April 6, 2005

New England Gas Company

Ms. Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket No. 3436, Gas Purchasing Incentive Plan

Dear Ms. Massaro:

The New England Gas Company ("Company") is in receipt of the Division of Public Utilities and Carriers' ("Division") March 29, 2005 correspondence regarding our proposed modifications to the Gas Purchasing Incentive Plan ("GPIP" or "Plan"). In the Division's correspondence, Mr. Bruce Oliver makes several suggestions relative to the Company's proposals. The Company would like to take this opportunity to respond to Mr. Oliver's suggestions.

With regard to expanding the Company's proposal to increase the level of mandatory purchases to 70% (compared to the present 50%) from the originally proposed November to March timeframe to a yearlong format, the Company has some reservations as to the shoulder months, April and October in particular. Currently, significant portions of April through October purchases are made for injection into storage, the amounts of which are subject to change each year based on the amount drawn out of storage in the prior winter. This impacts the buying strategy, as does migration of customers to or from transportation service which can all play a part in causing summer purchasing loads to diverge from the forecast established the prior summer at the time of the Company's annual Gas Cost Recovery ("GCR") filing. Since there is little fluctuation caused by weather in the warmest months, May through September, the Company believes it could accommodate those changes while operating under a 70% mandatory purchasing requirement as proposed by Mr. Oliver. However, for the months of April and October, the 70% mandatory purchasing requirement would present a problem because purchases in these months would be impacted by weather fluctuations. Therefore, the Company would propose that the Plan provide for a lesser mandatory level of 60% in April and October.

Mr. Oliver discusses three options relative to establishing additional metrics to assess the reasonableness of the Company's gas procurement activities (Division Memorandum at 2). As Mr. Oliver concedes, establishing a metric based on performance relative to other utilities is not an accurate reflection of the Company's performance given the potential differences in customer composition, ratemaking practices, gas supply resources, and other matters. The Company agrees with Mr. Oliver's assessment in this regard.

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The other two potential metrics speak to the relative magnitude of the Company's purchase cost fluctuation versus that of the NYMEX market and comparing the annual change in the Company's gas commodity versus the NYMEX's one-year strip prices for a similar period. The Company believes that these metrics need to be further investigated and clarified before it will be able to determine the potential effectiveness of these metrics.

Thank you for the opportunity to respond to Mr. Oliver's memorandum and for your attention to this filing. Please contact me directly if I can be of any further assistance in this matter.

Sincerely,

Kevin F. Penders

Kevin F. Penders, Esq.
Manager, Regulatory Relations