

Valley Energy, Inc.
New York Division

P.S.C. No. 1 Gas
Leaf No. 67
Revision No. 2
Superseding Original

GENERAL INFORMATION

14. ADJUSTMENT OF RATES IN ACCORDANCE WITH THE COST OF PURCHASED GAS:

A. Factor of Adjustment:

The rates for gas service under Service Classifications Nos. 1 and 4 of this tariff shall be subject each month to an addition or deduction of 0.01034 cents per 100 cubic feet for each 0.01 cent per 100 cubic feet increase or decrease in the total average cost of gas. The factor of adjustment may be recomputed whenever there is a change in the applicable revenue tax.

B. Gas Supply Charge

The rate for the Gas Supply Charge, which will have been in effect not less than 15 days prior to the effective date of the Gas Supply Charge Statement, shall be equal to the Average Cost of Gas used in the retail gas operations of the Company. The Gas Supply Charge shall also include a surcharge or refund to recover Gas Supply Charge under-recoveries or refund a Gas Supply Charge over-collection. Such surcharge or refund shall be calculated in accordance with subsection (E) below.

1. Average Cost of Gas

The Average Cost of Gas shall be computed at least once each year for the twelve months ending August 31 and it shall be computed upon any change in the rates and charges of any supplier of gas to the Company for the twelve months immediately preceding the computation date. The Average Cost of Gas shall be equal to the sum of the Average Demand Cost of Gas and the Average Commodity Cost of Gas as computed herein, multiplied by the Factor of Adjustment rounded to the nearest 0.001, adjusted for all appropriate surcharges and refunds, including but not limited to the Annual Surcharge or Refund, Gas Supplier Refunds, and all other adjustments approved by the New York State Public Service Commission.

- (a) The Average Demand Cost of Gas shall developed by applying the fixed rates and charges the fixed rates and charges of the transporters, storage providers, and suppliers to the billing determinates associated with pipeline capacity, storage capacity, and suppliers reservation charges and dividing by the quantities of gas taken for delivery to the Company's S.C. 1 and 4 customers for the 12 calendar months immediately preceding the computation date.

Date of Issue: January 31, 2005 Date Effective: February 1, 2005
Issued by: Robert J. Crocker, President & CEO, Sayre, PA 18840
Issued in compliance with order in Case 04-G-0821 dated January 21, 2005