

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 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-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended

June 30, 2010

Commission File No. 1-6407

SOUTHERN UNION COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-0571592

(I.R.S. Employer
Identification No.)

5444 Westheimer Road

Houston, Texas

(Address of principal executive offices)

77056-5306

(Zip Code)

Registrant's telephone number, including area code: **(713) 989-2000**

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's Common Stock outstanding on August 3, 2010 was 124,482,779.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
FORM 10-Q
June 30, 2010
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GLOSSARY

The abbreviations, acronyms and industry terminology used in this quarterly report on Form 10-Q are defined as follows:

Btu	British thermal units
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Citrus	Citrus Corp.
Company	Southern Union and its subsidiaries
EBIT	Earnings before interest and taxes
EITR	Effective income tax rate
EPA	United States Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FDOT/FTE	Florida Department of Transportation, Florida's Turnpike Enterprise
Florida Gas	Florida Gas Transmission Company, LLC
GAAP	Accounting principles generally accepted in the United States of America
Grey Ranch	Grey Ranch Plant, LP
HCA's	High consequence areas
LNG	Liquefied natural gas
LNG Holdings	Trunkline LNG Holdings, LLC
MADEP	Massachusetts Department of Environmental Protection
MDPU	Massachusetts Department of Public Utilities
MGP's	Manufactured gas plants
MMBtu	Million British thermal units
MMBtu/d	Million British thermal units per day
MMcf	Million cubic feet
MMcf/d	Million cubic feet per day
MPSC	Missouri Public Service Commission
NGL	Natural gas liquids
NMED	New Mexico Environment Department
Panhandle	Panhandle Eastern Pipe Line Company, LP and its subsidiaries
PCBs	Polychlorinated biphenyls
PEPL	Panhandle Eastern Pipe Line Company, LP
PRP's	Potentially responsible parties
RCRA	Resource Conservation and Recovery Act
RFP	Request for Proposal
RIDEM	Rhode Island Department of Environmental Management
SAR's	Stock appreciation rights
Sea Robin	Sea Robin Pipeline Company, LLC
SEC	Securities and Exchange Commission
Southern Union	Southern Union Company
Southwest Gas	Pan Gas Storage, LLC (d.b.a. Southwest Gas)
SPCC	Spill Prevention, Control and Countermeasure
SUGS	Southern Union Gas Services
TBtu	Trillion British thermal units
TCEQ	Texas Commission on Environmental Quality
Trunkline	Trunkline Gas Company, LLC
Trunkline LNG	Trunkline LNG Company, LLC

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Operating revenues (Note 13)	\$ 573,096	\$ 453,025	\$ 1,332,090	\$ 1,136,888
Operating expenses:				
Cost of gas and other energy	246,626	191,917	685,635	571,979
Operating, maintenance and general	118,723	116,539	232,608	245,216
Depreciation and amortization	57,559	53,360	112,753	105,830
Revenue-related taxes	4,806	4,816	21,848	22,022
Taxes, other than on income and revenues	13,638	13,739	28,224	27,480
Total operating expenses	<u>441,352</u>	<u>380,371</u>	<u>1,081,068</u>	<u>972,527</u>
Operating income	131,744	72,654	251,022	164,361
Other income (expenses):				
Interest expense	(55,436)	(48,365)	(106,312)	(96,735)
Earnings from unconsolidated investments	27,542	22,694	46,120	39,267
Other, net	(352)	132	(63)	6,094
Total other income (expenses), net	<u>(28,246)</u>	<u>(25,539)</u>	<u>(60,255)</u>	<u>(51,374)</u>
Earnings before income taxes	103,498	47,115	190,767	112,987
Federal and state income tax expense (Note 9)	<u>28,609</u>	<u>13,835</u>	<u>59,418</u>	<u>33,450</u>
Net earnings	74,889	33,280	131,349	79,537
Preferred stock dividends	(2,170)	(2,170)	(4,341)	(4,341)
Loss on extinguishment of preferred stock (Note 17)	<u>(3,295)</u>	<u>-</u>	<u>(3,295)</u>	<u>-</u>
Net earnings available for common stockholders	<u>\$ 69,424</u>	<u>\$ 31,110</u>	<u>\$ 123,713</u>	<u>\$ 75,196</u>
Net earnings available for common stockholders per share:				
Basic	\$ 0.56	\$ 0.25	\$ 0.99	\$ 0.61
Diluted	0.55	0.25	0.99	0.61
Dividends declared on common stock per share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30
Weighted average shares outstanding (Note 4):				
Basic	124,474	124,047	124,445	124,046
Diluted	125,244	124,274	125,202	124,123

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

ASSETS

	June 30,	December
	2010	31,
	<u>2010</u>	<u>2009</u>
	(In thousands)	
Current assets:		
Cash and cash equivalents	\$ 2,588	\$ 10,545
Accounts receivable, net of allowances of \$4,680 and \$1,874, respectively	221,144	277,661
Accounts receivable – affiliates	6,430	10,387
Inventories (Note 3)	240,585	290,031
Deferred natural gas purchases	95,364	88,421
Natural gas imbalances - receivable	92,625	127,284
Prepayments and other assets	60,648	57,024
Total current assets	<u>719,384</u>	<u>861,353</u>
Property, plant and equipment:		
Plant in service	6,794,595	6,260,188
Construction work in progress	121,344	531,710
	<u>6,915,939</u>	<u>6,791,898</u>
Less accumulated depreciation and amortization	(1,278,079)	(1,162,685)
Net property, plant and equipment	<u>5,637,860</u>	<u>5,629,213</u>
Deferred charges:		
Regulatory assets	69,312	72,304
Deferred charges	70,061	60,995
Total deferred charges	<u>139,373</u>	<u>133,299</u>
Unconsolidated investments (Note 5)	1,381,871	1,340,048
Goodwill	89,227	89,227
Other	<u>21,400</u>	<u>21,934</u>
Total assets	<u>\$ 7,989,115</u>	<u>\$ 8,075,074</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

STOCKHOLDERS' EQUITY AND LIABILITIES

	June 30, 2010	December 31, 2009
	(In thousands)	
Stockholders' equity:		
Common stock, \$1 par value; 200,000 shares authorized; 125,654 and 125,569 shares issued, respectively	\$ 125,654	\$ 125,569
Preferred stock (Note 17)	-	115,000
Premium on capital stock	1,914,930	1,905,293
Less treasury stock: 1,176 and 1,171 shares, respectively, at cost	(29,215)	(29,109)
Less common stock held in trust: 580 and 659 shares, respectively	(10,462)	(11,769)
Deferred compensation plans	10,462	11,769
Accumulated other comprehensive loss	(40,535)	(56,505)
Retained earnings	496,074	409,698
Total stockholders' equity	<u>2,466,908</u>	<u>2,469,946</u>
Long-term debt obligations (Note 7)	<u>3,421,079</u>	<u>3,421,236</u>
Total capitalization	5,887,987	5,891,182
Current liabilities:		
Long-term debt due within one year (Note 7)	880	140,500
Notes payable (Note 7)	156,095	80,000
Preferred stock - redeemable (Note 17)	115,000	-
Accounts payable and accrued liabilities	211,208	246,394
Federal, state and local taxes payable	33,253	4,293
Accrued interest	37,357	40,061
Natural gas imbalances - payable	233,787	322,200
Derivative instruments (Notes 10 and 11)	53,090	97,008
Asset retirement obligations	30,277	45,971
Other	65,397	77,928
Total current liabilities	<u>936,344</u>	<u>1,054,355</u>
Deferred credits	203,949	223,950
Accumulated deferred income taxes	960,835	905,587
Commitments and contingencies (Note 12)		
Total stockholders' equity and liabilities	<u>\$ 7,989,115</u>	<u>\$ 8,075,074</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Cash flows provided by (used in) operating activities:		
Net earnings	\$ 131,349	\$ 79,537
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation and amortization	112,753	105,830
Deferred income taxes	60,087	28,546
Provision for bad debts	9,562	11,109
Unrealized (gain) loss on commodity derivatives	(16,654)	20,681
Share-based compensation expense	4,454	3,622
Earnings from unconsolidated investments, adjusted for cash distributions	(42,396)	(39,267)
Changes in operating assets and liabilities	(16,663)	171,767
Net cash flows provided by operating activities	<u>242,492</u>	<u>381,825</u>
Cash flows provided by (used in) investing activities:		
Additions to property, plant and equipment	(129,379)	(227,257)
Plant retirements and other	359	(3,114)
Net cash flows used in investing activities	<u>(129,020)</u>	<u>(230,371)</u>
Cash flows provided by (used in) financing activities:		
Increase (decrease) in book overdraft	(12,030)	2,273
Issuance of long-term debt	857	151,533
Renewal cost for credit facilities and issuance cost of debt	(5,831)	(1,128)
Dividends paid on common stock	(37,322)	(37,208)
Dividends paid on preferred stock	(4,341)	(4,341)
Repayment of long-term debt obligation	(140,723)	-
Net (payments) borrowings under credit facilities	76,095	(251,459)
Other	1,866	(210)
Net cash flows used in financing activities	<u>(121,429)</u>	<u>(140,540)</u>
Change in cash and cash equivalents	(7,957)	10,914
Cash and cash equivalents at beginning of period	10,545	4,318
Cash and cash equivalents at end of period	<u>\$ 2,588</u>	<u>\$ 15,232</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(UNAUDITED)

	<u>Common Stock, \$1 Par Value</u>	<u>Preferred Stock, No Par Value</u>	<u>Premium on Capital Stock</u>	<u>Treasury Stock, at cost</u>	<u>Common Stock Held In Trust</u>	<u>Deferred Compensation Plans</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	(In thousands)								
Balance December 31, 2009	\$ 125,569	\$ 115,000	\$1,905,293	\$ (29,109)	\$ (11,769)	\$ 11,769	\$ (56,505)	\$ 409,698	\$2,469,946
Redemption of preferred stock (Note 17)	-	(115,000)	3,295	-	-	-	-	(3,295)	(115,000)
Comprehensive income:									
Net earnings	-	-	-	-	-	-	-	131,349	131,349
Net change in other comprehensive income (Note 6)	-	-	-	-	-	-	15,970	-	15,970
Comprehensive income									<u>147,319</u>
Preferred stock dividends	-	-	-	-	-	-	-	(4,341)	(4,341)
Common stock dividends declared	-	-	-	-	-	-	-	(37,337)	(37,337)
Share-based compensation	-	-	4,454	-	-	-	-	-	4,454
Restricted stock issuances	8	-	453	-	-	-	-	-	461
Exercise of stock options and SARs	77	-	1,435	(106)	-	-	-	-	1,406
Contributions to Trust	-	-	-	-	(387)	387	-	-	-
Disbursements from Trust	-	-	-	-	1,694	(1,694)	-	-	-
Balance June 30, 2010	<u>\$ 125,654</u>	<u>\$ -</u>	<u>\$1,914,930</u>	<u>\$ (29,215)</u>	<u>\$ (10,462)</u>	<u>\$ 10,462</u>	<u>\$ (40,535)</u>	<u>\$ 496,074</u>	<u>\$2,466,908</u>

The Company's common stock is \$1 par value. Therefore, the change in *Common Stock, \$1 par value*, is equivalent to the change in the number of shares of common stock issued.

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the SEC for quarterly reports on Form 10-Q. These statements do not include all of the information and annual note disclosures required by GAAP, and should be read in conjunction with the Company's financial statements and notes thereto for the year ended December 31, 2009, which are included in the Company's Form 10-K filed with the SEC. The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP and reflect adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim period. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Due to the seasonal nature of the Company's operations, the results of operations and cash flows for any interim period are not necessarily indicative of the results that may be expected for the full year. Certain reclassifications have been made to the prior year's condensed financial statements to conform to the current year presentation.

1. Description of Business

Southern Union owns and operates assets in the regulated and unregulated natural gas industry and is primarily engaged in the gathering, treating, processing, transportation, storage and distribution of natural gas in the United States. The Company operates in three reportable segments: Transportation and Storage, Gathering and Processing, and Distribution. The Transportation and Storage segment is primarily engaged in the interstate transportation and storage of natural gas in the Midwest and from the Gulf Coast to Florida, and also provides LNG terminalling and regasification services. The Gathering and Processing segment is primarily engaged in the gathering, treating, processing and redelivery of natural gas and NGL in West Texas and Southeast New Mexico. The Distribution segment is primarily engaged in the local distribution of natural gas in Missouri and Massachusetts.

2. New Accounting Principles and Other Matters

Accounting Standards Recently Adopted.

In June 2009, the FASB issued authoritative guidance that changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly affect the entity's economic performance. The guidance is effective as of the beginning of the first annual reporting period, and for interim periods within that first period, after November 15, 2009, with early adoption prohibited. This guidance did not materially impact the Company's consolidated financial statements.

In January 2010, the FASB issued authoritative guidance to improve disclosure requirements related to fair value measurements. This guidance requires new disclosures associated with the three tier fair value hierarchy for transfers in and out of Levels 1 and 2 and for activity within Level 3. It also clarifies existing disclosure requirements related to the level of disaggregation and disclosures about certain inputs and valuation techniques. This guidance is effective for interim or annual financial periods beginning after December 15, 2009, except for the disclosures related to activity within Level 3, which is effective for interim or annual financial periods beginning after December 15, 2010. This guidance did not materially impact the Company's consolidated financial statements.

Other Matters.

Asset Impairment. An impairment loss is recognized when the carrying amount of a long-lived asset used in operations is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The long-lived assets of Sea Robin were evaluated as of December 31, 2009 because indicators of potential impairment were evident primarily due to the impacts associated with Hurricane Ike and due to reductions in the estimated payout from the Company's insurance carrier for reimbursable expenditures for the repair, retirement or replacement of the Company's property, plant and equipment damaged by Hurricane Ike. The analysis as of December 31, 2009 indicated no recoverability issues were evident. As there were no indicators of potential impairment during 2010, the impairment test was not performed as of June 30, 2010.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

3. Inventories

In the Transportation and Storage segment, inventories consist of natural gas held for operations and materials and supplies, both of which are stated at the lower of weighted average cost or market, while natural gas owed back to customers is valued at market. The natural gas held for operations that the Company does not expect to consume in its operations in the next twelve months is reflected in non-current assets.

In the Gathering and Processing segment, inventories consist of fractionated NGL, non-fractionated Y-grade NGL and materials and supplies, which are stated at the lower of weighted average cost or market. Materials and supplies are primarily comprised of compressor components and parts.

In the Distribution segment, inventories consist of natural gas in underground storage and materials and supplies. The natural gas inventory carrying value is stated at weighted average cost and is not adjusted to a lower market value because, pursuant to purchased natural gas adjustment clauses, actual natural gas costs are recovered in customers' rates. Materials and supplies inventory is also stated at weighted average cost.

The following table sets forth the components of inventory at the dates indicated.

	<u>Transportation & Storage</u>	<u>Gathering & Processing</u>	<u>Distribution</u>	<u>Total</u>
At June 30, 2010	(In thousands)			
<u>Current</u>				
Natural gas (1)	\$ 149,584	\$ -	\$ 54,569	\$ 204,153
Materials and supplies	15,901	9,204	3,768	28,873
NGL (2)	-	7,559	-	7,559
Total Current	<u>165,485</u>	<u>16,763</u>	<u>58,337</u>	<u>240,585</u>
<u>Non-Current</u>				
Natural gas (1)	<u>7,639</u>	-	-	<u>7,639</u>
	<u>\$ 173,124</u>	<u>\$ 16,763</u>	<u>\$ 58,337</u>	<u>\$ 248,224</u>
At December 31, 2009				
<u>Current</u>				
Natural gas (1)	\$ 198,712	\$ -	\$ 56,125	\$ 254,837
Materials and supplies	15,995	9,307	3,926	29,228
NGL (2)	-	5,966	-	5,966
Total Current	<u>214,707</u>	<u>15,273</u>	<u>60,051</u>	<u>290,031</u>
<u>Non-Current</u>				
Natural gas (1)	<u>8,831</u>	-	-	<u>8,831</u>
	<u>\$ 223,538</u>	<u>\$ 15,273</u>	<u>\$ 60,051</u>	<u>\$ 298,862</u>

Natural gas volumes held for operations in the Transportation and Storage segment at June 30, 2010 and December 31, 2009 were (1) 30,828,000 MMBtu and 35,039,000 MMBtu, respectively. Natural gas volumes in the Distribution segment at June 30, 2010 and December 31, 2009 were 12,513,000 MMBtu and 11,742,000 MMBtu, respectively.

(2) NGL at June 30, 2010 and December 31, 2009 were 9,343,000 gallons and 6,680,000 gallons, respectively.

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

4. Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed based on the weighted average number of common shares outstanding during each period, increased by common stock equivalents from stock options, restricted stock and SARs. A reconciliation of the shares used in the basic and diluted earnings per share calculations is shown in the following table for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			
Weighted average shares outstanding - Basic	124,474	124,047	124,445	124,046
Add assumed vesting of restricted stock	123	64	109	48
Add assumed exercise of stock options and SARs	647	163	648	29
Weighted average shares outstanding - Diluted	<u>125,244</u>	<u>124,274</u>	<u>125,202</u>	<u>124,123</u>

The table below includes information related to stock options and SARs that were outstanding but have been excluded from the computation of weighted-average stock options due to the exercise price exceeding the weighted-average market price of the Company's common shares.

	June 30,	
	2010	2009
	(In thousands, except per share amounts)	
Options excluded	849	1,662
Exercise price of options excluded	\$ 24.06 - \$28.48	\$ 16.83 - \$28.48
SARs excluded	386	386
Exercise price ranges of SARs excluded	\$ 28.07 - \$28.48	\$ 28.07 - \$28.48
Second quarter weighted-average market price	\$ 23.70	\$ 16.56
Year-to-date weighted-average market price	\$ 23.73	\$ 15.14

5. Unconsolidated Investments

The following table summarizes the Company's unconsolidated equity investments at the dates indicated.

	June 30,	December 31,
	2010	2009
	(In thousands)	
Citrus	\$ 1,353,856	\$ 1,310,765
Other	28,015	29,283
	<u>\$ 1,381,871</u>	<u>\$ 1,340,048</u>

SOUTHERN UNION COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Equity Investments. Unconsolidated investments at June 30, 2010 and December 31, 2009 included the Company's 50 percent, 50 percent, 29 percent and 49.9 percent investments in Citrus, Grey Ranch, Lee 8 Partnership and PEI II, LLC, respectively. The Company accounts for these investments using the equity method. The Company's share of net earnings or loss from these equity investments is recorded in *Earnings from unconsolidated investments* in the unaudited interim Condensed Consolidated Statement of Operations.

The following table sets forth summarized financial information for the Company's equity investments for the periods presented.

	Three Months Ended June 30,			
	2010		2009	
	Citrus	Other	Citrus	Other
	(In thousands)			
Revenues	\$ 140,572	\$ 5,823	\$ 136,781	\$ 3,717
Operating income	77,323	3,297	77,949	2,010
Net earnings	46,460	3,101	38,092	1,935

	Six Months Ended June 30,			
	2010		2009	
	Citrus	Other	Citrus	Other
	(In thousands)			
Revenues	\$ 254,711	\$ 11,684	\$ 248,223	\$ 9,107
Operating income	129,694	6,482	132,543	3,920
Net earnings	76,087	6,270	64,514	3,831

Citrus Dividends. Citrus did not pay dividends to the Company during the six-month periods ended June 30, 2010 and 2009.

Contingent Matters Potentially Impacting Southern Union Through the Company's Investment in Citrus

Florida Gas Phase VIII Expansion. In November 2009, FERC approved Florida Gas' certificate application to construct an expansion, which will increase its natural gas capacity into Florida by approximately 820 MMcf/d (*Phase VIII Expansion*). Florida Gas anticipates an in-service date in the spring of 2011, at a currently estimated cost of approximately \$2.4 billion, including capitalized equity and debt costs. Approximately \$1.27 billion of capital costs have been recorded as of June 30, 2010. To date, Florida Gas has entered into firm transportation service agreements with shippers for 25-year terms accounting for approximately 74 percent of the available expansion capacity. A potential shipper election, which would have increased the contracted capacity to 83 percent, was not exercised by the shipper.

Prior to the in-service date of the Phase VIII Expansion project, it is expected Citrus will require equity contributions from each of its sponsors of up to \$250 million. It is expected the majority of the estimated sponsor equity contributions to Citrus will be made in the fourth quarter of 2010 and/or first quarter of 2011. Citrus also does not plan to make any cash dividends to its sponsors until after the Phase VIII Expansion project is in service.

Florida Gas Rate Filing. Florida Gas filed a rate case with FERC on October 1, 2009, initially reflecting an annual cost of service of approximately \$579 million. Pursuant to a FERC order on rehearing and Florida Gas' motion filing, on April 15, 2010, Florida Gas refiled its rates to be effective April 1, 2010 to remove the impact of certain estimated plant expenditures not in service by February 28, 2010, which reduced the annual cost of service originally filed by approximately \$28 million to \$551.6 million. Florida Gas by comparison has recorded actual revenues of approximately \$511 million for the twelve-month period ended March 31, 2010 under its previously existing rates, including amounts collected from system expansions and certain surcharges. Several parties have intervened and protested Florida Gas' rate case filing, including protesting various elements of the cost of service. The new rates went into effect on April 1, 2010, subject to refund pending the final outcome of the rate proceeding. A hearing is currently scheduled for August 2010. A \$5.8 million provision for estimated

refunds through June 30, 2010 has been established for refunds on certain rate schedules for which a refund is potentially applicable, the resolution of which will ultimately be determined by settlement or adjudication.

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Florida Gas Debt Issuance. In July 2010, Florida Gas issued \$500 million of 5.45% Senior Notes due July 15, 2020 with an offering price of \$99.826 (per \$100 principal) and \$350 million of 4.00% Senior Notes due July 15, 2015 with an offering price of \$99.982 (per \$100 principal). Florida Gas will use the net proceeds to partially fund the Phase VIII Expansion project and for general corporate purposes, which includes the repayment of a portion of Florida Gas' outstanding debt. On July 19, 2010, Florida Gas: (i) issued a notice of its election to redeem, on August 19, 2010, its \$325 million of 7.625 percent notes due December 1, 2010, (ii) made a \$98.6 million distribution to Citrus, (iii) repaid \$83 million that was outstanding under its credit agreements, and (iv) invested the remainder of the proceeds.

Florida Gas Pipeline Relocation Costs. The FDOT/FTE has various turnpike/State Road 91 widening projects that have impacted or may, over time, impact one or more of Florida Gas' mainline pipelines located in FDOT/FTE rights-of-way. Several FDOT/FTE projects are the subject of litigation in Broward County, Florida. The previous judge recused himself and the case was assigned to a new judge in June 2010. At a hearing on July 12, 2010, the judge granted the FDOT/FTE motion for reconsideration of certain issues. The judge also scheduled the trial for the first quarter of 2011.

6. Comprehensive Income (Loss)

The table below provides an overview of changes in *Comprehensive income (loss)* for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net Earnings	\$ 74,889	\$ 33,280	\$ 131,349	\$ 79,537
Changes in Other Comprehensive Income (Loss):				
Change in fair value of interest rate hedges, net of tax of \$(1,308), \$827, \$(3,614) and \$412, respectively	(1,945)	1,231	(5,375)	613
Reclassification of unrealized loss on interest rate hedges into earnings, net of tax of \$2,250, \$1,964, \$4,554 and \$3,576, respectively	3,357	2,950	6,803	5,379
Change in fair value of commodity hedges, net of tax of \$(390), \$(81), \$9,613 and \$4,507, respectively	(690)	(143)	17,061	7,999
Reclassification of unrealized gain on commodity hedges into earnings, net of tax of \$(1,830), \$(4,207), \$(2,272) and \$(8,174), respectively	(3,247)	(7,466)	(4,032)	(14,506)
Reclassification of net actuarial loss and prior service credit relating to pension and other postretirement benefits into earnings, net of tax of \$551, \$736, \$1,102 and \$1,472, respectively	722	974	1,442	1,946
Change in other comprehensive income (loss) from equity investments, net of tax of \$22, \$0, \$44 and \$0, respectively	35	-	71	-
Total other comprehensive income (loss)	(1,768)	(2,454)	15,970	1,431
Total comprehensive income	\$ 73,121	\$ 30,826	\$ 147,319	\$ 80,968

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7. Debt Obligations

The following table sets forth the debt obligations of Southern Union and applicable units of Panhandle under their respective notes and bonds at the dates indicated.

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Long-Term Debt Obligations:				
Southern Union:				
7.60% Senior Notes due 2024	\$ 359,765	\$ 403,491	\$ 359,765	\$ 389,820
8.25% Senior Notes due 2029	300,000	313,110	300,000	337,800
7.24% to 9.44% First Mortgage Bonds due 2020 to 2027	19,500	21,253	19,500	21,403
6.089% Senior Notes due 2010	-	-	100,000	100,250
7.20% Junior Subordinated Notes due 2066	600,000	546,000	600,000	510,000
Term Loan due 2011 (1)	150,000	151,469	150,000	150,178
Note Payable	8,359	8,359	7,725	7,725
	<u>1,437,624</u>	<u>1,443,682</u>	<u>1,536,990</u>	<u>1,517,176</u>
Panhandle:				
6.05% Senior Notes due 2013	250,000	272,020	250,000	269,733
6.20% Senior Notes due 2017	300,000	322,266	300,000	319,455
8.125% Senior Notes due 2019	150,000	172,082	150,000	173,111
8.25% Senior Notes due 2010	-	-	40,500	41,143
7.00% Senior Notes due 2029	66,305	70,366	66,305	69,866
7.00% Senior Notes due 2018	400,000	439,356	400,000	434,560
Term Loans due 2012	815,391	784,058	815,391	758,108
Net premiums on long-term debt	2,639	2,639	2,550	2,550
	<u>1,984,335</u>	<u>2,062,787</u>	<u>2,024,746</u>	<u>2,068,526</u>
Total Long-Term Debt Obligations	3,421,959	3,506,469	3,561,736	3,585,702
Credit Facilities	156,095	156,093	80,000	78,968
Preferred stock - redeemable (2)	<u>115,000</u>	<u>115,065</u>	<u>-</u>	<u>-</u>
Total consolidated debt obligations	3,693,054	<u>\$ 3,777,627</u>	3,641,736	<u>\$ 3,664,670</u>
Less current portion of long-term debt	880		140,500	
Less short-term debt	156,095		80,000	
Less preferred stock - redeemable (2)	115,000		-	
Total long-term debt	<u>\$ 3,421,079</u>		<u>\$ 3,421,236</u>	

(1) As more fully described in the 2010 Term Loan discussion below, the term loan maturity date was extended to 2013.

(2) See Note 17 – Redemption of Preferred Stock for more information.

The fair value of the Company's term loans and credit facilities as of June 30, 2010 and December 31, 2009 was determined using the market approach, which utilized reported recent loan transactions for parties of similar credit quality and remaining life, as there is no active secondary market for loans of that type and size.

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The fair value of the Company's other long-term debt as of June 30, 2010 and December 31, 2009 was also determined using the market approach, which utilized observable market data to corroborate the estimated credit spreads and prices for the Company's non-bank long-term debt securities in the secondary market. Those valuations were based in part upon the reported trades of the Company's non-bank long-term debt securities where available and the actual trades of debt securities of similar credit quality and remaining life where no secondary market trades were reported for the Company's non-bank long-term debt securities.

The fair value of the Company's preferred stock as of June 30, 2010 was determined using quotes from the New York Stock Exchange.

2010 Term Loan. On August 3, 2010, the Company entered into an Amended and Restated \$250 million Credit Agreement, maturing on August 3, 2013 (*2010 Term Loan*). The 2010 Term Loan bears interest at a rate of LIBOR plus 2.125 percent and may be prepaid without penalty at any time. The 2010 Term Loan amended, restated and upsized that certain \$150 million Credit Agreement, which was issued in 2009 and was scheduled to mature on August 5, 2011 (*2009 Term Loan*). The 2009 Term Loan had an interest rate of LIBOR plus 3.75 percent. Proceeds received from the 2010 Term Loan will be used to refinance the existing indebtedness under the 2009 Term Loan described above, with the remaining proceeds to be used to provide working capital and for general corporate purposes.

Retirement of 2010 Debt Obligations. The Company repaid the \$100 million 6.089% Senior Notes in February 2010 and the \$40.5 million 8.25% Senior Notes in April 2010 primarily using draw downs under the credit facilities.

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8. Employee Benefits

Components of Net Periodic Benefit Cost. The following table sets forth the components of net periodic benefit cost of the Company's pension and postretirement benefit plans for the periods presented below.

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Service cost	\$ 768	\$ 737	\$ 793	\$ 750
Interest cost	2,509	2,524	1,409	1,347
Expected return on plan assets	(2,337)	(2,070)	(1,269)	(772)
Prior service cost (credit) amortization	138	138	(411)	(317)
Actuarial (gain) loss amortization	1,996	2,102	(451)	(212)
Sub-total	3,074	3,431	71	796
Regulatory adjustment (1)	52	(125)	666	666
Net periodic benefit cost	<u>\$ 3,126</u>	<u>\$ 3,306</u>	<u>\$ 737</u>	<u>\$ 1,462</u>

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Service cost	\$ 1,535	\$ 1,475	\$ 1,586	\$ 1,499
Interest cost	5,019	5,048	2,819	2,695
Expected return on plan assets	(4,674)	(4,140)	(2,311)	(1,544)
Prior service cost (credit) amortization	276	276	(823)	(634)
Actuarial (gain) loss amortization	3,993	4,203	(901)	(424)
Sub-total	6,149	6,862	370	1,592
Regulatory adjustment (1)	157	(250)	1,332	1,332
Net periodic benefit cost	<u>\$ 6,306</u>	<u>\$ 6,612</u>	<u>\$ 1,702</u>	<u>\$ 2,924</u>

In the Distribution segment, the Company recovers certain qualified pension benefit plan and other postretirement benefit plan costs through rates charged to utility customers. Certain utility commissions require that the recovery of these costs be based on the Employee

(1) Retirement Income Security Act of 1974, as amended, or other utility commission specific guidelines. The difference between these regulatory-based amounts and the periodic benefit cost calculated pursuant to GAAP is deferred as a regulatory asset or liability and amortized to expense over periods in which this difference will be recovered in rates, as promulgated by the applicable utility commission.

9. Taxes on Income

The following table summarizes the Company's income taxes for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			

Income tax expense	\$	28,609	\$	13,835	\$	59,418	\$	33,450
Effective tax rate		28%		29%		31%		30%

In March 2010, the Patient Protection and Affordable Care Act (*PPACA*) and the Health Care and Education Reconciliation Act of 2010 were signed into law. The *PPACA* changed the tax treatment of federal Medicare Part D subsidies paid to sponsors of retiree health benefit plans.

As a result of this legislation, the Company's tax deduction associated with retiree health benefit plans will be reduced by Medicare Part D subsidies received in tax years beginning after December 31, 2012. Accordingly, the Company recorded \$4.2 million of additional tax expense in the first quarter of 2010, resulting in an increase to the EITR for the first quarter of 2010.

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10. Derivative Instruments and Hedging Activities

The Company is exposed to certain risks in its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and commodity price risk. Interest rate swaps and treasury rate locks are the principal derivative instruments used by the Company to manage interest rate risk associated with its long-term borrowings, although other interest rate derivative contracts may also be used from time to time. Natural gas price swaps and NGL processing spread swaps are the principal derivative instruments used by the Company to manage commodity price risk associated with purchases and/or sales of natural gas and/or NGL, although other commodity derivative contracts may also be used from time to time. The Company recognizes all derivative instruments as assets or liabilities at fair value in the Condensed Consolidated Balance Sheet.

Interest Rate Contracts

The Company enters into interest rate swaps to manage its exposure to changes in interest payments on long-term debt attributable to movements in market interest rates, and enters into treasury rate locks to manage its exposure to changes in future interest payments attributable to changes in treasury rates prior to the issuance of new long-term debt instruments.

Interest Rate Swaps. As of June 30, 2010, the Company had outstanding pay-fixed interest rate swaps with a total notional amount of \$455 million applicable to the LNG Holdings \$455 million term loan issued in 2007. These interest rate swaps are accounted for as cash flow hedges, with the effective portion of changes in their fair value recorded in *Accumulated other comprehensive loss* and reclassified into *Interest expense* in the same periods during which the related interest payments on long-term debt impact earnings. As of June 30, 2010, approximately \$11.3 million of net after-tax losses in *Accumulated other comprehensive loss* related to these interest rate swaps is expected to be amortized into *Interest expense* during the next twelve months. Any ineffective portion of the cash flow hedge is reported in current-period earnings.

Treasury Rate Locks. As of June 30, 2010, the Company had no outstanding treasury rate locks. However, certain of its treasury rate locks that settled in prior periods are associated with interest payments on outstanding long-term debt. These treasury rate locks are accounted for as cash flow hedges, with the effective portion of their settled value recorded in *Accumulated other comprehensive loss* and reclassified into *Interest expense* in the same periods during which the related interest payments on long-term debt impact earnings. As of June 30, 2010, approximately \$571,000 of net after-tax losses in *Accumulated other comprehensive loss* related to these treasury rate locks will be amortized into *Interest expense* during the next twelve months.

Commodity Contracts – Gathering and Processing Segment

The Company enters into natural gas price swaps and NGL processing spread swaps to manage its exposure to changes in margin on forecasted sales of natural gas and NGL volumes resulting from movements in market commodity prices.

Natural Gas Price Swaps. As of June 30, 2010, the Company had outstanding receive-fixed natural gas price swaps with a total notional amount of 8,280,000 MMBtus and 9,125,000 MMBtus for the remainder of 2010 and 2011, respectively. These natural gas price swaps are accounted for as cash flow hedges, with the effective portion of changes in their fair value recorded in *Accumulated other comprehensive loss* and reclassified into *Operating revenues* in the same periods during which the forecasted natural gas sales impact earnings. As of June 30, 2010, approximately \$8 million of net after-tax gains in *Accumulated other comprehensive loss* related to these natural gas price swaps is expected to be amortized into *Operating revenues* during the next twelve months. Any ineffective portion of the cash flow hedge is reported in current-period earnings.

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NGL Processing Spread Swaps. As of June 30, 2010, the Company had outstanding receive-fixed NGL processing spread swaps with a total notional amount of 7,360,000 MMBtu and 9,125,000 MMBtu equivalents for the remainder of 2010 and 2011, respectively. These processing spread swaps are accounted for as economic hedges, with changes in their fair value recorded in *Operating revenues*.

Commodity Contracts - Distribution Segment

The Company enters into natural gas commodity price swaps to manage the exposure to changes in the cost of forecasted purchases of natural gas passed through to utility customers that result from movements in market commodity prices. The cost of the derivative instruments and settlement of the respective obligations are recovered from utility customers through the purchased natural gas adjustment clause as authorized by the applicable regulatory authority and therefore do not impact earnings.

Natural Gas Price Swaps. As of June 30, 2010, the Company had outstanding pay-fixed natural gas price swaps with total notional amounts of 8,760,000 MMBtus, 15,920,000 MMBtus and 1,650,000 MMBtus for the remainder of 2010, 2011 and 2012, respectively. These natural gas price swaps are accounted for as economic hedges, with changes in their fair value recorded to *Deferred natural gas purchases*.

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Summary Financial Statement Information

The following table summarizes the fair value amounts of the Company's asset derivative instruments and their location reported in the Condensed Consolidated Balance Sheet at the dates indicated.

	<u>Balance Sheet Location</u>	<u>Asset Derivative Instruments (1)</u>	
		<u>Fair Value (2)</u>	
		<u>June 30, 2010</u>	<u>December 31, 2009</u>
		(In thousands)	
Cash Flow Hedges:			
Commodity contracts - Gathering and Processing:			
Natural gas price swaps	Prepayments and other assets	\$ 12,348	\$ -
	Other noncurrent assets	4,211	-
	Deferred credits	-	314
		<u>\$ 16,559</u>	<u>\$ 314</u>
Economic Hedges:			
Commodity contracts - Gathering and Processing:			
NGL processing spread swaps	Prepayments and other assets	\$ 903	\$ -
	Other noncurrent assets	1,195	-
	Deferred credits	179	-
Other derivative instruments	Prepayments and other assets	-	5
	Derivative instruments-liabilities	51	166
Commodity contracts - Distribution:			
Natural gas price swaps	Derivative instruments-liabilities	60	582
	Deferred credits	33	15
		<u>\$ 2,421</u>	<u>\$ 768</u>
Other:			
Commodity contracts - Gathering and Processing:			
Other derivative instruments	Prepayments and other assets	\$ 284	\$ 162
Total		<u>\$ 19,264</u>	<u>\$ 1,244</u>

(1) The Company has master netting arrangements with certain of its counterparties, which permit applicable obligations of the parties to be settled on a net versus gross basis. In those instances where a right of offset exists, the fair value amounts for the derivative instruments are reported in the Condensed Consolidated Balance Sheet on a net basis and disclosed herein on a gross basis.

- (2) See *Note 11 – Fair Value Measurement* for information related to the framework used by the Company to measure the fair value of its derivative instruments as of June 30, 2010.

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The following table summarizes the fair value amounts of the Company's liability derivative instruments and their location reported in the Condensed Consolidated Balance Sheet at the dates indicated.

	<u>Balance Sheet</u> <u>Location</u>	<u>Liability Derivative</u> <u>Instruments (1)</u>	
		<u>Fair Value (2)</u>	
		<u>June 30, 2010</u>	<u>December 31, 2009</u>
(In thousands)			
Cash Flow Hedges			
Interest rate contracts:			
Interest rate swaps	Derivative instruments-liabilities	\$ 18,441	\$ 18,754
	Deferred		
credits		12,529	13,975
Commodity contracts - Gathering and Processing:			
Natural gas price swaps	Derivative instruments-liabilities	-	4,126
		<u>\$ 30,970</u>	<u>\$ 36,855</u>
Economic Hedges			
Commodity contracts - Gathering and Processing:			
NGL processing spread swaps	Prepayments and other assets	\$ 8,515	-
	Other		
noncurrent assets		426	-
	Derivative instruments-liabilities	1,538	34,477
	Deferred		
credits		-	10,410
Other derivative instruments	Derivative instruments-liabilities	279	193
Commodity contracts - Distribution:			
Natural gas price swaps	Derivative instruments-liabilities	32,944	40,206
	Deferred		
credits		3,042	3,991
		<u>\$ 46,744</u>	<u>\$ 89,277</u>
Other			
Commodity contracts - Gathering and Processing:			
Other derivative instruments	Prepayments and other assets	\$ 2	\$ 30
Total		<u>\$ 77,716</u>	<u>\$ 126,162</u>

(1) The Company has master netting arrangements with certain of its counterparties, which permit applicable obligations of the parties to be settled on a net versus gross basis. In those instances where a right of offset exists, the fair value amounts for the derivative instruments are reported in the Condensed Consolidated Balance Sheet on a net basis and disclosed herein on a gross basis.

(2) See Note 11 – Fair Value Measurement for information related to the framework used by the Company to measure the fair value of its derivative instruments as of June 30, 2010.

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The following table summarizes the location and amount of derivative instrument gains and losses for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(In thousands)				
Cash Flow Hedges: (1)				
Interest rate contracts:				
Change in fair value - increase (decrease) in <i>Accumulated other comprehensive loss, excluding tax expense effect</i>				
of \$1,308, \$(827), \$3,614 and \$(412), respectively	\$ 3,253	\$ (2,058)	\$ 8,989	\$ (1,025)
Reclassification of unrealized loss from <i>Accumulated other comprehensive loss</i> - increase of <i>Interest expense</i> , excluding tax expense effect of \$2,250, \$1,964, \$4,554 and \$3,576, respectively	5,607	4,914	11,357	8,955
Commodity contracts - Gathering and Processing:				
Change in fair value - (increase) decrease in <i>Accumulated other comprehensive loss</i> , excluding tax expense effect				
of \$(390), \$(81), \$9,613 and \$4,507, respectively	(1,080)	(224)	26,674	12,506
Reclassification of unrealized gain from <i>Accumulated other comprehensive loss</i> - increase of <i>Operating Revenues</i> , excluding tax expense effect of \$1,830, \$4,207, \$2,272 and \$8,174, respectively	5,077	11,673	6,304	22,680
Economic Hedges:				
Commodity contracts - Gathering and Processing:				
Change in fair value of strategic hedges - (increase) decrease in <i>Operating revenues</i> (2)	(21,597)	14,127	(14,672)	34,649
Change in fair value of other hedges - (increase) decrease in <i>Operating revenues</i>	(375)	(365)	186	481
Commodity contracts - Distribution:				
Change in fair value - decrease in <i>Deferred natural gas purchases</i>	23,947	29,797	7,707	21,721
Other:				
Commodity contracts - Gathering and Processing:				
Change in fair value - (increase) decrease in <i>Operating revenues</i>	259	451	(150)	162

(1) See Note 6 – *Comprehensive Income (Loss)* for additional related information.

(2) Includes \$9 million and \$20 million of the cash settlement impact for previously recognized unrealized losses in the three-month and six-month periods ended June 30, 2010, respectively. Includes \$14.6 million and \$29.2 million of the cash settlement impact for previously recognized unrealized gains in the three-month and six-month periods ended June 30, 2009, respectively. Additionally, includes \$22.3 million and \$16.6 million of unrealized mark-to-market gains recorded in the three-month and six-month periods ended June 30, 2010,

respectively, and \$5.6 million and \$21.1 million of unrealized mark-to-market losses recorded in the three-month and six-month periods ended June 30, 2009, respectively.

Derivative Instrument Contingent Features

Certain of the Company's derivative instruments contain provisions that require the Company's debt to be maintained at an investment grade credit rating from each of the major credit rating agencies. If the Company's debt were to fall below investment grade, the Company would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment. The aggregate fair value of all derivative instruments with credit risk-related contingent features that are in a net liability position at June 30, 2010 is \$22.4 million.

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11. Fair Value Measurement

The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis at the date indicated.

	Fair Value Measurements at June 30, 2010		
	Using Fair Value Hierarchy		
	Fair Value as of June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In thousands)	
Assets:			
Commodity derivatives (1)	\$ 9,998	\$ -	\$ 9,998
Long-term investments	867	867	-
Total	\$ 10,865	\$ 867	\$ 9,998
Liabilities:			
Commodity derivatives (1)	\$ 37,480	\$ 256	\$ 37,224
Interest-rate derivatives (1)	30,970	-	30,970
Total	\$ 68,450	\$ 256	\$ 68,194

(1) See related information in *Note 10 – Derivative Instruments and Hedging Activities*.

The Company's Level 1 instruments primarily consist of trading securities related to a non-qualified deferred compensation plan that are valued based on active market quotes. The Company's Level 2 instruments primarily include natural gas and NGL processing spread swap derivatives and interest-rate swap derivatives that are valued using pricing models based on an income approach that discounts future cash flows to a present value amount. The significant pricing model inputs for natural gas and NGL processing spread swap derivatives include published NYMEX forward index prices for delivery of natural gas at Henry Hub, Permian Basin and Waha, and NGL at Mont Belvieu. The significant pricing model inputs for interest-rate swaps include published rates for U.S. Dollar LIBOR interest rate swaps. The pricing models also adjust for nonperformance risk associated with the counterparty or Company, as applicable, through the use of credit risk adjusted discount rates based on published default rates. The Company did not have any Level 3 instruments measured at fair value using significant unobservable inputs at June 30, 2010 or December 31, 2009.

The approximate fair value of the Company's cash and cash equivalents, accounts receivable and accounts payable is equal to book value, due to their short-term nature.

12. Commitments and Contingencies

Environmental

The Company's operations are subject to federal, state and local laws and regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. These laws and regulations require the Company to conduct its operations in a specified manner and to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Failure to comply with environmental requirements may expose the Company to significant fines, penalties and/or interruptions in operations. The Company's environmental policies and procedures are designed to achieve compliance with such laws and regulations. These evolving laws and regulations and claims for damages to property, employees, other persons and the environment resulting from current or past operations may result in significant expenditures and liabilities in the future. The Company engages in a process of updating and revising its procedures for the ongoing evaluation of its operations to identify potential environmental exposures and enhance compliance with regulatory requirements.

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The Company is allowed to recover environmental remediation expenditures through rates in certain jurisdictions within its Distribution segment. Although significant charges to earnings could be required prior to rate recovery for jurisdictions that do not have rate recovery mechanisms, management does not believe that environmental expenditures will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The table below reflects the amount of accrued liabilities recorded at the dates indicated to cover probable environmental response actions.

	June 30, 2010	December 31, 2009
(In thousands)		
Current	\$ 5,736	\$ 7,745
Noncurrent	16,592	16,964
Total environmental liabilities	\$ 22,328	\$ 24,709

SPCC Rules. In October 2007, the EPA proposed amendments to the SPCC rules with the stated intention of providing greater clarity, tailoring requirements and streamlining requirements. The most recent extension by the EPA sets the SPCC rule compliance date as November 10, 2010, permitting owners and operators of facilities to prepare or amend and implement SPCC plans in accordance with previously enacted modifications to the regulations. The Company is currently reviewing the impact of the modified regulations on its operations in its Transportation and Storage and Gathering and Processing segments and may incur costs for tank integrity testing, alarms and other associated corrective actions as well as potential upgrades to containment structures. Costs associated with such activities cannot be estimated with certainty at this time, but the Company believes such costs will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Air Quality Control. In February 2009, EPA proposed a rule that requires reductions in a number of pollutants, including formaldehyde and carbon monoxide, for certain engines regardless of size at Area Sources (sources that emit less than ten tons per year of any one Hazardous Air Pollutant (HAP) or twenty-five tons per year of all HAPs) and engines less than 500 horsepower at Major Sources (sources that emit ten tons per year or more of any one HAP or twenty-five tons per year of all HAPs). The rule is scheduled to be finalized in August 2010 with compliance required in 2013. It is anticipated that the limits adopted in this rule will be used in a future EPA rule that is scheduled to be finalized in 2013, with compliance required in 2016. This future rule is expected to require reductions in formaldehyde and carbon monoxide emissions from engines greater than 500 horsepower at Major Sources.

Nitrogen oxides are the primary air pollutant from natural gas-fired engines. Nitrogen oxide emissions may form ozone in the atmosphere. EPA lowered the ozone standard to seventy-five parts per billion (ppb) in 2008 with compliance anticipated in 2013 to 2015. In January 2010, EPA proposed lowering the standard to sixty to seventy ppb in lieu of the seventy-five ppb standard, with compliance required in 2014 or later.

In January 2010, EPA finalized a 100 ppb one-hour nitrogen dioxide standard. The rule requires the installation of new nitrogen dioxide monitors in urban communities and roadways by 2013. This new network may result in additional nitrogen dioxide non-attainment areas. In addition, ambient air quality modeling may be required to demonstrate compliance with the new standard.

The Company is currently reviewing the potential impact of the proposed rules regarding HAPs and ozone and the new nitrogen dioxide standard on operations in its Transportation and Storage and Gathering and Processing segments and the potential costs associated with the installation of emission control systems on its existing engines. Costs associated with these activities cannot be estimated with any certainty at this time, but the Company believes such costs will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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Transportation and Storage Segment Environmental Matters

Natural Gas Transmission Systems. Panhandle is responsible for environmental remediation at certain sites on its natural gas transmission systems for contamination resulting from the past use of lubricants containing PCBs in compressed air systems; the past use of paints containing PCBs; and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle has developed and implemented a program to remediate such contamination. The primary remaining remediation activity on the Panhandle systems is associated with past use of paints containing PCBs or PCB impacts to equipment surfaces and to a building at one location. The PCB assessments are ongoing and the related estimated remediation costs are subject to further change. The Company believes the total PCB remediation costs will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Other remediation typically involves the management of contaminated soils and may involve remediation of groundwater. Activities vary with site conditions and locations, the extent and nature of the contamination, remedial requirements, complexity and sharing of responsibility. The ultimate liability and total costs associated with these sites will depend upon many factors. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Panhandle could potentially be held responsible for contamination caused by other parties. In some instances, Panhandle may share liability associated with contamination with other PRPs. Panhandle may also benefit from contractual indemnities that cover some or all of the cleanup costs. These sites are generally managed in the normal course of business or operations. The Company believes the outcome of these matters will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Air Quality Control. The Kansas Department of Health and Environment set certain contingency measures as part of the agency's ozone maintenance plan for the Kansas City area. These measures must be revised to conform to the requirements of the EPA ozone standard discussed above. As such, the costs associated with these activities cannot be estimated with any certainty at this time, but the Company believes such costs will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

On December 18, 2009, PEPL received an information request from the EPA under Section 114(a) of the Federal Clean Air Act. The information request sought certain documents and records pertaining to maintenance activities and capital projects associated with combustion emission sources located at eight compressor stations in Illinois and Indiana. The complete responses were provided in February 2010.

Gathering and Processing Segment Environmental Matters

Gathering and Processing Systems. SUGS is responsible for environmental remediation at certain sites on its gathering and processing systems, resulting primarily from releases of hydrocarbons. SUGS has a program to remediate such contamination. The remediation typically involves the management of contaminated soils and may involve remediation of groundwater. Activities vary with site conditions and locations, the extent and nature of the contamination, remedial requirements and complexity. The ultimate liability and total costs associated with these sites will depend upon many factors. These sites are generally managed in the normal course of business or operations. The Company believes the outcome of these matters will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Air Quality Control. SUGS is currently negotiating settlements to certain enforcement actions by the NMED and the TCEQ. The only currently assessed penalty amount is pending settlement and has been reduced by the NMED from \$247,000 to approximately \$51,000. The Company believes the outcome of this matter will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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Distribution Segment Environmental Matters

The Company is responsible for environmental remediation at various contaminated sites that are primarily associated with former *MGP*s and sites associated with the operation and disposal activities of former *MGP*s that produced a fuel known as “town gas”. Some byproducts of the historic manufactured gas process may be regulated substances under various federal and state environmental laws. To the extent these byproducts are present in soil or groundwater at concentrations in excess of applicable standards, investigation and remediation may be required. The sites include properties that are part of the Company’s ongoing operations, sites formerly owned or used by the Company and sites owned by third parties. Remediation typically involves the management of contaminated soils and may involve removal of old *MGP* structures and remediation of groundwater. Activities vary with site conditions and locations, the extent and nature of the contamination, remedial requirements, complexity and sharing of responsibility; some contamination may be unrelated to former *MGP*s. The ultimate liability and total costs associated with these sites will depend upon many factors. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, the Company could potentially be held responsible for contamination caused by other parties. In some instances, the Company may share liability associated with contamination with other PRPs and may also benefit from insurance policies or contractual indemnities that cover some or all of the cleanup costs. These sites are generally managed in the normal course of business or operations. The Company believes the outcome of these matters will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

North Attleboro MGP Site in Massachusetts (North Attleboro Site). In November 2003, the MADEP issued a Notice of Responsibility to New England Gas Company, acknowledging receipt of prior notifications and investigative reports submitted by New England Gas Company, following the discovery of suspected coal tar material at the North Attleboro Site. Subsequent sampling in the adjacent river channel revealed sediment impacts necessitating the investigation of off-site properties. Assessment activities continue at the remaining areas on-site and at the off-site properties. It is estimated that the Company will spend approximately \$9 million over the next several years to complete the investigation and remediation activities at the North Attleboro Site, as well as maintain the engineered barrier constructed in 2008 at the upland portion of the site. As New England Gas Company is allowed to recover environmental remediation expenditures through rates associated with its Massachusetts operations, the estimated costs associated with the North Attleboro Site have been included in *Regulatory assets* in the Condensed Consolidated Balance Sheet.

Litigation

The Company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, the Company has established reserves in order to provide for such matters. The Company believes the final disposition of these proceedings will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Mercury Release. In October 2004, New England Gas Company discovered that one of its facilities had been broken into and that mercury had been released both inside a building and in the immediate vicinity, including a parking lot in a neighborhood several blocks away. Mercury from the parking lot was apparently tracked into nearby apartment units, as well as other buildings. Cleanup was completed at the property and nearby apartment units. The vandals who broke into the facility were arrested and convicted. In October 2007, the U.S. Attorney in Rhode Island filed a three-count indictment against the Company in the U.S. District Court for the District of Rhode Island alleging violation of permitting requirements under the federal RCRA and notification requirements under the federal Emergency Planning and Community Right to Know Act (*EPCRA*) relating to the 2004 incident. Trial commenced on September 22, 2008, and on October 15, 2008, the jury acquitted Southern Union on the *EPCRA* count and one of the two RCRA counts and found the Company guilty on the other RCRA count. On October 2, 2009, the Court imposed a fine of \$6 million and a payment of \$12 million in community service. The sentence has been suspended while the Company pursues an appeal of the conviction and the sentence. The Company filed its Notice of Appeal to the U.S. Court of Appeals for the First Circuit on October 7, 2009. On February 16, 2010 the Company filed its Brief of the appeal with the First Circuit. The U.S. Attorney filed its opposing Brief on April 7, 2010. The Company filed a reply brief on June 10, 2010 and a Citation to Supplemental Authority on July 22, 2010. The Company believes the outcome of this matter will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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Will Price. Will Price, an individual, filed actions in U.S. District Court for the District of Kansas for damages against a number of companies, including Panhandle, alleging mis-measurement of natural gas volumes and Btu content, resulting in lower royalties to mineral interest owners. On September 19, 2009, the Court denied plaintiffs' request for class certification. Plaintiffs have filed a motion for reconsideration, which the Court denied on March 31, 2010. Panhandle believes that its measurement practices conformed to the terms of its FERC natural gas tariffs, which were filed with and approved by FERC. As a result, the Company believes that it has meritorious defenses to the Will Price lawsuit (including FERC-related affirmative defenses, such as the filed rate/tariff doctrine, the primary/exclusive jurisdiction of FERC, and the defense that Panhandle complied with the terms of its tariffs) and will continue to vigorously defend the case. The Company does not believe the outcome of the Will Price litigation will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

East End Project. The East End project involved the installation of a total of approximately 31 miles of pipeline in and around Tuscola, Illinois, Montezuma, Indiana and Zionsville, Indiana. Construction began in 2007 and was completed in the second quarter of 2008. PEPL is seeking recovery of each contractor's share of approximately \$50 million of cost overruns from the construction contractor, an inspection contractor and the construction management contractor for improper welding, inspection and construction management of the East End Project. Certain of the contractors have filed counterclaims against PEPL for alleged underpayments of approximately \$18 million. The matter is pending in state court in Harris County, Texas. Trial is set for September 2010. The Company does not believe the outcome of this case will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Energy Resources Technology. Energy Resources Technology (*ERT*) filed suit against Sea Robin on November 9, 2009 alleging breach of contract due to delays in repairs of damages to Sea Robin's subsea pipeline suffered during Hurricane Ike. The parties have executed a settlement. The settlement did not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Other Commitments and Contingencies

Retirement of Debt Obligations. See Note 7 – *Debt Obligations – Retirement of 2010 Debt Obligations* for information related to the Company's debt maturing in 2010.

Regulation and Rates. See Note 14 – *Regulation and Rates* for potential contingent matters associated with the Company's regulated operations.

13. Reportable Segments

The Company's reportable business segments are organized based on the way internal managerial reporting presents the results of the Company's various businesses to its executive management for use in determining the performance of the businesses and in allocating resources to the businesses, as well as based on similarities in economic characteristics, products and services, types of customers, methods of distribution and regulatory environment. The Company operates in three reportable segments: Transportation and Storage, Gathering and Processing, and Distribution.

The remainder of the Company's business operations, which do not meet the quantitative threshold for segment reporting, are presented as Corporate and other activities. Corporate and other activities consist of unallocated corporate costs, a wholly-owned subsidiary with ownership interests in electric power plants, and other miscellaneous activities.

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The Company evaluates operational and financial segment performance based on several factors, of which the primary financial measure is EBIT, a non-GAAP measure. The Company defines EBIT as *Net earnings available for common stockholders*, adjusted for the following:

- items that do not impact net earnings, such as extraordinary items, discontinued operations and the impact of changes in accounting principles;
- income taxes;
- interest;
- dividends on preferred stock; and
- loss on extinguishment of preferred stock.

EBIT may not be comparable to measures used by other companies and should be considered in conjunction with net earnings and other performance measures such as operating income or net cash flows provided by operating activities.

Sales of products or services between segments are billed at regulated rates or at market rates, as applicable. There were no material intersegment revenues during the three- and six-month periods ended June 30, 2010 and 2009.

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The following tables set forth certain selected financial information for the Company's segments for the periods presented or at the dates indicated.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			
Revenues from external customers:				
Transportation and Storage	\$ 187,090	\$ 172,615	\$ 373,765	\$ 364,910
Gathering and Processing	282,707	175,084	543,567	343,389
Distribution	99,711	104,532	407,972	426,556
Total segment operating revenues	569,508	452,231	1,325,304	1,134,855
Corporate and other activities	3,588	794	6,786	2,033
Total consolidated revenues from external customers	<u>\$ 573,096</u>	<u>\$ 453,025</u>	<u>\$ 1,332,090</u>	<u>\$ 1,136,888</u>
Depreciation and amortization:				
Transportation and Storage	\$ 30,896	\$ 28,483	\$ 60,073	\$ 56,346
Gathering and Processing	17,971	16,543	35,291	32,956
Distribution	7,967	7,808	15,923	15,479
Total segment depreciation and amortization	56,834	52,834	111,287	104,781
Corporate and other activities	725	526	1,466	1,049
Total depreciation and amortization expense	<u>\$ 57,559</u>	<u>\$ 53,360</u>	<u>\$ 112,753</u>	<u>\$ 105,830</u>
Earnings from unconsolidated investments:				
Transportation and Storage	\$ 25,748	\$ 21,984	\$ 42,994	\$ 37,768
Gathering and Processing	1,395	498	2,380	1,026
Corporate and other activities	399	212	746	473
	<u>\$ 27,542</u>	<u>\$ 22,694</u>	<u>\$ 46,120</u>	<u>\$ 39,267</u>
Segment performance:				
Transportation and Storage EBIT	\$ 111,246	\$ 97,922	\$ 213,671	\$ 191,144
Gathering and Processing EBIT	40,526	(1,523)	47,081	(12,956)
Distribution EBIT	6,865	(291)	35,710	31,347
Total segment EBIT	158,637	96,108	296,462	209,535
Corporate and other activities	297	(628)	617	187
Interest expense	55,436	48,365	106,312	96,735
Federal and state income tax expense	28,609	13,835	59,418	33,450
Net earnings	74,889	33,280	131,349	79,537
Preferred stock dividends	2,170	2,170	4,341	4,341
Loss on extinguishment of preferred stock	3,295	-	3,295	-
Net earnings available for common stockholders	<u>\$ 69,424</u>	<u>\$ 31,110</u>	<u>\$ 123,713</u>	<u>\$ 75,196</u>

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	June 30, 2010	December 31, 2009
(In thousands)		
Total assets:		
Transportation and Storage	\$ 5,081,314	\$ 5,138,042
Gathering and Processing	1,688,072	1,666,935
Distribution	1,045,143	1,109,492
Total segment assets	7,814,529	7,914,469
Corporate and other activities	174,586	160,605
Total consolidated assets	\$ 7,989,115	\$ 8,075,074

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
(In thousands)				
Expenditures for long-lived assets:				
Transportation and Storage	\$ 25,886	\$ 52,176	\$ 56,257	\$ 129,888
Gathering and Processing	15,823	5,300	41,706	16,518
Distribution	9,151	16,706	16,255	23,268
Total segment expenditures for				
long-lived assets	50,860	74,182	114,218	169,674
Corporate and other activities	4,166	10,087	6,281	17,003
Total consolidated expenditures for				
long-lived assets (1)	\$ 55,026	\$ 84,269	\$ 120,499	\$ 186,677

(1) Includes net period changes in capital accruals totaling \$7.9 million and \$10.4 million for the three-month periods ended June 30, 2010 and 2009, respectively. Includes net period changes in capital accruals totaling \$(7.9) million and \$20.3 million for the six-month periods ended June 30, 2010 and 2009, respectively.

14. Regulation and Rates

Sea Robin. On August 31, 2009, Sea Robin filed with FERC to implement a rate surcharge to recover Hurricane Ike-related costs not otherwise recovered from insurance proceeds or from other third parties, with initial accumulated net costs of approximately \$38 million included in the filing. On September 30, 2009, FERC approved the surcharge to be effective March 1, 2010, subject to refund and the outcome of hearings with FERC to explore issues set forth in certain customer protests, including the costs to be included and the applicability of the surcharge to discounted contracts. On March 1, 2010, Sea Robin submitted its semiannual filing related to the surcharge which reflected updated costs incurred of \$60 million, net of insurance recoveries, which were reflected in the surcharge rate effective April 1, 2010, subject to refund. A hearing was held in July 2010. The ultimate outcome of this matter is pending a FERC decision.

Missouri Gas Energy. On April 2, 2009, Missouri Gas Energy made a filing with the MPSC seeking to implement an annual base rate increase of approximately \$32.4 million. On February 10, 2010, the MPSC issued its Report and Order in this case, authorizing a revenue increase of \$16.2 million and approving distribution rate structures for Missouri Gas Energy's residential and small general service customers (which comprised approximately 99 percent of its total customers and approximately 91 percent of its net operating revenues at the time the rates went into effect) that eliminate the impact of weather and conservation for residential and small general service margin revenues and related earnings in Missouri. The new rates became effective February 28, 2010. Judicial review of the MPSC's Report and Order is being sought by the Office of the Public Counsel, with respect to rate structure issues, and by Missouri Gas Energy, with respect to cost of capital

issues. Those judicial review proceedings are not expected to be complete until 2011, and the results of those judicial review proceedings are not expected to have a material adverse impact on the Company's consolidated financial position, results of operations or cash flows.

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New England Gas Company. On November 13, 2009, New England Gas Company made a filing with the MDPU, seeking recovery of approximately \$1.7 million, or 50 percent of the amount by which its 2008 earnings deficiency fell below a return on equity of 7 percent. This filing was made pursuant to New England Gas Company's rate settlement approved by the MDPU in 2007. By order issued in February 2010, the MDPU will hold this matter in abeyance pending judicial resolution of the issues pertaining to an appeal of a similar filing regarding an earnings deficiency in 2007.

15. Stockholders' Equity

Dividends. The table below presents the amount of cash dividends declared and paid on the dates indicated:

<u>Shareholder Record Date</u>	<u>Date Paid</u>	<u>Amount Per Share</u>	<u>Amount Paid</u>
(In thousands)			
June 25, 2010	July 9, 2010	\$ 0.15	\$ 18,672
March 26, 2010	April 9, 2010	0.15	18,665

16. Other Income and Expense Items

Other, net income for the six-month period ended June 30, 2009 totaling \$6.1 million consists primarily of \$5.7 million of settlements with an insurance company related to certain environmental matters. During 2009, the Company entered into a settlement agreement with an insurance company releasing the insurance company from certain potential future environmental claim obligations.

17. Redemption of Preferred Stock

As of June 30, 2010 and December 31, 2009, the Company had outstanding 4,600,013 Depository Shares, each representing a 1/10th interest in a share of its 7.55% Noncumulative Preferred Stock, Series A (Liquidation Preference \$250 Per Share) (*Preferred Stock*) and having an aggregate value of approximately \$115 million. As of June 30, 2010 and December 31, 2009, six million shares of Preferred Stock were authorized, with approximately 460,000 shares of Preferred Stock issued and outstanding.

On June 29, 2010, the Company announced that it had called for redemption on July 30, 2010 all outstanding Depository Shares representing interests in its Preferred Stock at \$25 per share plus accrued and unpaid dividends. Accordingly, the Company reclassified the \$115 million balance previously reported as *Preferred stock* in the Condensed Consolidated Balance Sheet to *Current liabilities – Preferred stock - redeemable* and recognized a \$3.3 million non-cash loss adjustment charged to *Retained earnings* related to the write-off of issuance costs that reduced *Net earnings available for common stockholders*.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to the accompanying unaudited interim condensed consolidated financial statements and notes to help provide an understanding of the Company's financial condition, changes in financial condition and results of operations. The following section includes an overview of the Company's business as well as recent developments that management of the Company believes are important in understanding its results of operations and to anticipate future trends in those operations. Subsequent sections include an analysis of the Company's results of operations on a consolidated basis and on a segment basis for each reportable segment, and information relating to the Company's liquidity and capital resources, quantitative and qualitative disclosures about market risk and other matters.

OVERVIEW

The Company's business purpose is to provide gathering, treating, processing, transportation, storage and distribution of natural gas and NGL in a safe, efficient and dependable manner. The Company's reportable business segments are determined based on the way internal managerial reporting presents the results of the Company's various businesses to its executive management for use in determining the performance of the businesses and in allocating resources to the businesses as well as based on similarities in economic characteristics, products and services, types of customers, methods of distribution and regulatory environment. The Company operates in three reportable segments: Transportation and Storage, Gathering and Processing, and Distribution.

RESULTS OF OPERATIONS

Overview

The Company evaluates operational and financial segment performance using several factors, of which the primary financial measure is EBIT, which is a non-GAAP measure. For additional information related to the Company's use of EBIT as its primary financial measure for its reportable segments, see *Part I, Item I. Financial Statements (Unaudited), Note 13 – Reportable Segments*.

The following table provides a reconciliation of EBIT (by segment) to *Net earnings available for common stockholders* for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
EBIT:				
Transportation and storage segment	\$ 111,246	\$ 97,922	\$ 213,671	\$ 191,144
Gathering and processing segment	40,526	(1,523)	47,081	(12,956)
Distribution segment	6,865	(291)	35,710	31,347
Corporate and other activities	297	(628)	617	187
Total EBIT	158,934	95,480	297,079	209,722
Interest	55,436	48,365	106,312	96,735
Earnings before income taxes	103,498	47,115	190,767	112,987
Federal and state income taxes	28,609	13,835	59,418	33,450
Net earnings	74,889	33,280	131,349	79,537
Preferred stock dividends	2,170	2,170	4,341	4,341
Loss on extinguishment of preferred stock	3,295	-	3,295	-
Net earnings available for common stockholders	\$ 69,424	\$ 31,110	\$ 123,713	\$ 75,196

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. The Company's \$38.3 million increase in *Net earnings available for common stockholders* was primarily due to:

- Higher EBIT contribution of \$42 million from the Gathering and Processing segment primarily resulting from higher operating revenues of \$78.3 million, excluding hedging gains and losses, attributable to higher market-driven realized average natural gas and NGL prices and the impact of \$29.3 million of higher gains from hedging activities, partially offset by higher market-driven natural gas and NGL purchase costs of \$62.1 million in 2010 versus 2009;
- Higher EBIT contributions of \$13.3 million from the Transportation and Storage segment mainly due to higher revenues of \$20.8 million largely attributable to the LNG terminal infrastructure enhancement construction project placed in service in March 2010, partially offset by lower transportation reservation revenues of \$5.4 million primarily due to lower average rates realized on short-term firm capacity; and
- Higher EBIT contribution of \$7.2 million from the Distribution segment primarily due to higher net operating revenues at Missouri Gas Energy of \$6.4 million largely attributable to the impact of the new rates effective February 28, 2010.

These improvements in earnings were partially offset by:

- Higher interest expense of \$7.1 million primarily attributable to the impact of the lower level of interest costs capitalized attributable to lower average capital project balances outstanding;
- Higher federal and state income tax expense of \$14.8 million primarily due to higher pre-tax earnings of \$56.4 million in 2010; and
- Impact of a \$3.3 million loss recorded in the 2010 period related to the Company's call for redemption of all of its approximately \$115 million of outstanding Preferred Stock.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. The Company's \$48.5 million increase in *Net earnings available for common stockholders* was primarily due to:

- Higher EBIT contribution of \$60 million from the Gathering and Processing segment primarily resulting from higher operating revenues of \$166.6 million, excluding hedging gains and losses, attributable to higher market-driven realized average natural gas and NGL prices and the impact of \$33.6 million of higher gains from hedging activities, partially offset by higher market-driven natural gas and NGL purchase costs of \$133.5 million in 2010 versus 2009;
- Higher EBIT contribution of \$22.5 million from the Transportation and Storage segment mainly due to higher revenues of \$25.3 million largely attributable to the LNG terminal infrastructure enhancement construction project placed in service in March 2010, partially offset by lower interruptible parking revenues of \$16.1 million due to less favorable market conditions and the impact of a provision for repair and abandonment costs of \$16.1 million in 2009 for damages to offshore assets resulting from Hurricane Ike; and
- Higher EBIT contribution of \$4.3 million from the Distribution segment primarily due to higher net operating revenues at Missouri Gas Energy of \$7.7 million largely attributable to the impact of the new rates effective February 28, 2010, partially offset by lower revenues of \$1.1 million at New England Gas Company primarily due to warmer weather in the 2010 period.

These improvements in earnings were partially offset by:

- Higher interest expense of \$9.6 million primarily attributable to the impact of the lower level of interest costs capitalized attributable to lower average capital project balances outstanding and higher net debt balances outstanding on the Company's fixed-rate debt obligations;
- Higher federal and state income tax expense of \$26 million primarily due to higher pre-tax earnings of \$77.8 million in 2010 and the impact of \$4.2 million of higher income tax expense resulting from the elimination of the Medicare Part D tax subsidy in the PPACA legislation signed into law in March 2010; and
- Impact of a \$3.3 million loss recorded in the 2010 period related to the Company's call for redemption of all of its approximately \$115 million of outstanding Preferred Stock.

Business Segment Results

Transportation and Storage Segment. The Transportation and Storage segment is primarily engaged in the interstate transportation and storage of natural gas in the Midwest and from the Gulf Coast to Florida, and LNG terminalling and regasification services. The Transportation and Storage segment's operations, conducted through Panhandle and Florida Gas, are regulated as to rates and other matters by FERC. Demand for natural gas transmission on Panhandle's pipeline systems is seasonal, with the highest throughput and a higher portion of annual total operating revenues and EBIT occurring in the traditional winter heating season, which occurs during the first and fourth calendar quarters. Florida Gas' pipeline system experiences the highest throughput in the traditional summer cooling season during the second and third calendar quarters, primarily due to increased natural gas-fired electric generation loads.

The Company's business within the Transportation and Storage segment is conducted through both short- and long-term contracts with customers. Shorter-term contracts, both firm and interruptible, tend to have a greater impact on the volatility of revenues. Short-term and long-term contracts are affected by changes in market conditions and competition with other pipelines, changing supply sources and volatility in natural gas prices and basis differentials. Since the majority of the revenues within the Transportation and Storage segment are related to firm capacity reservation charges, which customers pay whether they utilize their contracted capacity or not, volumes transported do not have as significant an impact on revenues over the short-term. However, longer-term demand for capacity may be affected by changes in the customers' actual and anticipated utilization of their contracted capacity and other factors.

The Company's regulated transportation and storage businesses periodically file (or can be required to file) for changes in their rates, which are subject to approval by FERC. Although a significant portion of the Company's contracts are discounted or negotiated rate contracts, changes in rates and other tariff provisions resulting from these regulatory proceedings have the potential to impact negatively the Company's results of operations and financial condition.

The following table illustrates the results of operations applicable to the Company's Transportation and Storage segment for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Operating revenues	\$ 187,090	\$ 172,615	\$ 373,765	\$ 364,910
Operating, maintenance and general	61,828	59,981	124,906	138,175
Depreciation and amortization	30,896	28,483	60,073	56,346
Taxes other than on income and revenues	8,897	8,313	18,125	17,238
Total operating income	85,469	75,838	170,661	153,151
Earnings from unconsolidated investments	25,748	21,984	42,994	37,768
Other income, net	29	100	16	225
EBIT	<u>\$ 111,246</u>	<u>\$ 97,922</u>	<u>\$ 213,671</u>	<u>\$ 191,144</u>

Operating information:

Panhandle natural gas volumes transported (TBtu)	333	376	701	803
Florida Gas natural gas volumes transported (TBtu) (1)	214	216	403	403

(1) Represents 100 percent of natural gas volumes transported by Florida Gas versus the Company's effective equity ownership interest of 50 percent.

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. The \$13.3 million EBIT improvement in the three-month period ended June 30, 2010 versus the same period in 2009 was primarily due to a higher EBIT contribution from Panhandle totaling \$9.5 million and higher equity earnings of \$3.8 million, mainly from the Company's unconsolidated investment in Citrus.

Panhandle's \$9.5 million EBIT improvement was primarily due to:

- Higher operating revenues of \$14.5 million primarily due to:
 - Higher LNG revenues of \$20.8 million largely attributable to the LNG terminal infrastructure enhancement construction project placed in service in March 2010;
 - Higher transportation commodity revenues of \$1.3 million primarily due to higher volumes flowing on Sea Robin in 2010 versus in 2009, the 2009 volumes having been adversely impacted by Hurricane Ike;
 - Lower transportation reservation revenues of \$5.4 million primarily due to lower average rates realized on short-term firm capacity on PEPL; and
 - Lower interruptible parking revenues of \$2.7 million due to less favorable market conditions.

The operating revenue improvement was partially offset by:

- Higher operating, maintenance and general expenses of \$1.8 million in 2010 versus 2009 primarily attributable to:
 - A \$4 million increase in outside service costs related to field operations primarily attributable to the timing of ongoing in-line pipeline integrity testing costs;
 - A \$1.3 million increase in electric power costs associated with the LNG terminal operations primarily due to the LNG terminal infrastructure enhancement construction project placed in service in March 2010 and a higher number of LNG cargoes during 2010;
 - A \$1.6 million increase in legal costs primarily due to ongoing litigation;
 - Impact of a net reduction of \$3.5 million in the 2010 period in the repair and abandonment cost provision for Hurricanes Ike and Gustav resulting from favorable weather conditions experienced and increased project efficiencies; and
 - A \$1 million decrease in contract storage primarily due to a contract termination in March 2010; and
- Increased depreciation and amortization expense of \$2.4 million in 2010 versus 2009 due to a \$575.4 million increase in property, plant and equipment placed in service after June 30, 2009. Depreciation and amortization expense is expected to continue to increase primarily due to significant capital additions, including capitalized costs associated with the LNG terminal infrastructure enhancement construction project placed in service in March 2010.

Equity earnings, mainly attributable to the Company's unconsolidated investment in Citrus, were higher by \$3.8 million in 2010 versus 2009 primarily due to the following items, adjusted where applicable to reflect the Company's proportional equity share:

- Higher other income of \$7.5 million largely driven by higher equity AFUDC resulting from Florida Gas' Phase VIII Expansion project. Due to the increasing levels of capitalized project costs, AFUDC is expected to continue to trend higher until completion of the Phase VIII Expansion project;
- Higher operating revenues of \$1.9 million primarily due to higher rates associated with the Florida Gas rate case filing effective April 1, 2010 and higher short-term firm reservation revenues, partially offset by the provision for an estimated rate refund related to the Florida Gas rate case filing;
- Higher debt interest cost of \$500,000 primarily due to interest on the \$600 million 7.90% Senior Notes issued in May 2009 and a higher rate on the \$500 million construction and term loan, which was converted to a fixed rate of 9.393 percent in October 2009, partially offset by higher capitalized debt AFUDC, primarily due to higher Phase VIII Expansion project capital expenditures;
- Higher operating expenses of \$1.2 million primarily due to higher overall costs experienced in 2010 applicable to corporate service costs, outside services costs and other operating costs;
- Higher depreciation expense of \$1 million primarily due to increased property, plant and equipment placed in service after June 30, 2009; and
- Higher income taxes of \$2.6 million primarily due to higher pretax earnings.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. The \$22.5 million EBIT improvement in the six-month period ended June 30, 2010 versus the same period in 2009 was primarily due to a higher EBIT contribution from Panhandle totaling \$17.3 million and higher equity earnings of \$5.2 million, principally from the Company's unconsolidated investment in Citrus.

Panhandle's \$17.3 million EBIT improvement was primarily due to:

- Lower operating, maintenance and general expenses of \$13.3 million in 2010 versus 2009 primarily attributable to:
 - Impact of a provision for repair and abandonment costs of \$16.1 million recorded in 2009 for damages to offshore assets resulting from Hurricane Ike and a reduction in 2010 in the repair and abandonment provision for previous hurricane damages of \$3.5 million primarily due to favorable weather conditions experienced and increased project efficiencies;
 - A \$2.7 million decrease in fuel tracker costs primarily due to a net under-recovery in 2009 versus a net over-recovery in 2010;
 - A \$4.6 million increase in outside service costs for field operations primarily attributable to offshore operations and the timing of ongoing in-line pipeline integrity testing costs;
 - A \$2.5 million increase in administrative outside service costs primarily due to legal costs associated with ongoing litigation; and
 - Higher allocated corporate services costs of \$2.5 million primarily due to higher short- and long-term incentive compensation;
- Higher operating revenues of \$8.9 million primarily due to:
 - Higher LNG revenues of \$25.3 million primarily due to the LNG terminal infrastructure enhancement construction project placed in service in March 2010;
 - Higher transportation commodity revenues of \$3.1 million primarily due to higher volumes flowing on Sea Robin in 2010 versus in 2009, the 2009 volumes having been adversely impacted by Hurricane Ike;
 - Lower interruptible parking revenues of \$16.1 million due to less favorable market conditions; and
 - Lower transportation reservation revenues of \$4.7 million primarily due to lower average rates realized on short-term firm capacity on PEPL, in addition to lower average rates realized on Trunkline; and
- Increased depreciation and amortization expense of \$3.7 million in 2010 versus 2009 due to a \$575.4 million increase in property, plant and equipment placed in service after June 30, 2009. Depreciation and amortization expense is expected to continue to increase primarily due to significant capital additions, including capitalized costs associated with the LNG terminal infrastructure enhancement construction project placed in service in March 2010.

Equity earnings, mainly attributable to the Company's unconsolidated investment in Citrus, were higher by \$5.2 million in 2010 versus 2009 primarily due to the following items, adjusted where applicable to reflect the Company's proportional equity share:

- Higher other income of \$14.7 million largely driven by higher equity AFUDC resulting from Florida Gas' Phase VIII Expansion project. Due to the increasing levels of capitalized project costs, AFUDC is expected to continue to trend higher until completion of the Phase VIII Expansion project;
- Higher operating revenues of \$3.2 million primarily due to higher rates associated with the Florida Gas rate case filing effective April 1, 2010 and higher short-term firm reservation revenues, partially offset by the provision for an estimated rate refund;
- Higher debt interest cost of \$3.9 million primarily due to interest on the \$600 million 7.90% Senior Notes issued in May 2009 and a higher rate on the \$500 million construction and term loan which was converted to a fixed rate of 9.393 percent in October 2009, partially offset by higher capitalized debt AFUDC, primarily due to higher Phase VIII Expansion project capital expenditures;
- Higher operating expenses of \$2.1 million primarily due to higher overall costs experienced in 2010 applicable to corporate service costs, outside services costs and other operating costs;
- Higher depreciation expense of \$2 million primarily due to increased property, plant and equipment placed in service after June 30, 2009; and
- Higher income taxes of \$3.6 million primarily due to higher pretax earnings.

See *Part I, Item I. Financial Statements (Unaudited), Note 5 – Unconsolidated Investments – Citrus* for additional information related to Florida Gas.

Gathering and Processing Segment. The Gathering and Processing segment is primarily engaged in connecting wells of natural gas producers to its gathering system, treating natural gas to remove impurities to meet pipeline quality specifications, processing natural gas for the removal of NGL, and redelivering natural gas and NGL to a variety of markets. Its operations are conducted through SUGS. SUGS' gas supply agreements primarily include fee-based, percent-of-proceeds, minimum margin keep-whole, conditioning fee and wellhead purchase contracts. These gas supply contracts vary in length from month-to-month to a number of years, with many of the contracts having a term of three to five years. SUGS' primary sales customers include producers, power generating companies, utilities, energy marketers, and industrial end-users located primarily in the Gulf Coast and southwestern United States. SUGS' business is not generally seasonal in nature.

The majority of SUGS' gross margin is derived from the sale of NGL and natural gas equity volumes. The prices of NGL and natural gas are subject to fluctuations in response to changes in supply, demand, market uncertainty and a variety of factors beyond the Company's control. The Company monitors these risks and manages the associated commodity price risk using both economic and accounting hedge derivative instruments. For additional information related to the Company's commodity price risk management, see *Part I, Item I. Financial Statements (Unaudited), Note 10 – Derivative Instruments and Hedging Activities – Commodity Contracts – Gathering and Processing Segment* and *Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – Commodity Price Risk – Gathering and Processing Segment*.

The following table presents the results of operations applicable to the Company's Gathering and Processing segment for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Operating revenues, excluding impact of commodity derivative instruments	\$ 255,917	\$ 177,624	\$ 522,627	\$ 356,001
Realized and unrealized commodity derivatives	26,790	(2,540)	20,940	(12,612)
Operating revenues	282,707	175,084	543,567	343,389
Cost of gas and other energy (1)	(205,792)	(141,269)	(422,249)	(284,398)
Gross margin (2)	76,915	33,815	121,318	58,991
Operating, maintenance and general	18,489	18,123	38,363	37,785
Depreciation and amortization	17,971	16,543	35,291	32,956
Taxes other than on income and revenues	1,331	1,166	2,965	2,506
Total operating income	39,124	(2,017)	44,699	(14,256)
Earnings from unconsolidated investments	1,395	498	2,380	1,026
Other expense, net	7	(4)	2	274
EBIT	\$ 40,526	\$ (1,523)	\$ 47,081	\$ (12,956)

Operating Statistics:

Volumes				
Avg natural gas processed (MMBtu/d)	436,178	407,777	425,052	414,304
Avg NGL produced (gallons/d)	1,483,284	1,394,504	1,426,420	1,382,674
Avg natural gas wellhead volumes (MMBtu/d)	545,105	600,358	536,927	589,518
Natural gas sales (MMBtu) (3)	20,572,042	23,671,746	40,381,059	45,228,917
NGL sales (gallons) (3)	163,849,470	144,398,030	306,449,086	310,489,377
Average Pricing				
Realized natural gas (\$/MMBtu) (4)	\$ 4.07	\$ 3.06	\$ 4.58	\$ 3.27
Realized NGL (\$/gallon) (4)	1.04	0.71	1.08	0.65
Natural Gas Daily WAHA (\$/MMBtu)	4.13	3.11	4.59	3.26
Natural Gas Daily El Paso (\$/MMBtu)	4.04	3.02	4.52	3.17
Estimated plant processing spread (\$/gallon)	0.61	0.41	0.64	0.35

- (1) *Cost of natural gas and other energy* consists of natural gas and NGL purchase costs and producer and other fees. Gross margin consists of *Operating revenues* less *Cost of natural gas and other energy*. The Company believes that this measure is more meaningful for understanding and analyzing the Gathering and Processing segment's operating results for the periods presented because commodity costs are a significant factor in the determination of the segment's revenues.
- Volumes processed by SUGS include volumes sold under various buy-sell arrangements. For the three-month periods ended June 30, 2010 and 2009, the Company's operating revenues and related volumes attributable to its buy-sell arrangements for natural gas totaled \$11.3 million and \$9.8 million, and 2,388,000 MMBtus and 3,088,000 MMBtus, respectively. The Company's operating revenues and related volumes for the three-month periods ended June 30, 2010 and 2009 attributable to its buy-sell arrangements for NGL totaled \$30.8 million and \$14.6 million, and 32,418,000 gallons and 22,280,000 gallons, respectively. For the six-month periods ended June 30, 2010 and 2009, the Company's operating revenues and related volumes attributable to its buy-sell arrangements for natural gas totaled \$24.6 million and \$21.5 million, and 4,749,000 MMBtus and 6,344,000 MMBtus, respectively. The Company's operating revenues and related volumes for the six-month periods ended June 30, 2010 and 2009 attributable to its buy-sell arrangements for NGL totaled \$57 million and \$26.5 million, and 58,359,000 gallons and 43,114,000 gallons, respectively.
- (4) Excludes impact of realized and unrealized commodity derivative gains and losses detailed in the above EBIT presentation.

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. The \$42 million EBIT improvement in the three-month period ended June 30, 2010 versus the same period in 2009 was primarily due to the following items:

- Higher gross margin of \$43.1 million primarily as the result of:
 - Higher operating revenues of \$78.3 million largely attributable to higher market-driven realized average natural gas and NGL prices (unadjusted for the impact of realized and unrealized commodity derivative gains and losses) of \$4.07 per MMBtu and \$1.04 per gallon in the 2010 period versus \$3.06 per MMBtu and \$0.71 per gallon in the 2009 period, respectively, partially offset by the impact of higher fractionation fees related to the change in fractionation provider in 2010;
 - Higher market-driven natural gas and NGL purchase costs of \$62.1 million in the 2010 period versus the 2009 period; and
 - Impact of a net hedging gain of \$26.8 million in the 2010 period versus a net hedging loss of \$2.5 million in the 2009 period (which includes the impact of \$22.3 million of unrealized gains recorded in 2010); and
- Higher depreciation and amortization expense of \$1.4 million primarily attributable to a \$48.4 million increase in property, plant and equipment placed in service after June 30, 2009.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. The \$60 million EBIT improvement in the six-month period ended June 30, 2010 versus the same period in 2009 was primarily due to the following items:

- Higher gross margin of \$62.3 million primarily as the result of:
 - Higher operating revenues of \$166.6 million largely attributable to higher market-driven realized average natural gas and NGL prices (unadjusted for the impact of realized and unrealized commodity derivative gains and losses) of \$4.58 per MMBtu and \$1.08 per gallon in the 2010 period versus \$3.27 per MMBtu and \$0.65 per gallon in the 2009 period, respectively, partially offset by the impact of lower system volumes as a result of well freeze-offs that occurred in early 2010 and higher fractionation fees related to the change in fractionation provider in 2010;
 - Higher market-driven natural gas and NGL purchase costs of \$133.5 million in the 2010 period versus the 2009 period; and
 - Impact of a net hedging gain of \$20.9 million in the 2010 period versus a net hedging loss of \$12.6 million in the 2009 period (which includes the impact of \$16.7 million of unrealized gains recorded in 2010);
- Higher depreciation and amortization expense of \$2.3 million primarily attributable to a \$48.4 million increase in property, plant and equipment placed in service after June 30, 2009; and
- Higher equity earnings from unconsolidated investments of \$1.4 million primarily due to increased fee-based revenues resulting from higher throughput volumes in the 2010 period versus the 2009 period at the Grey Ranch natural gas treatment facility.

Distribution Segment. The Distribution segment is primarily engaged in the local distribution of natural gas in Missouri and Massachusetts through its Missouri Gas Energy and New England Gas Company operating divisions, respectively. The Distribution segment's operations are regulated by the public utility regulatory commissions of the states in which each operates. The Distribution segment's operations have historically been sensitive to weather and seasonal in nature, with the primary impact on operating revenues, which include pass through gas purchase costs that are seasonally impacted, occurring in the traditional winter heating season during the first and fourth calendar quarters. On February 10, 2010, the MPSC issued an order approving continued use of a distribution rate structure, first effective in April 2007, that eliminates the impact of weather and conservation for Missouri Gas Energy's residential margin revenues and related earnings and approving expanded use of that distribution rate structure for Missouri Gas Energy's small general service customers. Together, Missouri Gas Energy's residential and small general service customers comprised 99 percent of its total customers and approximately 91 percent of its net operating revenues at the time the rates went into effect. The new rates became effective February 28, 2010.

The following table illustrates the results of operations applicable to the Company's Distribution segment for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net operating revenues (1)	\$ 54,955	\$ 49,246	\$ 124,239	\$ 117,434
Operating, maintenance and general	36,558	37,692	65,877	66,921
Depreciation and amortization	7,967	7,808	15,923	15,479
Taxes other than on income and revenues	3,271	3,790	6,512	6,882
Total operating income				
(loss)	7,159	(44)	35,927	28,152
Other income (expenses), net	(294)	(247)	(217)	3,195
EBIT	<u>\$ 6,865</u>	<u>\$ (291)</u>	<u>\$ 35,710</u>	<u>\$ 31,347</u>
Operating Information:				
Natural Gas sales volumes (MMcf)	7,285	9,166	40,842	38,806
Natural Gas transported volumes (MMcf)	5,613	5,617	14,756	13,966
Weather – Degree Days: (2)				
Missouri Gas Energy service territories	287	459	3,174	2,953
New England Gas Company service territories	777	777	3,375	3,747

(1) Operating revenues for the Distribution segment are reported net of *Cost of natural gas and other energy* and *Revenue-related taxes*, which are pass-through costs.

(2) "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.

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. The \$7.2 million EBIT improvement in the three-month period ended June 30, 2010 versus the same period in 2009 was primarily due to:

- Higher net operating revenues of \$5.7 million primarily due to \$6.4 million of higher net operating revenues at Missouri Gas Energy largely attributable to the impact of the new rates effective February 28, 2010, which eliminated the impact of weather and conservation for the majority of Missouri Gas Energy's revenues; and
- Lower operating, maintenance and general expenses of \$1.1 million primarily due to a \$1.5 million settlement for a previous environmental cost reimbursement claim made by the Company.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. The \$4.4 million EBIT improvement in the six-month period ended June 30, 2010 versus the same period in 2009 was primarily due to:

- Higher net operating revenues of \$6.8 million primarily due to \$7.7 million of higher net operating revenues at Missouri Gas Energy largely attributable to the impact of the new rates effective February 28, 2010, which eliminated the impact of weather and conservation for the majority of Missouri Gas Energy's revenues. This revenue increase was partially offset by lower revenues of \$1.1 million at New England Gas Company primarily due to warmer weather in the 2010 period;
- Lower other income, net, of \$3.4 million primarily due to a \$3.5 million settlement in 2009 with an insurance company that released it from certain potential future environmental claim obligations; and
- Lower operating, maintenance and general expenses of \$1 million primarily due to a \$1.5 million settlement for a previous environmental cost reimbursement claim made by the Company.

Corporate and Other Activities.

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. The EBIT improvement of \$900,000 was primarily due to a higher net sales margin contribution of \$2.1 million from PEI Power Corporation largely due to increased electric generation attributable to higher landfill gas volumes, partially offset by higher fuel costs of \$700,000 resulting from the increased flow of landfill gas.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. The EBIT improvement of \$400,000 was primarily due to:

- A higher net sales margin contribution of \$3.3 million from PEI Power Corporation largely due to increased electric generation primarily attributable to higher landfill gas volumes, partially offset by higher fuel costs of \$1 million resulting from the increased flow of landfill gas; and
- Impact of a settlement gain of \$1.9 million in March 2009 with an insurance company related to certain environmental matters.

Interest Expense

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. Interest expense was \$7.1 million higher in the period ended June 30, 2010 versus the same period in 2009 primarily due to:

- Higher interest expense of \$6.1 million primarily due to the impact of the lower level of interest costs capitalized attributable to lower average capital project balances outstanding in 2010 compared to 2009 largely resulting from the Trunkline LNG infrastructure enhancement project being placed in service in March 2010;
- Higher interest expense of \$500,000 primarily due to the impact of higher debt issuance cost amortization in 2010 related to additional issuance cost associated with the \$150 million term loan issued in August 2009 and an increase in the commitment availability of the credit facilities in February 2010 from \$400 million to \$550 million, and lower debt premium amortizations due to repayments of the related debt in 2009;
- Higher interest expense of \$300,000 associated with borrowings under the Company's credit facilities primarily due to higher average interest rates and higher average outstanding balances in 2010 compared to 2009; and
- Higher net interest expense of \$300,000 primarily due to higher outstanding debt balances from the \$150 million 8.125% Senior Notes issued in June 2009 and the \$150 million term loan issued in August 2009, partially offset by lower interest expense resulting from the repayment of the \$60.6 million 6.50% Senior Notes in July 2009, the \$100 million 6.089% Senior Notes in February 2010 and the \$40.5 million 8.25% Senior Notes in April 2010.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. Interest expense was \$9.6 million higher in the period ended June 30, 2010 versus the same period in 2009 primarily due to:

- Higher interest expense of \$5.9 million primarily due to the impact of the lower level of interest costs capitalized attributable to lower average capital project balances outstanding in 2010 compared to 2009 largely resulting from the Trunkline LNG infrastructure enhancement project being placed in service in March 2010;
- Higher net interest expense of \$3 million primarily due to higher outstanding debt balances from the \$150 million 8.125% Senior Notes issued in June 2009 and the \$150 million term loan issued in August 2009, partially offset by lower interest expense resulting from the repayment of the \$60.6 million 6.50% Senior Notes in July 2009, the \$100 million 6.089% Senior Notes in February 2010 and the \$40.5 million 8.25% Senior Notes in April 2010;
- Higher interest expense of \$1.6 million primarily due to the impact of higher debt issuance cost amortization in 2010 related to additional issuance cost associated with the \$150 million term loan issued in August 2009 and an increase in the commitment availability of the credit facilities in February 2010 from \$400 million to \$550 million, and lower debt premium amortizations due to repayments of the related debt in 2009; and
- Lower interest expense of \$794,000 associated with borrowings under the Company's credit facilities primarily due to lower average interest rates in 2010 compared to 2009, partially offset by the impact of higher average balances outstanding in 2010 compared to 2009.

Federal and State Income Taxes

The following table summarizes the Company's income taxes for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Income tax expense	\$ 28,609	\$ 13,835	\$ 59,418	\$ 33,450
Effective tax rate (1)	28%	29%	31%	30%

The EITR is lower than the U.S. federal income tax statutory rate of 35 percent primarily due to the 80 percent dividends received deduction (1) for the anticipated receipt of dividends associated with earnings from the Company's unconsolidated Citrus affiliate, partially offset by the impact of state income taxes, net of the federal income tax benefit.

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. The \$14.8 million increase in federal and state income tax expense was primarily due to higher pre-tax earnings of \$56.4 million in 2010.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. The \$26 million increase in federal and state income tax expense was primarily due to higher pre-tax earnings of \$77.8 million in 2010 and the impact of \$4.2 million of higher income tax expense resulting from the elimination of the Medicare Part D tax subsidy in the PPACA legislation signed into law in March 2010. The Company expects the EITR will be approximately 31 percent for 2010.

Loss on Extinguishment of Preferred Stock

Three-month period ended June 30, 2010 versus the three-month period ended June 30, 2009. Net earnings available for common stockholders were reduced by \$3.3 million in the 2010 period due to the impact of a \$3.3 million loss recorded in the 2010 period related to the Company's call for redemption of all of its approximately \$115 million of outstanding Preferred Stock.

Six-month period ended June 30, 2010 versus the six-month period ended June 30, 2009. Net earnings available for common stockholders were reduced by \$3.3 million in the 2010 period due to the impact of a \$3.3 million loss recorded in the 2010 period related to the Company's call for redemption of all of its approximately \$115 million of outstanding Preferred Stock.

See *Item 1. Financial Statements (Unaudited), Note 17 – Redemption of Preferred Stock* for additional related information.

LIQUIDITY AND CAPITAL RESOURCES

The Liquidity and Capital Resources information contained herein should be read in conjunction with the related information set forth in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources* of the Company's Form 10-K for the year ended December 31, 2009.

Cash generated from internal operations constitutes the Company's primary source of liquidity. The Company's working capital deficit at June 30, 2010 was \$217 million. Additional sources of liquidity for working capital purposes include the use of available credit facilities and may include various equity offerings and debt capital markets and bank financings, and proceeds from asset dispositions. The availability and terms relating to such liquidity 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 the financial markets at the time of such offerings.

Sources (Uses) of Cash

	Six months ended June 30,	
	2010	2009
	(In thousands)	
Cash flows provided by (used in):		
Operating activities	\$ 242,492	\$ 381,825
Investing activities	(129,020)	(230,371)
Financing activities	(121,429)	(140,540)
Increase (decrease) in cash and cash equivalents	\$ (7,957)	\$ 10,914

Operating Activities

Cash provided by operating activities decreased by \$139.3 million in the 2010 period versus the same period in 2009. Cash flows provided by operating activities before changes in operating assets and liabilities for the 2010 period were \$259.2 million compared with \$210.1 million for the 2009 period, an increase of \$49.1 million primarily resulting from higher net earnings in 2010. Changes in operating assets and liabilities used cash of \$16.7 million in the 2010 period and provided cash of \$171.8 million in the 2009 period, resulting in a decrease in cash from changes in operating assets and liabilities of \$188.4 million in 2010 compared to 2009. The \$188.4 million decrease was primarily due to:

- Decreased net cash settlements of \$52.9 million of commodity derivative instruments in the Gathering and Processing segment in the 2010 period versus the 2009 period;
- Increased accounts receivables of \$48 million in the Distribution segment primarily due to colder weather for Missouri Gas Energy's nonresidential customers in the 2010 period and the impact of the new rates effective February 28, 2010;
- Increased accounts receivables of \$23.2 million in the Gathering and Processing segment primarily due to higher operating revenues in the 2010 period attributable to higher market-driven realized average natural gas and NGL prices; and
- Increased Distribution segment inventories of \$47.8 million in the 2010 period primarily due to higher natural gas prices.

Investing Activities

The Company's business strategy includes making prudent capital expenditures across its base of gathering, processing, transmission, storage and distribution assets and growing the businesses through the selective acquisition of assets in order to position itself favorably in the evolving natural gas markets.

Cash flows used in investing activities in the six months ended June 30, 2010 and 2009 were \$129 million and \$230.4 million, respectively. The \$101.4 million decrease in investing cash outflows was primarily due to a \$103.3 million decrease in capital expenditures in the Transportation and Storage segment, partially offset by a \$23.8 million increase in capital expenditures in the Gathering and Processing segment in the 2010 period.

The following table presents a summary of additions to property, plant and equipment by segment, including additions related to major projects for the periods presented.

	Six Months Ended	
	June 30,	
	2010	2009
	(In thousands)	
Transportation and Storage Segment:		
LNG Terminal Expansions/Enhancements (1)	\$ 20,478	\$ 58,863
Compression Modernization	(304)	4,887
Other, primarily pipeline integrity, system reliability, information technology, air emission compliance and hurricane expenditures	36,083	66,138
Total	56,257	129,888
Gathering and Processing Segment	41,706	16,518
Distribution Segment:		
Missouri Safety Program	4,611	6,348
Other, primarily system replacement and expansion	11,644	16,920
Total	16,255	23,268
Corporate and other activities	6,281	17,003
Total (2)	\$ 120,499	\$ 186,677

(1) The Trunkline LNG infrastructure enhancement construction project was placed into service in March 2010. Total construction costs are expected to be approximately \$440 million, plus capitalized interest.

(2) Includes net period changes in capital accruals totaling \$(7.9) million and \$20.3 million for the six-month periods ended June 30, 2010 and 2009, respectively.

Potential Sea Robin Impairment. Sea Robin, comprised primarily of offshore facilities, suffered damage related to several platforms and gathering pipelines from Hurricane Ike. See *Item 1. Financial Statements (Unaudited), Note 2 – New Accounting Principles and Other Matters – Other Matters* for information related to the Company’s analysis of the Sea Robin assets for potential impairment as of December 31, 2009. The Company currently estimates that approximately \$135 million of the approximately \$185 million total estimated capital replacement and retirement expenditures to replace property and equipment damaged by Hurricane Ike are related to Sea Robin. This estimate is subject to further revision as certain work, primarily retirements, is ongoing. The Company anticipates partial reimbursement from its property insurance carrier for its damages in excess of its \$10 million deductible, except for certain expenditures not reimbursable under the insurance policy terms. Additionally, Sea Robin has implemented a rate surcharge approved by FERC in September 2009, subject to refund, to recover Hurricane Ike-related costs not otherwise recovered from insurance proceeds or from other third parties. To the extent the Company’s capital expenditures are not recovered through insurance proceeds or through its hurricane rate surcharge, its net investment in Sea Robin’s property and equipment would increase without necessarily generating additional revenues unless the incremental costs are recovered through future rate proceedings or additional throughput. See *Item 1. Financial Statements (Unaudited), Note 14 – Regulation and Rates – Sea Robin* for information related to the surcharge filing. If the amount of the estimated Sea Robin insurance reimbursements are significantly reduced or it experiences other adverse developments incrementally impacting the Company’s related net investment or anticipated future cash flows that are not remedied through rate proceedings, the Company could potentially be required to record an impairment of its net investment in Sea Robin.

Citrus Equity Fundings. Prior to the in-service date of the Phase VIII Expansion project, it is expected Citrus will require equity contributions from each of its sponsors of up to \$250 million. It is expected the majority of the estimated sponsor equity contributions to Citrus will be made in the fourth quarter of 2010 and/or first quarter of 2011. Citrus also does not plan to make any cash dividends to its sponsors until after the Phase VIII Expansion project is in service.

Financing Activities

Financing activities used cash of \$121.4 million and \$140.5 million in the six months ended June 30, 2010 and 2009, respectively. The \$19.1 million decrease in net financing cash outflows were primarily due to:

- Borrowings of \$76.1 million under the Company's credit facilities in the 2010 period compared to \$251.5 million in payments in 2009; and
- Net repayment of \$139.9 million of long-term debt in the 2010 period, compared to net issuances of \$151.5 million in the 2009 period.

Retirement of Debt Obligations. The Company repaid the \$100 million 6.089% Senior Notes in February 2010 and the \$40.5 million 8.25% Senior Notes in April 2010 primarily using draw downs under the credit facilities.

Redemption of Preferred Stock. On June 29, 2010, the Company announced that it had called for redemption on July 30, 2010 all outstanding Depository Shares representing interests in its Preferred Stock at \$25 per share plus accrued and unpaid dividends. Accordingly, the Company reclassified the \$115 million balance previously reported as *Preferred stock* in the Condensed Consolidated Balance Sheet to *Current liabilities – Preferred stock – redeemable*.

2010 Term Loan. On August 3, 2010, the Company, entered into the 2010 Term Loan, maturing on August 3, 2013. The 2010 Term Loan bears interest at a rate of LIBOR plus 2.125 percent and may be prepaid without penalty at any time. The 2010 Term Loan amended, restated and upsized the 2009 Term Loan. The 2009 Term Loan had an interest rate of LIBOR plus 3.75 percent. Proceeds received from the 2010 Term Loan will be used to refinance the existing indebtedness under the 2009 Term Loan described above, with the remaining proceeds to be used to provide working capital and for general corporate purposes.

Floating-Rate Debt Obligations. The Company has \$570 million available under its committed credit facilities. As of August 3, 2010, there was a balance of \$205.8 million outstanding under the Company's credit facilities, with an effective interest rate of 3.07 percent.

As of August 3, 2010, the interest rate on the \$465 million term loan was 0.88 percent.

Credit Ratings. As of June 30, 2010, both Southern Union's and Panhandle's debt were rated BBB- by Fitch Ratings, Baa3 by Moody's Investor Services, Inc. and BBB- by Standard & Poor's. The Company is not party to any lending agreement that would accelerate the maturity date of any obligation due to a failure to maintain any specific credit rating, nor would a reduction in any credit rating, by itself, cause an event of default under any of the Company's lending agreements. However, if its current credit ratings are downgraded below investment grade or if there are times when it is placed on "credit watch," both borrowing costs and the costs of maintaining certain contractual relationships could increase. Lower credit ratings could also adversely affect relationships with state regulators, who may be unwilling to allow the Company to pass along increased debt service costs to natural gas customers.

For additional related information, see *Part 1, Item 1. Financial Statements (Unaudited), Note 10 – Derivative Instruments and Hedging Activities – Derivative Instrument Contingent Features*.

OTHER MATTERS

Contingencies

See *Part I, Item 1. Financial Statements (Unaudited), Note 12 – Commitments and Contingencies*, in this Quarterly Report on Form 10-Q.

Recently Issued Accounting Standards

See *Part I, Item 1. Financial Statements (Unaudited), Note 2 – New Accounting Principles and Other Matters*, in this Quarterly Report on Form 10-Q.

Inflation

The Company believes that inflation has caused, and may continue to cause, increases in certain operating expenses, and will continue to require higher capital replacement and construction costs. In the Transportation and Storage and Distribution segments, the Company continually reviews the adequacy of its rates in relation to such increasing cost of providing services, the inherent regulatory lag experienced in adjusting its rates and the rates it is actually able to charge in its markets.

New England Gas Company Union Contract

On April 30, 2010, UWUA Local 369 ratified a three-year successor collective bargaining agreement with New England Gas Company. The collective bargaining agreement will expire on May 4, 2013.

Matter Impacting the Company's Unconsolidated Investment in Citrus

Florida Gas and an affiliate of El Paso each submitted a bid in response to Florida Power & Light Company's (FPL) proposed 300-mile Florida EnergySecure intrastate pipeline project, and FPL entered into a non-binding letter of intent with the El Paso affiliate in connection with such project. Although the Florida Public Service Commission did not approve the Florida EnergySecure intrastate pipeline project, FPL has indicated that it may seek bids for a future project. El Paso has recently reasserted that it is entitled to, and communicated that it currently intends that it may, participate in any such bidding process. In light of existing circumstances, Florida Gas, Citrus and Southern Union continue to disagree with El Paso's position. A successful bid on such FPL project by El Paso, if the project ultimately is approved, could adversely impact Florida Gas' ultimate contract terms for the remaining uncommitted Phase VIII Expansion transportation capacity and Florida Gas' future growth opportunities in Florida.

Rate Matters

Trunkline LNG Cost and Revenue Study. On July 1, 2009, Trunkline LNG filed a Cost and Revenue Study with respect to the Trunkline LNG facility expansions completed in 2006, in compliance with FERC orders. BG LNG Services (BGLS) filed a motion to intervene and protest on July 14, 2009. By order dated July 26, 2010, FERC determined that since (i) Trunkline LNG has fixed negotiated rates with BGLS through 2015, which would be unaffected by any rate change that might be determined through hearing at this time, and (ii) current costs and revenues are not necessarily representative of Trunkline LNG's costs and revenues at the termination of the negotiated rate period in 2015, there was no reason to expend FERC's and parties' resources on a Natural Gas Act section 5 proceeding at this time. The order is subject to rehearing.

See *Part I, Item 1. Financial Statements (Unaudited), Note 14 – Regulation and Rates* for additional information related to the Company's rate matters.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

The information contained in Item 3 updates, and should be read in conjunction with, related information set forth in Part II, Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, in addition to the unaudited interim condensed consolidated financial statements, accompanying notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations presented in Part I, Items 1 and 2 of this Quarterly Report on Form 10-Q.

Interest Rate Risk

The Company is subject to the risk of loss associated with movements in market interest rates. The Company manages this risk through the use of fixed-rate debt, floating-rate debt and interest rate swaps. Pay-fixed interest rate swaps are used to reduce the risk of increased interest costs during periods of rising interest rates. Pay-floating interest rate swaps are used to convert the fixed rates of long-term borrowings into short-term variable rates. At June 30, 2010, the interest rate on 85 percent of the Company's long-term debt was fixed after considering the impact of interest rate swaps.

At June 30, 2010, \$18.4 million is included in *Derivative instruments – liabilities*, and \$12.5 million is included in *Deferred Credits* in the unaudited interim Condensed Consolidated Balance Sheet related to the pay-fixed interest rate swaps on the \$455 million Term Loan due 2012.

At June 30, 2010, a 100 basis point change in the annual interest rate on all outstanding floating-rate long- and short-term debt would correspondingly change the Company's interest payments by approximately \$600,000 for each month during which such change continued. If interest rates changed significantly, the Company may take actions to manage its exposure to the change.

The Company has entered into treasury rate locks from time to time to manage its exposure against changes in future interest payments attributable to changes in the US treasury rates. By entering into these agreements, the Company locks in an agreed upon interest rate until the settlement of the contract, which typically occurs when the associated long-term debt is sold. The Company accounts for the treasury rate locks as cash flow hedges. The Company's most recent treasury rate locks were settled in February and June 2008.

The change in exposure to loss in earnings and cash flow related to interest rate risk for the six-month period ended June 30, 2010 is not material to the Company.

Commodity Price Risk

Gathering and Processing Segment. The Company markets natural gas and NGL in its Gathering and Processing segment and manages associated commodity price risks using both economic and accounting hedge derivative instruments. These instruments involve not only the risk of transacting with counterparties and their ability to meet the terms of the contracts, but also the risks associated with unmatched positions and market fluctuations. The Company is required to record its commodity derivative instruments at fair value, which can be affected by changes in commodity exchange prices, over-the-counter quotes, volatility, time value, credit and counterparty credit risk, and the potential impact on market prices of liquidating positions in an orderly manner over a reasonable period of time under current market conditions.

To manage its commodity price risk related to natural gas and NGL, the Company may use a combination of (i) natural gas puts, price swaps and basis swaps, (ii) NGL processing spread puts and swaps, and (iii) other exchange-traded futures and options. These derivative instruments allow the Company to preserve value and protect margins.

The Company realizes NGL, NGL processing spread and/or natural gas volumes from the contractual arrangements associated with the natural gas treating and processing services it provides. Forecasted NGL, NGL processing spread and/or natural gas volumes compared to the actual volumes sold and the effectiveness of the associated hedges utilized by the Company can be unfavorably impacted by:

- Processing plant outages;
- Higher than anticipated fuel, flare and unaccounted-for natural gas levels;
- Impact of commodity prices in general;
- Decline in drilling and/or connections of new supply;
- Reduction in available NGL take-away capacity;
- Reduction in NGL available from wellhead supply;
- Lower than expected recovery of NGL from the inlet natural gas stream;
- Lower than expected receipt of natural gas volumes to be processed;
- Limitations on NGL fractionation capacity;
- Renegotiation of existing contracts;
- Change in contracting practices vis-à-vis type(s) of processing contracts; and
- Competition for new wellhead supplies.

The following table summarizes SUGS' principal commodity derivative instruments as of June 30, 2010 (all instruments are settled monthly), which were developed based upon historical and projected operating conditions and processable volumes.

Instrument Type	Index	Average Fixed Price (per MMBtu)	Volumes (MMBtu/d) (3)		Fair Value of Assets (Liabilities) (4) (In thousands)
			2010	2011	
Natural Gas - Cash Flow Hedges: (1)					
Receive-fixed swap	Gas Daily - Waha	\$ 5.33	24,863	-	\$ 3,920
Receive-fixed swap	Gas Daily - Waha	\$ 6.12	-	13,813	5,229
Receive-fixed swap	Gas Daily - El Paso Permian	\$ 5.33	20,137	-	3,175
Receive-fixed swap	Gas Daily - El Paso Permian	\$ 6.12	-	11,187	4,235
		Total	45,000	25,000	\$ 16,559
Processing Spread - Economic Hedges: (2)					
Receive-fixed swap	Gas Daily - Waha (natural gas)				
	OPIS - Mt. Belvieu (NGL)	\$ 5.11	22,100	-	\$ (4,774)
Receive-fixed swap	Gas Daily - Waha (natural gas)				
	OPIS - Mt. Belvieu (NGL)	\$ 5.51	-	13,813	243
Receive-fixed swap	Gas Daily - El Paso Permian (natural gas)				
	OPIS - Mt. Belvieu (NGL)	\$ 5.11	17,900	-	(3,866)
Receive-fixed swap	Gas Daily - El Paso Permian (natural gas)				
	OPIS - Mt. Belvieu (NGL)	\$ 5.51	-	11,187	197
		Total	40,000	25,000	\$ (8,200)

The Company's natural gas swap arrangements have been designated as cash flow hedges. The effective portion of changes in the fair value of the cash flow hedges is recorded in *Accumulated other comprehensive loss* until the related hedged items impact earnings. Any ineffective portion of a cash flow hedge is reported in current-period earnings.

The Company's processing spread swap arrangements, which hedge the pricing differential between NGL volumes and equivalent natural gas volumes, are treated as economic hedges. The ratio of NGL product sold per MMBtu is approximately: 33 percent ethane, 32 percent propane, 5 percent isobutane, 14 percent normal butane and 16 percent natural gasoline. The change in fair value is reported in current-period earnings.

(3) All volumes are applicable to the period July 1, 2010 to December 31, 2010 and January 1, 2011 to December 31, 2011, as applicable.

(4) See *Part I, Item 1. Financial Statements (Unaudited), Note 10 – Derivative Instruments and Hedging Activities – Commodity Contracts – Gathering and Processing Segment* for additional related information.

At June 30, 2010, excluding the effects of hedging and assuming normal operating conditions, the Company estimates that a change in price of \$0.01 per gallon of NGL and \$1.00 per MMBtu of natural gas would impact annual gross margin by approximately \$1.6 million and \$4.9 million, respectively. Such commodity price risk estimates do not include any effect on demand for the Company's services that may be caused by, or arise in conjunction with, price changes. For example, a change in the gross processing spread may cause some ethane to be sold in the natural gas stream, impacting gathering and processing margins, natural gas deliveries and NGL volumes shipped.

Transportation and Storage Segment. The Company is exposed to some commodity price risk with respect to natural gas used in operations by its interstate pipelines. Specifically, the pipelines receive natural gas from customers for use in operating compression to move the customers' gas. Additionally, the pipelines may have to settle system imbalances when customers' actual receipts and deliveries do not match. When the amount of natural gas utilized in operations by the pipelines differs from the amounts provided by customers, the pipelines may use natural gas from inventory or may have to buy or sell natural gas to cover these or other operational needs, resulting in commodity price risk exposure to the Company. In addition, there is other indirect exposure to the extent commodity price changes affect customer demand for and utilization of transportation and storage services provided by the Company. At June 30, 2010, there were no hedges in place in respect to natural gas price risk associated with the Company's interstate pipeline operations.

Distribution Segment. The Company enters into pay-fixed natural gas price swaps to mitigate price volatility of purchased natural gas passed through to customers in the Distribution segment. The cost of the derivative products and the settlement of the respective obligations are recorded through the gas purchase adjustment clause as authorized by the applicable regulatory authority and therefore do not impact earnings. The fair values of the contracts are recorded as an adjustment to a regulatory asset or liability in the unaudited interim Condensed Consolidated Balance Sheet. As of June 30, 2010 and December 31, 2009, the fair values of the contracts, which expire at various times through June 2012, are included in the unaudited interim Condensed Consolidated Balance Sheet as liabilities, with matching adjustments to deferred natural gas purchases of \$35.9 million and \$43.6 million, respectively.

ITEM 4. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures to ensure that information required to be disclosed by the Company, including consolidated entities, in reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The Company performed an evaluation under the supervision and with the participation of management, including its CEO and CFO, and with the participation of personnel from its Legal, Internal Audit, Risk Management and Financial Reporting Departments, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, Southern Union's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of June 30, 2010.

Changes in Internal Controls

Management's assessment of internal control over financial reporting as of December 31, 2009 was included in Southern Union's Annual Report on Form 10-K filed on March 1, 2010.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Cautionary Statement Regarding Forward-Looking Information

The disclosure and analysis in this Form 10-Q contains some forward-looking statements that set forth anticipated results based on management's current plans and assumptions. From time to time, the Company also provides forward-looking statements in other materials it releases to the public as well as oral forward-looking statements. Such statements give the Company's current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Southern Union has tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated services, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

The Company cannot guarantee that any forward-looking statement will be realized, although management believes that the Company has been prudent and reasonable in its plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. Readers should bear this in mind as they consider forward-looking statements. The Company undertakes no obligation publicly to update forward-looking statements, whether as a result of new information, future events or otherwise. Readers are advised, however, to consult any further disclosures the Company makes on related subjects in its Form 10-K, 10-Q and 8-K reports to the SEC. Also note that Southern Union provides the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to its businesses. These are factors that, individually or in the aggregate, management believes could cause the Company's actual results to differ materially from expected and historical results. Southern Union notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers should understand that it is not possible to predict or identify all such factors. Consequently, readers should not consider the following to be a complete discussion of all potential risks or uncertainties.

Factors that could cause actual results to differ materially from those expressed in the Company's forward-looking statements include, but are not limited to, the following:

- changes in demand for natural gas or NGL and related services by the Company's customers, in the composition of the Company's customer base and in the sources of natural gas available to the Company;
- the effects of inflation and the timing and extent of changes in the prices and overall demand for and availability of natural gas or NGL as well as electricity, oil, coal and other bulk materials and chemicals;
- adverse weather conditions, such as warmer than normal weather in the Company's service territories, and the operational impact of natural disasters;
- changes in laws or regulations, third-party relations and approvals, decisions of courts, regulators and governmental bodies affecting or involving Southern Union, including deregulation initiatives and the impact of rate and tariff proceedings before FERC and various state regulatory commissions;
- the speed and degree to which additional competition is introduced to Southern Union's business and the resulting effect on revenues;
- the outcome of pending and future litigation;
- the Company's ability to comply with or to challenge successfully existing or new environmental regulations;
- unanticipated environmental liabilities;
- the Company's exposure to highly competitive commodity businesses through its Gathering and Processing segment;
- the Company's ability to acquire new businesses and assets and integrate those operations into its existing operations, as well as its ability to expand its existing businesses and facilities;
- the Company's ability to control costs successfully and achieve operating efficiencies, including the purchase and implementation of new technologies for achieving such efficiencies;
- the impact of factors affecting operations such as maintenance or repairs, environmental incidents, natural gas pipeline system constraints and relations with labor unions representing bargaining-unit employees;
- exposure to customer concentration with a significant portion of revenues realized from a relatively small number of customers and any credit risks associated with the financial position of those customers;
- changes in the ratings of the debt securities of Southern Union or any of its subsidiaries;
- changes in interest rates and other general capital markets conditions, and in the Company's ability to continue to access the capital markets;
- acts of nature, sabotage, terrorism or other acts causing damage greater than the Company's insurance coverage limits;
- market risks beyond the Company's control affecting its risk management activities including market liquidity, commodity price volatility and counterparty creditworthiness; and
- other risks and unforeseen events.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Southern Union is a party to or has property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, as described in *Part I, Item 1. Financial Statements (Unaudited), Note 12 – Commitments and Contingencies*, in this Quarterly Report on Form 10-Q and in the *Item 8. Financial Statements and Supplementary Data, Note 18 – Commitments and Contingencies*, information included in the Company's Form 10-K for the year ended December 31, 2009.

Southern Union is subject to federal and state requirements for the protection of the environment, including those for the discharge of hazardous materials and remediation of contaminated sites. As a result, Southern Union is a party to or has its property subject to various other lawsuits or proceedings involving environmental protection matters. For information regarding these matters, see *Part I, Item 1. Financial Statements (Unaudited), Note 12 – Commitments and Contingencies*, in this Quarterly Report on Form 10-Q and in the *Item 8. Financial Statements and Supplementary Data, Note 18 – Commitments and Contingencies*, information included in the Company's Form 10-K for the year ended December 31, 2009.

ITEM 1A. Risk Factors.

Except for the additional risk factor information described below, there have been no material changes to the risk factors previously disclosed in the Company's Form 10-K filed with the SEC on March 1, 2010. The following additional risk factor information should be read in conjunction with the related disclosure in *PART I, ITEM 1A. Risk Factors*, in Southern Union's Annual Report on Form 10-K for the year ended December 31, 2009.

The Company is subject to risks resulting from the recent moratorium on and the resulting increased costs of offshore deepwater drilling.

On May 6, 2010, the United States Department of Interior (*DOI*) implemented a six-month moratorium on offshore drilling in water deeper than 500 feet in response to the blowout and explosion on April 20, 2010 at the British Petroleum Plc deepwater well in the Gulf of Mexico. The offshore drilling moratorium, which was subject to various challenges filed in the U.S. District Court, was implemented to permit the DOI to review the safety protocols and procedures used by offshore drilling companies, which review will enable the DOI to recommend enhanced safety and training needs for offshore drilling companies. The moratorium was lifted by a ruling in the U.S. District Court on June 23, 2010. The DOI appealed the ruling to the U.S. Court of Appeals for the 5th Circuit. In July 2010, the DOI issued a separate revised six-month moratorium on new offshore drilling operations. It is expected that this moratorium will also be subject to court challenges. Additionally, the United States Mineral Management Service has been fundamentally restructured by the DOI with the intent of providing enhanced oversight of onshore and offshore drilling operations for regulatory compliance enforcement, energy development and revenue collection. Although it is not possible at this time to predict whether or when new drilling or production operating regulations will be implemented, any additional regulation would likely increase the cost of both offshore and onshore drilling and production operations. The increased cost of drilling operations could result in decreased drilling activity in the areas serviced by the Company. Furthermore, if the drilling moratorium remains intact, the impact of the moratorium could result in offshore drilling companies relocating their offshore drilling operations to regions outside of the United States. Such matters could result in a reduction in the future development and production of natural gas reserves in the vicinity of the Company's facilities, which could adversely affect the Company's business, financial condition, results of operations and cash flows.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table presents information with respect to purchases during the three months ended June 30, 2010 made by Southern Union or any “affiliated purchaser” of Southern Union (as defined in Rule 10b-18(a)(3)) of equity securities that are registered pursuant to Section 12 of the Exchange Act.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share
April 2010	3,300	\$ 26.23
May 2010	36	21.93
June 2010	3,331	21.99
Total	6,667	\$ 24.09

(1) The total number of shares purchased includes: (i) the surrender to the Company of 875 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock awards and (ii) 5,792 shares of common stock purchased in open-market transactions and held in various Company employee benefit plan trusts by the trustees using cash amounts deferred by the participants in such plans (and quarterly cash dividends issued by the Company on shares held in such plans.)

ITEM 3. Defaults Upon Senior Securities.

N/A

ITEM 4. Reserved.

ITEM 5. Other Information.

All information required to be reported on Form 8-K for the quarter ended June 30, 2010 was appropriately reported.

On August 3, 2010, the Company, entered into the 2010 Term Loan maturing on August 3, 2013, filed herewith as Exhibit 10(b). The 2010 Term Loan bears interest at a rate of LIBOR plus 2.125 percent and may be prepaid without penalty at any time. The 2010 Term Loan amended, restated and upsized the 2009 Term Loan. The 2009 Term Loan had an interest rate of LIBOR plus 3.75 percent. Proceeds received from the 2010 Term Loan will be used to refinance the existing indebtedness under the 2009 Term Loan described above, with the remaining proceeds to be used to provide working capital and for general corporate purposes.

ITEM 6. Exhibits.

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

- 2(a) Purchase and Sale Agreement between Southern Union Company and UGI Corporation, dated as of January 26, 2006. (Filed as Exhibit 10.1 to Southern Union's Current Report on Form 8-K filed on January 30, 2006 and incorporated herein by reference.)
- 2(b) First Amendment to the Purchase and Sale Agreement between Southern Union Company and UGI Corporation, dated as of August 24, 2006. (Filed as Exhibit 10.1 to Southern Union's Current Report on Form 8-K filed on August 30, 2006 and incorporated herein by reference.)
- 2(c) Purchase and Sale Agreement between Southern Union Company and National Grid USA, dated as of February 15, 2006. (Filed as Exhibit 10.1 to Southern Union's Current Report on Form 8-K filed on February 17, 2006 and incorporated herein by reference.)
- 2(d) Limited Settlement Agreement between Southern Union Company, Narragansett Electric Company d/b/a National Grid, the Department of the Attorney General for the State of Rhode Island and the Rhode Island Department of Environmental Management, dated as of August 24, 2006. (Filed as Exhibit 10.2 to Southern Union's Current Report on Form 8-K filed on August 30, 2006 and incorporated herein by reference.)
- 2(e) First Amendment to the Purchase and Sale Agreement between Southern Union Company and National Grid USA, dated as of August 24, 2006. (Filed as Exhibit 10.3 to Southern Union's Current Report on Form 8-K filed on August 30, 2006 and incorporated herein by reference.)
- 3(a) Amended and Restated Certificate of Incorporation of Southern Union Company. (Filed as Exhibit 3(a) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference.)
- 3(b) By-Laws of Southern Union Company, as amended. (Filed as Exhibit 3(b) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.)
- 3(c) Certificate of Designations, Preferences and Rights re: Southern Union Company's 7.55% Noncumulative Preferred Stock, Series A. (Filed as Exhibit 4.1 to Southern Union's Form 8-A/A dated October 17, 2003 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) Senior Debt Securities Indenture between Southern Union and The Chase Manhattan Bank (National Association), which changed its name to JP Morgan Chase Bank and then to JP Morgan Chase Bank, N.A., which was then succeeded to by The Bank of New York Trust Company, N.A., which changed its name to The Bank of New York Mellon Trust Company N.A., as Trustee (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) Officer's Certificate of Southern Union Company dated November 3, 1999 with respect to 8.25% Senior Notes due 2029. (Filed as Exhibit 99.1 to Southern Union's Current Report on Form 8-K filed on November 19, 1999 and incorporated herein by reference.)

- 4(e) Form of Supplemental Indenture No. 1, dated June 11, 2003, between Southern Union Company and JP Morgan Chase Bank, which changed its name to JP Morgan Chase Bank, N.A., the predecessor to The Bank of New York Trust Company, N.A., which changed its name to The Bank of New York Mellon Trust Company, N.A. (Filed as Exhibit 4.5 to Southern Union's Form 8-A/A dated June 20, 2003 and incorporated herein by reference.)
- 4(f) Supplemental Indenture No. 2, dated February 11, 2005, between Southern Union Company and JP Morgan Chase Bank, N.A., the predecessor to The Bank of New York Trust Company, N.A., which changed its name to The Bank of New York Mellon Trust Company, N.A. (Filed as Exhibit 4.4 to Southern Union's Form 8-A/A dated February 22, 2005 and incorporated herein by reference.)
- 4(g) Subordinated Debt Securities Indenture between Southern Union and The Chase Manhattan Bank (National Association), which changed its name to JP Morgan Chase Bank and then to JP Morgan Chase Bank, N.A., which was then succeeded to by The Bank of New York Trust Company, N.A., which changed its name to The Bank of New York Mellon Trust Company, 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(h) Second Supplemental Indenture, dated October 23, 2006, between Southern Union Company and The Bank of New York Trust Company, N.A., now known as The Bank of New York Mellon Trust Company, N.A. (Filed as Exhibit 4.1 to Southern Union's Form 8-K/A dated October 24, 2006 and incorporated herein by reference.)
- 4(i) 2006 Series A Junior Subordinated Notes Due November 1, 2066 dated October 23, 2006. (Filed as Exhibit 4.2 to Southern Unions Current Report on Form 8-K/A filed on October 24, 2006 and incorporated herein by reference.)
- 4(j) Replacement Capital Covenant, dated as of October 23, 2006 by Southern Union Company, a Delaware corporation with its successors and assigns, in favor of and for the benefit of each Covered Debtor (as defined in the Covenant). (Filed as Exhibit 4.3 to Southern Union's Current Report on Form 8-K/A filed on October 24, 2006 and incorporated herein by reference.)
- 4(k) Southern Union 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 Southern Union. Southern Union hereby agrees to furnish a copy of any of these instruments to the Commission upon request.
- 10(a) Sixth Amended and Restated Revolving Credit Agreement, dated as of February 26, 2010, among the Company, as borrower, and the lenders party thereto. (Filed as Exhibit 10(a) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.)
- 10(b) Amended and Restated Credit Agreement, dated as of August 3, 2010, among the Company, as borrower, and the lenders party thereto (Filed herewith as Exhibit 10(b).
- 10(c) First Amendment to Construction and Term Loan Agreement between Citrus Corp., as borrower, and Pipeline Funding Company, LLC, as lender and administrative agent, dated as of August 6, 2008. (Filed as Exhibit 10(a) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference.)
- 10(d) Construction and Term Loan Agreement between Citrus Corp., as borrower, and Pipeline Funding Company, LLC, as lender and administrative agent, dated as of February 5, 2008. (Filed as Exhibit 10.1 to Southern Union's Current Report on Form 8-K filed on February 8, 2008 and incorporated herein by reference.)

- 10(e) Amendment Number 1 to the Amended and Restated Credit Agreement between Trunkline LNG Holdings, LLC, as borrower, Panhandle Eastern Pipe Line Company, LP and CrossCountry Citrus, LLC, as guarantors, the financial institutions listed therein and Bayerische Hypo-Und Vereinsbank AG, New York Branch, as administrative agent, dated as of June 13, 2008. (Filed as Exhibit 10(d) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference.)
- 10(f) Amended and Restated Credit Agreement between Trunkline LNG Holdings, LLC, as borrower, Panhandle Eastern Pipeline Company, LP and CrossCountry Citrus, LLC, as guarantors, the financial institutions listed therein and Bayerische Hypo-Und Vereinsbank AG, New York Branch, as administrative agent, dated as of June 29, 2007. (Filed as Exhibit 10.1 to Southern Union's Current Report on Form 8-K filed on July 6, 2007 and incorporated herein by reference.)
- 10(g) Credit Agreement between Trunkline LNG Holdings, LLC, as borrower, Panhandle Eastern Pipeline Company, LP and Trunkline LNG Company, LLC, as guarantors, the financial institutions listed therein and Hypo-Und Vereinsbank AG, New York Branch, as administrative agent, dated as of March 15, 2007. (Filed as Exhibit 10.1 to Southern Union's Current Report on Form 8-K filed on March 21, 2007 and incorporated herein by reference.)
- 10(h) Form of Indemnification Agreement between Southern Union Company and each of the Directors of Southern Union Company and certain senior executive officers. (Filed as Exhibit 10(g) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.)
- 10(i) 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(j) 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(k) First Amendment to Southern Union Company Director's Deferred Compensation Plan, effective April 1, 2007. (Filed as Exhibit 10(h) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.)
- 10(l) Southern Union Company Amended Supplemental Deferred Compensation Plan with Amendments. (Filed as Exhibit 4 to Southern Union's Form S-8 filed May 27, 1999 and incorporated herein by reference.) *
- 10(m) Second Amended and Restated Southern Union Company 2003 Stock and Incentive Plan. (Filed as Exhibit 4 to Form S-8, SEC File No. 333-138524, filed on November 8, 2006 and incorporated herein by reference.) *
- 10(n) Third Amended and Restated Southern Union Company 2003 Stock and Incentive Plan. (Filed as Appendix I to Southern Union's proxy statement on Schedule 14A filed on April 16, 2009 and incorporated herein by reference.) *
- 10(o) Form of Long Term Incentive Award Agreement, dated December 28, 2006, between Southern Union Company and the undersigned. (Filed as Exhibit 99.1 to Southern Union's Form 8-K dated January 3, 2007) and incorporated herein by reference.) *
- 10(p) Employment Agreement between Southern Union Company and George L. Lindemann, dated as of August 28, 2008. (Filed as Exhibit 10(f) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference.) *

- 10(q) Employment Agreement between Southern Union Company and Eric D. Herschmann, dated as of August 28, 2008. (Filed as Exhibit 10(g) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference.) *
- 10(r) Employment Agreement between Southern Union Company and Robert O. Bond, dated as of August 28, 2008. (Filed as Exhibit 10(h) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference.) *
- 10(s) Employment Agreement between Southern Union Company and Monica M. Gaudiosi, dated as of August 28, 2008. (Filed as Exhibit 10(i) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference.) *
- 10(t) Second Amended and Restated Southern Union Company Executive Incentive Bonus Plan, dated March 25, 2010 (Filed as Appendix I to Southern Union's proxy statement on Schedule 14A filed on March 26, 2006 and incorporate herein by reference).*
- 10(u) Employment Agreement between Southern Union Company and Richard N. Marshall, dated as of August 28, 2008. (Filed as Exhibit 10(j) to Southern Union Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference.) *
- 10(v) Form of Change in Control Severance Agreement, between Southern Union Company and certain Executives (filed as Exhibit 10.2 to Southern Union's Current Report on Form 8-K filed on August 28, 2008 and incorporated herein by reference.) *
- 10(w) Capital Stock Agreement dated June 30, 1986, as amended April 3, 2000 ("Agreement"), among El Paso Energy Corporation (as successor in interest to Sonat, Inc.); CrossCountry Energy, LLC (assignee of Enron Corp., which is the successor in interest to InterNorth, Inc. by virtue of a name change and successor in interest to Houston Natural Gas Corporation by virtue of a merger) and Citrus Corp. (Filed as Exhibit 10(t) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.)
- 10(x) Certificate of Incorporation of Citrus Corp. (Filed as Exhibit 10(q) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference.)
- 10(y) By-Laws of Citrus Corp., filed herewith. (Filed as Exhibit 10(r) to Southern Union's Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference.)
- 12 Ratio of earnings to fixed charges. (Filed herewith as Exhibit 12.)
- 14 Code of Ethics and Business Conduct. (Filed as Exhibit 14 to Southern Union's Annual Report on Form 10-K filed on March 16, 2006 and incorporated herein by reference.)
- 31.1 Certificate by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate by Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) promulgated under the Securities Exchange Act of 1934 and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 32.2 Certificate by Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) promulgated under the Securities Exchange Act of 1934 and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

XBRL Instance Document **

101.INS

101.SCH XBRL Taxonomy Extension Schema Document **

101.CAL XBRL Taxonomy Calculation Linkbase Document **

101.DEF XBRL Taxonomy Extension Definitions Document **

101.LAB XBRL Taxonomy Label Linkbase Document **

101.PRE XBRL Taxonomy Presentation Linkbase Document **

* Management contract or compensation plan or arrangement

** XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN UNION COMPANY

(Registrant)

Date: August 5, 2010

GEORGE E. ALDRICH

By /s/

George E. Aldrich

Senior

Vice President and Controller

(authorized officer and principal

accounting officer)

AMENDED AND RESTATED CREDIT AGREEMENT

DATED AS OF AUGUST 3, 2010

BY AND AMONG

**SOUTHERN UNION COMPANY
as the Borrower**

AND

**THE BANKS NAMED HEREIN
as the Banks**

AND

**MIZUHO CORPORATE BANK (USA)
as the Administrative Agent, Lead Left Arranger and Bookrunner**

AND

**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
as Joint Lead Arranger, Bookrunner and Syndication Agent**

AND

**SUMITOMO MITSUI BANKING CORPORATION
and
U.S. BANK NATIONAL ASSOCIATION
as Co-Documentation Agents**

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Exhibits:

Exhibit A	Form of Note
Exhibit B	Form of Notice of Borrowing
Exhibit C	Form of Assignment and Acceptance

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AMENDED AND RESTATED CREDIT AGREEMENT

This Amended and Restated Credit Agreement dated as of August 3, 2010, is entered into by and among SOUTHERN UNION COMPANY, a corporation organized under the laws of Delaware (hereinafter called the “**Borrower**”), the financial institutions listed on the signature pages hereof (collectively, the “**Banks**” and individually, a “**Bank**”), MIZUHO CORPORATE BANK (USA) (“**Mizuho**”), in its capacity as administrative agent (the “**Agent**”) for the Banks hereunder, THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., as Syndication Agent (in such capacity “**Syndication Agent**”), and SUMITOMO MITSUI BANKING CORPORATION and U.S. BANK NATIONAL ASSOCIATION, as Co-Documentation Agents, who hereby agree as follows:

PRELIMINARY STATEMENTS

1. Reference is hereby made to that certain Credit Agreement dated as of August 5, 2009 by and between the Borrower, the banks named therein, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the administrative agent (the “**Existing Agreement**”), pursuant to which the banks party thereto made, in the aggregate, a \$150,000,000 term loan to the Borrower, which principal amount remains outstanding as of the date hereof.

2. The Borrower desires to amend and restate the Existing Agreement to obtain from the Banks a senior term loan financing in an aggregate principal amount of \$250,000,000 (the “**Financing**”), to be used by the Borrower to refinance the amounts outstanding under the Existing Agreement and for the Borrower’s general corporate purposes.

3. The Banks have indicated their willingness to provide the Financing, but only on and subject to the terms and conditions of this Agreement, and the parties hereto agree to amend and restate the Existing Agreement pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby amend and restate the Existing Agreement in its entirety and agree as follows:

1. DEFINITIONS

1.1 Defined Terms.

As used in this Agreement, the following terms shall have the following meanings:

“**Additional Costs**” shall mean, with respect to any Rate Period in the case of any Eurodollar Rate Loan, all costs, losses or payments, as determined by any Bank in its sole and absolute discretion (which determination shall be conclusive in the absence of manifest error) that such Bank or its Domestic Lending Office or its Eurodollar Lending Office does, or would, if such Eurodollar Rate Loan were funded during such Rate Period by the Domestic Lending Office or the Eurodollar Lending Office of such Bank, incur, suffer or make by reason of:

(a) any and all present or future taxes (including, without limitation, any interest equalization tax or any similar tax on the acquisition of debt obligations, or any stamp or registration tax or duty or official or sealed papers tax), levies, imposts or any other charge of any nature whatsoever imposed by any taxing authority on or with regard to any aspect of the transactions contemplated by this Agreement, except such taxes as may be measured by the overall net income of such Bank or its Domestic Lending Office or its Eurodollar Lending Office and imposed by the jurisdiction, or any political subdivision or taxing authority thereof, in which such Bank’s Domestic Lending Office or its Eurodollar Lending Office is located; and

(b) any increase in the cost to such Bank of agreeing to make or making, funding or maintaining any Eurodollar Rate Loan because of or arising from (i) the introduction of, or any change (other than any change by way of imposition or increase of reserve requirements, in the case of any Eurodollar Rate Loan, included in the Eurodollar Rate Reserve Percentage) in or in the interpretation or administration of, any law or regulation or (ii) the compliance with any request from any central bank or other governmental authority (whether or not having the force of law).

“Affiliate” shall mean any Person controlling, controlled by or under common control with any other Person. For purposes of this definition, “control” (including “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or otherwise. If any Person shall own, directly or indirectly, beneficially or of record, twenty percent (20%) or more of the voting equity (whether outstanding capital stock, partnership interests or otherwise) of another Person, such Person shall be deemed to be an Affiliate.

“Agent” shall have the meaning set forth in the preamble hereto.

“Agreement” shall mean this Amended and Restated Credit Agreement dated as of August 3, 2010, as the same may be amended, modified, supplemented or restated from time to time.

“Alternate Base Rate” shall mean, for any day, a rate per annum (rounds upward to the nearest 1/16 of 1%) equal to the greatest of: (i) the Prime Rate in effect on such day; (ii) the Federal Funds Rate in effect for such day plus one-half of one percent (1/2%) or (iii) the Eurodollar Rate for a one month Rate Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus one percent (1%). Any change in the Alternate Base Rate due to a change in the Prime Rate, Federal Funds Rate or such Eurodollar Rate shall be effective from and including the effective date of such change in the Prime Rate, Federal Funds Rate or such Eurodollar Rate, respectively.

“Alternate Base Rate Loan” shall mean any Loan which bears interest at the Alternate Base Rate, plus the Applicable Margin.

“Applicable Lending Office” shall mean, with respect to each Bank, such Bank’s (a) Domestic Lending Office in the case of an Alternate Base Rate Loan; and (b) Eurodollar Lending Office in the case of a Eurodollar Rate Loan.

“**Applicable Margin**” means, for any day, with respect to any Alternate Base Rate Loan or Eurodollar Rate Loan, as the case may be, the applicable rate per annum set forth below, as the case may be, based upon the ratings by Moody’s and S&P, respectively, applicable on such date to the Senior Funded Debt:

Rating of the Borrower’s unsecured, non-credit enhanced Senior Funded Debt	Eurodollar Rate Loans	Alternate Base Rate Loans
Equal to or greater than Baa1 by Moody’s or BBB+ by S&P	1.75%	0.75%
Equal to Baa2 by Moody’s or BBB by S&P	2.00%	1.00%
Equal to Baa3 by Moody’s or BBB- by S&P	2.125%	1.125%
Equal to Ba1 by Moody’s or BB+ by S&P	2.50%	1.50%
Less than Ba1 by Moody’s and less than BB+ by S&P	2.75%	1.75%

Notwithstanding the foregoing provisions, in the event that ratings of the Borrower’s Senior Funded Debt under S&P and under Moody’s fall within different rating categories which are not functional equivalents, the Applicable Margin shall be based on the higher of such ratings if there is only one category differential between the functional equivalents of such ratings, and if there is a two category differential between the functional equivalents of such ratings, the component of pricing from the grid set forth above shall be based on the rating category which is then in the middle of or between the two category ratings which are then in effect, and if there is greater than a two category differential between the functional equivalents of such ratings, the component of pricing from the grid set forth above shall be based on the rating category which is then one rating category above the lowest of the two category ratings which are then in effect. Additionally, in the event that the Borrower withdraws from having its Senior Funded Debt being rated by Moody’s or S&P, so that one or both of such ratings services fails to rate the Borrower’s Senior Funded Debt, the component of pricing from the grid set forth above for purposes of determining the Applicable Margin for all Rate Periods commencing thereafter shall be 2.75% for a Eurodollar Rate Loan and, 1.75% for Alternate Base Rate Loans until such time as Borrower subsequently causes its Senior Funded Debt to be rated by both of said ratings services.

“**Approved Fund**” means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Bank that is not a Defaulting Bank, (b) an Affiliate of a Bank that is not a Defaulting Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank that is not a Defaulting Bank.

“**Assignment and Acceptance**” shall have the meaning set forth in Section 13.13.

“**Bank**” shall have the meaning set forth in the preamble hereto and shall include the Agent, in its individual capacity.

“**Borrower**” shall have the meaning set forth in the preamble hereto.

“**Borrowing**” shall mean a borrowing consisting of simultaneous Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Rate Period made by each of the Banks pursuant to Section 2.1.

“**Business Day**” shall mean a day when the Agent is open for business, provided that, if the applicable Business Day relates to any Eurodollar Rate Loan, it shall mean a day when the Agent is open for business and banks are open for business in the London interbank market and in New York City.

“**Capital Lease**” shall mean any lease of any Property (whether real, personal, or mixed) which, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of the lessee.

“**Capitalized Lease Obligations**” shall mean, for the Borrower and its Subsidiaries, any of their obligations that should, in accordance with GAAP, be recorded as Capital Leases.

“**Cash Interest Expense**” shall mean, for any period, total interest expense to the extent paid in cash (including the interest component of Capitalized Lease Obligations) of the Borrower and any Subsidiary for such period all as determined in conformity with GAAP.

“**Change of Control**” shall occur if any Person or “group” (within the meaning of Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, as amended from time to time, and any successor statute) shall have acquired beneficial ownership of thirty-five percent (35%) or more on a fully diluted basis of the voting and/or economic interests in the Borrower and within ninety (90) days of the announcement of the Change of Control, Moody’s or S&P announce a downgrade below investment grade or a withdrawal of their respective ratings as a result of the Change of Control.

“**Change of Ownership**” shall occur if any Person or “group” (within the meaning of Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, as amended from time to time, and any successor statute) shall have acquired beneficial ownership of thirty-five percent (35%) or more on a fully diluted basis of the voting and/or economic interests in the Borrower.

“**Citrus**” shall mean Citrus Corp., a Delaware corporation.

“**Closing Date**” shall mean the date of this Agreement.

“**Code**” shall mean the Internal Revenue Code of 1986, as amended, as now or hereafter in effect, together with all regulations, rulings and interpretations thereof or thereunder issued by the Internal Revenue Service.

“**Commitment**” shall have the meaning set forth in Section 2.1 and “**Commitments**” shall mean, collectively, the Commitments of all of the Banks.

“Consolidated Net Worth” shall mean, for any period for the Borrower and all Subsidiaries, (a) the sum of the following consolidated items, all determined in accordance with GAAP and without duplication: the consolidated stockholders’ equity of all classes of stock (whether common, preferred, mandatorily convertible preferred or preference) of the Borrower and its Subsidiaries; the Equity-Preferred Securities; the other preferred securities of the Borrower’s Subsidiaries not constituting Equity-Preferred Securities; and the minority interests in the Borrower’s Subsidiaries, less (b) the sum of the following consolidated items, without duplication: the book amount of any deferred charges (including, but not limited to, unamortized debt discount and expenses, organization expenses, experimental and development expenses, but excluding prepaid expenses) that are not permitted to be recovered by the Borrower or its applicable Subsidiaries under rates permitted under rate tariffs, plus (c) the sum of all amounts contributed or paid by the Borrower to the Rabbi Trusts for purposes of funding the same, but only to the extent such contributions and payments are required to be deducted from the consolidated stockholders’ equity of the Borrower and its Subsidiaries in accordance with GAAP.

“Consolidated Total Capitalization” shall mean at any time the sum of: (a) Consolidated Net Worth at such time; plus (b) the principal amount of outstanding Debt (other than Equity-Preferred Securities (to the extent included in Debt of the Borrower and its Subsidiaries) not to exceed 10% of Consolidated Total Capitalization [calculated for purposes of this clause without reference to any Equity-Preferred Securities]) of the Borrower and its Subsidiaries.

“Consolidated Total Indebtedness” shall mean all Debt of the Borrower and all Subsidiaries including, without limitation, any current maturities and all obligations under any Receivables Purchase and Sale Agreement thereof, plus, without duplication, all amounts outstanding under standby letters of credit and, without duplication, all Facility Letter of Credit Obligations, less, without duplication and to the extent included in Debt of the Borrower and its Subsidiaries, Equity-Preferred Securities not to exceed 10% of Consolidated Total Capitalization (calculated for purposes of this clause without reference to any Equity-Preferred Securities).

“Conversion”, **“Convert”** and **“Converted”** each shall refer to a conversion of Loans of one type into Loans of the other type pursuant to Section 2.8.

“Debt” means (without duplication), for any Person indebtedness for money borrowed determined in accordance with GAAP but in any event including, (a) indebtedness of such Person for borrowed money or arising out of any extension of credit to or for the account of such Person (including, without limitation, extensions of credit in the form of reimbursement or payment obligations of such Person relating to letters of credit issued for the account of such Person) or for the deferred purchase price of property or services, except indebtedness which is owing to trade creditors in the ordinary course of business and which is due within thirty (30) days after the original invoice date; (b) indebtedness of the kind described in clause (a) of this definition which is secured by (or for which the holder of such Debt has any existing right, contingent or otherwise, to be secured by) any Lien upon or in Property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness or obligations; (c) Capitalized Lease Obligations of such Person; and (d) obligations under direct or indirect Guaranties. Whenever the definition of Debt is being used herein in order to compute a financial ratio or covenant applicable to the consolidated business of the Borrower and its Subsidiaries, Debt which is already included in such computation by virtue of the fact that it is owed by a Subsidiary of the Borrower will not also be added by virtue of the fact that the Borrower has executed a guaranty with respect to such Debt that would otherwise require such guaranteed indebtedness to be considered Debt hereunder. Nothing contained in the foregoing sentence is intended to limit the other provisions of this Agreement which contain limitations on the amount and types of Debt which may be incurred by the Borrower or its Subsidiaries.

“Debtor Laws” shall mean all applicable liquidation, conservatorship, bankruptcy, moratorium, arrangement, receivership, insolvency, reorganization, or similar laws, or general equitable principles from time to time in effect affecting the rights of creditors generally.

“Default” shall mean any of the events specified in Section 11, whether or not there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act.

“Defaulting Bank” means any Bank, as determined by the Agent, that has (a) failed to fund any portion of its Loans within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Agent or any other Bank any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) (i) become or is insolvent or has a parent company that has become or is insolvent or is determined to be insolvent by any Governmental Authority having regulatory authority over such Person, or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian, appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment; provided, that a Bank shall not become a Defaulting Bank solely as a result of the maintenance of an ownership interest in such Bank or Person controlling such Bank or the exercise of control over a Bank or Person controlling such Bank by a Governmental Authority or an instrumentality thereof.

“Dollars” and **“\$”** shall mean lawful currency of the United States of America.

“Domestic Lending Office” shall mean, with respect to each Bank, the office of such Bank located at its “Address for Notices” set forth below the name of such Bank on the signature pages hereof or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

“EBDIT” shall mean for any period the sum of (a) consolidated net earnings for the Borrower and its Subsidiaries (excluding for all purposes hereof all extraordinary items), plus (b) each of the following to the extent actually deducted in deriving such net earnings: (i) depreciation and amortization expense; (ii) interest expense and (iii) federal and state income taxes; in each case before adjustment for extraordinary items, as shown in the financial statements of the Borrower and its Subsidiaries referred to in Section 7.2 hereof (excluding for all purposes hereof all extraordinary items), and determined in accordance with GAAP, and (c) plus (or minus, if applicable) the net amount of non-cash deductions from (or additions to, if applicable) such net earnings for such period attributable to fluctuations in the market price(s) of securities which the Borrower is obligated to purchase in future periods under any of the Rabbi Trusts, but only to the extent that such deductions (or additions, if applicable) are required to be taken in accordance with GAAP.

“Eligible Assignee” shall mean: (i) any Bank that is not a Defaulting Bank, or any Affiliate of any Bank that is not a Defaulting Bank, any Approved Fund, or any institution 100% of the voting stock of which is directly or indirectly owned by such Bank or by the immediate or remote parent of such Bank; or (ii) a commercial bank, a foreign branch of a United States commercial bank, a domestic branch of a foreign commercial bank, a thrift or other financial institution having in each case assets in excess of \$1,000,000,000.00.

“Environmental Law” shall mean (a) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C.A. § 9601 *et seq.*), as amended from time to time, and any and all rules and regulations issued or promulgated thereunder (**“CERCLA”**); (b) the Resource Conservation and Recovery Act (as amended by the Hazardous and Solid Waste Amendment of 1984, 42 U.S.C.A. § 6901 *et seq.*), as amended from time to time, and any and all rules and regulations promulgated thereunder (**“RCRA”**); (c) the Clean Air Act, 42 U.S.C.A. § 7401 *et seq.*, as amended from time to time, and any and all rules and regulations promulgated thereunder; (d) the Clean Water Act of 1977, 33 U.S.C.A. § 1251 *et seq.*, as amended from time to time, and any and all rules and regulations promulgated thereunder; (e) the Toxic Substances Control Act, 15 U.S.C.A. § 2601 *et seq.*, as amended from time to time, and any and all rules and regulations promulgated thereunder; or (f) any other federal or state law, statute, rule, or regulation enacted in connection with or relating to the protection or regulation of the environment (including, without limitation, those laws, statutes, rules, and regulations regulating the disposal, removal, production, storing, refining, handling, transferring, processing, or transporting of Hazardous Materials) and any rules and regulations issued or promulgated in connection with any of the foregoing by any governmental authority, and **“Environmental Laws”** shall mean each of the foregoing. **“EPA”** shall mean the Environmental Protection Agency, or any successor organization.

“Equity-Preferred Securities” means (i) Debt, preferred equity or any other securities that are mandatorily convertible by the issuer thereof at a date certain, without cash payment by the issuer, into common shares of stock of the Borrower or (ii) any other securities (A) that are issued by the Borrower or any Subsidiary, (B) that are not subject to mandatory redemption at any time, directly or indirectly, (C) that are perpetual or mature not less than 30 years from the date of issuance, (D) the Debt component, if any, issued in connection therewith, including any guaranty, is subordinate in right of payment to all other unsecured and unsubordinated Debt of the issuer of such Debt component (including any such guaranty, if applicable), and (E) the terms of which permit the issuer thereof to defer at any time, without any additional payment or premium, the payment of any and all interest and/or distributions thereon, as applicable, to a date occurring after the Maturity Date.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and all rules, regulations, rulings and interpretations thereof issued by the Internal Revenue Service or the Department of Labor thereunder.

“**Eurocurrency Liabilities**” shall have the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“**Eurodollar Lending Office**” shall mean, with respect to each Bank, the office of such Bank located at its “Address for Notices” set forth below the name of such Bank on the signature pages hereof, or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

“**Eurodollar Rate**” shall mean with respect to the applicable Rate Period in effect for each Eurodollar Rate Loan, the quotient obtained by dividing (i) the rate appearing on Reuter Reference LIBOR01 (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Rate Period, as the rate for dollar deposits with a maturity comparable to such Rate Period (or in the event that such rate quote is not available at such time for any reason, then utilizing the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Rate Period are offered by the principal London office of the Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Rate Period) by (ii) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Rate Period.

“**Eurodollar Rate Loan**” shall mean any Loan that bears interest at the Eurodollar Rate, plus the Applicable Margin.

“**Eurodollar Rate Reserve Percentage**” of the Agent for any Rate Period for any Eurodollar Rate Loan shall mean the reserve percentage applicable during such Rate Period (or if more than one such percentages shall be so applicable, the daily average of such percentages for those days in such Rate Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental, or other marginal reserve requirement) for member banks of the Federal Reserve System with deposits exceeding \$1,000,000,000 with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Rate Period. The Eurodollar Rate Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“**Event of Default**” shall mean any of the events specified in Section 11, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act.

“**Existing Agent**” shall mean The Bank of Tokyo-Mitsubishi UFJ, Ltd., in its capacity as administrative agent under the Existing Agreement.

“**Existing Agreement**” shall have the meaning given such term in the Preliminary Statements to this Agreement.

“**Expiration Date**” shall mean the last day of a Rate Period.

“**Facility Letter of Credit Obligations**” shall have the meaning set forth in the Revolving Credit Agreement, as in effect on the Closing Date.

“**Facility Notes**” shall mean the promissory notes of the Borrower, executed and delivered under the Revolving Credit Agreement.

“**Federal Funds Rate**” shall mean, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates (rounded to the nearest 1/100 of 1%) on overnight federal fund transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average (rounded to the nearest 1/100 of 1%) of the quotations for such day on such transactions received by the Agent from federal funds brokers of recognized standing selected by the Agent.

“**Funded Debt**” means all Debt of a Person which matures more than one year from the date of creation or matures within one year from such date but is renewable or extendible, at the option of such Person, by its terms or by the terms of any instrument or agreement relating thereto, to a date more than one year from such date or arises under a revolving credit or similar agreement which obligates Banks to extend credit during a period of more than one year from such date, including, without limitation, all amounts of any Funded Debt required to be paid or prepaid within one year from the date of determination of the existence of any such Funded Debt.

“**Funding Date**” shall mean the date in which each of the conditions precedent set forth in Section 8 shall have been satisfied or waived by the Banks, and the Loans are borrowed under Section 2.1.

“**GAAP**” shall mean generally accepted accounting principles, as in effect from time to time, applicable to the circumstances as of the date of determination, applied consistently with such principles as applied in the preparation of the Borrower’s audited financial statements referred to in Section 7.2.

“**General Intangibles**” shall mean all of the Borrower’s contract rights now existing or hereafter acquired, arising or created under contracts or arrangements for the purchase, sale, storage or transportation of gas or other Inventory.

“**Governmental Authority**” shall mean any (domestic or foreign) federal, state, county, municipal, parish, provincial, or other government, or any department, commission, board, court, agency (including, without limitation, the EPA), or any other instrumentality of any of them or any other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of, or pertaining to, government, including, without limitation, any arbitration panel, any court, or any commission.

“Governmental Requirement” means any order, permit, law, statute (including, without limitation, any Environmental Protection Statute), code, ordinance, rule, regulation, certificate, or other direction or requirement of any Governmental Authority.

“Guaranty” means, with respect to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of another Person, including, without limitation, by means of an agreement to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to maintain financial covenants, or to assure the payment of such Debt by an agreement to make payments in respect of goods or services regardless of whether delivered or to purchase or acquire the Debt of another, or otherwise, provided that the term “Guaranty” shall not include endorsements for deposit or collection in the ordinary course of business.

“Hazardous Materials” shall mean any substance which, pursuant to any Environmental Laws, requires special handling in its collection, use, storage, treatment or disposal, including but not limited to any of the following: (a) any “hazardous waste” as defined by RCRA; (b) any “hazardous substance” as defined by CERCLA; (c) asbestos; (d) polychlorinated biphenyls; (e) any flammables, explosives or radioactive materials; and (f) any substance, the presence of which on any of the Borrower’s or any Subsidiary’s properties is prohibited by any Governmental Authority.

“Highest Lawful Rate” shall mean, with respect to each Bank, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged, or received with respect to the Notes or on other amounts, if any, due to such Bank pursuant to this Agreement, under laws applicable to such Bank which are presently in effect, or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

“Indemnified Parties” shall have the meaning set forth in Section 13.16.

“Interest Election Request” shall mean a request by the Borrower to convert or continue a Loan in accordance with Section 2.8.

“Inventory” means, with respect to the Borrower or any Subsidiary, all of such Person’s now owned or hereafter acquired or created inventory in all of its forms and of every nature, wherever located, whether acquired by purchase, merger, or otherwise, and all raw materials, work in process therefor and finished goods thereof, and all supplies, materials, and products of every nature and description used, usable, or consumed in connection with the manufacture, packing, shipping, advertising, selling, leasing, furnishing, or production of such goods, and shall include, in any event, all “inventory” (within the meaning of such term in the Uniform Commercial Code in effect in any applicable jurisdiction), whether in mass or joint, or other interest or right of any kind in goods which are returned to, repossessed by, or stopped in transit by such Person, and all accessions to any of the foregoing and all products of any of the foregoing.

“Investment” of any Person means any investment so classified under GAAP, and, whether or not so classified, includes (a) any direct or indirect loan advance made by it to any other Person; (b) any direct or indirect Guaranty for the benefit of such Person; provided, however, that for purposes of determining Investments of the Borrower hereunder, the existing Guaranty by the Borrower of certain tax increment financing extended by The Fidelity Deposit and Discount Bank to The Redevelopment Authority of the County of Lackawanna shall be deemed to not be an Investment; (c) any capital contribution to any other Person; and (d) any ownership or similar interest in any other Person; and the amount of any Investment shall be the original principal or capital amount thereof (plus any subsequent principal or capital amount) minus all cash returns of principal or capital thereof.

“Lead Left Arranger” shall mean Mizuho Corporate Bank (USA), in its capacity as the Lead Left Arranger and Book Runner.

“Lien” shall mean any mortgage, deed of trust, pledge, security interest, encumbrance, lien (including without limitation, any such interest arising under any Environmental Law), or similar charge of any kind (including without limitation, any agreement to give any of the foregoing, any conditional sale or other title retention agreement or any lease in the nature thereof), or the interest of the lessor under any Capital Lease.

“Loan” or **“Loans”** shall have the meaning set forth in Section 2.1.

“Loan Document” shall mean this Agreement, any Note, or any other document, fee letter, agreement or instrument now or hereafter executed and delivered by the Borrower or any other Person in connection with any of the transactions contemplated by any of the foregoing, as any of the foregoing may hereafter be amended, modified, or supplemented, and **“Loan Documents”** shall mean, collectively, each of the foregoing.

“Majority Banks” shall mean at any time Banks holding more than 50% of the unpaid principal amounts outstanding under the Notes or, if prior to the Funding Date and no such amounts are outstanding, more than 50% of the aggregate Commitments.

“Material Adverse Effect” shall mean any event, development or circumstance that has had or would reasonably be expected to have a material adverse effect on (a) the business, assets, property or financial condition of the Borrower and its Subsidiaries, taken as a whole, (b) the Borrower’s ability to perform its Obligations with respect to this Agreement or any of the other Loan Documents, or (c) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent and the Banks thereunder.

“Maturity Date” shall mean August 2, 2013.

“Moody’s” shall mean Moody’s Investor Services, Inc.

“Non-Facility Letter of Credit” shall mean any letter of credit which is not issued pursuant to the letter of credit facility extended under the Revolving Credit Agreement.

“**Note**” or “**Notes**” shall mean a promissory note or notes, respectively, of the Borrower, substantially in the form of Exhibit A, executed and delivered under this Agreement.

“**Notice of Borrowing**” shall have the meaning set forth in Section 2.2(a).

“**Obligations**” shall mean all obligations of the Borrower to the Banks under this Agreement, the Notes, and all other Loan Documents to which it is a party.

“**Officer’s Certificate**” shall mean a certificate signed in the name of the Borrower or a Subsidiary, as the case may be, by either its President, one of its Vice Presidents, its Treasurer, its Secretary, or one of its Assistant Treasurers or Assistant Secretaries.

“**Panhandle Eastern**” shall mean Panhandle Eastern Pipe Line Company, LP, a Delaware limited partnership.

“**Person**” shall mean an individual, partnership, joint venture, corporation, joint stock company, bank, trust, unincorporated organization and/or a government or any department or agency thereof.

“**Plan**” shall mean any plan subject to Title IV of ERISA and maintained for employees of the Borrower or of any member of a “controlled group of corporations,” as such term is defined in the Code, of which the Borrower or any Subsidiary is a member, or any such plan to which the Borrower or any Subsidiary is required to contribute on behalf of its employees.

“**Prime Rate**” shall mean, on any day, the rate determined by the Agent as being its prime rate for that day. Without notice to the Borrower or any other Person, the Prime Rate shall change automatically from time to time as and in the amount by which said Prime Rate shall fluctuate, with each such change to be effective as of the date of each change in such Prime Rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. The Agent may make commercial or other loans at rates of interest at, above or below the Prime Rate.

“**Prior Acquisitions**” shall mean the Borrower’s previous acquisitions of and mergers with Fall River Gas Company.

“**Pro-Rata Percentage**” shall mean with respect to any Bank, a fraction (expressed as a percentage), the numerator of which shall be the amount of such Bank’s outstanding Loan and the denominator of which shall be the aggregate amount of all the outstanding Loans of the Banks.

“**Property**” shall mean any interest or right in any kind of property or asset, whether real, personal, or mixed, owned or leased, tangible or intangible, and whether now held or hereafter acquired.

“Qualifying Assets” shall mean (i) equity interests owned one hundred percent (100%) by the Borrower in entities engaged primarily in one or more of the Borrower’s lines of business described in Section 7.15 (singly, a **“Qualified Entity,”** collectively, **“Qualified Entities”**), or productive assets used in one or more of such lines of business; and (ii) equity interests of less than one hundred percent (100%) owned by the Borrower in one or more Qualifying Entities, provided that at any time the aggregate amount of the Borrower’s investment in Qualifying Assets described in clause (ii) that are then held by the Borrower as of the applicable determination date (measured by the aggregate purchase price paid therefor, including the aggregate amount of Debt assumed or deemed incurred by the Borrower in connection with such acquisitions) does not exceed twenty percent (20%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date.

“Rabbi Trusts” shall mean those four (4) certain non-qualified deferred compensation irrevocable trusts existing as of the Closing Date, previously established by the Borrower for the benefit of its executive employees, so long as the assets in each of such trusts which have not yet been distributed to one or more executive employees of the Borrower remain subject to the claims of the Borrower’s general creditors.

“Rate Period” shall mean the period of time for which the Eurodollar Rate shall be in effect as to any Eurodollar Rate Loan, commencing with the Funding Date or the Expiration Date of the immediately preceding Rate Period, as the case may be, applicable to and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Rate Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below; provided, however, that any Rate Period that would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Rate Period shall end on the next preceding Business Day. For any Eurodollar Rate Loan the Rate Period may be 1, 2, 3, or 6 months, in each case as specified in the applicable Notice of Borrowing, subject to the provisions of Sections 2.2, 2.6, and 2.9.

“Receivables Purchase and Sale Agreement” shall mean any agreement(s) governing a receivables securitization facility proposed to be entered into by the Borrower or any of its Subsidiaries, as any such agreement or facility may be amended, supplemented, restated or otherwise modified from time to time, provided that no such amendment, supplement, restatement or modification shall change the scope of such agreement or facility from that of a receivables securitization transaction and the aggregate amount of all such facilities shall not exceed \$150,000,000.

“Release” shall mean a “release”, as such term is defined in CERCLA.

“Restricted Payment” shall mean the Borrower’s declaration or payment of any dividend on, or purchase or agreement to purchase any of, or making of any other distribution with respect to, any of its capital stock, except any such dividend, purchase or distribution consisting solely of capital stock of the Borrower.

“Revolving Credit Agreement” shall mean the Sixth Amended and Restated Revolving Credit Agreement dated as of February 26, 2010, among the Borrower and the banks named therein, as amended.

“S&P” shall mean Standard & Poor’s Rating Group.

“**Securities Act**” shall have the meaning set forth in Section 13.1.

“**Senior Funded Debt**” shall mean Funded Debt of the Borrower (excluding Debt that is contractually subordinated in right of payment to any other Debt) that is unsecured and not guaranteed by any other Person or subject to any other credit enhancement.

“**Senior Notes**” means (a) the \$475,000,000 of 7.6% Senior Notes of the Borrower previously placed with investors on or about January 31, 1994, and (b) the \$300,000,000 of 8.25% Senior Notes of the Borrower previously placed with investors on or about November 3, 1999, as such Senior Notes may be amended, modified, or supplemented from time to time in accordance with the terms of this Agreement; and “**Senior Note**” means each such note individually.

“**Subsidiary**” of a Person shall mean a corporation, partnership, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Notwithstanding the fact that the management of Citrus is or may be controlled by the Borrower, neither Citrus nor any of its subsidiaries shall be deemed to constitute a Subsidiary of the Borrower for purposes of this Agreement so long as the Borrower does not beneficially own, directly, or indirectly, a majority of the shares of securities or other interests in Citrus having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency).

“**Syndication Agent**” shall have the meaning set forth in the preamble hereto.

“**Trunkline LNG Holdings**” shall mean Trunkline LNG Holdings, LLC, a Delaware limited liability company.

“**Type**” shall mean, with respect to any Loan, any Alternate Base Rate Loan or any Eurodollar Rate Loan.

1.2 Terms Generally.

The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

1.3 Accounting Terms; Change in GAAP.

Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP; provided that, if the Borrower notifies the Agent that the Borrower requests to eliminate the effect of any change in GAAP occurring after the date hereof or to eliminate the application of such change on the operation of such provision (or if the Agent notifies the Borrower that the Majority Banks request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application of such change, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

2. THE LOANS

2.1 The Loans.

Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make a single Loan (each, a “**Loan**” and, collectively the “**Loans**”) to the Borrower on the Funding Date in an amount that is set forth opposite each Bank’s name on Schedule 2.1 hereto (in each case, such Bank’s “**Commitment**” and, collectively, “**Commitments**”). The aggregate amount of the Commitments shall be \$250,000,000. Amounts borrowed under this Section 2.1 and repaid or prepaid after the Funding Date may not be reborrowed. The Agent and the Borrower hereby consent to the allocation of the Commitments among the Banks as set forth on Schedule 2.1.

2.2 Making of the Loans.

(a) The Borrowing shall be made on notice, given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the Borrowing if the Borrowing consists of Eurodollar Rate Loans, or not later than 9:00 A.M. (New York City time) on the date of the Borrowing if the Borrowing consists of Alternate Base Rate Loans, by the Borrower to the Agent, which shall give to each Bank prompt notice thereof. The notice of the Borrowing, substantially in the form attached hereto as Exhibit B (the “**Notice of Borrowing**”), shall be in writing, specifying therein the requested (i) date of the Borrowing, (ii) Type of Loans comprising the Borrowing, (iii) aggregate amount of the Borrowing, which shall not exceed the aggregate amount of the Commitments, and (iv) if the Borrowing consists of Eurodollar Rate Loans, the initial Rate Period for each such Loan. Each Bank shall, before 11:00 A.M. (New York City time) on the date of the Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent’s account, in same day funds, such Bank’s portion of the Borrowing in accordance with Section 2.1. After the Agent’s receipt of such funds and upon fulfillment of the applicable conditions set forth in Section 8, the Agent will make such funds available to the Borrower by electronic transfer of same day funds to the Borrower’s account.

(b) The Notice of Borrowing shall be irrevocable and binding on the Borrower. If the Notice of Borrowing specifies the Borrowing is to be comprised of Eurodollar Rate Loans, the Borrower shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date specified in the Notice of Borrowing the applicable conditions set forth in Section 8, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund the Loan to be made by such Bank as part of the Borrowing when such Loan, as a result of such failure, is not made on such date.

(c) Unless the Agent shall have received written notice from a Bank prior to the date of the Borrowing that such Bank will not make available to the Agent such Bank's ratable portion of the Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of the Borrowing in accordance with clause (a) of this Section 2.2 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such ratable portion available to the Agent, such Bank and the Borrower severally agree to repay or pay to the Agent forthwith on demand such corresponding amount and to pay interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid or paid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at such time under Section 2.6 to Loans comprising the Borrowing and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall pay to the Agent such corresponding amount, such amount so paid shall constitute such Bank's Loan as part of the Borrowing for all purposes.

(d) The failure of any Bank to make the Loan to be made by it as part of the Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its Loan on the date of the Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the Loan to be made by such other Bank on the date of the Borrowing.

2.3 Repayment of Loans.

The Borrower shall repay to the Agent for the ratable account of the Banks the aggregate outstanding principal amount of the Loans on the Maturity Date.

2.4 Termination of the Commitments.

The Commitment of each Bank shall be automatically and permanently reduced to \$0 (zero) upon the funding of the Loans on the Funding Date.

2.5 Prepayments.

The Borrower may, upon at least three (3) Business Days' notice in the case of Eurodollar Rate Loans and at least one (1) Business Day's notice in the case of Alternate Base Rate Loans, in each case to the Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given, the Borrower shall prepay the outstanding aggregate principal amount of the Loans in whole or ratably in part, together with accrued interest to the date of such prepayment on the aggregate principal amount prepaid; provided that (i) each partial prepayment shall be in an aggregate principal amount of \$1,000,000 in the case of Eurodollar Rate Loans and \$1,000,000 in the case of Alternate Base Rate Loans, or in each case an integral multiple of \$1,000,000 in excess thereof and (ii) if any prepayment of a Eurodollar Rate Loan is made on a date other than the last day of a Rate Period for such Loan, the Borrower shall also pay any amounts owing pursuant to Section 2.9(d). The Agent shall promptly notify each Bank of any notice received from the Borrower pursuant to this Section 2.5.

2.6

Interest.

(a) The Borrower shall pay interest on the unpaid principal amount of each Loan owing to each Bank from the date of such Loan until such principal amount shall be paid in full, at the following rates per annum:

(i) During such periods as such Loan is an Alternate Base Rate Loan, a rate per annum equal at all times to the sum of (a) the Alternate Base Rate in effect from time to time *plus* (b) the Applicable Margin for Alternate Base Rate Loans in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Alternate Base Rate Loan shall be Converted or paid in full.

(ii) During such periods as such Loan is a Eurodollar Rate Loan, a rate per annum equal at all times during each Rate Period for such Loan to the sum of (a) the Eurodollar Rate for such Rate Period for such Loan *plus* (b) the Applicable Margin for Eurodollar Rate Loans in effect on the first day of such Rate Period, payable in arrears on the last day of such Rate Period and, if such Rate Period has a duration of more than three months, on each day that occurs during such Rate Period every three months from the first day of such Rate Period and on the date that such Eurodollar Rate Loan shall be Converted or paid in full.

(b) To the fullest extent permitted by applicable law, the amount of any principal, interest, fee or other amount payable under this Agreement or any other Loan Document to any agent or any Bank that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid, in the case of principal or interest, on the Type of Loan relating to such principal or interest pursuant to clause (i) or (ii) of clause (a) above, as applicable, and, in all other cases, on Alternate Base Rate Loans pursuant to clause (i) of clause (a) above.

(c) Promptly after receipt of the Notice of Borrowing pursuant to [Section 2.2](#), a notice of Conversion pursuant to [Section 2.8](#) or a notice of selection of an Rate Period pursuant to the terms of the definition of "[Rate Period](#)", the Agent shall give notice to the Borrower and each Bank of the applicable Rate Period and the applicable interest rate determined by the Agent for purposes of *clauses (a)(i) or (a)(ii)* above. If the Borrower shall fail to select the duration of any Rate Period for any Eurodollar Rate Loans in accordance with the provisions contained in the definition of "[Rate Period](#)", the Agent will forthwith so notify the Borrower and the Banks, whereupon the Borrower shall be deemed to have selected a one-month Rate Period for each such Eurodollar Rate Loan.

Fees.

(a) The Borrower agrees to pay all closing, structuring, administrative and other fees owed to the Agent, any of the Banks, the Lead Left Arranger, or Syndication Agent by the Borrower under this Agreement, or under any other written agreement between the Borrower and any of such parties.

(b) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Agent. Fees paid shall not be refundable under any circumstances.

Conversion of Loans.

(a) The Borrower may on any Business Day, upon notice given to the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Section 2.6 and 2.9, Convert all or any portion of the Loans of one Type into Loans of the other Type; provided that any Conversion of Eurodollar Rate Loans into Alternate Base Rate Loans shall be made only on the last day of any Rate Period for such Eurodollar Rate Loans and each Conversion of Loans shall be made ratably among the Banks in accordance with their Pro-Rata Percentages; and also provided that, upon giving effect to such Conversions, no more than three Rate Periods shall be in effect. Each such notice of Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Loans to be Converted and (iii) if such Conversion is into Eurodollar Rate Loans, the duration of the initial Rate Period for such Loans. Each notice of Conversion shall be in writing and shall be irrevocable and binding on the Borrower. The Agent shall promptly notify each Bank of any notice received from the Borrower pursuant to this Section 2.8.

(b) Upon the occurrence and during the continuation of any Default and if the Majority Banks shall so direct, (i) each Eurodollar Rate Loan will automatically, on the last day of the then existing Rate Period therefor, Convert into an Alternate Base Rate Loan and (ii) the obligation of the Banks to make, or to Convert Loans into, Eurodollar Rate Loans shall be suspended.

Additional Interest Rate Provisions, Increased Costs, Etc.

(a) The Note may be held by each Bank that requested such Note for the account of its respective Domestic Lending Office or its respective Eurodollar Lending Office, and may be transferred from one to the other from time to time as each such Bank may determine.

(b) If the Borrower shall have chosen the Eurodollar Rate in a Notice of Borrowing and prior to the Funding Date, and any Bank in good faith determines (which determination shall be conclusive) that (i) deposits in Dollars in the principal amount of such Eurodollar Rate Loan are not being offered to the Eurodollar Lending Office of such Bank in the Eurodollar interbank market selected by such Bank in its sole discretion in good faith or (ii) adequate and reasonable means do not exist for ascertaining the chosen Eurodollar Rate in respect of such Eurodollar Rate Loan or (iii) the Eurodollar Rate for any Rate Period for such Eurodollar Rate Loan will not adequately reflect the cost to such Bank of making such Eurodollar Rate Loan for such Rate Period, then such Bank will so notify the Borrower and the Agent and such Eurodollar Rate shall not become effective as to such Eurodollar Rate Loan on the Funding Date or at any time thereafter until such time thereafter as the Borrower receives notice from the Agent that the circumstances giving rise to such determination no longer apply.

(c) Anything in this Agreement to the contrary notwithstanding, if at any time any Bank in good faith determines (which determination shall be conclusive) that the introduction of or any change in any applicable law, rule or regulation or any change in the interpretation or administration thereof by any governmental or other regulatory authority charged with the interpretation or administration thereof shall make it unlawful for the Bank (or the Eurodollar Lending Office of such Bank) to maintain or fund any Eurodollar Rate Loan, such Bank shall give notice thereof to the Borrower and the Agent. With respect to any Eurodollar Rate Loan which is outstanding when such Bank so notifies the Borrower, upon such date as shall be specified in such notice the Rate Period shall end and the lesser of (i) the Alternate Base Rate plus the Applicable Margin or (ii) the Highest Lawful Rate shall commence to apply in lieu of the Eurodollar Rate in respect of such Eurodollar Rate Loan and shall continue to apply unless and until the Borrower changes the rate as provided in Section 2.6. No more than five (5) Business Days after such specified date, the Borrower shall pay to such Bank (x) accrued and unpaid interest on such Eurodollar Rate Loan at the Eurodollar Rate plus (y) such amount or amounts (to the extent that such amount or amounts would not be usurious under applicable law) as may be necessary to compensate such Bank for any direct or indirect costs and losses incurred by it (to the extent that such amounts have not been included in the Additional Costs in calculating such Eurodollar Rate), but otherwise without penalty. If notice has been given by such Bank pursuant to the foregoing provisions of this Section 2.9(c), then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, such Eurodollar Rate shall not again apply to such Loan or any other Loan and the obligation of such Bank to continue any Eurodollar Rate Loan as a Eurodollar Rate Loan shall be suspended and any request by the Borrower for either a Eurodollar Rate Loan or the conversion of a Eurodollar Rate Loan shall be ineffective. Any such claim by such Bank for compensation under clause (y) above shall be accompanied by a certificate setting forth the computation upon which such claim is based, and such certificate shall be conclusive and binding for all purposes, absent manifest error.

(d) THE BORROWER WILL INDEMNIFY EACH BANK AGAINST, AND REIMBURSE EACH BANK ON DEMAND FOR, ANY LOSS (INCLUDING LOSS OF REASONABLY ANTICIPATED PROFITS DETERMINED USING REASONABLE ATTRIBUTION AND ALLOCATION METHODS), OR REASONABLE COST OR EXPENSE INCURRED OR SUSTAINED BY SUCH BANK (INCLUDING WITHOUT LIMITATION, ANY LOSS OR EXPENSE INCURRED BY REASON OF THE LIQUIDATION OR REEMPLOYMENT OF DEPOSITS OR OTHER FUNDS ACQUIRED BY SUCH BANK TO FUND OR MAINTAIN ANY EURODOLLAR RATE LOAN) AS A RESULT OF (I) ANY ADDITIONAL COSTS INCURRED BY SUCH BANK; (II) ANY PAYMENT OR REPAYMENT (WHETHER AUTHORIZED OR REQUIRED HEREUNDER OR OTHERWISE) OF ALL OR A PORTION OF ANY LOAN ON A DAY OTHER THAN THE EXPIRATION DATE OF A RATE PERIOD FOR SUCH LOAN; (III) ANY PAYMENT OR PREPAYMENT (WHETHER REQUIRED HEREUNDER OR OTHERWISE) OF ANY LOAN MADE AFTER THE DELIVERY OF A NOTICE OF BORROWING BUT BEFORE THE FUNDING DATE IF SUCH PAYMENT OR PREPAYMENT PREVENTS THE PROPOSED BORROWING FROM BECOMING FULLY EFFECTIVE; OR (IV) AFTER RECEIPT BY THE AGENT OF A NOTICE OF BORROWING, THE FAILURE OF ANY LOAN TO BE MADE OR EFFECTED BY SUCH BANK DUE TO ANY CONDITION PRECEDENT TO A BORROWING NOT BEING SATISFIED BY THE BORROWER OR DUE TO ANY OTHER ACTION OR INACTION OF THE BORROWER. ANY BANK DEMANDING PAYMENT UNDER THIS SECTION 2.9(d) SHALL DELIVER TO THE BORROWER AND THE AGENT A STATEMENT REASONABLY SETTING FORTH THE AMOUNT AND MANNER OF DETERMINING SUCH LOSS, COST OR EXPENSE. THE FACTS SET FORTH IN SUCH STATEMENT SHALL BE CONCLUSIVE AND BINDING FOR ALL PURPOSES, ABSENT MANIFEST ERROR.

(e) If, after the date of this Agreement, any Bank shall have determined that the adoption of any applicable law, rule, guideline, interpretation or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital as a consequence of its obligations hereunder and under similar lending arrangements to a level below that which such Bank could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material then the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(f) A certificate of such Bank setting forth such amount or amounts as shall be necessary to compensate such Bank as specified in subparagraph (e) above shall be delivered as soon as practicable to the Borrower (with a copy thereof to the Agent) and to the extent determined in accordance with subparagraph (e) above shall be conclusive and binding, absent manifest error. The Borrower shall pay such Bank the amount shown as due on any such certificate within fifteen (15) days after such Bank delivers such certificate. In preparing such certificate, such Bank may employ such assumptions and allocations (consistently applied with respect to advances made by such Bank or commitments by such Bank to make advances) of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method (consistently applied with respect to advances made by such Bank or commitments by such Bank to make advances).

(a) The Borrower shall make each payment hereunder and under the Notes, irrespective of any right of counterclaim or set-off, not later than 12:00 P.M. (New York City time) on the day when due in U.S. dollars to the Agent at the Agent's account in same day funds, with payments being received by the Agent after such time being deemed to have been received on the next succeeding Business Day. The Agent will promptly thereafter cause like funds to be distributed (x) if such payment by the Borrower is in respect of principal, interest or any other Obligation then payable hereunder and under the Notes to more than one Bank, to such Banks for the account of their respective Applicable Lending Offices ratably in accordance with the amounts of such respective Obligations then payable to such Banks and (y) if such payment by the Borrower is in respect of any Obligation then payable hereunder to one Bank, to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 13.13(d), from and after the effective date of such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Bank assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) The Borrower hereby authorizes each Bank and each of its Affiliates, if and to the extent payment owed to such Bank is not made when due hereunder or, in the case of a Bank, under the Note held by such Bank, to charge from time to time, to the fullest extent permitted by law, against any or all of the Borrower's accounts with such Bank or such Affiliate any amount so due.

(c) (x) All computations of interest based on the Prime Rate shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and (y) all computations of interest based on the Eurodollar Rate (including Alternate Base Rate Loans determined with reference to the Eurodollar Rate as set forth in *clause (iii)* of the definition of "Alternate Base Rate") or the Federal Funds Rate shall be made by the Agent on the basis of a year of 360 days, in each of (x) and (y) above, the computation shall be for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest; provided that if such extension causes the payment of interest on or principal of Eurodollar Rate Loans to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Agent receives notice from the Borrower prior to the date on which any payment is due to any Bank hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each such Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each such Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the greater of the Federal Funds Rate and a rate determined by the Agent in accordance with banking industry rules on interbank compensation.

(f) If the Agent receives funds for application to the Obligations of the Borrower under or in respect of the Loan Documents under circumstances for which the Loan Documents do not specify the Loans to which, or the manner in which, such funds are to be applied, the Agent may, but shall not be obligated to, elect to distribute such funds to each of the Banks in accordance with such Bank's Pro-Rata Percentage of the aggregate principal amount of all Loans outstanding at such time.

2.11 Taxes.

(a) Any and all payments by the Borrower to or for the account of any Bank or any Agent hereunder or under the Notes or any other Loan Document shall be made, in accordance with Section 2.10 or the applicable provisions of such other Loan Document, if any, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, *excluding*, in the case of each Bank and each Agent, taxes that are imposed on its overall net income by the United States of America (and franchise taxes imposed in lieu thereof) and taxes that are imposed on its overall net income (and franchise taxes imposed in lieu thereof) by the state or foreign jurisdiction under the laws of which such Bank or such Agent, as the case may be, is organized or any political subdivision thereof and, in the case of each Bank, taxes that are imposed on its overall net income (and franchise taxes imposed in lieu thereof) by the state or foreign jurisdiction of such Bank's principal office or Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes being hereinafter referred to as "**Taxes**"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note or any other Loan Document to any Bank or any Agent, (i) the sum payable by the Borrower shall be increased as may be necessary so that after the Borrower and the Agent have made all required deductions (including deductions applicable to additional sums payable under this Section 2.11) such Bank or such Agent, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make all such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any present or future stamp, documentary, excise, property or similar taxes, charges or levies that arise from any payment made by the Borrower hereunder or under any Notes or any other Loan Documents or from the execution, delivery or registration of, performance under, or otherwise with respect to, this Agreement, the Notes or the other Loan Documents (hereinafter referred to as “**Other Taxes**”).

(c) The Borrower shall indemnify each Bank and the Agent for and hold them harmless against the full amount of Taxes and Other Taxes, imposed on or paid by such Bank or such Agent (as the case may be) with respect to any payment by or on account of any obligation of the Borrower hereunder (including Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this [Section 2.11](#)) and any liability (including penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within thirty (30) days from the date such Bank or such Agent (as the case may be) makes written demand therefor.

(d) Within thirty (30) days after the date of any payment of Taxes, the Borrower shall furnish to the Agent, at its address referred to in [Section 13.4](#), the original or a certified copy of a receipt evidencing such payment, to the extent such a receipt is issued therefor, or other written proof of payment thereof that is reasonably satisfactory to the Agent. In the case of any payment hereunder or under the Notes or the other Loan Documents by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel reasonably acceptable to the Agent stating that such payment is exempt from Taxes. For purposes of subsections (d) and (e) of this [Section 2.11](#), the terms “United States” and “United States person” shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Bank organized under the laws of a jurisdiction outside the United States shall, on or prior to the date of its execution and delivery of this Agreement or on the date of the Assignment and Acceptance pursuant to which it becomes a Bank, as the case may be, and from time to time thereafter as reasonably requested in writing by the Borrower (but only so long thereafter as such Bank remains lawfully able to do so), or upon the obsolescence or invalidity of any form previously provided provide each of the Agent and the Borrower with two original Internal Revenue Service Forms W-8BEN or W-8ECI, as appropriate, or any other form prescribed by the Internal Revenue Service, certifying that such Bank is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Notes or any other Loan Document, or (in the case of a Bank that is claiming exemption from U.S. federal withholding with respect to payments of “portfolio interest” and has certified in writing to the Agent that it is not (i) a “bank” as defined in Section 881(c)(3)(A) of the Internal Revenue Code, (ii) a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code) of the Borrower or (iii) a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Internal Revenue Code)) Internal Revenue Service Form W-8BEN, or any successor or other form prescribed by the Internal Revenue Service, or, in the case of a Bank that certifies that it is not a “bank” as described above, certify that such Bank is a foreign corporation, partnership, estate or trust. If the forms provided by a Bank at the time such Bank first becomes a party to this Agreement indicate a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Bank provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such forms; provided that if, at the effective date of the Assignment and Acceptance pursuant to which a Bank becomes a party to this Agreement, the Bank assignor was entitled to payments under subsection (a) of this [Section 2.11](#) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) United States withholding tax, if any, applicable with respect to the Bank assignee on such date. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service Form W-8BEN or W-8ECI or the related certificate described above, that the applicable Bank reasonably considers to be confidential, such Bank shall give notice thereof to the Borrower and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Bank fails to provide the Borrower with the appropriate form, certificate or other document described in subsection (e) above (other than if such failure is due to a Change in Law, or in the interpretation or application thereof, occurring after the date on which a form, certificate or other document originally was required to be provided or if such form, certificate or other document otherwise is not required under subsection (e) above), such Bank shall not be entitled to indemnification under subsection (a) or (c) of this Section 2.11 with respect to Taxes imposed by the United States by reason of such failure; provided that should a Bank become subject to Taxes because of its failure to deliver a form, certificate or other document required hereunder, the Borrower shall, at the sole expense of such Bank, take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(g) Any Bank claiming any additional amounts payable pursuant to this Section 2.11 agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office or assign its rights and obligations under this Agreement to another of its offices, branches or Affiliates if the making of such a change or assignment would avoid the need for, or reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Bank, be otherwise disadvantageous to such Bank.

(h) If a Bank or the Agent actually receives a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.11, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.11 with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Agent or such Bank or the Agent and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided that the Borrower, upon the request of the Agent or such Bank or the Agent, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Agent or such Bank or the Agent in the event the Agent or such Bank or the Agent is required to repay such refund to such Governmental Authority. This Section 2.11(h) shall not be construed to require the Agent or any Bank or the Agent to claim a refund or make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

2.12 Sharing of Payments, Etc.

If any Bank shall obtain at any time any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise, other than as a result of an assignment pursuant to Section 13.13(d)) (a) on account of Obligations due and payable to such Bank hereunder and under the Notes and the other Loan Documents at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations due and payable to such Bank at such time *to* (ii) the aggregate amount of the Obligations due and payable to all Banks hereunder and under the Notes and the other Loan Documents at such time) of payments on account of the Obligations due and payable to all Banks hereunder and under the Notes at such time obtained by all the Banks at such time or (b) on account of Obligations owing (but not due and payable) to such Bank hereunder and under the Notes and the other Loan Documents at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations owing to such Bank at such time *to* (ii) the aggregate amount of the Obligations owing (but not due and payable) to all Banks hereunder and under the Notes and the other Loan Documents at such time) of payments on account of the Obligations owing (but not due and payable) to all Banks hereunder and under the Notes at such time obtained by all of the Banks at such time, such Bank shall forthwith purchase from the other Banks such interests or participating interests in the Obligations due and payable or owing to them, as the case may be, as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of them; provided that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each other Bank shall be rescinded and such other Bank shall repay to the purchasing Bank the purchase price to the extent of such Bank's ratable share (according to the proportion of (i) the purchase price paid to such Bank *to* (ii) the aggregate purchase price paid to all Banks) of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (i) the amount of such other Bank's required repayment *to* (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered; provided, further that, so long as the Obligations under the Loan Documents shall not have been accelerated, any excess payment received by any Bank shall be shared on a pro rata basis only with other Banks. The Borrower agrees that any Bank so purchasing an interest or participating interest from another Bank pursuant to this Section 2.12 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such interest or participating interest, as the case may be, as fully as if such Bank were the direct creditor of the Borrower in the amount of such interest or participating interest, as the case may be.

Evidence of Debt.

(a) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan owing to such Bank from time to time, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder. The Borrower agrees that upon request by any Bank to the Borrower (with a copy of such request to the Agent) to the effect that a promissory note or other evidence of indebtedness is required or appropriate in order for such Bank to evidence (whether for purposes of pledge, enforcement or otherwise) the Loans owing to, or to be made by, such Bank, the Borrower shall promptly execute and deliver to such Bank, with a copy to the Agent, a Note payable to the order of such Bank in a principal amount equal to the Loans of such Bank. All references to Notes in the Loan Documents shall mean Notes, if any, to the extent issued hereunder.

(b) The Register maintained by the Agent pursuant to Section 13.13(c) shall include a control account, and a subsidiary account for each Bank, in which accounts (taken together) shall be recorded (i) the date and amount of the Borrowing, the Type of Loans comprising the Borrowing and, if appropriate, the Rate Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder, and (iv) the amount of any sum received by the Agent from the Borrower hereunder. Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Bank in its account or accounts pursuant to subsection (a) above, shall be *prima facie* evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Bank and, in the case of such account or accounts, such Bank, under this Agreement, absent manifest error; provided that the failure of the Agent or such Bank to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

Replacement of Banks.

If:

- (a) any Bank requests compensation under Section 2.9 (other than Section 2.9(d));
- (b) the Borrower is required to pay any additional amount to any Bank or any Governmental Authority for the account of any Bank pursuant to Section 2.11; or
- (c) any Bank becomes a Defaulting Bank,

then, the Borrower may, at its sole expense and effort, upon notice to such Bank and the Agent, require such Bank to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 13.13), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Bank, if a Bank accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Agent, which consent shall not unreasonably be withheld, (ii) such Bank shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation or payments required to be made pursuant to Section 2.9, such assignment will result in a reduction in such compensation or payments. A Bank shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Bank or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

3. INTENTIONALLY OMITTED

4. INTENTIONALLY OMITTED

5. INTENTIONALLY OMITTED

6. INTENTIONALLY OMITTED

7. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

7.1 Organization and Qualification.

The Borrower and each Subsidiary of the Borrower: (a) are business entities duly organized, validly existing, and in good standing under the laws of their respective states of incorporation or formation; (b) have the corporate or organizational power to own their respective properties and to carry on their respective businesses as now conducted; and (c) are duly qualified as foreign entities to do business and are in good standing in every jurisdiction where such qualification is necessary except when the failure to so qualify would not or does not have a Material Adverse Effect. The Borrower is a corporation organized under the laws of Delaware and has the Subsidiaries listed on Schedule 7.1 attached hereto and made a part hereof for all purposes, and no others, each of which is a Delaware corporation unless otherwise noted on Schedule 7.1. None of the Subsidiaries listed on Schedule 7.1 as "Inactive Subsidiaries" conducts or will conduct any business, and none of such Subsidiaries has any assets other than minimum legal capitalization.

7.2 Financial Statements.

The Borrower has furnished the Banks with (a) the Borrower's annual audit reports containing the Borrower's consolidated balance sheets, statements of income and stockholder's equity and a cash flow statements as at and for the fiscal years ended on December 31, 2008 and December 31, 2009, each accompanied by the certificate of PricewaterhouseCoopers, LLP and (b) the Borrower's unaudited financial report as of each fiscal quarter ending subsequent to the date of the last financial statements delivered pursuant to clause (a) above. These statements are complete and correct and present fairly in all material respects in accordance with GAAP, consistently applied throughout the periods involved, the consolidated financial position of the Borrower and the Subsidiaries and the results of its and their operations as at the dates and for the periods indicated subject, as to interim statements only, to changes resulting from customary end-of-year credit adjustments which in the aggregate will not be material.

7.3 Litigation.

Except as disclosed on Schedule 7.3 or pursuant to Section 7.16, there is no: (a) action or proceeding pending or, to the knowledge of the Borrower, threatened against the Borrower or any Subsidiary of the Borrower before any court, administrative agency or arbitrator which is reasonably expected to have a Material Adverse Effect; (b) judgment outstanding against the Borrower for the payment of money which may reasonably be expected to result in a Material Adverse Effect; or (c) other outstanding judgment, order or decree affecting the Borrower or any Subsidiary before or by any administrative or governmental authority, compliance with or satisfaction of which could reasonably be expected to result in a Material Adverse Effect.

7.4 Default.

Neither the Borrower nor any Subsidiary of the Borrower is in default under or in violation of the provisions of any instrument evidencing any Debt or of any agreement relating thereto or any judgment, order, writ, injunction or decree of any court or any order, regulation or demand of any administrative or governmental instrumentality which default or violation might have a Material Adverse Effect.

7.5 Title to Assets.

The Borrower and each Subsidiary of the Borrower have good and marketable title to their respective assets, including its real and personal property material to its business, except for minor defects in title that do not interfere, in any significant manner, with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes and subject to no Liens except those permitted in Section 10.2.

7.6 Payment of Taxes.

The Borrower and each Subsidiary of the Borrower have filed all United States federal income tax returns and all other material tax returns which to the knowledge of the Borrower are required to be filed by them and have paid or provided for the payment of all taxes shown on said returns and all assessments which are due and payable (except such as are being contested in good faith by appropriate proceedings for which adequate reserves for their payment have been provided in a manner consistent with the accounting practices followed by the Borrower). The Borrower is not aware of any pending investigation by any taxing authority or of any claims by any governmental authority for any unpaid taxes in excess of \$10,000,000.00.

7.7 Conflicting or Adverse Agreements or Restrictions.

Neither the execution and delivery of this Agreement or the Notes or any other Loan Document nor the consummation of the transactions contemplated hereby nor fulfillment of and compliance with the respective terms, conditions and provisions hereof or of the Notes or of any instruments required hereby will conflict in any material respect with or result in a material breach of any of the terms, conditions or provisions of, or constitute a material default under, or result in any material violation of, or result in the creation or imposition of any Lien (other than as contemplated or permitted by this Agreement) on any of the property of the Borrower or any Subsidiary pursuant to (a) the charter or bylaws applicable to the Borrower or any Subsidiary; (b) any law or any regulation of any administrative or governmental instrumentality; (c) any order, writ, injunction or decree of any court; or (d) the terms, conditions or provisions of any agreement or instrument to which the Borrower or any Subsidiary is a party or by which it is bound or to which it is subject, which conflict or default which could reasonably be expected to result in a Material Adverse Effect.

7.8 Authorization, Validity, Etc.

The Borrower has the corporate power and authority to make, execute, deliver and carry out this Agreement and the transactions contemplated herein, to make the borrowings provided for herein, to execute and deliver the Notes and to perform its obligations hereunder and under the Notes and the other Loan Documents to which it is a party and all such action has been duly authorized by all necessary corporate proceedings on its part. This Agreement has been duly and validly executed and delivered by the Borrower and constitutes the valid and legally binding agreement of the Borrower enforceable in accordance with its terms, except as limited by Debtor Laws; and the Notes and the other Loan Documents, when duly executed and delivered by the Borrower pursuant to the provisions hereof, will constitute the valid and legally binding obligation of the Borrower enforceable in accordance with the terms thereof and of this Agreement, except as limited by Debtor Laws.

7.9 Investment Company Act Not Applicable.

Neither the Borrower nor any Subsidiary is an “investment company” or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

7.10 Intentionally Omitted.

7.11 Regulations T, U and X.

No Loan shall be a “purpose credit secured directly or indirectly by margin stock” within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (“margin stock”); none of the proceeds of any Loan will be used to purchase or to carry margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, or for any other purpose which would constitute this transaction a “purpose credit secured directly or indirectly by margin stock” within the meaning of said Regulation U, as now in effect or as the same may hereafter be in effect. Neither the Borrower nor any Subsidiary will take or permit any action which would involve the Banks in a violation of Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or a violation of the Securities Exchange Act of 1934, in each case as now or hereafter in effect. After applying proceeds of any Loan, not more than twenty-five percent (25%) of the value (as determined by any reasonable method) of the assets subject to the negative pledge set forth in Section 10.2 of the Agreement and the restrictions on disposition of assets set forth in Section 10.8 of the Agreement is represented by margin stock.

7.12 ERISA.

Neither the Borrower nor any Subsidiary of the Borrower maintains, or has in the past maintained, a multiemployer plan under Section 4001(a)(3) of ERISA; neither the Borrower nor any Subsidiary of the Borrower is required, or has in the past been required, to contribute to a multiemployer plan under Section 4001(a)(3) of ERISA. Except as provided in Schedule 7.12, no Reportable Event (as defined in §4043(c) of ERISA) has occurred with respect to any Plan. Except as provided in Schedule 7.12, each Plan complies in all material respects with applicable provisions of ERISA, and the Borrower and each Subsidiary of the Borrower have filed all reports required by ERISA and the Code to be filed with respect to each Plan. Except as provided in Schedule 7.12, the Borrower has no knowledge of any event which could result in a liability of the Borrower or any Subsidiary of the Borrower to the Pension Benefit Guaranty Corporation. Except as provided in Schedule 7.12, the Borrower and each Subsidiary of the Borrower have made all required contributions by the applicable due dates under ERISA and the Code to each of the Plans subject to §412 of the Code and §302 of ERISA, other than contributions in an aggregate amount not exceeding \$10,000,000.00, and no application for a funding waiver pursuant to §412 of the Code has been made with respect to any Plan. Since the effective date of Title IV of ERISA, there have not been any, nor are there now existing any, events or conditions that would permit any Plan to be terminated under circumstances which would cause the lien provided under §4068 of ERISA to attach to any property of the Borrower or any Subsidiary of the Borrower.

7.13 No Financing of Certain Security Acquisitions.

None of the proceeds of any Loan will be used to acquire any security in any transaction that is subject to §13 or §14 of the Securities Exchange Act of 1934, as amended, except the equity interests described in subparagraph (ii) of the definition of “Qualifying Assets”.

7.14 Franchises, Co-Licenses, Etc.

The Borrower and each Subsidiary of the Borrower own or have obtained all the material governmental permits, certificates of authority, leases, patents, trademarks, service marks, trade names, copyrights, franchises and licenses, and rights with respect thereto, required or necessary (or, in the sole and independent judgment of the Borrower, prudent) in connection with the conduct of their respective businesses as presently conducted or as proposed to be conducted, the absence of which could reasonably be expected to result in a Material Adverse Effect.

7.15 Lines of Business.

The nature of the Borrower’s lines of business are predominately the following: (a) the operation of energy distribution and transportation services, including without limitation, natural gas sales, storage and transportation and distribution, propane sales and distribution and promotion, marketing and sale of compressed natural gas and the terminaling and storage of liquefied natural gas; (b) electric marketing/generation; (c) gathering and processing of natural gas; and (d) sales and rentals of appliances utilizing one or more of the fuel or energy options specified in this Section 7.15.

7.16 Environmental Matters.

Each of the Borrower and its Subsidiaries (a) has been and is in substantial compliance with all applicable Environmental Laws in all material respects and has obtained and is in substantial compliance with all related permits necessary for the ownership and operation of its Property and business, except where the failure to so comply could not reasonably be expected to result in a Material Adverse Effect, and (b) does not and has not created, handled, transported, used, or disposed of any Hazardous Materials except in substantial compliance with all Environmental Laws in all material respects, nor, to its knowledge, has any of its currently or previously owned Property been used for those purposes, except where any such action that fails to so comply could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries (a) has ever been responsible for the Release of any Hazardous Materials into the environment except in substantial compliance with all applicable Environmental Laws in all material respects, except where any such Release that does not so comply could not reasonably be expected to result in a Material Adverse Effect and, to its knowledge, neither the Borrower’s nor any of its Subsidiaries’ currently or previously owned Property has been subjected to any Release of or is contaminated by any Hazardous Materials, except where any such Release or contamination could not reasonably be expected to result in a Material Adverse Effect; and (b) has, since December 31, 2004, received notice of and has ever been investigated for any violation or alleged violation of any Environmental Law which has not been remedied in accordance with Environmental Laws, which violation or alleged violation could reasonably be expected to result in a Material Adverse Effect.

8. CONDITIONS

The obligation of the Banks to execute this Agreement on the Closing Date and to fund their respective Loans on the Funding Date is subject to the following conditions:

8.1 Representations True and No Defaults.

(a) The representations and warranties contained in Section 7 shall be true and correct on and as of the Funding Date as though made on and as of such date;

(b) The Borrower shall not be in default in the due performance of any covenant on its part contained in this Agreement;

(c) No Event of Default or Default shall have occurred and be continuing at the time of, or after giving effect to the making of any Loan; and

(d) The proceeds of the Loans shall be used on the Funding Date by the Borrower to refinance the indebtedness under the Existing Agreement, with any excess proceeds being used for the purposes permitted under this Agreement.

8.2 Governmental Approvals.

The Borrower shall have obtained all orders, approvals or consents of all public regulatory bodies required for the making and carrying out of this Agreement, the making of the borrowings pursuant hereto, the issuance of the Notes to evidence such borrowings, or as required for the continuing operations of the Borrower and its Subsidiaries in the ordinary course.

8.3 Compliance With Law.

The business and operations of the Borrower and each Subsidiary as conducted at all times relevant to the transactions contemplated by this Agreement to and including the close of business on the Funding Date shall have been and shall be in compliance in all material respects with all applicable State and Federal laws, regulations and orders affecting the Borrower and each Subsidiary and the business and operations of any of them.

8.4 Notice of Borrowing and Other Documents.

The Banks shall have received (a) the Notice of Borrowing; and (b) such other documents and certificates relating to the transactions herein contemplated as the Banks may reasonably request.

8.5 Payment of Fees and Expenses.

The Borrower shall have paid (a) all expenses of the type described in Section 13.3 through the Funding Date and (b) all closing, structuring and other invoiced fees and expenses owed as of the Closing Date to the Agent, any of the Banks, the Lead Left Arranger, and/or the Syndication Agent by the Borrower under this Agreement or any other written agreement between the Borrower and the Agent, the applicable Bank(s), the Lead Left Arranger, or the Syndication Agent.

8.6 Loan Documents, Opinions and Other Instruments.

As of the Closing Date, the Borrower shall have delivered to the Agent the following: (a) this Agreement, each of the Notes and all other Loan Documents required by the Agent and the Banks to be executed and delivered by the Borrower in connection with this Agreement; (b) a certificate from the Secretary of State of the State of Delaware as to the continued existence and good standing of the Borrower in the State of Delaware; (c) a certificate from Secretary of State of the State of Texas as to the continued qualification of the Borrower to do business in the State of Texas; (d) a current certificate from the Office of the Comptroller of the State of Texas as to the good standing of the Borrower in the State of Texas; (e) a Secretary's Certificate executed by the duly elected Secretary or a duly elected Assistant Secretary of the Borrower, in a form acceptable to the Agent, whereby such Secretary or Assistant Secretary certifies, that one or more corporate resolutions adopted by the Board of Directors of the Borrower remain in full force and effect authorizing the Borrower to secure Loans in accordance with the terms of this Agreement; and (f) a legal opinion from in-house counsel for the Borrower, dated as of the Closing Date, addressed to the Agent and the Banks and otherwise acceptable in all respects to the Agent in its discretion.

8.7 Financial Condition.

As of the Closing Date only, no Material Adverse Effect shall have occurred, as reflected in the quarterly financial statements of the Borrower delivered in accordance with Section 7.2 (copies of such financial statements having been supplied to the Agent and each Bank).

9. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that, so long as the Borrower may borrow hereunder and until payment in full of the Notes, and its other obligations under this Agreement and the other Loan Documents the Borrower will:

9.1 Financial Statements and Information.

Deliver to the Banks:

(a) as soon as available, and in any event within 120 days after the end of each fiscal year of the Borrower, a copy of the annual audit report of the Borrower and the Subsidiaries for such fiscal year containing a balance sheet, statements of income and stockholders equity and a cash flow statement, all in reasonable detail and certified by PricewaterhouseCoopers, LLP or another independent certified public accountant of recognized standing satisfactory to the Banks. The Borrower will obtain from such accountants and deliver to the Banks at the time said financial statements are delivered the written statement of the accountants that in making the examination necessary to said certification they have obtained no knowledge of any Event of Default or Default, or if such accountants shall have obtained knowledge of any such Event of Default or Default, they shall state the nature and period of existence thereof in such statement; provided that such accountants shall not be liable directly or indirectly to the Banks for failure to obtain knowledge of any such Event of Default or Default; and

(b) as soon as available, and in any event within sixty (60) days after the end of each quarterly accounting period in each fiscal year of the Borrower (excluding the fourth quarter), an unaudited financial report of the Borrower and the Subsidiaries as at the end of such quarter and for the period then ended, containing a balance sheet, statements of income and stockholders equity and a cash flow statement, all in reasonable detail and certified by a financial officer of the Borrower to have been prepared in all material respects in accordance with GAAP, except as may be explained in such certificate; and

(c) such additional financial or other information as the Banks may reasonably request including, without limitation, copies of any statements and reports sent to stockholders of the Borrower or filed with the Securities and Exchange Commission and any such monthly, quarterly, and annual reports of gas purchases and sales that the Borrower is required to deliver to or file with governmental bodies pursuant to tariffs and/or franchise agreements.

All financial statements specified in clauses (a) and (b) above shall be furnished in consolidated form for the Borrower and all Subsidiaries with comparative consolidated figures for the corresponding period in the preceding year. Together with each delivery of financial statements required by clauses (a) and (b) above, the Borrower will deliver to the Banks (i) such schedules, computations and other information as may be required to demonstrate that the Borrower is in compliance with its covenants in Section 10.1 or reflecting any noncompliance therewith as at the applicable date and (ii) an Officer's Certificate stating that there exists no Event of Default or Default, or, if any such Event of Default or Default exists, stating the nature thereof, the period of existence thereof and what action the Borrower has taken or proposes to take with respect thereto. The Banks are authorized to deliver a copy of any financial statement delivered to it to any regulatory body having jurisdiction over them, and to disclose same to any prospective assignees or participant Banks.

9.2 Lease and Investment Schedules.

Deliver to the Banks:

(a) from time to time and, in any event, with each delivery of annual financial statements under Section 9.1(a), a current, complete schedule (in the form of Schedule 9.2) of all agreements to rent or lease any property (personal, real or mixed, but not including oil and gas leases) to which the Borrower or any Subsidiary is a party as lessee and which, considered independently or collectively with other leases with the same lessor, involve an obligation by the Borrower or a Subsidiary to make payments of at least \$1,000,000.00 in any year, showing the total amounts payable under each such agreement, the amounts and due dates of payments thereunder and containing a description of the rented or leased property, and all other information the Majority Banks may request; and

(b) with each delivery of annual financial statements under Section 9.1(a) a current complete schedule (in the form of Schedule 9.2) listing all debt exceeding \$1,000,000.00 in principal amount outstanding and equity owned or held by the Borrower or any Subsidiary containing all information required by, and in a form satisfactory to, the Banks, except for such debt or equity of Subsidiaries.

9.3 Books and Records.

Maintain, and cause each Subsidiary to maintain, proper books of record and account in all material respects in accordance with sound accounting practices in which true, full and correct entries will be made of all their respective dealings and business affairs.

9.4 Insurance.

Maintain, and cause each Subsidiary to maintain, insurance with financially sound, responsible and reputable companies in such types and amounts and against such casualties, risks and contingencies as is customarily carried by owners of similar businesses and properties, and furnish to the Banks, together with each delivery of annual financial statements under Section 9.1(a), an Officer's Certificate containing full information as to the insurance carried.

9.5 Maintenance of Property.

Cause its property and the property of each Subsidiary which is material to the operation of its business or such Subsidiary's business to be maintained, preserved, protected and kept in good repair, working order and condition so that the business carried on in connection therewith may be conducted properly and efficiently, except for normal wear and tear.

9.6 Inspection of Property and Records.

Permit any officer, director or agent of the Agent or any Bank, on written notice and at such Banks expense, to visit and inspect during normal business hours any of the properties, corporate books and financial records of the Borrower and each Subsidiary and discuss their respective affairs and finances with their principal officers, all at such times as the Agent or any Bank may reasonably request.

9.7 Existence, Laws, Obligations.

Maintain, and cause each Subsidiary to maintain, its corporate existence and franchises, and any license agreements and tariffs that permit the recovery of a return that the Borrower considers to be fair (and as to licenses, franchises, and tariffs that are subject to regulatory determinations of recovery of returns, the Borrower has presented or is presenting favorable defense thereof); and to comply, and cause each Subsidiary to comply, with all statutes and governmental regulations noncompliance with which might have a Material Adverse Effect, and pay, and cause each Subsidiary to pay, all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations which if unpaid might become a lien against the property of the Borrower or any Subsidiary except liabilities being contested in good faith. Notwithstanding the foregoing, the Borrower may dissolve those certain inactive and minimally capitalized Subsidiaries designated as such on Schedule 7.1.

9.8 Notice of Certain Matters.

Notify the Agent Bank promptly upon acquiring knowledge of the occurrence of any of the following events: (a) the institution or threatened institution of any lawsuit or administrative proceeding affecting the Borrower or any Subsidiary that is not covered by insurance (less applicable deductible amounts) and which, if determined adversely to the Borrower or such Subsidiary, could reasonably be expected to result in a Material Adverse Effect; (b) the occurrence of any Material Adverse Effect, or of any event that could reasonably be expected to result in a Material Adverse Effect; (c) the occurrence of any Event of Default or any Default; or (d) a change by Moody's or by S&P in the rating of the Borrower's Funded Debt.

ERISA.

At all times:

(a) to the extent required of the Borrower under applicable law, maintain and keep in full force and effect each Plan, subject to the Borrower's right, in accordance with applicable legal requirements, (i) to amend any such Plans, (ii) to merge any such Plans, and to (iii) cease benefit accruals under any such Plans;

(b) to the extent required of the Borrower under applicable law, make contributions to each Plan in a timely manner and in an amount sufficient to comply with the minimum funding standards requirements of ERISA;

(c) immediately upon acquiring knowledge of any "reportable event" or of any "prohibited transaction", which "prohibited transaction" may be reasonably likely to result in a Material Adverse Effect (as such terms are defined in § 4043 and §406 of ERISA) in connection with any Plan, furnish the Banks with a statement executed by the president or chief financial officer of the Borrower setting forth the details thereof and the action which the Borrower proposes to take with respect thereto and, when known, any action taken by the Internal Revenue Service with respect thereto;

(d) notify the Banks promptly upon receipt by the Borrower or any Subsidiary of any notice of the institution of any proceeding or other action which may result in the termination of any Plan and furnish to the Banks copies of such notice;

(e) to the extent required of the Borrower under applicable law, maintain Pension Benefit Guaranty Corporation liability coverage insurance required under ERISA;

(f) furnish the Banks with copies of the summary annual report for each Plan filed with the Internal Revenue Service as the Agent or the Banks may request; and

(g) furnish the Banks with copies of any request for waiver of the funding standards or extension of the amortization periods required by § 303 and § 304 of ERISA or § 412 of the Code promptly after the request is submitted to the Secretary of the Treasury, the Department of Labor or the Internal Revenue Service, as the case may be.

9.10**Compliance with Environmental Laws.**

At all times:

(a) use and operate, and cause each Subsidiary to use and operate, all of their respective facilities and properties in material compliance with all applicable Environmental Laws; keep, and cause each Subsidiary to keep, all necessary permits, approvals, orders, certificates, licenses and other authorizations relating to environmental matters in effect and remain in material compliance therewith; handle, and cause each Subsidiary to handle, all Hazardous Materials in material compliance with all applicable Environmental Laws; and dispose, and cause each Subsidiary to dispose, of all Hazardous Materials generated by the Borrower or any Subsidiary or at any property owned or leased by them at facilities or with carriers that maintain valid permits, approvals, certificates, licenses or other authorizations for such disposal under applicable Environmental Laws;

(b) promptly notify the Agent and provide copies upon receipt of all written claims, complaints, notices or inquiries relating to the condition of the facilities and properties of the Borrower and each Subsidiary under, or their respective compliance with, applicable Environmental Laws wherein the condition or the noncompliance that is the subject of such claim, complaint, notice, or inquiry involves, or could reasonably be expected to involve, liability of or expenditures by the Borrower and its Subsidiaries of \$75,000,000.00 or more; and

(c) provide such information and certifications which the Banks may reasonably request from time to time to evidence compliance with this Section 9.10.

9.11 Use of Proceeds.

Use proceeds of the Loans to refinance indebtedness under the Existing Agreement, with any remaining proceeds of the Loans to be used by the Borrower to provide working capital and for general corporate purposes of the Borrower and its Subsidiaries, which may include the redemption of all or part of the Borrower's 7.55% Noncumulative Preferred Stock, Series A.

9.12 PG2A Clauses.

Use its best efforts to maintain in force provisions in all of its tariffs and franchise agreements that permit the Borrower to recover from customers substantially all of the amount by which the cost of gas purchases exceeds the amount currently billed to customers for the delivery of such gas (sometimes referred to as PGA clauses).

10. NEGATIVE COVENANTS

So long as the Borrower may borrow hereunder and until payment in full of the Notes, except with the written consent of the Banks:

10.1 Capital Requirements.

The Borrower will not:

(a) **[Intentionally Omitted]**;

(b) permit the ratio of its Consolidated Total Indebtedness to its Consolidated Total Capitalization to be greater than 0.65 to 1.00 at the end of any fiscal quarter; or

(c) acquire, or permit any Subsidiary to acquire, any assets other than (i) investments permitted under Section 10.4, or (ii) Qualifying Assets; or

(d) permit the ratio of EBDIT to Cash Interest Expense for the four fiscal quarters most recently ended (considered as a single accounting period) at any time to be less than 2.00 to 1.00 at all times.

10.2 Mortgages, Liens, Etc.

The Borrower will not, and will not permit any Subsidiary to, create or permit to exist any Lien (including the charge upon assets purchased under a conditional sales agreement, purchase money mortgage, security agreement or other title retention agreement) upon any of its respective assets, whether now owned or hereafter acquired, or assign or otherwise convey any right to receive income, except:

- (a) Liens for taxes not yet due or that are being contested in good faith by appropriate proceedings;
- (b) other Liens incidental to the conduct of its business or the ownership of its assets that were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and that do not in the aggregate materially detract from the value of such assets or materially impair the use thereof in the operation of such business;
- (c) Liens on assets of a Subsidiary to secure obligations of such Subsidiary to the Borrower or another Subsidiary;
- (d) Liens on property existing at the time of acquisition thereof by the Borrower or any Subsidiary, including without limitation, (i) any property acquired by the Borrower in consummating and finalizing the Prior Acquisitions, or (ii) purchase money Liens placed on an item of real or personal property purchased by the Borrower or any Subsidiary to secure a portion of the purchase price of such property; provided that no such Lien may encumber or cover any other property of the Borrower or any Subsidiary;
- (e) Liens for taxes, assessments and governmental charges or levies imposed upon a Person or such person's income or profits or property, if the same are not yet due and payable or if the same are being contested in good faith and as to which adequate cash reserves have been provided;
- (f) Liens arising from good faith deposits in connection with tenders, leases, real estate bids or contracts (other than contracts involving the borrowing of money), pledges or deposits to secure public or statutory obligations and deposits to secure (or in lieu of) surety, stay, appeal or custom bonds and deposits to secure the payment of taxes, assessments, custom duties or other similar charges;
- (g) encumbrances consisting of zoning restrictions, easements, or other restrictions on the use of real property for the purposes intended, and none of which is violated by existing or proposed structures or land use;
- (h) Liens existing on property acquired by the Borrower or any of its Subsidiaries at the time of acquisition, provided that such Liens were not created in contemplation of such acquisition and do not extend to any assets other than the property so acquired;
- (i) any other Liens (other than the Liens described in clauses (a) through (g) above, inclusive), if the aggregate amount of all obligations secured by such Liens does not exceed \$75,000,000 at any one time outstanding; and
- (j) Liens arising in connection with any Receivables Purchase and Sale Agreement.

10.3 Debt.

The Borrower will not, and will not permit any Subsidiary to, incur or permit to exist any Debt, except:

(a) Debt evidenced by the Notes, the Facility Notes, or the Facility Letter of Credit Obligations, or outstanding under any Equity-Preferred Securities (to the extent the same constitutes Debt) not in default, as well as (i) Debt of Panhandle Eastern and/or any of its Subsidiaries, so long as (A) such Debt is otherwise permitted under Section 10.3(g) and (B) after giving effect to the issuance of such Debt, the ratio of Consolidated Total Indebtedness to Consolidated Total Capitalization for Panhandle Eastern and Panhandle Eastern's Subsidiaries (excluding the Borrower and all other Subsidiaries of the Borrower for purposes of such calculation) is no greater than 0.70 to 1.00, and (ii) any loans or advances by the Borrower to Panhandle Eastern and/or any of the Borrower's other Subsidiaries permitted under Section 10.4(b);

(b) Debt of any Subsidiary to the Borrower or any other Subsidiary, except to the extent limited by the terms of Section 10.4(b), and Debt of the Borrower to any Subsidiary;

(c) Debt existing as of March 31, 2010 as reflected on financial statements delivered under Section 7.2(b) and refinancings thereof other than Debt that has been refinanced by the proceeds of Loans;

(d) endorsements in the ordinary course of business of negotiable instruments in the course of collection;

(e) Debt of the Borrower or any Subsidiary representing the portion of the purchase price of property acquired by the Borrower or such Subsidiary that is secured by Liens permitted by the provisions of Section 10.2(d); provided, however, that at no time may the aggregate principal amount of such Debt outstanding exceed thirty percent (30%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date;

(f) Debt evidenced by Senior Notes;

(g) additional Debt of the Borrower, and additional Debt of Panhandle Eastern and/or any of Panhandle Eastern's Subsidiaries (so long as such additional Debt of Panhandle Eastern and/or any of Panhandle Eastern's Subsidiaries is otherwise permitted under Section 10.3(a)), provided that after giving effect to the issuance thereof, (i) there shall exist no Default or Event of Default; and (ii) the ratio of Consolidated Total Indebtedness to Consolidated Total Capitalization shall be no greater than 0.65 to 1.00 at all times; (iii) the ratio of EBDIT for the four fiscal quarters most recently ended to pro forma Cash Interest Expense for the following four fiscal quarters shall be no less than 2.00 to 1.0 at all times; and (iv) (A) such Debt shall have a final maturity or mandatory redemption date, as the case may be, no earlier than the Maturity Date and shall mature or be subject to mandatory redemption or mandatory defeasance no earlier than the Maturity Date (as so extended) and shall be subject to no mandatory redemption or "put" to the Borrower exercisable, or sinking fund or other similar mandatory principal payment provisions that require payments to be made toward principal, prior to such Maturity Date (as so extended); or (B) (x) such additional Debt shall have a final maturity date prior to the Maturity Date, and (y) such additional Debt shall not exceed Three Hundred Fifty Million Dollars (\$350,000,000.00) in the aggregate plus Twenty Million Dollars (\$20,000,000.00) of reimbursement obligations incurred in connection with Non-Facility Letters of Credit issued by a Bank or Banks or by any other financial institution;

(h) additional Debt of Trunkline LNG Holdings or any of its Subsidiaries, so long as (i) such Debt is to Trunkline LNG Holdings and/or any of its Subsidiaries only and is not recourse in any respect to the Borrower or any other Subsidiary of the Borrower (other than Panhandle Eastern and its Subsidiaries), (ii) the proceeds of such Debt is used solely to finance capital expenditures of Trunkline LNG Holdings and/or its Subsidiaries, and (iii) after giving effect to such Debt, no Default or Event of Default shall exist; and

(i) Debt arising under any Receivables Purchase and Sale Agreement.

10.4 Loans, Advances and Investments.

The Borrower will not, and will not permit any Subsidiary to, make or have outstanding any loan or advance to, or own or acquire any stock or securities of or equity interest or other Investment in, any Person, except (without duplication):

(a) stock or other equity interests of (i) the Subsidiaries named in Section 7.1; and (ii) the same Qualifying Entities as the Qualifying Entities under subparagraph (ii) of the definition of “Qualifying Assets,” provided that at any one time the aggregate purchase price paid for such stock in such Qualifying Entities, including the aggregate amount of Debt assumed or deemed incurred by the Borrower in connection with the purchase of such stock, is not more than twenty percent (20%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date;

(b) loans or advances to a Subsidiary; provided, however, that the principal amount of such loans and advances for working capital purposes at any time outstanding to Panhandle Eastern and/or any of Panhandle Eastern’s Subsidiaries, together with the principal amount of any outstanding working capital credit facility or facilities provided directly to Panhandle Eastern and/or any of Panhandle Eastern’s Subsidiaries by any party other than the Borrower, does not exceed \$50,000,000 in the aggregate at any time;

(c) Securities maturing no more than 180 days after the Borrower’s purchase that are either:

- (i) readily marketable securities issued by the United States or its agencies or instrumentalities; or
- (ii) commercial paper rated “Prime 2” by Moody’s or A-2 by S&P; or
- (iii) certificates of deposit or repurchase contracts on customary terms with financial institutions in which deposits are insured by any agency or instrumentality of the United States; or
- (iv) readily marketable securities received in settlement of liabilities created in the ordinary course of business; or

- (v) obligations of states, agencies, counties, cities and other political subdivisions of any state rated at least MIG2, VMIG2 or Aa by Moody's or AA by S&P; or
 - (vi) loan participations in credits in which the borrower's debt is rated at least Aa or Prime 2 by Moody's or AA or A-2 by S&P; or
 - (vii) money market mutual funds that are regulated by the Securities and Exchange Commission, have a dollar-weighted average stated maturity of 90 days or fewer on their investments and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
- (d) other equity interests owned by a Subsidiary on the date of this Agreement and such additional equity interests to the extent (but only to the extent) that such Subsidiary is legally obligated to acquire those interests on the date of this Agreement, in each case as disclosed to the Banks in writing;
 - (e) travel and expense advances in the ordinary course of business to officers and employees;
 - (f) stock or securities of or equity interests in, any Person provided that, after giving effect to the acquisition and ownership thereof, the Borrower is in compliance with the provisions of Section 10.1(c) of this Agreement; and
 - (g) loans, advances or other Investments by the Borrower or any Subsidiary not otherwise permitted under the other provisions of this Section 10.4, so long as the sum of the outstanding balance of all of such loans and advances and the purchase price paid for all of such other Investments does not exceed in the aggregate seven percent (7%) of the Consolidated Net Worth of the Borrower and its Subsidiaries as of the applicable determination date.

10.5 Stock and Debt of Subsidiaries.

The Borrower will not, and will not permit any Subsidiary to, sell or otherwise dispose of any shares of stock, other equity interests or Debt of any Subsidiary, or permit any Subsidiary to issue or dispose of its stock (other than directors' qualifying shares), except for the following: (i) the sale, transfer or issuance of stock, other equity interests or Debt of any Subsidiary to the Borrower or another Subsidiary of the Borrower; (ii) the sale of stock in Sea Robin Pipeline Company and Debt of Sea Robin Pipeline Company, (iii) the issuance by other Subsidiaries of the Borrower formed for the purpose of issuing Equity-Preferred Securities, and (v) the sale or issuance of Debt otherwise permitted under Section 10.3.

10.6 Merger, Consolidation, Etc.

The Borrower will not, and will not permit any Subsidiary to, merge or consolidate with any other Person or sell, lease, transfer or otherwise dispose of (whether in one transaction or a series of transactions) all or a substantial part of its assets or acquire (whether in one transaction or a series of transactions) all or a substantial part of the assets of any Person, except that:

- (a) any Subsidiary may merge or consolidate with the Borrower (provided that, the Borrower shall be the continuing or surviving corporation) or with any one or more Subsidiaries;
- (b) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Borrower or another Subsidiary;
- (c) the Borrower may acquire the assets of any Person, provided that, after giving effect to such acquisition, the Borrower is in compliance with the provisions of Section 10.1(c); and
- (d) the Borrower or any Subsidiary may sell, lease, assign or otherwise dispose of assets as otherwise permitted under Section 10.8.

10.7 Supply and Purchase Contracts.

The Borrower will not, and will not permit any Subsidiary to, enter into or be a party to any contract for the purchase of materials, supplies or other property if such contract requires that payment for such materials, supplies or other property shall be made regardless of whether or not delivery is ever made or tendered of such materials, supplies and other property, except in those circumstances and involving those supply or purchase contracts that the Borrower reasonably considers to be necessary or helpful in its operations in the ordinary course of business and that the Borrower reasonably considers not to be unnecessarily burdensome on the Borrower or its Subsidiaries.

10.8 Sale or Other Disposition of Assets.

The Borrower will not, and will not permit any Subsidiary to, except as permitted under this Section 10.8, sell, assign, lease, or otherwise dispose of (whether in one transaction or in a series of transactions) all or any part of its Property (whether now owned or hereafter acquired); provided, however, that (i) the Borrower or any Subsidiary may in the ordinary course of business dispose of (a) Property consisting of Inventory; and (b) Property consisting of goods or equipment that are, in the opinion of the Borrower or any Subsidiary, obsolete or unproductive, but if in the good faith judgment of the Borrower or any Subsidiary such disposition without replacement thereof would have a Material Adverse Effect, such goods and equipment shall be replaced, or their utility and function substituted, by new or existing goods or equipment; (ii) the Borrower may transfer or dispose of any of its Property (in any transaction or series of transactions) to any Subsidiary or Subsidiaries only if such Property so transferred or disposed of after December 31, 2009 has an aggregate value (determined after depreciation and in accordance with GAAP) of not more than twenty percent (20%) of the aggregate value of all of the Borrower's and its Subsidiaries' real property and tangible personal property other than Inventory considered on a consolidated basis and determined after depreciation and in accordance with GAAP, as of December 31, 2009; (iii) the Borrower may dispose of its real property in one or more sale/leaseback transactions, provided that, any Debt incurred in connection with such transaction does not create a Default as defined herein; (iv) the Borrower or any Subsidiary may dispose of real property or tangible personal property other than Inventory (in consideration of such amount as in the good faith judgment of the Borrower or such Subsidiary represents a fair consideration therefor), provided that the aggregate value of such property disposed of (determined after depreciation and in accordance with GAAP) after December 31, 2009 does not exceed twenty percent (20%) of the aggregate value of all of the Borrower's and its Subsidiaries' real property and tangible personal property other than Inventory considered on a consolidated basis and determined after depreciation and in accordance with GAAP, as of December 31, 2009; (v) the Borrower may dispose of Qualifying Assets of the type described in clause (ii) of the definition of Qualifying Assets, provided that the Borrower applies the net proceeds from such disposition against the Loans in an amount equal to the amount of Loan proceeds previously advanced to finance the acquisition of such clause (ii) Qualifying Assets; (vi) the Borrower may sell all stock or all or substantially all of the assets in Sea Robin Pipeline Company or the assets of its New England Gas Company division and (vii) the Borrower and its Subsidiaries may dispose of any receivables and related rights pursuant to any Receivables Purchase and Sale Agreement.

10.9 Discount or Sale of Receivables.

Other than pursuant to any Receivables Purchase and Sale Agreement, Borrower will not, and will not permit any Subsidiary, to discount or sell with recourse, or sell for less than the face value thereof (including any accrued interest) any of its notes receivable, receivables under leases or other accounts receivable.

10.10 Change in Accounting Method.

The Borrower will not, and will not permit any Subsidiary to, make any change in the method of computing depreciation for either tax or book purposes or any other material change in accounting method representing any departure from GAAP without the Majority Banks' prior written approval.

10.11 Restricted Payment.

The Borrower will not pay or declare any Restricted Payment unless immediately prior to such payment and after giving effect to such payment, the Borrower could incur at least \$1 of additional Debt without violating the provisions of Section 10.3(g) and after giving effect thereto no Default or Event of Default exists hereunder; provided, however, that (i) the Borrower shall have the ability to purchase or agree to purchase all or part of its 7.55% Noncumulative Preferred Stock, Series A at any time if, after giving effect thereto, no Default or Event of Default exists hereunder and (ii) the Borrower's ability to purchase or agree to purchase its common stock and/or preferred equity securities (including without limitation, Equity-Preferred Securities) shall be limited as follows: (a) not more than \$50,000,000 in the aggregate of common stock and other preferred equity securities may be repurchased per each fiscal year of the Borrower at any time the ratio of Consolidated Total Indebtedness to Consolidated Total Capitalization for the Borrower and its Subsidiaries is greater than 0.60 to 1.00; (b) not more than \$100,000,000 in the aggregate of common stock and other preferred equity securities may be repurchased per each fiscal year of the Borrower at any time the ratio of Consolidated Total Indebtedness to Consolidated Total Capitalization for the Borrower and its Subsidiaries is less than or equal to 0.60 to 1.00; and (c) no repurchases of common stock or other preferred equity securities may be made if the Borrower's unsecured, non-credit enhanced senior debt as specified by S&P and Moody's falls below either BBB- or Baa3, respectively.

10.12 Securities Credit Regulations.

Neither the Borrower nor any Subsidiary will take or permit any action which might cause the Loans or this Agreement to violate Regulation G, Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or a violation of the Securities Exchange Act of 1934, in each case as now or hereafter in effect.

10.13 Nature of Business; Management.

The Borrower will not, and will not permit any Subsidiary to: (a) change its principal line of business; or (b) enter into any business not within the scope of Section 7.15 and the definition of Qualifying Assets; or (c) permit any material overall change in the management of the Borrower.

10.14 Transactions with Related Parties.

The Borrower will not, and will not permit any Subsidiary to, enter into any transaction or agreement with any officer, director or holder of ten percent (10%) or more of any class of the outstanding capital stock of the Borrower or any Subsidiary (or any Affiliate of any such Person) unless the same is upon terms substantially similar to those obtainable from wholly unrelated sources.

10.15 Hazardous Materials.

The Borrower will not, and will not permit any Subsidiary to (a) cause or permit any Hazardous Materials to be placed, held, used, located, or disposed of on, under or at any of such Person's property or any part thereof by any Person in a manner which could reasonably be expected to result in a Material Adverse Effect; (b) cause or permit any part of any of such Person's property to be used as a manufacturing, storage, treatment or disposal site for Hazardous Materials, where such action could reasonably be expected to result in a Material Adverse Effect; or (c) cause or suffer any liens to be recorded against any of such Person's property as a consequence of, or in any way related to, the presence, remediation, or disposal of Hazardous Materials in or about any of such Person's property, including any so-called state, federal or local "superfund" lien relating to such matters, where such recordation could reasonably be expected to result in a Material Adverse Effect.

11. EVENTS OF DEFAULT; REMEDIES

If any of the following events shall occur, then the Agent shall at the request, or may with the consent, of the holders of more than fifty percent (50%) in principal amount of the Notes then outstanding or, if no Note is then outstanding, Banks having more than fifty percent (50%) of the Commitments, (a) by notice to the Borrower, declare the Commitment of each Bank and the several obligation of each Bank to make Loans hereunder to be terminated, whereupon the same shall forthwith terminate, and (b) declare the Notes and all interest accrued and unpaid thereon, and all other amounts payable under the Notes, this Agreement and the other Loan Documents, to be forthwith due and payable, whereupon the Notes, all such interest and all such other amounts, shall become and be forthwith due and payable without presentment, demand, protest, or further notice of any kind (including, without limitation, notice of default, notice of intent to accelerate and notice of acceleration), all of which are hereby expressly waived by the Borrower; provided, however, that with respect to any Event of Default described in Sections 11.7 or 11.8 hereof, (i) the Commitment of each Bank and the obligation of the Banks to make Loans shall automatically be terminated and (ii) the entire unpaid principal amount of the Notes, all interest accrued and unpaid thereon, and all such other amounts payable under the Notes, this Agreement and the other Loan Documents, shall automatically become immediately due and payable, without presentment demand, protest, or any notice of any kind (including, without limitation, notice of default, notice of intent to accelerate and notice of acceleration), all of which are hereby expressly waived by the Borrower:

11.1 Failure to Pay Principal or Interest.

The Borrower does not pay, repay or prepay any principal of or interest on any Note when due.

11.2 Failure to Pay Fees or Other Amounts.

The Borrower does not pay any fee or any other obligation or amount payable under this Agreement, the Notes, or any Loan Document within five (5) calendar days after the same shall have become due.

11.3 Other Debt Default.

The Borrower or any Subsidiary fails to pay principal or interest on any other Debt aggregating more than \$25,000,000 when due and any related grace period has expired, or the holder of any of such other Debt declares such Debt due prior to its stated maturity because of the Borrower's or any Subsidiary's default thereunder and the expiration of any related grace period.

11.4 Misrepresentation or Breach of Warranty.

Any representation or warranty made by the Borrower herein or otherwise furnished to the Bank in connection with this Agreement or any other Loan Document shall be incorrect, false or misleading in any material respect when made.

11.5 Violation of Negative Covenants.

The Borrower violates any covenant, agreement or condition contained in Sections 10.2, 10.3, 10.5, 10.6, 10.8, 10.9, 10.10, 10.11, or 10.15.

11.6 Violation of Other Covenants, Etc.

The Borrower violates any other covenant, agreement or condition contained herein (other than the covenants, agreements and conditions set forth or described in Sections 11.1, 11.2, 11.3, 11.4, and 11.5 above) or in any other Loan Document and such violation shall not have been remedied within thirty (30) days after the earlier of (a) actual discovery by the Borrower of such violation or (b) written notice has been received by the Borrower from the Bank or the holder of the Note.

11.7 Bankruptcy and Other Matters.

The Borrower or any Subsidiary of the Borrower (a) makes an assignment for the benefit of creditors; or (b) admits in writing its inability to pay its debts generally as they become due; or (c) generally fails to pay its debts as they become due; or (d) files a petition or answer seeking for itself, or consenting to or acquiescing in, any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any applicable Debtor Law (including, without limitation, the Federal Bankruptcy Code); or (e) there is appointed a receiver, custodian, liquidator, fiscal agent, or trustee of the Borrower or any Subsidiary or of the whole or any substantial part of their respective assets; or (f) any court enters an order, judgment or decree approving a petition filed against the Borrower or any Subsidiary seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any Debtor Law and either such order, decree or judgment so filed against it is not dismissed or stayed (unless and until such stay is no longer in effect) within thirty (30) days of entry thereof or an order for relief is entered pursuant to any such law.

11.8 Dissolution.

Any order is entered in any proceeding against the Borrower or any Subsidiary of the Borrower decreeing the dissolution, liquidation, winding-up or split-up of the Borrower or such Subsidiary, and such order remains in effect for thirty (30) days.

11.9 Undischarged Judgment.

Final judgment or judgments in the aggregate, that might be or give rise to Liens on any property of the Borrower or any Subsidiary of the Borrower, for the payment of money in excess of \$25,000,000.00 shall be rendered against the Borrower or any Subsidiary of the Borrower and the same shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed by an unexhausted appeal process, which causes the applicable judgment or judgments to not be final and non-appealable.

11.10 Environmental Matters.

The occurrence of any of the following events that could result in liability to the Borrower or any Subsidiary of the Borrower under any Environmental Law or the creation of a Lien on any property of the Borrower or any Subsidiary in favor of any governmental authority or any other Person for any liability under any Environmental Law or for damages arising from costs incurred by such Person in response to a Release or threatened Release of Hazardous Materials into the environment if any such asserted liability or Lien could reasonably be expected to result in a Material Adverse Effect:

- (a) the Release of Hazardous Materials at, upon, under or within the property owned or leased by the Borrower or any Subsidiary or any contiguous property;
- (b) the receipt by the Borrower or any Subsidiary of any summons, claim, complaint, judgment, order or similar notice that it is not in compliance with or that any governmental authority is investigating its compliance with any Environmental Law;
- (c) the receipt by the Borrower or any Subsidiary of any notice or claim to the effect that it is or may be liable for the Release or threatened Release of Hazardous Materials into the environment; or
- (d) any governmental authority incurs costs or expenses in response to the Release of any Hazardous Material which affects in any way the properties of the Borrower or any Subsidiary.

11.11 Change of Control.

A Change of Control shall have occurred.

11.12 Other Remedies.

In addition to and cumulative of any rights or remedies expressly provided for in this Section 11, if any one or more Events of Default shall have occurred, the Agent shall at the request, and may with the consent, of the Majority Banks proceed to protect and enforce the rights of the Banks hereunder by any appropriate proceedings. The Agent shall at the request, and may with the consent, of the Majority Banks also proceed either by the specific performance of any covenant or agreement contained in this Agreement or by enforcing the payment of the Notes or by enforcing any other legal or equitable right provided under this Agreement or the Notes or otherwise existing under any law in favor of the holder of the Notes.

11.13 Remedies Cumulative.

No remedy, right or power conferred upon the Banks is intended to be exclusive of any other remedy, right or power given hereunder or now or hereafter existing at law, in equity, or otherwise, and all such remedies, rights and powers shall be cumulative.

12. THE AGENT

12.1 Authorization and Action.

The Bank of Tokyo-Mitsubishi UFJ, Ltd. hereby resigns as the Existing Agent, and the Borrower and all of the Banks agree that on the Closing Date Mizuho shall succeed to and become the administrative agent for the Banks under this Agreement. Each Bank hereby appoints Mizuho as its Agent under and irrevocably authorizes the Agent (subject to Sections 12.1 and 12.7) to take such action as the Agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto. Without limitation of the foregoing, each Bank expressly authorizes the Agent to execute, deliver, and perform its obligations under this Agreement, and to exercise all rights, powers, and remedies that the Agent may have hereunder. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act, or to refrain from acting (and shall be fully protected in so acting or refraining from acting), upon the instructions of the Majority Banks, and such instructions shall be binding upon all the Banks and all holders of any Note; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or applicable law. The Agent agrees to give to each Bank prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

12.2 Agent's Reliance, Etc.

Neither the Agent nor any of its directors, officers, agents, or employees shall be liable to any Bank for any action taken or omitted to be taken by it or them under or in connection with this Agreement, the Notes and the other Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (a) may treat the original or any successor holder of any Note as the holder thereof until the Agent receives notice from the Bank which is the payee of such Note concerning the assignment of such Note; (b) may employ and consult with legal counsel (including counsel for the Borrower), independent public accountants, and other experts selected by it and shall not be liable to any Bank for any action taken, or omitted to be taken, in good faith by it or them in accordance with the advice of such counsel, accountants, or experts received in such consultations and shall not be liable for any negligence or misconduct of any such counsel, accountants, or other experts; (c) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any opinions, certifications, statements, warranties, or representations made in or in connection with this Agreement; (d) shall not have any duty to any Bank to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of this Agreement or any other instrument or document furnished pursuant thereto or to satisfy itself that all conditions to and requirements for any Loan have been met or that the Borrower is entitled to any Loan or to inspect the property (including the books and records) of the Borrower or any Subsidiary; (e) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other instrument or document furnished pursuant thereto; and (f) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate, or other instrument or writing (which may be by telegram, cable, telex, or otherwise) believed by it to be genuine and signed or sent by the proper party or parties.

12.3 Defaults.

The Agent shall not be deemed to have knowledge of the occurrence of a Default (other than the nonpayment of principal of or interest hereunder or of any fees) unless the Agent has received notice from a Bank or the Borrower specifying such Default and stating that such notice is a Notice of Default. In the event that the Agent receives such a notice of the occurrence of a Default, the Agent shall give prompt notice thereof to the Banks (and shall give each Bank prompt notice of each such nonpayment). The Agent shall (subject to Section 12.7) take such action with respect to such Default; provided that, unless and until the Agent shall have received the directions referred to in Sections 12.1 or 12.7, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable and in the best interest of the Banks.

12.4 Mizuho and Affiliates.

With respect to its Commitment, any Loan made by it, and the Note issued to it, Mizuho shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent; and the term “Bank” or “Banks” shall, unless otherwise expressly indicated, include Mizuho in its individual capacity. Mizuho and its respective Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Borrower, any of its respective Affiliates and any Person who may do business with or own securities of the Borrower or any such Affiliate, all as if Mizuho were not the Agent and without any duty to account therefor to the Banks.

12.5 Non-Reliance on Agent and Other Banks.

Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and each Subsidiary and its decision to enter into the transactions contemplated by this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or to inspect the properties or books of the Borrower or any Subsidiary. Except for notices, reports, and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition, or business of the Borrower or any Subsidiary (or any of their Affiliates) which may come into the possession of the Agent or any of its Affiliates.

12.6 Indemnification.

Notwithstanding anything to the contrary herein contained, the Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be indemnified to its satisfaction by the Banks against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of its taking or continuing to take any action. Each Bank agrees to indemnify the Agent (to the extent not reimbursed by the Borrower), according to such Bank’s Pro-Rata Percentage, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, and disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or the Notes or any action taken or omitted by the Agent under this Agreement or the Notes; provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting from the gross negligence or willful misconduct of the person being indemnified; and provided further that it is the intention of each Bank to indemnify the Agent against the consequences of the Agent’s own negligence, whether such negligence be sole, joint, concurrent, active or passive. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its Pro-Rata Percentage of any out-of-pocket expenses (including attorneys’ fees) incurred by the Agent in connection with the preparation, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement and the Notes, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

12.7 Successor Agent.

The Agent may resign at any time as Agent under this Agreement by giving written notice thereof to the Banks and the Borrower and may be removed at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Banks or shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank, a thrift, or other financial institution organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000.00. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Section 12 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

12.8 Agent's Reliance.

The Borrower shall notify the Agent in writing of the names of its officers and employees authorized to request a Loan on behalf of the Borrower and shall provide the Agent with a specimen signature of each such officer or employee. The Agent shall be entitled to rely conclusively on such officer's or employee's authority to request a Loan on behalf of the Borrower until the Agent receives written notice from the Borrower to the contrary. The Agent shall have no duty to verify the authenticity of the signature appearing on any Notice of Borrowing, and, with respect to any oral request for a Loan, the Agent shall have no duty to verify the identity of any Person representing himself as one of the officers or employees authorized to make such request on behalf of the Borrower. Neither the Agent nor any Bank shall incur any liability to the Borrower in acting upon any telephonic notice referred to above which the Agent or such Bank believes in good faith to have been given by a duly authorized officer or other Person authorized to borrow on behalf of the Borrower or for otherwise acting in good faith.

12.9 No Other Duties, Etc.

Anything herein to the contrary notwithstanding, none of the Arrangers, Bookrunners, Book Managers, Documentation Agents or Syndication Agent listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in their capacity, as applicable, as the Agent or as a Bank hereunder.

13. MISCELLANEOUS

13.1 Representation by the Banks.

Each Bank represents that it is the intention of such Bank, as of the date of its acquisition of its Note, to acquire the Note for its account or for the account of its Affiliates, and not with a view to the distribution or sale thereof, and, subject to any applicable laws, the disposition of such Bank's property shall at all times be within its control. The Notes have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), and may not be transferred, sold or otherwise disposed of except (a) in a registered Offering under the Securities Act; (b) pursuant to an exemption from the registration provisions of the Securities Act; or (c) if the Securities Act shall not apply to the Notes or the transactions contemplated hereunder as commercial lending transactions.

13.2 Amendments, Waivers, Etc.

No amendment or waiver of any provision of any Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Majority Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver, or consent shall, unless in writing and signed by each Bank, do any of the following: (a) waive any of the conditions specified in Section 8; (b) increase the Commitment of any Bank or alter the term thereof, or subject any Bank to any additional or extended obligations; (c) change the principal of, or rate of interest on, any Note, or any fees or other amounts payable hereunder; (d) postpone any date fixed for any payment of principal of, or interest on, any Note, or any fees (including, without limitation, any fee) or other amounts payable hereunder; (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of any Note, or the number of Banks which shall be required for Banks, or any of them, to take any action hereunder; or (f) amend this Section 13.2; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Agent in addition to each Bank, affect the rights or duties of the Agent under any Loan Document. No failure or delay on the part of any Bank or the Agent in exercising any power or right hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No course of dealing between the Borrower and any Bank or the Agent shall operate as a waiver of any right of any Bank or the Agent. No modification or waiver of any provision of this Agreement or the Note nor consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

13.3 Reimbursement of Expenses.

The Borrower agrees to reimburse each Bank for its reasonable out-of-pocket expenses, including the reasonable fees and expenses of counsel to each Bank, in connection with the transactions contemplated by this Agreement, whether or not such contemplated transactions shall be consummated, or any of them, or otherwise in connection with this Agreement, including its negotiation, preparation, execution, administration, modification and enforcement, and all reasonable fees, including the reasonable fees and expenses of counsel to the Agent and each Bank, costs and expenses of the Agent for environmental consultants and costs and expenses of the Agent and each Bank in connection with due diligence, transportation, computer time and research and duplication. The Borrower agrees to pay any and all stamp and other taxes which may be payable or determined to be payable in connection with the execution and delivery of this Agreement or the Notes, and to save any holder of any Note harmless from any and all liabilities with respect to or resulting from any delay or omission to pay any such taxes. The obligations of the Borrower under this Section 13.3 shall survive the termination of this Agreement and/or the payment of the Notes.

13.4 Notices.

All notices and other communications provided for herein shall be in writing (including telex, facsimile, or cable communication) and shall be mailed, telecopied, telexed, cabled or delivered addressed as follows:

- (a) If to the Borrower, to it at: Southern Union Company
5444 Westheimer Road
Houston, Texas 77056
Attention: Chief Financial Officer
Fax: (713) 989-7505
- with a copy to: Southern Union Company
5444 Westheimer Road
Houston, Texas 77056
Attention: Corporate Secretary
Fax: (713) 989-1212
- (b) If to the Agent, to it at: Mizuho Corporate Bank (USA)
1251 Avenue of the Americas
New York, New York 10020
Attention: Leon Mo
Fax: (212) 282-4488

or to such other address as shall be designated by such the Borrower or the Agent in a written notice to the other party and, as to each other party, at such address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed, telecopied, telexed, transmitted, or cabled, become effective when deposited in the mail, confirmed by telex answer back, transmitted to the telecopier, or delivered to the cable company, except that notices and communications to the Agent or to a Bank under Section 2.2 and Section 2.8 shall not be effective until actually received by the Agent or such Bank, as applicable.

13.5 Governing Law; Venue.

This Agreement and the Note shall be governed by, and construed in accordance with, the laws of the State of New York, without reference to conflicts of laws (other than Section 5-1401 and Section 5-1402 of the New York General Obligations Law). This Agreement, the Note, and the other Loan Documents constitute the entire understanding among the parties hereto with respect to the subject matter hereof

and supersede any prior agreements, written or oral, with respect thereto. **EACH OF THE PARTIES IRREVOCABLY CONSENTS TO THE EXCLUSIVE PERSONAL JURISDICTION OF THE FEDERAL AND STATE COURTS LOCATED IN THE STATE OF NEW YORK.**

13.6 Survival of Representations, Warranties and Covenants.

All representations, warranties and covenants contained herein or made in writing by the Borrower in connection herewith shall survive the execution and delivery of this Agreement and the Notes, and will bind and inure to the benefit of the respective successors and assigns of the parties hereto, whether so expressed or not, provided that the undertaking of the Banks to make the Loans to the Borrower shall not inure to the benefit of any successor or assign of the Borrower. No investigation at any time made by or on behalf of the Banks shall diminish the Banks' rights to rely on any representations made herein or in connection herewith. All statements contained in any certificate or other written instrument delivered by the Borrower or by any Person authorized by the Borrower under or pursuant to this Agreement or in connection with the transactions contemplated hereby shall constitute representations and warranties hereunder as of the time made by the Borrower.

13.7 Counterparts.

This Agreement may be executed in several counterparts, and by the parties hereto on separate counterparts, and each counterpart, when so executed and delivered, shall constitute an original instrument and all such separate counterparts shall constitute but one and the same instrument.

13.8 Separability.

Should any clause, sentence, paragraph or section of this Agreement be judicially declared to be invalid, unenforceable or void, such decision shall not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable or void will be deemed to have been stricken herefrom and the remainder will have the same force and effectiveness as if such part or parts had never been included herein. Each covenant contained in this Agreement shall be construed (absent an express contrary provision herein) as being independent of each other covenant contained herein, and compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with one or more other covenants.

13.9 Descriptive Headings.

The section headings in this Agreement have been inserted for convenience only and shall be given no substantive meaning or significance whatsoever in construing the terms and provisions of this Agreement.

13.10 Accounting Terms.

All accounting terms used herein which are not expressly defined in the Agreement, or the respective meanings of which are not otherwise qualified, shall have the respective meanings given to them in accordance with GAAP.

13.11 Limitation of Liability.

No claim may be made by the Borrower or any other Person against the Agent or any Bank or the Affiliates, directors, officers, employees, attorneys, or agents of the Agent or any Bank for any special, indirect, consequential, or punitive damages in respect to any claim for breach of contract arising out of or related to the transactions contemplated by this Agreement, or any act, omission, or event occurring in connection herewith and the Borrower hereby waives, releases, and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

13.12 Set-Off.

The Borrower hereby gives and confirms to each Bank a right of set-off of all moneys, securities and other property of the Borrower (whether special, general or limited) and the proceeds thereof, now or hereafter delivered to remain with or in transit in any manner to such Bank, its Affiliates, correspondents or agents from or for the Borrower, whether for safekeeping, custody, pledge, transmission, collection or otherwise or coming into possession of such Bank, its Affiliates, correspondents or agents in any way, and also, any balance of any deposit accounts and credits of the Borrower with, and any and all claims of security for the payment of the Notes and of all other liabilities and obligations now or hereafter owed by the Borrower to such Bank, contracted with or acquired by such Bank, whether such liabilities and obligations be joint, several, absolute, contingent, secured, unsecured, matured or unmatured, and the Borrower hereby authorizes each Bank, its Affiliates, correspondents or agents at any time or times, without prior notice, to apply such money, securities, other property, proceeds, balances, credits of claims, or any part of the foregoing, to such liabilities in such amounts as it may select, whether such liabilities be contingent, unmatured or otherwise, and whether any collateral security therefor is deemed adequate or not. The rights described herein shall be in addition to any collateral security, if any, described in any separate agreement executed by the Borrower.

13.13 Sale or Assignment.

(a) Subject to the prior written consent of the Agent and the Borrower, such consent not to be unreasonably withheld or delayed, each Bank may assign to an Eligible Assignee all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Note held by it); provided, however, that: (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Banks rights and obligations under this Agreement; (ii) the amount of the Commitment or Loan so assigned shall equal or exceed \$5,000,000.00; (iii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register (as hereinafter defined), an Assignment and Acceptance in the form of Exhibit C attached hereto and made a part hereof (the “**Assignment and Acceptance**”), together with any Note subject to such assignment and a fee of \$3,500.00 payable by the assigning Bank to the Agent; (iv) any such assignment from one Bank to another Bank that is not a Defaulting Bank shall not require the consent of the Agent or the Borrower if such assignment does not result in any Bank holding more than 60% of the aggregate outstanding Loans; and (v) any such assignment shall not require the consent of the Borrower if a Default or Event of Default shall have occurred and is then continuing. Upon such execution, delivery, acceptance, and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be the date on which such Assignment and Acceptance is accepted by the Agent, (A) the Eligible Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank under the Loan Documents, and (B) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank’s rights and obligations under the Loan Documents, such Bank shall cease to be a party thereto).

(b) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the Eligible Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with any Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of any Loan Document or any other instrument or document furnished pursuant thereto; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any Subsidiary of the Borrower or the performance or observance by the Borrower of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such Eligible Assignee confirms that it has received a copy of the Loan Documents, together with copies of the financial statements referred to in Section 7.2 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such Eligible Assignee, independently and without reliance upon the Agent, such assigning Bank, or any Bank and based on such documents and information as it shall deem appropriate at the time, will continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such Eligible Assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under any Loan Document as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (vi) such Eligible Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of any Loan Document are required to be performed by it as a Bank.

(c) The Agent shall maintain at its address referred to in Section 13.4 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of Banks and the Commitment of, and principal amount of the Loans owing to, each Bank from time to time (the “**Register**”). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent, and Banks may treat each Person whose name is recorded in the Register as Bank hereunder for all purposes of the Loan Documents. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank, together with any Note subject to such assignment, the Agent, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C, shall (i) accept such Assignment and Acceptance; (ii) record the information contained therein in the Register; and (iii) give prompt notice thereof to the Borrower. Within three (3) Business Days after its receipt of such notice, the Borrower at its own expense, shall execute and deliver to the Agent in exchange for each surrendered Note a new Note to the order of such Eligible Assignee in an amount equal to the Loans assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained any Loans hereunder, a new Note to the order of the assigning Bank in an amount equal to the Loans retained by it hereunder. The new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit C attached hereto and made a part hereof. Upon receipt by the Agent of each such new Note conforming to the requirements set forth in the preceding sentences, the Agent shall return to the Borrower each such surrendered Note marked to show that each such surrendered Note has been replaced, renewed, and extended by such new Note.

(e) Each Bank may sell participations to one or more banks or other entities in or to all or a portion of its rights and/or obligations under this Agreement (including, without limitation, all or a portion of the Note held by it); provided, however, that (i) each Bank's obligations under this Agreement shall remain unchanged; (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations; (iii) except as provided below, such Bank shall remain the holder of any such Note for all purposes of this Agreement; and (iv) the participating banks or other entities shall be entitled to the benefits of Section 2.9 to recover costs, losses and expenses in the circumstances, and to the extent provided in Section 2.9, as though such participant were a Bank; provided, however, the amounts to which a participant shall be entitled to obtain pursuant to Section 2.9 shall be determined by reference to such participant's selling Bank and shall be recoverable solely from such selling Bank and (v) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with the selling Bank in connection with such Bank's rights and obligations under this Agreement and the other Loan Documents; provided, however, the selling Bank may grant a participant rights with respect to amendments, modification or waivers with respect to any fees payable hereunder to such Bank (including the amount and the dates fixed for the payment of any such fees) or the amount of principal or the rate of interest payable on, the dates fixed for any payment of principal or interest on, the Loans, or the release of any obligations of the Borrower hereunder and under the other Loan Documents, or the release of any security for any of the Obligations. Except with respect to cost protections contained in Sections 2.9, no participant shall be a third party beneficiary of this Agreement and shall not be entitled to enforce any rights provided to its selling Bank against the Borrower under this Agreement.

(f) Notwithstanding anything herein to the contrary, each Bank may pledge and assign all or any portion of its rights and interests under the Loan Documents to any Federal Reserve Bank.

(g) Notwithstanding anything herein to the contrary, each Bank may assign all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments and the Note held by it) to one or more Bank Affiliates without the prior written consent of the Borrower. For purposes of this Section 13.13, “**Bank Affiliate**” shall mean (a) with respect to any Bank, (i) an Affiliate of such Bank or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Bank or an Affiliate of such Bank and (b) with respect to any Bank that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Bank or by an Affiliate of such investment advisor. Each Bank Affiliate shall be deemed for purposes hereof to be an “Eligible Assignee.”

13.14 Non U.S. Banks.

Prior to the date of the initial Loans hereunder, and from time to time thereafter if requested by the Borrower or the Agent, each Bank organized under the laws of a jurisdiction outside the United States of America shall provide the Agent and the Borrower with the forms prescribed by the Internal Revenue Service of the United States of America certifying such Banks exemption from United States withholding taxes with respect to all payments to be made to such Bank hereunder or under such Bank’s Note. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that payments hereunder or under such Bank’s Note are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Bank organized under the laws of a jurisdiction outside the United States.

13.15 Interest.

All agreements between the Borrower, the Agent or any Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made on any Note or otherwise, shall the amount paid, or agreed to be paid, to the Agent or any Bank for the use, forbearance, or detention of the money to be loaned under this Agreement or otherwise or for the payment or performance of any covenant or obligation contained herein or in any document related hereto exceed the amount permissible at the Highest Lawful Rate. If, as a result of any circumstances whatsoever, fulfillment of any provision hereof or of any of such documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, *ipso facto*, the obligation to be filled shall be reduced to the limit of such validity, and if, from any such circumstance, the Agent or any Bank shall ever receive interest or anything which might be deemed interest under applicable law which would exceed the amount permissible at the Highest Lawful Rate, such amount which would be excessive interest shall be applied to the reduction of the principal amount owing on account of the Notes or the amounts owing on other obligations of the Borrower to the Agent or any Bank under this Agreement or any document related hereto and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of the Notes and the amounts owing on other obligations of the Borrower to the Agent or any Bank under this Agreement or any document related hereto, as the case may be, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Agent or any Bank for the use, forbearance, or detention of the indebtedness of the Borrower to the Agent or any Bank shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full term of such indebtedness until payment in full of the principal thereof (Including the period of any renewal or extension thereof) so that the interest on account of such indebtedness shall not exceed the Highest Lawful Rate. The terms and provisions of this Section 13.15 shall control and supersede every other provision of all agreements between the Borrower and the Banks.

THE BORROWER AGREES TO INDEMNIFY, DEFEND, AND SAVE HARMLESS THE AGENT, EACH BANK AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, AND ATTORNEYS, AND EACH OF THEM (THE “**INDEMNIFIED PARTIES**”), FROM AND AGAINST ALL CLAIMS, ACTIONS, SUITS, AND OTHER LEGAL PROCEEDINGS, DAMAGES, COSTS, INTEREST, CHARGES, TAXES, COUNSEL FEES, AND OTHER EXPENSES AND PENALTIES (INCLUDING WITHOUT LIMITATION ALL ATTORNEY FEES AND COSTS OR EXPENSES OF SETTLEMENT) WHICH ANY OF THE INDEMNIFIED PARTIES MAY SUSTAIN OR INCUR BY REASON OF OR ARISING OUT OF (a) THE MAKING OF ANY LOAN HEREUNDER, THE EXECUTION AND DELIVERY OF THIS AGREEMENT AND THE NOTES AND THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED THEREBY AND THE EXERCISE OF ANY OF THE BANKS’ RIGHTS UNDER THIS AGREEMENT AND THE NOTES OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, DAMAGES, COSTS, AND EXPENSES INCURRED BY ANY OF THE INDEMNIFIED PARTIES IN INVESTIGATING, PREPARING FOR, DEFENDING AGAINST, OR PROVIDING EVIDENCE, PRODUCING DOCUMENTS, OR TAKING ANY OTHER ACTION IN RESPECT OF ANY COMMENCED OR THREATENED LITIGATION UNDER ANY FEDERAL SECURITIES LAW OR ANY SIMILAR LAW OF ANY JURISDICTION OR AT COMMON LAW OR (b) ANY AND ALL CLAIMS OR PROCEEDINGS (WHETHER BROUGHT BY A PRIVATE PARTY, GOVERNMENTAL AUTHORITY OR OTHERWISE) FOR BODILY INJURY, PROPERTY DAMAGE, ABATEMENT, REMEDIATION, ENVIRONMENTAL DAMAGE, OR IMPAIRMENT OR ANY OTHER INJURY OR DAMAGE RESULTING FROM OR RELATING TO THE RELEASE OF ANY HAZARDOUS MATERIALS LOCATED UPON, MIGRATING INTO, FROM, OR THROUGH OR OTHERWISE RELATING TO ANY PROPERTY OWNED OR LEASED BY THE BORROWER OR ANY SUBSIDIARY OF THE BORROWER (WHETHER OR NOT THE RELEASE OF SUCH HAZARDOUS MATERIALS WAS CAUSED BY THE BORROWER, ANY SUBSIDIARY OF THE BORROWER, A TENANT, OR SUBTENANT OF THE BORROWER OR ANY SUBSIDIARY OF THE BORROWER, A PRIOR OWNER, A TENANT, OR SUBTENANT OF ANY PRIOR OWNER OR ANY OTHER PARTY AND WHETHER OR NOT THE ALLEGED LIABILITY IS ATTRIBUTABLE TO THE HANDLING, STORAGE, GENERATION, TRANSPORTATION, OR DISPOSAL OF ANY HAZARDOUS MATERIALS OR THE MERE PRESENCE OF ANY HAZARDOUS MATERIALS ON SUCH PROPERTY; PROVIDED THAT THE BORROWER SHALL NOT BE LIABLE TO THE INDEMNIFIED PARTIES WHERE THE RELEASE OF SUCH HAZARDOUS MATERIALS OCCURS AT ANY TIME AT WHICH THE BORROWER OR ANY SUBSIDIARY OF THE BORROWER CEASES TO OWN OR LEASE SUCH PROPERTY); PROVIDED FURTHER THAT NO INDEMNIFIED PARTY SHALL BE ENTITLED TO THE BENEFITS OF THIS SECTION 13.16 TO THE EXTENT ITS OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT CONTRIBUTED TO ITS LOSS. THIS AGREEMENT IS INTENDED TO PROTECT AND INDEMNIFY THE INDEMNIFIED PARTIES AGAINST ALL RISKS HEREBY ASSUMED BY THE BORROWER; AND PROVIDED FURTHER THAT IT IS THE INTENTION OF THE BORROWER TO INDEMNIFY THE INDEMNIFIED PARTIES AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE. FOR PURPOSES OF THE FOREGOING SECTION 13.16, THE PHRASE “CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED THEREBY” SET FORTH IN SUBPARAGRAPH (a) ABOVE SHALL INCLUDE, BUT NOT BE LIMITED TO, THE FINANCING OF ANY CORPORATE TAKEOVER PERMITTED HEREUNDER AND THE BORROWER’S USE OF THE LOAN PROCEEDS FOR THE PURPOSE OF ACQUIRING ANY EQUITY INTERESTS DESCRIBED IN SUBPARAGRAPH (ii) OF THE DEFINITION OF “QUALIFYING ASSETS” SET FORTH IN THIS AGREEMENT (AS AMENDED). THE OBLIGATIONS OF THE BORROWER UNDER THIS SECTION 13.16 SHALL SURVIVE ANY TERMINATION OF THIS AGREEMENT AND THE REPAYMENT OF THE NOTES.

13.17 Payments Set Aside.

To the extent that the Borrower makes a payment or payments to the Agent or any Bank or the Agent or any Bank exercises its right of set off, and such payment or payments or the proceeds of such set off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other Person under any Debtor Law or equitable cause, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied, and all rights and remedies therefor, shall be revived and shall continue in full force and effect as if such payment had not been made or set off had not occurred.

13.18 Loan Agreement Controls.

If there are any conflicts or inconsistencies among this Agreement and any other document executed in connection with the transactions connected herewith, the provisions of this Agreement shall prevail and control.

13.19 Obligations Several.

The obligations of each Bank under this Agreement and the Note to which it is a party are several, and no Bank shall be responsible for any obligation or Commitment of any other Bank under this Agreement and the Note to which it is a party. Nothing contained in this Agreement or the Note to which it is a party, and no action taken by any Bank pursuant thereto, shall be deemed to constitute the Banks to be a partnership, an association, a joint venture, or any other kind of entity.

13.20 Pro Rata Treatment.

All Loans under, and all payments and other amounts received in connection with this Agreement (including, without limitation, amounts received as a result of the exercise by any Bank of any right of set off) shall be effectively shared by the Banks ratably in accordance with the respective Pro-Rata Percentages of the Banks. If any Bank shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set off, or otherwise) on account of the principal of, or interest on, or fees in respect of, any Note held by it (other than pursuant to Section 2.9) in excess of its Pro-Rata Percentage of payments on account of similar Notes obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the Notes or Loans made by them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (a) the amount of such Bank's required repayment to (b) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. Disproportionate payments of interest shall be shared by the purchase of separate participations in unpaid interest obligations, disproportionate payments of fees shall be shared by the purchase of separate participations in unpaid fee obligations, and disproportionate payments of principal shall be shared by the purchase of separate participations in unpaid principal obligations. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 13.20 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation. Notwithstanding the foregoing, a Bank may receive and retain an amount in excess of its Pro- Rata Percentage to the extent but only to the extent, that such excess results from such Bank's Highest Lawful Rate exceeding another Bank's Highest Lawful Rate.

13.21 Final Agreement.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

13.22 Waiver of Jury Trial.

EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY)

. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

13.23 USA Patriot Act Notice.

Each Bank and the Agent (for itself and not on behalf of any Bank) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Bank or the Agent, as applicable, to identify the Borrower in accordance with the Act. In the event of a Change in Ownership, the Borrower acknowledges that each Bank and the Agent will be required to obtain, verify and record information that identifies the Borrower in accordance with the Act and agrees that such information will be provided by the Borrower that will allow such Bank or the Agent, as applicable, to identify the Borrower in accordance with the Act.

13.24 No Fiduciary Duty.

The Agent, each Bank and their Affiliates (collectively, solely for purposes of this paragraph, the “Banks”), may have economic interests that conflict with those of the Borrower, its stockholders and/or its affiliates. The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between any Bank, on the one hand, and the Borrower, its stockholders or its affiliates, on the other. The Borrower acknowledges and agrees that (i) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Banks, on the one hand, and the Borrower, on the other, and (ii) in connection therewith and with the process leading thereto, (x) no Bank has assumed an advisory or fiduciary responsibility in favor of the Borrower, its stockholders or its affiliates with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Bank has advised, is currently advising or will advise the Borrower, its stockholders or its Affiliates on other matters) or any other obligation to the Borrower except the obligations expressly set forth in the Loan Documents and (y) each Bank is acting solely as principal and not as the agent or fiduciary of the Borrower, its management, stockholders, creditors or any other Person. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Bank has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Borrower, in connection with such transaction or the process leading thereto.

[Signatures on Following Pages.]

1936560v81936560v8

IN WITNESS WHEREOF, the parties hereto, by their respective officers thereunto duly authorized, have executed this Agreement on the dates set forth below to be effective as of the date first written above.

SOUTHERN UNION COMPANY

By: /s/MICHAEL J. MCLAUGHLIN

Name: Michael J. McLaughlin

Title: Vice President and Treasurer

Signature Page to Amended and Restated Credit Agreement

MIZUHO CORPORATE BANK (USA),
as Administrative Agent and as a Bank

By: /s/ LEON MO
Name: Leon Mo
Title: Senior Vice President

Signature Page to Amended and Restated Credit Agreement

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as Syndication Agent and as a Bank

By: /s/ LAURANCE J. BRESSLER
Name: Laurance J. Bressler
Title: Authorized Signatory

Signature Page to Amended and Restated Credit Agreement

SUMITOMO MITSUI BANKING CORPORATION,
as Co-Documentation Agent and as a Bank

By: /s/ MASAKAZU HASEGAWA
Name: Masakazu Hasegawa
Title: General Manager

Signature Page to Amended and Restated Credit Agreement

U.S. BANK NATIONAL ASSOCIATION,
as Co-Documentation Agent and as a Bank

By: /s/ KEVIN S. MCFADDEN
Name: Kevin S. McFadden
Title: Vice President

Signature Page to Amended and Restated Credit Agreement

WELLS FARGO BANK, N.A.,
as a Bank

By: /s/ WILLIAM ROGERS
Name: William Rogers
Title: Managing Director

Signature Page to Amended and Restated Credit Agreement

JPMORGAN CHASE BANK, N.A.,
as a Bank

By: /s/ CINDY M. MATULA
Name: Cindy M. Matula
Title: President - Austin Region

Signature Page to Amended and Restated Credit Agreement

COMERICA BANK,
as a Bank

By: /s/ JOEY POWELL
Name: Joey Powell
Title: Vice President

Signature Page to Amended and Restated Credit Agreement

COMPASS BANK,
as a Bank

By: /s/ GREG DETERMANN
Name: Greg Determann
Title: Senior Vice President

Signature Page to Amended and Restated Credit Agreement

**BAYERISCHE LANDESBANK,
NEW YORK BRANCH,**
as a Bank

By: /s/ ALEXANDER KOHNERT
Name: Alexander Kohnert
Title: Senior Vice President

By: /s/ GINA HOEY
Name: Gina Hoey
Title: Vice President

Signature Page to Amended and Restated Credit Agreement

PNC BANK, NATIONAL ASSOCIATION,
as a Bank

By: /s/ KATIE M. MIKULA
Name: Katie M. Mikula
Title: Credit Officer

Signature Page to Amended and Restated Credit Agreement

SOVEREIGN BANK,
as a Bank

By: /s/ ROBERT D. LANIGAN
Name: Robert D. Lanigan
Title: Senior Vice President

Signature Page to Amended and Restated Credit Agreement

BANK OF AMERICA, N.A.,
as a Bank

By: /s/ RONALD E. MCKAIG
Name: Ronald E. McKaig
Title: Senior Vice President

Signature Page to Amended and Restated Credit Agreement

ROYAL BANK OF CANADA,
as a Bank

By: /s/ JAY T. SARTAIN
Name: Jay T. Sartain
Title: Authorized Signatory

Signature Page to Amended and Restated Credit Agreement

CREDIT AGRICOLE CORPORATE & INVESTMENT BANK,
as a Bank

By: /s/ DARRELL STANLEY

Name: Darrell Stanley

Title: Managing Director

By: /s/ SHARADA MANNO

Name: Sharada Manno

Title: Director

Signature Page to Amended and Restated Credit Agreement

BRANCH BANKING AND TRUST COMPANY,
as a Bank

By: /s/ ROGER ERIC SEARLS
Name: Roger Eric Searls
Title: Vice President

Signature Page to Amended and Restated Credit Agreement

UMB BANK, N.A.,
as a Bank

By: /s/ DAVID A. PROFFITT
Name: David A. Proffitt
Title: Senior Vice President

Signature Page to Amended and Restated Credit Agreement

EXHIBIT A

FORM OF NOTE

\$ _____

_____, 20__

FOR VALUE RECEIVED, the undersigned, SOUTHERN UNION COMPANY, a corporation organized under the laws of Delaware (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Bank"), on or before _____ (the "Maturity Date"), the principal sum of _____ Million and No/ 100ths Dollars (\$_,000,000.00) in accordance with the terms and provisions of that certain Amended and Restated Credit Agreement dated August 3, 2010, by and among the Borrower, the Bank, the other banks named on the signature pages thereof, and MIZUHO CORPORATE BANK (USA), as Agent for the Banks (the "Credit Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement.

The outstanding principal balance of this Note shall be payable at the Maturity Date. The Borrower promises to pay interest on the unpaid principal balance of this Note from the date of any Loan evidenced by this Note until the principal balance thereof is paid in full. Interest shall accrue on the outstanding principal balance of this Note from and including the date of any Loan evidenced by this Note to but not including the Maturity Date at the rate or rates, and shall be due and payable on the dates, set forth in the Credit Agreement. Any amount not paid when due with respect to principal (whether at stated maturity, by acceleration or otherwise), costs or expenses, or, to the extent permitted by applicable law, interest, shall bear interest from the date when due to and excluding the date the same is paid in full, payable on demand, at the rate provided for in Section 2.6(b) of the Credit Agreement.

Payments of principal and interest, and all amounts due with respect to costs and expenses, shall be made in lawful money of the United States of America in immediately available funds, without deduction, set off or counterclaim to the account of the Agent at the principal office of Mizuho Corporate Bank (USA) in New York, New York (or such other address as the Agent under the Credit Agreement may specify) not later than noon (New York time) on the dates on which such payments shall become due pursuant to the terms and provisions set forth in the Credit Agreement.

If any payment of interest or principal herein provided for is not paid when due, then the owner or holder of this Note may at its option, by notice to the Borrower, declare the unpaid, principal balance of this Note, all accrued and unpaid interest thereon and all other amounts payable under this Note to be forthwith due and payable, whereupon this Note, all such interest and all such amounts shall become and be forthwith due and payable in full, without presentment, demand, protest, notice of intent to accelerate, notice of actual acceleration or further notice of any kind, all of which are hereby expressly waived by the Borrower.

Exhibit A - 1

If any payment of principal or interest on this Note shall become due on a Saturday, Sunday, or public holiday on which the Agent is not open for business, such payment shall be made on the next succeeding Business Day and such extension of time shall in such case be included in computing interest in connection with such payment.

In addition to all principal and accrued interest on this Note, the Borrower agrees to pay (a) all reasonable costs and expenses incurred by the Agent and all owners and holders of this Note in collecting this Note through any probate, reorganization bankruptcy or any other proceeding and (b) reasonable attorneys' fees when and if this Note is placed in the hands of an attorney for collection after default.

All agreements between the Borrower and the Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made on this Note or otherwise, shall the amount paid, or agreed to be paid, to the Bank for the use, forbearance, or detention of the money to be loaned under the Credit Agreement and evidenced by this Note or otherwise or for the payment or performance of any covenant or obligation contained in the Credit Agreement or this Note exceed the amount permissible at Highest Lawful Rate. If as a result of any circumstances whatsoever, fulfillment of any provision hereof or of the Credit Agreement at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, *ipso facto*, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstance, the Bank shall ever receive interest or anything which might be deemed interest under applicable law which would exceed the amount permissible at the Highest Lawful Rate, such amount which would be excessive interest shall be applied to the reduction of the principal amount owing on account of this Note or the amounts owing on other obligations of the Borrower to the Bank under the Credit Agreement and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of this Note and the amounts owing on other obligations of the Borrower to the Bank under the Credit Agreement, as the case may be, such excess shall be refunded to the Borrower. In determining whether or not the interest paid or payable under any specific contingencies exceeds the Highest Lawful Rate, the Borrower and the Bank shall, to the maximum extent permitted under applicable law, (a) characterize any nonprincipal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate and spread in equal parts during the period of the full stated term of this Note, all interest at any time contracted for, charged, received or reserved in connection with the indebtedness evidenced by this Note.

This Note is one of the Notes provided for in, and is entitled to the benefits of, the Credit Agreement, which Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events, for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions and with the effect therein specified, and provisions to the effect that no provision of the Credit Agreement or this Note shall require the payment or permit the collection of interest in excess of the Highest Lawful Rate. It is contemplated that by reason of prepayments or repayments hereon prior to the Maturity Date, there may be times when no indebtedness is owing hereunder prior to such date; but notwithstanding such occurrence this Note shall remain valid and shall be in full force and effect as to Loans made pursuant to the Credit Agreement subsequent to each such occurrence.

Exhibit A - 2

Except as otherwise specifically provided for in the Credit Agreement, the Borrower and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, protest, notice of protest, notice of intent to accelerate, notice of acceleration and diligence in collecting and bringing of suit against any party hereto, and agree to all renewals, extensions or partial payments hereon and to any release or substitution of security hereof, in whole or in part, with or without notice, before or after maturity.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE FEDERAL LAW.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed and delivered by its officer thereunto duly authorized effective as of the date first above written.

SOUTHERN UNION COMPANY

By: _____

Name: _____

Title: _____

Exhibit A - 3

EXHIBIT B

NOTICE OF BORROWING

The undersigned hereby certifies that s/he is an officer of SOUTHERN UNION COMPANY, a corporation organized under the laws of Delaware (the "Borrower"), authorized to execute this Notice of Borrowing on behalf of the Borrower. With reference to that certain Amended and Restated Credit Agreement dated August 3, 2010 (as same may be amended, modified, increased, supplemented and/or restated from time to time, the "Credit Agreement") entered into by and among the Borrower, MIZUHO CORPORATE BANK (USA), as Agent for the Banks, and the Banks identified therein, the undersigned hereby gives Agent irrevocable notice that the Borrower wishes to borrow under the Credit Agreement as follows (each capitalized term used herein having the same meaning given to it in the Credit Agreement unless otherwise specified):

(a) Borrower requests that the Banks advance to the Borrower the aggregate sum of \$_____ on August 3, 2010. The initial Loans shall consist of [Alternate Base Rate Loans][Eurodollar Rate Loans and the Rate Period shall commence on _____, 2010 and end on _____.]

(b) The proceeds of the initial Loans shall be applied by the Agent to refinance existing indebtedness under the Existing Agreement in accordance with the Commitments on Schedule 2.1 to the Credit Agreement, and any excess proceeds shall be deposited into Borrower's deposit account described as follows:

Financial Institution: _____
ABA No.: _____
Account No.: _____
Account Name: Southern Union Company
Reference: _____

(c) As of the date hereof, and as a result of the making of the requested Loans, there does not and will not exist any Default or Event of Default.

(d) The representations and warranties contained in Section 7 of the Credit Agreement are true and correct in all material respects as of the date hereof and shall be true and correct upon the making of the requested Loan, with the same force and effect as though made on and as of the date hereof and thereof.

EXECUTED AND DELIVERED this ____ day of _____, 2010.

SOUTHERN UNION COMPANY

By: _____
Name: _____
Title: _____

Exhibit B - 1

EXHIBIT C

ASSIGNMENT AND ACCEPTANCE

[NAME AND ADDRESS OF
ASSIGNING BANK]

_____, 20__

Re: Southern Union Company Credit Agreement

Ladies and Gentlemen:

We have entered into an Amended and Restated Credit Agreement dated as of August 3, 2010 (the "Credit Agreement"), among certain banks (including us), Mizuho Corporate Bank (USA), as Agent for the Banks named therein (the "Agent") and Southern Union Company (the "Company"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement.

Each reference to the Credit Agreement, the Notes, or any other document evidencing or governing the Loans (all such documents collectively, the "Financing Documents") includes each such document as amended, modified, extended or replaced from time to time. All times are Houston times.

1. ASSIGNMENT. We hereby sell you and assign to you without recourse, and you hereby unconditionally and irrevocably acquire for your own account and risk, a _____ percent (____%) undivided interest ("your assigned share") in each of the following (the "Assigned Obligations"):

- a. our Note; and
- b. all Loans and interest thereon as provided in Section 2 of the Credit Agreement.

Exhibit C-1

2. MATERIALS PROVIDED ASSIGNEE

a. We will promptly request that the Company issue new Notes to us and to you in substitution for our Note to reflect the assignment set forth herein. Upon issuance of such substitute Notes, (i) you will become a Bank under the Credit Agreement, (ii) you will assume our obligations under the Credit Agreement to the extent of your assigned share, and (iii) the Company will release us from our obligations under the Credit Agreement to the extent, but only to the extent, of your assigned share. The Company consents to such release by signing this Agreement where indicated below. As a Bank, you will be entitled to the benefits and subject to the obligations of a “Bank”, as set forth in the Credit Agreement, and your rights and liabilities with respect to the other Banks and the Agent will be governed by the Credit Agreement, including without limitation Section 12 thereof.

b. We have furnished you copies of the Credit Agreement, our Note and each other Financing Document you have requested. We do not represent or warrant (i) the priority, legality, validity, binding effect or enforceability of any Financing Document or any security interest created thereunder, (ii) the truthfulness and accuracy of any representation contained in any Financing Document, (iii) the filing or recording of any Financing Document necessary to perfect any security interest created thereunder, (iv) the financial condition of the Company or any other Person obligated under any Financing Document, any financial or other information, certificate, receipt or other document furnished or to be furnished under any Financing Document or (v) any other matter not specifically set forth herein having any relation to any Financing Document, your interest in one Note, the Company or any other Person. You represent to us that you are able to make, and have made, your own independent investigation and determination of the foregoing matters, including, without limitation, the credit worthiness of the Company and the structure of the transaction.

3. **GOVERNING LAW; JURISDICTION.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York. You irrevocably submit to the jurisdiction of any State or Federal court sitting in the State of New York in any suit, action or proceeding arising out of or relating to this Agreement and irrevocably waive any objection you may have to this laying of venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. We may serve process in any manner permitted by law and may bring proceedings against you in any other jurisdiction.

4. **NOTICES.** All notices and other communications given hereunder to a party shall be given in writing (including bank wire, telecopy, telex or similar writing) at such party’s address set forth on the signature pages hereof or such other address as such party may hereafter specify by notice to the other party. Notice may also be given by telephone to the Person, or any other officer in the office, listed on the signature pages hereof if confirmed promptly by telex or telecopy. Notices shall be effective immediately, if given by telephone; upon transmission, if given by bank wire, telecopy or telex; five days after deposit in the mails, if mailed; and when delivered, if given by other means.

5. **AUTHORITY.** Each of us represents and warrants that the execution and delivery of this Agreement have been validly authorized by all necessary corporate action and that this Agreement constitutes a valid and legally binding obligation enforceable against it in accordance with its terms.

Exhibit C-2

6. **COUNTERPARTS.** This Agreement may be executed in one or more counterparts, and by each party on separate counterparts, each of which shall be an original but all of which taken together shall be but one instrument.

7. **AMENDMENTS.** No amendment modification or waiver of any provision of this Agreement shall be effective unless in writing and signed by the party against whom enforcement is sought.

If the foregoing correctly sets forth our agreement, please so indicate by signing the enclosed copy of this Agreement and returning it to us.

Very truly yours,

By: _____

Name: _____

Title: _____

[Street
Address] _____

[City, State, Zip
Code] _____

Telephone: _____

Telecopy: _____

AGREED AND ACCEPTED:

By: _____

Attention: _____

Telephone: _____

Telecopy: _____

Account for Payments: _____

Exhibit C-3

ASSIGNMENT APPROVED PURSUANT TO SECTION 13.13 OF THE CREDIT
AGREEMENT AND RELEASE APPROVED IN SECTION 2 OF THIS AGREEMENT:

SOUTHERN UNION COMPANY

By: _____
Name: _____
Title: _____

Exhibit C – 4

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for Southern Union on a historical basis for the six months ended June 30, 2010 and the years ended December 31, 2009, 2008, 2007, 2006 and 2005. For the purpose of calculating such ratios, "earnings" consist of pre-tax income from continuing operations before income or loss from equity investees, adjusted to reflect distributed income from equity investments, and fixed charges, less capitalized interest. "Fixed charges" consist of interest costs, amortization of debt discount, premiums and issuance costs and an estimate of interest implicit in rentals. No adjustment has been made to earnings for the amortization of capital interest for the periods presented as such amount is immaterial. Interest on FIN 48 liabilities is excluded from the computation of fixed charges as it is recorded by Southern Union in income tax expense versus interest expense.

	6 Months Ended June 30, 2010	Year Ended December 31,				
		2009	2008	2007	2006	2005
		(In thousands)				
FIXED CHARGES:						
Interest Expense	\$ 102,708	\$ 191,022	\$ 204,272	\$ 202,403	\$ 202,513	\$ 132,971
Net amortization of debt discount, premium and issuance expense	3,604	5,778	3,136	743	12,130	2,186
Capitalized Interest	5,836	25,747	18,963	14,708	5,492	8,950
Interest portion of rental expense	3,120	7,576	6,386	6,645	6,234	6,700
Total Fixed Charges	\$ 115,268	\$ 230,123	\$ 232,757	\$ 224,499	\$ 226,369	\$ 150,807
EARNINGS:						
Consolidated pre-tax income (loss) from						
continuing operations	\$ 190,767	\$ 251,480	\$ 399,926	\$ 323,970	\$ 326,330	\$ 203,148
Earnings of equity investments	(46,120)	(80,790)	(75,030)	(100,914)	(141,370)	(70,742)
Distributed income from equity investments	3,724	-	77,150	103,550	62,637	15,203
Capitalized interest	(5,836)	(25,747)	(18,963)	(14,708)	(5,492)	(8,950)
Total fixed charges (from above)	115,268	230,123	232,757	224,499	226,369	150,807
Earnings Available for Fixed Charges	\$ 257,803	\$ 375,066	\$ 615,840	\$ 536,397	\$ 468,474	\$ 289,466
Ratio of Earnings to Fixed Charges	2.2	1.6	2.6	2.4	2.1	1.9

**CERTIFICATION PURSUANT TO
RULES 13A-14(a) AND 15D-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, George L. Lindemann, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Southern Union Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ GEORGE L. LINDEMANN

George L. Lindemann
Chairman of the Board and
Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO
RULES 13A-14(a) AND 15D-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Richard N. Marshall, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Southern Union Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ RICHARD N. MARSHALL
Richard N. Marshall
Senior Vice President and
Chief Financial Officer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Southern Union Company (the “Company”) for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, George L. Lindemann, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE L. LINDEMANN

George L. Lindemann
Chairman of the Board and
Chief Executive Officer

August 5, 2010

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906, or other documents authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Southern Union Company (the “Company”) for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard N. Marshall, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD N. MARSHALL

Richard N. Marshall
Senior Vice President and
Chief Financial Officer

August 5, 2010

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906, or other documents authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.