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COMPANY: ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 0
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SERVICE CLASSIFICATION NO. 12 (Cont'd.)

FUNCTIONAL STORAGE SERVICE OPTION: (Continued)

Termination of the Functional Storage Service Option

If a customer terminates Functional Storage Service, the customer's Seller shall be paid by the Company for any storage gas still held by the Company upon such termination. The purchase price shall be the lower of (a) the Company's average cost of gas in storage on the first day of the month following the customer's termination, or (b) 95% of the lowest Market Price of gas on the first day of the month following termination, which shall be determined by reference to Inside F.E.R.C.'s Gas Market Report for Tennessee Gas Pipeline Company, Louisiana and Offshore (Zone 1) Index, plus Tennessee's FT-A maximum commodity rate and fuel to the Company's city gate, plus the Demand Transfer Recovery Rate on Sales ("DTRS") and all applicable taxes. The DTRS rate shall equal the per Dth System Average Unrecovered or Overrecovered Demand Charge revenue beginning with the preceding September up to but not including the month that Functional Storage Service is terminated. The System Average Unrecovered or Overrecovered Demand Charge revenue shall equal the sum of the differences between the average demand charge revenues and the average fixed demand costs for the same period. The DTRS rate shall be filed with the Public Service Commission not less than three (3) business days prior to the beginning of the month for which the rate shall be in effect.

All DTRS and DTRP revenues received from Functional Storage Service shall be credited or charged to the gas adjustment under General Information Section 12.

RATE - FIVE PART - MONTHLY

Seller's monthly cost for customers electing the Functional Storage Service Option shall be:

- (1) a monthly charge for FASC allocated to the customer which will be determined monthly based on the current annual cost of all Company storage, including injection and withdrawal charges, storage deliverability and space charges, and transportation to the delivery point divided by the Company's annual amount of storage space;
- (2) a charge for storage gas purchased from the Company;
- (3) the Demand Transfer Rate on storage gas purchased ("DTRP") from the Company;
- (4) the Demand Transfer Rate on Storage gas sold ("DTRS") to the Company; and
- (5) all rates and charges under this Service Classification will be increased pursuant to General Information Section 15.

The rates associated with items 1, 3 and 4 shall be as shown in the Statement of Rates to Qualified Sellers Without Company Released Capacity, Service Classification No. 12, filed with the Commission each month.

Issued By: R. Lee Haney, Chief Financial Officer, Pearl River, New York
(Name of Officer, Title, Address)