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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applying the average unit cost of gas in storage at the date of computation to the quantities of gas estimated to be withdrawn from storage for the Companies' firm sales customers during the month in which the gas supply charge will be in effect.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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(Name of Officer, Title, Address)