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December 22, 2004

By Overnight Courier

Mary L. Cottrell, Secretary
Commonwealth of Massachusetts
Department of Telecommunications and Energy
One South Station – 2nd Floor
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 04-96

Dear Secretary Cottrell:

Enclosed please find an executed Joint Motion for Approval of Offer of Settlement, and the Offer of Settlement, addressing all issues in the above proceeding. On behalf of the Settling Parties, I respectfully request that this Offer of Settlement be moved into the record in said proceeding and that the Offer of Settlement be approved.

If you have any questions, please do not hesitate to call me at (508) 836-7394.

Very truly yours,

Patricia M. French

cc: Jody M. Stiefel, Esq., Hearing Officer
Steven I. Venezia, Esq., DOER
Marjorie H. Izzo, Bay State Gas
Derek M. Beuchler, CEM, Bay State Gas

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

BAY STATE GAS COMPANY	)))	D.T.E. 04-96

JOINT MOTION FOR APPROVAL OF OFFER OF SETTLEMENT

Pursuant to 220 C.M.R. § 1.10(8), Bay State Gas Company and the Division of Energy Resources of the Commonwealth of Massachusetts (hereinafter collectively referred to as the "Settling Parties") jointly request that the Department of Telecommunications and Energy approve the Offer of Settlement submitted in this proceeding.

Respectfully submitted for the Settling Parties by their attorneys and/or principals.

BAY STATE GAS COMPANY

By:_____

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THE DIVISION OF ENERGY RESOURCES

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Dated: As of December 22, 2004

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OFFER OF SETTLEMENT

This Offer of Settlement ("Settlement") is entered into this 22nd day of December 2004 by and between Bay State Gas Company (the "Company") and the Commonwealth of Massachusetts Division of Energy Resources ("DOER"), for the purpose of resolving all issues that were raised in connection with the above-captioned proceeding. The Company and DOER are collectively referred to herein as the "Settling Parties." Pursuant to 220 C.M.R. § 1.10(8), the Settling Parties stipulate to the following:

1. On November 1, 2004, pursuant to G.L.c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.00 et seq., the Company filed with the Department of Telecommunications and Energy ("Department") a petition for approval by the Department of the Company's proposed operating budget of $442,229 and applicable monthly surcharge of $0.12 per monthly bill for the residential energy conservation service ("RCS") program for the calendar year January 1, 2005 through December 31, 2005 ("CY 2005").

2. Pursuant to G.L.c. 164 App., §§ 2-1 through 2-10, the DOER must adopt a state plan and promulgate regulations necessary to implement that plan. The DOER is responsible for (a) establishing residential energy and conservation goals; (b) establishing RCS program guidelines; (c) monitoring the implementation of the program requirements; and (d) overseeing the implementation of the state plan, historically by approving a utility implementation plan ("UIP"). DOER has implemented the redesign of the RCS program, including the amendment of its RCS regulations at 225 CMR 4.00 et seq. In lieu of a UIP, the DOER has approved a statewide RCS Coalition Action Plan ("CAP"). The DOER has also established certain company-specific addenda to the generic CAP setting forth certain company-specific targets for implementation of the RCS program. The Company's RCS budget filing of November 1, 2004 incorporates and is consistent with the CAP, as updated, and the Company-specific addendum thereto.

3. The Settling Parties have worked in good faith to achieve the goals set forth for calendar year 2004 ("C Y 2004") in the DOER' s Goals Letter dated October 15, 2003 and the Settling Parties' CY 2004 RCS Settlement in D.T.E. 03-101. CY 2004 was a year of notable achievement for the RCS program. Exhibit 4C of the Company's November 1, 2004 RCS filing describes in detail the strategies and achievements of the RCS Program Administrators ("PAs") in CY 2004. Such exhibit details how the Company, working cooperatively with the DOER and the other PAs, sought in CY 2004 to satisfy the DOER's RCS goals of: (1)

increasing implementation (see Exhibit 4-C, strategies 1, 2, 3, 4 and 7); (2) fostering one-stop shopping (see Exhibit 4-C, strategies 1, 2 and 7); and (3) helping develop a competitive market (see Exhibit 4-C, strategies 1, 2 and 7). As detailed in Exhibit 4-C, notable CY 2004 RCS program achievements included, without limitation, a) consistent, periodic collaborative meetings with all the PAs and the DOER where information on best practices was exchanged; b) substantial amendments to program offerings and pricing to ensure greater consistency among PAs' programs; c) ongoing conduct of a process and impact evaluation for the RCS program; d) development of an umbrella marketing approach, utilizing the well-accepted "MassSAVE" name; e) implementation of a state-of-the-art MassSAVE website; f) establishment of RCS Network working sub-groups on quality control and periodic reporting; and g) coordination with five-year energy efficiency plans and with PAs in overlapping service areas. Also, in 2004, the Company satisfied its earlier RCS settlements and reviewed the overall cost-effectiveness of the statutorily mandated RCS program and determined that its RCS efforts, on a conservative basis, are cost-effective when all RCS costs (but no additional benefits) are added to the Company's other energy efficiency program costs. The Settling Parties also agree that such analysis is being performed on a one-time basis without any agreement for it to be performed on an ongoing basis in the future. In addition, during 2004, certain amendments were made to the CAP in order to address the DOER's goals. These amendments are reflected and included in Exhibit 4A of the Company's November 1, 2004 RCS filing. In 2005, the Company plans to continue to implement the seven core strategies set forth in document contained in Exhibit 4C in order to continue to help achieve the DOER's goals. These implementation efforts will be discussed in 2005 RCS Network meetings.

4. The Settling Parties have reviewed and discussed the DOER CY 2005 RCS Goals Letter dated October 15, 2004 (the "Goa ls Letter"). The Company commits to working in 2005 with the objective of achieving the outcomes set forth in the Goals Letter with the following clarifications and adjustments:

Goal #1: Increase Implementation: The PAs shall develop the energy savings analysis reflecting the two data sets as described in more detail in the Goals Letter (1 -- percentage of total program costs that result in expenditures for customer incentives; and, 2 -- ratio of total costs that will result in lifetime savings). In 2005, the Company will review this analysis with the DOER. The Settling Parties agree that such analysis shall not alter or be used to alter or otherwise revise any matter related to the Company's energy efficiency programs pre-approved by the Department in the Company's separate energy efficiency program pre-approval dockets, including without limitation the five-year energy efficiency plan settlement in docket 04-39. Without limitation, such analysis shall not alter the savings or savings methodologies used for calculating or establishing savings, cost recovery, lost base revenue/lost margin recovery, incentive recovery or benefit/cost ratios with respect to such pre-approved energy efficiency programs. All such matters will continue to be addressed for all purposes as provided in the Company's most recent energy efficiency pre-approval order and/or pre-approval settlement as applicable.

Goal #2: One Stop Shopping. The Company will seek to achieve the outcome as stated in the Goals Letter. The Company plans to continue to cooperate with the DOER and other PAs in promoting one-stop shopping. CY 2004 efforts in this regard are noted in Exhibit 4C of the Company's November 1, 2004 RCS filing and in paragraph 3 above. The Company plans

to continue these efforts in 2005, including efforts to minimize repeat audits and to distribute efficient light bulbs at audits, thereby helping increase the savings achieved in the program. Additionally, this goal was actively addressed in the Company's recent 5-year energy efficiency plan settlement, approved by the Department in D.T.E. 04-39.

Goal #3: Create a Competitive Market for Energy Efficiency and Renewable Energy Services and Products. The Company will seek to achieve the outcome as stated in the Goals Letter. The Settling Parties agree that the Company will be providing data only, which can then be utilized by DOER in its analysis and the Company does not hold itself out as expert in measuring competitive markets. Additionally, the details of formatting and assumptions to be used for the report on vendors will be discussed in monthly RCS Network meetings with the goal that the summary report prepared by PAs will be a) in a simple, short form format; and b) consistent, to the extent practicable, among PAs. In preparing the report, the Company will be allowed to rely on data regarding sub-contractors provided by any lead or administrative vendor. The Settling Parties agree that multiple factors are involved in any competitive market and the PAs alone are not responsible for competition with respect to the RCS program. For example, factors such as (but not limited to) mergers among contractors (which can lead to reduced costs in certain circumstances), geographic location, interest rates and program design all affect the competitive market. Accordingly, in utilizing any data collected from such reports, the PAs alone shall not be deemed responsible for the status of competition in the RCS program.

5. In support of this Offer of Settlement, the Settling Parties hereby incorporate into this Settlement the exhibits the Company filed with the Department on November 1st in support of its proposed budget and surcharge, i.e., Exh. BSG-A (Filing Letter); Exh. B (Testimony of Marjorie H. Izzo); Exh. 1A (CY05 Detailed Program Budget); Exh. 1B (CY05 Program Budget in the DOER Supplemental Format); Exh. 1C (Number of residential customers and therms sold); Exh. 2A (A line item breakdown of actual and estimated expenses for CY04 on a per account basis); Exh. 2B (A summary breakdown of all actual and estimated expenses for CY04 to coincide with the DOER Supplemental Budget Format); Exh. 3A (RCS Budget/Surcharge Calculation Sheet); Exh. 3B (RCS Surcharge/Bill Calculation Sheet); Exh. 3C (RCS Surcharge Calculation Sheet - Supporting Revenue/Collection information); Exh. 4A (A copy of CAP and Company-specific information related to the CAP; Exh. 4B (DOER Goals Letter); Exh. 4C (2004 RCS Achievements and Strategies); and Exh. 5 RCS Contractor Information.

6. DOER has received and reviewed the Company's CY 2005 budget filing and finds that the Company's proposed budget is adequate to support the activities contemplated during CY-2005.

7. The Company's RCS budget filing complies with the requirements established in G.L. c. 164 App., §§ 2-1 through 2-10; 220 C.M.R. §§ 7.00 et seq.; and the essential filing requirements set forth in Mass. Save, Inc., D.P.U. 85-189 (1985).

8. The Company's actual expenses for the first nine months of calendar year 2004 (CY-2004) were $237,550 and are reasonable and therefore recoverable from ratepayers (Exh. 2A). The Company's filing also demonstrates that its actual expenditures for the last three

months of calendar year 2003 are similarly reasonable and recoverable. See generally Exh. 3C. The Settling Parties agree that the Department will review the Company's actual expenditures for the final three months of CY 2004 in the next annual RCS budget review.

9. The Company's CY 2005 budget projections are good faith estimates based on the estimates approved for CY 2004 and actual in-field experience during CY 2004. These twelve-month estimated expenditures for CY 2005 are reasonable and recoverable from the ratepayers. Funding the budget at this level helps to assure the successful implementation of the redesigned RCS program.

10. Given the unique circumstances of this comparatively early year in the implementation of the redesigned RCS program, the Company will continue to cooperate with DOER in CY 2005 in refining the reform of the RCS program.

11. The Company calculated its RCS surcharge by dividing the total number of bills expected to be rendered during CY 2005 by the net amount to be collected to support RCS services and factoring in an adjustment with respect to past expenditures and collections. (Exh. 3A, Surcharge Calculation Sheet). The RCS surcharge to be applied to the Company's bills during CY 2005 shall be $0.12 per bill per month. This surcharge reasonably compares with the surcharge of $0.12 per bill per month approved by the Department in Bay State Gas Company, D.T.E. 03-101 (December 29, 2003) for CY 2004.

12. The Company's proposed CY 2005 RCS program budget, budget reconciliations, and proposed CY 2005 surcharge, are reasonable

13. The making of this Settlement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid.

14. This Settlement is expressly conditioned upon the Department's acceptance of all of its provisions, without change or condition on or before December 31, 2004, and if the Department does not accept it in its entirety, without change or condition, the Settlement shall be deemed to be null and void and without effect, and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

15. The Department's acceptance of this Settlement does not constitute continuing approval of, or precedent regarding, any particular issue in this proceeding, but such acceptance does constitute a determination that, as the Settling Parties believe, the provisions set forth herein are just and reasonable.

16. The discussions which have produced this Settlement have been conducted on the understanding that all offers of settlement and discussion relating thereto are and shall be privileged, and shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding, any further proceeding or otherwise.

Wherefore, the Settling Parties agree to jointly petition the Department to approve this Offer of Settlement by submitting a Joint Motion for Approval of Offer of Settlement in accordance with 220 C.M.R. § 1.10(8), and by their attorneys do hereunto affix their names.

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