

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

COMMONWEALTH GAS CO

CIK: **22620** | IRS No.: **041989250** | State of Incorporation: **MA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **002-01647** | Film No.: **94528112**
SIC: **4922** Natural gas transmission

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549-1004

Form 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 2-1647

COMMONWEALTH GAS COMPANY

(Exact name of registrant as specified in its charter)

Massachusetts

04-1989250

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Main Street, Cambridge, Massachusetts
(Address of principal executive offices)

02142-9150
(Zip Code)

(617) 225-4000

(Registrant's telephone number, including area code)

(Former name, address and fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock
Common Stock, \$25 par value

Outstanding at
May 1, 1994
2,857,000 shares

The Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q as a wholly-owned subsidiary and is therefore filing this Form with the reduced disclosure format.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

COMMONWEALTH GAS COMPANY

CONDENSED BALANCE SHEETS

MARCH 31, 1994 AND DECEMBER 31, 1993

ASSETS

(Unaudited)

	March 31, 1994	December 31, 1993
	(Dollars in Thousands)	
PROPERTY, PLANT AND EQUIPMENT, at original cost	\$325 722	\$323 607
Less - Accumulated depreciation	81 372	77 155
	244 350	246 452
Add - Construction work in progress	2 190	400
	246 540	246 852
CURRENT ASSETS		
Cash	2 304	1 297
Accounts receivable	67 179	33 239
Unbilled revenues	22 649	29 068
Inventories, at average cost	12 404	27 789
Prepaid taxes -		
Property	914	2 629
Income	-	1 812
Other	807	992
	106 257	96 826
DEFERRED CHARGES		
Order 636 transition costs	21 439	21 938
Other	12 616	11 067
	34 055	33 005

COMMONWEALTH GAS COMPANY

CONDENSED BALANCE SHEETS

MARCH 31, 1994 AND DECEMBER 31, 1993

CAPITALIZATION AND LIABILITIES

(Unaudited)

	March 31, 1994	December 31, 1993
	(Dollars in Thousands)	
CAPITALIZATION		
Common Equity -		
Common stock, \$25 par value -		
Authorized and outstanding -		
2,857,000 shares, wholly-owned by		
Commonwealth Energy System (Parent)	\$ 71 425	\$ 71 425
Amounts paid in excess of par value	27 739	27 739
Retained earnings	19 285	7 840
	118 449	107 004
Long-term debt, less current sinking		
fund requirements	95 400	95 400
	213 849	202 404
CURRENT LIABILITIES		
Interim Financing -		
Notes payable to banks	7 725	40 975
Advances from affiliates	5 610	2 835
	13 335	43 810
Other Current Liabilities -		
Current sinking fund requirements	3 650	3 650
Accounts payable -		
Affiliated companies	1 284	1 811
Other	33 274	32 944
Refundable gas costs	33 719	13 253
Accrued taxes -		
Income	6 992	-
Local property and other	2 699	2 940
Other	7 383	6 661
	89 001	61 259
	102 336	105 069
DEFERRED CREDITS		
Accumulated deferred income taxes	31 348	30 176

Unamortized investment tax credits and other	27 546	25 901
Order 636 transition costs	11 773	13 133
	70 667	69 210
	\$386 852	\$376 683

See accompanying notes.

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COMMONWEALTH GAS COMPANY

CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE THREE MONTHS ENDED MARCH 31, 1994 AND 1993

(Unaudited)

	1994	1993
	(Dollars in Thousands)	
GAS OPERATING REVENUES	\$135 558	\$120 892
OPERATING EXPENSES		
Cost of gas sold	73 824	62 373
Other operation and maintenance	23 539	21 676
Depreciation	4 081	3 700
Taxes -		
Income	11 197	10 623
Local property	2 110	2 024
Payroll and other	960	916
	115 711	101 312
OPERATING INCOME	19 847	19 580
OTHER INCOME	156	55
INCOME BEFORE INTEREST CHARGES	20 003	19 635
INTEREST CHARGES		
Long-term debt	2 129	1 587
Other interest charges	435	671
Allowance for borrowed funds used during construction	(6)	(5)
	2 558	2 253
NET INCOME	17 445	17 382

RETAINED EARNINGS -		
Beginning of period	7 840	6 994
Dividends on common stock	(6 000)	(5 224)
RETAINED EARNINGS -		
End of period	\$ 19 285	\$ 19 152

See accompanying notes.

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COMMONWEALTH GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 1994 AND 1993

(Unaudited)

	1994	1993
	(Dollars in Thousands)	
OPERATING ACTIVITIES		
Net income	\$ 17 445	\$ 17 382
Effects of non-cash items -		
Depreciation and amortization	5 696	4 454
Deferred income taxes and investment tax credits, net	100	372
Change in working capital, exclusive of cash and interim financing	19 318	3 240
All other operating items	(1 002)	(419)
Net cash provided by operating activities	41 557	25 029
INVESTING ACTIVITIES		
Additions to property, plant and equipment (exclusive of AFUDC)	(4 069)	(3 302)
Allowance for borrowed funds used during construction	(6)	(5)
Net cash used for investing activities	(4 075)	(3 307)
FINANCING ACTIVITIES		
Payment of dividends	(6 000)	(5 224)
Payment of short-term borrowings	(33 250)	(17 725)
Advances from affiliates	2 775	2 215

Net cash used for financing activities	(36 475)	(20 734)
Net increase in cash	1 007	988
Cash at beginning of period	1 297	10
Cash at end of period	\$ 2 304	\$ 998

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest, net of amounts capitalized	\$ 1 810	\$ 2 219
Income taxes	\$ 1 333	\$ 2 283

See accompanying notes.

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COMMONWEALTH GAS COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS

(1) Accounting Policies

Commonwealth Gas Company (the Company) is a wholly-owned subsidiary of Commonwealth Energy System. The parent company is referred to in this report as the "System" and together with its subsidiaries is collectively referred to as "the system."

The Company's significant accounting policies are described in Note 1 of Notes to Financial Statements included in its 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission. For interim reporting purposes, the Company follows these same basic accounting policies but considers each interim period as an integral part of an annual period and makes allocations of certain expenses to interim periods based upon estimates of revenue from firm sales for the year.

The Company has established various regulatory assets in cases where the DPU has permitted, or is expected to permit, recovery of specific costs over time. At March 31, 1994, principal regulatory assets included in deferred charges were \$21.4 million for transition costs associated with Federal Energy Regulatory Commission (FERC) Order No. 636 as further discussed in Note 2 and \$3.9 million for postretirement benefits costs.

Generally, expenses which relate to more than one interim period are allocated to other periods to more appropriately match revenues and expenses. Principal items of expense which are allocated other than on the basis of passage of time are depreciation and property taxes. These expenses are recorded for interim reporting purposes based upon projected gas revenue. Income tax expense is recorded using the statutory rates in effect applied to book income subject to tax recorded in the interim period.

The unaudited financial statements for the periods ended March 31, 1994 and 1993 reflect, in the opinion of the Company, all adjustments (consisting of only normal recurring accruals) necessary to summarize fairly the results for such periods. In addition, certain prior period amounts are reclassified from time to time to conform with the presentation used in the current period's financial statements.

The results for interim periods are not necessarily indicative of results for the entire year because of variations in gas consumption due to the heating season and also because of the Company's seasonal rate structure.

(2) Commitments

(a) Construction Program

The Company is engaged in a continuous construction program presently estimated at \$112.4 million for the five-year period 1994 through 1998. Of that amount, \$21.9 million is estimated for 1994. As of March 31, 1994, the Company's actual construction expenditures amounted to approximately \$4.1 million, including an allowance for funds used during construction. The Company expects to finance these

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COMMONWEALTH GAS COMPANY

expenditures on an interim basis with internally-generated funds and short-term borrowings which are ultimately expected to be repaid with the proceeds from the issuance of long-term debt and/or equity securities.

The program is subject to periodic review and revision because of factors such as changes in business conditions, rates of growth, effects of inflation, equipment delivery schedules, licensing delays, availability and cost of capital and environmental regulations.

(b) FERC Order No. 636

On April 8, 1992, the FERC issued Order No. 636 (Order 636), requiring interstate pipelines to unbundle (separate) existing gas sales contracts into separate components (gas sales, transportation and storage services). Order 636 provides mechanisms that will allow customers such as the Company to reduce the level of firm services from pipelines and permits the "brokering" of excess capacity on a temporary or permanent basis. Order 636 also requires pipelines to provide transportation services which allow customers to receive the same level of service they had with bundled contracts. Pipelines were required to be operating under Order 636 by November 1, 1993.

As a result of implementing Order 636, each pipeline company is allowed to collect certain "transition costs" from their customers. The Company has been billed a total of approximately \$18.2 million from

Tennessee Gas Pipeline Company, Algonquin Gas Transmission Company and Texas Eastern Transmission Company through March 31, 1994. It is anticipated that as much as \$45 million in transition costs could be sought by these suppliers through a series of FERC filings over the 12 to 24 month period that began on June 1, 1993. The largest element of the aforementioned transition costs results from the pipelines' need to buy out gas supply contracts entered into prior to Order 636. The total amount of such costs ultimately billed to the Company will vary depending on the success of the pipelines in negotiating settlements with their former suppliers, and final review by the FERC. The Company is actively reviewing the prudence of transition costs billed in order to minimize costs to its customers. The Company has recorded its estimated liability based on amounts incurred by the respective pipelines as of March 31, 1994.

As of October 29, 1993, the Company received preliminary DPU authorization to recover these costs, with carrying charges, through the cost of gas adjustment (CGA) over a four-year period that began in November 1993. As a result, a regulatory asset totaling \$21.4 million is reflected in deferred charges as of March 31, 1994. In addition, a related liability of \$11.8 million is reflected in deferred credits. Also, approximately \$7.9 million of the amount paid to the pipeline companies relates to gas inventory costs being allocated new storage services under Order 636. The Company will recover these inventory costs through the CGA.

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COMMONWEALTH GAS COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations

The following is a discussion of certain significant factors which have affected operating revenues, expenses and net income during the periods included in the accompanying condensed statements of income. This discussion should be read in conjunction with the Notes to Condensed Financial Statements appearing elsewhere in this report.

A summary of the period to period changes in the principal items included in the condensed statements of income for the three months ended March 31, 1994 and 1993 is shown below:

Three Months
 Ended March 31,
 1994 and 1993
 Increase (Decrease)
 (Dollars in Thousands)

Gas Operating Revenues	\$14 666	12.1%
Operating Expenses -		

Cost of gas sold	11 451	18.4
Other operation and maintenance	1 863	8.6
Depreciation	381	10.3
Taxes -		
Federal and state income	574	5.4
Local property and other	130	4.4
	14 399	14.2
Operating Income	267	1.4
Other Income	101	183.6
Income Before Interest Charges	368	1.9
Interest Charges	305	13.5
Net Income	\$ 63	0.4
Firm Unit Sales BBTU Increase	969	5.4

The following is a summary of unit sales for the periods indicated:

Three Months Ended	Unit Sales - In Billions of British Thermal Units (BBTU)		
	Total	Firm	Interruptible
March 31, 1994	19 113	19 082	31
March 31, 1993	18 184	18 113	71

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COMMONWEALTH GAS COMPANY

Operating Revenues and Cost of Gas Sold

For the first three months of 1994, operating revenues increased \$14.7 million or 12.1% due primarily to an increase in the cost of gas sold of \$11.5 million, higher unit sales of 5.1% (reflecting record sendout in January) and a higher level of conservation and load management (C&LM) costs of \$1 million. The Company has received approval from the DPU to recover in revenues current costs associated with C&LM programs on a dollar-for-dollar basis through the operation of a Conservation Charge decimal. To the extent that these expenses increase or decrease from period to period based on customer participation a corresponding change will occur in revenues.

The cost of gas sold averaged \$3.85 per MMBTU in the current quarter compared to \$3.43 per MMBTU for the first quarter of 1993. The higher cost of gas is mainly attributable to the transition costs related to the implementation of FERC Order 636.

Firm unit sales increased 5.4% due to improved sales in all sectors

resulting from the colder than normal weather conditions experienced throughout the region during the quarter. The Company established all-time highs for daily gas sendout on four different occasions in January, setting a new peak day sendout on January 19 of 364,799 MMBTU. Prior to this period, the previous all-time peak was 336,998 MMBTU set in January 1988. Although interruptible sales decreased significantly during the first quarter of 1994, fluctuations in the level of interruptible sales have little, if any, impact on net income.

Operating Expenses

For the first quarter of 1994, other operation and maintenance expenses increased \$1.9 million or 8.6% due primarily to higher C&LM costs (\$1 million). Other significant items contributing to the increase were higher distribution expenses mainly due to leak repair activities (\$353,000), a provision for potential environmental clean-up costs (\$305,000), an increased provision for bad debts due to higher unit sales (\$176,000), higher pension costs (\$160,000) and costs associated with a new Gas Administration and Supply System (\$108,000). These increases were offset, in part, by a decline in the cost of services rendered by affiliate COM/Energy Services Company due to a second quarter 1993 work force reduction as well as lower postretirement benefit costs. The change in federal and state income taxes was attributable to a slightly higher level of pretax income as well as an increase in the federal tax rate to 35%. The 4.4% increase in local property taxes was due to higher tax rates and assessments in the Company's service territory. Depreciation increased by 10.3% due to higher levels of depreciable plant-in-service.

Other Income and Interest Charges

Other income increased during the first three months of 1994 due primarily to interest income recorded in the current period related to a Massachusetts sales tax abatement as well as carrying costs associated with Order 636 transition costs. The impact of these items was partially offset by lower interest income on deferred gas costs.

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COMMONWEALTH GAS COMPANY

Total interest charges increased \$305,000 or 13.5% due to the issuance of \$35 million in new long-term debt in December 1993 and, to a lesser extent, interest to be refunded to the Company's customers in connection with the aforementioned sales tax abatement. The impact of these items was offset somewhat by a decrease in other interest charges reflecting a lower average level of short-term borrowings that resulted from issuing the new long-term debt.

Environmental Matters

The Company is participating in the assessment of a number of former manufactured gas plant sites to determine if and to what extent such sites

have been contaminated and whether the Company may be responsible for remedial actions.

The costs associated with the clean-up of these sites are recoverable in rates through the cost of gas adjustment clause pursuant to a 1990 DPU order that provides for recovery of such expenditures over a seven-year amortization period without carrying costs. The Company has recorded an estimated \$2.3 million liability that reflects its best estimate (based on current information) of the costs to be incurred in connection with the various activities to be undertaken at these sites. The Company has also recorded a regulatory asset in anticipation of recovery of these costs in rates. The Company is unable to predict the total cost to ultimately resolve these matters due to significant uncertainty as to the actual site conditions and extent of any associated remediation activities and the assignment of responsibility. However, it is expected that all such costs will continue to be recovered in rates as described above.

The Company is also involved in certain other known or potentially contaminated sites with costs which may not be recoverable in rates. The Company has recorded an estimated liability (and a charge to operations) of \$300,000 to cover the costs associated with assessment and remediation activities. These estimates will be adjusted as further investigation and assignment of responsibility occurs. As noted above, the Company is unable to predict at this time the ultimate cost to resolve these matters due to the uncertainties inherent in the site investigation and remediation process.

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COMMONWEALTH GAS COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any pending material legal proceeding.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 4. Instruments defining the rights of security holders, including indentures.

Filed herewith:

4.4.19 Eighteenth Supplemental Indenture dated December 1, 1993 to Indenture of Trust and First Mortgage Dated as of February 1, 1949 (Filed herewith as Exhibit 1).

(b) Reports on Form 8-K

No reports on Form 8-K were filed for the three months ended March 31, 1994.

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COMMONWEALTH GAS COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMONWEALTH GAS COMPANY
(Registrant)

Principal Financial Officer:

JAMES D. RAPPOLI
James D. Rappoli,
Financial Vice President
and Treasurer

Principal Accounting Officer:

JOHN A. WHALEN
John A. Whalen,
Comptroller

Date: May 13, 1994

COMMONWEALTH GAS COMPANY
(formerly Worcester Gas Light Company)

TO

STATE STREET BANK AND TRUST COMPANY,
Trustee

Eighteenth Supplemental Indenture

Dated as of December 1, 1993

To

INDENTURE OF TRUST

And

FIRST MORTGAGE

Dated as of February 1, 1949

\$35,000,000

First Mortgage 7.11% Bonds, Series K, Due 2033

THIS EIGHTEENTH SUPPLEMENTAL INDENTURE dated as of December 1, 1993 by and between COMMONWEALTH GAS COMPANY (formerly named Worcester Gas Light Company), a corporation duly organized and existing under the laws of The Commonwealth of Massachusetts (hereinafter sometimes called the "COMPANY"), and STATE STREET BANK AND TRUST COMPANY (formerly named State Street Trust Company and Second Bank-State Street Trust Company), a corporation duly organized and existing under the laws of The Commonwealth of Massachusetts, as Trustee (hereinafter sometimes called the "TRUSTEE"),

WITNESSETH that:

WHEREAS the Company has heretofore executed and delivered to the Trustee an Indenture of Trust and First Mortgage dated as of February 1, 1949, as amended (hereinafter called the "PRINCIPAL INDENTURE") and seventeen indentures supplemental thereto dated as of March 1, 1950, November 14, 1952, September 1, 1953, October 21, 1954, March 21, 1956, April 16, 1957, June 1, 1959, September 28, 1961, August 1, 1962, July 1, 1970, June 1, 1972, August 1, 1973, April 1, 1974, October 1, 1977, October 1, 1982, October 1, 1986 and December 1, 1990, respectively (hereinafter collectively called the "SUPPLEMENTAL INDENTURES"), said Principal Indenture and said Supplemental Indentures having been duly recorded as set forth therein and herein; and

WHEREAS the Seventeenth Supplemental Indenture was duly recorded and filed as follows:

Date 1991	Book	Page
February 21 Bristol County South District Registry of Deeds	2603	155
February 21 Bristol County South Registry District registered as Document #56786 and noted on Certificate of Title No. 13509	73	37
February 21 Fall River District of Bristol County Registry of Deeds	2309	57
February 21 Middlesex South District Registry of Deeds	21016	212
February 21 South Registry District of Middlesex County registered as Document #838142 and noted on Certificates of Title Nos. 136777 and 153322	814 896	27 172
February 21 Norfolk County Registry of Deeds	8856	364
February 21 Plymouth County Registry of Deeds	10157	236
February 21 Suffolk County Registry of Deeds	16720	78
February 21		

February 21

Worcester Registry District of Worcester
County registered as Document #51742 and
noted on Certificates of Title Nos. 2701
and 4618

14 & 24

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Date 1991

Book

Page

February 21

Office of the Massachusetts Secretary of
State, An Amendment Form UCC-3, Amendment
to the Financing Statement originally
filed September 26, 1968 under No.
534945

(Filing
No.
010349)

WHEREAS Section I of Article XI of said Principal Indenture provides, among other things, that without any action or consent by, or notice to the holders of any of the bonds, the Company and the Trustee may enter into such other and further indentures supplemental to the Principal Indenture as shall be by them deemed necessary or desirable to add to the covenants and agreements of the Company for the protection of the holders of the bonds or for any other purpose not inconsistent with the terms of the Principal Indenture and which shall not impair the security of the same; and

WHEREAS Section 2 of Article III of said Principal Indenture, as amended, provides, among other things, that bonds of subsequent series in addition to the Series A Bonds, when authorized as therein provided and subject to the provisions and limitations therein set forth, may be executed and delivered by the Company to the Trustee and thereupon shall be certified and delivered by the Trustee to or upon the written order of the President or Treasurer of the Company; and

WHEREAS the Company proposes to issue in accordance with the provisions of said Section 2 of said Article III, as amended, and other applicable provisions of said Principal Indenture and pursuant to and in execution of the powers and authorities conferred and reserved therein and of every other power and authority thereto appertaining or enabling a new series of bonds to be designated First Mortgage 7.11% Bonds, Series K, Due 2033 (hereinafter sometimes referred to as "SERIES K BONDS"); and

WHEREAS the Company deems it advisable to enter into an Indenture with the Trustee supplemental to said Principal Indenture to further secure the payment of the principal, premium, if any, and the interest on the bonds issued and to be issued thereunder, and to confirm and renew the conveyances made therein; and to grant, bargain, sell, release, convey, assign, transfer, mortgage, pledge, set over and confirm unto the Trustee additional properties of the Company as herein provided; and

WHEREAS the Company and the Trustee have authorized and approved this Eighteenth Supplemental Indenture and the form and execution thereof in accordance with the requirements of Article XI of said Principal Indenture, and all requirements of law and said Principal Indenture necessary to the authorization and validity of this Eighteenth Supplemental Indenture have been complied with; and

WHEREAS the Series K Bonds are to be issued only as fully registered bonds without coupons, and such bonds, the Trustee's certificate, and the endorsement thereon are to be substantially in the following forms, respectively:

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[FORM OF FULLY REGISTERED SERIES K BOND]

COMMONWEALTH GAS COMPANY

First Mortgage 7.11% Bond, Series K, Due 2033

REGISTERED NO. Rk-1

REGISTERED
\$35,000,000

Commonwealth Gas Company (formerly named Worcester Gas Light Company), a corporation organized and existing under the laws of THE COMMONWEALTH OF MASSACHUSETTS (hereinafter called the "COMPANY"), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of Thirty-five Million Dollars on December 30, 2033, and to pay interest thereon at the rate of 7.11% per annum from the thirtieth day of June or December, as the case may be, to which interest has been paid preceding the date hereof (unless the date hereof is a June 30 or December 30 to which interest has been paid, in which case from the date hereof, or unless the date hereof is prior to the first payment of interest, in which case from the date of original issuance of the bonds of Series K) semi-annually on June 30 and December 30, until the principal hereof shall have become due and payable (whether at maturity or at a date fixed for redemption or by declaration or otherwise), and with interest on any overdue principal (including any overdue prepayment of principal) and (to the extent permitted by applicable law) overdue premium, if any, and (to the extent permitted by applicable law) on any overdue installment of interest, at the rate of 9.11% per annum until paid, payable semi-annually as aforesaid or, at the option of the registered owner hereof, on demand, PROVIDED that in no event shall the amount payable by the Company as interest and premium on this bond exceed the highest lawful rate permissible under any law applicable hereto. The interest so payable on any June 30 or December 30 will, subject to certain exceptions provided in the Eighteenth Supplemental Indenture hereinafter referred to, be paid to the person in whose name this bond is registered at the close of business on the

June 15 prior to such June 30 or the December 15 prior to such December 30, unless such June 15 or December 15 shall not be a business day, in which event on the next succeeding business day, the term "BUSINESS DAY" meaning for this purpose a day which in the City of Boston is not a legal holiday or a day on which banking institutions in the City of Boston are not authorized by law to close. Principal, premium, if any, and interest on this bond shall be payable in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, at the principal corporate trust office of State Street Bank and Trust Company (hereinafter called the "TRUSTEE," which term shall include its successors in the trusts hereinafter referred to), in the City of Boston, Massachusetts, or of any successor as such Trustee, or, at the option of the registered owner, at the office of any other paying agent appointed by the Company, PROVIDED that payment of principal, premium, if any, and interest on any bond of Series K and any redemption price of all or a portion of the principal amount thereof shall be made by the Trustee to the registered owner thereof without presentation or surrender thereof to the Trustee if there shall be on file with the Trustee (and not theretofore rescinded by written notice from such registered owner to the Trustee) an agreement (or a conformed copy thereof) between the Company and such registered owner or the person for whom such registered owner is the nominee or a predecessor in interest of the registered owner or the person for whom the registered owner is the nominee, to the effect that (1) payments will be so made, and (2) such registered owner will not sell, pledge, transfer or otherwise dispose of such bond of Series K without first either (i) surrendering such bond of Series K to the Trustee in exchange for a bond or bonds of Series K, aggregating the same principal amount as the principal amount of the bond of Series K so surrendered which shall remain unpaid, or (ii) making notation on such bond of Series K (or on a schedule annexed thereto) of all portions of the principal amount thereof which have been redeemed; it being understood that the Bond Purchase Agreement dated as of December 1, 1993 pursuant to which the bonds of Series K were

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initially issued constitutes such an agreement on file with the Trustee for purposes of this paragraph (until rescinded as provided above).

This bond shall not be valid or become obligatory for any purpose or entitled to any security or benefit under the Indenture (as hereinafter defined) unless or until the certificate endorsed hereon shall have been executed by the Trustee under the Indenture.

This bond is one of a duly authorized issue of First Mortgage Bonds of the Company to be issued in series with distinctive designations, the series of which this bond is one being designated as Series K and limited to an aggregate principal amount of thirty-five million dollars (\$35,000,000), which issue of bonds together with all other series which may now or hereafter be outstanding are issued and are to be issued under and equally and ratably secured by a certain Indenture of Trust and First Mortgage dated as of February 1, 1949 (hereinafter, with all indentures stated to be supplemental thereto, including an Eighteenth Supplemental Indenture dated as of December

1, 1993, to which the Trustee is a party, called the "INDENTURE") by and between the Company and State Street Trust Company (now known as State Street Bank and Trust Company) as Trustee, to which Indenture reference is hereby made for a description of the mortgaged property, the nature and extent of the security, the terms and conditions under which the bonds of Series K are issued and under which bonds of any subsequent series may be issued, the rights and limitations of the rights of the bondholders and the rights and obligations of the Company and the rights, duties and immunities of the Trustee.

Subject to certain conditions and restrictions, additional first mortgage bonds of one or more series, equally and ratably secured by the Indenture, may be issued under the Indenture.

This bond shall be treated as negotiable, subject to the provisions for registration and transfer herein and in the Indenture contained, and the Company and the registered owner hereof and every successive owner and assignee of this bond, by accepting and holding the same, consent to the foregoing provisions and each invites the others, and all persons, to rely thereon.

The bonds of Series K are issuable only as fully registered bonds without coupons in denominations of one-hundred thousand dollars (\$100,000) or integral multiples thereof. The holder of any Series K bond or bonds, may, upon payment of the charges and subject to the conditions specified in the Indenture, exchange the same at the principal corporate trust office of the Trustee in the City of Boston, Massachusetts for a like aggregate principal amount of fully registered Series K bonds of different authorized denominations, PROVIDED, HOWEVER, that the Company and the Trustee shall not be required (i) to transfer or exchange any bond of Series K during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of bonds of Series K and ending at the close of business on the day of such mailing or (ii) to transfer or exchange any bond of Series K so selected for redemption in whole or in part.

As provided in the Eighteenth Supplemental Indenture, this bond shall be subject to redemption (i) at par, upon the concurrent payment of accrued interest and the Make-Whole Amount (as defined in the Eighteenth Supplemental Indenture), at the option of the Company, and (ii) at par, upon the concurrent payment of accrued interest, under certain circumstances from the proceeds of insurance for casualty or from the proceeds of taking by or sale to a public authority.

If this bond is called for redemption in whole or in part and payment is duly provided as specified in the Indenture, this bond, or the part thereof so called, shall cease to be entitled to the security of the Indenture, and from and after the date fixed in the call for such redemption, interest shall cease to accrue on this bond, or on such part so called; and if less than the whole principal amount hereof shall be called, the registered owner hereof shall, in

addition to the sums payable on account of the part called, be entitled, at his option, to receive on surrender hereof one or more bonds of this series, of an aggregate principal amount equal to that part of the principal amount hereof not called and paid, or to present this bond for the notation hereon by the Trustee (or to make such notation in accordance with an agreement for payment of principal filed with the Trustee as provided in this bond) of the payment of the part of the principal amount hereof then called and paid.

The principal hereof may be declared and become due prior to maturity in case of certain events of default specified in the Indenture.

The Indenture may be modified and amended in certain respects upon the conditions and in the manner provided therein, if such modification is approved and authorized by the Board of Directors of the Company and approved by the holders of not less than a majority in principal amount of the bonds then outstanding; PROVIDED, HOWEVER, that no such amendment or modification shall (i) extend the time of payment of the principal, premium, if any, or interest on this bond or change the principal amount, premium, if any, or rate of interest payable on this bond or affect or impair the obligations of the Company in respect of the principal or interest of this bond without the written consent of the holder hereof, (ii) permit the creation by the Company of any lien ranking prior to or on a parity with the lien of the Indenture with respect to any property covered thereby, (iii) affect the rights of any series of bonds in a manner differing from that of any other series except with the consent, given as provided in the Indenture, of the owners of not less than 66-2/3% in principal amount of the outstanding bonds of each series so affected, (iv) change the percentages of the holders of bonds required for any action or consent under the Indenture without the consent of the holders of all of the bonds then outstanding, or (v) modify the rights, duties or immunities of the Trustee without its written consent.

The Company and the Trustee may, without action or consent by or notice to the bondholders, enter into supplemental indentures for the purposes of conveying additional property, adding further limitations upon the issuance of additional bonds, setting forth the form of additional bonds and the terms not inconsistent with the Indenture under which they may be issued, establishing a successor trustee, modifying the Indenture or the form of any bonds or coupons in a manner not prejudicial to holders in order to facilitate listing of such outstanding bonds on any stock exchange, curing ambiguities or remedying defects or manifest errors in the Indenture or a supplemental indenture, or for any other purpose not inconsistent with and not impairing the benefits of the Indenture.

Any consent or waiver by the holder of this bond as aforesaid shall be conclusive and binding upon such holder and upon all future holders and registered owners of this bond or of any other bond issued in lieu hereof or in substitution hereof (unless effectively revoked, as provided in the Indenture) whether or not any notation of such consent or waiver is made upon this bond.

This bond is transferable on the books of the Company at said principal corporate trust office, upon surrender hereof, accompanied by a written instrument of transfer in form satisfactory to the Trustee, duly executed by the registered owner hereof in person or by his duly authorized representative, or by his agent or attorney duly appointed in writing, and thereupon a new fully registered bond or fully registered bonds of authorized denominations of the same series for a like principal amount will be issued to the transferee or transferees in exchange for this bond. The Company, the Trustee, and any paying agents and registrars may deem and treat the person in whose name this bond is registered as the absolute owner for the purpose of receiving payment and for all other purposes.

No recourse upon any obligation contained in this bond or in the Indenture or otherwise shall be had against any incorporator or any officer, director or stockholder, past, present or future, of the Company or of any successor corporation, such personal liability of every kind being expressly waived.

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IN WITNESS WHEREOF, Commonwealth Gas Company has caused this bond to be executed on its behalf by the facsimile signature of its President or one of its Vice Presidents and its Treasurer or one of its Assistant Treasurers, and a facsimile of its corporate seal to be imprinted hereon.

Dated

COMMONWEALTH GAS COMPANY

(Corporate Seal)

By

President

By
Treasurer

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[FORM OF TRUSTEE'S CERTIFICATE]

This bond is one of the fully registered bonds of Series K referred to in the within-mentioned Indenture.

STATE STREET BANK AND
TRUST COMPANY,

Trustee

By
Authorized Signature
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[Form of Endorsement]

FOR VALUE RECEIVED
and transfer(s) unto

hereby sell(s), assign(s)

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBERS OF ASSIGNEE

this bond, and all rights thereunder, hereby irrevocably constituting and
appointing attorney to transfer the said bond on the books
of the Company, with full power of substitution in the premises.

Dated:

Signature guaranteed by (not required
in case of the original purchaser or
other registered owners that are
institutional investors):

[Note: The signature to this assignment must correspond with the name of the
registered owner as written upon the within bond in every particular, without
alteration or enlargement or any change whatsoever.]

[END OF FORM OF SERIES K BOND]

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AND WHEREAS all things necessary to make the Series K Bonds when

executed by the Company, duly certified by the Trustee and delivered, all as herein and in the Principal Indenture provided, valid, binding and legal obligations of the Company and to make this Eighteenth Supplemental Indenture a valid, binding and legal instrument for the security thereof have been done and performed, and the issue of the Series K Bonds, as in this Eighteenth Supplemental Indenture and in the Principal Indenture provided, have been in all respects duly authorized;

NOW, THEREFORE, this Eighteenth Supplemental Indenture Witnesseth and it is hereby covenanted and declared as follows:

That the Company in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the bonds by the holders thereof and of one dollar (\$1.00) to it duly paid by the Trustee, at or before the ensembling and delivery of these presents, the receipt whereof is hereby acknowledged, and in order to secure the payment of the principal, premium, if any, and interest on the bonds issued and to be issued hereunder and under the Principal Indenture according to their tenor and effect, and the faithful performance and observance of all the covenants, obligations, conditions and provisions in this Eighteenth Supplemental Indenture and in said Principal Indenture contained, and in order to declare the terms and conditions upon which the Series K Bonds are and are to be secured, certified, transferred, delivered and exchanged, the Company has executed this Eighteenth Supplemental Indenture and by these presents does hereby grant, bargain, sell, convey, assign, transfer, mortgage, pledge, set over, and confirm unto the Trustee, its successors and assigns in the trusts and upon the terms and conditions in said Principal Indenture contained, but without restricting the generality of the grant contained in said Principal Indenture, all of its plants, properties, franchises, locations, rights and privileges in or over public or private streets or ways and in or over private premises and all other property real, personal or mixed of whatever kind and wherever situated now owned or hereafter acquired by the Company and all easements, tenements, hereditaments, rights, privileges, appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof with the reversions and remainders and all rents, earnings, incomes, issues and profits thereof and all the estate, right, title, interest and claim whatsoever whether at law or in equity which the Company now has or may hereafter acquire in or to the aforesaid property and every part or parcel thereof, hereby expressly confirming the grant, assignment, transfer, mortgage and pledge, unto the Trustee, its successors and assigns in the trusts and upon the terms and conditions in said Principal Indenture contained, of all properties and interests granted, assigned, transferred, mortgaged and pledged by said Principal Indenture and said Supplemental Indentures or intended so to be, including without limiting the generality of the foregoing, the following described property acquired by the Company since the execution of the Seventeenth Supplemental Indenture:

Two parcels of land located off Rafferty Road and Wilson Street in Hopkinton, Middlesex County, Massachusetts described in a deed of Tennessee Gas Pipeline Company dated November 5, 1993 and recorded in the South Middlesex Registry of Deeds as Instrument No. 391 on

November 10, 1993.

Expressly excepting and reserving, however, the properties and interests of the Company expressly excepted and reserved under the said Principal Indenture, such of said properties or interests therein as may have been released by the Trustee or sold or disposed of in whole or in part as permitted by the provisions of the Principal Indenture and all cash on hand or in banks; all shares of stock and other certificates or evidences of interest and all bonds, notes and other evidences of indebtedness, and other securities including bills, notes and accounts receivable now owned or hereafter acquired or possessed by the Company, all property and franchises of any other corporation of whatever character, securities whereof or obligations secured upon the properties and franchises whereof, may be now owned or hereafter acquired or possessed by the Company; the last day of the term of each

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leasehold estate (oral or written, and/or any agreement therefor) now or hereafter enjoyed by the Company, and whether falling within a general or particular description of property herein; and all materials, merchandise and supplies now owned or hereafter acquired by the Company for the purpose of resale in the ordinary course of business.

TO HAVE AND TO HOLD all of the aforesaid property and all property which shall become subject to said Principal Indenture and to indentures supplemental thereto unto the Trustee, its successors and assigns in the trusts and upon the terms and conditions in said Principal Indenture contained in its and their own use and benefit forever.

SUBJECT, HOWEVER, to any easements, rights-of-way, restrictions and reservations, now existing by operation of law or otherwise, over, under, upon or against the mortgaged property or any part thereof and which have existed either from the date of delivery of the Principal Indenture or, as to any property acquired thereafter, from the time of acquisition of such property by the Company.

IN TRUST NEVERTHELESS for the equal and proportionate benefit and security of all present and future holders of the bonds and coupons issued or to be issued under and secured by said Principal Indenture and indentures supplemental thereto in accordance with the provisions thereof without preference, priority or distinction as to lien or otherwise, of any thereof over any other by reason of priority in the issue, sale or negotiation thereof or otherwise except as provided in Section 8 of Article II of said Principal Indenture.

PROVIDED, HOWEVER, and these presents are upon the condition that if the Company, its successors or assigns, shall pay or cause to be paid the principal, premium, if any, and interest on the said bonds as they become due at the times and in the manner stipulated therein and in said Principal Indenture and indentures supplemental thereto, and shall perform and observe all the terms, covenants and conditions in the bonds and coupons and in said Principal Indenture and indentures supplemental thereto, expressed to be

performed and observed by or on the part of the Company, then this Eighteenth Supplemental Indenture and the estate and rights hereby granted, shall cease, determine and be void; otherwise to remain in full force and effect all as more fully provided in Article XIV of said Principal Indenture.

AND IT IS HEREBY expressly covenanted and agreed between the parties hereto that the protection and security of said Principal Indenture is hereby extended to all bonds of Series K issued, certified and delivered hereunder and under said Principal Indenture and that all such bonds of Series K are to be issued, certified and delivered, and that the additional property hereby mortgaged to and pledged with the Trustee is to be held subject to the covenants, uses and trusts set forth herein and in said Principal Indenture, as amended. And the Company for itself and its successors and assigns does hereby further covenant, agree and declare to and with the Trustee and its successors and assigns in said trust, for the benefit of said Series K Bonds, or any of them, as follows:

ARTICLE I

SECTION 1. There is hereby created and established under the Principal Indenture and hereunder a new series of bonds of the Company, limited in aggregate principal amount to thirty-five million dollars (\$35,000,000), designated "FIRST MORTGAGE 7.11% BONDS, SERIES K, DUE 2033," which shall mature December 30, 2033, and shall bear interest at the rate of 7.11% per annum, payable semi-annually, on the thirtieth day of June and December in each year until the principal of the Series K Bonds shall have become due and payable (whether at maturity or at a date fixed for redemption or by declaration or otherwise), and with interest on any overdue principal (including any overdue prepayment of principal) and (to the extent permitted by applicable law) overdue premium, if any, and (to the extent permitted by applicable law) on any overdue installment of interest, at the rate of 9.11% per annum until paid, payable semi-annually as aforesaid, or, at the option of the registered owner of any Series K Bond, on demand. Forthwith upon and from

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time to time after the execution and delivery of this Eighteenth Supplemental Indenture, the Company may execute and deliver to the Trustee and thereupon the Trustee shall certify and deliver to or upon the written order of the President or Treasurer of the Company, Series K Bonds to an aggregate principal amount not exceeding thirty-five million dollars (\$35,000,000) in temporary or permanent form, being all the Series K Bonds authorized to be issued hereunder, upon receipt by the Trustee in each case of the Votes, Certificates, Opinions of Counsel, and a certified copy (or assurances satisfactory to the Trustee that there will be delivered to the Trustee, within a time deemed reasonable by it, a certified copy) of an order or orders of each governmental agency having jurisdiction releasing, exempting, authorizing or consenting to the issuance by the Company of a principal amount of said bonds at least equal to the principal amount of bonds the certification and delivery of which is requested by the written order or orders of the President or Treasurer of the Company, all as required by Section 2 of Article III of the Principal Indenture, as amended.

SECTION 2. The bonds of Series K are issuable only as fully registered bonds without coupons in denominations of one-hundred thousand dollars (\$100,000) or integral multiples thereof. Bonds of Series K may be transferred and may be exchanged for one or more bonds of the same series in authorized denominations, as provided in the Principal Indenture, PROVIDED, HOWEVER, that the Company and the Trustee shall not be required (i) to transfer or exchange any bond of Series K during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of bonds of Series K and ending at the close of business on the day of such mailing or (ii) to transfer or exchange any bond of Series K so selected for redemption in whole or in part. Notwithstanding any provisions of the Indenture or the Series K Bonds to the contrary, no service charge shall be made to the holder for any such transaction.

Except as hereinafter provided, each bond of Series K shall be dated the date of certification and shall bear interest from the last preceding interest payment date to which interest has been paid (unless the date thereof is an interest payment date to which interest has been paid, in which case from the date thereof, or unless the date thereof is prior to the first payment of interest, in which case from the date of original issuance of the bonds of such series).

The person in whose name any bond of Series K is registered at the close of business on the record date (hereinafter defined) with respect to a semi-annual interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such bond upon any transfer or exchange thereof subsequent to such record date and prior to such interest payment date; PROVIDED, HOWEVER, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest, together with interest thereon at the rate set forth in Section 1 hereof to the extent permitted by applicable law, shall be paid to the person in whose name such bond is registered at the close of business on the business day immediately prior to the date of payment of such defaulted interest. The term "RECORD DATE" as used with respect to a semi-annual interest payment date shall mean the fifteenth day of the same calendar month of such interest payment date unless such day shall not be a business day, in which event the term "RECORD DATE" shall mean the next succeeding business day, the term "BUSINESS DAY" meaning for this purpose a day which in the City of Boston is not a legal holiday or a day on which banking institutions in the City of Boston are not authorized by law to close.

Subject to the provisions of Section 4 of this Article I, the principal, premium, if any, and interest on the Series K Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, at the principal corporate trust office of the Trustee in the City of Boston, Massachusetts, or, at the option of the registered owner, at the office of any other paying agent appointed by the Company.

The Company may cause bonds of Series K to be executed on its behalf by

Treasurer or an Assistant Treasurer, which may be imprinted or otherwise reproduced on such bonds, and may cause a facsimile of its official seal to be imprinted thereon. In case any officer whose facsimile signature has been so imprinted or otherwise reproduced on any bond of Series K shall cease to be such officer of the Company before such bond shall have been actually certified and delivered by the Trustee, such bond may nevertheless be certified and delivered and issued as though the person whose facsimile signature has been so imprinted or otherwise reproduced had not ceased to be an officer of the Company.

SECTION 3. The provisions of the Series K bonds relating to redemption prior to maturity are as follows:

A. The Company may redeem Series K Bonds at par, plus accrued interest, pursuant to Section 7(d) of Article VI of the Principal Indenture, but any such redemption of the Series K Bonds pursuant to such Section 7(d) of Article VI of the Principal Indenture shall be made (i) only from money received by the Trustee as proceeds of property taken by the power of eminent domain or acquired by public authority, or as insurance money, (ii) only in principal amounts of one-hundred thousand dollars (\$100,000) or integral multiples thereof and (iii) only if such redemption pursuant to such Section 7(d) of Article VI of the Principal Indenture is made pro rata among all series of bonds then outstanding under the Principal Indenture in proportion to their then outstanding principal amounts, PROVIDED, HOWEVER, to the extent, but only to the extent, that such prorating would involve the redemption of the bonds of any series in any amount other than that permitted under the terms of the bonds of such series, the Trustee may upon any such redemption of such series, in its reasonable discretion, increase or decrease the amount of bonds of such series to be redeemed in such manner as the Trustee, in its reasonable discretion, shall deem appropriate to maintain, in so far as possible, the principal of pro rata redemption in any such redemption or in any series of successive redemptions.

B. The Series K Bonds are redeemable prior to maturity at the option of the Company, as a whole at any time, or in part from time to time, in a minimum aggregate principal amount at any one time of not less than one million dollars (\$1,000,000), PROVIDED, that not less than five million dollars (\$5,000,000) in the aggregate principal amount of the Series K Bonds remains outstanding after giving effect to any such partial redemption, upon at least 30 days' but not more than 45 days' prior notice, as set forth below, at the principal amount of Series K Bonds so to be redeemed and accrued interest to the date fixed for redemption, together with a premium equal to the Make-Whole Amount (hereinafter defined) calculated as of three days prior to the date fixed for such redemption, PROVIDED, that the Company shall, on the second day preceding the date of any such redemption, deliver to the

Trustee and to the holders of the Series K Bonds so to be redeemed a certificate of an officer of the Company stating the amount of the Make-Whole Amount being paid upon such redemption and demonstrating the calculation thereof. The term "PREMIUM" when used in the bonds of Series K or the Indenture in conjunction with references to principal and interest on the bonds of Series K, shall mean any amount due upon any payment, redemption or prepayment of any of the bonds of Series K, other than principal and interest, and shall include the Make-Whole Amount.

C. For purposes of this Eighteenth Supplemental Indenture, the term "MAKE-WHOLE AMOUNT" shall mean: to the extent that the Treasury Rate (hereinafter defined) at the time of such redemption is lower than 7.11% per annum, the excess of (i) the present value of the principal and interest payments on and in respect of the Series K Bonds being redeemed, that would otherwise become due and payable (without giving effect to such redemption), discounted semi-annually at a rate which is equal to the Treasury Rate plus 50 basis points over (ii) the principal amount of the Series K Bonds being redeemed. To the extent that the Treasury Rate at the time of such redemption is equal to or higher than

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7.11% per annum, the Make-Whole Amount is zero.

For purposes of this Eighteenth Supplemental Indenture, the term "TREASURY RATE" shall mean at the time of any redemption with respect to any Series K Bonds being redeemed, the arithmetic average of the two most recent yields to maturity on the United States Treasury obligation with a constant maturity (as compiled by and published by the United States Federal Reserve Statistical Release designated H.15(519) or its successor publication for the two business days next preceding the date of such redemption) most nearly equal to (by rounding to the nearest month) the Remaining Life to Maturity (hereinafter defined) of the Series K Bonds then being redeemed. If no maturity exactly corresponding to such Remaining Life to Maturity of the Series K Bonds shall appear therein, the yields for the two most closely corresponding published maturities shall be calculated pursuant to the foregoing sentence and the Treasury Rate shall be interpolated from such yields on a straight-line basis (rounding, in the case of relevant periods, to the nearest month).

For purposes of this Eighteenth Supplemental Indenture, the term "REMAINING LIFE TO MATURITY" of the Series K Bonds shall mean, at any date, the number of years obtained by dividing the then Remaining Dollar-years (hereinafter defined) of such Series K Bonds by the then outstanding principal amount of such Series K Bonds. For purposes of this definition, the "REMAINING DOLLAR-YEARS" of any such Series K Bonds shall mean, at any date, the product obtained by multiplying (i) the aggregate outstanding principal amount of such Series K Bonds, by (ii) the number of twelve-month periods (calculated to the nearest one-

twelfth) which will elapse between such date and December 30, 2033.

D. Notwithstanding the provisions of Section 2 of Article IV of the Principal Indenture, the Company will cause the Trustee to give irrevocable notice to each registered owner of the Series K Bonds of any redemption of the Series K Bonds pursuant to the preceding paragraphs A or B not less than 30 days nor more than 45 days before the date upon which the redemption is to be made, specifying (i) the date upon which redemption is to be made (the "PREPAYMENT DATE") and (ii) the principal amount of the holder's Series K Bonds to be redeemed on such date. Notice of redemption having been so given, the redemption price payable with respect to the Series K Bonds to be so redeemed shall become due and payable on the Prepayment Date.

SECTION 4. Notwithstanding the foregoing provisions of this Article, of Sections 2, 3 and 6 of Article IV of the Principal Indenture and of any bond of Series K:

A. Payment of principal, premium, if any, and interest on any bond of Series K and any redemption price of all or a portion of the principal amount thereof shall be made by the Trustee to the registered owner thereof without presentation or surrender thereof to the Trustee if there shall be on file with the Trustee (and not theretofore rescinded by written notice from such registered owner to the Trustee) an agreement (or a conformed copy thereof) between the Company and such registered owner or the person for whom such registered owner is the nominee or a predecessor in interest of such registered owner or the person for whom the registered owner is the nominee, to the effect that (1) payments will be so made, and (2) such registered owner will not sell, pledge, transfer or otherwise dispose of such bond of Series K without first either (i) surrendering such bond of Series K to the Trustee in exchange for a bond or bonds of Series K aggregating the same principal amount as the principal amount of the bond of Series K so surrendered which shall remain unpaid, or (ii) making notation on such bond of Series K (or on a schedule annexed thereto) of all portions of the principal amount thereof which have been redeemed; it being understood that the Bond Purchase Agreement dated as of December 1, 1993 pursuant to which the bonds of Series K were initially issued constitutes such an agreement on file with the Trustee for purposes of

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this paragraph A (until rescinded as provided above). The Trustee shall not be under any duty to determine that such notations have been made nor be liable in any manner with respect thereto or with respect to any failure to make such notations. In case any payment is made as provided in this subparagraph A, the Trustee shall make an appropriate notation of such payment on its records, which records shall, in the absence of manifest error, be controlling and conclusive.

B. In case less than all of the outstanding bonds of Series K are to be redeemed pursuant to paragraphs A or B of Section 3 of this

Article I, the Trustee shall, at the time of each such partial redemption, prorate among the registered owners of the bonds of Series K in proportion to their then respective holdings the amount of bonds of Series K then to be redeemed and designate for redemption the particular bonds of Series K, or the principal amount so prorated, in such manner as the Trustee in its uncontrolled discretion may deem most practicable, PROVIDED, HOWEVER, to the extent, but only to the extent, that such prorating would involve the redemption of bonds of Series K from any registered owner in any amount which would not be an integral multiple of one-hundred thousand dollars (\$100,000), the Trustee may, upon any partial redemption, in its reasonable discretion, increase or decrease the amount of bonds of Series K to be redeemed from any registered owner in such manner as the Trustee, in its reasonable discretion, shall deem appropriate to maintain, insofar as possible, the principal of pro rata redemption in any partial redemption or in any series of successive partial redemptions. The acceptance of bonds of Series K by the registered owners thereof shall be deemed to constitute a consent to the foregoing provisions of this subparagraph B with the same force and effect as if the provisions of this subparagraph B had been set forth in a written agreement duly executed by the registered owners of all the bonds of Series K and an executed counterpart of said agreement had been filed with the Trustee.

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ARTICLE II

SECTION 1. The Company covenants and agrees that, so long as any Series K Bonds are outstanding, dividends (hereinafter defined) paid by the Company subsequent to December 31, 1992 will not exceed net income and earned surplus available for dividends accumulated subsequent to December 31, 1992 determined in accordance with any system of accounts required by law to be followed by the Company, or in the absence of such requirements, in accordance with generally accepted accounting principles consistently applied and with depreciation computed as set forth under Section 2 of Article III of the Principal Indenture, plus an amount of six million nine-hundred and ninety-four thousand dollars (\$6,994,000) from earned surplus not appropriated, representing the amount not restricted at December 31, 1992. For purposes of this Section 1, "DIVIDENDS" shall include any distribution with respect to the capital stock of the Company, including the purchase or redemption thereof.

SECTION 2. The Company covenants and agrees that, so long as any Series K Bonds are outstanding, the Company will not create, assume, incur or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance of any kind in respect of any of the mortgaged property as security for any bonds, debentures, notes or other evidences of indebtedness which by their terms mature one year or less from the date of issue thereof.

SECTION 3. The Company covenants and agrees that, so long as any Series K Bonds are outstanding, the Company will not, and will not permit any

Subsidiary (as defined in the Principal Indenture) to, sell, lease, transfer or otherwise dispose of, in any transaction or series of related transactions, any of its property or assets, including, without limitation, any shares of capital stock of any Subsidiary, (except in the ordinary course of business) unless:

A. In the case of all such sales, leases, transfers and dispositions, at the time of and immediately after giving effect to such sale, lease, transfer or disposition, no condition or event shall exist which constitutes or, after notice or lapse of time or both, would constitute a default or event of default (as defined in the Principal Indenture) under the Principal Indenture;

B. In the case of any sale, transfer, lease or disposition of property or assets by the Company or a Subsidiary, which together with all other properties and assets sold, leased, transferred or otherwise disposed of by the Company and its Subsidiaries (except in the ordinary course of business) during the same fiscal year have an aggregate book value of not more than 5% of the consolidated assets of the Company and its Subsidiaries as shown by a consolidated balance sheet of the Company and its Subsidiaries as at the end of the preceding fiscal year of the Company prepared in accordance with any System of accounts required by law to be followed by the Company, or in the absence of such requirements, in accordance with generally accepted accounting principles consistently applied, the Company either (x) at the time of such sale, transfer, lease or disposition, shall be permitted to become liable in respect of at least one dollar (\$1.00) additional funded debt under Section 17 of Article V of the Principal Indenture or (y) shall, or shall cause such Subsidiary, promptly to apply the aggregate net proceeds from such sales, leases, transfers or dispositions in such fiscal year to (i) the acquisition of property or assets substantially similar to the property or assets so disposed of, and/or (ii) the repayment or redemption of bonds outstanding under the Principal Indenture, as supplemented, in accordance with the terms thereof, upon the concurrent payment of any premium due upon such repayment or redemption, which in the case of any redemption of the Series K Bonds pursuant to paragraph B of Section 3 of Article I of this Eighteenth Supplemental Indenture shall include the Make-Whole Amount;

C. In the case of any sale, transfer, lease or disposition of property or assets by the Company or a Subsidiary, which together with

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all other properties and assets sold, leased, transferred or otherwise disposed of by the Company and its Subsidiaries (except in the ordinary course of business) during the same fiscal year have an aggregate bookvalue of more than 5% of the consolidated assets of the Company and its Subsidiaries as shown by a consolidated balance sheet of the Company and its Subsidiaries as at the end of the preceding fiscal year of the Company prepared in accordance with any system of accounts required by law to be followed by the Company, or in the absence of such

requirements, in accordance with generally accepted accounting principles consistently applied, the Company shall at the time of such sale, transfer, lease or disposition be permitted to become liable in respect of at least one dollar (\$1.00) additional funded debt under Section 17 of Article V of the Principal Indenture;

D. In the case of any sale, transfer, lease or disposition of property or assets by the Company or a Subsidiary, which together with all other properties and assets sold, leased, transferred or otherwise disposed of by the Company and its Subsidiaries (except in the ordinary course of business) during the same fiscal year have an aggregate book value of more than 10% of the consolidated assets of the Company and its Subsidiaries as shown by a consolidated balance sheet of the Company and its Subsidiaries as at the end of the preceding fiscal year of the Company prepared in accordance with any system of accounts required by law to be followed by the Company, or in the absence of such requirements, in accordance with generally accepted accounting principles consistently applied, the Company (x) at the time of such sale, transfer, lease or disposition shall be permitted to become liable in respect of at least one dollar (\$1.00) additional funded debt under Section 17 of Article V of the Principal Indenture and (y) shall, or shall cause such Subsidiary, promptly to apply the amount by which the aggregate net proceeds from such sales, leases, transfers or dispositions in such fiscal year exceeds 10% of the consolidated assets of the Company and its Subsidiaries as shown on such balance sheet to (i) the acquisition of property or assets substantially similar to the property or assets so disposed of, and/or (ii) the repayment or redemption of bonds outstanding under the Principal Indenture in accordance with the terms thereof, upon the concurrent payment of any premium due upon such repayment or redemption, which in the case of any redemption of the Series K Bonds pursuant to paragraph B of Section 3 of Article I of this Eighteenth Supplemental Indenture shall include the Make-Whole Amount; PROVIDED, HOWEVER, that nothing contained in this Section 3 shall prohibit any Subsidiary from selling, leasing, transferring or otherwise disposing of any of its property or assets to the Company or another Subsidiary, and PROVIDED, FURTHER, that any redemption of bonds outstanding under the Indenture required pursuant to this Section 3 shall be made pro rata among all series of bonds then outstanding under the Principal Indenture in proportion to their then outstanding principal amounts, PROVIDED, HOWEVER, to the extent, but only to the extent, that such prorating would involve the redemption of bonds of any series in any amount other than that permitted under the terms of the bonds of such series, the Trustee may, upon any such redemption of such series, in its reasonable discretion, increase or decrease the amount of bonds of such series to be redeemed in such manner as the Trustee, in its reasonable discretion, shall deem appropriate to maintain, in so far as possible, the principal of pro rata redemption in any such redemption or in any series of successive redemptions.

SECTION 4. The Company covenants and agrees that, so long as any Series

K Bonds are outstanding, the Company will not, and will not permit any Subsidiary to, make or own any Investment (hereinafter defined) other than:

A. Investments in Wholly-Owned Subsidiaries (hereinafter defined) (or in corporations which simultaneously therewith become Wholly-Owned Subsidiaries) made by stock purchase, capital contribution, loan or advance;

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B. readily marketable obligations of, or fully and unconditionally guaranteed (as to both principal and interest) by, the United States of America and having a maturity not in excess of 12 months from the date of acquisition thereof;

C. negotiable certificates of deposit (having a maturity not in excess of 12 months from the date of acquisition thereof) evidencing direct obligations of any commercial bank or trust company organized and operating in the United States of America and having capital, surplus and undivided profits of at least one-hundred million dollars (\$100,000,000);

D. accounts receivable arising from transactions in the ordinary course of business;

E. contingent liabilities represented by endorsements of negotiable instruments for collection or deposit in the ordinary course of business;

F. advances, deposits, down payments and prepayments on account of firm purchase orders made in the ordinary course of business;

G. property to be used in the ordinary course of business;

H. commercial paper having a maturity not in excess of 270 days from the date of acquisition thereof and having a rating of "A-1" or better from Standard & Poor's Corporation or "P-1" or better from Moody's Investors Service, Inc.;

I. Investments pursuant to the COM/ENERGY Money Pool Agreement as was approved in an order dated November 12, 1981 of the Massachusetts Department of Public Utilities in D.P.U. 880, as said agreement may be amended from time to time with the written approval of the Massachusetts Department of Public Utilities; and

J. Investments not otherwise permitted under clauses A through I above in an aggregate amount at any time, valued at the lower of cost and fair market value, not in excess of five percent (5%) of the Consolidated Net Worth of the Company and its Subsidiaries, as shown on the consolidated balance sheet of the Company and its Subsidiaries as at the end of the preceding fiscal year of the Company, prepared in

accordance with any system of accounts required by law to be followed by the Company, or in the absence of such requirement, in accordance with generally accepted accounting principles consistently applied.

SECTION 5. The Company covenants and agrees that, so long as any Series K Bonds are outstanding, the Company will not, and will not permit any Subsidiary to, engage in any transaction with an Affiliate (hereinafter defined) of the Company (other than a Wholly-Owned Subsidiary) or of such Subsidiary (other than the Company or a Wholly-Owned Subsidiary) which materially and adversely affects the financial integrity of the Company or of the Company and its Subsidiaries taken as a whole, PROVIDED, HOWEVER, all transactions with Affiliates specifically approved or permitted by the Massachusetts Department of Public Utilities shall be deemed not to materially and adversely affect the financial integrity of the Company or of the Company and its Subsidiaries taken as a whole.

SECTION 6. The Company covenants and agrees that, so long as any Series K Bonds are outstanding, the Company will not permit the aggregate principal amount of outstanding funded debt (as defined in the Indenture) of its Subsidiaries to exceed at any time fifteen percent (15%) of the Consolidated Net Worth (hereinafter defined) of the Company and its Subsidiaries.

SECTION 7. The Company covenants and agrees that so long as any Series K Bonds are outstanding (i) not less than 75% of the Consolidated Adjusted Net Income (hereinafter defined) of the Company and its Subsidiaries in each

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fiscal year shall have been derived directly from the Company's gas utility operations and businesses related to gas utility operations or (ii) assets representing not less than 75% of the book value of the assets of the Company and its Subsidiaries (as shown on the consolidated balance sheet of the Company and its Subsidiaries as at the end of such fiscal year) shall have been assets used in the Company's gas utility operations and businesses related to gas utility operations.

SECTION 8. For purposes of this Article II of this Eighteenth Supplemental Indenture the following capitalized terms shall have the following respective meanings:

"AFFILIATE" of any Person shall mean any Person which, directly or indirectly, controls or is controlled by or is under common control with such Person and, without limiting the generality of the foregoing, shall include (a) any Person beneficially owning or holding 5% or more of any class of voting securities of such Person or (b) any other Person of which such first-mentioned Person owns or holds 5% or more of any class of voting securities. For the purposes of this definition, "CONTROL" (including, with correlative meanings, the terms "CONTROLLED BY" and "UNDER COMMON CONTROL WITH"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise; PROVIDED that the fact that a Person may be a member of

the Board of Directors or an officer of such Person shall not by itself be a presumption of control, and PROVIDED, FURTHER, that in no event shall the fact that a Person is a holder of indebtedness of such Person be considered to enable such Person to direct or cause the direction of the management and policies of such Person.

"CONSOLIDATED ADJUSTED NET INCOME" shall mean net earnings after income taxes of the Company and each Subsidiary, determined on a consolidated basis and (except as may be hereinafter provided) in accordance with any system of accounts required by law to be followed by the Company, or in the absence of such requirements, in accordance with generally accepted accounting principles, excluding:

(1) any gain arising from any write-up of assets;

(2) net earnings of any Person in which the Company or any Subsidiary has an ownership interest unless those net earnings have actually been received by the Company or the Subsidiary in the form of cash distributions or, to the extent of their fair market value, in the form of any other freely transferable property; and

(3) any portion of the net earnings of any Subsidiary which for any reason is unavailable to pay dividends to the Company or any other Subsidiary.

"CONSOLIDATED NET WORTH" of the Company and its Subsidiaries shall mean, at any date, the sum of the capital stock (minus treasury stock and capital stock subscribed and unissued) and surplus (including retained earnings, additional paid-in capital and the balance of the current profit and loss account not transferred to surplus) of the Company and its Subsidiaries, prepared on a consolidated basis in accordance with generally accepted accounting principles, and after giving appropriate effect to outside minority interests, if any, in Subsidiaries.

"INVESTMENT" shall mean any investment made by stock purchase, capital contribution, loan, advance, acquisition of indebtedness, guaranty, or otherwise.

"PERSON" shall mean an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"WHOLLY-OWNED SUBSIDIARY" shall mean any Subsidiary all of the outstanding shares of which, other than directors qualifying shares, shall at

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the time be owned by the Company or by one or more Wholly-Owned Subsidiaries or by the Company and one or more Wholly-Owned Subsidiaries and the accounts of which are consolidated with those of the Company in accordance with generally accepted accounting principles.

ARTICLE III

SECTION 1. All the trusts, terms, conditions, provisions and powers conferred and set forth in the Principal Indenture and the Supplemental Indentures (except as expressly amended hereby and except insofar as they shall apply and relate solely to the bonds of any series issued prior to the Series K Bonds, or are not fully consistent with the terms and provisions hereof and of the bonds of Series K issued hereunder) apply and relate to the Series K Bonds, as fully in all respects as if they had been specifically contained and set forth herein.

SECTION 2. The Trustee shall be entitled to, may exercise and shall be protected by, where and to the full extent that the same are applicable, all the rights, powers, privileges, immunities and exemptions and shall be subject to the duties and liabilities of the Trustee provided in the Principal Indenture as if the provisions concerning the same were incorporated herein at length. The remedies and provisions of the Principal Indenture applicable in case of any default by the Company thereunder are hereby adopted and made applicable in case of any default with respect to the properties hereby mortgaged and pledged to and with the Trustee. Without limiting the generality of the foregoing, there are hereby conferred upon the Trustee the same powers of sale and other powers over the properties described herein as are by the Principal Indenture expressed to be conferred.

SECTION 3. The recitals and statements in this Eighteenth Supplemental Indenture shall be taken as statements by the Company alone and shall not be considered as made by or as imposing any obligation or liability upon the Trustee nor shall the Trustee be held responsible for the legality or validity of this Eighteenth Supplemental Indenture, and the Trustee makes no covenants or representations, and shall not be responsible as to or for the effect, authorization, execution, delivery, recording or filing of this Eighteenth Supplemental Indenture, except as expressly set forth herein and in the Principal Indenture.

SECTION 4. This Eighteenth Supplemental Indenture is expressly made supplemental to said Principal Indenture, and the use of terms and expressions herein is in accordance with the definitions and constructions contained therein which Principal Indenture is hereby in all respects ratified, approved and confirmed, except as expressly amended hereby.

SECTION 5. Any term used in this Eighteenth Supplemental Indenture, not otherwise defined herein or in the Principal Indenture, which is defined in the Trust Indenture Act of 1939, directly or by reference to the Securities Act of 1933, shall have the meaning prescribed in said Trust Indenture Act of 1939.

SECTION 6. This Eighteenth Supplemental Indenture may be simultaneously executed in any number of counterparts, and all of said counterparts executed and delivered each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF said Commonwealth Gas Company has caused its official seal to be hereto affixed and attested and these presents to be signed in its name and behalf by its officer thereunto duly authorized by vote of its Board of Directors and its Stockholder, and State Street Bank and Trust Company, in token of its acceptance of the trusts herein set forth, has caused its corporate seal to be hereto affixed and attested and these presents to be

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signed by its duly authorized officers as of the day and year first above written.

COMMONWEALTH GAS COMPANY

(CORPORATE SEAL)

By
Financial Vice President and
Treasurer

Attest
Assistant Clerk

STATE STREET BANK AND
TRUST COMPANY, Trustee

(CORPORATE SEAL)

By
Assistant Vice President

Attest
Assistant Secretary

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THE COMMONWEALTH OF MASSACHUSETTS

Middlesex County, ss.

On this _____ day of December in the year 1993 before me personally came James D. Rappoli to me personally known and being duly sworn did depose and say that he is the Financial Vice President and Treasurer of Commonwealth Gas Company, one of the corporations described in and which executed the foregoing Eighteenth Supplemental Indenture; that said instrument was signed on behalf of said corporation by authority and order of its board of directors and by authority of its stockholders; that he signed his name thereto by like

authority and order; and he acknowledged said instrument to be his free act and deed as such officer, and the free act and deed of said Commonwealth Gas Company.

(Notary Seal)

Notary Public
for The Commonwealth of
Massachusetts

My Commission expires:

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THE COMMONWEALTH OF MASSACHUSETTS

Norfolk County, ss.

On this day of December in the year 1993 before me personally came Daniel Golden to me personally known and being duly sworn did depose and say that he is Assistant Vice President of State Street Bank and Trust Company, one of the corporations described in and which executed the foregoing Eighteenth Supplemental Indenture; that said instrument was signed on behalf of said corporation by authority of its board of directors; and said officer acknowledged said instrument to be his free act and deed as such officer and the free act and deed of said State Street Bank and Trust Company.

(Notary Seal)

Notary Public
for The Commonwealth of
Massachusetts

My Commission expires: