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17. ADJUSTMENT OF RATES IN ACCORDANCE WITH CHANGES IN THE COST OF PURCHASED GAS (continued)

17.9 Capacity Incentive Program

The Capacity Incentive Program as further set forth in Appendix D of the Company*s Gas Rate and Restructuring Settlement Agreement dated June 12, 2000 in Case 99-G-0336 ("Settlement") is effective commencing November 1, 1999 and continues through August 31, 2003 and any stayout period as defined in the Settlement. The mechanism provides indirect and direct incentives to the Company to mitigate Stranded Capacity Costs as set forth in Rule 17.10 below. The reward/penalty, will be calculated in accordance with Appendix D of the Settlement and will have an annual cap of $2,000,000. Any resulting reward or penalty will be flowed through to Service Classification Nos. 1, 2 and 3 customers taking Gas Supply Service from the Company as an offset to Demand Costs as defined in Rule 17.3.4.

17.10 Stranded Capacity Costs

During the period November 1, 1999 through August 31, 2003, plus any stayout period as defined in the Company*s Gas Rate and Restructuring Settlement Agreement in Case 99-G-0336, the Company shall receive full recovery of all Stranded Capacity Costs.

Stranded Capacity Costs are costs to the Company of pipeline and storage capacity, including costs of CNG Capacity (also known as Dominion Gas Capacity) that is not assigned, that are not offset by capacity release revenues or off-system sales and that are no longer necessary for sales customers (including standby service transportation customers) due to migration and that, prior to the migration, were recovered from such customers.

The Company*s recovery of such costs will be funded through the Contingency Reserve Account. If the Contingency Reserve Account becomes depleted, Stranded Capacity Costs will be recovered through a volumetric surcharge to the Gas Delivery Service Rates of Service Classification Nos. 1, 2, 3, 5 and 7 and through an adjustment to the Service Classification No. 8 D1 Demand Charge. The cost assigned to the Service Classification No. 8 customers will be a ratio of their elected D1 Demand for Standby Service to the forecasted system peak day demand multiplied by the total stranded cost. There will be no gap in the Company*s recovery of Stranded Capacity Costs during the Settlement period.

Issued By: Darlene D. Kerr, Executive Vice President, Syracuse, New York

Cancelled effective 08/01/2003.
Issued in Compliance with Order of PSC in C. 99-G-0336 dated 07/27/00.