GENERAL INFORMATION

26. GAS NET REVENUE SHARING MECHANISM: (continued)

26.2 SC4 and SC6 Delivery Service Revenue Sharing:

26.2.1 Eighty percent (80%) of the difference between the Delivery Service Target for SC Nos. 4 and 6 as defined in Rule 26.1.1 and the actual SC4 and 6 delivery service revenues for the September 1, 2008 – May 31, 2009 time period will be flowed through as an increase or decrease to the Gas Delivery Service Rates of SC1, 2, and 3.

26.2.2 Ninety percent (90%) of the difference between the Delivery Service Target for SC Nos. 4 and 6 as defined in Rule 26.1.2 and the actual SC 4 and 6 Delivery Service Revenues for each June through May time period thereafter, will be flowed through as an increase or decrease to the Gas Delivery Service Rates of SC 1, 2, and 3.

26.2.3 For the purposes of these calculations, neither the Delivery Service Targets nor the actual Delivery Service Revenues will include the Incremental State Assessment Surcharge.

26.3 SC9 Delivery Service Revenue Sharing:

26.3.1 One hundred percent (100%) of the difference between the Delivery Service Target for SC9 as defined in Rule 26.1.1 for the September 2008 – May 2009 time period and Rule 26.1.2 for each June through May time period thereafter and the actual SC9 delivery service revenues, as adjusted in paragraphs 26.3.2, 26.3.3, 26.3.4, and 26.3.5 below, will be flowed through as an increase or decrease to the Gas Delivery Service Rates of SC1, 2 and 3.

26.3.2 The actual SC9 delivery service revenues shall exclude the delivery service revenues associated with SC8 customers who may transfer to SC9. The amount of delivery service revenue to be excluded shall not exceed the highest annual amount for the transferring customer in the three years immediately preceding August 31, 2008. If the terms of the negotiated contract under SC9 for the transferring customer results in delivery service revenues generated exceeding the highest annual amount in the last three years preceding August 31, 2008, such excess delivery service revenues, net of any return on new investment incurred by the Company, will be passed through to ratepayers subject to the terms in Rule 26.1.2.

26.3.3 If a SC9 customer should transfer to SC8, delivery service revenue for the entire twelve-month period associated with the customer will be credited to SC9 delivery service revenues as if there were no transfer.

26.3.4 Niagara Mohawk will be entitled to retain delivery service revenues from SC9 contracts at locations which have no preexisting facilities or whose facilities are not adequately sized to accommodate the new demand. Delivery service revenues retained by the Company must be incremental to those which may be obtained from existing gas equipment, provided that service to such new locations require investments by the Company in excess of those required for service lines, regulation and metering. If construction of a main extension is required, and such extension is off a main installed to serve an existing or past SC9 customer, a portion of the delivery service revenues generated by the new contract will be shared with ratepayers. The allocation between Niagara Mohawk and ratepayers shall be established using principles associated with the Commission’s gas main extension policy.