

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
12.1 GAS SUPPLY CHARGE

The Gas Supply Charge is applicable to customers taking service under Service Classification Nos. 1 and 2.

The rate for the Gas Supply Charge shall be equal to the Average Cost of Gas used in retail gas operations of Orange and Rockland Utilities, Inc. multiplied by the Factor of Adjustment and rounded to the nearest 0.001 cents per Ccf. The Gas Supply Charge shall also include a surcharge or refund to recover Gas Supply Charge under-recoveries or refund Gas Supply Charge over-collections. Such surcharge or refund shall be calculated in accordance with (E) below.

(A) Factor of Adjustment

The Factor of Adjustment, used to adjust the cost of gas to reflect lost and unaccounted for gas, equals 1.0186.

(B) Conversion Factor

The conversion factor, used to convert the average cost of gas calculated on a Dth basis to an Mcf basis, shall be the estimated Btu content of the gas delivered each month.

(C) Average Cost of Gas

Pursuant to the Settlement Agreement adopted by the Commission in its Order Authorizing Merger, issued and effective April 2, 1999 and Confirming Order, issued and effective April 14, 1999 in Case No. 98-M-0961, gas will be purchased under a common supply arrangement for both Consolidated Edison Company of New York and Orange and Rockland Utilities ("Companies"). The arrangement will be administered by a single corporate department or entity for the benefit of the Companies. The department or entity will purchase gas and services for the Companies in a manner that minimizes their total cost.

The Company's monthly average cost of gas applicable to the rates under Service Classification Nos. 1 and 2 shall be based upon the Company's apportioned share of fixed and variable costs and shall be computed as follows:

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.1 GAS SUPPLY CHARGE (Cont'd.)

(C) Average Cost of Gas (Cont'd.)

(1) Fixed Cost

Fixed gas costs include pipeline demand charges, capacity costs associated with Mandatory Capacity Release Service under Service Classification No. 11, supplier gas inventory charges, storage demand charges, and any similar charges that do not vary with the volume of gas purchased except for balancing costs as described in General Information Section No. 12.2(I).

The fixed gas cost of the Companies associated with pipeline capacity, storage capacity, and purchased gas contract entitlements, except costs associated with balancing service, shall be allocated to each company using fixed percentages. The fixed percentages are based on ratios of each Company's forecasted winter peak day capacity requirement to the total forecasted peak day capacity requirement of the Companies. The fixed percentages shall be revised at least annually to become effective each November 1. The Company shall be permitted to make interim revisions to the fixed percentages, if necessary, to reflect a significant shift in peak day capacity requirements between the Companies. The Company shall advise Commission Staff on or before October 1 of each year of any changes to the fixed percentages to be implemented the following November 1.

The Company's apportioned share of fixed costs, determined in the manner set forth above, shall then be reduced by annual estimates of the revenues, fees and charges set forth below and then divided by the forecast quantities of gas to be taken for delivery to the Company's firm sales customers for the 12 calendar months ending the following August 31:

- (a) Revenues from off-system sales, less any associated gas costs;
- (b) Capacity related revenues associated with Service Classification Nos. 9 and 10;
- (c) Transition Surcharge revenues; and
- (d) Revenues associated with the Capacity Release Service Adjustment assessed under General Information Section No. 12.2(F).

Issued By: William Longhi, President, Pearl River, New York
(Name of Officer, Title, Address)

PSC NO. 4 GAS LEAF: 73.1
ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 1
INITIAL EFFECTIVE DATE: November 1, 2009 SUPERSEDING REVISION: 0
Issued in compliance with Commission order in Case 08-G-1398, dated 10/16/09

GENERAL INFORMATION

(RESERVED FOR FUTURE USE)

Issued By: William Longhi, President, Pearl River, New York
(Name of Officer, Title, Address)

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.1 GAS SUPPLY CHARGE (Cont'd.)

(C) Average Cost of Gas (Cont'd.)

(2) Variable Cost

Variable gas costs include purchased gas cost, storage gas cost, alternate gas supplies, i.e., liquefied natural gas, liquefied propane gas, and propane-air, variable transportation costs, applicable surcharges and taxes, the commodity cost of gas associated with bundled purchases made by the Company including bundled purchases associated with Service Classification No, 11, and the costs associated with risk management programs.

The variable cost of the Companies shall be determined by:

- (i) applying the variable rates and charges of the transporters, storage and peaking providers, and suppliers to the billing determinates associated with transportation, storage and peaking, bundled purchases, and gas supply for the forecasted weather normalized quantities of gas to be taken for delivery to the Companies' firm sales customers during the month in which the gas supply charge will be in effect, adjusted further for the costs associated with risk management programs; and
- (ii) applying the average unit cost of gas in storage at the date of computation to the quantities of gas estimated to be withdrawn from storage for the Companies' firm sales customers during the month in which the gas supply charge will be in effect.

The variable cost shall be allocated between the companies in proportion to their respective monthly firm sales sendout quantities.

The Company's share of the variable cost shall be adjusted as follows:

- (a) The Company's share of the variable cost shall be reduced by all gas costs recovered via the rates and charges for service under Service Classification No. 9 or 10 of this Schedule.

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.1 GAS SUPPLY CHARGE (Cont'd.)

(C) Average Cost of Gas (Cont'd.)

(2) Variable Cost (Cont'd.)

- (b) The Company's share of the variable cost shall be increased by the replacement cost of fuel established as compensation, under Section 11.1(E)(1) of this Schedule, to customers resulting from the diversion of gas from non-core customers to core customers.

The Company's share of the variable cost, adjusted as described above, shall be divided by the forecasted weather normalized quantities of gas to be taken for delivery to the Company's firm sales customers during the month in which the gas supply charge will be in effect.

(3) Average Cost of Gas

The Average Cost of Gas is the sum of the unit amounts determined in (1) fixed cost and (2) variable cost.

(4) Mcf Conversion

The Average Cost of Gas shall be multiplied by the Conversion Factor in (B) to convert the cost per Dth to a cost per Mcf.

(D) Annual Reconciliation

Actual gas cost recoveries shall be reconciled with actual gas expenses each year, and a surcharge or refund to recover Gas Supply Charge under-recoveries or refund Gas Supply Charge over-collections shall be computed as follows:

- (1) taking the cost of gas, adjusted for supplier refunds, revenues from off-system sales net of any associated gas costs; capacity-related revenues associated with Service Classification Nos. 9 and 10; liquefied propane consumed; Transition Surcharge revenues; and any Over- and Under-delivery Charges assessed under Service Classification Nos. 8 and 13 and the Charge for Unauthorized Use of Gas assessed under Service Classification Nos. 3 and 8; any penalty charges, cash out costs/recoveries and Winter Bundled Sales ("WBS") Service Option recoveries, excluding carrying charges on the cost of WBS gas, associated with Service Classification No. 11;

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.1 GAS SUPPLY CHARGE (Cont'd.)

(D) Annual Reconciliation (Cont'd.)

(1) (Cont'd.)

and Peak Shaving Supply Fees assessed under Service Classification No. 6 as recorded on the Company's books during the determination period, adjusting that cost to reflect a level of purchased gas commensurate with actual sales and the fixed factor of adjustment, and subtracting therefrom an amount equal to:

- (a) Gas Supply Charge revenues recorded during the determination period, adjusted to eliminate associated revenue tax recoveries;
 - (b) costs recorded during the determination period assignable to gas sold to customers not subject to the Gas Supply Charge; and
 - (c) (i) the previous year's over-collection including interest, to the extent not refunded, or
(ii) adding the previous year's under-collection including interest, to the extent not recovered.
- (2) The amount derived in paragraph (1) of this subdivision shall be divided by the quantities of gas to be sold by the Company to its customers during the surcharge/refund period.
- (3) Surcharge or refund amounts shall bear interest, at a rate prescribed by the Commission, on unamortized balances.
- (4) The determination period to be used in the computation of the surcharge or refund shall be the 12 months ended August 31 of each year. The computation shall be filed with the Commission on or before October 15, and the resulting surcharge or refund shall be effective with the first January billing cycle date.
- (5) Revisions to the annual surcharge/refund adjustment will be permitted during the 12 month period ended August 31 for the purpose of preventing large over-collection or under-collection balances from accruing at August 31, subject to Commission approval.

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.1 GAS SUPPLY CHARGE (Cont'd.)

(E) Statement of Gas Supply Charge

- (1) The Gas Supply Charge computed as herein provided, shall be effective for service rendered on and after the first day of the calendar month following the computation date and shall continue in effect until changed. Gas Supply Charges will be prorated based on the number of days each Gas Supply Charge is in effect during a billing period.

- (2) The Statement of Gas Supply Charge shall be filed with the Public Service Commission and apart from this Rate Schedule not less than three days prior to the date on which it is proposed to be effective. Such Statement will be available to the public at Company offices at which applications for service may be made. Each Statement shall contain:
 - (a) an identification of the schedules and service classifications to which they apply;
 - (b) the date when the rates shall become effective and the period such rates will remain in effect;
 - (c) the present average cost to the utility of gas purchased to serve customers subject to the Gas Supply Charge;
 - (d) the date at which, and the period for which, the average was determined;
 - (e) the present factor of adjustment;
 - (f) the amount per unit of consumption affected;
 - (g) a summary of refunds or surcharges to be applied to the Gas Supply Charge; and
 - (h) the net amount per unit of consumption affected.

- (3) A new statement may be filed on one day's notice to become effective not more than five days after the effective date of the initial statement if the replacement of cost estimates in the initial statement with actual figures results in a change in the average cost of gas of more than five percent.

Issued By: John D. McMahon, President, Pearl River, New York
(Name of Officer, Title, Address)

PSC NO. 4 GAS LEAF: 77.1
ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 2
INITIAL EFFECTIVE DATE: March 3, 2008 SUPERSEDING REVISION: 1
Issued in compliance with Commission order in Case 06-G-0059, dated 8/23/07

GENERAL INFORMATION

(RESERVED FOR FUTURE USE)

Issued By: John D. McMahon, President, Pearl River, New York
(Name of Officer, Title, Address)

PSC NO. 4 GAS LEAF: 78
ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 6
INITIAL EFFECTIVE DATE: March 3, 2008 SUPERSEDING REVISION: 4
Issued in compliance with Commission order in Case 06-G-0059, dated 8/23/07

GENERAL INFORMATION

(RESERVED FOR FUTURE USE)

Issued By: John D. McMahon, President, Pearl River, New York
(Name of Officer, Title, Address)

PSC NO. 4 GAS LEAF: 78.1
ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 1
INITIAL EFFECTIVE DATE: March 3, 2008 SUPERSEDING REVISION: 0
Issued in compliance with Commission order in Case 06-G-0059, dated 8/23/07

GENERAL INFORMATION

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Issued By: John D. McMahon, President, Pearl River, New York
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GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

- (A) Transition Surcharge (applicable to Service Classification Nos. 1, 2 and 6)

Customers will be assessed a Transition Surcharge as set forth in the Statement of Monthly Gas Adjustment to recover the stranded costs associated with gas restructuring pursuant to Cases 93-G-0932 and 97-G-1380. Stranded costs shall include the costs of upstream pipeline capacity not utilized for service to gas sales customers and not assigned to Qualified Sellers under Service Classification No. 11 due to customer migration to gas transportation service.

The Transition Surcharge shall be calculated as follows:

$$\text{Transition Surcharge} = \frac{\$cap - \$rev}{\text{Projected Volumes}}$$

where:

$$\$cap = \frac{tcap}{Ucap} * ucap\$$$

tcap = Stranded capacity associated with firm transportation customers purchasing gas from Qualified Sellers under Service Classification No. 11 who obtain upstream pipeline capacity from a source other than the Company, if and to the extent authorized by the Commission and notwithstanding the Commission's order in Case 07-G-0299, issued August 30, 2007. (dth)

ucap = the Company's allocated share of upstream pipeline capacity (dth)

ucap\$ = the Company's allocated share of upstream capacity costs

\$rev = revenues received by the Company for the resale, reassignment or release of stranded capacity (tcap)

Projected Volumes = the volumes estimated to be sold and delivered to customers under Service Classification Nos. 1, 2 and 5 plus transportation volumes estimated to be delivered to Service Classification No. 6 customers commencing service thereunder on or after October 1, 1996.

Service Classification No. 6 customers who commenced service thereunder prior to October 1, 1996 shall not be subject to this provision.

Issued By: John D. McMahon, President, Pearl River, New York
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GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(B) Transition Adjustment for Competitive Services

(1) Applicability

A Transition Adjustment for Competitive Services ("TACS") is applicable to customers taking service under Service Classification Nos. 1, 2, and 6 of this Rate Schedule. Such customers will be assessed the TACS on a per Ccf basis as set forth in the Statement of Monthly Gas Adjustment. The TACS shall be reset annually effective November 1 of each year.

(2) Definitions for Purposes of the TACS

"Merchant Function Charge Fixed Component Lost Revenue" shall be equal to a target of \$1,633,081 attributable to the Merchant Function Charge ("MFC") Fixed Components consisting of a) commodity procurement costs (including commodity revenue based allocation of information resources and education and outreach costs); and b) credit and collections costs portions of the MFC, minus the revenues received through the MFC relating to such MFC Fixed Components.

"Billing and Payment Processing Lost Revenue" shall be equal to the total of billing and payment processing charges avoided by retail access customers less billing service charges assessed on Marketers participating in the Company's Gas Transportation Service program and electing the Utility Single Bill Option, less the Company's avoided costs associated with Marketers participating in the Company's Gas Transportation Service Program and electing the Marketer Single Bill Option.

"Credit and Collections Lost Revenue Associated with Retail Access" shall be equal to a target of \$491,619 attributable to credit and collections costs reflected in the POR discount minus revenues received through the credits and collections component of the POR discount.

PSC NO. 4 GAS LEAF: 79.2
ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 3
INITIAL EFFECTIVE DATE: November 1, 2009 SUPERSEDING REVISION: 1
Issued in compliance with Commission order in Case 08-G-1398, dated 10/16/09

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(B) Transition Adjustment for Competitive Services (Cont'd.)

(2) Definitions for Purposes of the TACS (Cont'd.)

"Prior Period Reconciliation" represents the difference between the amount to be recovered through the TACS and the actual amount recovered through the TACS. Any under-recovery or over-recovery resulting from such reconciliation, plus interest (calculated at the Other Customer Capital Rate), shall be included in the calculation of the subsequent year's TACS.

(3) Calculation of the TACS

The TACS shall be determined by dividing the sum of the MFC Fixed Component Lost Revenue, Billing and Payment Processing Lost Revenue, Credit and Collections Lost Revenue Associated with Retail Access, and the Prior Period Reconciliation by the forecasted Ccf deliveries to Service Classification Nos. 1, 2, and 6 customers for the twelve-month period for which the TACS is to be effective.

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(C) Credit/Surcharge for Sharing of Benefits (applicable to Service Classification Nos. 1, 2 and 6)

The Monthly Gas Adjustment applicable to Service Classification ("S.C.") Nos. 1, 2, and 6 shall be adjusted to reflect the net benefits from 1) interruptible (S.C. Nos. 3 and 8) sales and transportation, firm withdrawable transportation and sales (S.C. Nos. 9 and 10), and firm dual fuel (S.C. No. 5) service (collectively "Interruptible Benefits") and 2) transfer of gas to electric generating facilities previously owned by the Company ("Power Generation Benefits"). Such benefits shall be determined as follows:

(1) Interruptible Benefits

Interruptible Benefits shall be defined as (1) total interruptible revenues from S.C. Nos. 3 and 8 minus any associated gas costs and revenue tax surcharge revenues; (2) total firm withdrawable delivery revenues from S.C. No. 9 and S.C. 10 minus any associated gas costs and revenue tax surcharge revenues; and (3) total firm dual fuel revenues from S.C. No. 5 minus gas costs and revenue tax surcharge revenues.

For each twelve-month period ending October 31, with the first twelve-month period ending October 31, 2010, a base rate revenue imputation of \$2,300,000 relating to the Interruptible Benefits described above shall be in effect. Any variance between the actual total Interruptible Benefits and the base rate revenue imputation for each twelve-month period shall be shared 80 percent/20 percent between customers and the Company respectively, in accordance with Appendix L of the Joint Proposal, dated June 29, 2009, and adopted by the Commission in its Order issued and effective October 16, 2009, in Case No. 08-G-1398.

Customers' share of the Interruptible Benefits so determined shall be credited (or surcharged if negative) to S.C. Nos. 1, 2, and 6 customers. The rate of credit (or surcharge) shall be determined by dividing the estimated customer share available to S.C. Nos. 1, 2, and 6 customers for the twelve-month period ending October 31 of each year by the S.C. Nos. 1, 2, and 6 deliveries estimated for that period.

The Company's share of Interruptible Benefits, if any, shall be retained by the Company and shall be excluded from any determination of Company earnings in excess of the level allowed by the Public Service Commission as any of the

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
(Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(C) Credit/Surcharge for Sharing of Benefits (applicable to Service Classification Nos. 1, 2 and 6) (Cont'd.)

(1) Interruptible Benefits (Cont'd)

provisions of Section 66, subsection 20 of the Public Service Law of the State of New York.

(2) Power Generation Benefits

Power Generation Benefits from the transfer of gas to electric generating facilities previously owned by the Company shall be defined as the amount received for the transfer of gas to such facilities, less any associated gas costs.

For each twelve-month period ending October 31, with the first twelve-month period ending October 31, 2010, a power generation base rate revenue imputation of \$650,000 shall be in effect. Any variance between the actual total Power Generation Benefits and the power generation base rate revenue imputation for each twelve-month period shall be credited (or surcharged if negative) to S.C. Nos. 1, 2, and 6 customers. The rate of credit (or surcharge) shall be determined by dividing the estimated power generation benefits available to S.C. Nos. 1, 2, and 6 customers for the twelve-month period ending October 31 of each year by the S.C. Nos. 1, 2, and 6 deliveries estimated for that period.

The unit rates as determined in (1) and (2) above will be applied to the Monthly Gas Adjustment. At the end of the fiscal year, the Company will determine the actual benefits accrued and compare this amount to the benefits disbursed to (or recovered from) S.C. Nos. 1, 2, and 6 customers during the fiscal year.

Any difference between the benefits accrued and the benefits disbursed (or recovered) shall be reflected in the estimated credits (or surcharges) for the next fiscal year.

The Company shall modify the unit rates determined as described above if a significant change to its estimates of benefits and/or sales volumes occurs during a fiscal year.

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(F) Capacity Release Service Adjustment (applicable to Service Classification No. 6)

The Monthly Gas Adjustment applicable to all Service Classification No. 6 customers shall be adjusted to reflect a Capacity Release Service Adjustment.

The Capacity Release Service Adjustment is a charge/credit reflecting the difference between the projected Adjusted WACOT used to bill Qualified Sellers under Service Classification No. 11 for released capacity and the actual Adjusted WACOT for each twelve-month period commencing November 1. The Capacity Release Service Adjustment shall be set annually, to become effective on November 1, based on the over or under recovery of capacity costs associated with the difference between the projected and actual Adjusted WACOT for the preceding twelve-month period commencing November 1, and estimated deliveries to Service Classification No. 6 customers. In addition, the Capacity Release Service Adjustment effective November 1, 2010, will include a reconciliation of any remaining balance due to the difference between the amount charged/credited to Service Classification No. 6 customers through the Capacity Release Service Adjustment and the actual differences between pipeline reservation rates and the Company's Adjusted WACOT for the twelve-month period ended October 31, 2010.

(G) Curtailement Cost Recovery Charge (applicable to Service Classification Nos. 1, 2 and 6)

Customers shall be subject to a charge, stated on a cents per Ccf basis and shown separately on the Statement of Monthly Gas Adjustment, to recover the costs associated with payments made to Sellers in accordance with General Information Section 11.1 (E) "Curtailement of Service" of this Rate Schedule.

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(H) Temporary Surcharge (applicable to Service Classification Nos. 1, 2 and 6)

Customers shall be assessed a Temporary Surcharge to recover a portion of the Company's Rate Year 3 delivery revenue requirement as adopted by the Commission in Case No. 08-G-1398. The Temporary Surcharge shall be designed to recover \$4.338 million (\$4.293 million net of revenue taxes) and shall be assessed for service rendered from November 1, 2011 through October 31, 2012.

(I) Balancing Charge (applicable to Service Classification Nos. 1, 2 and 6)

Customers shall be subject to a charge, stated on a cents per Ccf basis and shown separately on the Statement of Monthly Gas Adjustments, to recover balancing costs.

Gas is purchased under a common supply arrangement for both Consolidated Edison Company of New York and Orange and Rockland Utilities ("Companies") as described in General Information Section No. 12.1(C). Balancing ("load following") costs shall be equal to the sum of the Companies' annualized fixed storage charges and fixed pipeline transportation charges from storage to the pipeline delivery point(s) at the boundary of the Companies' service territories utilized for balancing purposes.

The balancing cost shall be allocated to each company using fixed percentages. The fixed percentages are based on ratios of each Company's forecasted balancing requirement to the total forecasted balancing requirement of the Companies. The fixed percentages shall be revised at least annually to become effective each November 1. The Company shall be permitted to make interim revisions to the fixed percentages, if necessary, to reflect a significant shift in balancing requirements between the Companies. The Company shall advise Commission Staff on or before October 1 of each year of any changes to the fixed percentages to be implemented the following November 1.

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.2 MONTHLY GAS ADJUSTMENT (Cont'd.)

(I) Balancing Charge (applicable to Service Classification Nos. 1, 2 and 6) (Cont'd)

The Company's share of balancing costs shall be divided by the forecast quantities of gas to be taken for delivery to the Company's firm sales and firm transportation customers for the 12 calendar months ending the following August 31. The resulting balancing charge shall be adjusted by an uncollectibles percentage ("UC Percentage") as follows:

Balancing Charge = Balancing Cost / 12 Month Ccf / (1-UC Percentage).

The UC Percentage for the twelve-month period commencing November 1, 2011 is 0.450 percent. Thereafter, the UC Percentage shall be reset annually effective November 1, based on the Company's actual uncollectibles experience for the twelve-month period ended the previous June 30.

At the end of each twelve-month period commencing November 1, Balancing Charge recoveries, excluding recoveries attributable to the UC Percentage, shall be reconciled with actual balancing costs and any over- or under-recovery shall be refunded or recovered through the Balancing Charge during the next twelve-month period commencing November 1.

(J) Statement of Monthly Gas Adjustment

- (1) The Monthly Gas Adjustment shall be effective for service rendered on and after the first day of the calendar month following the computation date and shall continue in effect until changed.
- (2) The Statement of Monthly Gas Adjustment shall be filed with the Public Service Commission and apart from this Rate Schedule not less than three days prior to the date on which it is proposed to be effective. Such Statement will be available to the public at Company offices at which applications for service may be made.

Issued By: William Longhi, President, Pearl River, New York
(Name of Officer, Title, Address)

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.3 WEATHER NORMALIZATION ADJUSTMENT

A Weather Normalization Adjustment shall be effective for all Service Classification Nos. 1 and 6 - Space Heating Customers and for Service Classification No. 2 - General Service Master Metered Multiple Dwellings, General Service Commercial and General Service Industrial Customers. The Weather Normalization Adjustment will be applied to total gas usage during the period October 1 through May 31 of each year.

(A) Definitions

- (1) PBR or pure base rate is the tail block delivery charge set forth in Service Classification Nos. 1, 2 and 6.
- (2) BD or billing days is the actual number of days for which service is being billed.
- (3) HDD or heating degree days are the difference between 63 degrees F. and the average outdoor dry bulb temperature for a day based on readings made every hour on the hour throughout the day. HDD are always zero when that average temperature is above 63 degrees F.
- (4) NHDD or normal heating degree days for the three-year period commencing November 1, 2009 shall be 5,065 heating degree days, the average for the 30-years ended December 31, 2007.
- (5) AHDD or actual heating degree days are the actual difference between 63 degrees F. and the average outdoor dry bulb temperature for a particular day or days based on readings made every hour on the hour throughout the day. AHDD are always zero when that average temperature is above 63 degrees F.
- (6) HDDF or heating degree day factor is the estimated number of ccf per customer needed to provide space heating for each degree of a degree day based on average usage by customers to which this adjustment applies. The HDDF shall be determined separately for each customer rate classification and shall be revised annually. The HDDF shall be submitted to Staff on or before August 31 for inclusion in the October 1 start date of each year's Weather Normalization Adjustment.

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12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
 (Cont'd.)

12.3 WEATHER NORMALIZATION ADJUSTMENT (Cont'd)

(A) Definitions (Cont'd)

(7) BL or base load per billing day is the estimated number of ccf per customer used per day for non-heating purposes based on average usage by customers to which this adjustment applies. BL shall be determined separately for each customer rate classification and shall be redetermined annually using the prior two heating seasons' sales.

(B) Determination of the Weather Normalization Adjustment

The Weather Normalization Adjustment shall be calculated for each billing cycle and shall be calculated separately for each customer rate classification. The Weather Normalization Adjustment shall be calculated using the following formula rounding to the nearest 0.001 cents per 100 cubic feet:

$$\begin{array}{l} \text{Weather Normalization} \\ \text{Adjustment} \\ \text{(cents/ccf)} \end{array} = \frac{(\text{NHDD}-\text{AHDD}) * \text{HDDF} * \text{PBR}}{(\text{BL} * \text{BD}) + (\text{HDDF} * \text{AHDD})}$$

(C) Operation of the Weather Normalization Adjustment

The Weather Normalization Adjustment as determined above, shall be included in the Monthly Gas Adjustment, which is provided for in Section 12.2 of this Schedule. The Company shall submit a schedule of all Weather Normalization Adjustments to Staff within seven working days following the end of each billing month.

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.4 Merchant Function Charge (MFC)

(A) Applicability

Beginning November 1, 2006, customers taking service under Service Classification Nos. 1 and 2 of this Rate Schedule shall be subject to a Merchant Function Charge ("MFC"). Separate MFCs will be determined for Service Classification No. 1 and for Service Classification No. 2 of this Rate Schedule and will be applied to all gas volumes sold under such service classifications to recover the costs associated with commodity-related competitive services. Commodity-related costs include commodity procurement costs (including commodity revenue-based allocation of information resources and education and outreach costs), credit and collections costs, gas in storage working capital costs related to firm sales, and commodity-related uncollectibles.

(B) Fixed MFC Components

The fixed components of the MFC are as follows:

<u>Service Classification</u>	<u>Cents per Ccf</u>			<u>Total</u>
	<u>Commodity Procurement, IR, and Education And Outreach</u>	<u>Credit and Collections</u>		
(1) Applicable November 1, 2009 through October 31, 2010				
SC No. 1	1.038	0.596		1.634
SC No. 2	0.363	0.204		0.567
(2) Applicable November 1, 2010 through October 31, 2011				
SC No. 1	1.132	0.650		1.782
SC No. 2	0.396	0.223		0.619
(3) Applicable November 1, 2011 through October 31, 2012				
SC No. 1	1.181	0.678		1.859
SC No. 2	0.413	0.232		0.645

Issued By: William Longhi, President, Pearl River, New York
 (Name of Officer, Title, Address)

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.4 Merchant Function Charge (MFC) (Cont'd.)

(B) Fixed MFC Components (Cont'd.)

These fixed MFC components shall remain in effect until changed by an order of the Commission.

(C) Determination of MFCs

The MFCs applicable to Service Classification Nos. 1 and 2 customers shall be the sum of (1) the applicable fixed MFC components set forth; (2) a per Ccf charge, determined in accordance with General Information Section 12.2 (D) of this Rate Schedule, to recover gas in storage working capital costs associated with firm sales customers; and (3) the applicable monthly uncollectibles charge ("UC charge") per Ccf to recover the cost of commodity-related uncollectibles.

The monthly UC charge component of the MFC described in (3) above shall be based on the Gas Supply Charge ("GSC") determined in accordance with General Information Section 12.1 of this Rate Schedule, and the uncollectibles percentage ("UC percentage") applicable to Service Classification No. 1 and the UC percentage applicable to Service Classification No. 2. The UC percentages shall be reset annually effective November 1 based on the Company's actual uncollectibles experience applicable to all electric and gas customers eligible for the Company's Purchase of Receivables Program for the twelve-month period ended the previous May 31 for the twelve-month period commencing November 1, 2009, and ended the previous June 30 for twelve-month periods commencing November 1, thereafter. The UC percentages effective for the twelve-month period commencing November 1, 2011 are 0.676 percent applicable to Service Classification No. 1 and 0.151 percent applicable to Service Classification No. 2. The UC charge component of the MFC shall be determined using the following formula rounding to the nearest 0.001 cents per Ccf:

$$\text{UC Charge} = \text{GSC} / (1 - \text{applicable UC percentage}) - \text{GSC}$$

(D) Reconciliation of Fixed MFC Components

Revenues associated with the fixed MFC components shall be reconciled annually in accordance with the operation of the Transition Adjustment for Competitive Services, as set forth in General Information Section 12.2 (B) of this Rate Schedule.

PSC NO. 4 GAS LEAF: 83
ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 4
INITIAL EFFECTIVE DATE: November 1, 2006 SUPERSEDING REVISION: 3
Issued in compliance with Commission order in Case 05-G-1494, dated 10/20/06

GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS (Cont'd.)

12.4 Merchant Function Charge (MFC) (Cont'd.)

(E) Statement of Merchant Function Charge

- (1) The Merchant Function Charge shall be effective for service rendered on and after the first day of the calendar month following the computation date and shall continue in effect until changed. The Merchant Function Charge will be prorated based on the number of days each Merchant Function Charge is in effect in a billing period.
- (2) The Statement of Merchant Function Charge shall be filed with the Commission and apart from this Rate Schedule not less than three days prior to the date on which it is proposed to be effective. Such Statement will be available to the public at Company offices at which applications for service may be made.

Issued By: John D. McMahon, President, Pearl River, New York
(Name of Officer, Title, Address)