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March 20, 2000

FILED

MAR 20 2000

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GF-2000-504

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **STAFF MEMORANDUM.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Dennis L. Frey

Dennis L. Frey
Assistant General Counsel
(573) 751-8700
(573) 751-9285 (Fax)

DLF/lb
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Southern Union Company for Authority to Acquire up to and including Five Percent (5%) of the Common Stock of Fall River Gas Company, Valley Resources, Inc., and Providence Energy Corporation.	))))))	Case No.GF-2000-504

STAFF MEMORANDUM

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states:

1. On February 17, 2000, Southern Union Company ("Southern Union" or "Company") filed with the Commission an Application requesting authority to acquire up to and including five percent (5%) each, of the common stock of Fall River Gas Company ("FAL"), Valley Resources, Inc. ("Valley"), and Providence Energy Corporation ("ProvEnergy"). The Application is in connection with companion cases (Case Nos. GM-2000-500, Gm-2000-502 and GM-2000-503), wherein Southern Union has requested authority to complete separate mergers with FAL, Valley, and ProvEnergy.

2. Southern Union seeks authority to immediately purchase a portion of the stock of each of these three companies in order to mitigate the pricing effect of possible arbitrage trading in the shares of FAL prior to the time of the closing of that merger, and to take advantage of temporary market discounts in Valley and ProvEnergy stock prices. The Company requested expedited consideration of its Application, specifically asking that the requested authority be granted by March 30, 2000. Southern Union points out that the Commission has previously granted similar

authority to Southern Union in Case No. GM-2000-49, involving a merger between the Company and Pennsylvania Enterprises, Inc.

3. In its February 23, 2000 Order Establishing Time for Filing Recommendation, the Commission directed, among other things, that the Staff file recommendations regarding approval or rejection of the subject Application by March 20, 2000.

4. In the opinion of the Staff, Southern Union's request is, pursuant to 4 CSR 240-2.060(9), not detrimental to the public interest. Accordingly, in the attached Memorandum, which is labeled Appendix A, the Staff recommends that the Commission approve the Company's request, subject to the conditions set forth in the Memorandum.

WHEREFORE, the Staff respectfully requests that the Commission issue its Order in accordance with the Staff's Memorandum attached hereto.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Dennis L. Frey

Dennis L. Frey
Assistant General Counsel
Missouri Bar No. 44697

Attorney for the Staff of the
Missouri Public Service Commission
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 20th day of March 2000.

Dennis L. Frey

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GF-2000-504, Southern Union Company

FROM: Ronald L. Bible,
Financial Analysis Department

Ronald L. Bible 3/17/2000
Project Coordinator / Date

Thomas R. Schwarz Jr. 3/20/00 D.L.J. 3/17/00
General Counsel's Office / Date

SUBJECT: Staff's Recommendation for conditional approval of the Application of Southern Union Company for authority to Acquire up to and including Five Percent (5%) of the Common Stock of each of Fall River Gas Company, Valley Resources, Inc. and Providence Energy Corporation.

DATE: March 17, 2000

Southern Union Company

Southern Union Company (SUG or Company) is a public utility engaged in providing services to customers in Missouri. The Company has filed an Application requesting authority from the Missouri Public Service Commission (Commission) to acquire up to and including five percent (5%) of the common stock of each of Fall River Gas Company (FAL), Valley Resources, Inc. (Valley) and Providence Energy Corporation (ProvEnergy). Fall River Gas Company provides natural gas service to approximately 48,000 customers in the City of Fall River and the towns of Somerset, Swansea and Westport, all of which are located in southeastern Massachusetts. Valley Resources, Inc. provides natural gas service to approximately 64,000 residential, commercial and industrial customers in the State of Rhode Island. Providence Energy Corporation provides natural gas service to approximately 170,000 residential, commercial and industrial customers in the States of Rhode Island and Massachusetts. SUG, a Delaware corporation, is authorized to conduct business in Missouri through its Missouri Gas Energy (MGE) operating division. MGE provides natural gas and natural gas distribution services to residential, commercial and industrial customers in Western Missouri. Southern Union states in its the Application that:

On October 4, 1999, SUG and FAL entered into an Agreement of Merger pursuant to which Southern Union has agreed to acquire FAL for approximately $72,000,000.

On November 30, 1999, SUG and Valley entered into an Agreement and Plan of Merger pursuant to which Southern Union, through its special purpose acquisition subsidiary, SUG Acquisition Corporation, a Rhode Island corporation, has agreed to acquire Valley for approximately $160,000,000.

On November 15, 1999, SUG and ProvEnergy entered into an Agreement and Plan of Merger pursuant to which Southern Union, again through SUG Acquisition Corporation, has agreed to acquire ProvEnergy for approximately $400,000,000.

Appendix A

In advance of the closing of the Merger, Southern Union proposes to acquire up to and including five percent (5%) of the outstanding shares of common stock of each of these companies, which, at recent market prices, would amount to an investment of approximately $19 million.

SUG proposes that the Commission's approval of this application be made subject to the same conditions as were imposed in Case No. GM-2000-49 with regard to SUG's pre-merger investments in Pennsylvania Enterprises, Inc., to wit:

1. Company shall be required to file complete financial documentation, concurrent with the action, for each investment, including but not limited to methods of finance; overall cost of the transaction; interest rate of borrowed funds; source of equity invested; correspondence with brokers and investment firms, etc. This documentation will include dated buy and sell orders for the specific investment.

2. Company shall be required to file financial investment reports, such as monthly or quarterly, of the current status of all investments and investment activity. Content of these reports shall include but shall not be limited to: initial investment, current carrying value, any activity such as stock splits, dates of sale, etc.

3. The Company must undertake to capture, retain and make available to regulatory authority the raw data needed to capture all direct and indirect costs associated with the investments. The Company shall, at a minimum, maintain: a list of all persons involved in the investments; support personnel involved in the investments; the time spent by those personnel on the investments; a list of all support facilities or services used on the investments; and a list of all other expenses incurred by the Company on the investments. Such other expenses shall include but shall not be limited to: consultants, communication, travel and debt costs. The Company must file a report within thirty (30) days of the Commission order detailing the information that it presently has captured and the procedures it will use to capture this information in the future. Such information must be maintained and made available through the completion of the Company's next rate case.

4. The Company shall represent that the investments will affect neither the funding for the construction budget of its MGE operating division for this fiscal year nor MGE's operational expenses necessary to provide safe and adequate service. Further, the Company must demonstrate that next year's construction budget for MGE will not be affected by these investments. This demonstration will include MGE's commitment to its safety program for the year ending June 30, 2001. The Company must agree that in order to meet its construction obligations, it will, if necessary, liquidate a portion of the subject investments to meet its obligations.

5. Missouri ratepayers will suffer no adverse effects from any initial investment or losses suffered on such investments, either through an amortization of said losses directly to the operating income of MGE or via a reduction in retained earnings due to such losses. Company's capital structure (actual dollar levels and percentage levels) will not be affected by losses on investments in determining the appropriate rate of return in the future. In order to ensure that

the investments are not detrimental to the public interest, the Company must specify the steps which it will take to insulate Missouri ratepayers from such possible results.

6. Southern Union Company and MGE will not seek an increase to its requested Return On Equity or overall Rate of Return, for Missouri operations, due to factors of, or relating to, actual leverage, percentage of leverage in the capital structure, risk associated with leverage, changes in cash or cash working capital, or any other real or perceived changes in risk profile due to these investments. Also, any adverse effects on Company's cost of debt will not be included in the calculation of Missouri-jurisdiction Rate of Return on cost of service. No adverse effect of the investments will be included in capitalization of AFUDC in the Company's rate base and/or deferrals under presently authorized accounting authority orders. The Company shall represent that, if the investments require interim financing, its lowest cost of debt will be assigned to regulated projects, and higher cost of debt assigned to unregulated projects.

7. The Commission's approval of this application will not constitute a finding by the Commission of the value of the investments or the mergers for ratemaking purposes, and the Commission reserves the right to consider the ratemaking treatment afforded the investments and the effects on cost of capital at a later time in any appropriate proceeding.

The Staff finds these conditions to be acceptable.

The Staff respectfully requests that this matter be placed on the Commission's Agenda as soon as possible.

Attachment:

GM-2000-49 Conditions

Copies: Director - Utility Operations Division
Director – Research and Public Affairs
Manager - Financial Analysis Department
Office of the Public Counsel
Dennis K. Morgan, Southern Union Company
Director - Utility Services Division
Manager - Gas Department
General Counsel
Paul A. Boudreau, Company Counsel

Service List for
Case No. GF-2000-393
March 20, 2000

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