New England Division
Southern Union Company
Gas Purchases– Rhode Island
Implementation Plan

1. Benchmark: NYMEX prices as of November 17, 2000 that were used in the development of the currently effective GCC/PGPA rates for ProvGas and Valley.

2. Reports: The Company will provide quarterly reports to the Division to track the progress of the Companies' implementation of this plan and to review appropriateness of benchmarks. The first report will be due on July 20, 2001 for purchases made through the quarter ended June 30, 2001. The reports will include the following:

- Discretionary and non-discretionary purchases completed to date
- Monthly Estimated Purchase Volumes in Dekatherms (Dth)
- Locked Dth's and Prices (by transaction for quarter)
- Dollar Cost Average Price
- Assessment of gas cost deferral balances to date and the expected impacts of those imbalances on (a) gas cost rates after June 30, 2002 and (b) the need for an interim (pre-July 2002) increase in rates.

3. Procurement Standard: Natural gas is to be purchased as specified in the Gas Purchase Plan ("Plan"). All hedging quantities are to be considered as minimums. In the near term the Company, with notification to the Division, may use their discretion to augment the prescribed minimums, in the event that there are material changes from recent price trends.

a. Non-Discretionary Purchase Hedges:

i. Beginning in March 2001, 20% of gas purchases (for firm city gate usage or underground storage injection)[1] for the months April 2001 through September 2001 will be locked based on prevailing NYMEX forward prices in approximately equal portions (dollar-cost averaged) during each of the months immediately preceding the

[1] Excluding propane and LNG purchases, whether in liquid or revaporized form

month of usage or injection.[2]

ii. 30% of gas purchases will be locked in advance for each month beginning October 2001 and continuing through March 2002, beginning in March 2001 and using the methodology described in the preceding paragraph.

iii. For gas intended for usage or injection in April 2002, 40% of gas purchases will be locked, beginning in March and using the methodology described above.

iv. For gas intended for usage or injection as of May 2002, and continuing for the duration of the Plan unless modified, 40% of purchases will be dollar-cost averaged over a 14 month period, with purchases for May 2002 through August 2002 usage or injection beginning in March 2001 and completed by April 2002. For succeeding months, said purchases will be initiated 18 months before the date of usage or injection and completed 4 months prior to that date; the intent being that to the extent possible, actual purchases will be in one-fourteenth monthly increments.[3]

v. Notwithstanding any of the above, even the Non-Discretionary buying program is not a purely automatic program; rather, if in the Company's judgment there is compelling evidence that percentage and/or timing schedules should be altered, they may do so and will inform the Division.

b. Discretionary Purchase Hedges: An additional 10%, 20% or 30% of gas will be purchased as described in the Plan under Discretionary Purchases. The timing of such purchases will be similar to that described for Non-Discretionary Purchases, except that the Company will be allowed more latitude based on their judgment of existing and forecasted

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2 For example, one-sixth of the quantity of gas equaling 20% of all purchases planned for September 2001 will be locked in each of the six preceding months, beginning March 2001.

3 Thus, 1/14th of the September 2002 usage and injection gas will be purchased in each of the months beginning March 2001 and continuing through April 2002. Similarly, October

market conditions. Purchases need not be distributed equally across all of the months; rather the timing of purchase may be shaped so that the Company buys more in one month and less in another month.

c. Cash Market Purchases: The remaining gas purchases (totaling 50%, 40% or 30% depending on hedging volume parameters as established in the Plan) generally will be at market prices at or near the time of usage or injection. At their discretion, however, the Company may decide within the Cash Market segment of their purchases to use call options or collars[4] and thereby exceed the hedged percentages prescribed in the Non-Discretionary and Discretionary portions of the Plan. For example, during periods of rising prices, or if a given month or season appears to be particularly vulnerable to a price spike,[5] it might be appropriate to use call options to limit such exposure while still affording the opportunity to take advantage of lower-than-expected prices and/or react to warmer- than-normal temperatures, particularly where total hedged volumes are within the lower half of the range (50% to 60%).

d. Projected Purchases: Attached are the projected purchases by Providence Gas and Valley under the Gas Buying Program approved February 21, 2001. The forecast of gas purchase requirements for firm customers has been updated to reflect latest estimates of migration to transportation. The attachments are similar to that shown in Attachment 4 of the November 29, 2000 filing Docket No's. 1673 and 1736; but they lay out the purchasing schedule in quantities rather than number of NYMEX contracts. These attachments have been further adjusted to reflect the phased implementation of Non-Discretionary purchases, and purchases in general are completed four months in advance of gas usage or injection as suggested in Mr. LeLash's testimony and approved by the Commission.

2002 gas will begin to be purchased in April 2001, when 1/14th of October's requirements will be locked.

4 Options, whether purchased under the Discretionary or Cash Market aspect of the Plan, may not exceed 30% of purchases for usage or injection in any month.

5 As was the case during this past November and December, when the coldest weather nationally in over 100 years occurred. This situation was exacerbated by low storage balances going into the winter as well as unexpectedly low wellhead production. The result was unprecedented high NYMEX prices for natural gas.