

PURCHASED GAS COST RIDER

PROVISIONS FOR RECOVERY OF PURCHASED GAS COSTS

Rates for each thm of gas supplied to sales customers subject to this Rider under the Rate RSS, Rate RDGSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules shall include \$0.48704 per thm for recovery of purchased gas costs. This rate includes the commodity cost component (CC) of \$0.44127 per thm, the commodity e-factor component (CE) of (\$0.05980) per thm, the demand cost component (DC) of \$0.12977 per thm, and the demand e-factor component of (\$0.02420) per thm. (C)

DISTRIBUTION SERVICE

Rates for each thm of gas distributed under the Rate RDS, Rate RDGDS, Rate SCD and Rate SGDS rate schedules for Priority-One Service customers shall include \$0.10557 per thm for recovery of purchased gas demand costs. This rate includes the DC of \$0.12977 per thm and the demand e-factor component of (\$0.02420) per thm. (C)

Such rates shall be increased or decreased, from time to time, as provided by Section 1307(f) of the Public Utility Code and the Commission's Regulations, to reflect changes in the level of purchased gas costs, as calculated in the manner set forth below.

QUARTERLY UPDATES

The Company's rates for recovery of purchased gas costs are also subject to quarterly adjustments under procedures set forth in the Commission's regulations at 52.Pa. Code § 53.64 (i) (5). Such updates shall reflect, in addition to the provisions of the regulation, adjustments to the projected commodity cost of purchased gas based upon more current versions of the same sources of data and using the same methods to project the commodity cost of purchased gas approved by the Commission in the Company's most recent annual proceeding for recovery of purchased gas costs under section 1307(f) of the Public Utility Code.

COMPUTATION OF PURCHASED GAS COMMODITY COSTS PER THM (C)

Purchased gas commodity costs, per thm, shall be computed to the nearest one-thousandth cent (0.001¢) in accordance with the formula set forth below: (C)

$$PGCC = [(CC - CE) \div S]$$

Purchased gas commodity costs, so computed, shall be included in rates charged to customers for gas service under the Rate RSS, Rate RDGSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules for consecutive twelve month periods beginning October 1 of each year unless such period is revised by the Commission. The amount of purchased gas commodity costs, per thm, will vary, if appropriate, based upon annual filings, by the Company, pursuant to Section 1307(f) of the Public Utility Code and such supplemental filings as may be required or be appropriate under Section 1307(f) of the Commission's Regulations adopted pursuant thereto. (C)

In computing purchased gas commodity costs, per thm, pursuant to the formula, above, the following definitions shall apply: (C)

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

COMPUTATION OF PURCHASED GAS COMMODITY COSTS PER THM - Continued

(C)

"PGCC" - purchased gas commodity costs determined to the nearest one-thousandth cent (0.001¢) to be included in rates for each thm of gas supplied under this Rider for the Rate RSS, Rate PRDGSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules.

(C)

"CC" - the estimated current commodity cost of gas, which shall be determined as follows:

1. for all types of purchased gas, the projected commodity cost for each purchase (adjusted for net current gas stored), for the projected period when rates will be in effect; plus
2. the arithmetic difference of (a) the projected book value of noncurrent gas at the beginning of the computation year minus (b) the projected book value of noncurrent gas at the end of the computation year; plus
3. any other purchased gas costs not defined as demand costs.

"CE" - experienced net overcollection or undercollection of purchased gas commodity costs.

Such experienced net overcollection or undercollection shall be determined for the most recent period permitted under law which shall begin with the month following the last month which was included in the previous over-under collection calculation reflected in rates.

Supplier refunds received that are specifically identifiable as refunds of commodity costs will be in the calculation of "CE" with interest added at the annual rate of six percent (6%) calculated from the month received to the effective month such refund is refunded. The period over which such refunds will be made shall be established by the Commission.

"S" - projected thms of gas to be billed to customers subject only to Rider PGC under the commodity charges of the Rate RSS, Rate PRDGSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules of this tariff during the period when rates will be in effect.

(C)

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

COMPUTATION OF PURCHASED GAS DEMAND COSTS PER THM

(C)

For customers subject to this Rider, purchased gas demand costs, per thm, shall be computed to the nearest one-thousandth cent (0.001¢), in accordance with the formula set forth below:

(C)

$$PGDC = (DC - DE) \div S$$

Purchased gas demand costs, so computed, shall be included in rates charged to customers for gas service, pursuant to the Rate RSS, Rate RDGSS, RDS, Rate RDGDS, Rate SGSS, Rate SCD, Rate LGSS, and Rate MLSS rate schedules, and Priority One SGDS Customers receiving distribution service, for consecutive twelve-month periods beginning October 1 of each year unless such period is revised by the Commission. The amount of purchased gas demand costs, per thm, will vary, if appropriate, based upon annual filings, by the Company, pursuant to Section 1307(f) of the Public Utility Code and such supplemental filings as may be required or be appropriate under Section 1307(f) of the Commission's regulations adopted pursuant thereto.

(C)

In computing purchased gas demand costs, per thm, pursuant to the formula, above, the following definitions shall apply:

(C)

"PGDC" - purchased gas demand costs determined to the nearest one-thousandth cent (0.001¢) to be included in rates for each thm of gas supplied under the Rate RSS, Rate RDGSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules of the tariff.

(C)

"DC" - the estimated current demand cost of gas, which shall be determined as follows:

1. for all types of purchased gas, the projected total demand charges from any interstate pipeline company or any source of gas supply purchased by the Company for the projected period when rates will be in effect; plus
2. the projected firm transportation reservation or standby service charges of any interstate or intrastate pipeline or supplier, excluding charges for transportation acquired for the purpose of providing the Full Balancing Service under Rider EBS – Option 1; plus
3. the projected charges for storage capacity of any interstate or intrastate pipeline supplier, excluding charges for storage capacity acquired for the purpose of providing the Full Balancing Service under Rider EBS – Option 1.

From the sum of items 1, 2 and 3 the following amount shall be deducted:

- a. the projected Maximum Daily Firm Requirement to be billed to all customers under Rate SS during the projected period times the rate per thm under the Maximum Daily Firm Requirement charge of Rate SS;
- b. the projected intra-month balancing service costs to be billed to customers electing Rider EBS - Option 2.

(C)

"DE" - experienced net overcollection or undercollection of purchased gas demand costs.

Such experienced net overcollection or undercollection shall be determined for the most recent period permitted under law which shall begin with the month following the last month which was included in the previous over-undercollection calculation reflected in rates. "DE" shall be \$0 prior to October 1, 1996.

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

COMPUTATION OF PURCHASED GAS DEMAND COSTS PER THM – Continued

(C)

Supplier refunds that are not included in "CE" will be included in the calculation of "DE" with interest added at the annual rate of six percent (6%) calculated from the month received to the effective month such refund is refunded. The period over which such refunds will be made shall be established by the Commission.

"S" - projected thms of gas to be billed to customers under the distribution charges of the Rate RSS, Rate RDGSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules plus the projected thm of gas to be distributed to customers under Rate RDS, Rate RDGDS, Rate SCD and SGDS Priority One Distribution rate schedules of this tariff during the period when rates will be in effect.

(C)

CALCULATION OF PURCHASED GAS DEMAND COST FOR CUSTOMERS ELECTING CHOICE SERVICE

The purchase gas demand cost rate included in the distribution charge of customers taking Choice Service shall be \$0.07626/thm. Such rate shall be equal to the Purchased Gas Demand Component of \$0.10557 as calculated above, less a credit of \$0.02931/thm. The credit per thm shall be equal to the projected annual cost of assigned Firm Capacity less estimated annual storage commodity costs (storage injection, withdrawal, shrinkage and commodity transportation cost) with the net divided by the estimated, normalized annual usage of customers electing Choice Service. For purposes of calculating the Price to Compare under the Company's Choice program, the credit noted above will be added to the Company's commodity cost of gas (CC) component.

(C)

DETERMINATION OF OVER/UNDERCOLLECTION OF GAS COSTS

Commodity E-factor

In computing the experienced over/under collection of purchased gas commodity costs for a period defined by the Commission, the following procedure shall be used.

- (a) All experienced purchased gas commodity costs actually incurred by the Company to service customers pursuant to all rate schedules of this tariff.

Experienced purchased gas commodity costs shall include, but not be limited to, the following:

- (1) the cost of propane to provide service under Rate PS,
- (2) payments to suppliers to accept assignment of capacity on interstate pipelines other than Columbia Gas Transmission Corporation to the extent permitted under the Rules Applicable to Distribution Service,
- (3) costs paid for employing futures, options and other risk management tools, including but not limited to, supplier related costs associated with the fixed price contracts or financial contracts utilized by the Company to lessen the impact of price volatility for PGC customers, and
- (4) the index price of gas purchased from distribution customers under the provisions of the Deliveries in Excess of Consumption section of Paragraph 3 of the Rules Applicable to Distribution Service.

(C)

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

DETERMINATION OF OVER/UNDERCOLLECTION OF GAS COSTS - Continued

- (b) The following amount shall be included as revenues recovered for gas commodity costs:
- (1) an amount determined by multiplying commodity sales quantities subject only to Rider PGC billed under the Rate RSS, Rate SGSS, Rate LGSS, and Rate MLSS rate schedules, for the applicable over/undercollection period, times the PGCC component excluding the commodity E Factor; plus (C)
 - (2) an amount determined by multiplying commodity sales quantities billed under Rate SGDS, Rate SDS, Rate LDS, Rate MLDS, and Rate SDSS rate schedules, times the index price of gas defined in the Consumption in Excess of Deliveries section of the Rules Applicable to Distribution Service. (C)

Demand E-factor

In computing the experienced over/undercollection of purchased gas demand costs for a period defined by the Commission, the following procedure shall be used.

- (a) All experienced purchased gas demand costs actually incurred by the Company to service customers pursuant to all rate schedules of this tariff, excluding the cost of capacity acquired for the purpose of providing Full Balancing Service under Option 1 of the Elective Balancing Services Rider. Capacity acquired to provide Full Balancing Service under EBS Option 1 will include sufficient storage capacity for the aggregate of the maximum banks provided under this option, and sufficient storage withdrawal and transportation capacity to provide the firm balancing entitlements.
- (b) The following amount shall be included as revenues recovered for gas demand costs:
 - (1) an amount determined by multiplying commodity sales quantities billed under this Rider for the Rate RSS, Rate SGSS, Rate LGSS and MLSS rate schedules, for the applicable over/undercollection period, times the PGDC component excluding the demand E Factor; plus (C)
 - (2) the amounts billed under Rate SS; plus
 - (3) the amounts billed distribution service customers under Rider EBS - Option 2; plus
 - (4) an amount determined by multiplying distribution quantities billed under Rate RDS and Rate SCD for the applicable over/undercollection period, times the applicable PGDC component excluding the demand E factors; plus (C)

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

DETERMINATION OF OVER/UNDERCOLLECTION OF GAS COSTS - Continued

Demand E-Factor – Continued

- (5) credits received for capacity assigned pursuant to the Rules Applicable to Distribution Service; plus

Interest on over/under collection of gas costs shall be computed monthly at the appropriate rate provided for in Section 1307(f)(5) of the Public Utility Code from the month that the over or undercollection occurs to the effective month such over or undercollection is refunded.

ADJUSTMENT OF "E" FACTOR AMOUNTS

Each 1307(f) rate shall also provide for refund or recovery of amounts necessary to adjust for over or underrecoveries of "E" factor amounts included in prior 1307(f) rates. In computing the amount to be included for over or undercollection of "E" factor amounts, the amount recovered for "E" factor amounts under the prior 1307(f) rate shall be determined by multiplying the applicable commodity quantities billed under the Rate RSS, Rate RDGSS, Rate SGSS, Rate LGSS, Rate MLSS, Rate RDS, Rate RDGDS, Rate SGDS, and Rate SCD rate schedules during the applicable 1307(f) period times the portion of the PGCC and the PGDC component that provides for recovery of "E" factor amounts. (C)

SUPPLIER REFUNDS APPLICABLE TO RATE SS CUSTOMERS

Any supplier refunds received from Columbia Gas Transmission Corporation, which are specifically identified as refunds of Contract Demand charges made after March 31, 1992, shall be refunded pro rata to customers taking service during the applicable prior period(s) under Rate SS. All refunds shall include interest added at the annual rate of six percent (6%) calculated from the month received to the month the refund is made. Refunds shall be paid once each year, as soon as practicable following October 30 of each year, and shall include all applicable supplier refunds received by the Company during the preceding twelve-month period ended October 30.

SHARING OF OFF-SYSTEM SALES REVENUE

Following is the definition of gas cost for off-system sales program.

- (1) For sales in which a specific purchase is not made, the cost of gas will be defined as the daily average city gate commodity cost of the gas supplies purchased by the Company and flowing on the first of the month (WACCOG). For sales made upstream of the Company's city gate, the cost of transportation, including retainage, from the point of sale to the city gate will be subtracted from the WACCOG. This amount will be further adjusted to include applicable taxes, other than income taxes, and other costs.
- (2) For incremental sales in which a specific purchase is made, the cost of gas will be defined as the purchase price plus transportation costs, including retainage, taxes and other costs that have or will be incurred.

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

GAS PROCUREMENT INCENTIVE PROGRAM

The gas procurement incentive program will be limited to spot gas purchased for the months of April through October. Each month the Company's actual cost will be compared to an adjusted NYMEX index for such month.

The adjusted NYMEX index will be determined by averaging the month end closing prices reported for the last three days of trading on NYMEX after adjusting these prices for the differential between the average of indices representing cash prices paid on such days at the Henry Hub, for gas to be delivered on the first day of the month, and the average of indices prices representing the specific delivery points where Columbia takes title to its gas supply. In any instances where indices are not published in any one of the three chosen publications for a receipt point where the Company purchases spot gas, then the index used will be (1) Columbia Gas Transmission Corporation's Appalachian Index average used at points of delivery into Columbia Gas Transmission Corporation; (2) Columbia Gas Transmission Corporation's Appalachian Index average plus Columbia Gas Transmission Corporation's Storage Service Transportation commodity costs used at points of delivery out of Columbia Gas Transmission Corporation; or (3) if the first two are not appropriate, the price paid will be adjusted by deducting a 100% load factor firm transportation rate to the most applicable receipt point where an index is available. The index and Henry Hub prices utilized will be an average of first of the month prices reported in *Inside F.E.R.C.'s Gas Market Report*, *Natural Gas Week* and *Natural Gas Intelligence*.

A band of ninety-nine (99%) to one-hundred one percent (101%) will be applied monthly to the average indexed prices, as described above, to be compared to the Company's actual prices paid for spot gas purchased to flow during the month to determine the appropriate monthly retention of savings or absorption of losses. The Company will share savings 50%/50% between customers and the Company for increments of actual gas purchases below ninety-nine percent (99%) of the adjusted NYMEX index. The Company will absorb losses 50%/50% between customers and the Company for increments of actual gas purchases above one-hundred one percent (101%) of the adjusted NYMEX index. If the actual gas purchases fall within the band, there will be no sharing.

This program will be in effect from October 1, 2002 through September 30, 2004, unless extended by the Company with approval of the Commission.

RATE NGV GAS COST CREDIT

The following purchased gas cost credits shall be provided for all gas sold under the NGV rate schedule:

1. Demand Costs

For firm sales under Rate NGV, an amount per thm for recovery of demand costs determined as follows: (C)

$$\frac{\text{Annual Demand Costs}}{(\text{Maximum Daily Quantity} \times 365) \times \text{Average NGV Load Factor}} \quad (C)$$

Where:

- a. Annual Demand Costs equal the total annual demand charges for supply and capacity included in the Company's purchased gas cost rates under the Purchased Gas Cost Rider, and (C)
- b. Maximum Daily Quantity equals maximum firm deliveries that can be made by the Company to its customers during the winter period.

PURCHASED GAS COST RIDER (Continued)

RATE NGV GAS COST CREDIT - Continued

For interruptible sales under Rate NGV, an amount for recovery of upstream capacity costs, which is the greater of the following:

- a. The average rate per thm of all final accepted bids for thirty day recallable capacity received by the Company five days prior to the commencement of each month of the contract; or (C)
- b. \$.00465/thm in December, January and February, and \$.00093/thm in all other months. (C)

2. Commodity Costs

The amount to be credited for recovery of commodity costs shall be determined on a monthly basis and shall equal the highest cost of spot purchases scheduled to commence on the first day of each month, including transportation and retainage. If no spot purchases are scheduled, the amount to be credited shall be the average commodity cost of gas purchased during the months, including transportation and retainage. (C)

SHARING OF CAPACITY RELEASE REVENUE

Capacity release credits derived from "administrative releases" shall be excluded from the foregoing sharing calculation, and all such credits actually derived shall be included in the "E" Factor in their entirety. "Administrative releases" are defined as follows:

- (i) Revenues for release of capacity to a producer or marketer where Columbia purchased the gas transported by the producer or marketer for its system supply;
- (ii) Revenues from releases of capacity at full margin to certain end-use customers where such releases were the result of the conversion of pre-Federal Energy Regulatory Commission Order No. 636 buy-sell arrangements; and
- (iii) Revenues from releases of capacity used in serving end users in a Commission-approved unbundling of service, provided that the benchmark would be adjusted to reflect the assignment of such capacity.

Effective October 1, 2002, capacity release revenue shall be subject to the sharing mechanism as set forth on Page No. 159.

(C) Indicates Change

PURCHASED GAS COST RIDER (Continued)

SHARING MECHANISM FOR OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUES

Effective October 1, 2010 through September 30, 2011, the sharing mechanism for the off-system sales and capacity release revenues shall be as follows. Customer shall receive 75% of all net proceeds. The Company will reflect in the calculation of PGC rates a projected credit of \$8.0 million per year. The projected credit will be reconciled to the customers' share of actual credits.

The projected and reconciled off-system sales and capacity release margins credited to the PGC will be divided between the Purchased Gas Demand Cost (PGDC) and the Purchased Gas Commodity Cost (PGCC). The PGDC will be credited with 40% of the margins. The PGCC will be credited with 60% of the margins.

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