

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

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IN RE:	)	
GAS CHARGE CLAUSE FILING MADE	)	DOCKET NO. 1673
BY PROVIDENCE GAS COMPANY	)	
	)	
PURCHASED GAS PRICE ADJUSTMENT	)	DOCKET NO. 1736
FILING BY VALLEY GAS COMPANY	)	
AND BRISTOL & WARREN GAS	)	
COMPANY	)	
_____	)	

SETTLEMENT AGREEMENT

The New England Division of Southern Union Company, which is comprised of the former Providence Gas Company, Valley Gas Company and Bristol & Warren Gas Company (collectively, the "Companies"), and the Division of Public Utilities and Carriers (the "Division") (together, the "Settling Parties") have reached agreement with respect to an inquiry by the Division and the Rhode Island Public Utilities Commission (the "Commission") into the propriety of gas purchases by the Companies for the winter heating season of 2000-2001. The Division and the Companies hereby jointly seek approval of this Settlement Agreement ("Agreement") by the Commission. The Agreement, in summary: (i) concludes the inquiry recognizing, in part, implementation of a gas purchase program; (ii) allows the Settling Parties to focus on consolidation issues and filings due in coming months; (iii) provides for the implementation of a substantial credit to the Companies' deferred gas cost balances; and (iv) modifies the weather mitigation clause to the benefit of rate payers.

I. PREAMBLE

A. INTRODUCTION

The Agreement is the result of the Settling Parties efforts to address concerns of the Commission and the Division raised during proceedings relating to the extension of the Price Stabilization Plan in Docket No. 2581, and in conjunction with the Companies' filings pursuant to their respective Gas Charge Clauses and Purchased Gas Price Adjustments in the within dockets.

The Settling Parties desire to resolve such issues in a manner reflecting both the good faith of the Companies in their gas purchase programs and the goal of the Division to foster just and reasonable rates. The Agreement achieves these objectives by committing the Companies to a substantial credit to their deferred gas cost balances as well as changes to the weather mitigation clause to the benefit of rate payers.

The Settling Parties agree that the Agreement is in the best interest of consumers, is in accordance with law and regulatory policy, and represents a reasonable means of addressing the concerns expressed by the Commission and the Division. The Settling Parties, in particular, note the Commission's approval of the Companies' sponsored Gas Mitigation Strategy and Gas Purchase Plan which provide guidance for the Commission as to future gas purchases. The Agreement will bring to conclusion the Division's inquiries, satisfy the Division's concerns as to the Companies' gas procurement for the winter season 2000-2001, and permit the Companies to concentrate their efforts on the consolidation of the Companies, the filings required by their respective merger approvals, and other related matters.

B. PROCEDURAL HISTORY

On August 1, 2000, Valley Gas Company and Bristol & Warren Gas Company filed for a rate adjustment based on its Purchased Gas Price Adjustment Clause in Docket No. 1736, and on September 1, 2000, ProvGas filed, in Docket No. 1673, an increase of the Gas Charge Clause factors. (The September 1, 2000 filing was based on an assumption that the Commission would approve the extension of the Price Stabilization Plan.) Each of these filings was based upon the necessity for rate relief due to increased commodity charges.

On September 21, 2000, ProvGas filed an Interim Commodity Purchase Strategy in Docket No. 1673 to mitigate price volatility, pending the development of a comprehensive gas purchase strategy. The proposed interim strategy had been a focus of discussions between ProvGas and the Division.

On September 20, 2000, Valley Gas Company and Bristol & Warren Gas Company became wholly-owned subsidiaries of Southern Union Company and on September 28, 2000, ProvGas also became a wholly-owned subsidiary of Southern Union Company (the "Mergers"). The mergers were completed, in each case, subsequent to approvals granted by the Division. As part of such approvals of the Mergers, the Companies are required to file on July 1, 2001 an outline of a plan that will evaluate consolidating various operational and support activities of the Companies. The Division, the Attorney General, and The Energy Council of Rhode Island will have an opportunity to propose additions or modifications to the Companies for consideration in the final plan, which must be filed by September 1, 2001. The settlement ~~agreements~~ relating to the Division's approvals of the Mergers reflect a commitment by the Companies and Southern Union regarding the impact of the Mergers on rates, quality of service,

and regulatory oversight. A principal component of the approvals is the development of a rate plan that will include a merger-related savings mechanism projected to result from the coordination of operations of the Companies, and a methodology to provide for the sharing of these merger-related savings between rate payers and shareholders. It is anticipated that new consolidated rates will be effective as of July 1, 2002, coinciding with the expiration of the Price Stabilization Plan extension.

On September 29, 2000, the Commission approved the Price Stabilization Plan extension in Docket No. 2581, with some minor modifications, and approved changes in the Gas Charge Clause factors on an interim basis in Docket No. 1673. The Commission also approved changes in the Purchased Gas Price Adjustment clause factors in Docket No. 1736.

On November 29, 2000, the Companies filed a proposal for a Gas Purchase Program designed to mitigate the price impacts that customers would otherwise experience as a result of price volatility in the natural gas commodity market and to provide additional funding for low-income assistance programs. The Gas Purchase Program establishes guidelines designed to provide an indication to the Companies as to the portion of their supplies that should be purchased at market index prices and the portion that should be purchased using certain hedging instruments. As part of the November 29, 2000 filing, the Companies also provided updated Gas Charge Clause and Purchased Gas Price Adjustment factors, proposed to be effective through June 30, 2002. On December 15, 2000, the Commission approved the proposed changes to the factors in the Gas Charge Clause and Purchased Gas Price Adjustment Clause, and indicated that subsequent hearings would be held to address (i) the proposed Gas Purchase Program, (ii) a possible change in the Companies' tariffs with respect to the interest rate utilized in connection

with the calculation of deferred gas costs, and (iii) the propriety of the Companies' gas purchases for the winter season 2000-2001.

On January 22 and 23, 2001, the Commission held hearings addressing the Gas Purchase Program and an amendment, proposed by the Division, to the interest rate to be applied to deferred gas cost balances in the Gas Charge Clause and Purchased Gas Price Adjustment tariffs. On February 9, 2001, the Companies and the Division filed a settlement agreement which reduced the interest rate factor in the respective tariffs. On February 21, 2001, the Commission approved the settlement agreement reducing the interest rate, and also approved the Gas Purchase Program, with certain modifications. The Gas Purchase Program was implemented in April 2001, as noted in the Companies' compliance filing with the Commission on May 30, 2001.

The issues related to the Mergers, particularly the consolidation plan and resulting rate plan, as well as other issues being discussed between the Companies and the Division (such as recovery of deferred gas costs from customers who migrate to transportation services), demand the full attention of the Companies in coming months. The Settling Parties believe that the Agreement will allow both the Companies and the Division to focus their energies on the novel and complex issues associated with the consolidation of the Companies in order to meet the terms of the approvals in coming months.

C. PARTY STATEMENT

This Agreement is based on extensive discovery and negotiations among the ~~Settling Parties concerning all aspects of the Companies' gas purchases for the winter season~~ 2000-2001. The Settling Parties do not necessarily agree on every item in the settlement; however, the Settling Parties agree that the outcome of the Agreement, as a whole, is just and reasonable and provides direct benefits to consumers. The Settling Parties jointly move for its approval by the Commission.

II. TERMS OF SETTLEMENT

1) The Settling Parties agree that the Companies will immediately reduce the Deferred Fuel Account by the credit in the Deferred Revenue Account generated from the winter season 2000-2001 under the weather mitigation provisions in Section 2, Schedule A, Item 11.0 (3) of the ProvGas Gas Charge Clause. Application of the weather mitigation revenues to the Deferred Gas Cost Account shall reduce the Deferred Gas Cost Balance by \$795,600. The calculation of the weather mitigation revenues is shown on Attachment A to the Agreement.

2) The Settling Parties further agree that, for the winter season 2001-2002, the Companies will absorb increased risk for warmer than normal weather by reducing the threshold for weather mitigation under warmer than normal conditions from 4,857 degree days (2% warmer than normal), to 4,807 degree days (3% warmer than normal). The proposed language revising the tariff is shown on Attachment B to the Agreement.

3) The Companies will, subject to the terms of this Agreement, contribute \$500,000 to reduce the Deferred Gas Cost Account balance. At the time the Agreement is approved, such contribution will be allocated between the customers of ProvGas and Valley Gas

Company in proportion to the respective level of their Deferred Gas Cost Accounts. The effect of such contribution will be to reduce deferred gas costs that would otherwise be collected from firm sales service customers of the Companies.

Customers will also benefit from decreased carrying costs applied to a lower

~~Deferred Gas Cost Account Balance as a result of items 1) and 2) above.~~

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### III. EFFECT OF SETTLEMENT AGREEMENT

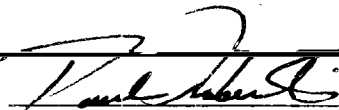
This Agreement is the result of a negotiated settlement among the Settling Parties.

The discussions that have produced this Settlement have been conducted with 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 Settling Parties agree that the Agreement is reasonable and have caused this document to be executed by their respective representatives each being fully authorized to do so this <sup>15<sup>th</sup></sup> day of June, 2001.

DIVISION OF PUBLIC UTILITIES AND  
CARRIERS

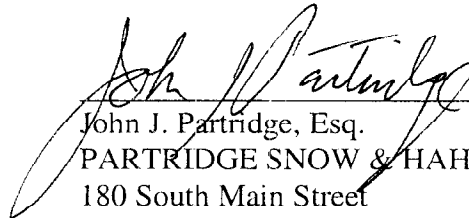
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NEW ENGLAND DIVISION OF SOUTHERN  
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(Providence Gas Company, Valley Gas Company  
and Bristol & Warren Gas Company)

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**Providence Gas Company  
 Weather Mitigation Clause**

**RIPUC PGC No. 100**, Section 2, Gas Charge Clause, Schedule A, 11.0, (3)

The Company shall compare actual heating degree days (“DD”) to normal heating degree days at the end of each peak season (November through April). For each DD greater than 5,055 (2% colder than normal), the Company shall credit the Deferred Revenue Account an amount equal to \$7,800 per DD. For each DD less than 4,857 (2% warmer than normal), the Company shall debit the Deferred Revenue Account at \$7,800 per DD.

**Calculation of Winter Season 2000-2001 Weather Mitigation**

	<u>Actual Heating Degree Days</u>
Nov-00	642
Dec-00	1,115
Jan-01	1,111
Feb-01	922
Mar-01	883
Apr-01	484
TOTAL	5,157
Degree Day Threshold	5,055
Degree Days in Excess of Threshold	102
Mitigation \$ per Degree Day	\$7,800
Weather Mitigation	\$795,600

## **GAS CHARGE CLAUSE**

### **11.0 MODIFICATIONS**

- (3) The Company shall compare actual heating degree days ("DD") to normal heating degree days at the end of each peak season (November through April). For each DD greater than 5,055 (2% colder than normal), the Company shall credit the Deferred Revenue Account an amount equal to \$7,800 per DD. For each DD less than 4,807 (3% warmer than normal), the Company shall debit the Deferred Revenue Account at \$7,800 per DD.