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 COMPANY: ORANGE AND ROCKLAND UTILITIES, INC. REVISION: 4
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GENERAL INFORMATION

12. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF GAS
 (Cont'd.)

12.1 APPLICABLE TO SERVICE CLASSIFICATION NOS. 1 AND 2 (Cont'd.)

(E) Average Cost of Gas (Cont'd.)

(3) Variable Cost (Cont'd.)

(ii) applying the average unit cost of gas in storage at the date of computation to the quantities of gas estimated to be withdrawn from storage for the Companies' firm sales customers during the month in which the gas adjustment will be in effect.

The variable cost shall be allocated between the companies in proportion to their respective monthly firm sales sendout quantities.

The Company's share of the variable cost shall be adjusted as follows:

- (a) The Company's share of the variable cost shall be reduced by all gas costs recovered via the rates and charges for service rendered under Service Classification No. 9 or 10 of this Schedule.
- (b) The Company's share of the variable cost shall be increased by the replacement cost of fuel established as compensation, under Section 11.1(E)(1) of this Schedule, to customers resulting from the diversion of gas from non-core customers to core customers.

The Company's share of the variable cost, adjusted as described above, shall be divided by the forecasted weather normalized quantities of gas to be taken for delivery to the Company's firm sales customers during the month in which the gas adjustment will be in effect.

(4) Average Cost of Gas

The Average Cost of Gas is the sum of the unit amounts determined in (1) fixed cost, (2) balancing cost and (3) variable cost.

(5) Mcf Conversion

The Average Cost of Gas shall be multiplied by the Conversion Factor in (C) to convert the cost per Dth to a cost per Mcf.

Issued By: Kevin Burke, President, Pearl River, New York
 (Name of Officer, Title, Address)