

August 1, 2006

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

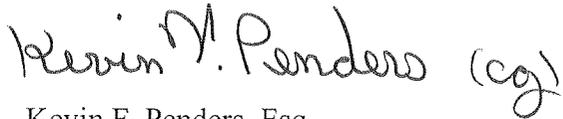
RE: Docket No. 3690, Annual Environmental Report

Dear Ms. Massaro:

Enclosed for filing and for Commission review, please find the New England Gas Company's ("NEGC" or "Company") Annual Environmental Report ("Report") in the above captioned docket. This Report represents the nature of and reasons for environmental costs actually incurred and amounts received as credits against the Company's recorded environmental costs during fiscal year 2006. This report is a supplement to the Interim Environmental Report filed under cover letter dated February 15, 2006 in this Docket.

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

Sincerely,

 (cg)

Kevin F. Penders, Esq.
Manager, Regulatory Relations

Enclosure

cc: Luly Massaro, Commission Clerk (nine copies)
Derek Tomka, New England Gas Company
David J. Efron
Bruce Oliver

ANNUAL ENVIRONMENTAL REPORT
FY2006

642 Allens Avenue, Providence, Rhode Island

This site is the former Sassafras Point Manufactured Gas Plant, which operated from 1910 until 1953. The site abuts the Providence River in a heavily industrialized area and is currently the location of the Company's central gas supply facility. The Phase 1 remediation project (addressing 4.5 acres) was completed in October 2002 and a Closure Report was filed with the Rhode Island Department of Environmental Management ("RIDEM") in December 2002. A Site Investigation Report ("SIR") addressing the remaining 37.5 acres of the site was submitted to RIDEM in April 2003. To date, the Company has not received a response from RIDEM regarding the Closure Report or the SIR. Remediation of the remaining 37.5 acres of the site (known as the "Phase 2" remediation project) is not scheduled at this time. Until NEGC receives a closure letter from RIDEM for Phase 1 remedial activities and approval of the April 2003 SIR, it is unclear what, if any, additional investigation or remediation will be necessary. In the meantime, the Company continues to maintain a containment boom in the Providence River, conduct groundwater monitoring at the site, and address MGP soil removal actions when necessary.

Project 907

This project is associated with the investigation and potential remediation of the remaining 37.5 acres.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
907	642 Allens Ave Phase II	\$ 1,435,531	\$ 1,473,941	\$ 38,410
Sub-Total		\$ 1,435,531	\$ 1,473,941	\$ 38,410

Project 908

The project is associated with the initial site investigation activities of the former manufactured gas plant.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
908	642 Allens Ave Phase I Char	\$ 3,345,791	\$ 3,340,361	\$ (5,430)
Sub-Total		\$ 3,345,791	\$ 3,340,361	\$ (5,430)

Project 908-01

This project is associated with the remediation of the original 4.2 acres of the former manufactured gas plant.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
908 - 01	642 Allens Ave Remediation	\$ 13,776,131	\$ 13,776,445	\$ 315
Sub-Total		\$ 13,776,131	\$ 13,776,445	\$ 315

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170 Allens Avenue, Providence, Rhode Island

Citizens Gas Light began manufactured gas plant operations at this site circa 1875. After Providence Gas acquired the plant in 1877, it was known as the South Station Plant. This former MGP operated until 1916. Subsequent to its use as a gas plant, this site was operated for over eighty years as a bulk fuel oil storage yard by a succession of companies including Cargill, Inc. ("Cargill"). In November 1998, Providence Gas received a letter of responsibility from RIDEM relating to possible contamination. Cargill has also received a letter of responsibility from RIDEM for the site. An investigation was initiated to determine the extent of contamination, as well as the extent of the Company's responsibility. Providence Gas entered into a cost-sharing agreement with Cargill, under which Providence Gas is responsible for approximately twenty percent (20%) of the investigation costs. Until RIDEM provides its final response to the investigation, and the Company knows its ultimate responsibility relative to other potentially responsible parties with respect to the site, the Company cannot offer any conclusions as to its ultimate financial responsibility with respect to the site. Costs incurred during this period relate to consultant's fees associated with researching the status of the project.

		Bal @		Bal @		Jul 1-June 30
I. Environmental Expenses		6/30/2005		6/30/2006		Activity
379	170 Allens Ave.	\$ 493,991		\$ 494,423		\$ 432
	Sub-Total	\$ 493,991		\$ 494,423		\$ 432

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Valley Resources Sites in Rhode Island

Valley Gas Company (acquired in September 2000 by the Company) is a party to an action in which Blackstone Valley Electric Company (“Blackstone”) brought suit for contribution to its cleanup expenses of a site on Mendon Road in Attleboro, Massachusetts, to which coal gas manufacturing waste was allegedly transported from a former MGP site in Pawtucket, Rhode Island (Blackstone Litigation): Blackstone Valley Electric Company v. Stone & Webster, Inc., Stone & Webster Engineering Corporation, Stone & Webster Management Consultants, Inc. and Valley Gas Company, C. A. No. 94-10178JLT, United States District Court, District of Massachusetts. The Company takes the position in that litigation that it is indemnified for any cleanup expenses by Blackstone pursuant to a 1961 agreement signed at the time of Valley Gas Company’s creation. This suit was stayed in 1995 pending the issuance of rulemaking at the United States Environmental Protection Agency (“EPA”) (Commonwealth of Massachusetts v. Blackstone Valley Electric Company, 67 F.3d 981 (1995)). The requested rulemaking concerned the question of whether or not ferric ferrocyanide (“FFC”) is among the “cyanides” listed as toxic substances under the Clean Water Act and, therefore, is a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act. On October 6, 2003, the EPA issued a Final Administrative Determination declaring that FFC is one of the “cyanides” under the environmental statutes. While the Blackstone Litigation was stayed, Valley Gas Company and Blackstone (merged in May 2000 with Narragansett Electric Company – now National Grid) received letters of responsibility from RIDEM with respect to releases from two MGP sites in Rhode Island, the Tidewater MGP in Pawtucket, Rhode Island (September 1995), and the Hamlet Avenue MGP in Woonsocket, Rhode Island (February 1997). Valley Gas Company entered into an agreement with Blackstone (now National Grid) in which Valley Gas Company and Blackstone agreed to share equally the expenses for the costs associated with the Tidewater site subject to reallocation upon final determination of the legal issues that exist between the companies. No such agreement has been reached with respect to the Hamlet site. By letter dated December 9, 2005, Narragansett Electric Company/National Grid notified the Company of a potential settlement of the Mendon Road cost allocation with the Commonwealth of Massachusetts that would reduce the amount in dispute to a sum certain for the purposes of negotiation or litigation.

While the Blackstone Litigation was stayed, National Grid and the Company jointly pursued claims against the bankrupt Stone & Webster entities (Stone & Webster) based upon Stone & Webster’s historic management of MGP facilities on behalf of the alleged predecessors of both companies. On January 9, 2004, the U.S. Bankruptcy Court for the District of Delaware issued an order approving a settlement between National Grid, the Company and Stone & Webster that provided for the payment of \$3,750,000 to the Company and National Grid jointly for future environmental costs at the Tidewater and Hamlet sites out of the bankruptcy estates. The settlement further provides an admission of liability by Stone & Webster that gives National Grid and the Company additional rights against historic Stone & Webster insurers.

Settlement discussions have been ongoing intermittently since 2003 between National Grid and the Company, however no settlement has yet been reached.

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Project 781

This project is associated with the Mendon Road remediation following discovery of manufactured gas plant wastes at this location.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
781	Mendon Rd, Cumberland	\$ 121,355	\$ 121,355	\$ -
Sub-Total		\$ 121,355	\$ 121,355	\$ -

Project 782

This project is associated with the site investigation activities at the former manufactured gas plant at this location.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
782	Tidewater St, Pawtucket	\$ 324,530	\$ 364,210	\$ 39,679
Sub-Total		\$ 324,530	\$ 364,210	\$ 39,679

Project 783

This project is associated with site investigation activities at the former manufactured gas plant at this location.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
783	Clean-up, Hamlet Ave, Woonsocket	\$ 96,961	\$ 104,928	\$ 7,967
Sub-Total		\$ 96,961	\$ 104,928	\$ 7,967

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PCB Regulated Pipe Abandonment, Rhode Island

In 1998, EPA enacted a major change to regulations 40 CFR Parts 750 and 761 governing polychlorinated biphenyls ("PCBs"). These new regulations are commonly referred to as the "MegaRule." Among other matters, the MegaRule addresses the testing, characterization, and disposal of PCB-contaminated pipe in natural gas distribution systems. This project tracks costs associated with the analytical testing of condensate and wipe test samples and disposal of PCB-contaminated condensate, drip water, and pipe.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
307	PCB Reg - Pipe Abandonment	\$ 73,581	\$ 122,831	\$ 49,249
	Sub-Total	\$ 73,581	\$ 122,831	\$ 49,249

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18 and 21 Holders at 642 Allens Avenue, Providence, Rhode Island

This project tracks environmental costs associated with the proposed decommissioning of the No. 18 and No. 21 former gas holders at this former MGP. The superstructures of the holders have been dismantled, however the holders currently contain collected precipitation. A discharge permit was secured from the Narragansett Bay Commission and discharge of the collected precipitation commenced in January 2006. Costs reported during this period relate to the discharge permit fee and costs associated with the analytical testing prescribed by the discharge permit.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
700	18 & 21 Holders Allens Av	\$ 59,791	\$ 79,972	\$ 20,181
	Sub-Total	\$ 59,791	\$ 79,972	\$ 20,181

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18 Canal Street, Westerly, Rhode Island

On December 9, 1996, approximately half an ounce of mercury was released to the site soils and RIDEM was notified. Remediation contractors conducted various remedial activities at the site to address the release including the shipment of approximately 14 cubic yards of contaminated soil offsite for disposal. In a February 10, 1999 letter, RIDEM requested additional information and a response was submitted to RIDEM on December 22, 1999. The Company then submitted a letter to RIDEM on February 7, 2000 requesting No Further Action with regard to the mercury release. RIDEM has not yet responded. No future costs are anticipated with this project.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
161	Mercury Spill Canal St Westerly	\$ 29,133	\$ 29,133	\$ -
	Sub-Total	\$ 29,133	\$ 29,133	\$ -

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18 Canal Street, Westerly, Rhode Island

This property is a former MGP that Narragansett Electric Company (currently National Grid) operated at this location from 1885 to 1953. The Company currently owns this property, however the Company and National Grid are exploring a transaction that would result in the site being transferred back to National Grid. Site investigation activities are continuing at the direction and expense of National Grid.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
144	Soil Invest Canal St Westerly	\$ 82,184	\$ 82,184	\$ -
	Sub-Total	\$ 82,184	\$ 82,184	\$ -

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9 JT Connell Highway, Newport, Rhode Island

This property is the Company's former Newport operations center. Low levels of environmental contamination were discovered during due diligence investigations related to a sale of the property. The Company no longer owns the property. Groundwater contamination necessitated continued groundwater monitoring and reporting.

All remedial actions are now complete and RIDEM issued a Letter of Compliance to the Company on January 13, 2005 indicating no further action is required. The groundwater monitoring wells were closed in July 2005 and no future costs are anticipated.

		Bal @	Bal @	Jul 1-June 30
I. Environmental Expenses		6/30/2005	6/30/2006	Activity
178	Site Inv Connell Hwy Newport	\$ 43,518	\$ 44,092	\$ 575
	Sub-Total	\$ 43,518	\$ 44,092	\$ 575

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Thames & Wellington, Newport, Rhode Island

On June 28, 2006, the Company received a Letter of Responsibility from RIDEM for the property located at this location requesting a site investigation. The Company is currently investigating its relationship to the site. No costs were expended on this project during the reporting period.

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Mercury Seal Regulator Replacement Program, Rhode Island

This project is associated with the Company's current mercury seal regulator ("MSR") replacement program. This program has a proactive goal to remove all known MSRs from the distribution system. Over 9,000 MSRs have been replaced to date. The work is continuing and includes independent real-time vapor screening and follow-up analytical testing at an independent laboratory of all MSR locations prior to, during, and following MSR removal to document that all mercury was properly contained. Actions taking place during this reporting period include removal of 59 MSRs and one remediation associated with those replacements.

		Bal @		Bal @		Jul 1-June 30
I. Environmental Expenses		6/30/2005		6/30/2006		Activity
171	Mercury Reg Replace Programs	\$ 1,255,930		\$ 1,540,573		\$ 284,643
	Sub-Total	\$ 1,255,930		\$ 1,540,573		\$ 284,643