

Valley Energy, Inc.
New York Division

P.S.C. No. 1 Gas
Leaf No. 67
Revision No. 3
Superseding Revision No. 2

GENERAL INFORMATION

14. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN 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 increased each month by a factor of 1.049 to reflect lost and unaccounted for gas. The factor of adjustment shall be established in the Company's rate case proceeding before the Public Service Commission.

B. Gas Supply Charge

The Gas Supply Charge is designed to collect the gas expense incurred by the Company to serve customers taking service under Service Classification Nos. 1 and 4. The Gas Supply Charge shall be equal to the Average Cost of Gas used in the retail gas operations of the Company multiplied by the factor of adjustment and rounded to the nearest 0.0001 cents per Ccf 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.

1. Average Cost of Gas

- (a) The Average Demand Cost of Gas shall be computed by applying 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 own sales customers for the 12 calendar months immediately preceding the computation date. These costs will be further adjusted by reducing the demand costs by the weighted average cost of the capacity, peaking service, and storage services assigned to core transportation customers.

Date of Issue: March 28, 2005 Date Effective: March 29, 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