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November 1, 2004

VIA HAND DELIVERY AND ELECTRONIC MAIL

Ms. Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 20888

RE: Docket No. 3548, Earnings Sharing Mechanism and Distribution Adjustment Charge Filing

Dear Ms. Massaro:

In accordance with the procedural schedule in the above captioned docket, enclosed please find an original and nine copies of the Rebuttal Testimony of Robert J. Riccitelli, along with Attachment RJR-5, which is a revised Earnings Sharing Calculation for FY2004.

Thank you for your attention to this filing.

Sincerely,

Cheryl Kimball (ilk)

Cheryl M. Kimball
(R.I. Bar #6458)

Enclosure
Cc: Luly Massaro, Commission Clerk (nine copies)
David J. Effron
Bruce Oliver

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NEW ENGLAND GAS COMPANY
DOCKET NO. 3548

REBUTTAL TESTIMONY

OF

ROBERT J. RICCITELLI

November 1, 2004

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert J. Riccitelli. My business address is 100 Weybosset Street, Providence, RI 02903.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS DOCKET?

A. Yes. On September 3, 2004, I submitted testimony on behalf of New England Gas Company (the "Company") in support of the earnings sharing calculation for the Company's fiscal year 2004 operations.

Q. ARE THERE ANY ATTACHMENTS TO YOUR TESTIMONY?

A. Yes, I am sponsoring Attachment RJR-5, which is a revised Earnings Sharing Calculation for FY2004.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. On October 22, 2004, the Division of Public Utilities and Carriers (the "Division") filed direct testimony by David J. Effron regarding the Company's calculations of the earnings sharing mechanism for FY2004. My rebuttal testimony responds to the recommendations outlined by Mr. Effron.

Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. Yes. After reviewing Mr. Effron's testimony, the Company has determined that several issues raised therein require a response. First, the Company agrees that an adjustment of

$162,000 should be made to the calculation originally filed by the Company pertaining to the disposition of utility property. Second, for the reasons stated below, the Company does not disagree with Mr. Effron's position that the "Other Interest Expense" associated with the Conservation Loan Program may be appropriate for exclusion from the earnings sharing calculation. However, the remainder of Mr. Effron's recommended adjustments are achieved by changing the methodology used to compute components of the ESM from that used in the Company's last rate case and in prior earnings sharing calculations. These recommended changes do not present corrections to the Company's calculation based on established ratemaking principles, and therefore, these adjustments are not appropriate and should not be adopted by the Commission.

Attachment RJR-5 computes the ESM for FY2004, including the two adjustments noted above. As discussed below, Attachment RJR-5 also includes a correction to account for the error discovered during the discovery phase of the non-ESM Distribution Adjustment Charge ("DAC") portion of this proceeding, which relates to the amortization of environmental remediation costs. Under the Company's revised calculations, the Company achieved a return on equity of 11.38 percent, which results in a credit to customers through the DAC totaling $108,569. The ultimate impact on customers will be determined as a result of the Commission's order in this proceeding and the Company will provide a bill-impact analysis as part of the compliance filing made pursuant to the Commission's final order.

Q. DO YOU HAVE ANY COMMENT ON MR. EFFRON'S RECOMMENDATION REGARDING THE DISPOSITION OF UTILITY PROPERTY?

A. Yes. As noted in Mr. Effron's testimony, the Company realized a gain of $162,000 on the disposition of property used for utility purposes prior to its disposition. This gain was credited to Account 421.1, a "below the line" account, because the property was not subject to the composite depreciation rules. Upon review, the Company agrees with Mr. Effron that the gain on the disposition of that property should be included in the determination of income for the purpose of calculating earnings sharing. Therefore, in Attachment RJR-5, I have increased FY2004 revenues to recognize the gain on the disposition of utility property of $162,000.

Q. DO YOU HAVE ANY COMMENT ON MR. EFFRON'S RECOMMENDATIONS REGARDING "OTHER INTEREST EXPENSE?"

A. Yes. In accordance with the terms of the Commission's Order No. 17971, at page 19, the Company included in its original calculation only those interest expenses associated with Customer Deposits and the Conservation Loan Program. However, Mr. Effron contends that the interest on the Conservation Loan Program represents interest accrued on a credit balance of "non-investor" supplied funds. Mr. Effron further contends that, because the credit balance of non-investor supplied funds is not deducted from rate base, the interest on that credit balance should not be deducted from net operating income in the calculation of net income.

Pursuant to the terms of Commission Order No. 17971, the general rule is that interest expense is includable in the determination of earnings under ESM calculation, except where the Company has inappropriately incurred such expenses (as was the case with the interest charges on late payments in the FY2003 ESM calculation). Thus, the Company included the interest costs associated with the Conservation Loan Program in its original ESM calculation. However, in this case, the Company agrees that the interest expense incurred by the Company in relation to the Conservation Loan Program is offset by the fact that these "non-investor" supplied funds are available in the cash balances of the Company as a result of the program. Accordingly, this type of interest expense could also be considered as an exception to the general rule that interest expense is includable in the ESM calculation. Therefore, the Company has reduced "Other Interest Expense" by $20,000, as reflected in Attachment RJR-5.

Q. HAVE YOU ALSO ADJUSTED THE RECONCILIATION OF FY2003 TO ACCOUNT FOR THE REMOVAL OF OTHER INTEREST EXPENSE?

A. Yes. The Company calculated incremental earnings of $76,000 from the FY2003 compliance filing to be added to the FY2004 earnings to be credited to the DAC. In Attachment RJR-5, I have adjusted the incremental earnings from the FY2003 compliance filing to eliminate $31,000 of interest on the Conservation Loan Program, for the reasons explained above.

Q. DO YOU HAVE ANY COMMENT ON THE REMAINDER OF MR. EFFRON'S RECOMMENDATIONS?

A. Yes. The remainder of Mr. Effron's recommendations relate to proposed changes in the methodology employed to calculate the ESM, rather than from the identification of errors in the Company's calculations. Specifically, Mr. Effron's remaining recommendations propose new methodologies for calculating: (1) prepaid PUC assessments; (2) accumulated deferred income taxes ("ADIT"); and (3) cash working capital.

The Company does not agree with these recommendations because a basic precept of the ESM, as established in the Docket 3401 Settlement Agreement, is that it will be calculated consistently each year to "reflect established Commission ratemaking principles." See, Settlement Agreement, Paragraph II.F.1, page 11. The DAC filing submitted by the Company on September 3, 2004 reflecting financial results for FY2004 is the third presentation of the methodology used to calculate the ESM. Moreover, the methodology used in the filing is the same as that used in the base-rate proceeding, Docket 3401, and that was used in all prior ESM calculations, including those used in the ERI I and ERI II rate plans. These methodological changes were never mentioned or raised by the Division in any prior proceeding and, if implemented now, would contravene established Commission ratemaking principles as they relate to the computation of the ESM.

In fact, the Company has made no change in this filing to the methodology used to calculate the ESM in prior years, nor is Mr. Effron claiming that the Company has inappropriately changed the methodology from that used in prior years in relation to these items. Mr. Effron is also not suggesting that the Company has erroneously applied Commission ratemaking principles. Rather, Mr. Effron's suggested changes to the established methods of calculation are designed only to implement a change in the calculation that would increase the amount of earnings available to be shared with customers in this year. Notably, Mr. Effron has not raised these methodological changes in prior years.

Although the Company appreciates that the Division has the obligation to identify and support adjustments that benefit customers, and understands that these adjustments are proposed in that spirit, it is fundamentally unfair to allow mid-course methodological changes not offered to correct calculations that are inconsistent with Commission ratemaking practice or generally accepted accounting principles. The Company must have some level of certainty and stability in its regulatory obligations in order to manage its operations during the fiscal year. Accordingly, methodological changes of the sort recommended by Mr. Effron in this proceeding should be offered, reviewed and, if appropriate, approved in a base-rate or other proceeding where the mechanism itself is subject to review.

Q. DO YOU HAVE ANY COMMENTS ON THE SPECIFIC METHODOLOGICAL CHANGES PROPOSED BY MR. EFFRON?

A. Yes. Mr. Effron first contends that the amount of prepayments included in rate base relating to the PUC assessment should be adjusted because this prepayment was "not actually paid until the third quarter of [the] fiscal year." However, the Company's prepayment calculation accurately reflects the fact that the Company paid the full PUC assessment for FY2004 in the third quarter resulting in a prepayment of that portion of the FY2004 assessment expense applicable to the last quarter of the fiscal year.

Mr. Effron contends that, because the Company is accruing this expense throughout the year, the Company should include a "negative" prepayment amount for the first three-quarters of the fiscal year to account for the timing difference between the time that the expense is incurred and the time that the expense is paid. Based on this "negative prepayment" concept, Mr. Effron calculates that the average annual PUC assessment prepayment for FY2004 was a negative $82,000. By offsetting the Company's PUC prepayments by this average negative amount, Mr. Effron concludes that the average balance of the Company's PUC prepayments should be reduced by $133,000. As explained below, this approach to calculating prepayment balances is inappropriate because it is inconsistent with generally accepted accounting principles and with the methodology used in Docket 3401 and all prior ESM calculations.

Prepaid expenses result where the Company pays cash for a service in advance of receiving the service. The Company accrues the annual PUC assessment expense on a monthly basis based on the actual amount paid in the prior year. Once the invoice is received and paid, the Company adjusts accrued expense to deduct the actual payment. In FY2004, the Company paid an <u>annual</u> PUC assessment of $881,943 in the third quarter of the fiscal year, i.e., the full year's expense was paid prior to the end of the year. Accordingly, the prepaid account balance of $253,472 at the end of the third quarter is appropriate and consistent with accounting and ratemaking principles.

Mr. Effron's recommendation to maintain an average payment for the PUC assessment this is negative is based on the conceptual assumption that the Company is incurring the assessment expense during the year, but is not making payment until the end of the year. Mr. Effron's proposal would, therefore, create a "negative" prepayment amount to account for that timing difference. This recommendation is flawed for two reasons. First, under standard ratemaking practice, differences in the leads and lags between the time that an expense is incurred and the time of payment are accounted for through the lead/lag component of the cash working capital allowance. If Mr. Effron's recommendation were adopted by the Commission, the timing difference would, in essence, be double counted. Moreover, there is no basis in generally accepted accounting practice to establish a "negative" prepayment. Prepayments can only be positive or zero because the Company either prepays an expense (resulting in a positive number), or chooses not to prepay (resulting in a zero prepayment). To have a negative prepayment is to say that the Company prepaid an expense by less than zero, which is not a generally accepted principle in good accounting practice.

Moreover, the Company's calculation of prepaid balances uses the same methodology used in Docket 3401 and all prior ESM calculations (see, e.g., Response to Data Request

DIV 1-14, in Docket 3548; Response to Data Request COMM 1-05, Docket 3459. Accordingly, Mr Effron's proposal to reduce the prepayments included in rate base by $133,000 to give effect to his concept of "negative prepayments" is inappropriate and should be rejected by the Commission.

Second, Mr. Effron proposes a change to the methodology used to calculate the five-quarter average of ADIT. Specifically, Mr. Effron contends that the balance of ADIT as of June 30, 2004 reflects a true-up of the FY2003 deferred taxes, and therefore, the FY2003 adjustment should be added to the ADIT as of June 30, 2003 for the purpose of calculating the average fiscal year ADIT balances. Mr. Effron further assumes that the addition of the FY2004 accrual for deferred taxes of $2,957,000 has accrued evenly over the year and, therefore, he adds one-quarter of the annual accrual in each quarter to calculate the balance of ADIT as of the end of each quarter. Effectively, these adjustments remove amounts booked by the Company in the 4th quarter, thereby changing the average for that quarter, and redistribute those amounts on a pro rata basis throughout the fiscal year to smooth out the average.

This methodology is not consistent with the way that the Company is required to record the adjustments for financial reporting purposes, nor is this methodology consistent with the accounting procedure that was used in Docket 3401 or the prior earnings sharing calculations. Therefore, Mr. Effron's recommendation represents a change in accounting practices that would have the Company basing its ESM calculations on amounts that are different from the ADIT numbers reported in its financial statements and accounting records.

The Settlement Agreement in Docket 3401 specifically states that "the rate base used in these calculations will be the average rate base for the relevant period based on a five-quarter average and established Commission ratemaking principles." See, Settlement Agreement at Paragraph II.F.1, page 11. The Company's treatment of ADIT within the five-quarter averaging computation has been consistently applied in prior ESM calculations. Accordingly, Mr Effron's proposal to increase the balance of ADIT by $1,019,000 by taking an adjustment that the Company derives at the end of each fiscal year and retroactively reallocating it to prior quarterly balances is an inappropriate modification to the Company's established accounting practices as adopted and applied by the Commission in prior proceedings. Its selective adoption and application in this proceeding should be rejected by the Commission.

Mr. Effron states that, because "the method of calculating the average balance of ADIT is consistent with the cash working capital calculation. . . . the method of calculating the cash working capital balance in rate base should also be modified." (Effron Direct Testimony at 10). There are two reasons that this approach is flawed. First, the calculation of the cash working capital allowance has been consistently applied by the Commission in prior rate cases and ESM proceedings. In addition, although, Mr. Effron's proposed revision to the cash working capital calculation methodology would benefit the Company in this proceeding, it is inappropriate because it directly contradicts the express provisions of the Settlement Agreement in Docket 3401. The Settlement Agreement specifically states that the "working capital allowance will be calculated pursuant to the methodology approved by the Commission in Docket No. 2286." Id. The Company has been calculating cash working capital in accordance with the methodology established in Docket No. 2286, using a process to compute the five-quarter average that is unchanged since the methodology was approved in that docket. Mr. Effron's proposal to change the methodology for calculating the five-quarter average is inconsistent with both the express terms of the Settlement Agreement and established Commission ratemaking principles

It should also be noted that in computing the cash working capital allowance on Schedule DJE-2, Mr. Effron has not computed a five-quarter average that is even consistent with his proposed calculation for ADIT. For the cash working capital allowance, Mr. Effron simply used the working capital at June 30, 2004, rather than computing the five-quarter average. Thus, not only is Mr. Effron inappropriately recommending a methodological change, the change is not even consistent with his approach to ADIT. Therefore, his recommendations on the calculation of the cash working capital allowance must be rejected by the Commission.

Q. DO YOU HAVE ANY COMMENT ON MR. EFFRON'S RECOMMENDATIONS REGARDING CONSTRIBUTIONS IN AID OF CONSTRUCTION?

A. Yes. Another significant methodological change that Mr. Effron is suggesting is that contributions in aid of construction ("CIAC") should be deducted from rate base in the computation of the ESM. Again, this represents a significant deviation from the Commission's established ratemaking practices, and on that basis alone, is inappropriate in this proceeding. Mr. Effron offers no justification for this significant methodological change except that, in this year, he has determined that CIACs represent "zero-cost" capital for the Company. In fact, the Company requests a contribution from customers only in the event that the Company must order materials to extend or improve service to that customer. The Company does not expend funds to purchase these materials, unless and until the customer has committed to the work and has posted the contribution to commence the project. Moreover, in making his adjustment, Mr. Effron fails to take note of the fact that the amount recorded on the Company's books at any given time is not equal to the amount paid by customers since the amount recorded on the Company's books is based on billings to the customer. Because the Company does not commence the project until the customer has paid, billed amounts may remain on the Company's books for some period of time. Moreover, even if it were appropriate to deduct CIAC from rate base, which it is not, Mr. Effron has not developed his adjustment based on a five-quarter average as is required by the Settlement Agreement. Rather, Mr. Effron has simply used the period ending balance as of June 30, 2004. For these reasons, the Commission should reject Mr. Effron's recommendations on this issue.

Q. DO YOU HAVE ANY OTHER CHANGES TO THE ESM CALCULATION ORIGINALLY SUBMITTED BY THE COMPANY?

A. Yes. Through the process of responding to discovery propounded by the Division in relation to the non-ESM portion of the DAC proceeding, the Company discovered that it had erroneously included $660,242 as a charge to environmental remediation cost, which is a balance sheet account (directly recoverable from customers). The discovery of this error led to the realization that the Company adjusted both environmental amortization expense and deferred gas costs which areincome statement accounts appropriately included in the calculation of the ESM. As a result of this accounting error, deferred gas costs was understated by $573,422. . This procedure is consistent with accepted accounting practices matching revenues with expenses over a given fiscal period. Moreover, these expenses have been appropriately included in past ESM calculations. The inclusion of $573,422 in environmental expense in the ESM calculation is reflected in Attachment RJR-5.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

NEW ENGLAND GAS COMPANY
EARNINGS SHARING CACULATION
FOR THE TWELVE MONTHS ENDED JUNE 2004

		AS FILED	ADJUSTMENTS	ADJUSTED	
1 Average Rate Base	Rate Base L25	241,200,361	0	241,200,361	1
2 Equity Component of Rate Base	Capital Structure L8	43.60%	43.60%	43.60%	2
3 Average Common Equity	(L1 * L2)	105,163,357	0	105,163,357	3
4					4
5 Net Income Available for Common Stock	Income Statement L61	12,239,240	(267,223)	11,972,017	5
6 Return on Common Equity	(L3 / L5)	11.64%		11.38%	6
7					7
8 Return on Equity > 11.25% and <12.25%	(Lesser of 1% or L6 - 11.25%)	0.39%		0.13%	8
9 Earnings to be Shared	(L3 * L8)	408,362	(267,223)	141,140	9
10 Earnings to Customers - 50%	(L9 * 50%)	204,181	(133,611)	70,570	10
11					11
12 Return on Equity >12.25 %	(If L6 >12.25%, L6 - 12.25%)	0.00%		0.00%	12
13 Earnings to be Shared	(L3 * L12)	0	0	0	13
14 Earnings to Customers - 75%	(L13 * 75%)	0	0	0	14
15					15
16 Total After tax Earnings Credited to Customers	(L10 + L14)	204,181	(133,611)	70,570	16
17					17
18 Total Earnings Credited to DAC	(L16 / 65%)	314,125	(205,555)	108,569	18

NEW ENGLAND GAS COMPANY
INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED JUNE 2004

		12 MONTHS ENDED JUNE 2004	ADJUSTMENTS	ADJUSTED 12 MONTHS ENDED JUNE 2004	
1	**OPERATING REVENUES**				1
2					2
3	TOTAL FIRM GAS	$ 368,640,597		$ 368,640,597	3
4	TRANSPORTATION	10,001,374		10,001,374	4
5	OTHER	2,101,339	162,310	2,263,649	5
6	COMPANY PORTION NON-FIRM MARGIN	(82,171)		(82,171)	6
7				-	7
8	TOTAL OPERATING REVENUES	380,661,139	162,310	380,823,449	8
9					9
10	ADJUSTMENTS TO OPERATING REVENUES				10
11	ESM FY '03-'04	1,914,647		1,914,647	11
12	UNBILLED REVENUES	1,161,337		1,161,337	12
13	INVENTORY FINANCING	(2,269,055)		(2,269,055)	13
14	TOTAL ADJUSTED OPERATING REVENUES	381,468,068	162,310	381,630,378	14
15					15
16					16
17	**OPERATING EXPENSES**				17
18					18
19	PRODUCTION (GAS COSTS)	230,049,936	573,422	230,623,358	19
20	STORAGE	855,554		855,554	20
21	DISTRIBUTION	18,516,424		18,516,424	21
22	CUSTOMER ACCOUNTS	18,882,667		18,882,667	22
23	SALES	427,223		427,223	23
24	ADMINISTRATIVE & GENERAL	38,202,541		38,202,541	24
25	CORPORATE ALLOCATION	3,196,999		3,196,999	25
26	INCENTIVE RELATED TO EARNINGS	(686,644)		(686,644)	26
27	TOTAL OPERATING EXPENSES	309,444,701	573,422	310,018,123	27
28					28
29	ADJUSTMENTS TO OPERATING EXPENSES				29
30					30
31	UNBILLED GAS COSTS	809,416		809,416	31
32	SAVINGS IMPUTED IN BASE RATES	2,049,000		2,049,000	32
33					33
34	TOTAL FUNCTIONAL EXP	312,303,117	573,422	312,876,539	34
35					35
36	**OTHER EXPENSES**				36
37					37
38	DEPRECIATION & AMORT.	19,729,957		19,729,957	38
39	LOCAL AND OTHER TAXES	10,353,857		10,353,857	39
40	REVENUE RELATED TAXES (GET)	10,588,530		10,588,530	40
41	FEDERAL INCOME TAXES @ 35%	6,835,399	(143,889)	6,691,510	41
42					42
43	TOTAL OTHER EXPENSES	47,507,743	(143,889)	47,363,854	43
44					44
45	**INCOME BEFORE INT EXP**	21,657,208	(267,223)	21,389,985	45
46					46
47					47
48	**INTEREST EXPENSE**				48
49					49
50	SHORT-TERM DEBT	429,140		429,140	50
51	LONG-TERM DEBT	8,608,851		8,608,851	51
52	OTHER	152,729		152,729	52
53	AFDUC	(227,824)		(227,824)	53
54	TOTAL INTEREST EXPENSE	8,962,895	-	8,962,895	54
55					55
56					56
57	**NET INCOME (LOSS)**	12,694,313	(267,223)	12,427,090	57
58					58
59	PREFERRED DIVIDENDS	455,073		455,073	59
60					60
61	**NET INC (LOSS) APPL TO CMN STK**	$ 12,239,240	$ (267,223)	$ 11,972,017	61

NEW ENGLAND GAS COMPANY
FEDERAL INCOME TAX CALCULATION
FOR THE TWELVE MONTHS ENDED JUNE 2004

		AS FILED	ADJUSTMENTS	ADJUSTED	
1	OPERATING REVENUES	381,468,068	162,310	381,630,378	1
2					2
3	LESS :				3
4					4
5	OPERATING EXPENSES	312,303,117	573,422	312,876,539	5
6	DEPRECIATION & AMORT.	19,729,957	0	19,729,957	6
7	LOCAL AND OTHER TAXES	10,353,857	0	10,353,857	7
8	REVENUE RELATED TAXES (GET)	10,588,530	0	10,588,530	8
9	SHORT-TERM DEBT	429,140	0	429,140	9
10	LONG-TERM DEBT	8,608,851	0	8,608,851	10
11	OTHER	152,729	0	152,729	11
12	AFDUC	(227,824)	0	(227,824)	12
13					13
14	TOTAL DEDUCTIONS	361,938,356	573,422	362,511,778	14
15					15
16	TAXABLE INCOME	19,529,712	(411,112)	19,118,600	16
17					17
18	FEDERAL INCOME TAX RATE @35%	35%	35%	35%	18
19					19
20	FEDERAL INCOME TAX EXPENSE	6,835,399	(143,889)	6,691,510	20

NEW ENGLAND GAS COMPANY
APPLICABLE CAPITOL STRUCTURE, INTEREST EXP & PREFERRED DIVIDEND
JUNE 2004

	%	AS FILED $	ADJUSTMENTS	ADJUSTED
RATE BASE		241,200,361	0	241,200,361
CAPITAL STRUCTURE				
SHORT TERM DEBT	8.8%	21,225,632		21,225,632
LONG TERM DEBT	45.7%	110,228,565		110,228,565
PREFERRED STOCK	1.9%	4,582,807		4,582,807
COMMON EQUITY	43.6%	105,163,357		105,163,357
	100.0%	241,200,361	0	241,200,361
INTEREST EXPENSE				
LONG TERM DEBT PORTION	45.7%	110,228,565	0	110,228,565
COST OF LONG TERM DEBT JUNE 2004		7.81%	7.81%	7.81%
PROFORMA INTEREST FOR THE 12 MONTHS ENDED JUNE 2004		8,608,851	0	8,608,851
SHORT TERM DEBT PORTION	8.8%	21,225,632	0	21,225,632
COST OF SHORT TERM DEBT JUNE 2004		2.0218%	2.0218%	2.0218%
PROFORMA INTEREST FOR THE 12 MONTHS ENDED JUNE 2004		429,140	0	429,140
PREFERRED STOCK				
PREFERRED STOCK PORTION	1.9%	4,582,807	0	4,582,807
COST OF PREFERRED STOCK JUNE 2004		9.93%	9.93%	9.93%
PROFORMA PREFERRED STK FOR 12 MONTHS ENDED JUNE 2004		455,073	0	455,073

NEW ENGLAND GAS COMPANY
RATE BASE
FIVE QUARTER AVERAGE JUNE 2004

		JUNE 2003	SEPTEMBER 2003	DECEMBER 2003	MARCH 2003	JUNE 2004	AVERAGE JUNE 2004	
1	GAS PLANT IN SERVICE	$ 475,656,701	$ 478,266,045	$ 485,555,429	$ 488,793,092	$ 489,759,235	$ 483,606,100	1
2	ACCUMULATED DEPRECIATION	201,677,093	206,533,050	210,691,348	215,602,469	217,836,008	210,467,994	2
3	LESS : ENVIRONMENTAL EXPENDITURES	10,832,263	10,455,049	10,838,383	10,550,849	10,490,624	10,633,434	3
4								4
5	NET PLANT	263,147,345	261,277,946	264,025,698	262,639,774	261,432,603	262,504,673	5
6								6
7	MATERIALS AND SUPPLIES	1,437,970	1,820,987	1,819,801	1,683,815	1,854,664	1,723,447	7
8	PREPAID EXPENSES EXCLUDING TAXES	1,572,404	1,408,507	945,029	820,800	387,548	1,026,858	8
9	DEFERRED DEBITS	2,820,000	2,760,000	2,700,000	2,640,000	2,580,000	2,700,000	9
10	GAS INVENTORIES	-	-	-	-	-	0	10
11	CASH WORKING CAPITAL	9,536,771	9,536,771	9,536,771	9,536,771	11,106,535	9,850,723	11
12								12
13		15,367,145	15,526,265	15,001,601	14,681,386	15,928,747	15,301,028	13
14								14
15								15
16	ACCUMULATED DEFERRED FIT	30,627,279	30,627,279	30,627,279	30,627,279	33,749,016	31,251,626	16
17	ACCUMULATED DEFERRED ITC	1,848,958	1,797,816	1,746,674	1,695,532	1,644,390	1,746,674	17
18	CUSTOMER DEPOSITS	2,681,730	2,707,507	2,824,042	2,856,226	2,804,951	2,774,891	18
19	INJURY AND DAMAGE RESERVE	659,824	779,888	632,410	1,074,215	1,014,410	832,149	19
20								20
21		35,817,791	35,912,490	35,830,405	36,253,252	39,212,767	36,605,341	21
22								22
23								23
24								24
25	***RATE BASE***	$ 242,696,699	$ 240,891,721	$ 243,196,894	$ 241,067,908	$ 238,148,583	$ 241,200,361	25

NEW ENGLAND GAS COMPANY
CASH WORKING CAPITAL CALCULATION
FOR THE TWELVE MONTHS ENDED

		JUNE 2003	JUNE 2004	
1	GAS COSTS	194,099,908	230,049,936	1
2	OPERATING EXP LESS CORPORATE OH'S	65,628,827	76,197,766	2
3	PAYROLL TAXES	2,815,328	3,082,628	3
4	PROPERTY TAXES	6,463,011	7,334,067	4
5	STATE TAXES OTHER	449,334	(62,838)	5
6	RI GROSS EARNINGS TAX	10,746,928	10,588,530	6
7	FEDERAL TAXES			7
8	TOTAL	280,946,026	327,190,089	8
9				9
10	DAILY CASH REQUIREMENT	769,715	896,411	10
11				11
12	NET LAG	12.39	12.39	12
13				13
14	TOTAL WORKING CAPITAL	9,536,771	11,106,535	14