

IN RE: THE PROVIDENCE GAS COMPANY and)	Docket No. 1673
THE VALLEY GAS COMPANY /)	
BRISTOL & WARREN GAS COMPANY)	Docket No. 1736
Deferred Gas Cost Interest Rate)	

SETTLEMENT AGREEMENT

The Providence Gas Company ("ProvGas") and Valley Gas Company/Bristol & Warren Gas Company ("Valley Gas") (operating divisions of Southern Union Company, together the "Companies") and the Division of Public Utilities and Carriers (the "Division"), (together, the "Settling Parties") have reached agreement on a change to the interest rate applied to the deferred gas cost account in the ProvGas Gas Charge Clause ("GCC") and the Valley Gas Purchased Gas Price Adjustment ("PGPA") tariffs. The Settling Parties recognize that the negotiated changes to the Companies' tariffs affect certain provisions of ProvGas' Price Stabilization Plan ("PSP"). The Settling Parties have developed a mechanism to address the affected provisions, as described herein. The Settling Parties seek approval of this Agreement by the Rhode Island Public Utilities Commission (the "Commission").

I. INTRODUCTION:

The Companies' current GCC and PGPA tariffs recognize carrying costs associated with deferred gas cost balances and provide for the calculation of such costs on the basis of the published Fleet prime interest rate. The carrying cost mechanism works in two ways: customers receive interest payments when the accumulated gas revenues billed to customers

exceed gas costs incurred by the Companies (i.e., overrecovery); and the Companies receive interest payments when the accumulated gas costs incurred by the Companies exceed the gas revenues billed (i.e., underrecovery). During the Companies' most recent GCC and PGPA filings, the Division proposed changing the use of the Fleet prime rate to the Companies' short-term borrowing rate. The Companies disputed the Division's proposal.

The proposed change was the subject of a hearing before the Commission on Tuesday, January 23, 2001. During the hearing, the Companies described the effects of the Division's proposal on the Companies' proposed Gas Price Mitigation Plan and the ProvGas Price Stabilization Plan. At the conclusion of the hearing, the Settling Parties agreed to conduct negotiations to attempt to reach a settlement of the issues. The present Agreement represents the outcome of such negotiations.

II. TERMS OF SETTLEMENT:

A. Tariff Change:

The Companies' GCC and PGPA tariffs will be modified to change the use of the Fleet prime interest rate in the deferred gas cost calculation to Fleet Prime less 200 basis points (2%). Such change shall be effective March 1, 2001. Revised GCC and PGPA tariffs are attached to Agreement as Attachment 1 and Attachment 2, respectively.

B. ProvGas Price Stabilization Plan

The calculation of Return on Equity in the earnings report filed with the Commission by ProvGas pursuant to the Price Stabilization Plan shall be modified to reflect the use of short-term debt to fund Deferred Gas Costs. Specifically, the short-term debt portion of the

capital structure shall be adjusted to exclude that portion of average short-term debt balance associated with the average deferred gas cost balance. The adjusted capital structure will be used for calculation of common equity applicable to rate base and return on common equity.

III. EFFECT OF SETTLEMENT AGREEMENT

This Agreement is the result of a negotiated settlement among the Settling Parties. The discussions which have produced this Settlement have been conducted on the explicit understanding that all offers of settlement and discussions relating hereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings involving any one or more of the parties to this Settlement or otherwise. The Agreement by a party to the terms of this Agreement shall not be construed as an agreement as to any matter of fact or law for any other purpose. In the event that the Commission (i) rejects this Agreement, (ii) fails to accept this Agreement as filed, or (iii) accepts this Agreement subject to conditions unacceptable to any party hereto, then this Agreement shall be deemed withdrawn and shall be null and void in all respects.

IN WITNESS WHEREOF, the parties agree that this Agreement is reasonable and have caused this document to be executed by their respective representatives, each being fully authorized to do so. Dated at Providence this 9th day of February 2001.

Respectfully submitted,

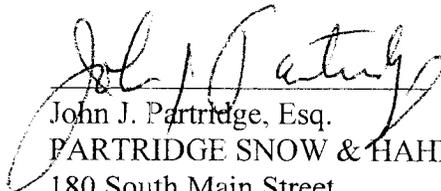
**DIVISION OF PUBLIC
UTILITIES AND CARRIERS**
By its Attorneys.

**PROVIDENCE GAS COMPANY
VALLEY GAS COMPANY /
BRISTOL & WARREN GAS COMPANY**

By its Attorneys,



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Docket No. 1673 & 1736

Interest Rate Settlement Agreement

Attachment 1

ProvGas Tariff
Redlined and Clean

THE PROVIDENCE GAS COMPANY

RIPUC PGC No. 100

Section 2
Gas Charge
Schedule A, Sheet 20
~~Sixth~~ Seventh Revision

GAS CHARGE CLAUSE

**8.0 DEFERRED GAS
COST ACCOUNT:**

The Company shall maintain three (3) separate Deferred Cost Accounts: (1) Supply Fixed and Variable Costs and revenues, (2) Storage Costs and revenues, and (3) Firm Throughput Costs and revenues. Entries shall be made to each of these accounts at the end of each month as follows:

8.1

An amount equal to the allowable costs incurred, less:

1. Gas Revenues collected adjusted for the RIGET and uncollectible % approved in the most recent rate case proceeding;
2. Credits to costs

~~8.2~~

~~An entry equal to 1/12 of the current Fleet prime interest rate less 200 basis points (2%), multiplied by the arithmetic average of the account's beginning-of-the-month balance and the balance after entries 8.1 above.~~

9.0 VARIABLES:

Gas charges described in this tariff will be grossed up for uncollectible gas revenue based on the uncollectible percentage approved in the Company's most recent rate case and the Rhode Island Gross Earnings Tax or any additional revenue taxes as provided for in Section 1, Schedule C

10.0 REFUNDS

**10.1 DURING REFUND
PERIOD**

If the Company receives a cash refund resulting from gas supply overcharges during a historical "refund period," where the ~~historical "refund period" is the most recent 60 month period,~~ and the amount of the refund equals or exceeds 2% of the Company's total gas costs for the prior fiscal year, the amount to be refunded to any firm customer who used gas during the refund period and who is not on the suspended debt file shall be equal to:

The customers billed usage during Refund Period X

THE PROVIDENCE GAS COMPANY

RIPUC PGC No. 100

Section 2
Gas Charge
Schedule A, Sheet 20
Seventh Revision

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Docket No. 1673 & 1736
Interest Rate Settlement Agreement

Attachment 2

Valley Gas Tariff
Redlined and Clean

VALLEY GAS COMPANY
PURCHASED GAS PRICE ADJUSTMENT

R. I. PUC No. 100 revised
~~Canceling R.I. PUC No. 87~~
Effective 9/15/90~~3/1/01~~
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XII. Deferred Gas Cost Account

The Company shall maintain a Deferred Gas Cost Account.
Entries shall be made to this account at the end of each month as follows:

- a) An amount equal to the volume of firm sendout, less
 - 1) An amount equal to the volume of firm sendout multiplied by \$3.60; and
 - 2) An amount equal to the volume of firm sales, less dual fuel and contract firm sales, multiplied by the PGPA and by the multiplicative inverse of 1.031.
 - 3) An amount equal to the Contribution from Dual-Fuel Sales.
- b) A negative entry equal to 100% of the net margin on Interruptible sales.
- c) An entry equal to 1/12 of the current prime interest rate less 200 basis points (2%), times the arithmetic average of the account's beginning-of-the-month balance and the balance after entry a) and b) above.

XIII. Variables

Changes in the R.I. Gross Receipts Tax or the imposition of additional revenue taxes shall immediately be reflected in these calculations.

XIV. Refunds

A. If the Company receives a cash refund resulting from gas supply overcharges during an historical "Refund Period" commencing after March 31, 1978 and the amount of the refund equals or exceeds 2 percent of the Company's prior fiscal years gas costs, the Amount to be Refunded shall be equal to the sum A + B, where

A = Amount of Refund resulting from gas purchases made on or after February 1, 1983; and

VALLEY GAS COMPANY
PURCHASED GAS PRICE ADJUSTMENT

R. I. PUC No. 100 revised

Effective 3/1/01
Page 3 of 4

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