FLORIDA GAS TRANSMISSION COMPANY, LLC

Index of STATEMENT L

FLORIDA GAS TRANSMISSION COMPANY, LLC

Comparative Balance Sheet 1/
(Unaudited)

Line No.	Description	May 31, 2009 (a)	May 31, 2008 (b)
	Assets and Other Debits		
	Utility Plant:		
1	Utility Plant	$ 3,245,799,492	$ 3,139,291,306
2	Construction Work in Progress	467,452,452	41,770,506
3	Total Utility Plant	3,713,251,944	3,181,061,812
4	(Less) Accum Provision for Depreciation & Amortization	1,354,516,240	1,306,881,805
5	Net Utility Plant	2,358,735,704	1,874,180,007
6	Nuclear Fuel	-	-
7	(Less) Accum Provision for Amort., of Nuclear. Fuel Assemblies	-	-
8	Nuclear Fuel	-	-
9	Net Utility Plant	2,358,735,704	1,874,180,007
10	Utility Plant Adjustments	-	-
11	Gas Stored - Base Gas	-	-
12	System Balancing Gas	-	-
13	Gas Stored in Reservoirs and Pipelines-Noncurrent	-	-
14	Gas Owed to System Gas	2,131,778	580,326
	Other Property and Investments:		
15	Nonutility Property	-	-
16	(Less) Accum Provision for Depreciation and Amortization	-	-
17	Investments in Associated Companies	-	-
18	Investments in Subsidiary Companies	-	-
19	Noncurrent Portion of Allowances	-	-
20	Other Investments	-	-
21	Sinking Funds	-	-
22	Depreciation Fund	-	-
23	Amortization Fund - Federal	-	-
24	Other Special Funds	-	3,784,083
25	Long-Term Portion of Derivative Assets	-	-
26	Long-Term Portion of Derivative Assets - Hedges	-	-
27	Total Other Property and Investments	-	3,784,083
	Current and Accrued Assets:		
28	Cash	-	-
29	Special Deposits	-	-
30	Working Funds	3,000	13,293
31	Temporary Cash Investments	506,925,187	3,975,182
32	Notes Receivable	-	-
33	Customer Accounts Receivable	48,653,314	49,637,782
34	Other Accounts Receivable	243,376	885,707
35	(Less) Accum Provision for Uncollectible Accounts - Credit	18,424	18,424
36	Notes Receivable from Associated Companies	-	-
37	Accounts Receivable from Associated Companies	44,581	222,756
38	Fuel Stock	-	-
39	Fuel Stock Expenses Undistributed	-	-
40	Residuals (Elec) and Extracted Products (Gas)	-	-
41	Plant Materials and Operating Supplies	13,992,066	13,016,521
42	Merchandise	-	-
43	Other Materials and Supplies	-	-
44	Nuclear Materials Held for Sale	-	-
45	Allowances	-	-
46	(Less) Noncurrent Portion of Allowances	-	-
47	Stores Expense Undistributed	-	-
48	Gas Stored Underground - Current	-	-
49	Liquefied Natural Gas Stored and held for Processing	-	-
50	Prepayments	415,159	823,623
51	Advances for Gas	-	-
52	Interest and Dividends Receivable	-	-
53	Rents Receivable	-	-
54	Accrued Utility Revenues	-	-
55	Miscellaneous Current and Accrued Assets	-	-
56	Derivatives Instrument Assets	-	-
57	(Less) Long-Term Portion of Derivative Instrument Assets	-	-
58	Derivatives Instrument Assets-Hedges	-	-
59	(Less) Long-Term Portion of Derivative Instrument Assets - Hedg	-	-
60	Total Current and Accrued Assets	570,258,259	68,556,440

FLORIDA GAS TRANSMISSION COMPANY, LLC

Comparative Balance Sheet 1/
(Unaudited)

Line No.	Description	May 31, 2009 (a)	May 31, 2008 (b)
	Deferred Debits:		
61	Unamortized Debt Expense	7,246,025	3,623,439
62	Extraordinary Property Losses	-	-
63	Unrecovered Plant and Regulatory Study Costs	-	-
64	Other Regulatory Assets	528,219,119	527,789,123
65	Preliminary Survey and Investigation Charges (Electric)	-	-
66	Preliminary Survey and Investigation Charges (Gas)	1,825,205	1,620,357
67	Clearing Account	1,496	775
68	Temporary Facilities	-	-
69	Miscellaneous Deferred Debits	745,837	1,080,664
70	Deferred Losses from Disposition of Utility Plant	-	-
71	Research, Development & Demonstration Expend.	-	-
72	Unamortized Loss on Reacquired Debt	-	-
73	Accumulated Deferred Income Taxes	54,276,392	49,697,074
74	Unrecovered Purchased Gas Costs	-	-
75	Total Deferred Debits	592,314,074	583,811,432
76	Total Assets and Other Debits	$ 3,523,439,815	$ 2,530,912,288
	Liabilities and Other Credits		
	Proprietary Capital:		
77	Common Stock Issued	$ -	$ -
78	Preferred Stock Issued	-	-
79	Capital Stock Subscribed	-	-
80	Stock Liability for Conversion	-	-
81	Premium on Capital Stock	-	-
82	Other Paid-In Capital	1,400,851,638	940,671,872
83	Installments Received on Capital Stock	-	-
84	(Less) Discount on Capital Stock	-	-
85	(Less) Capital Stock Expense	-	-
86	Retained Earnings	-	-
87	Unappropriated Undistributed Subsidiary Earnings	-	-
88	(Less) Reacquired Capital Stock	-	-
89	Accumulated Other Comprehensive Income	(6,648,294)	(9,748,640)
90	Total Proprietary Capital	1,394,203,344	930,923,232
	Long-Term Debt:		
91	Bonds	-	-
92	(Less) Reacquired Bonds	-	-
93	Advances From Associated Companies	-	-
94	Other Long-Term Debt	1,350,561,103	893,764,044
95	Unamortized Premium on Long-Term Debt	-	-
96	(Less) Unamortized Discount on Long-Term Debt	1,480,507	634,694
97	(Less) Current Portion of Long-Term Debt	21,500,000	7,500,000
98	Total Long-Term Debt	1,327,580,596	885,629,350
	Other Noncurrent Liabilities:		
99	Obligations Under Capital Leases - Noncurrent	-	-
100	Accumulated Provision for Property Insurance	-	-
101	Accumulated Provision for Injuries and Damages	-	-
102	Accumulated Provision for Pensions and Benefits	8,057,271	-
103	Accumulated Miscellaneous Operating Provisions	-	-
104	Accumulated Provision for Rate Refunds	-	-
105	Long-Term Portion of Derivative Instrument Liabilities	-	-
106	Long-Term Portion of Derivative Instrument Liabilities - Hedges	-	-
107	Asset Retirement Obligations	1,873,189	482,333
108	Total Other Noncurrent Liabilities	9,930,460	482,333

FLORIDA GAS TRANSMISSION COMPANY, LLC

Comparative Balance Sheet 1/
(Unaudited)

Line No.	Description	May 31, 2009 (a)	May 31, 2008 (b)
	Current and Accrued Liabilities:		
109	Current Portion of Long-Term Debt	21,500,000	7,500,000
110	Notes Payable	2,800,503	-
111	Accounts Payable	17,681,976	15,511,911
112	Notes Payable to Associated Companies	-	-
113	Accounts Payable to Associated Companies	16,839,393	11,335,537
114	Customer Deposits	2,149,373	9,659,825
115	Taxes Accrued	16,295,408	14,807,487
116	Interest Accrued	23,114,892	20,693,186
117	Dividends Declared	-	-
118	Matured Long-Term Debt	-	-
119	Matured Interest	-	-
120	Tax Collections Payable	-	462,774
121	Miscellaneous Current and Accrued Liabilities	30,435,852	32,796,104
122	Obligations Under Capital Leases - Current	-	-
123	Derivatives Instruments Liabilities	-	-
124	(Less) Long-Term Portion of Derivative Instrument Liabilities	-	-
125	Derivatives Instruments Liabilities - Hedges	-	-
126	(Less) Long-Term Portion of Derivative Instrument Liabilities - He	-	-
127	Total Current and Accrued Liabilities	130,817,397	112,766,824
	Deferred Credits:		
128	Customer Advances for Construction	1,717,661	-
129	Accumulated Deferred Investment Tax Credits	-	-
130	Deferred Gains from Disposition of Utility Plant	-	-
131	Other Deferred Credits	4,084,614	4,829,364
132	Other Regulatory Liabilities	19,789,849	13,689,963
133	Unamortized Gain on Reacquired Debt	-	-
134	Accumulated Deferred Income Taxes - Accelerated Amortization	-	-
135	Accumulated Deferred Income Taxes - Other Property	553,379,537	512,103,902
136	Accumulated Deferred Income Taxes - Other	81,936,357	70,487,320
137	Total Deferred Credits	660,908,018	601,110,549
138	Total Liabilities and Other Credits	$ 3,523,439,815	$ 2,530,912,288

Footnote:
1/ See Notes to Financial Statements - STATEMENT L-1, pages 4 through 14.

FLORIDA GAS TRANSMISSION COMPANY, LLC
Condensed Notes to Financial Statements
May 31, 2008 and 2009
(Unaudited)

Financial Statements

The accompanying unaudited reports of Florida Gas Transmission Company, LLC (Florida Gas), compiled from separate company ledgers and reports, are intended for rate filing purposes only. Certain information and notes which are normally included in financial statements have been condensed or omitted, although Florida Gas believes the disclosures are adequate to prevent the interim information presented from being misleading.

(1) Corporate Structure

Florida Gas owns and operates an interstate natural gas pipeline extending from South Texas to South Florida, and is engaged in the interstate transmission of natural gas and is subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC).

Florida Gas is a wholly-owned subsidiary of Citrus Corp. (Citrus). At May 31, 2009, the stock of Citrus was owned 50 percent by El Paso Citrus Holdings, Inc. (EPCH), a wholly-owned subsidiary of El Paso Corporation (El Paso), and 50 percent by CrossCountry Citrus, LLC (CCC), a wholly-owned subsidiary of Southern Union Company (Southern Union) and certain of its subsidiary companies.

(2) Significant Accounting Policies

Basis of Presentation. Florida Gas' financial statements have been prepared in accordance with the accounting requirements of the FERC, as set forth in the applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America *(GAAP)*. Florida Gas' accounting policies generally conform to Financial Accounting Standards Board (FASB) Statement No. 71, *"Accounting for the Effects of Certain Type of Regulation" (Statement No. 71)* and FASB Statement No. 92 *"Regulated Enterprises – Accounting for Phase-in Plans" (Statement No 92)*. The most significant differences between GAAP and the financial statements presented herein are: (1) classification of certain accounts on the balance sheet, statement of income and the statement of cash flows, (2) under Statement No. 71, certain assets and liabilities that result from the regulated ratemaking process are recorded that would not be recorded under GAAP for non-regulated entities. Statement No. 71 was amended by FASB Statement No. 92 which prohibits certain allowable regulatory deferrals of phase-in costs under GAAP. As a consequence, certain phase-in costs of Florida Gas' Phase III expansion are not deferred for GAAP, but are deferred for future recovery for ratemaking purposes.

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

Revenue Recognition. Revenues consist primarily of fees earned from gas transportation services. Reservation revenues are recognized monthly based on contracted rates and capacity reserved by the customers. For interruptible or volumetric based services, commodity revenues are recorded upon the delivery of natural gas to the agreed upon delivery point. Revenues for all services are generally based on the thermal quantity of gas delivered or subscribed at a rate specified in the contract.

Because Florida Gas is subject to FERC regulations, revenues collected during the pendency of a rate proceeding may be required by the FERC to be refunded in the final order. Florida Gas establishes reserves for such potential refunds, as appropriate. There were no reserves for potential rate refund at May 31, 2009 and 2008, respectively.

Derivative Instruments and Hedging Activities. Florida Gas follows FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*, as amended *(Statement No. 133)*, to account for derivative and hedging activities. All derivatives are recognized on the Balance Sheets at their fair value. On the date the derivative contract is entered into, Florida Gas designates the derivative as (i) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (*a fair value hedge*); (ii) a hedge of a forecasted transaction or the variability of cash flows to be received or paid in conjunction with a recognized asset or liability (*a cash flow hedge*); or (iii) an instrument that is held for trading or non-hedging purposes (*a trading or economic hedging instrument).* For derivatives treated as a fair value hedge, the effective portion of changes in fair value is recorded as an adjustment to the hedged item. The ineffective portion of a fair value hedge is recognized in earnings if the short cut method of assessing effectiveness is not used. Upon termination of a fair value hedge of a debt instrument, the resulting gain or loss is amortized to earnings through the maturity date of the debt instrument. For derivatives treated as a cash flow hedge, the effective portion of changes in fair value is recorded in *Accumulated Other Comprehensive Loss* until the related hedge items impact earnings. Any ineffective portion of a cash flow hedge is reported in current-period earnings. Upon termination of a cash flow hedge, the resulting gain or loss is amortized to earnings through the maturity date of the hedged forecasted transactions. For derivatives treated as trading or economic hedging instruments, changes in fair value are reported in current-period earnings. Fair value is determined based upon quoted market prices and mathematical models using current and historical data. As of May 31, 2009 and 2008, Florida Gas does not have any hedges in place; it is only amortizing previously terminated cash flow hedges.

Utility Plant. Utility Plant consists primarily of natural gas pipeline and related facilities and is recorded at its original cost. Florida Gas capitalizes direct costs, such as labor and materials, and indirect costs, such as overhead and cost of funds, both interest and an equity return component (see third following paragraph). Costs of replacements and renewals of units of property are capitalized. The original cost of units of property retired is charged to accumulated depreciation, net of salvage and removal costs. Florida Gas charges to maintenance expense the costs of repairs and renewal of items determined to be less than units of property.

Computer software, which is included within Intangibles, is a component of utility plant, is stated at cost and is generally amortized on a straight-line basis over its useful life on a product-by-product basis. To the extent that related parties share computer software, the costs of the capitalized software may be allocated amongst those related parties benefiting.

Allowance for Funds Used During Construction (AFUDC). Florida Gas capitalizes the cost of funds used on major projects during construction. The rates used by Florida Gas are calculated pursuant to FERC rules, which include an allowance for the cost of debt and equity funds.

Asset Retirement Obligations. Florida Gas follows the provisions of FASB Statement No. 143, *"Accounting for Asset Retirement Obligations (ARO)" (Statement No. 143)* and FERC's related guidance in Order No. 631, to record a liability for the estimated removal costs of assets where there is a legal obligation associated with removal. Under this standard, the liability is recorded at its fair value, with a corresponding asset that is depreciated over the remaining useful life of the long-lived asset to which the liability relates. An ongoing expense will also be recognized for changes in the value of the liability as a result of the passage of time.

FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations" (FIN No. 47)* issued by the FASB in March 2005 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation (ARO) when incurred, if the fair value of the liability can be reasonably estimated. FIN No. 47 provides guidance for assessing whether sufficient information is available to record an estimate. This interpretation was effective for Florida Gas beginning on December 31, 2005. Upon adoption of FIN No. 47, Florida Gas recorded an increase in plant in service and a liability for an ARO of $0.5 million. This new asset and liability related to obligations associated with the removal and disposal of asbestos and asbestos containing materials on Florida Gas' pipeline system. In December 2008 Florida Gas recorded a $1.3 million ARO liability for certain pipeline abandonment costs. Florida Gas' ARO liabilities at May 31, 2009 and 2008 were $1.9 million and $0.5 million, respectively.

Asset Impairment. Florida Gas applies the provisions of FASB Statement No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement No. 144),* to account for impairments on long-lived assets. Impairment losses are recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying value. The amount of impairment, if any, is measured by comparing the fair value of the asset to its carrying amount. If impairment was determined to exist, Florida Gas would request guidance from FERC as to the recording of any such impairment.

Gas Imbalances. Gas imbalances occur as a result of differences in volumes of gas received and delivered by a pipeline system. These imbalances due to or from shippers and operators are valued at an appropriate index price. Imbalances are settled in cash or made up in-kind subject to terms of Florida Gas' tariff, and generally do not impact earnings.

Unamortized Debt Premium, Discount and Expense. Florida Gas amortizes premiums, discounts and expenses incurred in connection with the issuance of long-term debt consistent with the period of the respective debt instrument.

Environmental Expenditures. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or clean ups are probable and the cost can be reasonably estimated. Remediation obligations are not discounted because the timing of future cash flow streams is not predictable.

Cash and Cash Equivalents. All liquid investments with maturities of three months or less at the date of purchase are considered cash equivalents. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of these investments.

Plant Materials and Operating Supplies. Plant materials and operating supplies are carried at the weighted-average cost.

Fuel Tracker. A liability is recorded for net volumes of gas owed to customers collectively. Whenever fuel is due from customers from prior under recovery based on contractual and specific tariff provisions an asset is recorded. Gas owed to or from customers is valued at market. Changes in the balances have no effect on the income of Florida Gas. Fuel due from customers is recorded as a regulatory asset and over-retained fuel due to customers is recorded in regulatory liabilities in the accompanying Balance Sheets.

Income Taxes. Income taxes are accounted for under the asset and liability method in accordance with the provisions of FASB Statement No. 109, *"Accounting for Income Taxes" (Statement No. 109)*. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

The determination of Florida Gas' provision for income taxes requires significant judgment, use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. Reserves are established when, despite management's belief that Florida Gas' tax return positions are fully supportable, management believes that certain positions may be successfully challenged. When facts and circumstances change, these reserves are adjusted through the provision for income taxes.

Florida Gas is included in the consolidated federal income tax return filed by Citrus. For financial statement purposes, Florida Gas computes its individual federal and state income tax provisions as though it were filing separate tax returns. Pursuant to a tax sharing agreement with Citrus, Florida Gas will pay its share of taxes based on its taxable income, which will generally equal the liability that Florida Gas would have incurred as a separate taxpayer.

Accounts Receivable. Florida Gas establishes an allowance for doubtful accounts on accounts receivable based on the expected ultimate recovery of these receivables. Florida Gas considers many factors including historical customer collection experience, general and specific economic trends and known specific issues related to individual customers, sectors and transactions that might impact collectability. Unrecovered accounts receivable charged against the allowance for doubtful accounts were immaterial at May 31, 2009 and 2008, respectively.

Other Postretirement Benefits. Effective December 31, 2006, Florida Gas adopted the recognition and disclosure provisions of FASB Statement No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (Statement No. 158)*. Statement No. 158 does not amend the expense recognition provisions of Statements No. 87, 88 and 106, but requires employers to recognize in their balance sheets the overfunded or underfunded status of defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement plans). Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. Employers must recognize the change in the funded status of the plan in the year in which the change occurs through *Accumulated Other Comprehensive Loss* in the Statements of Member's / Stockholder's Equity.

Florida Gas accounted for the measurement of its defined benefit postretirement plans under Statement No. 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106)*. Under Statement No. 106, changes in the funded status were not immediately recognized; but rather were deferred and recognized ratably over future periods. Upon adoption of the recognition provisions of Statement No. 158 and guidance included in FERC Order dated March 29, 2007 in Docket No. AI07-1-000, Florida Gas recognized the amounts of these prior changes in the funded status of its defined postretirement benefit plan.

Florida Gas applied the provisions of Statement No. 71 and as such recognized net periodic benefit expense to the extent of amounts recorded in rates with any difference recorded as a regulatory asset or liability. Unrecognized prior service costs (benefits) and gain and/or loss are not recorded as change to Accumulated Other Comprehensive Loss, but rather as a regulatory asset or regulatory liability, reflecting amounts due from or to customers, respectively.

Fair Value Measurement. Issued by the FASB in September 2006, FASB Statement No. 157 "*Fair Value Measurement" (Statement No. 157)* defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Where applicable, this Statement simplifies and codifies related guidance within GAAP. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB released a FASB Staff Position, FSP FAS 157-2, "*Effective Date of FASB Statement No. 157" (FSP FAS 157-2),* which delays the effective date of this Statement for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FASB Staff Position FSP FAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active" (FSP FAS 157-3)*. FSP FAS 157-3 provides clarifying guidance with respect to the application of Statement No. 157 in determining the fair value of a financial asset when the market for that asset is not active. FSP FAS 157-3 was effective upon its issuance. The Statement and related Staff Positions did not have an impact on Florida Gas' financial statements because it has no financial assets or financial liabilities measured at fair value on a recurring basis at May 31, 2009.

Issued by the FASB in February 2007, FASB Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115"*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The Statement is effective for financial statements for fiscal years beginning after November 15, 2007. As of January 1, 2008, Florida Gas did not elect the fair value option under the Statement and, therefore, there was no impact to Florida Gas' financial statements.

New Accounting Principles

Accounting Principles Recently Adopted.

FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133". Issued by the FASB in March 2008, this Statement expands the disclosure requirements associated with derivative instruments to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted.

FASB Statement No. 165, "Subsequent Events". Issued by the FASB in June 2009, this Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This Statement establishes (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Statement is effective for interim or annual financial periods ending after June 15, 2009.

FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP FAS 157-4). Issued by the FASB in April 2009, this FSP provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of FSP FAS 157-4 are applied prospectively and are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Florida Gas early adopted FSP FAS 157-4 in the first quarter of 2009. The impact of FSP FAS 157-4 was not material to Florida Gas' financial statements.

Accounting Principles Not Yet Adopted.

FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109". Issued by the FASB in June 2006, FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes".* FIN 48 prescribes a recognition and measurement threshold attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, for public enterprises and September 15, 2009, for nonpublic enterprises, such as Florida Gas. In May 2007, the FERC issued guidance (Docket No. AI07-2-000) to insure proper and consistent implementation of FIN 48. Florida Gas has determined the implementation of this Statement will not have a material impact on its financial statements.

FSP No. FIN 48-1, "Definition of 'Settlement' in FASB Interpretation No. 48". Issued by the FASB in May 2007, FIN 48-1 provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets". Issued by the FASB in December 2008, FSP FAS 132(R)-1 provides guidance on an employer's disclosure about assets of a defined benefit pension or other postretirement plan. The disclosure provisions of FSP FAS 132(R)-1 are effective for fiscal years ending after December 15, 2009. Florida Gas is currently evaluating the impact of this Statement of position on the disclosures included in its financial statements.

Accounting Standards Codification. The FASB Accounting Standards Codification (*Codification*) became effective on July 1, 2009, officially becoming the single source of authoritative nongovernmental GAAP, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. Only one level of authoritative GAAP now exists. The Codification will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Florida Gas' financial statements will only be impacted to the extent that all future references to authoritative GAAP accounting literature will be referenced in accordance with the Codification.

(3) Long Term Debt

The table below sets forth the long-term debt of Florida Gas as of the dates indicated:

	Years Due	May 31, 2009 Book Value	May 31, 2008 Book Value
		(In thousands)	
10.110% Senior C Notes	2009-2013	56,000	70,000
9.190% Senior Notes	2005-2024	120,000	127,500
7.625% Senior Notes	2010	325,000	325,000
7.000% Senior Notes	2012	250,000	250,000
7.900% Senior Notes	2019	600,000	-
Revolving Credit Agreement	2012	-	122,000
Total debt outstanding		$ 1,351,000	$ 894,500
Current portion of long-term debt		(21,500)	(7,500)
Unamortized Debt Discount and Swap Loss		(1,919)	(1,371)
Total long-term debt		$ 1,327,581	$ 885,629

Revolving Credit Agreement. The Florida Gas revolving credit agreement in the amount of $300 million ("2007 Revolver"), which matures on August 16, 2012, requires interest based on LIBOR plus a margin tied to the debt rating of Florida Gas' senior unsecured debt, currently 0.36 percent, and has a facility fee of 0.09 percent. As of May 31, 2009, there were no amounts drawn under the 2007 Florida Gas Revolver.

The lenders of the 2007 Florida Gas Revolver are a group of banks, including Lehman Brothers Bank FSB (Lehman FSB), a subsidiary of Lehman Brothers Holdings Inc. (Lehman). Lehman FSB has a total $21 million credit commitment in Florida Gas' total of $300 million of capacity under the 2007 Florida Gas Revolver. Lehman and some of its subsidiaries, not including Lehman FSB, filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy code on September 15, 2008. However, Lehman FSB has been electing not to fund its pro rata share of the borrowing as required under its commitment to the facility since September 16, 2008. As a result, Florida Gas does not currently expect that Lehman FSB will fund its pro rata share of any future borrowing requests. Florida Gas does not expect this 7 percent effective reduction in available capacity under the revolver to significantly impact liquidity or Florida Gas' business operations. Florida Gas' available capacity under its revolvers, excluding Lehman FSB's portion, at May 31, 2009 was $279 million.

7.90% Senior Notes. In May 2009, Florida Gas issued $600 million of 7.90 percent Senior Notes due May 15, 2019 with an offering price of $99.82 (per $100 principal). In connection with the issuance of the Senior Notes, Florida Gas incurred underwriting and discount costs totaling approximately $5.7 million, resulting in approximately $594 million in proceeds to Florida Gas. Florida Gas will use the net proceeds to partially fund the Phase VIII Expansion project and for general corporate purposes.

Debt Covenants. The agreements relating to Florida Gas' debt include, among other things, restrictions as to the payment of dividends and maintaining certain restrictive financial covenants, including a required ratio of funded debt to total capitalization. Florida Gas was in compliance with both affirmative and restrictive covenants of the note agreements as of May 31, 2009 and 2008, respectively.

Under the terms of its debt agreements, Florida Gas may incur additional debt to refinance maturing obligations if the refinancing does not increase aggregate indebtedness, and thereafter, if Florida Gas' and Citrus' consolidated debt does not exceed specific debt to total capitalization ratios, as defined in certain debt instruments. Incurrence of additional indebtedness to refinance the current maturities would not result in a debt to capitalization ratio exceeding these limits.

All of the debt obligations of Florida Gas and Citrus have events of default that contain commonly used cross-default provisions. An event of default by either Florida Gas or Citrus on any of their borrowed money obligations, in excess of certain thresholds which if not cured within defined grace periods, would cause the other debt obligations of Florida Gas and Citrus to be accelerated. Citrus is not in default of any of its debt obligations as of May 31, 2009 and 2008, respectively.

(4) Income Taxes

Florida Gas is included in the consolidated federal income tax return filed by Citrus. For financial statement purposes, Florida Gas computes its individual federal and state income tax provisions as though it were filing separate tax returns. Pursuant to a tax sharing agreement with Citrus, Florida Gas will pay its share of taxes based on its taxable income, which will generally equal the liability that the company would have incurred as a separate taxpayer.

(5) Concentration of Credit Risk

Florida Gas has a concentration of customers in the electric and gas utility industries. These concentrations of customers may impact Florida Gas' overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic or other conditions. Credit losses incurred on receivables in these industries compare favorably to losses experienced in Florida Gas' receivable portfolio as a whole. Florida Gas also has a concentration of customers located in the southeastern United States, primarily within the state of Florida. Receivables are generally not collateralized. From time to time, specifically identified customers having perceived credit risk are required to provide prepayments, deposits, or other forms of security to Florida Gas. Florida Gas' management believes that the portfolio of Florida Gas' receivables, which includes regulated electric utilities, regulated local distribution companies, and municipalities, is of minimal credit risk.

(6) Related Party Transactions

Florida Gas provided natural gas sales and transportation services to El Paso affiliates at rates equal to rates charged to non-affiliated customers in the same class of service. Florida Gas also purchased transportation services from Southern in connection with its Phase III Expansion completed in early 1995. Florida Gas contracted for firm capacity of 100,000 Mcf/day on Southern's system for a primary term of 10 years, to be continued for successive terms of one year each year thereafter unless cancelled by either party, by giving 180 days notice to the other party prior to the end of the primary term or any yearly extension thereof.

Florida Gas has related party activities for operational and administrative services performed by Panhandle Eastern Pipe Line Company, LP (PEPL), an indirect wholly-owned subsidiary of Southern Union, and other related parties, on behalf of Florida Gas, and corporate service charges from Southern Union. Expenses are generally charged based on either actual usage of services or allocated based on estimates of time spent working for the benefit of the various affiliated companies. Additionally, Florida Gas receives allocated costs of certain shared business applications from PEPL and Southern Union.

Florida Gas received cash contributions of $417.3 million from Citrus during the twelve-months ended May 31, 2009. Florida Gas paid cash distributions to Citrus of $113.8 million during the twelve-months ended May 31, 2009.

(7) Commitments and Contingencies

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

Phase VIII Expansion. Florida Gas filed a certificate application on October 31, 2008 with FERC to construct an expansion to increase its natural gas capacity into Florida by approximately 820 million cubic feet per day (*MMcf/d*) (*Phase VIII Expansion*). The proposed Phase VIII Expansion includes construction of approximately 500 miles of large diameter pipeline and the installation of approximately 200,000 horsepower of compression. Pending FERC approval, which is expected in the latter half of 2009, Florida Gas anticipates an in-service date during 2011, at a currently estimated cost of $2.4 billion, including capitalized equity and debt costs. To date, Florida Gas has entered into precedent agreements with shippers for transportation services for 25-year terms accounting for approximately 74 percent of the available expansion capacity which, depending on elections by one of the shippers, may increase to 83 percent of such capacity.

Guarantees. Florida Gas provided a guaranty to the banks in connection with a revolving credit facility ("2007 Citrus Revolver") in the amount of $200 million that Citrus entered into on August 16, 2007. The 2007 Citrus Revolver matures on August 16, 2012. The maximum potential amount of future payments is $200 million principal, plus interest, fees, and other amounts owed by Citrus to the banks (collectively, the "Guaranteed Obligations"). During the term of the 2007 Citrus Revolver, Florida Gas guarantees the payment and performance when due of the Guaranteed Obligations. No liabilities were recorded under the guarantee as of May 31, 2009 and 2008, respectively. As of May 31, 2009 Citrus has nil in their revolving credit facility outstanding.

Florida Gas also provided a guaranty to a bank in connection with a $5 million revolving credit facility Citrus entered into on July 23, 2008 with an original maturity date of July 22, 2009 and subsequently renewed to July 21, 2010. As of May 31, 2009, Citrus has nil outstanding related to this revolving credit facility. No liabilities were recorded under the guarantee as of May 31, 2009 and 2008, respectively.

Environmental Reserve. Florida Gas is subject to extensive federal, state and local environmental laws and regulations. These laws and regulations require expenditures in connection with the construction of new facilities, the operation of existing facilities and for remediation at various operating sites. The implementation of the Clean Air Act Amendments resulted in increased operating expenses. These increased operating expenses did not have a material impact on Florida Gas' financial statements.

Florida Gas conducts assessment, remediation, and ongoing monitoring of soil and groundwater impact which resulted from its past waste management practices at its Rio Paisano and Station 11 facilities. The liability is recognized in other current liabilities and in other deferred credits and in total amounted to $1.5 million and $1.6 million at May 31, 2009 and May 31, 2008, respectively. Amounts are not discounted because of uncertainty related to timing. Florida Gas recorded the estimated costs of remediation to be spent after April 1, 2010 of $1.1 million and $1.1 million at May 31, 2009 and 2008, respectively, as a regulatory asset based on the probability of recovery in rates in its next rate case.

Florida Gas Pipeline Relocation Cost. The Florida Department of Transportation, Florida's Turnpike Enterprise (*FDOT/FTE*) has various turnpike/State Road 91 widening projects that have or may, over time, impact one or more of Florida Gas' mainline pipelines located in FDOT/FTE rights-of-way. A dispute exists with the FDOT/FTE over the rights of Florida Gas under certain easements and other agreements associated with the State Road 91 projects to, among other matters, receive reimbursement for the relocation costs incurred by Florida Gas and the nature and scope of such easements. The first phase of the State Road 91 projects included replacement of approximately 11.3 miles of the existing 18- and 24-inch pipelines in Broward County, Florida due to the widening of State Road 91 by the FDOT/FTE. Construction is complete and the new facilities were placed in service in March 2008. The FDOT/FTE plans additional projects that may affect Florida Gas' pipelines within FDOT/FTE rights-of-way. The total miles of pipe that may ultimately be affected by all of the FDOT/FTE widening projects, and any associated relocation and/or rights-of-way costs, cannot be determined at this time.

The various FDOT/FTE projects are the subject of state court litigation. In January 2007, Florida Gas filed a complaint against FDOT/FTE in the Seventeenth Judicial Circuit, Broward County, Florida, to seek relief for three specific sets of FDOT/FTE widening projects in Broward County. The case was subsequently transferred to the Broward County Complex Business Civil Division 07. The complaint seeks damages for the breach of easement and relocation agreements for the completed State Road 91 relocation project and injunctive relief as well as damages for the two other sets of projects upon which construction has yet to commence. The FDOT/FTE filed counterclaims against Florida Gas alleging, among other matters, that Florida Gas is subject to estoppel, claims for breach of contract, trespass, unjust enrichment, and fraud in the inducement regarding the removal from service of the existing 18- and 24-inch pipelines. Further, the FDOT/FTE is seeking to place a constructive trust over any revenues associated with the previously existing and newly constructed pipelines and to obtain a declaratory judgment that Florida Gas is responsible for all relocation costs and is not entitled to workspace and uniform minimum area with respect to its pipelines. The Court has allowed the FDOT/FTE to include counts of fraud and trespass in its counterclaim. Florida Gas contends the Court reserved ruling on permitting a demand for punitive damages on those counts. The FDOT/FTE contends that the Court authorized the demand for punitive damages when the Court allowed the counts of fraud and trespass. A supplemental motion for temporary injunction and a motion for partial summary judgment is pending against Florida Gas on the extent of the rights Florida Gas claims under the easements at issue, the breach of the easements by the FDOT/FTE for failing to provide adequate rights-of-way, the failure of the FDOT/FTE to reimburse Florida Gas for the costs of relocation, and inverse condemnation as a result of the FDOT/FTE's claim that Florida Gas breached the easements. The FDOT/FTE is claiming approximately $30 million in actual damages based on the most current information provided by the FDOT/FTE. The FDOT/FTE is seeking the Court's permission to supplement these claims with as yet undetermined amounts associated with its claim for a constructive trust over revenues from the subject pipelines for the period April 2008 through January 2009. A hearing will be held in September 2009 to establish a trial date; trial had previously been set for August 2009. A 2007 action brought by the FDOT/FTE against Florida Gas in Orange County, Florida, seeking a declaratory judgment that, under existing agreements, Florida Gas is liable for the costs of relocation associated with FDOT/FTE projects, has been stayed pending resolution of the Broward County, Florida action.

Should Florida Gas be denied reimbursement by the FDOT/FTE for relocation expenses, such costs are expected to be covered by operating cash flows and additional borrowings. Florida Gas expects to seek rate recovery at FERC for all reasonable and prudent costs incurred in relocating its pipelines due to the FDOT/FTE projects to the extent not reimbursed by the FDOT/FTE.

There can be no assurance that Florida Gas will be successful in obtaining complete reimbursement for any such relocation costs from the FDOT/FTE or from its customers or that the timing of such reimbursement will fully compensate Florida Gas for its costs.

Federal Pipeline Integrity Rules. On December 15, 2003, the U.S. Department of Transportation issued a final rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule defines as high consequence areas (*HCAs*). The rule requires operators to identify and risk rank HCAs along their pipelines and perform baseline integrity assessments, comprised of in-line inspection (smart pigging), hydrostatic testing or direct assessments. While identification and location of all HCAs and the majority of the required risk assessments has been completed by Florida Gas, it is not practicable to determine with certainty the total scope of required remediation activities prior to completion of the assessments and inspections. The required modifications and inspections are currently estimated to be in the range of approximately $20 million to $28 million per year through 2012.

In addition to the cost of the HCA requirements, Florida Gas is required under other regulations from time to time to undertake certain actions that may include testing or upgrading portions of its system by pipeline replacement. Florida Gas anticipates total expenditures of approximately $175 million in 2009 and 2010 to meet these requirements. Due to the nature of the factors affecting these costs, it is anticipated that future annual costs will decline significantly from the expected 2009-2010 levels.

Jack Grynberg. Jack Grynberg, an individual, filed actions for damages against a number of companies, including Florida Gas, now transferred to the U.S. District Court for the District of Wyoming, alleging mis-measurement of natural gas volumes and British thermal unit (Btu) content, resulting in lower royalties to mineral interest owners. On October 20, 2006, the District Judge adopted in part the earlier recommendation of the Special Master in the case and ordered the dismissal of the case against the defendants. Grynberg is appealing that action to the Tenth Circuit Court of Appeals. Grynberg's opening brief was filed on July 31, 2007. Respondents filed their brief rebutting Grynberg's arguments on November 21, 2007. A hearing before the Court of Appeals was held on September 25, 2008 and on March 17, 2009 the Court denied Grynberg's appeal. On May 4, 2009, the Court denied Grynberg's petition for rehearing. On August 4, 2009, Grynberg appealed the Court of Appeals decision to the United States Supreme Court. Florida Gas believes that its measurement practices conformed to the terms of its FERC gas tariffs, which were filed with and approved by FERC. As a result, Florida Gas believes that it has meritorious defenses to these lawsuits (including FERC-related affirmative defenses, such as the filed rate/tariff doctrine, the primary/exclusive jurisdiction of FERC, and the defense that Florida Gas complied with the terms of its tariffs) and will continue to vigorously defend against them, including any appeal from the dismissal of the Grynberg case. Florida Gas does not believe the outcome of this case will have a material adverse effect on its financial position, results of operations or cash flows.

CITRUS CORP. CONSOLIDATED
Comparative Balance Sheet 1/
(In thousands)
(Unaudited)

Line No.	Description	June 30, 2009 (a)	June 30, 2008 (b)
	ASSETS		
	Current Assets		
1	Cash and cash equivalents	$ 472,695	$ 50,669
	Accounts receivable, billed and unbilled,		
2	less allowances of $18 and $18, respectively	52,239	55,183
3	Materials and supplies	14,180	13,245
4	Cash restricted	-	186,600
5	Other	2,416	889
6	Total Current Assets	541,530	306,586
	Property, Plant and Equipment		
7	Plant in service	4,575,858	4,475,739
8	Construction work in progress	488,645	49,696
9	Property, Plant and Equipment, Gross	5,064,503	4,525,435
10	Less - accumulated depreciation and amortization	1,530,151	1,453,319
11	Property, Plant and Equipment, Net	3,534,352	3,072,116
	Other Assets		
12	Investment in Subsidiary Companies	-	-
13	Unamortized debt expense	8,126	3,801
14	Regulatory assets	21,395	18,437
15	Other	6,406	10,393
16	Total Other Assets	35,927	32,631
17	Total Assets	$ 4,111,809	$ 3,411,333
	LIABILITIES AND STOCKHOLDERS' EQUITY		
18	Current Liabilities		
19	Current portion of long-term debt	$ 21,500	$ 224,100
20	Notes Payable	5,000	-
21	Accounts payable - trade and other	17,181	20,223
22	Accounts payable - affiliated companies	6,415	5,117
23	Accrued interest	25,090	14,277
24	Accrued income taxes	3,183	7,211
25	Accrued taxes, other than income	18,381	17,511
26	Exchange gas payable	17,170	28,500
27	Capital accruals	18,834	18,135
28	Dividends payable	-	-
29	Other	5,299	5,719
30	Total Current Liabilities	138,053	340,793
	Deferred Credits		
31	Deferred income taxes, net	825,184	780,439
32	Regulatory liabilities	18,994	14,480
33	Other	15,098	8,859
34	Total Deferred Credits	859,276	803,778
35	Long-Term Debt	1,827,634	1,037,573
	Stockholders' Equity		
	Common stock, $1 par value; 1,000 shares		
36	authorized, issued and outstanding	1	1
37	Additional paid-in capital	634,271	634,271
38	Accumulated other comprehensive loss	(3,927)	(6,565)
39	Retained earnings	656,501	601,482
40	Total Stockholders' Equity	1,286,846	1,229,189
41	Total Liabilities and Stockholders' Equity	$ 4,111,809	$ 3,411,333

Footnote:
1/ Citrus Corp. financials are in accordance with GAAP.