
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 1-6407

SOUTHERN UNION COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-0571592

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

3738 Oak Lawn Avenue, Dallas, Texas 75219

(Address of principal executive offices) (zip code)

(214) 981-0700

(Registrant's telephone number, including area code)

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.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ 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 ☒

Southern Union Company meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

FORM 10-Q

SOUTHERN UNION COMPANY

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Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by Southern Union Company and its subsidiaries (“Southern Union” or the “Company”) in periodic press releases and some oral statements of the Company’s officials during presentations about the Company, include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “forecast,” “may,” “will” or similar expressions help identify forward-looking statements. Although the Company believes such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Company’s actual results may vary materially from those anticipated, projected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are difficult to predict and beyond management’s control. For additional discussion of risks, uncertainties and assumptions, see “Part I — Item 1A. Risk Factors” in the Company’s Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on March 1, 2013.

Definitions

The following is a list of certain acronyms and terms generally used in the energy industry and throughout this document:

/d	per day
APUC	Algonquin Power & Utilities Corp
Btu	British thermal units
Citrus	Citrus Corp.
Citrus Merger	ETP’s acquisition of Citrus Corp. on March 26, 2012
EBITDA	Earnings before interest, taxes, depreciation and amortization
EPA	United States Environmental Protection Agency
ETE	Energy Transfer Equity, L.P.
ETE Merger	ETE’s acquisition of Southern Union on March 26, 2012
ETP	Energy Transfer Partners, L.P., a subsidiary of ETE
ETP GP	Energy Transfer Partners GP, L.P., the general partner of ETP
ETP LLC	Energy Transfer Partners, L.L.C., the general partner of ETP GP
Exchange Act	Securities Exchange Act of 1934
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Holdco	ETP Holdco Corporation
IDRs	Incentive Distribution Rights
LIBOR	London Interbank Offer Rate
Laclede Massachusetts	Plaza Massachusetts Acquisition, Inc.
Laclede Missouri	Plaza Missouri Acquisition, Inc.
LDC Disposal Group	Southern Union’s Missouri Gas Energy and New England Gas Company divisions
LNG	Liquefied natural gas
LNG Holdings	Trunkline LNG Holdings, LLC
MDPU	Massachusetts Department of Public Utilities
Merger Sub	Sigma Acquisition Corporation, a wholly-owned subsidiary of ETE

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MGE	Missouri Gas Energy
MGP	Manufactured gas plant
MMBtu	Million British thermal units
MMcf	Million cubic feet
NEG	New England Gas Company
NGL	Natural gas liquids
NYMEX	New York Mercantile Exchange
OPEB plans	Other postretirement employee benefit plans
Panhandle	Panhandle Eastern Pipe Line Company, LP and its subsidiaries
PCB	Polychlorinated biphenyl
PEPL	Panhandle Eastern Pipe Line Company, LP
PEPL Holdings	PEPL Holdings, LLC
ppb	parts per billion
Regency	Regency Energy Partners LP
Sea Robin	Sea Robin Pipeline Company, LLC
SEC	United States Securities and Exchange Commission
SUGS	Southern Union Gas Services
Sunoco	Sunoco, Inc.
TBtu	Trillion British thermal units
Trunkline	Trunkline Gas Company, LLC

Adjusted EBITDA is a term used throughout this document, which we define as earnings before interest, taxes, depreciation, amortization and other non-cash items, such as non-cash compensation expense, gains and losses on disposals of assets, unrealized gains and losses on commodity risk management activities, non-cash impairment charges and other non-operating income or expense items. Unrealized gains and losses on commodity risk management activities includes unrealized gains and losses on commodity derivatives and inventory fair value adjustments (excluding lower of cost or market adjustments). Adjusted EBITDA reflects amounts for unconsolidated affiliates based on the Company's proportionate ownership.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Company's March 26, 2012 merger transaction with ETE (the "ETE Merger") was accounted for by ETE using business combination accounting. Under this method, the purchase price paid by the acquirer is allocated to the assets acquired and liabilities assumed as of the acquisition date based on their fair value. By the application of "push-down" accounting, Southern Union's assets, liabilities and equity were accordingly adjusted to fair value on March 26, 2012. Determining the fair value of certain assets and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions.

Due to the application of "push-down" accounting, the Company's financial statements and certain footnote disclosures are presented in two distinct periods to indicate the application of two different bases of accounting. Periods prior to March 26, 2012 are identified herein as "Predecessor," while periods subsequent to the ETE Merger are identified as "Successor."

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)
(unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 44	\$ 49
Accounts receivable, net	72	155
Accounts receivable from related companies	71	72
Inventories	165	163
Exchanges receivable	8	11
Current assets held for sale	16	184
Prepayments and other assets	12	120
Total current assets	388	754
PROPERTY, PLANT AND EQUIPMENT:		
Plant in service	4,166	5,491
Construction work in progress	59	272
	4,225	5,763
Accumulated depreciation and amortization	(180)	(105)
Net property, plant and equipment	4,045	5,658
NON-CURRENT ASSETS HELD FOR SALE	145	985
DEFERRED CHARGES	68	65
UNCONSOLIDATED INVESTMENTS	1,542	115
GOODWILL	2,025	2,364
NOTE RECEIVABLE FROM RELATED PARTY	396	—
OTHER NON-CURRENT ASSETS	57	52
Total assets	\$ 8,666	\$ 9,993

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)
(unaudited)

	September 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 1	\$ 259
Accounts payable and accrued liabilities	156	118
Accounts payable to related companies	138	110
Federal, state and local taxes payable	25	16
Accrued interest	24	32
Exchanges payable	153	133
Derivative instruments	16	18
Current liabilities held for sale	13	85
Other	73	108
Total current liabilities	599	879
LONG-TERM DEBT, less current maturities	1,252	3,024
NOTE PAYABLE TO RELATED PARTY	1,090	—
DEFERRED CREDITS	284	330
DEFERRED INCOME TAXES	1,649	1,590
NON-CURRENT LIABILITIES HELD FOR SALE	70	142
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDER'S EQUITY:		
Premium on capital stock	3,939	4,079
Accumulated other comprehensive loss	(12)	(25)
Accumulated deficit	(205)	(26)
Total stockholder's equity	3,722	4,028
Total liabilities and stockholder's equity	\$ 8,666	\$ 9,993

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)
(unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
OPERATING REVENUES	\$ 182	\$ 404
OPERATING EXPENSES:		
Cost of natural gas and other energy	1	164
Operating, maintenance and general	73	98
Depreciation and amortization	41	67
Total operating expenses	115	329
OPERATING INCOME	67	75
OTHER INCOME (EXPENSE):		
Interest expense, net of interest capitalized	(39)	(34)
Earnings (losses) from unconsolidated investments	9	(1)
Other, net	3	(1)
Total other expenses, net	(27)	(36)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	40	39
Income tax expense (benefit) from continuing operations	(5)	27
INCOME FROM CONTINUING OPERATIONS	45	12
Income from discontinued operations	13	5
NET INCOME	\$ 58	\$ 17

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)
(unaudited)

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
OPERATING REVENUES	\$ 891	\$ 822	\$ 443
OPERATING EXPENSES:			
Cost of natural gas and other energy	226	329	197
Operating, maintenance and general	281	264	116
Depreciation and amortization	147	137	49
Total operating expenses	654	730	362
OPERATING INCOME	237	92	81
OTHER INCOME (EXPENSE):			
Interest expense, net of interest capitalized	(84)	(95)	(50)
Earnings from unconsolidated investments	15	—	16
Other, net	2	—	(2)
Total other expenses, net	(67)	(95)	(36)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	170	(3)	45
Income tax expense from continuing operations	80	21	12
INCOME (LOSS) FROM CONTINUING OPERATIONS	90	(24)	33
Income from discontinued operations	44	14	17
NET INCOME (LOSS)	\$ 134	\$ (10)	\$ 50

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONSENSUED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)
(unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Net income	\$ 58	\$ 17
Other comprehensive income (loss), net of tax:		
Change in fair value of commodity hedges	—	(3)
Reclassification of unrealized gain on commodity hedges into earnings	—	(4)
Actuarial gain relating to pension and other postretirement benefits	8	—
	<u>8</u>	<u>(7)</u>
Comprehensive income	<u>\$ 66</u>	<u>\$ 10</u>

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Net income (loss)	\$ 134	\$ (10)	\$ 50
Other comprehensive income (loss), net of tax:			
Change in fair value of interest rate hedges	—	—	4
Reclassification of unrealized loss on interest rate hedges into earnings	—	—	5
Change in fair value of commodity hedges	(3)	4	3
Reclassification of unrealized gain on commodity hedges into earnings	—	(7)	(1)
Actuarial gain relating to pension and other postretirement benefits	10	—	1
	<u>7</u>	<u>(3)</u>	<u>12</u>
Comprehensive income (loss)	<u>\$ 141</u>	<u>\$ (13)</u>	<u>\$ 62</u>

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

(Dollars in millions)
(unaudited)

	Premium on Capital Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholder's Equity
Balance, December 31, 2012	\$ 4,079	\$ (25)	\$ (26)	\$ 4,028
Other comprehensive income, net of tax	—	(1)	—	(1)
Unit-based compensation	1	—	—	1
Dividends paid	—	—	(313)	(313)
Net income	—	—	134	134
Sale of MGE, net of tax	—	8	—	8
SUGS Contribution (Note 2)	(141)	6	—	(135)
Balance, September 30, 2013	<u>\$ 3,939</u>	<u>\$ (12)</u>	<u>\$ (205)</u>	<u>\$ 3,722</u>

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(unaudited)

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 134	\$ (10)	\$ 50
Reconciliation of net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	147	155	57
Deferred income taxes	99	26	23
Provision for bad debts	7	6	1
Amortization of costs charged to interest	(25)	(17)	1
Net gain on curtailment of OPEB plans	—	(15)	—
Unrealized loss (gain) on derivatives	(27)	15	—
Non-cash compensation expense, including related party allocation	5	—	2
Earnings from unconsolidated investments, net of cash distributions	—	5	(16)
Gain on sale of MGE, net of tax	(3)	—	—
Changes in operating assets and liabilities, net of merger and contribution impacts	30	(188)	79
Net cash flows provided by (used in) operating activities	367	(23)	197
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from SUGS Contribution	463	—	—
Proceeds from sale of MGE assets, net of transaction costs	973	—	—
Additions to property, plant and equipment	(193)	(138)	(60)
Loan repayment from unconsolidated investments	—	—	37
Distributions from unconsolidated affiliates in excess of cumulative earnings	21	—	—
Proceeds from Citrus Merger	—	—	1,895
Plant retirements and other	(4)	(3)	(2)
Net cash flows provided by (used in) investing activities	1,260	(141)	1,870
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	—	—	455
Dividends paid	(313)	(65)	(19)
Issuance of loans from affiliates	1,669	—	—
Repayments of loans from affiliates	(975)	—	—
Issuance of note payable - related party	—	221	—
Repayments of note payable - related party	—	(55)	—
Repayment of long-term debt	(1,795)	—	(1,048)
Net change in revolving credit facilities	(210)	39	12
Purchase of treasury stock	—	—	(1,453)
Other	(8)	(6)	(1)
Net cash flows provided by (used in) financing activities	(1,632)	134	(2,054)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5)	(30)	13
CASH AND CASH EQUIVALENTS, beginning of period	49	37	24
CASH AND CASH EQUIVALENTS, end of period	\$ 44	\$ 7	\$ 37

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

SOUTHERN UNION COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts are in millions)

(unaudited)

1. OPERATIONS AND ORGANIZATION:

Business Operations

Southern Union Company (“we,” “us,” the “Company” and “Southern Union”) owns and operates assets in the regulated and unregulated natural gas industry and is primarily engaged in the interstate transportation and storage of natural gas, and also provides LNG terminalling and regasification services. Its operations are located in the United States and extend from the Gulf Coast region throughout the Midwest and Great Lakes region. The Company was previously engaged in the gathering and processing of natural gas and local distribution of natural gas; those operations have been deconsolidated and/or discontinued as discussed in Note 2.

Holdco Transaction

On April 30, 2013, ETP acquired ETE’s 60% interest in Holdco, the entity formed by ETP and ETE in 2012 to own the equity interests in Southern Union and Sunoco. As a result of this transaction, ETP now owns 100% of Holdco. ETP controlled Holdco prior to this transaction; therefore, the transaction did not constitute a change of control.

Preparation of Interim Financial Statements

The accompanying condensed consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements and notes thereto of the Company as of September 30, 2013 and for the three and nine month periods ended September 30, 2013 and 2012, have been prepared in accordance with GAAP for interim condensed consolidated financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. However, management believes that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonal nature of the Company’s operations.

The accompanying unaudited interim condensed consolidated financial statements reflect adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim period. The unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Southern Union Company presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on March 1, 2013.

2. CONTRIBUTION AND DISPOSALS:

SUGS Contribution

On April 30, 2013, the Company completed its contribution to Regency of all of the membership interest in Southern Union Gathering Company, LLC, and its subsidiaries, including SUGS (the “SUGS Contribution”). The general partner and IDRs of Regency are owned by ETE. The consideration paid by Regency in connection with this transaction consisted of (i) the issuance of approximately 31.4 million Regency common units to the Company, (ii) the issuance of approximately 6.3 million Regency Class F units to the Company, (iii) the distribution of \$463 million in cash to the Company, net of closing adjustments, and (iv) the payment of \$30 million in cash to a subsidiary of ETP. This transaction was between commonly controlled entities; therefore, the amounts recorded in the consolidated balance sheet for the investment in Regency and the related deferred tax liabilities were based on the historical book value of SUGS. The Company used a portion of the cash consideration to pay down \$240 million in outstanding borrowings on the Eighth Amended and Restated Revolving Credit Agreement (the “Southern Union Credit Facility”). In addition, PEPL Holdings, a wholly-owned subsidiary of the Company, provided a guarantee of collection with respect to the payment of the principal amounts of Regency’s debt related to the SUGS Contribution, as further discussed in Note 10. The Regency Class F units have the same rights, terms and conditions as the Regency common units, except that Southern Union will not receive distributions on the Regency Class F units for the first eight consecutive quarters following the closing, and the Regency Class F units will thereafter automatically convert into Regency common units on a one-for-one basis. The Company has not presented SUGS as discontinued operations due to the expected continuing involvement with SUGS through affiliate relationships, as well as the direct investment in Regency common and Class F units received, which has been accounted for using the equity method.

Discontinued Operations

In December 2012, the Company entered into a purchase and sale agreement with The Laclede Group, Inc. pursuant to which Laclede Missouri agreed to acquire the assets of the MGE division and Laclede Massachusetts agreed to acquire the assets of the NEG division (together, the “LDC Disposal Group”). Laclede Gas Company, a subsidiary of The Laclede Group, Inc., subsequently assumed all of Laclede Missouri’s rights and obligations under the purchase and sale agreement. In February 2013, The Laclede Group, Inc. entered into an agreement with APUC that allows a subsidiary of APUC to assume the rights of The Laclede Group, Inc. to purchase the assets of NEG, subject to certain approvals.

Effective September 1, 2013, the Company completed its sale of the assets of MGE to Laclede Gas Company for an aggregate purchase price of \$975 million, subject to customary post-closing adjustments. Proceeds from the sale were used to repay borrowings under ETP’s revolving credit facility. The sale of NEG is expected to close in the fourth quarter of 2013 for cash proceeds of \$40 million, subject to customary post-closing adjustments and the assumption of \$20 million of debt. All periods reflected herein have been restated to present the LDC Disposal Group’s operations as discontinued operations in the condensed consolidated statements of operations. The assets and liabilities of NEG have been reported as assets and liabilities held for sale as of September 30, 2013 and December 31, 2012. The assets and liabilities of MGE have been reported as assets and liabilities held for sale as of December 31, 2012.

Summarized financial information for Southern Union’s LDC Disposal Group is as follows:

	Successor				Predecessor
	Three Months Ended September 30,		Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
	2013	2012			
Revenue from discontinued operations	\$ 51	\$ 73	\$ 408	\$ 168	\$ 190
Net income of discontinued operations, excluding effect of taxes and overhead allocations	27	8	125	22	27

The goodwill allocated to NEG was \$1 million at September 30, 2013.

3. RELATED PARTY TRANSACTIONS:

Accounts receivable from related companies reflected on the condensed consolidated balance sheets primarily related to payroll funding and various administrative and operating costs paid by the Company on behalf of affiliates. Accounts payable from related companies primarily related to various administrative and operating costs paid by affiliates on behalf of the Company.

The following table provides a summary of the related party activity included in our condensed consolidated statements of operations. Predecessor period amounts were not included as they were immaterial.

	Three Months Ended September 30,		Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012
	2013	2012		
Operating revenues — ETP	\$ 5	\$ 10	\$ 34	\$ 19
Cost of natural gas and other energy	—	5	16	13
Operating, maintenance and general	16	20	59	24
Interest expense, net of interest capitalized	14	3	15	3
Earnings (losses) from unconsolidated investments	9	(1)	15	—

The Company received \$6 million and \$29 million in distributions related to its investments in ETP and Regency, respectively, during the nine months ended September 30, 2013.

4. ACCUMULATED OTHER COMPREHENSIVE LOSS:

The table below presents the components in accumulated other comprehensive loss, net of tax:

	September 30, 2013	December 31, 2012
Commodity hedges	\$ —	\$ (3)
Benefit plans:		
Net actuarial loss and prior service costs — pensions	(2)	(11)
Net actuarial gain and prior service credit — OPEB plans	(10)	(11)
Total accumulated other comprehensive loss, net of tax	\$ (12)	\$ (25)

5. DEBT OBLIGATIONS:

Based on the estimated borrowing rates currently available to the Company and its subsidiaries for loans with similar terms and average maturities, the aggregate fair value of the Company's consolidated debt obligations at September 30, 2013 and December 31, 2012 was \$2.34 billion and \$3.39 billion, respectively. As of September 30, 2013 and December 31, 2012, the aggregate carrying amount of the Company's consolidated debt obligations was \$2.34 billion and \$3.28 billion, respectively. The fair value of the Company's consolidated debt obligations is a Level 2 valuation based on the observable inputs used for similar liabilities.

Note Exchange

On June 24, 2013, ETP completed the exchange of approximately \$1.09 billion aggregate principal amount of the Company's outstanding senior notes, comprising 77% of the principal amount of the 7.6% Senior Notes due 2024, 89% of the principal amount of the 8.25% Senior Notes due 2029 and 91% of the principal amount of the Junior Subordinated Notes due 2066. These notes were exchanged for new notes issued by ETP with the same coupon rates and maturity dates. In conjunction with this transaction, the Company entered into intercompany notes payable to ETP, which provide for the reimbursement by the Company of ETP's payments under the newly issued notes.

Credit Facilities

Proceeds from the SUGS Contribution were used to repay \$240 million of borrowings under the Southern Union Credit Facility and the facility was terminated.

Panhandle Senior Notes

Panhandle's 6.05% Senior Notes in the amount of \$250 million matured on August 15, 2013 and were repaid with intercompany borrowings.

Panhandle Term Loans

In September 2013, ETP issued \$1.50 billion total principal amount of Senior Notes. A portion of the proceeds from this offering were used to repay \$455 million of borrowings under the LNG Holdings term loan due February 2015.

Covenants Related to Our Credit Agreements

We were in compliance with all requirements, tests, limitations, and covenants related to our credit agreements as of September 30, 2013.

6. RETIREMENT BENEFITS:

Components of Net Periodic Benefit Cost

The following tables set forth the components of net periodic benefit cost of the Company's pension and postretirement benefit plans:

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Net Periodic Benefit Cost:				
Service cost	\$ —	\$ 1	\$ (1)	\$ —
Interest cost	2	2	1	1
Expected return on plan assets	(3)	(3)	(2)	(2)
Prior service credit amortization	—	—	1	—
Actuarial gain amortization	1	—	—	—
	—	—	(1)	(1)
Regulatory adjustment ⁽¹⁾	1	3	—	1
Net periodic benefit cost	\$ 1	\$ 3	\$ (1)	\$ —

	Pension Benefits		Other Postretirement Benefits			
	Successor		Predecessor	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Net Periodic Benefit Cost:						
Service cost	\$ 3	\$ 2	\$ 1	\$ —	\$ —	\$ 1
Interest cost	6	5	2	2	1	1
Expected return on plan assets	(9)	(6)	(2)	(5)	(3)	(1)
Prior service credit amortization	—	—	—	1	—	(1)
Actuarial gain amortization	2	—	2	—	—	—
Curtailment recognition ⁽²⁾	—	—	—	—	(15)	—
	2	1	3	(2)	(17)	—
Regulatory adjustment ⁽¹⁾	5	6	—	—	1	1
Net periodic benefit cost (credit)	\$ 7	\$ 7	\$ 3	\$ (2)	\$ (16)	\$ 1

⁽¹⁾ The Company has historically recovered certain qualified pension benefit plan and other postretirement benefit plan costs through rates charged to utility customers in its MGE and NEG divisions. Certain utility commissions require that the recovery of these costs be based on the Employee 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.

⁽²⁾ Subsequent to the ETE Merger, the Company amended certain of its OPEB plans, which prospectively restrict participation in the plans for the impacted active employees. The plan amendments resulted in the plans becoming currently over-funded and, accordingly, the Company recorded a pre-tax curtailment gain of \$75 million. Such gain was offset by establishment of a non-current refund liability in the amount of \$60 million. As such, the net curtailment gain recognition was \$15 million.

7. TAXES ON INCOME:

The following tables summarize the Company's income taxes from continuing operations for the periods presented:

	Successor				Predecessor
	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Income tax expense (benefit)	\$ (5)	\$ 27	\$ 80	\$ 21	\$ 12
Effective tax rate	(13)%	69%	47%	(700)%	27%

The Company's effective income tax rate for the three and nine months ended September 30, 2013 varied from the federal statutory rate of 35% primarily due to state income taxes. The state effective rate changed due to apportionment shifts resulting from the SUGS Contribution, completion of the sale of the MGE assets and other internal restructuring activities. The effective income tax rate for the period from March 26, 2012 to September 30, 2012 reflected the impact of the Company's pre-tax loss as a result of merger-related expenses coupled with non-deductible executive compensation included in the merger-related expenses. The effective income tax rate for the period from January 1, 2012 to March 25, 2012 was lower than the federal statutory rate primarily due to the dividend received reduction for the anticipated receipt of dividends associated with the earnings from the Company's prior unconsolidated investment in Citrus.

8. 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 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 are the principal derivative instruments used by the Company to manage commodity price risk associated with purchases and/or sales of natural gas, 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 sheets.

Interest Rate Contracts

The Company may enter into interest rate swaps to manage its exposure to changes in interest payments on long-term debt attributable to movements in market interest rates.

Interest Rate Swaps. The Company has outstanding interest rate swap agreements to hedge floating rate notes with an aggregate notional amount of \$475 million, of which \$450 million are for ten-year periods and \$25 million are for five-year periods. The Company settled \$50 million of five-year swaps during the third quarter of 2013. These interest rate swaps became effective on November 1, 2011. The Company pays interest on the floating rate notes based on three-month LIBOR plus a credit spread of 3.0175% beginning November 1, 2011. The interest rate swaps effectively fix the floating rate LIBOR-based portion of the interest payments on the swapped notes to a weighted average fixed rate of 3.63%. Prior to the ETE Merger, these interest rate swaps were accounted for as cash flow hedges, with the effective portion of their settled value recorded in accumulated other comprehensive income and reclassified into interest expense in the same periods during which the related interest payments on long-term debt impacted earnings. In conjunction with the ETE Merger, the Company discontinued hedge accounting treatment on these interest rate swaps. Therefore, changes in fair value since then have been recognized in earnings.

The Company also had outstanding pay-fixed interest rate swaps with a total notional amount of \$455 million to hedge the LNG Holdings \$455 million term loan, which was refinanced in February 2012. These interest rate swaps were accounted for as cash flow hedges, with the effective portion of changes in their fair value recorded in accumulated other comprehensive income and reclassified into interest expense in the same periods during which the related interest payments on long-term debt impacted earnings. These swaps terminated in the first quarter of 2012.

For the predecessor period in 2012 during which hedge accounting treatment was applied, there was no swap ineffectiveness.

Commodity Contracts – Gathering and Processing Segment

The Company primarily entered into natural gas and NGL 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. These natural gas price swaps were accounted for as cash flow hedges, with the effective portion of changes in their fair value recorded in accumulated other comprehensive income and reclassified into operating revenues in the same periods during which the forecasted natural gas sales impact earnings. These swaps were terminated in connection with the SUGS Contribution on April 30, 2013.

Commodity Contracts – Distribution

Through the MGE division, which was sold in September 2013, the Company historically entered into natural gas commodity financial instruments to manage the exposure to changes in the cost of natural gas passed through to utility customers that resulted from movements in market commodity prices. The cost of the derivative instruments and settlement of the respective obligations were recovered from utility customers through the purchased natural gas adjustment clause as authorized by the applicable regulatory authority and therefore did not impact earnings.

Summary Financial Statement Information

The following table summarizes the fair value amounts of the Company's asset and liability derivative instruments and their location reported in the condensed consolidated balance sheets:

Balance Sheet Location	Fair Value			
	Asset Derivatives		Liability Derivatives	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Cash Flow Hedges:				
Commodity contracts — Gathering and Processing:				
Natural gas price swaps:				
Accounts payable to related companies	\$ —	\$ —	\$ —	\$ 5
	—	—	—	5
Economic Hedges:				
Interest rate contracts:				
Derivative instruments — liabilities	—	—	16	18
Deferred credits	—	—	34	59
Commodity contracts — Distribution:				
Natural gas price swaps:				
Current assets held for sale	—	1	—	—
Non-current assets held for sale	—	1	—	—
Current liabilities held for sale	—	—	—	9
	—	2	50	86
Total	\$ —	\$ 2	\$ 50	\$ 91

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. If a right of offset exists, the fair value amounts for the derivative instruments are reported in the condensed consolidated balance sheets on a net basis and disclosed herein on a gross basis.

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The following tables summarize the location and amount (excluding income tax effects) of derivative instrument gains and losses reported in the Company's condensed consolidated financial statements:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Cash Flow Hedges:		
Commodity contracts — Gathering and Processing:		
Change in fair value — decrease in accumulated other comprehensive income	\$ —	\$ (5)
Reclassification of unrealized gain from accumulated other comprehensive income	—	6
Economic Hedges:		
Interest rate contracts:		
Change in fair value — increase (decrease) in interest expense	1	(5)
Commodity contracts — Distribution:		
Change in fair value — decrease in deferred natural gas purchases	(4)	(11)

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Cash Flow Hedges:			
Interest rate contracts:			
Change in fair value — increase in accumulated other comprehensive income	\$ —	\$ —	\$ 6
Reclassification of unrealized loss from accumulated other comprehensive income — increase of interest expense	—	—	8
Commodity contracts — Gathering and Processing:			
Change in fair value — increase (decrease) in accumulated other comprehensive income	(3)	6	5
Reclassification of unrealized gain from accumulated other comprehensive income	—	12	2
Economic Hedges:			
Interest rate contracts:			
Change in fair value — increase (decrease) in interest expense	(27)	15	—
Commodity contracts — Distribution:			
Change in fair value — decrease in deferred natural gas purchases	(7)	(31)	(2)

9. FAIR VALUE MEASUREMENT:

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

	Fair Value as of September 30, 2013	Fair Value Measurements at September 30, 2013 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets:				
Total	\$ —	\$ —	\$ —	\$ —
Liabilities:				
Interest rate swaps	\$ 50	\$ —	\$ 50	\$ —
Total	\$ 50	\$ —	\$ 50	\$ —

The Company's Level 2 instruments primarily include 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 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 fair value measurements at September 30, 2013. During the period ended September 30, 2013, no transfers were made between any levels within the fair value hierarchy.

10. REGULATORY MATTERS, COMMITMENTS, CONTINGENCIES AND ENVIRONMENTAL LIABILITIES:

Trunkline Transfer Application

On July 26, 2012, Trunkline filed an application with the FERC for approval to transfer approximately 770 miles of underutilized loop piping facilities by sale to an affiliate; such facilities are contemplated to be converted to crude oil transportation service. This sale is subject to FERC approval. Several parties have intervened, commented, or protested this filing. The Company has responded to all information requests from the Commission and is awaiting a final order in this proceeding.

Panhandle FERC Audit

The FERC recently completed an audit of PEPL to evaluate its compliance with the Uniform System of Accounts as prescribed by the FERC, annual and quarterly financial reporting to the FERC, reservation charge crediting policy and record retention. The audit related to the period from January 1, 2010 through December 31, 2011. An audit report was received in August 2013 noting no issues that would have a material impact on the Company's historical financial position or results of operations.

PEPL Holdings Guarantee of Collection

In connection with the SUGS Contribution, Regency issued \$600 million of 4.50% Senior Notes due 2023 (the "Regency Debt"), the proceeds of which were used by Regency to fund the cash portion of the consideration, as adjusted, and pay certain other expenses or disbursements directly related to the closing of the SUGS Contribution. In connection with the closing of the SUGS Contribution on April 30, 2013, Regency entered into an agreement with PEPL Holdings, a subsidiary of the Company, pursuant to which PEPL Holdings provided a guarantee of collection (on a nonrecourse basis to the Company) to Regency and Regency Energy Finance Corp. with respect to the payment of the principal amount of the Regency Debt through maturity in 2023.

Environmental Matters

The Company's operations are subject to federal, state and local laws, rules and regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. These laws, rules 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 laws, rules and regulations 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 applicable 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.

Environmental Remediation

Transportation and Storage

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 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. 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 potentially responsible parties. 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's environmental remediation activities are undertaken in cooperation with and under the oversight of appropriate regulatory agencies, enabling the Company under certain circumstances to take advantage of various voluntary cleanup programs in order to perform the remediation in the most effective and efficient manner.

Distribution

The Company is allowed to recover environmental remediation expenditures through rates in certain jurisdictions within the MGE and NEG divisions. Significant charges to earnings could be required prior to rate recovery for jurisdictions that do not have rate recovery mechanisms.

The Company is responsible for environmental remediation at various contaminated sites that are primarily associated with former MGPs and sites associated with the operation and disposal activities of former MGPs 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 MGPs. 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 potentially responsible parties 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.

North Attleboro MGP Site in Massachusetts ("North Attleboro Site"). In November 2003, the Massachusetts Department of Environment Protection 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 have recently been completed and it is estimated that the Company will spend approximately \$11 million over the next several years to complete 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 sheets.

Environmental Remediation Liabilities

The table below reflects the amount of accrued liabilities recorded in the condensed consolidated balance sheets to cover environmental remediation actions where management believes a loss is probable and reasonably estimable. Except for matters discussed above, the Company does not have any material environmental remediation matters assessed as reasonably possible that would require disclosure in the financial statements.

	September 30, 2013	December 31, 2012
Current	\$ 3	\$ 7
Noncurrent	14	26
Total environmental liabilities	\$ 17	\$ 33

Litigation and Other Claims

Attorney General of the Commonwealth of Massachusetts v New England Gas Company. On July 7, 2011, the Massachusetts Attorney General (“AG”) filed a regulatory complaint with the MDPU against New England Gas Company with respect to certain environmental cost recoveries. The AG is seeking a refund to New England Gas Company customers for alleged “excessive and imprudently incurred costs” related to legal fees associated with the Company’s environmental response activities. In the complaint, the AG requests that the MDPU initiate an investigation into the New England Gas Company’s collection and reconciliation of recoverable environmental costs including: (i) the prudence of any and all legal fees, totaling \$19 million, that were charged by the Kasowitz, Benson, Torres & Friedman firm and passed through the recovery mechanism since 2005, the year when a partner in the firm, the Company’s former Vice Chairman, President and Chief Operating Officer, joined the Company’s management team; (ii) the prudence of any and all legal fees that were charged by the Bishop, London & Dodds firm and passed through the recovery mechanism since 2005, the period during which a member of the firm served as the Company’s Chief Ethics Officer; and (iii) the propriety and allocation of certain legal fees charged that were passed through the recovery mechanism that the AG contends only qualify for a lesser, 50%, level of recovery. The Company has filed its answer denying the allegations and moved to dismiss the complaint, in part on a theory of collateral estoppel. The hearing officer has deferred consideration of the Company’s motion to dismiss. The AG’s motion to be reimbursed expert and consultant costs by the Company of up to \$150,000 was granted. By tariff, these costs are recoverable through rates charged to New England Gas Company customers. The hearing officer previously stayed discovery pending resolution of a dispute concerning the applicability of attorney-client privilege to legal billing invoices. The MDPU issued an interlocutory order on June 24, 2013 that lifted the stay, and discovery has resumed. The Company believes it has complied with all applicable requirements regarding its filings for cost recovery and has not recorded any accrued liability; however, the Company will continue to assess its potential exposure for such cost recoveries as the matter progresses.

Litigation Relating to the ETE Merger. In June 2011, several putative class action lawsuits were filed in the Judicial District Court of Harris County, Texas naming as defendants the members of the Southern Union Board, as well as Southern Union and ETE. The lawsuits were styled *Jaroslawicz v. Southern Union Company, et al.*, Cause No. 2011-37091, in the 333rd Judicial District Court of Harris County, Texas and *Magda v. Southern Union Company, et al.*, Cause No. 2011-37134, in the 11th Judicial District Court of Harris County, Texas. The lawsuits were consolidated into an action styled *In re: Southern Union Company*; Cause No. 2011-37091, in the 333rd Judicial District Court of Harris County, Texas. Plaintiffs allege that the Southern Union directors breached their fiduciary duties to Southern Union’s stockholders in connection with the ETE Merger and that Southern Union and ETE aided and abetted the alleged breaches of fiduciary duty. The amended petitions allege that the ETE Merger involves an unfair price and an inadequate sales process, that Southern Union’s directors entered into the ETE Merger to benefit themselves personally, including through consulting and noncompete agreements, and that defendants have failed to disclose all material information related to the ETE Merger to Southern Union stockholders. The amended petitions seek injunctive relief, including an injunction of the ETE Merger, and an award of attorneys’ and other fees and costs, in addition to other relief. On October 21, 2011, the court denied ETE’s October 13, 2011, motion to stay the Texas proceeding in favor of cases pending in the Delaware Court of Chancery.

Also in June 2011, several putative class action lawsuits were filed in the Delaware Court of Chancery naming as defendants the members of the Southern Union Board, as well as Southern Union and ETE. Three of the lawsuits also named Merger Sub as a defendant. These lawsuits are styled: *Southeastern Pennsylvania Transportation Authority, et al. v. Southern Union Company, et al.*, C.A. No. 6615-CS; *KBC Asset Management NV v. Southern Union Company, et al.*, C.A. No. 6622-CS; *LBBW Asset Management Investment GmbH v. Southern Union Company, et al.*, C.A. No. 6627-CS; and *Memo v. Southern Union Company, et al.*, C.A. No. 6639-CS. These cases were consolidated with the following style: *In re Southern Union Co. Shareholder Litigation*, C.A. No. 6615-CS, in the Delaware Court of Chancery. The consolidated complaint asserts similar claims and allegations as the Texas state-court consolidated action. On July 25, 2012, the Delaware plaintiffs filed a notice

of voluntary dismissal of all claims without prejudice. In the notice, plaintiffs stated their claims were being dismissed to avoid duplicative litigation and indicated their intent to join the Texas case.

On September 18, 2013, the plaintiff dismissed without prejudice its lawsuit against all defendants.

In November 2011, a derivative lawsuit was filed in the Judicial District Court of Harris County, Texas naming as defendants ETP, ETP GP, ETP LLC, the boards of directors of ETP LLC (collectively with ETP GP and ETP LLC, the “ETP Defendants”), certain members of management for ETP and ETE, ETE, and Southern Union. The lawsuit is styled *W. J. Garrett Trust v. Bill W. Byrne, et al*, Cause No. 2011-71702, in the 157th Judicial District Court of Harris County, Texas. Plaintiffs assert claims for breaches of fiduciary duty, breaches of contractual duties, and acts of bad faith against each of the ETP Defendants and the individual defendants. Plaintiffs also assert claims for aiding and abetting and tortious interference with contract against Southern Union. On October 5, 2012, certain defendants filed a motion for summary judgment with respect to the primary allegations in this action. On December 13, 2012, Plaintiffs filed their opposition to the motion for summary judgment. Defendants filed a reply on December 19, 2012. On December 20, 2012, the court conducted an oral hearing on the motion. Plaintiffs filed a post-hearing sur-reply on January 7, 2013. On January 16, 2013, the Court granted defendants’ motion for summary judgment. The parties agreed to settle the matter and executed a memorandum of understanding. On October 4, 2013, the Court approved the settlement and ordered the case dismissed with prejudice.

Mercury Release. In October 2004, New England Gas Company discovered that one of its facilities, formerly associated with discontinued operations which were sold in 2006, 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 (“District Court”) alleging violation of permitting requirements under the Federal Resource Conservation and Recovery Act (“RCRA”) and notification requirements under the 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 District Court imposed a fine of \$6 million and a payment of \$12 million in community service.

On December 22, 2010, the United States Court of Appeals for the First Circuit (“First Circuit”) affirmed the conviction and the sentence. On February 17, 2011, the First Circuit denied the Company’s petition for *en banc* rehearing. The Company, on October 31, 2011, filed a petition for a writ of certiorari review by the United States Supreme Court (“Supreme Court”), which review was granted and the case was heard by the Supreme Court on March 19, 2012.

On June 21, 2012, the United States Supreme Court reversed the First Circuit, holding that the sentence imposed on the Company was unconstitutional, and remanded the case back to the District Court for further proceeding consistent with that holding.

On July 17, 2012, the Government moved for “clarification” of the First Circuit’s December 22, 2010 decision urging the First Circuit to find that, in addition to resolving whether (i) the alternative fine statute increases the maximum fine that may be imposed on the Company from \$50,000 to \$500,000; (ii) the \$12 million community service obligation is a fine or restitution; and (iii) a new jury should be empanelled to hear evidence regarding the number of days RCRA was violated.

On July 26, 2012, the First Circuit vacated the fine imposed by the District Court and remanded the matter to the District Court for resentencing consistent with the Supreme Court’s opinion. In the same order, the First Circuit denied without prejudice the Government’s motion for clarification, holding that the issues raised by the Government in its July 17, 2012 motion could be addressed by the parties on remand. Accordingly, the Government petitioned the District Court for consideration of the same issues and the hearing took place on December 3, 2012. The District Court has ruled in favor of the Company and limited the penalty to “community service” of up to \$500,000.

Litigation Related to Incident at JJ’s Restaurant. On February 19, 2013, there was a natural gas explosion at JJ’s Restaurant located at 910 W. 48th Street in Kansas City, Missouri. Effective September 1, 2013, Laclede Gas Company, a subsidiary of Laclede, assumed any and all liability arising from this incident in ETP’s sale of the assets of Missouri Gas Energy to Laclede.

Liabilities for Litigation and Other Claims

In addition to the matters discussed above, 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.

The Company records accrued liabilities for litigation and other claim costs when management believes a loss is probable and reasonably estimable. When management believes there is at least a reasonable possibility that a material loss or an additional material loss may have been incurred, the Company discloses (i) an estimate of the possible loss or range of loss in excess of the amount accrued; or (ii) a statement that such an estimate cannot be made. As of September 30, 2013 and December 31, 2012, the Company recorded litigation and other claim-related accrued liabilities of \$25 million and \$27 million, respectively. Except for the matters discussed above, the Company does not have any material litigation or other claim contingency matters assessed as probable or reasonably possible that would require disclosure in the financial statements.

Other Commitments and Contingencies

Unclaimed Property Audits. The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment (the transfer of property to the state) of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. The Company is currently being examined by a third party auditor on behalf of nine states for compliance with unclaimed property laws.

Air Quality Control

Oil and Natural Gas Sector New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants. On April 17, 2012 the EPA issued the Oil and Natural Gas Sector New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants (“HAPs”). The standards revise the new source performance standards for volatile organic compounds from leaking components at onshore natural gas processing plants and new source performance standards for sulfur dioxide emissions from natural gas processing plants. The EPA also established standards for certain oil and gas operations not covered by the existing standards. In addition to the operations covered by the existing standards, the newly established standards regulate volatile organic compound emissions from gas wells, centrifugal compressors, reciprocating compressors, pneumatic controllers and storage vessels.

Transportation and Storage Segment. In August 2010, the EPA finalized 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 10 tons per year of any one HAP or 25 tons per year of all HAPs) and engines less than 500 horsepower at Major Sources (sources that emit 10 tons per year or more of any one HAP or 25 tons per year of all HAPs). In January 2013, the EPA issued a final reconsideration rule that exempted Area Source engines located in remote areas from the emission limits and monitoring requirements. Compliance was required by October 2013, and the Company believes it is in compliance.

Nitrogen oxides are the primary air pollutant from natural gas-fired engines. Nitrogen oxide emissions may form ozone in the atmosphere. In 2008, the EPA lowered the ozone standard to 75 ppb with compliance anticipated in 2013 to 2015. In January 2010, the EPA proposed lowering the standard to 60 to 70 ppb in lieu of the 75 ppb standard, with compliance required in 2014 or later. In September 2011, the EPA decided to rescind the proposed lower ozone standard and begin the process to implement the 75 ppb ozone standard established in 2008.

In January 2010, the 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 monitoring 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 has reviewed the potential impacts of the August 2010 Area Source National Emissions Standards for Hazardous Air Pollutants rule, implementation of the 2008 ozone standard and the new nitrogen dioxide standard on operations in its Transportation and Storage segment and the potential costs associated with the installation of emission control systems on its existing engines. The ultimate costs associated with these activities cannot be estimated with any certainty at this time, but the Company believes, based on the current understanding of the current and proposed rules, such costs will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

11. REPORTABLE SEGMENTS:

The Company’s primary operating segments, which are individually disclosed as its reportable business segments, are Transportation and Storage and Gathering and Processing. These operating segments are organized for segment reporting purposes based on the way internal managerial reporting presents the results of the Company’s various businesses to its chief operating decision maker for use in determining the performance of the businesses.

The Transportation and Storage segment operations are conducted through Panhandle and the Company’s investment in Citrus (through March 26, 2012, the date of the Citrus Merger). The Gathering and Processing segment operations were conducted through SUGS, which was contributed to Regency on April 30, 2013. MGE and NEG were previously reported within the

Company's Distribution segment. These operations are reported as discontinued operations for all periods presented, as discussed in Note 2, and are now included in Corporate and other activities in the segment information below. The reportable segment information has been recast to reflect the removal of the Distribution segment. See Note 1 for additional information associated with the Company's reportable segments.

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 nine months ended September 30, 2013, the period from Acquisition (March 26, 2012) to September 30, 2012 and the period from January 1, 2012 to March 25, 2012.

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 the Company's investment in Regency, unallocated corporate costs, a wholly-owned subsidiary with ownership interests in electric power plants, and other miscellaneous activities.

The Company reports Segment Adjusted EBITDA as a measure of segment performance. The Company defines Segment Adjusted EBITDA as earnings before interest, taxes, depreciation, amortization and other non-cash items, such as non-cash compensation expense, unrealized gains and losses on unhedged derivative activities, accretion expense and amortization of regulatory assets and other non-operating income or expense items. Segment Adjusted EBITDA reflects amounts for less-than-wholly-owned subsidiaries and unconsolidated affiliates based on the Company's proportionate ownership.

Segment Adjusted EBITDA 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.

The following tables set forth certain selected financial information for the Company's segments:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Operating revenues from external customers:		
Transportation and Storage	\$ 180	\$ 188
Gathering and Processing	—	213
Total segment operating revenues	180	401
Corporate and other activities	2	3
	<u>\$ 182</u>	<u>\$ 404</u>

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Operating revenues from external customers:			
Transportation and Storage	\$ 611	\$ 387	\$ 194
Gathering and Processing	271	430	246
Total segment operating revenues	882	817	440
Corporate and other activities	9	5	3
	<u>\$ 891</u>	<u>\$ 822</u>	<u>\$ 443</u>

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Segment Adjusted EBITDA:		
Transportation and Storage	\$ 114	\$ 119
Gathering and Processing	—	25
Corporate and other activities ⁽¹⁾	39	25
Total Segment Adjusted EBITDA	153	169
Depreciation and amortization	(41)	(67)
Interest expense, net of interest capitalized	(39)	(34)
Non-cash equity-based compensation, accretion expense and amortization of regulatory assets	(3)	—
Other, net	3	(1)
Earnings (losses) from unconsolidated investments	9	(1)
Adjusted EBITDA attributable to unconsolidated investments	(30)	(4)
Adjusted EBITDA attributable to discontinued operations	(12)	(23)
Income from continuing operations before income tax expense	\$ 40	\$ 39

⁽¹⁾ Corporate and other activities includes the operations of MGE and NEG, which have been reported as discontinued operations for all periods presented. MGE and NEG were previously reported within the Distribution segment.

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Segment Adjusted EBITDA:			
Transportation and Storage	\$ 407	\$ 198	\$ 186
Gathering and Processing	(7)	36	25
Corporate and other activities ⁽¹⁾	122	41	15
Total Segment Adjusted EBITDA	522	275	226
Depreciation and amortization	(147)	(137)	(49)
Interest expense, net of interest capitalized	(84)	(95)	(50)
Net gain on curtailment of OPEB plans	—	15	—
Non-cash equity-based compensation, accretion expense and amortization of regulatory assets	(7)	(1)	(1)
Other, net	2	—	(2)
Earnings from unconsolidated investments	15	—	16
Adjusted EBITDA attributable to unconsolidated investments	(56)	(8)	(61)
Adjusted EBITDA attributable to discontinued operations	(75)	(52)	(34)
Income (loss) from continuing operations before income tax expense	\$ 170	\$ (3)	\$ 45

⁽¹⁾ Corporate and other activities includes the operations of MGE and NEG, which have been reported as discontinued operations for all periods presented. MGE and NEG were previously reported within the Distribution segment.

	September 30, 2013	December 31, 2012
Total assets:		
Transportation and Storage	\$ 6,152	\$ 6,219
Gathering and Processing ⁽¹⁾	—	1,965
Total segment assets	6,152	8,184
Corporate and other activities ⁽²⁾	2,514	1,809
Total assets	\$ 8,666	\$ 9,993

⁽¹⁾ The Gathering and Processing segment was contributed to Regency on April 30, 2013. See Note 2.

⁽²⁾ Corporate and other activities includes the assets of NEG, which have been reported as assets held for sale in the condensed consolidated balance sheets at September 30, 2013 and December 31, 2012. MGE is also included in the balance at December 31, 2012.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Tabular dollar amounts are in millions, except per gallon and per MMBtu amounts)

The information in Item 2 has been prepared pursuant to the reduced disclosure format permitted by General Instruction H to Form 10-Q. Accordingly, this Item 2 includes only management's narrative analysis of the results of operations and certain supplemental information.

References to "we," "us," "our," the "Company" and "Southern Union" shall mean Southern Union Company and its subsidiaries.

OVERVIEW

The Company evaluates operational and financial segment performance using several factors, of which the primary financial measure is Segment Adjusted EBITDA. For additional information related to the Company's use of Segment Adjusted EBITDA as its primary financial measure for its reportable segments, see Note 11 to our condensed consolidated financial statements.

The ETE Merger, which was completed on March 26, 2012, was accounted for by ETE using business combination accounting. By the application of "push-down" accounting, the Company allocated the purchase price paid by ETE to its assets, liabilities and equity as of the acquisition date based on preliminary estimates. Accordingly, the successor financial statements reflect a new basis of accounting and predecessor and successor period financial results (separated by a heavy black line) are presented, but are not comparable.

The most significant impacts of the new basis of accounting going forward are (i) higher depreciation expense due to the step-up of depreciable assets and assignment of purchase price to certain amortizable intangible assets and (ii) lower interest expense (though not cash payments) for the remaining life of the related long-term debt due to its revaluation and related debt premium amortization.

The results of operations for the successor and predecessor periods reflect certain merger-related expenses, which are not expected to have a continuing impact on the results going forward, and those amounts are discussed in the segments' results below.

The Company reports Segment Adjusted EBITDA as a measure of segment performance. The Company defines Segment Adjusted EBITDA as earnings before interest, taxes, depreciation, amortization and other non-cash items, such as non-cash compensation expense, unrealized gains and losses on unhedged derivative activities, accretion expense and amortization of regulatory assets and other non-operating income or expense items. Adjusted EBITDA reflects amounts for unconsolidated affiliates based on the Company's proportionate ownership and amounts for less-than-wholly-owned subsidiaries based on 100% of the subsidiaries' results of operations.

Segment Adjusted EBITDA 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.

RECENT DEVELOPMENTS

Note Exchange

On June 24, 2013, ETP completed the exchange of approximately \$1.09 billion aggregate principal amount of the Company's outstanding senior notes, comprising 77% of the principal amount of the 7.6% Senior Notes due 2024, 89% of the principal amount of the 8.25% Senior Notes due 2029 and 91% of the principal amount of the Junior Subordinated Notes due 2066. These notes were exchanged for new notes issued by ETP with the same coupon rates and maturity dates. In conjunction with this transaction, the Company entered into intercompany notes payable to ETP, which provide for the reimbursement by the Company of ETP's payments under the newly issued notes. The fair value on the settlement date of the 7.6% Senior Notes due 2024, 8.25% Senior Notes due 2029 and the Junior Subordinated Notes due 2066 was \$328 million, \$328 million and \$464 million, respectively, which represented 118.16%, 122.84% and 85%, respectively, of the outstanding principal amount of the notes.

LDC Dispositions

Effective September 1, 2013, the Company completed its sale of the assets of the Missouri Gas Energy division to Laclede Gas for an aggregate purchase price of \$975 million, subject to customary post-closing adjustment. Proceeds from the sale were used to repay borrowings under ETP's revolving credit facility. The sale of New England Gas Company is expected to close in the fourth quarter of 2013.

RESULTS OF OPERATIONS

The following table provides a reconciliation of Segment Adjusted EBITDA (by segment) to net income (loss):

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Segment Adjusted EBITDA:			
Transportation and storage segment	\$ 407	\$ 198	\$ 186
Gathering and processing segment	(7)	36	25
Corporate and other activities	122	41	15
Total Segment Adjusted EBITDA	522	275	226
Depreciation and amortization	(147)	(137)	(49)
Interest expense, net of interest capitalized	(84)	(95)	(50)
Non-cash compensation expense, accretion expense and amortization of regulatory assets	(7)	(1)	(1)
Net gain on curtailment of OPEB plans	—	15	—
Other, net	2	—	(2)
Earnings from unconsolidated investments	15	—	16
Adjusted EBITDA attributable to unconsolidated investments	(56)	(8)	(61)
Adjusted EBITDA attributable to discontinued operations	(75)	(52)	(34)
Income (loss) from continuing operations before income tax expense	170	(3)	45
Income tax expense	80	21	12
Income (loss) from continuing operations	90	(24)	33
Income from discontinued operations	44	14	17
Net income (loss)	\$ 134	\$ (10)	\$ 50

The segment analysis in the following section describes the significant items impacting the Segment Adjusted EBITDA amounts reflected above. In addition, as discussed in the "Overview" section above, the comparability of net income between predecessor and successor periods was impacted by the application of "push-down" accounting. The most significant impacts of this new basis of accounting were:

- Incremental depreciation and amortization expense has been recognized in the successor periods subsequent to March 25, 2012 as a result of the application of the new basis of accounting.
- The application of “push-down” accounting also resulted in the Company’s long-term debt being recorded at fair value, which impacted the amount of amortization recorded in interest expense. This change in the amount of amortization resulted in a net reduction within interest expense of approximately \$10 million per quarter subsequent to March 25, 2012.
- In addition to the impact of the amortization of the debt fair value adjustments, interest expense was lower during the nine months ended September 30, 2013 due to repayments of long-term debt in 2012 and 2013. Additionally, interest expense for the nine months ended September 30, 2013 included a \$10 million gain from the change in fair value of the interest rate swaps related to the Junior Subordinated Notes, for which hedge accounting treatment was discontinued in March 2012.

The Company’s consolidated net income was also impacted by changes in income taxes that were driven by the ETE Merger; those impacts were described in the “Federal and State Income Taxes” section below.

Income from discontinued operations reflected the results from the LDC Disposal Group. The nine months ended September 30, 2013 also included a gain of \$3 million on the sale of MGE.

The “Supplemental Pro Forma Information” section, which follows the “Business Segment Results” section, provides additional analysis of the Company’s consolidated net income on a year-to-date basis, assuming the ETE Merger had been completed on January 1, 2012.

Federal and State Income Taxes

The following table sets forth the Company’s income taxes from continuing operations:

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Income tax expense	\$ 80	\$ 21	\$ 12
Effective tax rate	47%	(700)%	27%

The Company’s effective income tax rate for the nine months ended September 30, 2013 was higher than the federal statutory rate of 35% primarily due to state income taxes. The state effective rate changed due to apportionment shifts resulting from the SUGS Contribution, completion of the sale of MGE and other internal restructuring activities. The effective income tax rate for the period from March 26, 2012 to September 30, 2012 was higher than the federal statutory rate primarily due to the Company’s pre-tax loss as a result of merger-related expenses coupled with non-deductible executive compensation included in the merger-related expenses. The effective income tax rate for the period from January 1, 2012 to March 25, 2012 was lower than the federal statutory rate primarily due to the dividend received reduction for the anticipated receipt of dividends associated with the earnings from the Company’s prior unconsolidated investment in Citrus.

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, Gulf Coast and Midcontinent United States, and LNG terminalling and regasification services. The Transportation and Storage segment’s operations are regulated as to rates and other matters by the FERC. Demand for natural gas transmission services on Panhandle’s pipeline system is seasonal, with the highest throughput and a higher portion of annual total operating revenues and Segment Adjusted EBITDA occurring in the traditional winter heating season, which occurs during the first and fourth calendar quarters.

The Company’s business within the Transportation and Storage segment is conducted through both short- and long-term contracts with customers. 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 can file (or be required to file) for changes in their rates, which are subject to approval by the 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 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:

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Operating revenues ⁽¹⁾	\$ 611	\$ 387	\$ 194
Operating, maintenance and general, net of non-cash compensation expense, accretion and gain on curtailment	(182)	(170)	(60)
Taxes other than on income and revenues	(22)	(19)	(9)
Adjusted EBITDA related to unconsolidated investments	—	—	61
Segment Adjusted EBITDA	\$ 407	\$ 198	\$ 186
Panhandle natural gas volumes transported (TBtu): ⁽²⁾			
PEPL	445	277	152
Trunkline	537	354	177
Sea Robin	107	47	20

⁽¹⁾ Reservation revenues comprised 89% of total operating revenues for the nine months ended September 30, 2013. Reservation revenues comprised 88% and 88% of total operating revenues in the successor and predecessor periods in 2012, respectively.

⁽²⁾ Includes transportation deliveries made throughout the Company's pipeline network.

Following is a discussion of the significant items and variance impacting Segment Adjusted EBITDA for the Company's Transportation and Storage segment.

- *Operating Revenues.* Operating revenues for the nine months ended September 30, 2013 increased compared to the successor and predecessor periods in 2012 primarily due to the recognition of \$52 million received in connection with the buyout of a customer's contract, partially offset by lower capacity sold at overall average lower rates and lower parking revenues.
- *Operating, Maintenance and General Expenses.* The period from March 26, 2012 to September 30, 2012 included \$44 million of merger-related employee severance expenses. The remaining decrease in operating expenses for the nine months ended September 30, 2013 compared to the prior periods is primarily attributable to a decrease in employee-related costs related to integration efforts subsequent to ETE's acquisition of Southern Union.
- *Unconsolidated Investments.* The primary driver for the reduction in Segment Adjusted EBITDA for the Company's Transportation and Storage segment was the contribution of Citrus to ETP on March 26, 2012. Citrus was reflected in Adjusted EBITDA attributable to unconsolidated investments for the predecessor period shown above but was not reflected in the successor periods. The period from January 1, 2012 to March 25, 2012 reflected Adjusted EBITDA attributable to Citrus of \$61 million.

Gathering and Processing Segment

The Gathering and Processing segment was primarily engaged in connecting producing wells of exploration and production companies to its gathering system, providing compression and gathering services, 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 were conducted through SUGS, which was contributed to Regency on April 30, 2013. SUGS' natural gas supply contracts primarily included fee-based, percent-of-proceeds and margin sharing (conditioning fee and wellhead) purchase contracts. These natural gas supply contracts varied 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 included exploration and production companies, power generating companies, electric and gas utilities, energy marketers, industrial end-users located primarily in the Gulf Coast and southwestern United States, and petrochemical companies. With respect to customer demand for the products and services it provides, SUGS' business was not generally seasonal in nature; however, SUGS' operations and the operations of its natural gas producers could have been adversely impacted by severe weather.

The majority of SUGS' gross margin was derived from the sale of NGL and natural gas equity volumes and fee-based services. The prices of NGL and natural gas were subject to fluctuations in response to changes in supply, demand, market uncertainty and a variety of factors beyond the Company's control. The Company monitored these risks and managed 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 Note 8 to our condensed consolidated financial statements.

The following table presents the results of operations applicable to the Company's Gathering and Processing segment:

	Successor		Predecessor
	Nine Months Ended September 30, 2013	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012
Operating revenues	\$ 271	\$ 430	\$ 246
Cost of natural gas and other energy ⁽¹⁾	(223)	(327)	(196)
Gross margin ⁽²⁾	48	103	50
Operating, maintenance and general, excluding non-cash compensation expense and accretion	(50)	(64)	(23)
Taxes other than on income and revenues	(5)	(3)	(2)
Segment Adjusted EBITDA	\$ (7)	\$ 36	\$ 25

⁽¹⁾ Cost of natural gas and other energy consists of natural gas and NGL purchase costs, fractionation and other fees.

⁽²⁾ Gross margin consists of operating revenues less cost of natural gas and other energy. The Company believes that this measurement is 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.

Following is a discussion of the significant items and variances impacting Segment Adjusted EBITDA for the Company's Gathering and Processing segment.

- **Gross Margin.** Gross margin for the nine months ended September 30, 2013 decreased primarily due to the contribution of SUGS to Regency on April 30, 2013. This change was partially offset by a favorable impact from natural gas and NGL prices.
- **Operating, Maintenance and General Expenses.** Operating, maintenance and general expenses reflected increases between periods due to the expansion of the SUGS system, offset by the impact of the contribution of SUGS to Regency on April 30, 2013. Additionally, the period from March 26, 2012 to September 30, 2012 included \$16 million in merger-related employee severance expenses.

Corporate and Other Activities

The period from January 1, 2012 to March 25, 2012 included \$19 million in merger-related expenses. Subsequent to April 30, 2013, Corporate and other activities consists of the Company's investment in Regency. Subsequent to September 1, 2013, Corporate and other activities includes the operations of NEG. MGE and NEG were previously reported in the Distribution segment. These operations are reported as discontinued operations for all periods presented and the reportable segment information has been recast to reflect the removal of the Distribution segment.

Supplemental Pro Forma Financial Information

The following unaudited pro forma condensed consolidated financial information of the Company has been prepared in accordance with Article 11 of Regulation S-X and reflects the pro forma impacts of the ETE Merger for the nine months ended September 30, 2012, giving effect to the ETE Merger as if it had occurred on January 1, 2012. This unaudited pro forma financial information is provided to supplement the discussion and analysis of the historical financial information and should be read in conjunction with such historical financial information. This unaudited pro forma information is for illustrative purposes only and is not necessarily indicative of the financial results that would have occurred if these transactions had been consummated on January 1, 2012.

	Successor	Predecessor		
	Period from Acquisition (March 26, 2012) to September 30, 2012	Period from January 1, 2012 to March 25, 2012	Pro Forma Adjustments	Pro Forma Nine Months Ended September 30, 2012
OPERATING REVENUES	\$ 822	\$ 443	\$ —	\$ 1,265
OPERATING EXPENSES:				
Cost of natural gas and other energy	329	197		526
Operating, maintenance and general	264	116	(72) (a)	308
Depreciation and amortization	137	49	6 (b)	192
Total operating expenses	730	362	(66)	1,026
OPERATING INCOME	92	81	66	239
OTHER INCOME (EXPENSE):				
Interest expense	(95)	(50)	9 (c)	(136)
Earnings from unconsolidated investments	—	16	(9) (d)	7
Other, net	—	(2)	—	(2)
Total other expenses, net	(95)	(36)	—	(131)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	(3)	45	66	108
Income tax expense (benefit)	21	12	23 (e)	56
INCOME (LOSS) FROM CONTINUING OPERATIONS	(24)	33	43	52
Income from discontinued operations	14	17	—	31
NET INCOME (LOSS)	\$ (10)	\$ 50	\$ 43	\$ 83

- (a) To eliminate merger-related costs incurred by the Company in connection with the ETE Merger, including change in control and severance costs. These costs are eliminated from the Company's pro forma income statement because such costs would not have a continuing impact on the Company's results of operations.
- (b) To record incremental depreciation on the excess purchase price allocated to property, plant and equipment based on a weighted average useful life of 24 years.
- (c) To adjust amortization included in interest expense to (i) reverse historical amortization of financing costs and fair value adjustments related to debt and (ii) record pro forma amortization related to the pro forma adjustment of the Company's debt to fair value.
- (d) To adjust earnings from unconsolidated investments to (i) eliminate historical earnings related to Citrus to give effect to the transfer of the Company's interest in Citrus in connection with the ETE Merger and (ii) record incremental earnings from the Company's investment in ETP common units received in connection with the transfer of Citrus.

- (e) To reflect income tax impacts from the pro forma adjustments to pre-tax income, including the elimination of the dividend received deduction recorded in the historical income tax provision for the predecessor periods in connection with the Company's investment in Citrus.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3, Quantitative and Qualitative Disclosures About Market Risk, has been omitted from this report pursuant to the reduced disclosure format permitted by General Instruction H to Form 10-Q.

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 principal executive officer and principal financial officer, 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 principal executive officer and principal financial officer, 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 principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

Changes In Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15d-15(f) of the Exchange Act) during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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 Note 10 in this Quarterly Report on Form 10-Q and in Note 14 included in the Company's Form 10-K for the year ended December 31, 2012.

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 Note 10 in this Quarterly Report on Form 10-Q and Note 14 included in the Company's Form 10-K for the year ended December 31, 2012.

ITEM 1A. RISK FACTORS

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, 2013.

ITEM 6. EXHIBITS

The exhibits listed below are filed as part of this report:

	Exhibit Number	Description
	31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(*)	32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(*)	32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	101.INS	XBRL Instance Document
	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

* Furnished herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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: November 7, 2013

By: /s/ Martin Salinas, Jr.
Martin Salinas, Jr.
Chief Financial Officer (duly authorized to sign on behalf of the registrant)

**CERTIFICATION OF PRESIDENT (PRINCIPAL EXECUTIVE OFFICER)
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kelcy L. Warren, 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 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 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: November 7, 2013

/s/ Kelcy L. Warren
Kelcy L. Warren
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Martin Salinas, Jr., 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 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 my 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 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: November 7, 2013

/s/ Martin Salinas, Jr.
Martin Salinas, Jr.
Chief 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 of Southern Union Company (the "Company") on Form 10-Q for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kelcy L. Warren, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2013

/s/ Kelcy L. Warren

Kelcy L. Warren
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to and will be retained by Southern Union Company and furnished to the Securities and Exchange Commission 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 of Southern Union Company (the "Company") on Form 10-Q for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin Salinas, Jr., Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2013

/s/ Martin Salinas, Jr.
Martin Salinas, Jr.
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to and will be retained by Southern Union Company and furnished to the Securities and Exchange Commission upon request.

