

June 9, 2006



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

RE: Docket No. 3690, FY05 Earnings Sharing Mechanism
("ESM")Adjustments

Dear Ms. Massaro:

Enclosed for filing and for Commission review, please find the New England Gas Company's ("NEGC" or "Company") calculation of FY05 ESM adjustments to be carried over to the Company's next Distribution Adjustment Charge ("DAC") filing. Consistent with the minutes of the Commission's May 11, 2006 Open Meeting, the attached schedules show the earnings sharing calculation reflected in the interim DAC that became effective November 1, 2005, adjustments agreed to by the Division and the Company, and further adjustments ordered by the Commission. The net difference after reflecting all the adjustments is an increase in earnings of \$310,942 that will be incorporated in the Company's next DAC filing.

Thank you for your attention to this filing. Should you have any questions please feel free to contact me at 401.574.2212.

Sincerely,

A handwritten signature in cursive script that reads "Kevin F. Penders".

Kevin F. Penders, Esq.
Manager, Regulatory Relations

Enclosure

Cc: Luly Massaro, Commission Clerk (nine copies)
Service List, Docket No. 3690

NEW ENGLAND GAS COMPANY
EARNINGS SHARING CALCULATION
FOR THE TWELVE MONTHS ENDED JUNE 2005

	ORIGINAL AS FILED 12 MONTHS ENDED JUNE 2005	FINAL COMPANY RJR-5 SUPPLEMENTAL ADJUSTMENTS	FINAL COMPANY ADJUSTED 12 MONTHS ENDED JUNE 2005	FINAL COMMISSION ADJUSTMENTS	FINAL COMMISSION ENDED JUNE 2005
1 Average Rate Base	243,396,731	1,022,482	244,419,213	0	244,419,213
2 Equity Component of Rate Base	43.60%	43.60%	43.60%	43.60%	43.60%
3 Average Common Equity	106,120,975	445,802	106,566,777	0	106,566,777
4					
5 Net Income Available for Common Stock	12,084,574	454,375	12,538,950	0	12,538,950
6 Return on Common Equity	11.39%		11.77%		11.77%
7					
8 Return on Equity > 11.25% and <12.25%	0.14%		0.52%		0.52%
9 Earnings to be Shared	145,965	404,223	550,187	0	550,187
10 Earnings to Customers - 50%	72,982	202,111	275,094	0	275,094
11					
12 Return on Equity >12.25 %	0.00%		0.00%		0.00%
13 Earnings to be Shared	0	0	0	0	0
14 Earnings to Customers - 75%	0	0	0	0	0
15					
16 Total After tax Earnings Credited to Customers	72,982	202,111	275,094	0	275,094
17					
18 FY 05 Total Earnings Credited to DAC	112,280	310,940	423,222	0	423,222

NEW ENGLAND GAS COMPANY
INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED JUNE 2005

	ORIGINAL AS FILED 12 MONTHS ENDED JUNE 2005	FINAL RJR-5 COMPANY SUPPLEMENTAL ADJUSTMENTS	COMPANY ADJUSTED 12 MONTHS ENDED JUNE 2005	FINAL COMMISSION ADJUSTMENTS	FINAL COMMISSION 12 MONTHS ENDED JUNE 2005
1 OPERATING REVENUES					
2					
3 TOTAL FIRM GAS	\$ 402,292,065		\$ 402,292,065		\$ 402,292,065
4 TRANSPORTATION	11,844,288		11,844,288		11,844,288
5 OTHER	2,015,180		2,015,180		2,015,180
6 COMPANY PORTION NON-FIRM MARGIN	(372,499)		(372,499)		(372,499)
7					
8 TOTAL OPERATING REVENUES	415,779,034	-	415,779,034	-	415,779,034
9					
10 ADJUSTMENTS TO OPERATING REVENUES					
11 ESM FY '04	(254,935)		(254,935)		(254,935)
12 UNBILLED REVENUES	(2,495,940)		(2,495,940)		(2,495,940)
13 INVENTORY FINANCING	(2,411,480)		(2,411,480)		(2,411,480)
14 TOTAL ADJUSTED OPERATING REVENUES	410,616,679	-	410,616,679	-	410,616,679
15					
16					
17 OPERATING EXPENSES					
18					
19 PRODUCTION (GAS COSTS)	263,537,485		263,537,485		263,537,485
20 STORAGE	913,746		913,746		913,746
21 DISTRIBUTION	19,263,662		19,263,662		19,263,662
22 CUSTOMER ACCOUNTS	17,932,127		17,932,127		17,932,127
23 SALES	364,644		364,644		364,644
24 ADMINISTRATIVE & GENERAL	35,321,211	(606,319)	34,714,892		34,714,892
25 CORPORATE ALLOCATION	2,323,465	(135,000)	2,188,465		2,188,465
26 INCENTIVE RELATED TO EARNINGS	(455,803)		(455,803)		(455,803)
27 TOTAL OPERATING EXPENSES	339,200,537	(741,319)	338,459,218	-	338,459,218
28					
29 ADJUSTMENTS TO OPERATING EXPENSES					
30					
31 UNBILLED GAS COSTS	(2,196,345)		(2,196,345)		(2,196,345)
32 SAVINGS IMPUTED IN BASE RATES	2,049,000		2,049,000		2,049,000
33					
34 TOTAL FUNCTIONAL EXP	339,053,192	(741,319)	338,311,873	-	338,311,873
35					
36 OTHER EXPENSES					
37					
38 DEPRECIATION & AMORT.	20,753,469		20,753,469		20,753,469
39 LOCAL AND OTHER TAXES	10,930,183		10,930,183		10,930,183
40 REVENUE RELATED TAXES (GET)	11,312,889		11,312,889		11,312,889
41 FEDERAL INCOME TAXES @ 35%	6,754,350	245,702	7,000,052	0	7,000,052
42					
43 TOTAL OTHER EXPENSES	49,750,891	245,702	49,996,593	-	49,996,593
44					
45 INCOME BEFORE INT EXP	21,812,596	495,617	22,308,213	-	22,308,213
46					
47					
48 INTEREST EXPENSE					
49					
50 SHORT-TERM DEBT	670,807	2,818	673,625	-	673,625
51 LONG-TERM DEBT	8,687,243	36,494	8,723,737	-	8,723,737
52 OTHER	117,536		117,536		117,536
53 AFDUC	(206,781)		(206,781)		(206,781)
54 TOTAL INTEREST EXPENSE	9,268,805	39,312	9,308,117	-	9,308,117
55					
56					
57 NET INCOME (LOSS)	12,543,791	456,304	13,000,096	-	13,000,096
58					
59 PREFERRED DIVIDENDS	459,217	1,929	461,146	-	461,146
60					
61 NET INC (LOSS) APPL TO CMN STK	\$ 12,084,574	\$ 454,375	\$ 12,538,950	\$ -	\$ 12,538,950

NEW ENGLAND GAS COMPANY
 INCOME STATEMENT RECONCILIATION
 FINAL FISCAL 2005 ESM CALCULATION

INCOME STATEMENT LINE NUMBER	REFERENCE	FINAL COMMISSION AMOUNT VS. ORIGINAL COMPANY RJR-1
1 OPERATING EXPENSES:		
2		
3	SCHEDULE DJE-2S PAGE 2 FOOTNOTE 1	(223,319)
4	SCHEDULE DJE-2S PAGE 2 FOOTNOTE 2	(383,000)
5	SCHEDULE DJE-2S PAGE 2 FOOTNOTE 3	(135,000)
6		<u>(741,319)</u>
7		
8 INTEREST EXPENSE:		
9		
10	SCHEDULE DJE-2S PAGE 1 FOOTNOTE 3	2,818
11	SCHEDULE DJE-2S PAGE 1 FOOTNOTE 3	36,494
12		<u>39,312</u>
13		
14		
15	SCHEDULE DJE-2S PAGE 1 FOOTNOTE 3	<u>1,929</u>

NEW ENGLAND GAS COMPANY
 FEDERAL INCOME TAX CALCULATION
 FOR THE TWELVE MONTHS ENDED JUNE 2005

	ORIGINAL AS FILED 12 MONTHS ENDED JUNE 2005	FINAL RJR-5 COMPANY SUPPLEMENTAL ADJUSTMENTS	COMPANY ADJUSTED 12 MONTHS ENDED JUNE 2005	FINAL COMMISSION ADJUSTMENTS	FINAL COMMISSION 12 MONTHS ENDED JUNE 2005
1 OPERATING REVENUES	410,616,679	0	410,616,679	0	410,616,679
2					
3 LESS :					
4					
5 OPERATING EXPENSES	339,053,192	(741,319)	338,311,873	0	338,311,873
6 DEPRECIATION & AMORT.	20,753,469		20,753,469	0	20,753,469
7 LOCAL AND OTHER TAXES	10,930,183		10,930,183		10,930,183
8 REVENUE RELATED TAXES (GET)	11,312,889		11,312,889		11,312,889
9 SHORT-TERM DEBT	670,807	2,818	673,625	0	673,625
10 LONG-TERM DEBT	8,687,243	36,494	8,723,737	0	8,723,737
11 OTHER	117,536	0	117,536	0	117,536
12 AFDUC	(206,781)		(206,781)		(206,781)
13					
14 TOTAL DEDUCTIONS	391,318,538	(702,007)	390,616,531	0	390,616,531
15					
16 TAXABLE INCOME	19,298,141	702,007	20,000,148	0	20,000,148
17					
18 FEDERAL INCOME TAX RATE @35%	35%	35%	35%	35%	35%
19					
20 FEDERAL INCOME TAX EXPENSE	6,754,349	245,702	7,000,052	0	7,000,052

NEW ENGLAND GAS COMPANY
APPLICABLE CAPITOL STRUCTURE, INTEREST EXP & PREFERRED DIVIDEND
JUNE 2005

	ORIGINAL AS FILED 12 MONTHS ENDED JUNE 2005	FINAL RJR-5 COMPANY SUPPLEMENTAL ADJUSTMENTS	COMPANY ADJUSTED 12 MONTHS ENDED JUNE 2005	FINAL COMMISSION 12 MONTHS ENDED JUNE 2005
1 RATE BASE	243,396,731	1,022,482	244,419,213	244,419,213
2				
3				
4				
5 SHORT TERM DEBT	21,418,912	89,978	21,508,891	21,508,891
6 LONG TERM DEBT	111,232,306	467,274	111,699,580	111,699,580
7 PREFERRED STOCK	4,624,538	19,427	4,643,965	4,643,965
8 COMMON EQUITY	106,120,975	445,802	106,566,777	106,566,777
9	243,396,731	1,022,482	244,419,213	244,419,213
10				
11				
12				
13 LONG TERM DEBT PORTION	111,232,306	467,274	111,699,580	111,699,580
14				
15 COST OF LONG TERM DEBT JUNE 2005	7.81%	7.81%	7.81%	7.81%
16				
17 PROFORMA INTEREST FOR 12 MONTHS ENDED JUNE 2005	8,687,243	36,494	8,723,737	8,723,737
18				
19				
20				
21 SHORT TERM DEBT PORTION	21,418,912	89,978	21,508,891	21,508,891
22				
23 COST OF SHORT TERM DEBT JUNE 2005	3.1318%	3.1318%	3.1318%	3.1318%
24				
25 PROFORMA INTEREST FOR 12 MONTHS ENDED JUNE 2005	670,807	2,818	673,625	673,625
26				
27				
28				
29				
30 PREFERRED STOCK PORTION	4,624,538	19,427	4,643,965	4,643,965
31				
32 COST OF LONG TERM DEBT JUNE 2005	9.93%	9.93%	9.93%	9.93%
33				
34 PROFORMA INTEREST FOR 12 MONTHS ENDED JUNE 2005	459,217	1,929	461,146	461,146

CAPITAL STRUCTURE

INTEREST EXPENSE

PREFERRED STOCK

NEW ENGLAND GAS COMPANY
RATE BASE
ADJUSTED FIVE QUARTER AVERAGE JUNE 2005

	ORIGINAL AS FILED 12 MONTHS ENDED JUNE 2005	FINAL RJR-5 COMPANY SUPPLEMENTAL ADJUSTMENTS	EFFRON ADJUSTED 12 MONTHS ENDED JUNE 2005	FINAL COMMISSION ADJUSTMENTS	COMPANY ADJUSTED 12 MONTHS ENDED JUNE 2005
1 GAS PLANT IN SERVICE	\$ 501,151,812		\$ 501,151,812		\$ 501,151,812
2 LESS : ACCUMULATED DEPRECIATION	227,443,339		227,443,339		227,443,339
3 LESS : CONTRIBUTION IN AID OF CONSTR	1,162,102		1,162,102		1,162,102
4 LESS : ENVIRONMENTAL EXPENDITURES	5,314,571	(1,100,933)	4,213,638		4,213,638
5					
6 NET PLANT	<u>267,231,800</u>	<u>1,100,933</u>	<u>268,332,733</u>	<u>0</u>	<u>268,332,733</u>
7					
8 MATERIALS AND SUPPLIES	2,104,940		2,104,940		2,104,940
9 PREPAID EXPENSES EXCLUDING TAXES	479,930		479,930	0	479,930
10 DEFERRED DEBITS	2,460,000		2,460,000		2,460,000
11 GAS INVENTORIES	0		0		0
12 CASH WORKING CAPITAL	<u>12,190,407</u>	<u>(20,582)</u>	<u>12,169,825</u>		<u>12,169,825</u>
13					
14	<u>17,235,277</u>	<u>(20,582)</u>	<u>17,214,695</u>	<u>0</u>	<u>17,214,695</u>
15					
16	35,218,088		35,218,088		35,218,088
17 ACCUMULATED DEFERRED FIT	35,160,219	57,869	35,218,088		35,218,088
18 ACCUMULATED DEFERRED ITC	1,542,106		1,542,106		1,542,106
19 CUSTOMER DEPOSITS	2,868,991		2,868,991		2,868,991
20 INJURY AND DAMAGE RESERVE	<u>1,499,029</u>		<u>1,499,029</u>		<u>1,499,029</u>
21					
22	<u>41,070,345</u>	<u>57,869</u>	<u>41,128,214</u>	<u>-</u>	<u>41,128,214</u>
23					
24					
25					
26 RATE BASE	<u>\$ 243,396,731</u>	<u>\$ 1,022,482</u>	<u>\$ 244,419,213</u>	<u>\$ -</u>	<u>\$ 244,419,213</u>