

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

ORIGINAL  
N.H.P.U.C. Case No. DG 06-105  
Exhibit No. 3  
Witness Panel

RE: ENERGINORTH NATURAL GAS, INC.  
D/B/A KEYSpan ENERGY DELIVERY NEW ENGLAND

DOCKET NO. DG 04-133/DG 04-175

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into by and among EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("KeySpan" or "Company"), the Staff of the New Hampshire Public Utilities Commission ("Staff") and the Office of the Consumer Advocate ("OCA"). (The signatories to this Settlement Agreement are collectively referred to below as the "Staff and Parties.")

**I. PROCEDURAL HISTORY**

On August 2, 2004, KeySpan filed with the New Hampshire Public Utilities Commission ("Commission") an Integrated Resource Plan for the period November 1, 2004 through October 31, 2009 ("IRP") pursuant to Order No. 24,323 issued in Docket DG 03-160. The Commission docketed the IRP as DG 04-133. Subsequently, the Commission opened Docket DG 04-175 to consider gas dispatch issues that were left open in prior cost of gas proceedings at Staff's request. On September 24, 2004, the Commission issued an Order of Notice consolidating DG 04-133 and DG 04-175. The Commission also hired an outside consultant, Liberty Consulting Group ("Liberty"), to assist the Staff in conducting its review of the issues raised in the two dockets.

During the course of this proceeding, the Staff propounded numerous data requests on the Company. The Staff and Parties also convened for numerous technical sessions, and the Staff conducted a management audit on-site at the Company's Waltham, Massachusetts offices. On January 24, 2005, the Staff, through its consultants, filed written testimony setting forth its preliminary conclusions in both dockets. Subsequently, Liberty provided a draft report to the Parties. The Staff and Parties agreed to convene to discuss Liberty's preliminary analysis before Liberty issued its final report. On June 9, 2005, the Staff and Parties convened to discuss Liberty's draft report and provide comments regarding Liberty's recommendations. On July 28, 2005, Liberty provided its final report to the Parties, and on August 8, 2005 the Company provided the Staff with a draft of testimony that included comments regarding Liberty's report. This settlement agreement arises from the discussions held by Staff and the Parties regarding the Liberty report.

## II. SETTLEMENT TERMS

### A. Integrated Resource Plan

The Company agrees to file its next IRP on or before August 1, 2006. The IRP will cover the period November 1, 2006 through October 31, 2011 and will incorporate the following changes to the plan filed in this proceeding.

1. All volumes will be stated in MMBtus;
2. For purposes of forecasting average use per customer, the Company will use at least three years' worth of customer usage data;
3. The Company will develop an econometric demand forecasting model for use in the IRP in place of the end use forecasting model it currently uses;
4. For purposes of establishing design planning standards, the Company will utilize a Monte Carlo weather forecasting analysis;
5. The IRP will include a detailed contingency plan addressing the Company's plans for ensuring adequate supplies and capacity resources for low probability weather scenarios and a range of possible supply/capacity interruptions. Among other things, the contingency plan shall address the following:
  - (a) Displacement of gas from the Company's Massachusetts affiliates to New Hampshire to the extent feasible under the combined OBA on the Tennessee Gas Pipeline Company system;
  - (b) The potential for and related cost if the Company were to increase the level of dedicated trucking to deliver liquid supplies to New Hampshire during periods when vaporized LNG from its Massachusetts affiliates' facilities cannot be displaced via pipeline from Massachusetts to New Hampshire;
  - (c) A reasonable range of potential supply or capacity disruptions under design day weather conditions and the Company's response to each specified situation, including a loss of pipeline and LNG or propane supplies;
6. The IRP will include a section setting forth the Company's planning practices relating to longer-term portfolio optimization. The

section will identify the available and potentially available supply resources and their respective costs. In addition, the section will discuss the opportunities for utilizing these available resources, either as replacements for expiring contracts or meeting load growth, describe the portfolio optimization model, and identify the mix and timing of resource additions and subtractions that are expected to minimize costs over the long-term under a given set of price and demand forecasts. Determination of the optimal portfolio also requires the Company to address the role of its peaking plants in its overall portfolio. Finally, the section will also identify supply resources that are unlikely to be available to the Company because of its particular circumstances;

7. The IRP will include a section that discusses the extent to which the Company's supply or capacity plans take into account the potential migration of sales service customers to transportation service. In addition, the section will discuss whether and how the Company's plans address the risk that transportation customers migrate to sales service. To the extent that the Company does not plan to serve the gas requirements of all transportation customers, the section will also address how the Company protects customers against a possible reduction in supply reliability resulting from unauthorized gas usage by migrating transportation customers.

8. The IRP will include a section that describes the Company's strategy for managing the short, medium and long term risks arising from volatility in gas commodity costs, such as the potential for entering into fixed price forward contracts and financial hedges or the economic operation of peaking facilities.

9. The IRP will include a section discussing the purpose of the Company's curtailment plan and the implications of that plan for supply and/or capacity planning.

#### B. Curtailment plan

The Company will continue to meet with Staff, including the gas division and the pipeline engineering and safety division, to address and identify details to be included as part of its curtailment plan. The Company shall develop an updated curtailment plan on or before November 1, 2005. In conjunction with the New Hampshire Emergency Plan, the plans shall address the following areas:

1. Details on how a curtailment would be implemented, including:
  - (a) Command chain responsibilities
  - (b) Communication with civil authorities
  - (c) Field operation responsibilities
  - (d) System isolation rationale

2. Customer curtailment priority strategy, including:
  - (a) Description of efforts to increase supply availability and avoid shut-offs
  - (b) Management of critical life/safety customers (hospitals etc.)
  - (c) Management of large users and load profiles
  - (d) Management of dual fuel customers

For each supply or capacity constraint scenario, the Company will identify specific customers to be curtailed, if any, and the level of curtailment for each customer and cost of curtailment. The Company reserves the right to seek protective treatment of certain details of its curtailment plan to the extent disclosure would violate a customer's expectation of privacy and or disclosure would jeopardize public safety.

#### C. Outsourcing of Gas Resource Management

The Company has informed the Staff and OCA that it has decided not to renew the current Asset Management Agreement (AMA) and will bring the management of its gas resources in-house effective as of April 1, 2006. By December 1, 2005, the Company will provide a detailed plan of how it will manage its gas resources, including, but not limited to: daily forecasting; nominating, scheduling and confirming city gate deliveries and storage injections; managing storage inventories; reconciling supply invoices; pursuing capacity release and off-system sale opportunities; supply balancing of Tennessee Gas Pipeline (management of Operational Balancing Agreement); contracting of seasonal supplement supplies; and the economic operation of peaking facilities. The Staff and the OCA support the Company's decision. Staff retains its right to review the proposed plan and to recommend changes to that plan and the Company's future management of its gas resources.

#### D. Seven Day Rule

The Staff and Parties agree that the so-called seven day rule (N.H. Code of Admin. Rules Puc 506.03) may put unnecessary constraints on the Company's ability to manage its liquids inventory in the most cost-effective manner while also taking into account system reliability issues. The Staff and Parties agree to work together to develop a recommendation to the Commission regarding a possible waiver or modification of the seven day rule as it applies to KeySpan.

#### E. No Disallowances

The Staff and OCA recommend that there be no disallowance of costs that were incurred in connection with Summer 2003, Winter 2003-04 or Summer 2004.

**F. Miscellaneous**

1. This Settlement Agreement shall not be deemed in any respect to constitute an admission by the Staff or the Parties that any allegation or contention in this proceeding is true or false, except as expressly set forth herein and except that the sworn testimony of any witness in this proceeding shall constitute an admission by such witness.

2. The approval of this Settlement Agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any allegations, contentions, or issues made in this proceeding. The Staff and Parties agree that the Commission's approval of this Settlement Agreement will not constitute continuing approval of, or precedent for, any particular issue or resolution thereof in this proceeding, except that (1) the matters set forth in this Settlement Agreement shall be binding on the Staff and Parties to the extent expressly set forth herein and (2) this Settlement Agreement shall upon approval resolve all of the matters in contention before the Commission in this proceeding.

3. This Settlement Agreement is agreed to on the condition that, in the event the Commission does not approve it in its entirety, the agreement shall be deemed withdrawn and void and shall not constitute any part of the record in this or any future proceeding or be used for any other purpose.

4. This Settlement Agreement constitutes the entire agreement between the Staff and Parties regarding the subject matter hereof. All previous discussions, communications and correspondence regarding the subject matter hereof are superseded by the execution of this agreement.

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WHEREFORE, this Settlement Agreement has been executed or caused to have been executed by the Staff and Parties on the dates set forth beside their names.


ENERGYNORTH NATURAL GAS, INC.  
d/b/a KEYSpan ENERGY DELIVERY NEW ENGLAND  
By its attorneys  
McLane, Graf, Raulerson & Middleton, Professional Association



Steven V. Camerino, Esq.

Date: August 12, 2005

STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION  
By their attorney,



Edward N. Damon, Esq.

Date: August 17, 2005

OFFICE OF THE CONSUMER ADVOCATE



F. Anne Ross, Esq.

Date: August 17, 2005