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December 20, 2007

Debra A. Howland  
Executive Director and Secretary  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, New Hampshire 03301-2429



**Re: Northern Utilities, Inc., Docket No. DG 07-102 – Unaccounted For Gas Report**

Dear Ms. Howland:

On October 31, 2007, the New Hampshire Public Utilities Commission (“Commission”) issued Order No. 24,798 approving Northern Utilities, Inc.’s (“Northern’s” or the “Company’s”) 2007/2008 Winter Period Cost of Gas (“COG”) rates. Northern Utilities, Inc., Docket No. DG 07-102 (“Order”). Order at p. 10. The Commission also directed Northern to file a Report by December 31, 2007, to, among other things, assess the actual unaccounted for gas figures for the period reported in its 2006-2007 Winter COG reconciliation filing. Order at pp. 8-9, 12. With this letter, the Company provides an update on its investigation into its New Hampshire Division’s high reported unaccounted for gas (“UAFG”) levels, and seeks additional time to provide a full report and proposed remedial steps to address its findings and conclusions.

On December 11, 2007, Northern believes that, through the combined investigative efforts with its affiliate, Granite State Gas Transmission (“Granite”), it has finally identified, after months of rigorous review, what appears to be the single largest contributing cause of its New Hampshire Division’s unusually high reported UAFG levels. The apparent cause is incorrect metering by Spectra Energy (“Spectra”) at the Maritimes & Northeast (“M&NE”) / Portland Natural Gas Transmission System’s (“PNGTS”) Newington Gate Station in Newington, New Hampshire (“Newington Gate Station”). However, because the Company has only just identified this situation, detailed discussions and further sharing of data still need to occur with Spectra Energy and Granite. Therefore, Northern does not yet have accurate volumetric adjustments to correct its UAFG levels and associated cost impacts, enabling the Company to comply with the Commission’s directives at this time.

The preliminary information obtained by Northern and Granite from Spectra indicates that Spectra erroneously updated its Newington Gate Station meter “pulse factor” in May 2005. However, Spectra did not disclose to Northern or Granite that it was undertaking this routine modular exchange, so Northern and Granite were unaware that this action by Spectra could be a contributing factor to its high UAFG levels since that time. As a result, Spectra used this incorrect pulse factor associated with this particular meter<sup>1</sup> for nearly two and a half years to calculate the volume of gas passing through the Newington Gate Station measuring equipment.

<sup>1</sup> According to Spectra, it has two meter runs at the Newington Gate Station, and the update in question was only made to the second meter run, which only operates at high volume periods.

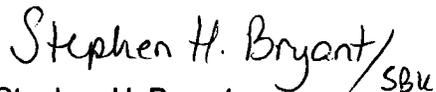
According to Spectra, the Newington Gate Station is served by a turbine meter that uses pulses to communicate the volume of gas measured by the rotors. As a result of the May 2005 software update, Spectra indicates that the "pulse factor" was erroneously changed from .08333 (120 pulses per cubic ("cu") ft) to .1 (100 pulses per cu ft). Although Spectra has informed Northern and Granite that the meter itself was accurate, this software update caused an "output scaling error" and overstated the volumes of gas measured. For example, if Spectra measured 5,800 pulses using the new and apparently incorrect 0.1 factor, then Spectra would have calculated 58 cubic feet (i.e.,  $5,800 * 0.1 = 58$  cu ft). However, if Spectra used the previous and apparently correct factor of 0.08333, then it would have calculated 48 cubic feet (i.e.,  $5,800 * 0.08333 = 48$  cu ft). Accordingly, Northern believes that the use of the incorrect pulse factor most likely resulted in a higher amount of gas being recorded and billed to Northern for some period leading up to December 2007.

Because Northern's and Granite's, combined investigative efforts yielded this conclusion only within the last two weeks, it is too early to determine with any precision exactly how many units of gas, the value, and/or the carrying charges associated with Spectra's metering error. Accordingly, based on its recent understandings and in light of the cooperation exhibited by Spectra to date (e.g., the factor error has been corrected and open communications is ongoing), Northern expects to be able to provide the Commission the corrected volumes (and expected refund amounts) associated with this situation during the first quarter of 2008. Northern will update the Commission with additional progress and findings by February 15, 2008, and plans to reflect the appropriate refund amounts in its Summer 2008 COG filing.

Northern discussed today with Commission Staff this recent development on the UAFG investigation as well as the Company's associated plans to provide the Commission with pertinent updates and final resolution. Staff has indicated that it is amenable with Northern's approach to this matter.

Northern appreciates the Commission's understanding that the Company's compliance to the directives in Order No. 24,278 has begun with this letter, and that it will continue its compliance with subsequent updates until this investigation is complete.

Sincerely,

 Stephen H. Bryant / SBK

Stephen H. Bryant

cc: F. Anne Ross, Esq.  
Stephen P. Frink, Assistant Director  
Kenneth P. Traum, OCA