

NEW ENGLAND GAS COMPANY

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

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1.01: Purpose

The Local Distribution Adjustment Clause (“LDAC”) establishes the procedures that allow the New England Gas Company (the “Company”), which is subject to the jurisdiction of the Massachusetts Department of Public Utilities (the “Department”), to adjust on an annual basis, its rates to recover Demand Side Management (“DSM”) costs, environmental response costs, Residential Assistance Adjustment Factor (“RAAF”) costs, and Pension and Post Retirement Benefits Other than Pensions (“PBOP”), as well as to return to firm ratepayers balancing penalties and a portion of non-core distribution margins allocated to firm distribution services. Any costs recovered through the application of this LDAC shall be identified and explained in the Company’s annual filing as outlined in Section 1.14.

1.02: Applicability

This LDAC shall be applicable to all of the Company’s firm Customers. As stated in Section 1.15, the application of the clause may, for good cause shown, be modified by the Department.

1.03: Local Distribution Adjustment Factor (“LDAF”)

The annual LDAF per therm shall comprise a Rate Category specific Conservation Charge (“CC”), the Remediation Adjustment Factor (“RAF”), the Residential Assistance

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Adjustment Factor (“RAAF”), the Pension and PBOP Expense Factor (“PEF”), the Balancing Penalty Credit Factor (“BPCF”), and the Annual Non-Core Distribution Credit Factor (“NCCF”), calculated according to the following formula:

$$LDAF = CC + RAF + RAAF + PEF - BPCF - NCCF$$

1.04: General Definitions

The following terms shall be as defined in this section, unless the context requires otherwise:

- (1) Base Period for the purpose of the Residential Assistance Adjustment Clause (“RAAF”) is the twelve-month period ended the prior June 30.
- (2) Distribution Company or Company is the New England Gas Company.
- (3) Forecast Period for estimating the discount revenues for the Residential Assistance Adjustment Factor is July 1 through June 30 of each year.
- (4) Off-Peak Season is the complementary summer season as designated by the company.
- (5) Peak Season is the winter heating season as designated by the company and approved by the Department.
- (6) Rate Category is the rate schedule pursuant to which the Company offers service to a unique group of Customers, or a group of two or more rate schedules pursuant to which the Company offers services to similarly situated groups of Customers, as follows:

Residential Non Heat:	Rates R-1, R-2, T-1, T-2
Residential Heating	Rates R-3, R-4, T-3, T-4
Commercial/Industrial	Rates G-41, G-42, G-43, G-51, G-52, G-53, T-41, T-42, T-43, T-51, T-52, T-53, G-0, G-1, G-2, G-3, TG-0, TG-1, TG-2, TG-3
- (7) Therm is an amount of gas having a thermal content of 100,000 Btus.

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1.05: Conservation Charge for LDAC

(A) Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Conservation Charge to recover from firm ratepayers DSM Program Costs and associated expenditures.

(B) Applicability

Conservation Charge (“CC”) shall be determined annually by the Company separately for each Rate Category subject to review and approval by the Department. The Conservation Charge shall be incorporated within the calculation of the LDAF for each Rate Category as set forth in Section 1.03.

(C) Calculation of Conservation Charges

The Company will determine the amount of Conservation Expenditures for each Rate Category subject to this rate schedule to be collected over the twelve-month period commencing November 1st of each year. The total of such Conservation Expenditures plus any prior period Reconciling Adjustment plus Lost Margins plus Incentives shall be divided by each rate category’s firm throughput as forecast by the Company for the same annual period. The resulting Conservation Charge shall be incorporated within the calculation of the LDAF’s applied to firm Customers during each such twelve-month period commencing with the Peak Season.

(D) Conservation Charge Factor

The Conservation Charge Factor for residential heating customers (R-3, R-4) (CCr) shall be calculated at the beginning of each Season according to the following formula:

$$CCr = \frac{PCr + LMr + Rr}{R:Vol}$$

where:

PCr: DSM program costs for residential customers as approved by the Department.

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LMr: DSM lost margins from residential customers as as a result of the implementation of DSM measures, calculated by identifying total volumes of gas saved as a result of DSM measures, times the margin that would have been earned on these volumes.

Rr: DSM residential reconciliation adjustment - Account 175.60 balance, inclusive of the associated Account 175.60 interest, as outlined in Section 1.11.

R:Vol: Forecasted residential annual throughput volumes to which the DSMr applies.

The Conservation Charge Factor for commercial and industrial customers (G-41, T-41, G-42, T-42, G-51, G-52, G-0, G-1, G-2) (CCci) shall be calculated at the beginning of each season according to the following formula:

$$CCci = \frac{PCci + LMci + Rci}{CI: Vol}$$

where:

PCci: DSM program costs for commercial and industrial customers as approved by the Department.

LMci: DSM lost margins from commercial and industrial customers as as a result of the implementation of DSM measures, calculated by identifying total volumes of gas saved as a result of DSM measures, times the margin that would have been earned on these volumes.

Rci: DSM C&I reconciliation adjustment - Account 175.61 balance, inclusive of the associated Account 175.61 interest, as outlined in Section 1.11.

CI:Vol: Forecasted C&I annual throughput volumes to which CCci applies.

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1.06: Environmental Response Costs Allowable for LDAC

(A) Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Remediation Adjustment Charge to recover from firm ratepayers the allowable environmental response costs.

(B) Applicability

The Remediation Adjustment Charge shall be applied to firm throughput of the Company, subject to the review and approval by the Department.

(C) Calculation of Remediation Adjustment Costs

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one half of any recoveries received by the Company as a result of such claims. Any insurance or third party recoveries to be passed back to ratepayers through the clause will be net of any insurance or third party expenses not collected from ratepayers.

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five (5) percent of the Company's total revenues from firm gas sales during the preceding calendar year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the pre-tax weighted cost of capital rate as approved in the Company's most recent rate proceeding.

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(D) Remediation Adjustment Factor

The RAF consists of one-seventh of the actual Environmental Response Costs incurred by the company in any calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of the insurance and third-party recoveries for the calendar year, plus the prior year's RAF reconciliation adjustment. This amount is then divided by the Company's forecast of total firm throughput volumes for the upcoming year.

The Deferred Tax Benefit is calculated by applying the Effective Tax Rate to the Company's Unamortized Environmental Response Costs to arrive at the deferred tax. The deferred tax is then multiplied by the Tax Adjusted Cost of Capital to arrive at the Deferred Tax Benefit.

The RAF shall be calculated according to the following formula:

$$\text{RAF} = \frac{\text{Sum (ERC / 7) - DTB + ((IE - IR)*0.5) + Rrac}}{\text{T:Thru}}$$

and:

$$\text{DTB} = \text{UERC} * \text{TR} * (\text{CD} + (\text{CE} / (1-\text{TR})))$$

where:

ERC Environmental Response Costs shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.

DTB Deferred Tax Benefit shall be the unamortized portion of actual environmental response costs multiplied by the effective statutory federal and state income tax rate and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.

IE Expenses associated with pursuing Insurance and third-party claims shall include fifty percent of the expenses incurred by the company.

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- IR Insurance and third-party Recoveries shall include fifty percent of the of any net recoveries or other benefits received by the company as a result of such claims. Any insurance or third party recoveries to be passed back to ratepayers will be net of any insurance or third party expenses not collected from ratepayers.
- Rrac Remediation Adjustment Cost Reconciliation Adjustment is the balance in account 175.70 as outlined in Section 1.11.
- UERC Unamortized Environmental Response Costs are the portion of the environmental response costs approved for recovery but not yet included in any LDAC recovery calculation..
- TR Combined federal and state income tax rate.
- CD Weighted cost of debt established in the Company's most recent rate case.
- CE Weighted cost of equity established in the Company's most recent rate case.

1.07: Residential Assistance Adjustments Allowable for LDAC

(A) Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Residential Assistance Adjustment Factor ("RAAF"). This factor provides the Company with a mechanism for the recovery of lost revenue, based on the actual number of Residential Assistance customers enrolled in the Company's discounted rates (Rate R-2 and Rate R-4) as a result of a computer data matching program with the Massachusetts Executive Office of Health and Human Services ("EOHHS"), as described in the Department's D.T.E 01-106 order, as well as through the Company's HEAT Credit Program ("HEAT") established pursuant to the Company's most recent rate filing, and traditional outreach programs. The RAAF shall be subject to an annual reconciliation/true-up representing the difference between the sum of the actual reduction of revenues due to customer enrollment in the Company's low-income tariffs and the actual net expenses associated with the Company's HEAT during the Prior Year, and the actual recovery of revenues and the actual recovery of revenues through the RAAF during the Prior Year.

(B) Applicability

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The Residential Assistance Adjustment Factor (“RAAF”) shall be applied to all firm sales and firm transportation throughput of the Company subject to the review and approval by the Department.

(C) Calculation of Residential Assistance Recoverable Revenue

Recoverable Revenue for the purpose of the RAAF is the amount of base rate discount in an annual period subsequent to the Baseline Period in excess of the Baseline Revenue. The base rate discount revenue shall be calculated as the difference between the base rate revenue that would have been collected had no low-income discount or HEAT credit existed and actual base rate revenue from the low-income discount and HEAT credit recipients. The Recoverable Revenue shall not be less than zero

(D) Residential Assistance Adjustment Factor

$$RAAF_x = \frac{[Cust_x(DCust\$) + Cust_x(AvgUse)(Duse\$)] + HEAT + RA_{x-1}}{T: Thru}$$

where:

RAAF The annual Residential Assistance Adjustment Factor.

RA_{x-1} The Reconciliation Adjustment for Year_{x-1} is the balance in account 175.80 as outlined in Section 1.11.

shall be the difference between the actual amount of revenue recovered in Year_{x-1} and the Recoverable Revenue for Year_{x-1}. Reconciliations shall be performed annually and interest shall be calculated on the average monthly reconciling balance using the prime rate computed in accordance with 220 C.M.R. § 6.08(2) and added to the reconciling balance.

Cust_x The estimated number of customers enrolled on the Company’s Residential Assistance Rates for Year_x.

DCust\$ The difference between the non-discounted and discounted customer charge for the applicable rates.

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- AvgUse The estimated average weather-normalized therm or ccf usage per customer for the forecast period determined from the historical therm or ccf usage under the Company's Residential Assistance Rates.
- DUse\$ The difference between the non-discounted and discounted therm or ccf delivery charges for the applicable rates.
- HEAT Those costs related to the administration of HEAT.
- T:Thru Total Throughput is the forecasted firm throughput volumes in therms for twelve consecutive months November to October, inclusive.

1.08: Pension and PBOP Expense Allowable for LDAC

(A) Purpose

The purpose of this provision is to establish a procedure that allows the Company, subject to the jurisdiction of the Department, to adjust, on an annual basis, its rates for the recovery from its firm sales and firm transportation customers of annual Pension and Postretirement Benefits Other than Pensions including any post employment benefits other than pensions ("PBOP") expense as recorded on the Company's books including prepaid amounts.

(B) Applicability

Pension and PBOP Expense Factor ("PEF") shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department. Such PEF shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

(C) Pension and PBOP Expense Allowable

The Company's test year Pension and PBOP Expense established by the Department in the Company's last rate filing shall be deemed Allowable Pension and PBOP Expense. In addition, the difference between the actual Pension and PBOP Expense incurred in future years and the test year amount established by the Department shall also be deemed Allowable Pension and PBOP Expense. Allowable Pension and PBOP Expense shall include the actual pension expense, prepaid pension costs recognized in accordance with the Financial Accounting Standards Board's ("FASB") Statement No. 87 ("FAS

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87"), PBOP recognized in accordance with FASB Statement Nos. 106 ("FAS 106"), 112 ("FAS 112") and FASB Statement No. 158 ("FAS 158"), and carrying costs associated with Unamortized Pension Deferral amounts as adjusted for deferred tax benefits for the Prior Year. The Department may allow a shorter amortization period in any year if it deems that such shorter period is appropriate. Allowable Pension and PBOP Expense shall also include prior period reconciliation and deferred amounts.

(D) Amortization of Pension and PBOP Expense

The Test Year Level of Pension and PBOP Expense shall be established by the Department in the Company's last rate filing. The difference between the actual Pension and PBOP Expense for the Prior Year and the Test Year Level, positive or negative, shall be amortized over a three-year period with one-third of the amount included in the LDAC to be effective for the upcoming year, one-third deferred for one year and one-third deferred for two years. The amortization shall include carrying costs calculated at the Weighted Cost of Capital.

(E) Definitions

PBOP: shall be the Company's postretirement benefits other than pensions including any post-employment benefits other than pesions.

Pension Plan: is a Qualified Pension Plan, as defined by the Employee Information Retirement Security Acto of 1974, as amended from time to time.

Prepaid Amount: is the difference between the actual cash contributions to the Pension Plan and the pension expense amounts recognized in accordance with FAS 87.

Prior Year: is the calendar year previous to the effective date of the proposed PEF.

Pension Deferral: is the difference between the total Test Year Level of Pension and PBOP Expense established by the Department in the Company's most recent rate filings and the actual Pension and PBOP Expenses booked by the Company for each Prior Year.

(F) Pension and PBOP Expense Factor Formula

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$$PEF = \frac{TYLE + PD + (WCC \times (UPD + APA - DTB)) + RA_{PE}}{T:Thru}$$

and:

$$PD = \frac{PD_T + PD_{T1} + PD_{T2}}{3}$$

where:

- TYLE Test Year Level of Pension and PBOP Expense as established by the Department in in the Company’s last rate filing.
- PD The total amount of the Pension Deferral to be amortized in the upcoming year.
- WCC Pre-tax Weighted Cost of Capital as set in the Company’s most recent rate case.
- UPD The Unamortized Pension Deferral is the amount of the Pension Deferral not yet included in distribution rates. At the beginning of the year, the Unamortized Pension Deferral is the sum of: (1) the Unamortized Pension Deferral at the beginning of the Prior Year; plus (2) the Pension Deferral for the Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.
- APA The Average Prepaid Amount is one half the sum of: (1) the Prepaid Amount recorded on the Company's books as of the beginning of the Prior Year; and (2) the Prepaid Amount recorded on the Company's books as of the end of the Prior Year.
- DTB Deferred Tax Benefit shall be the sum of the unamortized portion of actual Pension and PBOP Expense not included in rates and the average prepaid amount multiplied by the company’s tax adjusted cost of capital as approved in its last rate proceeding.
- RA_{PE} Pension and PBOP Expense Reconciliation Adjustment, inclusive of the associated interest, as outlined in Section 1.11.
- T:Thru Total Throughput is the forecasted firm throughput volumes in therms for twelve consecutive months November to October, inclusive.

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- PD The amount of the current year’s Pension Deferral.
- PD_{T1} The amount of the previous year's Pension Deferral.
- PD_{T2} The amount of the second previous year's Pension Deferral.

1.09: Balancing Penalty Credits

(A) Purpose

This provision establishes the procedures that the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Balancing Penalty Credit Factor (“BPCF”) to return to firm customers the revenues received from balancing penalties collected and paid by transportation customers.

(B) Applicability

The BPCF shall be applied to firm throughput of the Company, subject to the review and approval of the Department.

(C) Balancing Penalty Credit Factor (“BPCF”)

The BPCF shall be calculated according to the following formula:

$$BPCF = \frac{BP + BPR}{T:Thru}$$

where:

- BP Balancing penalty revenues collected and paid by the Company in accordance with its Terms and Conditions.
- BPR Balancing penalty reconciliation amounts as outlined in Section 1.11.
- T:Thru Total Throughput is the forecasted firm throughput volumes in therms for twelve consecutive months November to October, inclusive.

1.10: Non-Core Distribution Credits

(A) Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on annual basis, the Non-Core

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Distribution Credit Factor (“NCF”), to return to firm customers their share of non-core distribution transportation margins in excess of the Threshold Level. The Threshold Level is based on a historical twelve-month period ending April 30th of any given year.

(B) Applicability

The Non-Core Distribution Credit shall be applied to firm throughput of the Company, subject to the review and approval of the Department.

(E) Annual Non-Core Distribution Credit Factor

The NCCF shall be calculated according to the following formula:

$$NCCF = \frac{NCM + NCMR}{T:Thru}$$

where:

- NCM Non-Core Margin is the difference between the revenue and the marginal cost determined to provide non-core distribution transportation services. If the total credit exceeds the Threshold Level, then seventy-five (75) percent of the credit earned in excess of the Threshold Level will be credited as established in Interruptible Transportation, D.P.U. 93-141-A.
- NCMR Non-core margin reconciliation amounts as outlined in Section 1.11.
- T:Thru Total Throughput is the forecasted firm throughput volumes in therms for twelve consecutive months November to October, inclusive.

1.11: Reconciliation Adjustments

(A) DSM

Account 175.60 shall contain the accumulated difference between DSMr revenues toward DSMr costs as calculated by multiplying the DSMr times monthly residential volumes and DSM costs allowable per formula. Account 175.61 shall contain the accumulated difference between DSMci revenues toward DSMci costs as calculated by multiplying the DSMci times monthly commercial and industrial volumes and DSM costs allowable per formula. Interest shall be calculated on the average monthly balance of the DSM accounts using the Bank of America prime lending rate, then added to each end-of-month balance. The

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residential DSM reconciliation adjustment shall be taken as the Account 175.60 balance as of a reconciliation date as designated by the Company. The commercial and industrial DSM reconciliation adjustment shall be taken as the Account 175.61 balance as of a reconciliation date as designated by the Company.

(C) Environmental Response Cost

Account 175.70 shall contain the accumulated difference between the revenues toward Environmental Response Costs as calculated by multiplying the RAF times monthly firm throughput volumes and environmental response costs allowable per formula. A RAF Reconciliation Adjustment shall be taken as the Account 175.70 balance as of a reconciliation date designated by the Company.

(D) Residential Assistance Adjustment Costs

Account 175.80 shall contain the accumulated difference between revenues toward Residential Assistance Adjustment as calculated by multiplying the RAAF times monthly firm sales and transportation throughput and Residential Assistance Costs allowed, plus carrying charges calculated on the average monthly balance using the Bank of America prime lending rate and then added to the end-of-month balance.

(E) Pensions and PBOP

Account 175.43 shall contain the accumulated difference between revenues toward Pension and PBOP Expense as calculated by multiplying the Pension and PBOP Expense Factor. (PEF) times monthly firm sales and transportation throughput and Pension and PBOP Expense allowed, plus carrying charges calculated on the average monthly balance using the Bank of America prime lending rate and then added to the end-of-month balance.

(F) Balancing Penalty Credits

Account 175.50 shall contain the accumulated difference between the credits toward Balancing Penalty Credits as calculated by multiplying the BPF times firm throughput volumes and the Balancing Penalty Credits allowable, plus carrying charges calculated on the average monthly balance using the Bank of America prime lending rate and then added to the end-of-month balance.

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(G) Non-Firm Core Distribution Margins

Account 175.42 shall contain the accumulated difference between the credits toward Non-Core Distribution Margins as calculated by multiplying the NCCF times firm throughput volumes and the Non-Core Distribution Margins allowable, plus carrying charges calculated on the average monthly balance using the Bank of America prime lending rate and then added to the end-of-month balance.

1.12: Effective Date of Local Distribution Adjustment Factor

The date on which the annual Local Distribution Adjustment Factors ("LDAF") become effective will be November 1st of each year.

1.13: Application of LDAF to Bills

The LDAF will be applied to the monthly firm throughput volumes for each Customer in a Rate Category. The annual LDAF for each Rate Category shall be calculated to the nearest hundredth of a cent per therm.

1.14: Information to be Filed with the Department

Information pertaining to the LDAF shall be filed with the Department in accordance with the standardized forms approved by the Department. Required filings include a report, which shall be submitted to the Department at least 45 days before the date on which the new LDAF is to be effective, and an annual RAC filing, which shall be submitted at least 90 days before the date on which the new LDAF is to be effective.

The annual RAC filing will include copies of all bills relating to any environmental response costs and expenses related to insurance and third party recoveries incurred in the preceding calendar year. The annual RAC reconciliation shall be submitted with each Off-Peak Season LDAF filing along with documentation of the RAC reconciliation adjustment calculations.

Additionally, the Company shall file with the Department a complete list by (sub) account of all local distribution costs claimed as recoverable through the LDAC over the previous year, as included in the annual reconciliation. This information shall be submitted with the Peak Season LDAF filing, along with complete documentation of the reconciliation adjustment calculations.

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1.15: Other Rules

The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the Department may require the Company to file, or the Company may file with the Department, an amended LDAF. Said filing must be submitted at least ten (10) days before the proposed effective date of the amended LDAF.

The operation of this rate schedule is subject to all powers of suspension and investigation vested in the Department by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

1.16: Customer Notification

The Company will design a notice, which explains in simple terms to customers the LDAF, the nature of any change in the LDAF, and the manner in which the LDAF is applied to the bill. The Company will submit this notice for approval at the time of each LDAF filing. Upon approval by the Department, the Company shall immediately distribute these notices to all of its customers either through direct mail or with its bills.

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