

PSC No: 16 - Gas
Rochester Gas and Electric Corporation
Initial Effective Date: May 28, 2004
Issued in compliance with order in Cases 03-E-0765, 02-E-0198, and 03-G-0766 dated May 20, 2004

Leaf No. 74
Revision: 2
Superseding Revision: 1

GENERAL INFORMATION

4. METERING AND BILLING (Cont'd)

H. ADJUSTMENT OF RATES DUE TO CHANGES IN COST OF GAS (Cont'd)

(14) **Merchant Function Charge (MFC):**

Beginning May 1, 2004, RG&E will implement an MFC in order to collect approximately \$7.21 million of indirect gas costs (previously included in delivery rates), which costs will be reflected in monthly Gas Supply Charge ("GSC") statements filed with the Commission. Indirect gas supply costs consist of uncollectible expense associated with gas supply, gas storage inventory carrying costs, and administrative and general expenses (i.e., costs and overheads associated with the gas purchase function). The MFC will be a per unit charge based on:

a) **Gas Supply Uncollectibles**

- (i). RG&E will initially include \$4.1 million annually of gas supply uncollectibles in the GSC.
- (ii). Beginning January 1, 2005, and each 12-month period thereafter, gas supply uncollectibles will be calculated based on the expected GSC revenues times the actual 5-year average uncollectible percentage experienced by RG&E during the preceding 12-month period ending September 30.

b) **Gas Inventory Carrying Charges**

- (i). RG&E will initially include \$1.86 million of gas inventory carrying charges in the GSC.
- (ii). Beginning January 1, 2005, gas inventory carrying charges will be based on a rolling 12-month average gas inventory balance updated monthly, and will be calculated based on an annual pre-tax rate of return, using a return on equity of 10.5% and actual common equity ratio or 45%, whichever is less.

c) **Gas Supply Procurement and Administrative Costs**

- (i). RG&E will include \$1.25 million of gas supply procurement and administrative costs in the GSC.

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