, 1998, Southern Union Gas filed a $2,228,000 request for a rate increase from the city of El Paso, a request the city subsequently denied. On April 21, 1998, the city council of El Paso voted to reduce the Company's rates by $1,570,000 annually and to order a one-time cost of gas refund of $475,000. On May 21, 1998, Southern Union Gas filed with the RRC an appeal of the city of El Paso's actions to reduce the Company's rates and require a one-time cost of gas refund. On December 21, 1998, the RRC issued its order implementing an $884,000 one-time cost of gas refund and a $99,000 base rate reduction. The cost of gas refund was completed in February 1999.

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective on February 1, 1997. Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program in its service area (Missouri Safety Program). In connection with this program, the MPSC issued an accounting authority order (AAO) in Case No. GO-92-234 in 1994 which authorized Missouri Gas Energy to defer depreciation expenses, property taxes and carrying costs at a rate of 10.54% on the costs incurred in the Missouri Safety Program. This AAO was consistent with those which were issued by the MPSC from 1990 to 1993 to Missouri Gas Energy's prior owner. The MPSC rate order of January 22, 1997, however, retroactively reduced the carrying cost rate applied by the Company on the expenditures incurred on the Missouri Safety Program since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate of approximately 6%. The Company filed an appeal of that portion of the rate order in the Missouri State Court of Appeals, Western District. On August 18, 1998, the Missouri State Court of Appeals denied the Company's appeal resulting in a one-time non-cash write-off of $5,942,000 of previously recorded deferred costs which was recorded as of June 30, 1998. The Company believes that the inconsistent treatment by the MPSC in subsequently changing to the AFUDC rate from the previously ordered 10.54% rate constitutes retroactive rate-making. Unfortunately, the decision by the Missouri State Court of Appeals failed to address certain specific language within the 1994 AAO that the Company believed prevented the MPSC from retroactively changing the carrying cost rate. Southern Union requested transfer to the Missouri Supreme Court, but was denied that request.

On September 18, 1997, the MPSC approved a global settlement among the Company, the Missouri Office of Public Counsel (OPC) and MPSC staff to resolve complaints brought by the OPC and the MPSC staff regarding billing errors during the 1995/1996 and 1996/1997 winter heating seasons. The settlement called for credits to gas bills by Missouri Gas Energy totaling $1,575,000 to those customers overbilled and a $550,000 contribution by Missouri Gas Energy to a social service organization for the express purpose of assisting needy Missouri Gas Energy customers in paying their gas bills. These balances were recorded as of June 30, 1997.

The approval of the January 31, 1994 acquisition of the Missouri properties by the MPSC was subject to the terms of a stipulation and settlement agreement, which, among other things, requires Missouri Gas Energy to reduce rate base by $30,000,000 (amortized over a ten-year period on a straight-line basis) to compensate rate payers for rate base reductions that were eliminated as a result of the acquisition.

During the three-year period ended June 30, 1999, the Company did not file for any other rate increases in any of its major service areas, although several annual cost of service adjustments were filed.

In addition to the regulation of its utility and pipeline businesses, the Company is affected by numerous other regulatory controls, including, among others, pipeline safety requirements of the United States Department of Transportation, safety regulations under the Occupational Safety and Health Act, and various state and federal environmental statutes and regulations. The Company believes that its operations are in compliance with applicable safety and environmental statutes and regulations.

Environmental

The Company assumed responsibility for certain environmental matters in connection with the acquisition of Missouri Gas Energy. Additionally, the Company is investigating the possibility that the Company or predecessor companies may have been associated with manufactured gas plant sites in other of its former service territories, principally in Arizona and New Mexico, and present service territories in Texas. See MD&A --

Cautionary Statement Regarding Forward-Looking Information and Commitments and Contingencies in the Notes to the Consolidated Financial Statements contained in the Annual Report.

Investments in Real Estate

Lavaca Realty owns a commercially developed tract of land in the central business district of Austin, Texas, containing a combined 11-story office building, parking garage and drive-through bank (Lavaca Plaza). Approximately 52% of the office space at Lavaca Plaza is used in the Company's business while the remainder is leased to non-affiliated entities. Lavaca Realty also owns a two-story office building in El Paso, Texas as well as a one-story office building in Harlingen, Texas. Other significant real estate investments held at June 30, 1999 include 39,341 square feet of undeveloped land in McAllen, Texas and 25,000 square feet of improved property in Kansas City, Missouri, of which 40% is occupied by Missouri Gas Energy and the remainder by a non-affiliated entity.

Employees

As of July 31, 1999, the Company had 1,563 employees, of whom 1,220 are paid on an hourly basis and 343 are paid on a salary basis. Of the 1,220 hourly paid employees, 45% are represented by unions. Of those employees represented by unions, 95% are employed by Missouri Gas Energy. In December 1998, the Company agreed to five-year contracts with each bargaining-unit representing Missouri employees, which were effective in May 1999.

On June 4, 1997, Southern Union Gas employees in Austin, Texas covered by a collective bargaining agreement voted to decertify their representing union. Additionally, effective May 1, 1998, employees in Galveston, Texas chose to withdraw their membership from their representing union.

From time to time the Company may be subject to labor disputes; however, such disputes have not previously disrupted its business. The Company believes that its relations with its employees are good.

Statistics of Principal Utility and Related Operations

The following table shows certain operating statistics of the Company's gas distribution divisions with operations in Texas and Missouri:

	Year Ended June 30,		
	1999	1998	1997

Southern Union Gas:			
Average number of gas sales customers served:			
Residential	473,563	465,844	456,972
Commercial	30,847	29,828	29,030
Industrial and irrigation	258	252	274
Public authorities and other	2,849	2,755	2,673
Total average customers served	507,517	498,679	488,949
Gas sales in millions of cubic feet (MMcf):			
Residential	19,553	23,217	23,135
Commercial	8,539	9,425	9,759
Industrial and irrigation	1,082	1,208	1,562
Public authorities and other	2,266	2,752	2,756
Gas sales billed	31,440	36,602	37,212
Net change in unbilled gas sales	175	(82)	(70)
Total gas sales	31,615	36,520	37,142
Weather:			
Degree days (a)	1,576	2,118	1,962
Percent of 30-year measure (b)	74%	99%	92%
Gas transported in MMcf	16,668	16,535	15,118
Missouri Gas Energy:			
Average number of gas sales customers served:			
Residential	418,266	413,703	407,505
Commercial	57,247	57,693	56,967
Industrial	313	312	312
Total average customers served	475,826	471,708	464,784
Gas sales in Mmcf:			
Residential	36,578	41,104	45,074
Commercial	16,842	18,705	20,893
Industrial	375	400	490
Gas sales billed	53,795	60,209	66,457
Net change in unbilled gas			

sales........................	204	35	(88)
Total gas sales..............	53,999	60,244	66,369
Weather:			
Degree days (a)................	4,438	4,723	5,506
Percent of 30-year measure (b).	85%	90%	105%
Gas transported in MMcf..........	31,774	30,165	29,638

(a) "Degree days" are a measure of the coldness of the weather experienced. A degree day is equivalent to each degree that the daily mean temperature for a day falls below 65 degrees Fahrenheit.

(b) Information with respect to weather conditions is provided by the National Oceanic and Atmospheric Administration. Percentages of 30-year measure are computed based on the weighted average volumes of gas sales billed.

Customers. The following table shows the number of customers served by the Company, through its divisions, subsidiaries and affiliates, as of the end of its last three fiscal years.

	Gas Utility Customers as of June 30,		
	1999	1998	1997
Southern Union Gas:			
Austin and other central and south Texas communities............	175,596	173,228	163,938
El Paso and other west Texas communities......	182,516	178,812	173,825
Galveston and Port Arthur.................	50,543	50,673	50,856
Panhandle and north Texas communities......	24,728	24,900	24,903
Rio Grande Valley communities and Eagle Pass...................	75,983	76,840	76,704
	509,366	504,453	490,226
Missouri Gas Energy:			
Kansas City, Missouri			

Metropolitan Area......	354,189	348,543	346,060
St. Joseph, Joplin, Monett and others......	122,883	121,766	122,946
	477,072	470,309	469,006
Other (a)..................	24,947	20,874	3,647
Total......................	1,011,385	995,636	962,879

(a) Includes Mercado, South Florida Natural Gas, Atlantic Gas Corporation, SUPro and 43% (the Company's equity ownership) of the customers of a natural gas distribution company serving Piedras Negras, Mexico, in each case for the year-end in which the Company had such operations or investments.

ITEM 2. Properties.

See Item 1, Business, for information concerning the general location and characteristics of the important physical properties and assets of the Company.

Southern Union Gas has 7,898 miles of mains, 4,305 miles of service lines and 218 miles of transmission lines. Southern and Norteno have 171 miles and 7 miles, respectively, of transmission lines. Missouri Gas Energy has 7,441 miles of mains, 4,972 miles of service lines and 47 miles of transmission lines. SFNG has 135 miles of mains and 80 miles of service lines. The Company considers its systems to be in good condition and well-maintained, and it has continuing replacement programs based on historical performance and system surveillance.

ITEM 3. Legal Proceedings.

See Commitments and Contingencies in the Notes to Consolidated Financial Statements contained in the Annual Report for a discussion of the Company's legal proceedings. See MD&A -- Cautionary Statement Regarding Forward-Looking Information contained in the Annual Report.

ITEM 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders of Southern Union during the quarter ended June 30, 1999.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

Market Information

Southern Union's common stock is traded on the New York Stock Exchange under the symbol "SUG". The high and low sales prices (adjusted for any stock dividends and stock splits) for shares of Southern Union common stock since July 1, 1997 are set forth below:

	$/Share High	$/Share Low
July 1 to August 31, 1999	$21.31	$18.25
(Quarter Ended)		
June 30, 1999	21.79	17.62
March 31, 1999	23.21	16.55
December 31, 1998	23.33	17.63
September 30, 1998	20.30	14.17
(Quarter Ended)		
June 30, 1998	19.73	14.43
March 31, 1998	14.97	13.84
December 31, 1997	15.61	13.10
September 30, 1997	14.11	12.53

Holders

As of August 31, 1999, there were 1,142 holders of record of Southern Union's common stock. This number does not include persons whose shares are held of record by a bank, brokerage house or clearing agency, but does include any such bank, brokerage house or clearing agency that is a holder of record.

There were 31,235,009 shares of Southern Union's common stock outstanding on August 31, 1999 of which 17,731,637 shares were held by non-affiliates (i.e., not beneficially held by directors, executive officers, their immediate family members, or holders of 10% or more of shares outstanding).

Dividends

Southern Union's policy is to pay an annual stock dividend of approximately 5% and, therefore, the Company paid no cash dividends on its common stock during the last ten years ended June 30, 1999. Provisions in certain of Southern Union's long-term notes and its bank credit facilities limit the payment of cash or asset dividends on capital stock. Under the most restrictive provisions in effect, Southern Union may not declare or pay any cash or asset dividends on its common stock or acquire or retire any of Southern Union's common stock, unless no event of default exists and the Company meets certain financial ratio requirements, which presently are met.

On August 6, 1999, December 9, 1998 and December 10, 1997, the Company distributed its annual 5% common stock dividend to stockholders of record on July 23, 1999, November 23, 1998 and November 21, 1997, respectively. A portion of the 5% stock dividend distributed on August 6, 1999 and December 9, 1998 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. The 5% stock dividends are consistent with Southern Union's Board of Directors' February 1994 decision to commence regular stock dividends of approximately 5% annually. The specific amount and declaration, record and distribution dates for an annual stock dividend will be determined by the Board and announced at a date that is not expected to be later than the annual stockholders meeting each year. Traditionally, Southern Union has declared its stock dividend so as to coincide with its annual shareholder meeting in November. In 1999, and in the future, the Company expects to declare and pay its stock dividend prior to the distribution of its annual report to shareholders, so that the Company's year-end reporting will reflect the effect of the annual stock dividend.

On July 13, 1998, Southern Union effected a 3-for-2 stock split by distributing a 50% stock dividend to holders of record on June 30, 1998.

ITEM 6. Selected Financial Data.

	Year Ended June 30,				
	1999(a)(b)	1998(a)(b)	1997(a)	1996(a)	1995
	(dollars in thousands, except per share amounts)				
Total operating revenues.......	$ 605,231	$ 669,304	$717,031	$620,391	$479,983
Earnings from continuing operations (c).	10,445	12,229	19,032	20,839	16,069
Earnings per common and com-					

mon share equivalents (d)	.32	.39	.62	.68	.54
Total assets....	1,087,348	1,047,764	990,403	964,460	992,597
Common stock-holders' equity.........	301,058	296,834	267,462	245,915	225,664
Short-term debt and capital lease obliga-tion...........	2,066	1,777	687	615	770
Long-term debt and capital lease obliga-tion, exclud-ing current portion........	390,931	406,407	386,157	385,394	462,503
Company-obligated mandatorily re-deemable pre-ferred securi-ties of sub-sidiary trust..	100,000	100,000	100,000	100,000	100,000
Average custo-mers served....	998,476	979,186	955,838	952,934	947,691

(a) Certain Texas and Oklahoma Panhandle distribution operations and Western Gas Interstate, exclusive of the Del Norte interconnect, were sold on May 1, 1996.
(b) On December 31, 1997, Southern Union acquired Atlantic for 755,650 pre-split and pre-stock dividend shares of common stock valued at $18,041,000 and cash of $4,436,000.
(c) As of June 30, 1998, Missouri Gas Energy wrote off $8,163,000 pre-tax in previously recorded regulatory assets as a result of announced rate orders and court rulings.
(d) Earnings per share for all periods presented were computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year adjusted for (i) the 5% stock dividends distributed on August 6, 1999, December 9, 1998, December 10, 1997, December 10, 1996 and November 27, 1995, and (ii) the 50% stock dividend distributed on July 13, 1998, and the 33-1/3% stock dividend distributed on March 11, 1996.

ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

"Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 28 through 38 of the Company's

Annual Report to Stockholders for the year ended June 30, 1999, is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data.

The following consolidated financial statements of Southern Union and its consolidated subsidiaries, included in the Company's Annual Report to Stockholders for the year ended June 30, 1999 are incorporated herein by reference:

Consolidated statement of operations -- years ended June 30, 1999, 1998 and 1997.

Consolidated balance sheet -- June 30, 1999 and 1998.

Consolidated statement of cash flows -- years ended June 30, 1999, 1998 and 1997.

Consolidated statement of common stockholders' equity -- years ended June 30, 1999, 1998 and 1997.

Notes to consolidated financial statements.

Report of independent accountants.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

ITEM 10. Directors and Executive Officers of Registrant.

There is incorporated in this Item 10 by reference the information in the Company's definitive proxy statement for the 1999 Annual Meeting of Stockholders under the captions Board of Directors -- Board Size and Composition and Executive Officers and Compensation -- Executive Officers Who Are Not Directors.

ITEM 11. Executive Compensation.

There is incorporated in this Item 11 by reference the information in the Company's definitive proxy statement for the 1999 Annual Meeting of Stockholders under the captions Executive Officers and Compensation -- Executive Compensation and Certain Relationships.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

There is incorporated in this Item 12 by reference the information in the Company's definitive proxy statement for the 1999 Annual Meeting of Stockholders under the caption Security Ownership.

ITEM 13. Certain Relationships and Related Transactions.

There is incorporated in this Item 13 by reference the information in the Company's definitive proxy statement for the 1999 Annual Meeting of Stockholders under the caption Certain Relationships.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) Financial Statements. The following consolidated financial statements of Southern Union and its consolidated subsidiaries, included in the Company's Annual Report to Stockholders for the year ended June 30, 1999, are incorporated by reference to Part II, Item 8:

Consolidated statement of operations -- years ended June 30, 1999, 1998 and 1997.

Consolidated balance sheet -- June 30, 1999 and 1998.

Consolidated statement of cash flows -- years ended June 30, 1999, 1998 and 1997.

Consolidated statement of common stockholders' equity -- years ended June 30, 1999, 1998 and 1997.

Notes to consolidated financial statements.

Report of independent accountants.

(a)(2) Financial Statement Schedules. All schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

(a)(3) Exhibits.

Exhibit No.	Description
3(a)	Restated Certificate of Incorporation of Southern Union Company. (Filed as Exhibit 3(a) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)
3(b)	Southern Union Company Bylaws, as amended. (Filed as Exhibit 3(b) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)
4(a)	Specimen Common Stock Certificate. (Filed as Exhibit 4(a) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1989 and incorporated herein by reference.)
4(b)	Indenture between Chase Manhattan Bank, N.A., as trustee, and Southern Union Company dated January 31, 1994. (Filed as Exhibit 4.1 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)
4(c)	Officers' Certificate dated January 31, 1994 setting forth the terms of the 7.60% Senior Debt Securities due 2024. (Filed as Exhibit 4.2 to Southern Union's Current Report on Form 8-K dated February 15, 1994 and incorporated herein by reference.)
4(d)	Certificate of Trust of Southern Union Financing I. (Filed as Exhibit 4-A to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(e)	Certificate of Trust of Southern Union Financing II. (Filed as Exhibit 4-B to Southern Union's Registration Statement on Form S-3 (No. 33-58297)and incorporated herein by reference.)
4(f)	Certificate of Trust of Southern Union Financing III. (Filed as Exhibit 4-C to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)
4(g)	Form of Amended and Restated Declaration of Trust of Southern Union Financing I. (Filed as Exhibit 4-D to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(h) Form of Subordinated Debt Securities Indenture among Southern Union Company and The Chase Manhattan Bank, N. A., as Trustee. (Filed as Exhibit 4-G to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(i) Form of Supplemental Indenture to Subordinated Debt Securities Indenture with respect to the Subordinated Debt Securities issued in connection with the Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-H to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(j) Form of Southern Union Financing I Preferred Security (included in 4(g) above.) (Filed as Exhibit 4-I to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(k) Form of Subordinated Debt Security (included in 4(i) above.) (Filed as Exhibit 4-J to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(l) Form of Guarantee with respect to Southern Union Financing I Preferred Securities. (Filed as Exhibit 4-K to Southern Union's Registration Statement on Form S-3 (No. 33-58297) and incorporated herein by reference.)

4(m) The Company is a party to other debt instruments, none of which authorizes the issuance of debt securities in an amount which exceeds 10% of the total assets of the Company. The Company hereby agrees to furnish a copy of any of these instruments to the Commission upon request.

10(a) Revolving Credit Agreement (Long-Term Credit Facility) between Southern Union Company and the Banks named therein dated November 10, 1998. (Filed as Exhibit 10(a) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998 and incorporated herein by reference.)

10(b) Revolving Credit Agreement (Short-Term Credit Facility) between Southern Union Company and the Banks named therein dated November 10, 1998. (Filed as Exhibit 10(b) to Southern Union's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998 and incorporated herein by reference.)

10(c) Southern Union Company 1982 Incentive Stock Option Plan and form of related Stock Option Agreement. (Filed as Exhibits 4.1 and 4.2 to Form S-8, File No. 2-79612 and incorporated herein by reference.)(*)

10(d)	Form of Indemnification Agreement between Southern Union Company and each of the Directors of Southern Union Company. (Filed as Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1986 and incorporated herein by reference.)
10(e)	Southern Union Company 1992 Long-Term Stock Incentive Plan, As Amended. (Filed as Exhibit 10(l) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated herein by reference.)(*)
10(f)	Southern Union Company Director's Deferred Compensation Plan. (Filed as Exhibit 10(g) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.)(*)
10(g)	Southern Union Company Amended Supplemental Deferred Compensation Plan with Amendments. (Filed as Exhibit 4 to Southern Union's Form S-8 filed March 27, 1999 and incorporated herein by reference.)(*)
10(h)	Form of warrant granted to Fleischman and Walsh L.L.P. (Filed as Exhibit 10(j) to Southern Union's Transition Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference.)
10(i)	Renewal Promissory Note Agreement between Peter H. Kelley and Southern Union Company dated May 31, 1995. (Filed as Exhibit 10(i) to Southern Union's Annual Report on Form 10-K for the year ended June 30, 1995 and incorporated herein by reference.)
13	Portions of Company's Annual Report to Stockholders.
21	Subsidiaries of the Company.
23	Consent of Independent Accountants.
24	Power of Attorney.
27	Financial Data Schedule.

(*) Indicates a Management Compensation Plan.

(b) Reports on Form 8-K. Southern Union's Current Report on Form 8-K dated June 15, 1999 announcing the definitive merger agreement with Pennsylvania Enterprises, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Southern Union has duly caused this report to be signed by the undersigned, thereunto duly authorized, on September 10, 1999.

SOUTHERN UNION COMPANY

By PETER H. KELLEY

Peter H. Kelley
President and Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Southern Union and in the capacities indicated as of September 10, 1999.

Signature/Name	Title
GEORGE L. LINDEMANN*	Chairman of the Board, Chief Executive Officer and Director
JOHN E. BRENNAN*	Director
FRANK W. DENIUS*	Director
AARON I. FLEISCHMAN*	Director
KURT A. GITTER, M.D.*	Director
PETER H. KELLEY --------------- Peter H. Kelley	Director
ADAM M. LINDEMANN*	Director

ROGER J. PEARSON*	Director
GEORGE ROUNTREE, III*	Director
DAN K. WASSONG*	Director
RONALD J. ENDRES ---------------- Ronald J. Endres	Executive Vice President and Chief Financial Officer
DAVID J. KVAPIL --------------- David J. Kvapil	Senior Vice President and Corporate Controller (Principal Accounting Officer)

*By PETER H. KELLEY

Peter H. Kelley
Attorney-in-fact

INDEX TO EXHIBITS

Exhibit 13	Portions of Company's Annual Report to Stockholders
Exhibit 21	Subsidiaries of the Company
Exhibit 23	Consent of Independent Accountants
Exhibit 24	Power of Attorney
Exhibit 27	Financial Data Schedule

EXHIBIT 13

PORTIONS OF COMPANY'S ANNUAL REPORT TO STOCKHOLDERS

Management's Discussion and Analysis of Results of Operations and Financial Condition

Overview Southern Union Company's core business is the distribution of natural gas as a public utility through three divisions: Southern Union Gas, Missouri Gas Energy and Atlantic Utilities doing business as South Florida Natural Gas (SFNG). Southern Union Gas serves 513,000 customers in Texas (including the cities of Austin, Brownsville, El Paso, Galveston, Harlingen, McAllen and Port Arthur), Missouri Gas Energy serves 484,000 customers in central and western Missouri (including the cities of Kansas City, St. Joseph, Joplin and Monett) and SFNG, acquired as of December 31, 1997, serves 4,400 customers in portions of central Florida (including the cities of New Smyrna Beach, Edgewater and areas of Volusia County, Florida).

The Company also operates natural gas pipeline systems, markets natural gas to end-users, distributes propane and holds investments in real estate and other assets. To achieve profitability and continued growth, the Company continues to emphasize gas sales in nontraditional markets, operating efficiencies of existing systems, and expansion through selective acquisitions of new systems.

Results of Operations

Net Earnings Southern Union Company's 1999 (fiscal year ended June 30) net earnings were $10,445,000 ($.32 per common share, diluted for outstanding options and warrants -- hereafter referred to as per share), compared with $12,229,000 ($.39 per share) in 1998. The decrease was primarily due to the extremely warm winter of 1998/1999, which was experienced in all of the Company's service territories. Weather in the Southern Union Gas service territories during 1999 was 25% warmer than 1998 while gas sales volumes in the corresponding period decreased 13%. Weather in the Missouri service territories during 1999 was 6%

warmer than 1998 while gas sales volumes in the corresponding period decreased 10%. A $13,300,000 annual rate increase, to be earned volumetrically, was granted by the MPSC to Missouri Gas Energy effective as of September 2, 1998. As a result of the volumetric nature of revenues and unusually warm weather, net earnings were only marginally impacted by the rate increase. The decrease in net earnings for 1999 is also attributed to $3,839,000 of pre-tax costs associated with various acquisition efforts, impacting per share earnings by $.07. Average common and common share equivalents outstanding increased 3.2% in 1999 due to the issuance of 755,650 pre-split and pre-stock dividend shares of the Company's common stock on December 31, 1997 in connection with the acquisition of Atlantic Utilities Corporation and Subsidiaries (Atlantic). The Company earned 3.5% on average common equity in 1999.

The Company's 1998 net earnings were $12,229,000 ($.39 per share), compared with $19,032,000 ($.62 per share) in 1997. The decrease was primarily due to the pre-tax write-off of previously recorded regulatory assets as ordered by the Missouri Public Service Commission (MPSC). On August 18, 1998, the Missouri Court of Appeals denied the previously disclosed appeal by the Company of the MPSC's January 1997 rate order granted to Missouri Gas Energy. Because of this decision, the Company recorded a one-time non-cash write-off of $5,942,000 of deferred costs recorded since 1994. On August 21, 1998, the MPSC also granted Missouri Gas Energy a rate increase which, among other things, disallowed certain previously recorded deferred costs requiring an additional pre-tax non-cash write-off of $2,221,000. Significantly warmer weather in the winter of 1997/1998, especially in Missouri, also contributed to the decrease in earnings, despite an $8,847,000 annual increase to Missouri Gas Energy revenues granted by the MPSC effective February 1, 1997. Weather in the Missouri service territories during 1998 was 14% warmer than 1997 while gas sales volumes in the corresponding period decreased 9%. Average common and common share equivalents outstanding increased 2.5% in 1998 due to the previously discussed issuance of the Company's common stock on December 31, 1997 in connection with the acquisition of Atlantic. The Company earned 4.3% and 7.4% on average common equity in 1998 and 1997, respectively.

Operating Revenues

Operating revenues in 1999 decreased $64,073,000, or 10%, to $605,231,000, while gas purchase costs decreased $63,279,000, or 16%, to $342,301,000.

Operating revenues and gas purchase costs in 1999 were affected by both a reduction in gas sales volumes and decreases in the cost of gas. Gas sales volumes decreased 9% in 1999 to 105,156 MMcf due to the significantly warmer winter weather in the Missouri and Texas service territories. Gas sales volumes were also impacted by a reduction in average usage per customer throughout the Company's service territories as a result of more energy efficient housing and appliances. The average cost of gas decreased $.26 to $3.23 per Mcf in 1999 due to decreases in average spot market gas prices throughout the Company's distribution system as a result of seasonal impacts on demands for natural gas and the ensuing competitive pricing within the industry. The average spot market price of natural gas decreased 16% to $1.88 per million British thermal units (MMBtu) in 1999. Additionally impacting operating revenues in 1999 was a $2,852,000 decrease in gross receipt taxes due to the mild weather in 1999. Gross receipt taxes are levied on sales revenues billed to the customers and remitted to the various taxing authorities. Operating revenues in 1999 compared with 1998 were also impacted by a $1,200,000 decrease in revenues under a gas supply incentive plan approved by the MPSC in July, 1996. Under the plan, Southern Union and its Missouri customers share in certain savings below benchmark levels of gas costs incurred as a result of the Company's gas procurement activities. Operating revenues were favorably impacted by the $13,300,000 annual increase to revenues granted to Missouri Gas Energy, effective as of September 2, 1998. However, as previously stated, the impact from this rate increase was marginal as it is earned volumetrically.

Gas purchase costs generally do not directly affect earnings since these costs are generally passed on to customers pursuant to purchase gas adjustment (PGA) clauses. Accordingly, while changes in the cost of gas may cause the Company's operating revenues to fluctuate, net operating margin is generally not affected by increases or decreases in the cost of gas. Increases in gas purchase costs indirectly affect earnings as the customer's bill increases, usually resulting in increased bad debt and collection costs being recorded by the Company.

Gas transportation volumes in 1999 decreased 3,461 MMcf to 55,692 MMcf at an average transportation rate per Mcf of $.36 compared with $.33 in 1998. Transportation volumes increased from 30,165 MMcf to 31,774 MMcf in 1999 for Missouri Gas Energy and decreased from 28,988 MMcf to 23,918 MMcf in 1999 for Southern Union Gas and the Company's pipeline subsidiaries. This decrease was mainly caused by a 45% decrease, or 5,190 MMcf, in the amount of volumes transported into Mexico by Norteno Pipeline Company (Norteno), a subsidiary of the Company.

Operating revenues in 1998 compared with 1997 decreased $47,727,000, or 7%, to $669,304,000 while gas purchase costs decreased $43,608,000, or 10%, to $405,580,000.

Operating revenues and gas purchase costs in 1998 were affected by both a reduction in gas sales volumes and decreases in the cost of gas. Gas sales volumes decreased 6% in 1998 compared with 1997 to 115,261 MMcf due to the warmer winter weather in the Missouri service territories. Gas sales volumes were also impacted by a reduction in average usage per customer throughout the Company's service territories as a result of more energy efficient housing and appliances. The average cost of gas decreased $.18 to $3.49 per Mcf in 1998 due to decreases in average spot market gas prices throughout the Company's distribution system as a result of seasonal impacts on demands for natural gas and the ensuing competitive pricing within the industry. The average spot market price of natural gas decreased 3% to $2.24 per MMBtu in 1998. Additionally impacting operating revenues in 1998 was a $4,616,000 decrease in gross receipt taxes, a $2,104,000 decrease in gas transportation revenues at Missouri Gas Energy, and decreased revenues of $500,000 under the previously discussed gas supply incentive plan. Operating revenues were favorably impacted by an $8,847,000 annual increase to revenues granted by the MPSC effective as of February 1, 1997.

Gas transportation volumes in 1998 decreased 3,380 MMcf to 59,153 MMcf at an average transportation rate per Mcf of $.33 compared with $.34 in 1997. Transportation volumes increased from 29,638 MMcf to 30,165 MMcf in 1998 for Missouri Gas Energy and decreased from 32,895 MMcf to 28,988 MMcf in 1998 for Southern Union Gas and the Company's pipeline subsidiaries. This decrease was mainly caused by a 32% decrease, or 5,531 MMcf, in the amount of volumes transported into Mexico by Norteno.

In 1999 and 1998, the gas distribution operations in Texas contributed 29% and 32%, respectively, of the Company's consolidated operating revenues. In 1999 and 1998, the gas distribution operations in Missouri contributed 61% and 59%, respectively, of the Company's consolidated operating revenues. Four suppliers provided 50% and 45% of gas purchases in 1999 and 1998, respectively.

Net Operating Margin Net operating margin in 1999 (operating revenues less gas purchase costs and revenue-related taxes) increased by $2,058,000, compared with an increase of $497,000, in 1998. Operating margins and earnings are primarily dependent upon gas sales volumes, gas service rates and timing of acquisitions. The level of gas sales volumes is sensitive to the variability of the weather. If normal weather had been present throughout the Company's service territories in 1999 and 1998, net operating margin would have increased by approximately $20,334,000 and $8,443,000, respectively. Texas and Missouri accounted for 40% and 55%, respectively, of the Company's net operating margin in 1999 and 43% and 52%, respectively, in 1998.

Weather Weather in the Missouri Gas Energy service territories in 1999 was 85% of a 30-year measure, 6% warmer than in 1998. Weather in the Southern Union Gas service territories in 1999 was 74% of a 30-year measure, 25% warmer than in 1998. Weather in Missouri in 1998 was 90% of a 30-year measure, 14% warmer than in 1997, while weather in Texas in 1998 was 99% of a 30-year measure, 8% colder than in 1997.

Customers The average number of customers served in 1999, 1998 and 1997 was 998,476, 979,186 and 955,838, respectively. These customer totals exclude Southern Union's 43% equity ownership in a natural gas distribution company in Piedras Negras, Mexico which currently serves 19,500 customers. Southern Union Gas served 507,517 customers in Texas during 1999. Missouri Gas Energy served 475,826 customers in central and western Missouri during 1999. SFNG and Atlantic Gas Corporation, a propane subsidiary of the Company, served 4,160 and 953 customers, respectively, during 1999. SUPro Energy Company (SUPro), a subsidiary of the Company, served 9,785 propane customers during 1999.

Operating Expenses Operating, maintenance and general expenses in 1999 increased $2,166,000, or 2%, to $109,693,000. The increase is a result of increased expenses associated with various claims and litigation and increases in employee benefit costs.

Depreciation and amortization expense in 1999 increased $3,416,000 to $41,855,000 as a result of including certain costs into rate base that were previously deferred as provided in the Missouri Gas Energy revenue increase effective as of September 2, 1998 and normal growth in plant. Taxes other than on income and revenues, principally consisting of property, payroll and state franchise taxes increased $296,000 to $14,501,000 in 1999. The increase was primarily due to increases in property taxes resulting from the inclusion of certain plant assets pursuant to the Missouri Gas Energy Safety Program that were previously deferred prior to the September 2, 1998 revenue increase in Missouri.

Operating, maintenance and general expenses in 1998 decreased $2,361,000, or 2%, to $107,527,000. Included in this decrease was $5,837,000 in reduced bad debt expense due to a reduction in delinquent customer accounts in 1998 compared with 1997. The significant increase in natural gas prices during 1997 caused many customers to receive considerably higher heating bills. Partially offsetting this factor was an increase in reserves for litigation claims and settlements in 1998 compared with 1997.

Depreciation and amortization expense in 1998 increased $3,610,000 to $38,439,000 as a result of including certain costs into rate base that were previously deferred as provided in the Missouri Gas Energy revenue increase effective as of February 1, 1997 and normal growth in plant. Taxes other than on income and revenues increased $2,051,000 to $14,205,000 in 1998. The increase was primarily due to increases in property taxes resulting from the inclusion of certain plant assets pursuant to the Missouri Gas Energy Safety Program that were deferred prior to the February 1, 1997 revenue increase in Missouri.

Employees The Company employed 1,554, 1,594 and 1,595 individuals as of June 30, 1999, 1998, and 1997, respectively. After gas purchases and taxes, employee costs and related benefits are the Company's most significant expense. Such expense includes salaries, payroll and related taxes and employee benefits such as health, savings, retirement and educational assistance. In December 1998, the Company agreed to new five-year contracts with each bargaining-unit representing Missouri employees, which were effective in May 1999.

Interest Expense and Dividends on Preferred Securities Total interest expense in 1999 increased by $1,115,000, or 3%, to $35,999,000. Interest expense on long-term debt and capital leases increased by $752,000 in 1999 primarily due to an increase of $14,984,000 in the average capital lease obligation outstanding associated with the installation of an Automated Meter Reading (AMR) system at Missouri Gas Energy. The installation of the AMR system was completed during the first quarter of fiscal year 1999.

Interest expense on short-term debt in 1999 decreased $849,000 to $1,550,000 due to the average short-term debt outstanding during 1999 decreasing $11,631,000 to $27,474,000. The average rate of interest on short-term debt also decreased from 6.1% in 1998 to 5.6% in 1999. Interest expense incurred on PGA liabilities increased $850,000 during 1999 due to lower than anticipated gas supply costs.

Total interest expense in 1998 increased by $1,419,000, or 4%, to $34,884,000. Interest expense on long-term debt and capital leases increased by $577,000 in 1998 primarily due to Missouri Gas Energy's capital lease obligation of $22,151,000 incurred in 1998 for the installation of the AMR system.

Interest expense on short-term debt in 1998 increased $566,000 to $2,399,000, due to the average short-term debt outstanding during 1998 increasing $9,333,000 to $39,105,000. The average rate of interest on short-term debt was 6.1% in both 1998 and 1997.

Write-Off of Regulatory Assets During 1998, the Company was impacted by pre-tax non-cash write-offs totaling $8,163,000 of previously recorded regulatory assets. Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program. In connection with this program, the MPSC issued an accounting authority order in 1994 which authorized Missouri Gas Energy to defer carrying costs at a rate of 10.54%. The MPSC rate order of January 22, 1997, however, retroactively reduced the 10.54% carrying cost rate used since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate of approximately 6%. The Company filed an appeal of this portion of the rate order in the Missouri State Court of Appeals, Western District, and on August 18, 1998 was notified that the appeal was denied. This resulted in a one-time non-cash write-off of $5,942,000 by the Company of previously deferred costs in its fiscal year ended June 30, 1998. See Commitments and Contingencies in the Notes to Consolidated Financial Statements.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs associated with the rate filing, requiring a non-cash write-off of $2,221,000. Though the Company has requested a rehearing on significant portions of these disallowances, the Company recorded this charge to earnings in its fiscal year ended June 30, 1998.

Other Income (Expense), Net Other expense, net, in 1999 was $1,814,000, compared to other income, net, of $4,073,000 in 1998. Other expense in 1999 included $3,839,000 of costs associated with various acquisition efforts and a net expense of $619,000 related to the amortization and current deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program. This was partially offset by net rental income of Lavaca Realty Company (Lavaca Realty), the Company's real estate subsidiary, of $1,448,000 and equity earnings of $609,000 from Southern Union's 43% equity ownership of a natural gas distribution company in Piedras Negras, Mexico.

Other income in 1998 included $1,671,000 in deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; realized gains on the sale of investment securities of $1,088,000; and net rental income of Lavaca Realty of $1,119,000. This was partially offset by $885,000 of costs associated with various acquisition efforts.

Other income in 1997 included $3,729,000 in deferral of interest and other expenses associated with the Missouri Gas Energy Safety

Program; realized gains on the sale of investment securities of $2,545,000; and net rental income of Lavaca Realty of $1,329,000. This was partially offset by the payment of $2,125,000 for the settlement with the Missouri Office of Public Counsel (OPC) and the MPSC for certain billing errors primarily from the 1996/1997 winter heating season; costs of $1,750,000 associated with various acquisition efforts; and a $257,000 donation of emissions analysis equipment and software to a Texas university.

Federal and State Income Taxes Federal and state income tax expense in 1999, 1998, and 1997 was $7,109,000, $7,984,000 and $12,373,000, respectively. The decrease in income taxes during 1999 and 1998 was due to the decrease in pre-tax income, previously discussed.

Liquidity and Capital Resources

Operating Activities The seasonal nature of Southern Union's business results in a high level of cash flow needs to finance gas purchases, outstanding customer accounts receivable and certain tax payments. To provide these funds, as well as funds for its continuing construction and maintenance programs, the Company has historically used its credit facilities along with internally-generated funds. Because of available short-term credit and the ability to obtain various market financing, management believes it has adequate financial flexibility to meet its cash needs.

The Company's strategic plan is to increase the scale of its operations and the size of its customer base by pursuing and consummating future business combination transactions. The Company has entered into a merger agreement with Pennsylvania Enterprises, Inc. (PEI). See "Other Matters -- Merger Agreement with Pennsylvania Enterprises, Inc." Acquisitions may require substantial financial expenditures that will need to be financed through cash flow from operations or future debt and equity offerings. The availability and terms of any such financing sources will depend upon various factors and conditions such as the Company's combined cash flow and earnings, the Company's resulting capital structure, and conditions in financial markets at the time of such offerings. Acquisitions and financings will also affect the Company's combined results due to factors such as the Company's ability to realize any anticipated benefits from the PEI merger and any other acquisitions, successful integration of new and different operations and businesses, and effects of different regional economic and weather conditions. Future acquisitions may involve the issuance of shares of the Company's common stock, which could have a dilutive effect on the then-current stockholders of the Company. See "Other Matters --

Cautionary Statement Regarding Forward-Looking Information."

Despite the abnormally warm weather, cash flow from operating activities in 1999 increased by $8,596,000 to $76,853,000, and increased by $20,263,000 to $68,257,000 in 1998. Operating activities were impacted by a reduction in net earnings in 1999 and 1998, the non-cash write-off of previously recorded regulatory assets in 1998 discussed above, increased accounts receivable balances in 1997 due to increases in delinquent customer accounts discussed above, the timing of natural gas stored in inventory at Missouri Gas Energy and general changes in other operating accounts.

At June 30, 1999, 1998 and 1997, the Company's primary source of liquidity included borrowings available under the Company's credit facilities. A balance of $21,000,000 and $1,600,000 was outstanding under the credit facilities at June 30, 1999 and 1998, respectively. A balance of $17,900,000 was outstanding under the facilities at July 31, 1999.

Investing Activities Cash flow used in investing activities in in 1999 increased by $15,575,000 to $81,209,000, and increased by $11,619,000 to $65,634,000 in 1998. Investing activity cash flow was primarily affected by additions to property, plant and equipment, acquisition of operations and sales and purchases of investment securities.

During 1999, 1998 and 1997, the Company expended $73,147,000, $77,018,000 and $64,463,000, respectively, for capital expenditures excluding acquisitions. These expenditures primarily related to distribution system replacement and expansion. Included in these capital expenditures were $17,951,000, $21,125,000 and $20,972,000 for the Missouri Gas Energy Safety Program in 1999, 1998 and 1997, respectively. Cash flow from operations has historically been utilized to finance capital expenditures and is expected to be the primary source for future capital expenditures.

On December 31, 1997, Southern Union acquired Atlantic for 755,650 pre-split and pre-stock dividend shares of common stock and $4,436,000 of cash. On the date of acquisition, Atlantic had $11,683,000 of cash and cash equivalents.

During 1999, the Company purchased investment securities of $7,000,000. During 1998, the Company purchased investment securities of $5,000,000 and had proceeds from the sale of investment securities of $6,531,000. During 1997, the Company purchased $5,363,000 in investment securities and had proceeds from the sale of investment securities of $13,327,000. As of June 30, 1999, the investment securities are accounted for under the cost method.

The Company completed the installation of an AMR system at Missouri Gas Energy during the first quarter of fiscal year 1999. The installation of the AMR system involved an investment of approximately $30,000,000 which is accounted for as a capital lease obligation. As of June 30, 1999, the capital lease obligation outstanding was $26,894,000.

Financing Activities Cash flow from financing activities was $4,356,000 in 1999. Cash flow used in financing activities was $2,623,000 in 1998, while cash flow from financing activities was $3,134,000 in 1997. Financing activity cash flow changes were primarily due to repayment of debt, net borrowings under the revolving credit facilities and changes in cash overdrafts. As a result of these financing transactions, the Company's total debt to total capital ratio at June 30, 1999 was 49.0%, compared with 50.6% and 51.2% at June 30, 1998 and 1997, respectively. The Company's effective debt cost rate under the current debt structure is 7.7% (which includes interest and the amortization of debt issuance costs and redemption premiums on refinanced debt).

Southern Union Financing I, a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of Preferred Securities in May 1995. The issuance of the Preferred Securities was part of a $300,000,000 shelf registration filed with the Securities and Exchange Commission on March 29, 1995. Southern Union may sell a combination of preferred securities of financing trusts and senior and subordinated debt securities of Southern Union of up to $196,907,200 (the remaining shelf) from time to time, at prices determined at the time of any offering.

In June 1999, the Company repurchased $20,000,000 of Senior Notes. Depending upon market conditions and available cash balances, the Company may repurchase additional Senior Notes in the future. See Preferred Securities of Subsidiary Trust and Debt and Capital Lease in the Notes to the Consolidated Financial Statements.

The Company has availability under two revolving credit facilities (Revolving Credit Facilities) underwritten by a syndicate of banks. Of the Revolving Credit Facilities, $40,000,000 is available under a short-term facility which expires June 29, 2000, while $60,000,000 is available under a long-term facility which expires June 30, 2002. The Company has additional availability under uncommitted line of credit facilities (Uncommitted Facilities) with various banks. Covenants under the Revolving Credit Facilities allow for up to $35,000,000 of borrowings under Uncommitted Facilities at any one time. Borrowings under the facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. The Revolving Credit Facility is subject to a commitment fee based on the rating of the Senior Notes. As of June 30, 1999, the commitment fee was an annualized .15% on the unused balance. The interest rate on borrowings on the Revolving Credit Facility is calculated based on a formula using the LIBOR or prime interest rates.

The Company had standby letters of credit outstanding of $1,622,000 at June 30, 1999 and $2,947,000 at June 30, 1998, which guarantee payment of various insurance premiums and state taxes.

Quantitative and Qualitative Disclosures About Market Risk

The Company has long-term debt, Preferred Securities and Revolving Credit Facilities, which subject the Company to the risk of loss associated with movements in market interest rates.

At June 30, 1999, the Company had issued fixed-rate long-term debt and Preferred Securities aggregating $466,103,000 in principal amount and having a fair value of $442,865,000. These instruments are fixed-rate and, therefore, do not expose the Company to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would increase by approximately $22,832,000 if interest and dividend rates were to decline by 10% from their levels at June 30, 1999. In general, such an increase in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company's floating-rate obligations aggregated $21,003,000 at June 30, 1999 and primarily consisted of amounts borrowed under Revolving Credit Facilities of the Company. These floating-rate obligations expose the Company to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from June 30, 1999 levels, the Company's consolidated interest expense would increase by a total of approximately $14,000 each month in which such increase continued.

The risk of an economic loss is mitigated at this time as a result of the Company's regulated status. Any unrealized gains or losses are accounted for in accordance with the Financial Accounting Standards Board Accounting for the Effects of Certain Types of Regulation as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate-making process will be adjusted for these gains and losses.

The change in exposure to loss in earnings and cash flow related to interest rate risk from June 30, 1998 to June 30, 1999 is not material to the Company.

See Preferred Securities of Subsidiary Trust and Debt and Capital Lease in the Notes to the Consolidated Financial Statements.

Other Matters

Merger Agreement with Pennsylvania Enterprises, Inc. On June 7, 1999, Southern Union and Pennsylvania Enterprises, Inc. announced a definitive merger agreement. The agreement calls for PEI to merge into Southern Union in a transaction valued at approximately $500 million, including assumption of debt. If approved, each PEI shareholder will receive Southern Union common stock having a value of $32.00, plus $3.00 in cash, subject to adjustment. PEI is a multifaceted energy company headquartered in Wilkes-Barre, Pennsylvania with natural gas distribution being its primary business. PEI's principal subsidiary, PG Energy, together with Honesdale Gas Company serve more than 152,000 gas customers in northeastern and central Pennsylvania. In addition, PEI markets electricity to more than 20,000 customers through PG Energy Power Plus. Southern Union anticipates having shareholder and all regulatory approvals for this merger in the second quarter of the Company's fiscal year 2000.

The amount of Southern Union common stock to be issued in connection with the PEI merger and cash to be paid to PEI's stockholders may vary as a result of fluctuations in the price of the Company's common stock. Management anticipates that substantially all of the cash portion of the merger consideration to be paid to PEI's stockholders under the merger agreement and other merger-related costs (approximately $35 to $55 million) will be financed through external sources. In addition, the Company anticipates refinancing substantially all of the current portion of outstanding long-term debt of PEI and its subsidiaries, and the preferred stock of a PEI subsidiary in connection with or soon after completion of the PEI merger. Sources of financing may include commercial and investment banks, institutional lenders and investors, and the public securities markets. Management believes that the Company will have access to many sources and types of short-term and long-term capital financing; however, the terms of such financing or refinancing arrangements may contain covenants that could adversely affect the financial condition and flexibility of the Company.

Propane Operations SUPro and Atlantic Gas Corporation currently serve 11,000 and 1,100 customers, respectively. These propane operations sold 7,293,000 and 5,758,000 gallons of propane during 1999 and 1998, respectively.

Foreign Operations On July 23, 1997, Energia Estrella del Sur, S. A. de C. V., a wholly-owned subsidiary of Southern Union Energy International, Inc. and Southern Union International Investments, Inc., both subsidiaries of the Company, acquired an equity ownership in a natural gas distribution company and other operations which currently serves 19,500 customers in Piedras Negras, Mexico, which is across the border from the Company's Eagle Pass, Texas service area. Southern Union currently has a 43% equity ownership in this company. On September 8, 1997, Southern Transmission Company, another subsidiary of the Company, purchased a 45-mile intrastate pipeline for $305,000 which augments the Company's gas supply to the city of Eagle Pass and, subject to necessary regulatory approvals, ultimately Piedras Negras. Financial results of these foreign operations did not have a significant impact on the Company's financial results during 1999 and 1998.

Stock Splits and Dividends On August 6, 1999 and December 9, 1998, Southern Union distributed its annual 5% common stock dividend to stockholders of record on July 23, 1999 and November 23, 1998. A portion of each of these 5% stock dividends was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. Additionally, Southern Union distributed an annual 5% common stock dividend on December 10, 1997. On July 13, 1998, a three-for-two stock split was distributed in the form of a 50% stock dividend. Unless otherwise stated, all per share data included herein and in the accompanying Consolidated Financial Statements and Notes thereto have been restated to give effect to the stock split and stock dividends.

Contingencies The Company assumed responsibility for certain environmental matters in connection with the acquisition of Missouri Gas Energy. Additionally, the Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant sites in other of its former service territories, principally in Arizona and New Mexico, and present service territories in Texas.

On February 1, 1999, Southern Union submitted a proposal to the Board of Directors of Southwest Gas Corporation (Southwest) to acquire all of Southwest's outstanding common stock for $32.00 per share. Southwest then had a pending merger agreement with ONEOK, Inc. (ONEOK) at $28.50 per share. On February 22, 1999, Southern Union and Southwest both publicly announced Southern Union's proposal, after the Southwest Board of Directors determined that Southern Union's proposal was a Superior Proposal (as defined in the Southwest merger agreement with ONEOK). At that time Southern Union entered into a Confidentiality and Standstill Agreement with Southwest at Southwest's insistence. On April 25, 1999, Southwest's Board of Directors rejected Southern Union's $32.00 per share offer and accepted an amended offer of $30.00 per share from ONEOK. On April 27, 1999, Southern Union increased its offer to $33.50 per share and agreed to pay interest which, together with dividends, would provide Southwest shareholders with a 6% annual rate of return on its $33.50 offer, commencing February 15, 2000, until closing. According to public statements by Southwest, Southern Union's revised proposal has also been rejected by Southwest's Board of Directors.

There are four lawsuits pending that relate to activities surrounding Southern Union's efforts to acquire Southwest. In addition, there is before the U. S. Court of Appeals for the Tenth Circuit, an appeal by Southern Union of a preliminary injunction entered by the U.S. District Court for the Northern District of Oklahoma. Southern Union intends to vigorously pursue its claims against Southwest, ONEOK, and certain individual defendants, and vigorously defend itself against the claims by Southwest and ONEOK. See Commitments and Contingencies in the Notes to Consolidated Financial Statements for a discussion of these lawsuits.

In August 1998, a jury in Edinburg, Texas concluded deliberations on the City of Edinburg's franchise fee lawsuit against PG&E Gas Transmission, Texas Corporation (formerly Valero Energy Corporation (Valero)) and a number of its subsidiaries, as well as former Valero subsidiary Rio Grande Valley Gas Company (RGV) and RGV's successor company, Southern Union Company. The case, based upon events that occurred between 1985-1987, centers on specific contractual language in the 1985 franchise agreement between RGV and the City of Edinburg. Southern Union purchased RGV from Valero in October 1993. The jury awarded the plaintiff damages, against all defendants under several largely overlapping but mutually exclusive claims, totaling approximately $13,000,000. The trial judge subsequently reduced the award to approximately $700,000 against Southern Union and $7,800,000 against Valero and Southern Union together. The Company is pursuing reversal on appeal. The Company believes it will ultimately prevail, and that the outcome of this matter will not have a material adverse impact on the Company's results of operations, financial position or cash flows. Furthermore, the Company has not determined what impact, if any, this jury decision may have on other city franchises in Texas.

On August 18, 1998, the Missouri State Court of Appeals, Western District, denied the Company's appeal of the February 1, 1997 rate order which retroactively reduced the carrying cost rate applied by the Company on expenditures incurred on the Missouri

Gas Energy Safety Program. The Company believes that the inconsistent treatment by the MPSC in subsequently changing to the Allowance for Funds Used During Construction rate of approximately 6% from the previously ordered rate of 10.54% constitutes retroactive ratemaking. Unfortunately, the decision by the Missouri State Court of Appeals failed to address certain specific language within a 1994 MPSC accounting authority order that the Company believed prevented the MPSC from retroactively changing the carrying cost rate. Southern Union sought a transfer of the case to the Missouri Supreme Court which was denied on November 24, 1998.

Southern Union and its subsidiaries are parties to other legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject, and not to be material to the Company's overall business or financial condition, results of operations or cash flows.

See Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Inflation The Company believes that inflation has caused and will continue to cause increases in certain operating expenses and has required and will continue to require assets to be replaced at higher costs. The Company continually reviews the adequacy of its gas service rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those rates.

Regulatory The majority of the Company's business activities are subject to various regulatory authorities. The Company's financial condition and results of operations have been and will continue to be dependent upon the receipt of adequate and timely adjustments in rates. Gas service rates, which consist of a monthly fixed charge and a gas usage charge, are established by regulatory authorities and are intended to permit utilities the opportunity to recover operating, administrative and financing costs and to have the opportunity to earn a reasonable return on equity. The monthly fixed charge provides a base revenue stream while the usage charge increases the Company's revenues and earnings in colder weather when natural gas usage increases.

On September 18, 1997, the MPSC approved a global settlement among the Company, the OPC and MPSC to resolve complaints brought by the OPC and the MPSC staff regarding billing errors during the 1995/1996 and 1996/1997 winter heating seasons. The settlement called for credits to gas bills by Missouri Gas Energy totaling $1,575,000 to those customers overbilled and a $550,000 contribution by Missouri Gas Energy to a social service organization for the express purpose of assisting needy Missouri Gas Energy customers in paying their gas bills. These balances were recorded as of June 30, 1997.

In August 1997, the MPSC issued an order authorizing Missouri Gas Energy to begin making semi-annual PGAs in November and April, instead of more frequent adjustments as previously made. Additionally, the order authorized Missouri Gas Energy to establish an Experimental Price Stabilization Fund for purposes of procuring natural gas financial instruments to hedge a minimal portion of its gas purchase costs for the winter heating season. The cost of purchasing these financial instruments and any gains derived from such activities are passed on to the Missouri customers through the PGA. Accordingly, there is no earnings impact as a result of the use of these financial instruments. These procedures help stabilize the monthly heating bills for Missouri customers. The Company believes it bears minimal risk under the authorized transactions.

The MPSC approved a three-year, experimental gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers share in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas is acquired above benchmark levels, both the Company and customers share in such costs. For the years ended June 30, 1999, 1998 and 1997, the incentive plan achieved a reduction of overall gas costs of $6,900,000, $9,200,000 and $10,200,000, respectively, resulting in savings to Missouri customers of $4,000,000, $5,100,000 and $5,600,000, respectively. The Company recorded revenues of $2,900,000, $4,100,000 and $4,600,000 in 1999, 1998 and 1997, respectively under this plan. Missouri Gas Energy is currently working with the MPSC to develop an alternate plan due to the July 1, 1999 expiration of the experimental gas supply incentive plan, however, there can be no assurance that this or any similar plan will be approved by the MPSC for Missouri Gas Energy.

On April 13, 1998, Southern Union Gas filed a $2,228,000 request for a rate increase from the city of El Paso, a request the city subsequently denied. On April 21, 1998, the city council of El Paso voted to reduce the Company's rates by $1,570,000 annually and to order a one-time cost of gas refund of $475,000. On May 21, 1998, Southern Union Gas filed with the Railroad Commission of Texas (RRC) an appeal of the city of El Paso's actions to reduce the Company's rates and require a one-time cost of gas refund. On December 21, 1998, the RRC issued its order implementing an $884,000 one-time cost of gas refund and a $99,000 base rate reduction. The cost of gas refund was completed in February 1999.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 rate increase which also disallowed certain previously recorded deferred costs, in which Missouri Gas Energy requested a rehearing on significant portions of these disallowances. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas Energy's rehearing request. The MPSC will conduct further proceedings to take additional evidence on those matters for which it granted Missouri Gas Energy a rehearing. If the MPSC adopts Missouri Gas Energy's positions on rehearing, then Missouri Gas Energy would be authorized an additional $2,200,000 of base revenues increasing the $13,300,000 initially authorized in its August 21, 1998 order to $15,500,000. The MPSC's orders may be subject to judicial review and although certain parties may argue for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective as of February 1, 1997. Southern Union Gas also received several annual cost of service adjustments in 1999, 1998 and 1997. See Utility Regulation and Rates and Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Pursuant to a 1989 MPSC order, Missouri Gas Energy is engaged in a major gas safety program in its service territories. This program includes replacement of company- and customer-owned gas service and yard lines, the movement and resetting of meters, the replacement of cast iron mains and the replacement and cathodic protection of bare steel mains. In recognition of the significant capital expenditures associated with this safety program, the MPSC permits the deferral, and subsequent recovery through rates, of depreciation expense, property taxes and associated carrying costs. The continuation of the Missouri Gas Energy Safety Program will result in significant levels of future capital expenditures. The Company estimates incurring capital expenditures of $14,372,000 in fiscal 2000 related to this program which are expected to be financed through cash flow from operations. See Utility Regulation and Rates and Commitments and Contingencies in the Notes to Consolidated Financial Statements.

The Company is continuing to pursue certain changes to rates and rate structures that are intended to reduce the sensitivity of earnings to weather including weather normalization clauses and higher monthly fixed service charges. Southern Union Gas has weather normalization clauses in the City of Austin, El Paso environs, Port Arthur, Galveston and in two other service areas in Texas. These clauses allow for the adjustments that help stabilize customers' monthly bills and the Company's earnings from the varying effects of weather.

Year 2000 Similar to all business entities, the Company will be
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impacted by the inability of computer application software programs to distinguish between the year 1900 and 2000 due to a commonly-used programming convention. Unless such programs are modified or replaced prior to 2000, calculations and interpretations based on date-based arithmetic or logical operations performed by such programs may be incorrect.

Management's plan addressing the impact of the Year 2000 issue on the Company focuses on the following areas: application systems, process control systems (embedded chips), technology infrastructure, physical infrastructure, and third party business partners and suppliers with which the Company has significant relationships. Management's analysis and review of these areas is comprised primarily of five phases: developing an inventory of hardware, software and embedded chips; assessing the degree to which each area is currently Year 2000 ready; performing renovations and repairs as needed to attain Year 2000 readiness; testing to ensure Year 2000 readiness; and developing a contingency plan if repair and renovation efforts are either unsuccessful or untimely.

Management has completed the inventory, assessment and testing phases regarding application systems, process control systems and technology infrastructure, and is performing renovations and repairs in each of these categories. The Company's renovation and repair efforts are substantially complete. Validation and confirmation testing of affected areas will continue through calendar year 1999. The review of critical business partners, gas transporters and suppliers is in the assessment stage and the Company will continue to confirm the readiness of these third parties through calendar year 1999. Costs incurred to date have primarily consisted of labor from the redeployment of existing information technology, legal and operational resources. The Company has incurred costs to date on this project of approximately $2,000,000. The Company expects to spend approximately $6,500,000 for these Year 2000 readiness efforts. Included in this estimate are equipment leasing expenses of approximately $1,500,000 that will be incurred over the life of the equipment. Also included in this estimate are costs associated with contingency planning, software licensing and consulting expenses that will be incurred prior to the end of 1999. To the extent that such costs are incurred in Year 2000 readiness efforts, the Company will attempt recovery for such costs through regulatory relief.

During the past several years the Company has replaced most of its financial and operating software programs and Year 2000 testing has established that these programs are now Year 2000 ready. These new programs have significantly reduced the costs the Company expects to incur to become Year 2000 ready. Additionally, the Company has developed a contingency plan in the event that supplier or internal operational failures do occur and that plan is being implemented throughout the Company. The costs associated with this effort are being evaluated and cannot yet be determined. Although the Company does not presently anticipate a material business interruption as a result of the Year 2000, the worst case scenario if all of the Company's Year 2000 efforts failed, including the failure of third party providers to deliver services, could result in daily lost revenues of approximately $3,200,000. This estimate is based on historical revenues recognized in the months of January, February and March.

Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Accounting for Derivative Instruments and Hedging Activities, as amended, is required to be adopted by the Company on July 1, 2000. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of this statement will have on the earnings and financial position of the Company.

See the Notes to Consolidated Financial Statements for other accounting pronouncements followed by the Company.

Cautionary Statement Regarding Forward-Looking Information This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report on Form 10-K contain forward-looking statements that are based on current expectations, estimates and projections about the industry in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are outside the Company's control. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to put undue reliance on such forward-looking statements. Stockholders may review the Company's reports filed in the future with the Securities and Exchange Commission for more current descriptions of developments that could cause actual results to differ materially from such forward-looking statements.

Factors that could cause or contribute to actual results differing materially from such forward-looking statements include the following: cost of gas; gas sales volumes; weather conditions in the Company's service territories; the achievement of operating efficiencies and the purchases and implementation of new technologies for attaining such efficiencies; impact of relations with labor unions of bargaining-unit employees; the receipt of timely and adequate rate relief; the outcome of pending and future litigation; governmental regulations and proceedings affecting or involving the Company; the impact of any Year 2000 disruption; and the nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets. These are representative of the factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions, and general economic conditions, including interest rate fluctuations, federal, state and local laws and regulations affecting the retail gas industry or the energy industry generally, and other factors.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended June 30,		
	1999	1998	1997
	(thousands of dollars, except shares and per share amounts)		
Operating revenues........	$ 605,231	$ 669,304	$ 717,031
Gas purchase costs........	342,301	405,580	449,188
Operating margin........	262,930	263,724	267,843
Revenue related taxes.....	(32,034)	(34,886)	(39,502)
Net operating margin....	230,896	228,838	228,341

Operating expenses:			
Operating, maintenance and general	109,693	107,527	109,888
Depreciation and amortization	41,855	38,439	34,829
Taxes, other than on income and revenues	14,501	14,205	12,154
Total operating expenses	166,049	160,171	156,871
Net operating revenues	64,847	68,667	71,470
Other income (expenses):			
Interest	(35,999)	(34,884)	(33,465)
Dividends on preferred securities of subsidiary trust	(9,480)	(9,480)	(9,480)
Write-off of regulatory assets	--	(8,163)	--
Other, net	(1,814)	4,073	2,880
Total other expenses, net	(47,293)	(48,454)	(40,065)
Earnings before income taxes	17,554	20,213	31,405
Federal and state income taxes	7,109	7,984	12,373
Net earnings available for common stock	$ 10,445	$ 12,229	$ 19,032
Net earnings per share:			
Basic	$ .34	$ .40	$ .64
Diluted	$ .32	$ .39	$ .62
Weighted average shares outstanding:			
Basic	30,894,613	30,406,832	29,641,523
Diluted	32,589,610	31,591,811	30,812,248

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

	June 30, 1999	June 30, 1998
	(thousands of dollars)	
Property, plant and equipment:		
Plant in service..................	$1,106,905	$1,057,675
Construction work in progress.....	13,271	7,783
	1,120,176	1,065,458
Less accumulated depreciation and amortization....................	(376,212)	(355,430)
	743,964	710,028
Additional purchase cost assigned to utility plant, net of accumulated amortization of $31,115,000 and $27,030,000, respectively....................	134,296	138,381
Net property, plant and equipment...........................	878,260	848,409
Current assets:		
Accounts receivable, billed and unbilled, net..................	50,693	53,760
Inventories, principally at average cost....................	29,373	26,160
Prepayments and other.............	4,692	4,747
Total current assets..........	84,758	84,667
Deferred charges....................	96,635	94,550

Investment securities	12,000	5,000
Real estate	9,420	9,741
Other	6,275	5,397
Total assets	$1,087,348	$1,047,764

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (Continued)

STOCKHOLDERS' EQUITY AND LIABILITIES

	June 30,	
	1999	1998
	(thousands of dollars)	
Common stockholders' equity:		
Common stock, $1 par value; authorized 50,000,000 shares; issued 31,239,662 (including 1,484,988 shares issued on August 6, 1999 as a stock dividend) shares at June 30, 1999	$ 31,240	$ 28,252
Premium on capital stock	276,610	252,638
Less treasury stock: 51,625 shares at cost	(794)	(794)
Less common stock held in Trust: 268,513 shares	(5,562)	--
Accumulated other comprehensive income	(436)	--
Retained earnings	--	16,738

	301,058	296,834
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated notes of Southern Union	100,000	100,000
Long-term debt and capital lease obligation	390,931	406,407
Total capitalization	791,989	803,241
Current liabilities:		
Long-term debt and capital lease obligation due within one year	2,066	1,777
Notes payable	21,003	1,600
Accounts payable	37,834	26,570
Federal, state and local taxes	13,300	14,017
Accrued interest	12,176	12,699
Customer deposits	17,682	17,686
Deferred gas purchases	22,955	12,257
Other	16,612	21,095
Total current liabilities	143,628	107,701
Deferred credits and other	81,493	74,217
Accumulated deferred income taxes	70,238	62,605
Commitments and contingencies	--	--
Total stockholders' equity and liabilities	$1,087,348	$1,047,764

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended June 30,		
	1999	1998	1997
	(thousands of dollars)		
Cash flows from operating activities:			
Net earnings	$ 10,445	$ 12,229	$ 19,032
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	41,855	38,439	34,829
Deferred income taxes	7,867	6,363	7,340
Provision for bad debts	3,279	5,461	11,298
Write-off of regulatory assets	--	8,163	--
Deferred interest expense	619	(1,671)	(3,729)
Gain on sale of investment securities	--	(1,088)	(2,545)
Other	1,004	1,447	1,077
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, billed and unbilled	(212)	132	(22,111)
Accounts payable	5,228	(7,066)	(6,978)
Taxes and other liabilities	(1,240)	146	(2,975)
Customer deposits	(4)	201	1,558
Deferred gas purchases	10,698	8,693	6,215
Inventories	(3,213)	(4,361)	5,691
Other	527	1,169	(708)
Net cash flows from operating activities	76,853	68,257	47,994
Cash flows from (used in) investing activities:			
Additions to property, plant and equipment	(73,147)	(77,018)	(64,463)
Acquisition of operations, net of cash received	--	6,502	(1,861)
Purchase of investment securities	(7,000)	(5,000)	(5,363)

Increase in customer advances.	2,139	3,562	2,470
Increase (decrease) in deferred charges and credits.	(4,086)	(1,786)	6
Proceeds from sale of land....	--	--	1,096
Proceeds from sale of investment securities........	--	6,531	13,327
Other.........................	885	1,575	773
Net cash flows used in investing activities........	(81,209)	(65,634)	(54,015)
Cash flows from (used in) financing activities:			
Repayment of debt and capital lease obligation.............	(20,837)	(1,309)	(640)
Net borrowings under revolving credit facilities..	19,403	--	1,600
Increase (decrease) in cash overdrafts...................	6,033	(945)	1,567
Other.........................	(243)	(369)	607
Net cash flows from (used in) financing activities....	4,356	(2,623)	3,134
Decrease in cash and cash equivalents....................	--	--	(2,887)
Cash and cash equivalents at beginning of year.............	--	--	2,887
Cash and cash equivalents at end of year....................	$ --	$ --	$ --

Cash paid for interest, net of amounts capitalized, in 1999, 1998 and 1997 was $45,039,000, $33,997,000 and $32,282,000, respectively. Cash paid for income taxes in 1999, 1998 and 1997 was $1,194,000, $4,511,000 and $5,871,000, respectively.

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Accumu-

	Common Stock, $1 Par Value	Premium on Capital Stock	Treasury Stock and Other	Accumulated Other Comprehensive Income	Retained Earnings	Total
	(thousands of dollars)					
Balance July 1, 1996.......	$16,275	$206,047	$(794)	$(1,244)	$25,631	$245,915
Comprehensive income:						
Net earnings....	--	--	--	--	19,032	19,032
Unrealized holding gain, net of tax and reclassification adjustment....	--	--	--	1,908	--	1,908
Comprehensive income..						20,940
5% stock dividend.	813	18,681	--	--	(19,494)	--
Exercise of stock options..	83	524	--	--	--	607
Balance June 30, 1997.......	17,171	225,252	(794)	664	25,169	267,462
Comprehensive income:						
Net earnings....	--	--	--	--	12,229	12,229
Reclassification adjust-						

ment for gains included in net income..	--	--	--	(664)	--	(664)
Comprehensive income...						11,565
5% stock dividend.	856	19,802	--	--	(20,658)	--
Three-for-two stock split....	9,400	(9,400)	--	--	(2)	(2)
Issuance of stock for acquisition.....	756	17,285	--	--	--	18,041
Exercise of stock options..	69	(301)	--	--	--	(232)
Balance June 30, 1998.......	28,252	252,638	(794)	--	16,738	296,834
Comprehensive income:						
Net earnings....	--	--	--	--	10,445	10,445
Minimum pension liability adjustment; net of tax.....	--	--	--	(436)	--	(436)
Comprehensive income..						10,009
Common stock held in Trust....	--	--	(5,562)	--	--	(5,562)
5% stock						

dividend -- declared November 11, 1998.....	1,411	7,483	--	--	(8,898)	(4)
5% stock dividend -- declared July 13, 1999.....	1,485	16,797	--	--	(18,285)	(3)
Exercise of stock options..	92	(308)	--	--	--	(216)
Balance June 30, 1999.......	$31,240	$276,610	$(6,356)	$ (436)	$ --	$301,058

See accompanying notes.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I Summary of Significant Accounting Policies

Operations Southern Union Company (Southern Union and, together with its wholly-owned subsidiaries, the Company), is a public utility primarily engaged in the distribution and sale of natural gas to residential, commercial and industrial customers located primarily in Texas and Missouri. Subsidiaries of Southern Union also market natural gas to end-users, distribute propane, operate natural gas pipeline systems and sell commercial gas air conditioning and other gas-fired engine-driven applications. Certain subsidiaries own or hold interests in real estate and other assets, which are primarily used in the Company's utility business. Substantial operations of the Company are subject to regulation.

Principles of Consolidation The consolidated financial statements include the accounts of Southern Union and its wholly-owned subsidiaries. Investments in which the Company owns a 20% to 50%

interest are accounted for using the equity method. All significant intercompany accounts and transactions are eliminated in consolidation. All dollar amounts in the tables herein, except per share amounts, are stated in thousands unless otherwise indicated.

Gas Utility Revenues and Gas Purchase Costs Gas utility customers are billed on a monthly-cycle basis. The related cost of gas and revenue taxes are matched with cycle-billed revenues through utilization of purchased gas adjustment provisions in tariffs approved by the regulatory agencies having jurisdiction. Revenues from gas delivered but not yet billed are accrued, along with the related gas purchase costs and revenue-related taxes. The distribution and sale of natural gas in Texas and Missouri contributed in excess of 85% of the Company's total revenue, net earnings and identifiable assets in 1999, 1998 and 1997. Four suppliers provided 50%, 45% and 44% of the Company's gas purchases in 1999, 1998 and 1997, respectively.

Earnings Per Share The Company's earnings per share presentation conforms to the Financial Accounting Standards Board (FASB) standard, Earnings per Share. All share and per share data have been restated for all stock dividends and stock splits unless otherwise noted.

Accumulated Other Comprehensive Income In 1999, the Company adopted Reporting Comprehensive Income, a FASB standard which established rules for the reporting of comprehensive income and its components. The main components of comprehensive income that relate to the Company are net earnings, unrealized holding gains on investments and additional minimum pension liability adjustments, all of which are presented in the consolidated statement of stockholders' equity. Prior to adoption, the unrealized holding gains were presented as part of stockholders' equity and the pension liability adjustments were presented in the consolidated balance sheet.

Unrealized holding gains on investment securities were nil, nil and $3,562,000 in 1999, 1998 and 1997, respectively. The reclassification adjustment for gains included in net income, net of tax, for reporting other comprehensive income was nil, $664,000 and $1,654,000 in 1999, 1998 and 1997, respectively. The unrealized holding gains on investment securities and the reclassification adjustment for gains are combined and reflected on the consolidated statement of stockholders' equity.

Credit Risk Concentrations of credit risk in trade receivables are limited due to the large customer base with relatively small individual account balances. In addition, Company policy requires a deposit from certain customers. The Company has recorded an allowance for doubtful accounts totaling $6,588,000, $8,267,000, $10,765,000 and $3,779,000 at June 30, 1999, 1998, 1997 and 1996, respectively. The allowance for doubtful accounts is increased for estimated uncollectible accounts and reduced for the write-off of trade receivables.

Fair Value of Financial Instruments The carrying amounts reported in the balance sheet for accounts receivable, accounts payable and notes payable approximate their fair value. The fair value of the Company's preferred securities of subsidiary trust and long-term debt is estimated using current market quotes and other estimation techniques.

Inventories Inventories consist of natural gas in underground storage and materials and supplies. Natural gas in underground storage of $23,680,000 and $20,545,000 at June 30, 1999 and 1998, respectively, consists of 10,429,000 and 9,118,000 British thermal units, respectively.

Segment Reporting The FASB standard, Disclosures about Segments of an Enterprise and Related Information, requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring performance. The Company is principally engaged in the gas distribution industry in the United States and has no other reportable industry segments.

New Pronouncements In June 1998, the Financial Accounting Standards Board issued Accounting for Derivative Instruments and Hedging Activities, as amended. The Statement is required to be adopted by the Company on July 1, 2000 with early adoption permitted as of the beginning of any fiscal quarter after its issuance. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of this statement will have on the earnings and financial position of the Company.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II Acquisitions

On June 7, 1999, Southern Union and Pennsylvania Enterprises, Inc. (PEI) announced a definitive merger agreement. The agreement calls for PEI to merge into Southern Union in a transaction valued at approximately $500 million, including assumption of debt of approximately $150 million. If approved, each PEI shareholder will receive Southern Union common stock having a value of $32.00, plus $3.00 in cash, subject to adjustment. PEI is a multifaceted energy company headquartered in Wilkes-Barre, Pennsylvania with natural gas distribution being its primary business. PEI's principal subsidiary, PG Energy, together with Honesdale Gas Company serve more than 152,000 gas customers in northeastern and central Pennsylvania. In addition, PEI markets electricity to more than 20,000 customers through PG Energy Power Plus. Southern Union anticipates having shareholder and all regulatory approvals for this merger in the second quarter of the Company's fiscal year 2000.

Effective December 31, 1997, the Company acquired Atlantic Utilities Corporation and Subsidiaries (Atlantic) for 755,650 pre-split and pre-stock dividend shares of common stock valued at $18,041,000 and $4,436,000 of cash. Atlantic is operated as South Florida Natural Gas, a natural gas division of Southern Union, and Atlantic Gas Corporation, a propane subsidiary of the Company. Atlantic currently serves 5,500 customers in central Florida. The assets of Atlantic were included in the Company's consolidated balance sheet at January 1, 1998 and its results of operations have been included in the Company's statements of consolidated operations and cash flows since January 1, 1998. On the date of acquisition, Atlantic had $11,683,000 of cash and cash equivalents. The acquisition was accounted for using the purchase method. The additional purchase cost assigned to utility plant of $10,000,000 reflects the excess of the purchase price over the historical book carrying value of the net assets acquired. The additional purchase cost is amortized on a straight-line basis over forty years.

On July 23, 1997 two subsidiaries of Southern Union acquired an equity ownership in a natural gas distribution company and other related operations currently serving 19,500 customers in Piedras Negras, Mexico for $2,700,000. Southern Union currently has a 43% equity ownership in this company. This system is across the border from the Company's Eagle Pass, Texas service area. On September 8, 1997, the Company purchased a 45-mile intrastate

pipeline, which augments the Company's gas supply to the city of Eagle Pass and, subject to necessary regulatory approvals, ultimately Piedras Negras.

On August 30, 1996, SUPro Energy Company, a wholly-owned subsidiary of the Company, purchased certain propane distribution operations in El Paso, Texas and on June 30, 1997, acquired propane operations located in and around Alpine, Texas. These acquisitions, which serve 3,600 customers, were for $1,861,000 in cash and the assumption of $1,475,000 in long-term debt.

III Write-Off of Regulatory Assets

During 1998, the Company was impacted by pre-tax non-cash write-offs totaling $8,163,000 of previously recorded regulatory assets. Pursuant to a 1989 Missouri Public Service Commission (MPSC) order, Missouri Gas Energy, a division of the Company, is engaged in a major gas safety program. In connection with this program, the MPSC issued an accounting authority order in 1994 which authorized Missouri Gas Energy to defer carrying costs at a rate of 10.54%. The MPSC rate order of January 22, 1997, however, retroactively reduced the 10.54% carrying cost rate used since early 1994 to an Allowance for Funds Used During Construction (AFUDC) rate of approximately 6%. The Company filed an appeal of this portion of the rate order in the Missouri State Court of Appeals, Western District, and on August 18, 1998 was notified that the appeal was denied. This resulted in a one-time non-cash write-off of $5,942,000 by the Company of previously deferred costs in its fiscal year ended June 30, 1998. See Commitments and Contingencies.

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a rate increase which, among other things, disallowed certain previously recorded deferred costs associated with the rate filing, requiring an additional pre-tax non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. See Utility Regulation and Rates.

IV Other Income (Expense), Net

Other expense of $1,814,000 in 1999 included: $3,839,000 of costs associated with various acquisition efforts and a net expense of $619,000 related to the amortization and current deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program. This was partially offset by net rental income of Lavaca Realty Company (Lavaca Realty), the Company's real estate subsidiary, of $1,448,000 and equity earnings of $609,000 from Southern Union's 43% equity ownership of a natural gas distribution company in Piedras Negras, Mexico.

Other income of $4,073,000 in 1998 included: $1,671,000 related to the deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; realized gains on the sale of investment securities of $1,088,000; and net rental income of Lavaca Realty of $1,119,000. This was partially offset by $885,000 of costs associated with various acquisition efforts.

Other income of $2,880,000 in 1997 included: $3,729,000 related to the deferral of interest and other expenses associated with the Missouri Gas Energy Safety Program; realized gains on the sale of investment securities of $2,545,000; and net rental income of Lavaca Realty, of $1,329,000. This was partially offset by the payment of $2,125,000 for the settlement with the Missouri Office of Public Counsel and the MPSC for certain billing errors primarily from the 1996/1997 winter heating season; costs of $1,750,000 associated with various acquisition efforts; and a $257,000 donation of emissions analysis equipment and software to a Texas university.

V Cash Flow Information

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Short-term investments are highly liquid investments with maturities of more than three months when purchased, and are carried at cost, which approximates market. The Company places its temporary cash investments with a high credit quality financial institution which, in turn, invests the temporary funds in a variety of high-quality short-term financial securities.

Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classified in accounts payable in the consolidated balance sheet.

VI Earnings Per Share

During the three-year period ended June 30, 1999, no adjustments were required in net earnings available for common stock for the earnings per share calculations. Average shares outstanding for basic earnings per share were 30,894,613, 30,406,832 and 29,641,523 for the years ended June 30, 1999, 1998 and 1997, respectively. Diluted earnings per share includes average shares outstanding as well as common stock equivalents from stock options and warrants. Common stock equivalents were 1,694,997, 1,184,979 and 1,170,725 for the years ended June 30, 1999, 1998 and 1997, respectively.

VII Property, Plant and Equipment

Plant Plant in service and construction work in progress are stated at original cost net of contributions in aid of construction. The cost of additions includes an allowance for funds used during construction and applicable overhead charges. Gain or loss is recognized upon the disposition of significant utility properties and other property constituting operating units. Gain or loss from minor dispositions of property is charged to accumulated depreciation and amortization. The Company capitalizes the cost of significant internally-developed computer software systems and amortizes the cost over the expected useful life. See Debt and Capital Lease.

	June 30, 1999	June 30, 1998
Distribution plant	$1,033,281	$ 984,580
General plant	109,178	106,444
Other	16,648	16,172
Total plant	1,159,107	1,107,196
Less contributions in aid of construction	(52,202)	(49,521)

Plant in service	1,106,905	1,057,675
Construction work in progress	13,271	7,783
	1,120,176	1,065,458
Less accumulated depreciation and amortization	(376,212)	(355,430)
	743,964	710,028
Additional purchase cost assigned to utility plant, net	134,296	138,381
Net property, plant and equipment	$ 878,260	$ 848,409

Acquisitions of rate-regulated entities are recorded at the historical book carrying value of utility plant. On December 31, 1997, Atlantic was acquired in which historical utility plant and equipment had a cost and accumulated depreciation and amortization of $5,253,000 and $2,540,000, respectively. Additional purchase cost assigned to utility plant is the excess of the purchase price over the book carrying value of the net assets acquired. In general, the Company has not been allowed recovery of additional purchase cost assigned to utility plant in rates. Periodically, the Company evaluates the carrying value of its additional purchase cost assigned to utility plant, long-lived assets, capital leases and other identifiable intangibles by comparing the anticipated future operating income from the businesses giving rise to the respective asset with the original cost or unamortized balance. No impairment was indicated or expected at June 30, 1999.

Depreciation and Amortization Depreciation of utility plant is provided at an average straight-line rate of approximately 3% per annum of the cost of such depreciable properties less applicable salvage. Franchises are amortized over their respective lives. Depreciation and amortization of other property is provided at straight-line rates estimated to recover the costs of the properties, after allowance for salvage, over their respective lives. Internally-developed computer software system costs are amortized over various regulatory-approved periods. Amortization of additional purchase cost assigned to utility plant is provided on a straight-line basis over forty years unless the Company's regulators have provided for the recovery of the additional purchase cost in rates, in which case the Company's policy is to utilize the amortization period which follows the rate recovery period.

Depreciation of property, plant and equipment in 1999, 1998, and 1997 was $37,771,000, $34,477,000 and $31,051,000, respectively.

VIII Investment Securities

At June 30, 1999 and 1998, all securities owned by the Company are accounted for under the cost method. These securities consist of preferred stock in non-public companies whose value is not readily determinable. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations when incurred, and dividends are recognized as income when received.

IX Stockholders' Equity

Stock Splits and Dividends On August 6, 1999, December 9, 1998, December 10, 1997 and December 10, 1996, Southern Union distributed its annual 5% common stock dividend to stockholders of record on July 23, 1999, November 23, 1998, November 21, 1997 and November 22, 1996, respectively. A portion of the 5% stock dividend distributed on August 6, 1999 and December 9, 1998 was characterized as a distribution of capital due to the level of the Company's retained earnings available for distribution as of the declaration date. On July 13, 1998, Southern Union distributed a three-for-two stock split in the form of a 50% stock dividend to stockholders of record on June 30, 1998. Unless otherwise stated, all per share and share data included herein have been restated to give effect to the dividends and split. The 5% common stock dividend declared on July 13, 1999, is reflected in the Consolidated Balance Sheet at June 30, 1999.

Common Stock The Company maintains its 1992 Long-Term Stock Incentive Plan (1992 Plan) under which options to purchase 3,653,343 shares were provided to be granted to officers and key employees at prices not less than the fair market value on the date of grant. The 1992 Plan allows for the granting of stock appreciation rights, dividend equivalents, performance shares and restricted stock. The Company also had an incentive stock option plan (1982 Plan) which provided for the granting of 787,500 options, until December 31, 1991. Upon exercise of an option granted under the 1982 Plan, the Company may elect, instead of issuing shares, to make a cash payment equal to the difference at the date of exercise between the option price and the market price of the shares as to which such option is being exercised. Options granted under both the 1992 Plan and the 1982 Plan are exercisable for periods of ten years from the date of grant or such lesser period as may be designated for particular options, and become exercisable after a specified period of time from the date of grant in cumulative annual installments. Options typically vest 20% per year for five years but may be a lesser or greater period as designated for particular options.

The Company accounts for its incentive plans under an Accounting Principles Board opinion, Accounting for Stock Issued to Employees. As a result, the Company recorded no compensation expense for 1999, 1998 and 1997. During 1997, the Company adopted the FASB standard, Accounting for Stock-Based Compensation, for footnote disclosure purposes only. Had compensation cost for these incentive plans been determined consistent with this standard, the Company's net income and diluted earnings per share would have been $9,429,000 and $.29, respectively, in 1999, $11,141,000 and $.35, respectively, in 1998 and $18,489,000 and $.60, respectively, in 1997. Because this standard has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 1998 and 1997, respectively: dividend yield of nil for both years; volatility of 19.5% and 21%; risk-free interest rate of 5.5% and 6.2%; and expected life outstanding of 5.5 to 7.2 years for both years. There were no options granted during 1999.

	1992 Plan		1982 Plan	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding				
July 1, 1996.........	1,526,150	$ 6.53	539,592	$ 3.08
Granted...........	491,974	13.12	--	--
Exercised.........	(61,182)	5.68	(85,612)	3.08

Canceled...........	(13,162)	6.58	--	--
Outstanding				
June 30, 1997........	1,943,780	8.23	453,980	3.08
Granted............	743,710	16.93	--	--
Exercised..........	(84,983)	4.48	(89,258)	3.08
Canceled...........	(21,634)	12.58	--	--
Outstanding				
June 30, 1998........	2,580,873	10.82	364,722	3.08
Exercised..........	(107,785)	6.41	(41,706)	3.09
Canceled...........	(42,302)	14.93	--	--
Outstanding				
June 30, 1999........	2,430,786	10.94	323,016	3.08

The following table summarizes information about stock options outstanding under the 1992 Plan at June 30, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.00-$ 5.00	372,261	3.3 years	$ 3.87	372,261	$ 3.87
5.01- 10.00	871,582	5.1 years	7.88	659,361	7.63
10.01- 15.00	457,926	7.8 years	13.04	187,620	13.01
15.01- 20.00	729,017	8.8 years	16.89	139,250	16.93
	2,430,786			1,358,492	

The shares exercisable under the 1992 Plan and the corresponding weighted average exercise price at June 30, 1999, 1998 and 1997 were 1,358,492 and $8.29; 1,032,594 and $6.57; and 756,974 and $5.55, respectively. The shares exercisable under the 1982 Plan and the corresponding weighted average exercise price at June 30, 1999, 1998 and 1997 were 323,016 and $3.08; 364,722 and $3.08; and 453,980 and $3.08, respectively. The weighted average remaining contractual life of options outstanding under the 1982 Plan at June 30, 1999 was 0.9 years. There were 889,792 shares available for future option grants under the 1992 Plan at June 30, 1999. No shares were available for future option grants under the 1982 Plan at June 30, 1999.

On February 10, 1994, Southern Union granted a warrant which expires on February 10, 2004, to purchase up to 100,506 shares of Common Stock at an exercise price of $6.90 to the Company's outside legal counsel.

Retained Earnings Under the most restrictive provisions in effect, as a result of the sale of Senior Notes, Southern Union will not declare or pay any cash or asset dividends on common stock (other than dividends and distributions payable solely in shares of its common stock or in rights to acquire its common stock) or acquire or retire any shares of Southern Union's common stock, unless no event of default exists and the Company meets certain financial ratio requirements. In addition, Southern Union's charter relating to the issuance of preferred stock limits the payment of cash or asset dividends on capital stock.

X Preferred Securities of Subsidiary Trust

On May 17, 1995, Southern Union Financing I (Subsidiary Trust), a consolidated wholly-owned subsidiary of Southern Union, issued $100,000,000 of 9.48% Trust Originated Preferred Securities (Preferred Securities). In connection with the Subsidiary Trust's issuance of the Preferred Securities and the related purchase by Southern Union of all of the Subsidiary Trust's common securities (Common Securities), Southern Union issued to the Subsidiary Trust $103,092,800 principal amount of its 9.48% Subordinated Deferrable Interest Notes, due 2025 (Subordinated Notes). The sole assets of the Subsidiary Trust are the Subordinated Notes. The interest and other payment dates on the Subordinated Notes correspond to the distribution and other payment dates on the Preferred Securities and the Common Securities. Under certain circumstances, the Subordinated Notes may be distributed to holders of the Preferred Securities and holders of the Common Securities in liquidation of the Subsidiary Trust. The Subordinated Notes are redeemable at the option of the Company on or after May 17, 2000, at a redemption price of $25 per Subordinated Note plus accrued and unpaid interest. The Preferred Securities and the Common Securities will be redeemed on a pro rata basis to the same extent as the Subordinated Notes are repaid, at $25 per Preferred Security and Common Security plus accumulated and unpaid distributions. Southern Union's obligations under the Subordinated Notes and related agreements, taken together, constitute a full and unconditional guarantee by Southern Union of payments due on the Preferred Securities. As of June 30, 1999, the quoted market price per Preferred Security was $25.38. As of June 30, 1999 and 1998, 4,000,000 shares of Preferred Securities were outstanding.

XI Debt and Capital Lease

	June 30, 1999	June 30, 1998
7.60% Senior Notes, due 2024................	$364,515	$384,515
Capital lease and other.....................	28,482	23,669
Total long-term debt........................	$392,997	$408,184

The maturities of long-term debt and capital lease payments for each of the next five years ending June 30 are: 2000 -- $2,066,000; 2001 -- $2,188,000; 2002 -- $2,330,000; 2003 -- $12,660,000; 2004 -- $8,849,000 and thereafter -- $364,904,000.

Senior Notes On January 31, 1994, Southern Union completed the sale of the 7.60% Senior Debt Securities (Senior Notes). During 1999, $20,000,000 of Senior Notes were repurchased at $941 per $1,000 note resulting in a net pre-tax gain of $425,000, net of related debt expense. Debt issuance costs and premiums on the early extinguishment of debt are accounted for in accordance with that required by its various regulatory bodies having jurisdiction over the Company's operations. The Company recognizes gains or losses on the early extinguishment of debt to the extent it is provided for by its regulatory authorities and in some cases such gains or losses are deferred and amortized over the term of the new or replacement debt issues.

The Senior Notes traded at $936 and $895 (per $1,000 note) on June 30 and July 31, 1999, respectively, as quoted by a major brokerage firm. The carrying amount of long-term debt at June 30, 1999 and 1998 was $392,997,000 and $408,184,000, respectively. The fair value of long-term debt at June 30, 1999 and 1998 was $369,759,000 and $431,628,000, respectively.

Capital Lease The Company completed the installation of an Automated Meter Reading (AMR) system at Missouri Gas Energy during the first quarter of fiscal year 1999. The installation of the AMR system involved an investment of approximately $30,000,000 which is accounted for as a capital lease obligation. As of June 30, 1999, the capital lease obligation outstanding was $26,894,000 with a fixed rate of 5.79%. During 1999, the

Company recorded an increase in plant and long-term debt of $6,824,000. This system will improve meter reading accuracy and provide electronic accessibility to meters in residential customers' basements, thereby assisting in the reduction of the number of estimated bills. Depreciation on the AMR system is provided at an average straight-line rate of approximately 5% per annum of the cost of such property.

Credit Facilities The Company has availability under two revolving credit facilities (Revolving Credit Facilities) underwritten by a syndicate of banks. Of the Revolving Credit Facilities, $40,000,000 is available under a short-term facility which expires June 29, 2000, while $60,000,000 is available under a long-term facility which expires June 30, 2002. The Company has additional availability under uncommitted line of credit facilities (Uncommitted Facilities) with various banks. Covenants under the Revolving Credit Facilities allow for up to $35,000,000 of borrowings under Uncommitted Facilities at any one time. Borrowings under the facilities are available for Southern Union's working capital, letter of credit requirements and other general corporate purposes. The Revolving Credit Facility is subject to a commitment fee based on the rating of the Senior Notes. As of June 30, 1999, the commitment fee was an annualized .15% on the unused balance. The interest rate on borrowings on the Revolving Credit Facility is calculated based on a formula using the LIBOR or prime interest rates. The average interest rate under the facilities was 5.6% for the year ended June 30, 1999 and 6.1% for the year ended June 30, 1998. A $21,000,000 and $1,600,000 balance was outstanding under the facilities at June 30, 1999 and 1998, respectively. A balance of $17,900,000 was outstanding under the facilities at July 31, 1999.

XII Employee Benefits

Pension and Other Post-retirement Benefits The Company adopted in 1999, Employers Disclosures About Pensions and Other Post-Retirement Benefits, a FASB standard which changed the Company's reporting requirements for its pension and post-retirement benefit plans.

The Company maintains two trusteed non-contributory defined benefit retirement plans (Plans) which cover substantially all employees. The Company funds the Plans' cost in accordance with federal regulations, not to exceed the amounts deductible for income tax purposes. The Plans' assets are invested in cash and bond and stock funds. The Company also has a supplemental non-contributory retirement plan for certain executive employees and other post-retirement benefit plans for its employees. Post-retirement medical and other benefit liabilities are accrued on an actuarial basis during the years an employee provides services. The following table represents a reconciliation of the plans at June 30, 1999 and 1998.

	1999	1998
Change in Benefit Obligation		
Benefit obligation at beginning of year..	$188,038	$172,225
Service cost............................	3,364	3,302
Interest cost...........................	13,829	13,658
Benefits paid...........................	(13,563)	(12,382)
Actuarial loss..........................	7,968	11,235
Plan amendments.........................	7,027	--
Curtailment.............................	(2,202)	--
Benefit obligation at end of year........	$204,461	$188,038
Change in Plan Assets		
Fair value of plan assets at beginning of year......................	$166,353	$132,599
Return on plan assets...................	3,420	40,262
Employer contributions..................	6,411	5,874
Benefits paid...........................	(13,563)	(12,382)
Fair value of plan assets at end of year.	$162,621	$166,353
Funded Status		
Funded status at end of year............	$(41,839)	$(21,685)
Unrecognized transition obligation.......	2,764	2,891
Unrecognized net actuarial (gain)........	(7,404)	(25,977)
Unrecognized prior service cost..........	9,913	3,455
Accrued benefit cost....................	$(36,566)	$(41,316)

Amounts Recognized in the Consolidated Balance Sheet

Prepaid benefit cost	$ 4,880	$ 2,339
Accrued benefit liability	(52,618)	(45,806)
Intangible asset	10,501	2,151
Accumulated other comprehensive income	671	--
Net amount recognized	$(36,566)	$(41,316)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the plans with accumulated benefit obligations in excess of plan assets as of June 30, 1999 were $58,985,000; $58,985,000; and $42,181,000, respectively, and for those same plans were $46,158,000; $37,783,000; and $41,907,000, respectively as of June 30, 1998.

The weighted-average assumptions used for the year ended June 30, 1999 and 1998 were:

	1999	1998
Discount rate		
Beginning of year	7.00%	7.75%
End of year	7.00%	7.25%
Expected return on assets - tax exempt accounts	8.00%	8.00%
Expected return on assets - taxable accounts	5.25%	8.00%
Rate of compensation increase (average)	5.62%	5.62%
Health care cost trend rate	7.25%	7.50%

Net periodic benefit cost for the year ended June 30, 1999, 1998 and 1997 includes the following components:

	1999	1998	1997
Service cost	$ 3,364	$ 3,302	$ 3,258
Interest cost	13,829	13,658	13,240
Expected return on plan assets	(13,006)	(11,737)	(10,335)
Amortization of transition amount	127	127	127
Amortization of prior service			

cost	438	340	291
Recognized actuarial (gain)	(3,319)	(4,828)	(1,980)
Curtailment	131	--	--
Net periodic pension cost	$ 1,564	$ 862	$ 4,601

The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.25% during 1999. This rate was assumed to decrease gradually each year to a rate of 6.0% for 2004 and remain at that level thereafter.

Amortization of unrecognized gains and losses for Missouri Gas Energy plans were determined using a rolling five year average gain or loss position with a five year amortization period, pursuant to a stipulation agreement with the MPSC.

Effect of health care trend rate changes on health care plans:

	One Percentage Point Increase in Health Care Trend Rate	One Percentage Point Decrease in Health Care Trend Rate
Effect on total service and interest cost components	$ 29,000	$ (28,000)
Effect on post-retirement benefit obligation	322,000	(319,000)

The Company's two defined benefit retirement Plans cover (i) those Company employees who are not employed by Missouri Gas Energy and (ii) those employees who are employed by Missouri Gas Energy. On December 31, 1998, the Plans, exclusive of Missouri Gas Energy's union employees were converted from the traditional defined benefit Plans with benefits based on years of service and final average compensation to cash balance defined benefit plans in which an account is maintained for each employee. The initial value of the account was determined as the actuarial present value (as defined in the Plans) of the benefit accrued at transition (December 31, 1998) under the pre-existing traditional defined benefit plan. Future contribution credits to the accounts are based on a percentage of future compensation, which varies by individual. Interest credits to the accounts are based on 30-year Treasury bond yields.

Defined Contribution Plan The Company provides a Savings Plan available to all employees. Since January 1, 1997, the Company contributes $.50 of Company stock for each $1.00 contributed by a non-Missouri Gas Energy participant up to 5% of the employee's salary. Additionally, the Company contributes $.75 of Company stock for each $1.00 contributed by a non-Missouri Gas Energy participant from 6% to 10% of the employee's salary. Effective July 1, 1998, Company contributions for Missouri Gas Energy non-union employees were revised to coincide with that of non-Missouri Gas Energy participants as described above. For Missouri Gas Energy union employees, the Company contributes $.50 of Company stock for each $1.00 contributed by such a participant up to 7% of the employee's salary. Company contributions are 100% vested after six years of continuous service. Company contributions to the plan during 1999, 1998 and 1997, were $1,717,000, $1,656,000 and $1,476,000, respectively.

Effective January 1, 1999 the Company amended its defined contribution plan to provide contributions of certain employees who were employed as of December 31, 1998. These contributions were designed to replace certain benefits previously provided under defined benefit plans. Employer contributions to these separate accounts, referred to as Retirement Power Accounts, within the defined contribution plan were determined based on the employee's age

plus years of service plus accumulated sick leave as of December 31, 1998. The contribution amounts are determined as a percentage of compensation and range from 3.5% to 8.5%. Company contributions to Retirement Power Accounts during 1999 were $1,118,000.

<u>Post-employment Benefits</u> Certain post-employment benefits such as disability and health care continuation coverage provided to former or inactive employees after employment but before retirement, are accrued if attributable to an employees' previously rendered service. The Company has recorded a regulatory asset to the extent it intends to file rate applications to include such costs in rates and such recovery is probable. As of both June 30, 1999 and 1998, the Company has recorded a regulatory asset and a related liability of $1,343,000.

<u>Common Stock Held in Trust</u> From time to time, the Company repurchases outstanding shares of common stock of Southern Union to

fund certain Company employee stock-based compensation plans. At June 30, 1999, 268,513 shares of common stock were held by various rabbi trusts for certain of the Company's benefit plans.

XIII Taxes on Income

	Year Ended June 30,		
	1999	1998	1997
Current:			
Federal	$ (516)	$1,381	$ 4,437
State	(242)	240	596
	(758)	1,621	5,033
Deferred:			
Federal	7,024	5,984	6,690
State	843	379	650
	7,867	6,363	7,340
Total provision	$7,109	$7,984	$12,373

Deferred credits and other liabilities also include $560,000 and $593,000 of unamortized deferred investment tax credit as of June 30, 1999 and 1998, respectively.

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

	June 30,	
	1999	1998
Deferred tax assets:		
Estimated alternative minimum tax credit.	$ 9,557	$ 10,554
Insurance accruals	2,297	3,074
Bad debt reserves	2,715	--
Post-retirement benefits	1,466	1,079
Minimum pension liability	234	--
Other	3,020	1,230
Total deferred tax assets	19,289	15,937
Deferred tax liabilities:		
Property, plant and equipment	(74,909)	(65,564)
Unamortized debt expense	(5,049)	(5,270)

Other	(6,731)	(5,330)
Total deferred tax liabilities	(86,689)	(76,164)
Net deferred tax liability	(67,400)	(60,227)
Less current tax assets	2,838	2,378
Accumulated deferred income taxes	$(70,238)	$(62,605)

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The Company accounts for income taxes utilizing the liability method which bases the amounts of current and future tax assets and liabilities on events recognized in the financial statements and on income tax laws and rates existing at the balance sheet date.

	Year Ended June 30, 1999	1998	1997
Computed statutory tax expense at 35%	$ 6,144	$ 7,075	$10,992
Changes in taxes resulting from:			
State income taxes, net of federal income tax benefit	348	402	811
Amortization of acquisition adjustment	830	723	724
Other	(213)	(216)	(154)
Actual tax expense	$ 7,109	$ 7,984	$12,373

XIV Utility Regulation and Rates

On August 21, 1998, Missouri Gas Energy was notified by the MPSC of its decision to grant a $13,300,000 annual increase to revenue effective on September 2, 1998, which is primarily earned volumetrically. The MPSC rate order reflected a 10.93% return on common equity. The rate order, however, disallowed certain previously recorded deferred costs requiring a non-cash write-off of $2,221,000. The Company recorded this charge to earnings in its fiscal year ended June 30, 1998. On December 8, 1998, the MPSC denied rehearing requests made by all parties other than Missouri Gas Energy and granted a portion of Missouri Gas

Energy's rehearing request. The MPSC will conduct further proceedings to take additional evidence on those matters for which it granted Missouri Gas Energy a rehearing. If the MPSC adopts Missouri Gas Energy's positions on rehearing, then Missouri Gas Energy would be authorized an additional $2,200,000 of base revenues increasing the $13,300,000 initially authorized in its August 21, 1998 order to $15,500,000. The MPSC's orders may be subject to judicial review and although certain parties may argue for a reduction in Missouri Gas Energy's authorized base revenue increase on judicial review, Missouri Gas Energy expects such arguments to be unsuccessful.

On April 13, 1998, Southern Union Gas filed a $2,228,000 request for a rate increase from the city of El Paso, a request the city subsequently denied. On April 21, 1998, the city council of El Paso voted to reduce the Company's rates by $1,570,000 annually and to order a one-time cost of gas refund of $475,000. On May 21, 1998, Southern Union Gas filed with the Railroad Commission of Texas (RRC) an appeal of the city of El Paso's actions to reduce the Company's rates and require a one-time cost of gas refund. On December 21, 1998, the RRC issued its order implementing an $884,000 one-time cost of gas refund and a $99,000 base rate reduction. The cost of gas refund was completed in February 1999.

On January 22, 1997, Missouri Gas Energy was notified by the MPSC of its decision to grant an $8,847,000 annual increase to revenue effective on February 1, 1997. See Commitments and Contingencies.

The MPSC approved a three-year, experimental gas supply incentive plan for Missouri Gas Energy effective July 1, 1996. Under the plan, the Company and Missouri Gas Energy's customers share in certain savings below benchmark levels of gas costs achieved as a result of the Company's gas procurement activities. Likewise, if natural gas is acquired above benchmark levels, both the Company and customers share in such costs. For the years ended June 30, 1999, 1998 and 1997, the incentive plan achieved a reduction of overall gas costs of $6,900,000, $9,200,000 and $10,200,000, respectively, resulting in savings to Missouri customers of $4,000,000, $5,100,000 and $5,600,000, respectively. The Company recorded revenues of $2,900,000, $4,100,000 and $4,600,000 in 1999, 1998 and 1997, respectively, under this plan. Missouri Gas Energy is currently working with the MPSC to develop an alternate plan due to the July 1, 1999 expiration of the experimental gas supply incentive plan, however, there can be no assurance that this or any similar plan will be approved by the MPSC for Missouri Gas Energy.

Under the order of the Federal Energy Regulatory Commission, a major supplier of gas to Missouri Gas Energy is allowed recovery of certain previously unrecovered deferred gas costs with a remaining balance of $669,000 at

June 30, 1999. Missouri Gas Energy is allowed to recover these costs from its Missouri customers through a purchase gas adjustment mechanism which is filed with and approved by the MPSC. The receivable and liability associated with these costs have been recorded as a deferred charge and a deferred credit, respectively, on the consolidated balance sheet as of June 30, 1999 and 1998.

As a result of the January 31, 1994 acquisition of Missouri Gas Energy, the MPSC required Missouri Gas Energy to reduce rate base by $30,000,000 to compensate Missouri rate payers for rate base reductions that were eliminated as a result of the acquisition. This is amortized over a ten-year period on a straight-line basis since the date of acquisition.

XV Leases

The Company leases certain facilities, equipment and office space under cancelable and noncancelable operating leases. The minimum annual rentals under operating leases for the next five years ending June 30 are as follows: 2000 -- $6,062,000; 2001 -- $4,973,000; 2002 -- $4,039,000; 2003 -- $2,236,000; 2004 -- $1,225,000 and thereafter $11,162,000. Rental expense was $7,732,000, $6,054,000 and $6,797,000 for the years ended June 30, 1999, 1998 and 1997, respectively.

XVI Commitments and Contingencies

Environmental Southern Union and Western Resources, Inc. entered into an Environmental Liability Agreement (Environmental Liability Agreement) at the time of the closing of the acquisition of Missouri Gas Energy. Subject to the accuracy of certain representations made by Western Resources in the Missouri Asset Purchase Agreement, the Environmental Liability Agreement provides for a tiered approach to the allocation of certain liabilities under environmental laws that may exist or arise with respect to Missouri Gas Energy. The Environmental Liability Agreement contemplates Southern Union first seeking reimbursement from other potentially responsible parties, or recovery of such costs under insurance or through rates charged to customers. To the extent certain environmental liabilities were discovered by Southern Union prior to January 31, 1996, and are not so reimbursed or recovered, Southern Union will be responsible for the first $3,000,000, if any, of out-of-pocket costs and expenses incurred to respond to and remediate any such environmental claim. Thereafter, Western Resources would share one-half of the next $15,000,000 of any such costs and expenses, and Southern Union would be solely liable for any such costs and expenses in excess of $18,000,000. At the present time and based upon information available to management, the Company believes that the costs of any remediation efforts that may be required for these sites for which it may ultimately have responsibility will not exceed the aggregate amount subject to substantial sharing by Western Resources. In a letter dated May 10, 1999, the Missouri Department of Natural Resources (MDNR) sent notice of a planned Site Inspection/Removal Site Evaluation of the Kansas City Coal Gas Former Manufactured Gas Plant (FMGP) site. This site (comprised of two FMGP operations previously owned by two separate companies) is located at East 1st Street and Campbell in Kansas City, Missouri and is owned by Missouri Gas Energy. A 1988 investigation of the site performed by an Environmental Protection Agency (EPA) contractor determined that further remedial assessment was not required under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986. The MDNR has stated that the reassessment of the Kansas City Coal Gas site is part of a statewide effort to identify, evaluate, and prioritize the potential hazards posed by all of Missouri's FMGP sites. During July 1999, the Company sent applications to MDNR submitting the two sites to the agency's Voluntary Cleanup Program. In two letters, both dated August 2, 1999, the MDNR accepted the sites into the Voluntary Cleanup Program. The Company subsequently submitted two work plans for the environmental assessment of the sites to MDNR.

In addition to the various Missouri Gas Energy sites described above, the Company is investigating the possibility that the Company or predecessor companies may have been associated with Manufactured Gas Plant (MGP) sites in other of its former service territories, principally in Arizona and New Mexico, and present service territories in Texas. At the present time, the Company is aware of certain plant sites in some of these areas and is investigating those and certain other locations. While the Company's evaluation of these Texas, Arizona and New Mexico MGP sites is in its preliminary stages, it is likely that some compliance costs may be identified and become subject to reasonable quantification. To the extent that such potential costs are quantified, the Company expects to provide any appropriate accruals and seek recovery for such remediation costs through all appropriate means, including insurance and regulatory relief. Although significant charges to earnings could be required prior to rate recovery, management does not believe that environmental expenditures for such MGP sites will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company follows the provisions of an American Institute of Certified Public Accountants Statement of Position, Environmental Remediation Liabilities, for recognition, measurement, display and disclosure of environmental remediation liabilities.

Regulatory On August 18, 1998, the Missouri State Court of Appeals, Western District, denied the Company's appeal of the February 1, 1997 rate order which retroactively reduced the carrying cost rate applied by the Company on expenditures incurred on the Missouri Gas Energy Safety Program. The Company believes that the inconsistent treatment by the MPSC in subsequently changing to the Allowance for Funds Used During Construction rate of approximately 6% from the previously ordered rate of 10.54% constitutes retroactive ratemaking. Unfortunately, the decision by the Missouri State Court of Appeals failed to address certain specific language within a 1994 MPSC accounting authority order that the Company believed prevented the MPSC from retroactively changing the carrying cost rate. Southern Union sought a transfer of the case to the Missouri Supreme Court which was denied on November 24, 1998.

The continuation of the Missouri Safety Program will result in significant levels of future capital expenditures. The Company estimates incurring capital expenditures of $14,372,000 in fiscal 2000 related to this program.

In August 1998, a jury in Edinburg, Texas concluded deliberations on the City of Edinburg's franchise fee lawsuit against PG&E Gas Transmission, Texas Corporation (formerly Valero Energy Corporation (Valero)) and a number of its subsidiaries, as well as former Valero subsidiary Rio Grande Valley Gas Company (RGV) and RGV's successor company, Southern Union Company. The case, based upon events that occurred between 1985-1987, centers on specific contractual language in the 1985 franchise agreement between RGV and the City of Edinburg. Southern Union purchased RGV from Valero in October 1993. The jury awarded the plaintiff damages, against all defendants under several largely overlapping but mutually exclusive claims, totaling approximately $13,000,000.

The trial judge subsequently reduced the award to approximately $700,000 against Southern Union and $7,800,000 against Valero and Southern Union together. The Company is pursuing reversal on appeal. The Company believes it will ultimately prevail, and that the outcome of this matter will not have a material adverse impact on the Company's results of operations, financial position or cash flows. Furthermore, the Company has not determined what impact, if any, this jury decision may have on other city franchises in Texas.

<u>Southwest Gas Litigation</u> On February 1, 1999, Southern Union submitted a proposal to the Board of Directors of Southwest Gas Corporation (Southwest) to acquire all of Southwest's outstanding common stock for $32.00 per share. Southwest then had a pending merger agreement with ONEOK, Inc. (ONEOK) at $28.50 per share. On February 22, 1999, Southern Union and Southwest both publicly announced Southern Union's proposal, after the Southwest Board of Directors determined that Southern Union's proposal was a Superior Proposal (as defined in the Southwest merger agreement with ONEOK). At that time Southern Union entered into a Confidentiality and Standstill Agreement with Southwest at Southwest's insistence. On April 25, 1999, Southwest's Board of Directors rejected Southern Union's $32.00 per share offer and accepted an amended offer of $30.00 per share from ONEOK. On April 27, 1999, Southern Union increased its offer to $33.50 per share and agreed to pay interest which, together with dividends, would provide Southwest shareholders with a 6% annual rate of return on its $33.50 offer, commencing February 15, 2000, until closing. According to public statements by Southwest, Southern Union's revised proposal also has been rejected by Southwest's Board of Directors.

There are four lawsuits pending that relate to activities surrounding Southern Union's efforts to acquire Southwest. In addition, there is before the U.S. Court of Appeals for the Tenth Circuit, an appeal by Southern Union of a preliminary injunction entered by the U.S. District Court for the Northern District of Oklahoma. Southern Union intends to vigorously pursue its claims against Southwest, ONEOK, and certain individual defendants, and vigorously defend itself against the claims by Southwest and ONEOK.

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California Action -- Pursuant to notice given by Southern Union to Southwest on April 28, 1999, the Superior Court of California for San Diego County on May 4, 1999, granted a motion by Southern Union and SU Acquisition Corporation, a Southern Union subsidiary, for leave to file a complaint in intervention in a pending Southwest shareholders' derivative suit styled, Klein v. Southwest Gas Corp. Southern Union's complaint sought partial rescission of the Confidentiality and Standstill Agreement, a declaration of the rights of the parties under the Confidentiality and Standstill Agreement, and a request for a preliminary injunction barring Southwest from submitting proxies to its shareholders seeking their approval of a merger with ONEOK until the merits of Southern Union's claims could be adjudicated. On May 17, 1999, Southwest removed the Klein case to the United States District Court for the Southern District of California. The shareholder plaintiffs and Southern Union then moved to remand the case back to the California Superior Court. According to the definitive Southwest proxy statement with respect to the ONEOK merger (released on June 29, 1999) on June 9, 1999, Southwest signed a Memorandum of Understanding (MOU) with the shareholder plaintiffs' counsel to settle this action as to all plaintiffs, except Southern Union. The MOU sets forth the parties' agreement in principle settling all of the shareholders' claims arising out of the actions of Southwest and its directors relating to the ONEOK merger, and will be incorporated into a final Stipulation Settlement. The MOU is not an admission of any of the plaintiffs' allegations. Southwest and its directors have denied and continue to deny that they have committed or attempted to commit any wrongdoing or breached any duty owed to Southwest or its shareholders. The MOU is subject to several conditions, including the consummation of the ONEOK merger and the entry of a final judgment of dismissal with prejudice by the U. S. District Court that is binding on all shareholders from December 14, 1998 through the date that the shareholders approve the ONEOK merger. By Order dated August 3, 1999, the federal district court granted Southern Union's motion to remand the case to California Superior Court. On August 5, 1999, Southern Union moved the California Superior Court to sever its claims against Southwest and also sought a temporary restraining order barring Southwest from participating in any further proceedings before the California Public Service Commission and from taking any other action to consummate its pending merger with ONEOK until the court determined the merits of Southern Union's claims. Following a hearing on August 5, the California Superior Court judge denied Southern Union's request for a temporary restraining order in a ruling announced from the bench. Also on August 5, Southwest moved the court to stay all proceedings in the case. On August 18, the Court granted Southern Union's motion to sever. On August 24, 1999, the court ruled on Southwest's motion and stayed action in the state court proceeding pending resolution of the federal actions filed by the parties.

Nevada Action -- On April 20, 1999, Southwest filed an action against Southern Union Company in the United States District Court for the District of Nevada. The complaint alleged breach of the Confidentiality and Standstill Agreement between Southern Union and Southwest, misappropriation of original trade secrets in violation of California statutes, intentional interference with the ONEOK merger agreement, intentional interference with prospective advantage, breach of a common-law duty of good faith and fair dealing, and unfair business practices in violation of California statutes. On May 6, 1999, Southwest filed an amended complaint that added a claim for breach of the Securities Exchange Act of 1934 to the claims in the original complaint. Southwest seeks declaratory and injunctive relief together with money damages "in excess of $75,000.00." Southern Union has answered the complaint, denying liability under all counts. Southern Union has filed a counterclaim alleging breach of contract, breach of duty of good faith and fair dealing, mistake of fact and fraudulent inducement with respect to the Confidentiality and Standstill Agreement. The counterclaim seeks partial rescission of the Confidentiality and Standstill Agreement, or a declaration that Southern Union is entitled to take all actions legal and necessary to directly solicit Southwest's shareholders to oppose Southwest's agreement to merge with ONEOK or any other party, and to support Southern Union's efforts to merge with or acquire Southwest, or acquire all or some of Southwest's outstanding common shares. Southwest has filed a motion to transfer the case to the United States District Court for the Northern District of Oklahoma, which Southern Union has opposed. That motion is currently awaiting decision by the court. On June 30, 1999, Southern Union filed a motion for partial judgment on the pleadings with respect to Southwest's state law claims. The motion is based on Nevada Revised Statute 41,650 which, in part, provides for immunity from civil liability for "good faith communications in connection with the right to petition." That motion also is pending currently.

Oklahoma Action -- On May 5, 1999, ONEOK filed an action against Southern Union in the United States District Court for the Northern District of Oklahoma, asserting third-party beneficiary status under the Confidentiality and Standstill

Agreement between Southern Union and Southwest, and alleging a claim for breach of that Agreement as well as a claim for intentional interference with the ONEOK-Southwest merger agreement. That same day, ONEOK moved for a temporary restraining order against Southern Union to bar Southern Union from making any attempt to solicit proxies from or influence the shareholders of Southwest with respect to Southern Union's offer to purchase Southwest, from taking any actions in the regulatory proceedings that concern the proposed merger of ONEOK and Southwest, from taking any actions in the Klein v Southwest Gas Corp. case and from taking any actions that seek to control or influence the shareholders, management, directors or policies of Southwest, either alone or in concert with others. On May 10, 1999 the Court entered a temporary restraining order that barred Southern Union from breaching the standstill provisions of the Confidentiality and Standstill Agreement. By agreement of the parties, the temporary restraining order was converted to a preliminary injunction on May 17, 1999. Southern Union has filed a motion to dismiss the ONEOK complaint in lieu of an answer denying ONEOK's allegations. On July 19, 1999, Southern Union moved the Oklahoma district court to vacate or suspend its preliminary injunction on the basis of newly-discovered evidence (which also is the basis for Southern Union's Arizona action described below) that showed that ONEOK came to court with "unclean hands" and that Southwest had fraudulently induced Southern Union to enter into the Confidentiality and Standstill Agreement that was the basis for the court's injunction. This motion was denied on jurisdictional grounds by order dated July 23, 1999. On August 3, 1999, ONEOK moved the court to hold Southern Union in contempt for having filed the Arizona action assertedly in violation of the Oklahoma court's May 17, 1999 preliminary injunction. At a status hearing on August 11, 1999, the judge said that the May 17, 1999 preliminary injunction did not bar Southern Union from filing the Arizona action. While he did not expressly deny ONEOK's motion, the judge orally directed ONEOK to amend its motion if it wished the court to give it any further consideration. ONEOK subsequently moved for an emergency hearing (to show cause) regarding the preliminary injunction. The court heard arguments on that motion on August 30, 1999. The judge has taken the matter under advisement and has requested that additional information be provided to the court.

Appeal of Oklahoma Action -- On May 17, 1999, Southern Union noticed its appeal of the Oklahoma district court's preliminary injunction in the United States Court of Appeals for the Tenth Circuit. At the same time Southern Union sought from the court of appeals a stay of the district court's injunction pending a decision on the merits of the appeal. On June 1, 1999, the Tenth Circuit issued a "temporary stay" of the district court's order to permit Southern Union to file a motion in the Klein case to Southwest Gas' motion to transfer it to the Northern District of Oklahoma. On June 3, 1999 Southern Union supplemented its request for a stay of the district court's order to permit Southern Union to resume its participation in the various state public utility commission proceedings considering the proposed ONEOK-Southwest Gas merger. On June 10, 1999, the Tenth Circuit issued an order denying Southern Union's request for the further stay and on August 24, 1999 the Tenth Circuit vacated its temporary stay of June 3, 1999 as moot and denied Southern Union's request for any further stay of the district court order pending appeal. Briefing for the appeal has been completed.

Arizona Action -- On July 19, 1999, Southern Union filed an action in the United States Court for the District of Arizona against Southwest, ONEOK, Michael O. Maffie (Southwest's President), Thomas Y. Hartley (Southwest's Chairman), Eugene N. Dubay (President of Kansas Gas Service, a division of ONEOK), James M. Irvin (an Arizona Corporation Commissioner), Jack D. Rose (former Executive Director of the Arizona Corporation Commission), Thomas R. Sheets (Southwest's General Counsel), and John A. Gaberino, Jr. (ONEOK's General Counsel). The suit alleges racketeering under federal and state law, fraud in the inducement, breach of contract, Securities Exchange Act violations, breach of the covenant of good faith and fair dealing, rescission, intentional interference with business relationship, tortious interference with contractual relations and civil conspiracy. Southern Union seeks damages of $750 million on each of the two racketeering counts, to be trebled; $750 million on six other counts; punitive damages on four counts; and rescission of its Standstill Agreement with Southwest. On August 2, 1999, Southern Union moved for a temporary restraining order barring both Southwest and ONEOK from participating in any further regulatory proceedings before the Arizona Corporation Commission. Southern Union also asked the Arizona court to bar Arizona Corporation Commissioner James Irvin "from any involvement in ongoing procedures concerning regulatory approval by the ACC." On August 5, 1999, the court held a hearing on the motion and, at the conclusion of the hearing, orally denied Southern Union's request.

The Company believes that the results of the above-noted Southwest Gas litigation will not have a materially adverse effect on the Company's financial condition.

Other Southern Union and its subsidiaries are parties to other legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject, and not to be material to the Company's overall business or financial condition, results of operations or cash flows.

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Commitments The Company is committed under various agreements to purchase certain quantities of gas in the future. At June 30, 1999, the Company has purchase commitments for certain quantities of gas at variable, market-based prices that have an annual value of $94,275,000. The Company's purchase commitments may extend over a period of several years depending upon when the required quantity is purchased. The Company has purchase gas tariffs in effect for all its utility service areas that provide for recovery of its purchase gas costs under defined methodologies.

In December 1998, the Company agreed to five-year contracts with each bargaining-unit representing Missouri employees, which were effective in May 1999. Of the Company's employees represented by unions, 95% are employed by Missouri Gas Energy.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company had standby letters of credit outstanding of $1,622,000 and $2,947,000 at June 30, 1999 and 1998, respectively, which guarantee payment of various insurance premiums and state taxes.

XVII   Quarterly Operations (Unaudited)

Year Ended June 30, 1999	Quarter Ended September 30	December 31	March 31	June 30	Total
Total operating revenues...	$ 77,455	$174,224	$251,863	$101,689	$605,231
Operating margin.....	42,781	70,286	98,106	51,757	262,930
Net operating revenues (loss).....	(627)	19,986	40,647	4,841	64,847

Net earnings (loss) available for common stock......	(7,048)	5,374	17,624	(5,505)	10,445
Earnings (loss) per share -- diluted(1).	(.23)	.16	.54	(.18)	.32

Year Ended June 30, 1998	Quarter Ended				
	September 30	December 31	March 31	June 30	Total
Total operating revenues...	$ 74,039	$221,162	$265,176	$108,927	$669,304
Operating margin.....	41,597	77,328	94,676	50,123	263,724
Net operating revenues...	1,405	26,530	36,940	3,792	68,667
Net earnings (loss) available for common stock(2)...	(4,909)	9,738	16,249	(8,849)	12,229
Earnings (loss) per share -- diluted(1).	(.17)	.31	.50	(.28)	.39

----

(1) The sum of earnings per share by quarter may not equal the net earnings per common and common share equivalents for the year due to variations in the weighted average common and common share equivalents outstanding used in computing such amounts.

(2) During the quarter ended June 30, 1998, Missouri Gas Energy wrote off $8,163,000 pre-tax in previously recorded regulatory assets as a result of announced rate orders and court rulings.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of
Southern Union Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Southern Union Company and its subsidiaries at June 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Austin, Texas
August 12, 1999, except for Note XVI as to
to which the date is September 3, 1999

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

SUBSIDIARIES OF THE COMPANY Exhibit 21

Name	State or Country of Incorporation
Atlantic Gas Corporation	Delaware
ConTigo, Inc.	Delaware
Energia Estrella del Sur, S. A. de C. V.	Mexico
Energy WorX, Inc.	Delaware
KellAir Aviation Company	Delaware
Lavaca Realty Company	Delaware
Mercado Gas Services Inc.	Delaware
Norteno Pipeline Company	Delaware
Southern Transmission Company	Delaware
Southern Union Energy International, Inc.	Delaware
Southern Union Financing I	Delaware
Southern Union International Investments, Inc.	Delaware
Southern Union Total Energy Systems, Inc.	Delaware
SUPro Energy Company	Delaware

Note: Seven other wholly-owned subsidiaries of Southern Union Company, Southern Union Financing II (a Delaware corporation), Southern Union Financing III (a Delaware corporation), Southern Union Gas Company, Inc. (a Delaware corporation), Southern Union Gas Company, Inc. (a Texas corporation), SU Acquisition Corporation (a California corporation), Western Utilities, Inc. (a Delaware corporation) and Western Utilities, Inc. (a New Mexico corporation), conduct no business except to the extent necessary to maintain their corporate existence.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

CONSENT OF INDEPENDENT ACCOUNTANTS Exhibit 23

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 33-58297, 333-02965 and 333-10585) and Form S-8 (File Nos. 2-79612, 33-37261, 33-69596, 33-69598, 33-61558 and 333-79443) of Southern Union Company and Subsidiaries of our report dated August 12, 1999, except for Note XVI as to which the date is September 3, 1999, relating to the consolidated financial statements, which appears in the Annual Report to Stock-holders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Austin, Texas
September 10, 1999

EXHIBIT 24

POWER OF ATTORNEY

POWER OF ATTORNEY Exhibit 24

KNOW ALL PERSONS BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Peter H. Kelley, Ronald J. Endres and David J. Kvapil, or any of them, as such person's true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for such person and in such person's name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended June 30, 1999 of Southern Union Company, a Delaware corporation, and any amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange.

Dated: August 12, 1999

JOHN E. BRENNAN	GEORGE L. LINDEMANN
John E. Brennan	George L. Lindemann
FRANK W. DENIUS	ROGER J. PEARSON
Frank W. Denius	Roger J. Pearson
AARON I. FLEISCHMAN	GEORGE ROUNTREE, III
Aaron I. Fleischman	George Rountree, III
ADAM M. LINDEMANN	DAN K. WASSONG
Adam M. Lindemann	Dan K. Wassong

KURT A. GITTER, M.D.

Kurt A. Gitter

EXHIBIT 27

FINANCIAL DATA SCHEDULE

FINANCIAL DATA SCHEDULE

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