Exhibit No.:	______________
Issues:	Transaction and Proposed Conditions
Witness:	Martin Salinas, Jr.
Sponsoring Parties:	Energy Transfer Equity, L.P. Sigma Acquisition Corporation
Case No.:	GM-2011-0412
Date Testimony Prepared:	October 28, 2011

MISSOURI PUBLIC SERVICE COMMISSION

ENERGY TRANSFER EQUITY, L.P.
AND
SIGMA ACQUISITION CORPORATION

CASE NO. GM-2011-0412

DIRECT TESTIMONY OF

MARTIN SALINAS, JR.

Date October 28, 2011

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Background

Q. Please state your name and business address.

A. My name is Martin Salinas, Jr. My business address is 3738 Oak Lawn Avenue, Dallas, Texas 75219.

Q. By whom are you employed and in what capacity?

A. I am the Chief Financial Officer of Energy Transfer Partners, L.P. ("ETP"), the general partner of which is owned by Energy Transfer Equity, L.P. ("ETE"). Pursuant to a shared services arrangement, I provide support to both ETE and ETP. I am submitting this Direct Testimony on behalf of ETE and Sigma Acquisition Corporation ("Sigma"), two of the joint applicants in this proceeding.

Q. Please describe your professional and educational background.

A. I have served as Chief Financial Officer of ETP since June 2008. I previously served as Controller and Treasurer of ETP from September 2004 to June 2008. Prior to joining ETP, I was a Senior Audit Manager with KPMG in San Antonio, Texas. I am a Certified Public Accountant and graduated from the University of Texas at San Antonio, where I received my bachelor's degree in accounting.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide support for the Amended Application ("Application") that was filed by Southern Union Company ("Southern Union"), Sigma and ETE on September 15, 2011. The Application seeks an order authorizing Southern Union to take certain actions, the results of which will, among other things, (i) permit ETE to acquire Southern Union for, as of July 19, 2011, $9.4 billion, including $5.7 billion in cash and ETE common units related to the acquisition of 100% of the issued and outstanding shares of Southern Union common stock and including assumed debt, and (ii) effectuate a merger transaction whereby Southern Union will become a direct, wholly-owned subsidiary of ETE (the "Transaction"). Specifically, I will discuss ETE's financial and managerial capabilities as a potential upstream owner of Southern Union, and explain why the Transaction is not detrimental to the public interest and, therefore, should be approved by the Commission.

Q. Are you sponsoring any Appendices to the Application?

A. Yes. I am sponsoring Appendices 1, 2 and 8, including the supplement to Appendix 8 to the Application. I am also jointly sponsoring with Southern Union's witness in this proceeding, Robert J. Hack, Appendices 3, 4, 5, 6 and 9 to the Application.

Q. Please provide an overview of ETE and its corporate structure.

A. ETE is a publicly-traded Delaware limited partnership, with its principal place of business located at 3738 Oak Lawn Avenue, Dallas, Texas 75219. ETE owns the general partner and 100 percent of the incentive distribution rights ("IDRs") of ETP and approximately 50.2 million ETP limited partner units. ETE also owns the general partner and 100 percent of the IDRs of Regency Energy Partners LP ("RGP") and approximately 26.3 million RGP limited partner units. A copy of ETE's Certificate of Authority to do business in Missouri as a foreign limited partnership was late-filed in accordance with Commission rules 4 CSR 240-3.215(1) and (3) as Appendix 1 to the Application and is attached hereto as Schedule MS-1.

Q. Please provide an overview of ETP and its corporate structure.

A. ETP is a publicly-traded Delaware limited partnership owning and operating a diversified portfolio of energy assets. ETP has pipeline operations in Arizona, Arkansas, Colorado, Louisiana, Mississippi, New Mexico, Utah and West Virginia and owns the largest intrastate pipeline system in Texas. ETP currently has natural gas operations that include more than 17,500 miles of gathering and transportation pipelines, treating and processing assets, and three storage facilities located in Texas. ETP also owns a 70% interest in a joint venture that owns and operates natural gas liquids storage, fractionation and transportation assets in Texas, Louisiana and Mississippi ("Lone Star"). ETP also currently owns and operates one of the three largest retail propane businesses in the United States, serving more than one million customers across the country.

Q. What is the status of ETP's propane business?

A. On October 15, 2011, ETP announced that it has entered into an agreement with AmeriGas Partners, L.P. ("AmeriGas") pursuant to which ETP will contribute its propane business to AmeriGas in exchange for approximately $2.9 billion of consideration, consisting of $1.5 billion in cash, common units of AmeriGas valued at approximately $1.3 billion and the assumption of certain debt associated with the propane business. Consummation of the transaction is subject to customary conditions, including approval from the relevant antitrust authorities, as well as the successful completion by AmeriGas of a debt financing of $1.5 billion, subject to certain adjustments. ETP has received confirmation from the credit rating agencies that ETP's investment grade rating from each agency will remain the same after the closing of the AmeriGas transaction.

Q. Please provide an overview of RGP and its corporate structure.

A. RGP is a publicly-traded Delaware limited partnership engaged in the gathering, contract compression, processing, marketing and transporting of natural gas and natural gas liquids. RGP focuses on providing midstream service in some of the most prolific natural gas production regions in the United States, including the Haynesville, Eagle Ford, Barnett, Fayetteville and Marcellus shales, as well as the Permian Delaware basin. Its assets are primarily located in Louisiana, Texas, Arkansas, Pennsylvania, Mississippi, Alabama and the mid-continent region of the United States, which includes Kansas, Colorado and Oklahoma. RGP also owns a 30% interest in Lone Star.

Q. Please provide an overview of Sigma and its corporate structure.

A. Sigma is a newly-formed Delaware corporation and wholly-owned subsidiary of ETE with its principal place of business located at 3738 Oak Lawn Avenue, Dallas, Texas 75219. Sigma has conducted no operations as of the date of this testimony. A copy of Sigma's Certificate of Authority to do business in Missouri as a foreign corporation was late-filed in accordance with Commission rules 4 CSR 240-3.215(1) and (3) as <u>Appendix 1</u> to the Application and is attached hereto as <u>Schedule MS-2</u>.

Q. Does ETE or Sigma have any pending actions or final unsatisfied judgments or decisions against it from any state or federal regulatory agencies or courts which involve customer service or rates occurring within the last three (3) years?

A. No.

Does ETE or Sigma have any overdue Commission annual reports or assessment fees?

A. No.

Summary of the Transaction and Required Approvals

Q. Please provide an overview of the definitive Amended and Restated Agreement and Plan of Merger whereby ETE will acquire Southern Union Company ("Southern Union") for $9.4 billion, including $5.7 billion in cash and ETE common units.

A. On July 19, 2011, Southern Union, ETE and Sigma entered into a Second Amended and Restated Agreement and Plan of Merger, as amended by Amendment No. 1 to the Agreement and Plan of Merger executed on September 14, 2011 (the "Agreement") whereby ETE will acquire Southern Union for $9.4 billion, including $5.7 billion in cash and ETE common units. This Agreement followed two previous merger agreements among Southern Union, ETE and Sigma, the first of which (the "Initial Merger Agreement") was entered into on June 19, 2011. Under the terms of the Agreement, stockholders of Southern Union can elect to exchange each of their shares of common stock for either $ 44.25 in cash or 1.000x ETE common unit, subject to pro-ration. In no event shall ETE be required to pay cash for more than sixty percent (60%) of the issued and outstanding shares of Southern Union or issue ETE common units in respect of more than fifty percent (50%) of the issued and outstanding shares of Southern Union common stock. A copy of the Agreement was attached to the Application as Appendix 3. The Agreement provides for the merger of Sigma with and into Southern Union with Southern Union continuing as the surviving corporation.

Q. What approvals are required for the Transaction?

A. The Transaction is subject to customary conditions including, without limitation, approval of Southern Union shareholders, approval of the Federal Energy Regulatory Commission ("FERC"), the expiration or early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act") and approval by this Commission. FERC approval for the Transaction was received on September 23, 2011. Additionally, the applicable waiting periods for the HSR Act filings submitted by ETE and Southern Union expired on July 29, 2011. The parties intend to close the Transaction as soon as practicable after all consents and approvals have been obtained.

Q. Has ETE executed any additional agreements in connection with this Transaction?

A. Yes. Incident to the Agreement, ETP and ETE are parties to a definitive Amended and Restated Agreement and Plan of Merger, as amended by Amendment No. 1 to Agreement and Plan of Merger executed on September 14, 2011 (the "Citrus Merger Agreement"). A copy of the Citrus Merger Agreement was attached to the Application as Appendix 4. Southern Union, CrossCountry Energy, LLC ("CrossCountry), PEPL Holdings, LLC ("PEPL Holdings") and Citrus ETP Acquisition, L.L.C. ("Citrus ETP") will become parties to the Citrus Merger Agreement by joinder at a time immediately prior to the merger transaction set forth therein.

Q. Please provide an overview of the Citrus Merger Agreement.

A. Pursuant to the Citrus Merger Agreement, CrossCountry will be merged with and into Citrus ETP with CrossCountry as the surviving entity (the "Citrus Merger"). As part of the financing of the Citrus Merger and as depicted on the organizational chart attached to the Application as part of Appendix 5 entitled "Southern Union Company Organizational Structure Immediately Pre-Close", Southern Union will, immediately prior to the Citrus Merger, contribute its ninety-nine percent (99%) interest in Panhandle Eastern Pipeline Company, LP and its 100 percent membership interest in Southern Union Panhandle, LLC to PEPL Holdings. As consideration for the Citrus Merger, Southern Union will receive from ETP approximately $2.0 billion, consisting of $1.895 billion in cash and $105 million of ETP common units. PEPL Holdings will provide a contractual commitment to support the payment of approximately $1.895 billion of indebtedness of ETP incurred to fund the cash portion of the consideration payable by ETP in connection with the Citrus Merger. This support agreement will obligate PEPL Holdings to repay this indebtedness only in the event that ETP has not repaid such indebtedness and the lenders have exhausted their remedies against ETP with respect to such indebtedness (whether through bankruptcy proceedings or otherwise). Southern Union will not be a party to the contractual arrangements between ETP and PEPL Holdings. After completion of the Citrus Merger, Southern Union will contribute an amount not to exceed $1.45 billion from the Citrus Merger consideration to Sigma in exchange for an equity interest in Sigma. Schedule MS-3 attached hereto provides diagrams illustrating the Citrus Merger and the contributions that will be made to Sigma immediately prior to the closing of the Transaction. These diagrams illustrate the steps that will be taken between the organizational chart attached to the Application as part of Appendix 5 entitled "Southern Union Company Organizational Structure Immediately Pre-Close" and the organizational chart attached to the Application as part of Appendix 5 entitled "Post-Transaction Organizational Chart."

Overview of Approach to Operation of Missouri Gas Energy

Q. Please describe the corporate organization that will exist following the completion of the Transaction as it relates to Southern Union's public utility division, Missouri Gas Energy ("MGE").

A. ETE will directly own Southern Union. Southern Union will continue to operate the Missouri-based utility service through its MGE division. Simplified diagrams of Southern Union's existing corporate structure, ETE's existing corporate structure, Southern Union's corporate structure immediately pre-closing of the Transaction and the combined corporate structure of the applicants that will exist immediately following the completion of the Transaction are set forth in Appendix 5 to the Application.

Q. Please describe ETE's plan to manage the operation of MGE's assets.

A. ETE is a holding company that operates through its subsidiaries ETP and RGP, each of which has a full management team to operate its respective business operations. As ETP has expanded its presence in natural gas transportation, storage, gathering and processing operations and its natural gas liquids transportation and storage operations over the last decade, ETP's management team has expanded in a measured way so that it is fully able to provide effective management for its operations. Similarly, RGP has a full management team that effectively manages its natural gas transportation, storage, gathering and processing operations, and its natural gas liquids transportation and storage operations, as these businesses have expanded over the last several years. ETE expects that, following the closing of the acquisition of Southern Union by ETE, there will be significant continuity of personnel who are currently responsible for managing Southern Union's operations, including the operations of MGE. In this regard, ETE intends to operate MGE on a "business-as-usual" basis with no significant changes in the existing operations of the public utility in Missouri. In other words, after the closing of the Transaction, ETE will continue to rely upon the employees of MGE who today are competently operating the utility.

Q. Please provide a summary of ETE's financial capacity.

A. From a financial standpoint, ETE is financed in a conservative manner with relatively low debt levels and has ready access to both the debt and equity capital markets as may be needed to fund its business growth. Furthermore, ETE has a $200 million revolving credit facility with approximately $157.5 million available for borrowings (as of October 14, 2011) and no capital requirements at this time. As shown in Appendix 9 to the Application, ETE has a strong balance sheet with conservative credit metrics. As of June 30, 2011, ETE's stand alone leverage ratio (as defined in its revolving credit facility) was 2.83x as compared to its maximum leverage ratio covenant of 4.5x.

Q. Please describe ETE's access to capital markets.

A. ETE has successfully accessed the capital markets sufficient to meet its debt and equity needs, including throughout the recent financial downturn. In February 2006, ETE completed its initial public offering of common units through the sale of approximately $507 million of common units on the New York Stock Exchange. Subsequent to this initial public offering, ETE raised approximately $1.5 billion through a long-term loan facility in 2008 and, concurrently with this financing, ETE also arranged a $500 million revolving credit facility. In 2010, ETE issued $1.8 billion of 7.5% senior notes due on October 15, 2020, and ETE utilized the net proceeds from this offering to repay all of its outstanding term loan and revolving indebtedness. Concurrently with this notes offering, ETE obtained a new five-year $200 million revolving credit facility. Moreover, ETE has already secured a $3.7 billion bridge facility to fund the cash portion of the Transaction, if necessary.

Q. Please explain whether the Transaction will have any impact on Southern Union's credit ratings.

A. ETE does not anticipate that the Transaction will negatively impact Southern Union's credit ratings, and ETE will take commercially reasonable steps to ensure that Southern Union retains its investment grade credit rating after the Transaction closes. Both Moody's and Fitch have affirmed their current ratings of Southern Union following the most recent announcements regarding the Transaction. Standard and Poor's ("S&P") has suggested that it may put Southern Union on CreditWatch with negative implications in connection with the Transaction. Even if S&P does put Southern Union on such a CreditWatch, it is unclear that such CreditWatch would ever result in a downgrade of Southern Union's credit rating by S&P. Further, ETE is engaged in ongoing review of appropriate actions that could be taken to improve Southern Union's credit metrics. Notably, ETE's subsidiary, ETP, has maintained investment grade credit ratings from Fitch since 2005, from Moody's since 2006 and from S&P since 2007, notwithstanding the non-investment grade credit rating of ETE.

Q. If S&P did put Southern Union on a CreditWatch Negative status, would that action adversely impact its access to capital?

A. No. ETE fully expects that Southern Union will continue to have access to capital following the closing of the Transaction. Notably, for a two-year period during 2008 through 2010, S&P placed ETP on a negative outlook. ETP was not downgraded during that period, and ETP was successful in taking measures, including raising additional equity, to improve ETP's credit metrics so that S&P would remove the negative outlook, which S&P did in September of 2010. Finally, I would note that in Appendix 6 to the Application, Southern Union has committed (1) to ensuring that the Transaction will not have an adverse effect on MGE's budget nor on MGE's funds to meet its capital needs and (2) not to recommend an increase to the cost of capital for MGE as a result of the Transaction.

Q. In furtherance of the "no detriment" standard which applies in Missouri, are ETE and Southern Union prepared to insulate MGE from impacts of the Transaction and help Southern Union maintain its investment grade credit rating?

A. Yes, ETE and Southern Union have proposed a number of conditions in the Application to insulate Southern Union's Missouri operations from any potential adverse impact as a result of the Transaction. Specifically, Sections 2 and 3 of Appendix 6 attached to the Application set forth a number of conditions designed to insulate Southern Union's MGE operating division from ETE's business. While Southern Union witness Robert J. Hack addresses those conditions in more detail in his direct testimony, I want to emphasize ETE's concurrence in and support for those conditions, many of which, in my opinion, should also help protect Southern Union's investment grade credit ratings. Additionally, ETE intends to amend the corporate charter of Southern Union, effective as of the closing of the Transaction, in order to implement several measures designed to provide for separation with respect to the assets, operations and affairs of Southern Union in relation to ETE. ETE anticipates that these separation measures will ensure that Southern Union is sufficiently insulated from ETE such that the Transaction will have no adverse impact on Southern Union's credit ratings.

Q. Please describe the separation provisions that ETE will implement with respect to Southern Union Company, as a distinct corporate entity.

A. The separation provisions which ETE plans to implement with respect to Southern Union Company, as a distinct corporate entity, include the following, all of which will be in effect immediately following the consummation of the Transaction:

- **Separate Legal Entity** – Southern Union will hold itself out to the public as a separate legal entity from ETE and observe organizational formalities.
- **Separate Assets** – Southern Union will not commingle its assets with any other entity, or maintain its assets such that it would be costly or difficult to segregate assets from those of any affiliate.
- **Separate Records and Tax Returns** – Southern Union will maintain records separate and apart from its affiliates and file its own tax returns.
- **No Debt Guarantees –** Southern Union will not assume or guarantee the debts of any affiliate.
- **Arm's Length Transactions** – Southern Union will only enter into agreements with affiliates that are conducted at arm's length and will only

acquire any obligations or securities of its partners, members, shareholders, or other affiliates through arm's length transactions.

- **Adequate Capital and Sufficient Employees** – Southern Union will maintain adequate capital for normal obligations that are reasonably foreseeable in a business of its size and character and will also maintain a sufficient number of employees in light of its contemplated business operations.
- **Allocated Expenses** – Southern Union will fairly and reasonably allocate shared expenses.
- **Solvency** – Southern Union will remain solvent and pay its own liabilities from its own funds.
- **Shareholder and Director Approvals** – Unless it has the unanimous written consent of all shareholders and directors, Southern Union will not: (1) file any petition to take advantage of any creditors rights laws; (2) seek or consent to the appointment of a receiver, liquidator or any similar official; (3) take any action that might cause insolvency; or (4) make an assignment for the benefit of creditors.
- **No Loans or Mergers without Approval** – So long as the MGE utility assets are held by Southern Union, Southern Union will not make any loans or advances to any affiliate, nor will Southern Union merge, liquidate, or dispose of all or substantially all of its assets or change its legal structure without first seeking Commission approval.

<u>Public Interest Basis for the Transaction</u>

Q. Please explain why the Commission should find that the Transaction is not detrimental to the public interest.

A. The Commission should find that the Transaction is not detrimental to the public interest:

- **No Adverse Effect on Customers –** The Transaction will have no adverse effect on the customers of MGE with respect to rates, service or otherwise and, consequently, is not detrimental to the public interest. Southern Union's Missouri customers will see no change in their day-to-day utility service or rates and will continue to be served safely, effectively and efficiently without interruption. The Commission's jurisdiction and oversight over MGE will not change. All natural gas commodity, transportation and storage costs that are proposed to be passed on to MGE customers will continue to be subject to review by the Commission through the purchased gas adjustment/actual cost adjustment process included in MGE's tariff. All non-gas costs proposed to be passed on to MGE customers will also continue to be subject to review by the Commission. The day-to-day management and operations of MGE in Missouri will continue to be conducted as they have been in the past. Moreover, as set forth in <u>Appendix 6</u> to the Application, Southern Union has committed that the Transaction will have no adverse effect on MGE's budget or funds to meet MGE's capital needs, that it will diligently exercise its best efforts to insulate MGE from any adverse consequences from the activities of any of its affiliates and that it will not transfer to ETE (or any ETE subsidiary) assets necessary and useful in providing service to MGE's Missouri customers without Commission approval. Southern Union has also agreed to additional conditions related to customer service, information access and affiliate transaction, as discussed in more detail in the Direct Testimony of Robert J. Hack.

- **Experienced Natural Gas Business Owner –** ETE is an experienced owner of natural gas transportation, gathering and processing businesses. In addition, as noted above, ETE plans to operate the MGE division on a "business-as-usual" basis, relying upon the expertise of existing MGE employees. In other words, ETE intends to continue to operate the MGE division without making significant changes in the operation of the public utility assets in Missouri.
- **No Impact on Rates from the Transaction –** The proposed Transaction will have no impact upon the rates of customers. ETE and Southern Union have committed that any acquisition premium in connection with the Transaction will be treated below the line for ratemaking purposes in Missouri and not recovered in retail distribution rates. Moreover, Southern Union has committed not to recommend an increase to the cost of capital for MGE as a result of the Transaction.
- **Financially Capable Owner –** With respect to ETE's financial capability to own and operate a utility service in Missouri, the financial community has expressed its support and confidence in ETE's acquisition strategy. This is

evidenced by positive analyst reports following the announcement of the Transaction noting, for example, that “we are maintaining our positive outlook for all three Energy Transfer affiliated companies” and that, even after the increase in the purchase price, the Transaction valuation range “still implies a meaningful upside for ETE.” Copies of such reports are included as Schedule MS-4. We believe the investment community remains committed to and supportive of the addition of Southern Union to ETE’s corporate family. In addition, as discussed above, ETE has had ready access to the debt and equity markets, even during the financial downturns of 2008 and 2009.

Q. Does ETE intend to seek recovery of any acquisition premium or transaction costs as a part of MGE’s rates in Missouri?

A. No. As noted above, ETE commits that MGE will not seek to recover any of the acquisition costs and acquisition premium associated with this Transaction in any future rate proceeding.

Q. Do you believe the acquisition premium for the Transaction is reasonable?

A. Yes. The consideration for the Transaction represents a premium of $15.99 per share as compared to the closing price of Southern Union common stock on June 15, 2011, the last trading day prior to the announcement of the Initial Merger Agreement. ETE notes that the vast majority of the acquisition premium is driven by assets other than the local distribution company assets owned by Southern Union (*i.e.*, MGE and New England Gas Company). As explained in the Application, the acquisition premium is reasonable within the meaning of the opinion of the Missouri Supreme Court in the *AG Processing* case. The acquisition of Southern Union's operations by ETE will create a more diversified and competitive interstate and midstream natural gas platform that will enhance and diversify ETE's cash flow profile. The businesses and networks are highly complementary and together will provide a broader range of services, product offerings to existing and future customers and significant growth opportunities in strategic geographic locations across the U.S. as well as potential affiliate joint ventures.

Q. Does this conclude your testimony?

A. Yes.