STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on July 12, 2012

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
James L. Larocca
Gregg C. Sayre

CASE 10-G-0295 - Petition of St. Lawrence Gas Company, Inc. for an Original Certificate of Public Convenience and Necessity Under Section 68 of the PSL for the Exercise of Gas Franchises of Numerous Municipalities in the Counties of Franklin and St. Lawrence. Petition to Amend Certificate.

ORDER GRANTING AMENDMENT OF CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

(Issued and Effective July 13, 2012)

BY THE COMMISSION:

SUMMARY

On April 5, 2012, St. Lawrence Gas Company, Inc. (St. Lawrence or the Company) filed a petition to amend its Certificate of Public Convenience and Necessity (Certificate) granted pursuant to Public Service Law (PSL) §68. The Certificate authorized the Company to exercise gas franchises granted by several municipalities in St. Lawrence and Franklin Counties and to construct distribution and service lines necessary to render gas service.[1] The Company is proposing to

[1] The construction and operation of the related fuel gas transmission line was also authorized pursuant to PSL Article VII. Cases 10-T-0154 and 10-G-0295, St. Lawrence Gas Company, Inc., Order Granting Certificate of Environmental Compatibility and Public Need and authorizing exercise of new franchises (issued February 18, 2011).

amend its Certificate because the expansion is no longer economic, due to increases in construction costs. To solve the problem, the Company proposes to: (1) extend the five-year development period to seven years; (2) increase the temporary revenue surcharge; and (3) introduce a Contribution in Aid of Construction (CIAC) surcharge. The Company believes a longer development period would encourage more customers to take service in the expansion area because the savings would be greater.

In this order, we continue the five year development period for the expansion project as set forth in the Certificate. The facts are that the level of projected annual savings for customers is similar whether a five year or seven year development period is employed and that the upfront customer costs to convert have not changed. The cost of natural gas is currently low and is projected to remain low and, therefore, there is a significant incentive for customers to convert to natural gas. We will modify the proposed temporary revenue surcharge developed and will also update the return on equity. In addition, we will adopt the proposed CIAC, so that the long-term economics of the expansion project do not place a burden on the Company's core customers, and expand the customer protections adopted in the Certificate.

BACKGROUND

On June 16, 2010, St. Lawrence filed a petition which sought, pursuant to PSL §68, a Certificate approving the exercise of the gas franchises granted to it by numerous municipalities in Franklin and St. Lawrence Counties. Public hearings were held concerning the petition and the related PSL Article VII application on August 24, 2010. The Company and other parties engaged in negotiations that resulted in a Joint Proposal (JP). We granted a Certificate as proposed in the JP.

We authorized St. Lawrence to build 48 miles of transmission line, along with associated distribution and service lines, for the expansion project to provide service in numerous communities including Winthrop/Brasher Falls and North Lawrence in St. Lawrence County and Moira, North Bangor, Brushton, Malone, Burke and Chateaugay in Franklin County.

In its petition for a Certificate, St. Lawrence identified plant costs totaling $23.5 million for the installation of the transmission and associated distribution and service lines over a five year development period. In the Certificate, we approved a five year development period, consistent with our Franchise Expansion Policy Statement.[2] The expansion project was projected to be funded by $6.3 million in public grants and $17.2 million in capital from the Company. In accordance with the Certificate, if contributions from the public and customers in the new franchise area were to fall short of the required amount for the Company to achieve its allowed rate of return in the development period, the Company would be allowed to institute a temporary revenue surcharge to customers in the new franchise area. Moreover, we approved specific customer protections to prevent the Company from over-earning due to the temporary revenue surcharge and future rate subsidization from core customers.

As noted above, St. Lawrence filed a petition for a Certificate amendment on April 5, 2012. It supplemented the petition on June 12, 2012. On May 21, 2012, a notice was issued

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[2] Case 89-G-078 – Expansion of Gas Service into New Franchise Areas, Statement of Policy Regarding Rate Treatment to be Afforded to the Expansion of Gas Service into New Franchise Areas (issued December 11, 1989)(Franchise Expansion Policy Statement).

describing the petition and soliciting comments on it.[3] As detailed below, some comments were included in the petition, some were submitted before the notice was issued, and others were submitted by the established deadline of June 15, 2012.

THE PETITION

In its petition, St. Lawrence alleges that due to increased construction and material costs from those reflected in the Certificate, the expansion project is impractical. St. Lawrence states that construction costs have nearly doubled, due to contractor labor and right of way clearing costs as well as contractor availability. The total estimated cost of the gas transmission line, which at the time represented 66% of the total $23.5 million cost of the expansion project, as reflected in the Certificate was $15,429,628. The Company's estimated distribution and service line costs were shown to not have increased as much as those of the transmission line costs. The Company issued two separate requests for proposals (RFPs), supplemented with Company and contractor negotiations, both resulting in bids described in the April 5, 2012 petition that were much higher than originally estimated by the Company and reflected in the Certificate.[4] As a result of the responses to two RFPs, St. Lawrence made a decision to split the expansion project into two construction phases. As proposed, Phase 1

[3] The Company published the notice three times each in the following publications: (1) Malone Telegram, (2) Massena Courier-Observer, (3) Watertown Daily Times and (4) Plattsburgh Press Republican. Public comments were received by the Secretary to the Commission through both letters and email responses.

[4] The Certificate included several directives with which the Company complied. However, the August 17, 2011 deadline that was specified in Clause 6 of the Certificate was extended due to the initial bid prices on the expansion project that were not commensurate with the Certificate.

would be construction from its existing system to the Town of Malone; Phase 2 would be construction from Malone to the Town of Chateaugay. St. Lawrence then went into formal negotiations with four potential contractors for Phase 1 and was able to reduce the total price for construction of that section. Formal negotiations have not been held for Phase 2 but, based on prior negotiations and current communications with the contractor for Phase 1, the Company believes a reasonable estimate has been established in the filing.

The updated total estimated cost of the gas transmission line, which now represents 79% of the $40,559,388 total cost of the expansion project, is $31,482,000. Based on these revised project costs the Company determined it would no longer be economically feasible to complete the expansion project in the time originally contemplated. Therefore the Company proposed changes to the Certificate that include an extension of the development period, an increase in the temporary surcharge[5] and a CIAC surcharge.[6]

To make this project more viable, the Company has proposed to extend the development period to seven years. In support of extending the development period, the Company cites Case 09-G-0252,[7] where the Commission deviated from the five-year development period standard developed in its Franchise Expansion Policy Statement. In referencing Case 09-G-0252, the Company states[8]:

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[5] From $0.66 per Dekatherm (Dth) for five years to $1.04 per Dth for seven years.

[6] For seven years, equal to $2.30 per Dth for residential customers, $3.27 per Dth for commercial customers, and $2.47 per Dth for industrial customers.

[7] Case 09-G-0252, Corning Natural Gas Corporation, Order Granting Rehearing in Part (issued July 24, 2009), pp. 13-14.

[8] Case 10-G-0295, Verified Petition of St. Lawrence Gas Company, Inc., to Amend Certificate of Public Convenience and Necessity, p. 10.

> While the 1989 Policy was adopted to normally allow a company five years to achieve the rate of return for the system and maintain that rate, the Commission has recognized that there may be instances where a longer development period, coupled with a CIAC and temporary surcharge, are necessary in order to ensure the success of the expansion and reduce the burden on existing customers.

The Company asserts that the extension of the development period to seven years would allow for an average return over the life of the expansion project consistent with the average return included in the Certificate. St. Lawrence concludes its argument by referencing the Franchise Expansion Policy Statement, which states "[a]lternative standards or measurement of the economic feasibility of new franchise expansions should be considered by the Commission upon adequate showing by utilities."[9]

The Company seeks an increase in the temporary revenue surcharge established in the Certificate to enable it to earn a reasonable return over the seven year development period. The Company's revised financial analysis also determined that the expansion project was unsustainable beyond year seven without the addition of the CIAC surcharge. The proposed CIAC surcharge would reduce the level of ratebase for the expansion project over the development period so the projected revenues are able to support a reasonable return after the development period and so core customers will not subsidize the expansion project beyond the development period. The Company proposed that all customers within the expansion project area be subject to the temporary revenue surcharge and the CIAC surcharge.

According to St. Lawrence, customer survey responses imply that conversion to gas would remain as attractive to customers as originally assumed, even after the proposed

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[9] Case 89-G-078, supra, p. 18.

increase to the temporary revenue surcharge and the new CIAC surcharge, because of the continuing price advantage gas has as compared with alternate fuels. To the extent that new customers would include large industrial employers, St. Lawrence argues that the affected communities' economic development benefits from gas conversion will more than justify the additional surcharges.

The Company also explains that capturing the residential market is crucial to the success of the project. Residential revenue accounts for an estimated 48% of total revenue over the development period. To that end, St. Lawrence intends to keep the temporary revenue surcharge rates as low as possible. In the certification proceeding, St. Lawrence projected that residential customers who convert to natural gas from oil or propane, excluding surcharges, would have annual savings of 54% and 64%, respectively. In the current petition, with the proposed surcharges,[10] together with a two year increase in the development period, annual savings were projected to be 40% and 55% for oil and propane, respectively. According to the petition, the seven year development period would permit the Company to achieve its allowed rate of return and produce savings of approximately 40% to residential customers. The Company maintains that this level of savings, achieved from the longer development period, would encourage customers to convert to natural gas service and, indeed, that this level of savings is required to ensure that an adequate number of new customers will sign up for gas service.

The temporary revenue surcharge was proposed to fill the void in the revenue in order for the Company to earn an average rate of return over the development period. The Company

[10] The surcharges include a $1.04 per Dth temporary revenue surcharge and a $2.30 per Dth CIAC surcharge.

asserts that the development of the temporary revenue surcharge is based on achieving its allowed rate of return over the seven-year development period while maintaining a minimum savings of approximately 35% over fuel oil. The Company maintains that keeping surcharge rates lower will produce greater annual savings and will be a primary reason for new customers to convert to natural gas.

Staff reviewed the Company's economic model and found several errors. The Company's initial filing had a revenue shortfall, leaving the Company with a revenue deficiency of approximately $2.5 million over the seven year development period. It also incorrectly projected tax depreciation and bonus tax depreciation. The Company supplemented its economic model, reflecting these corrections on June 12, 2012. Total plant costs are now projected at $41.4 million: $6.3 million funded by public grants and $35.1 million contributed by the Company. However, $28.8 million of the Company's capital costs would be recovered through the CIAC surcharge. In addition to the public contribution of $6.3 million, the feasibility of the expansion project is also dependent on property tax abatement over the first 14 years of the project. St. Lawrence has already entered into Payment in Lieu of Taxes agreements with all taxing jurisdictions within the project area.

PUBLIC COMMENTS

Included in the Company's April 5, 2012 petition was a letter dated March 14, 2012 from Agri-Mark in support of the petition. The Company also included letters of support from the Chateaugay and Brasher Falls Central School Districts. On May 3, 2012, Gordon Crossman, the Chair of the Franklin County Legislature, filed a letter in support of the petition.

Comments filed by letter that supported the Company's amended filing were received from Upstate Niagara Cooperative, Inc. and David W. Jones as Mayor of the Village of Chateaugay on behalf of the Village. Public comments by individuals were received by email and generally supported the expansion.[11]

Alcoa Inc. (Alcoa), currently the Company's largest existing customer, submitted comments not opposing the amendment, but raising concerns regarding core customer protections. Alcoa stated that we should not accept the longer development period unless the protections for the Company's existing core customers provided in the Certificate were also commensurately extended.

DISCUSSION

The expansion project, subject to a few modifications to the Company's proposal, will result in substantial financial benefits to new customers and economic benefits to the communities in which gas service will be provided. We therefore encourage St. Lawrence to issue RFPs for Phase 2 of the expansion project as soon as practicable.

Savings

The main driving force for this expansion project continues to be the large anchor customers. These anchor customers, who make up slightly less than half of the demand of the expansion project, will experience very substantial savings. The annual estimated savings per customer range from $45,000 to $1.3 million. These savings levels for the anchor customers will translate into keeping jobs in the expansion project area

[11] Mr. Russ Nelson voiced concerns that areas of construction for this project, specifically nature trails that run along abandoned rail beds, would not be restored to their pre-construction condition. This comment is unrelated to the petition for an amendment to the Certificate; rather, it will be addressed separately by our environmental staff.

and, in some cases, creating more, as explained in some of the public comments.

Based on our analysis, we determine that the level of savings over the original development period is still substantial. Residential heating customers on average will experience savings, even with the inclusion of a temporary revenue surcharge and CIAC surcharge, of approximately 34% for oil and 51% for propane annually.[12] Given the average heating costs for oil and the current gas commodity costs, customers are expected to convert to natural gas and save about $1,200 annually. The difference in savings from a seven-year development period to a five-year development period for residential customers is approximately $170 per year. Moreover, the conversion costs reflected in the current petition have not changed from those described in the original filing. Current commodity costs are projected to remain low, but the longer the development period, the more risk that gas prices will increase. Based on the foregoing facts, we believe that customers have a significant incentive to choose natural gas.

Development Period - Five vs. Seven Years

To support deviating from the five-year development period, the Company references Case 09-G-0252, where Corning Natural Gas Corporation (Corning) used a seven-year development period for its Virgil franchise expansion. In that case, however, Corning claimed that the anchor customer could not pay its negotiated contract (akin to a revenue surcharge) and the CIAC surcharge over a five-year development period. In contrast, no such claim has been made by St. Lawrence or any of the anchor customers in this proceeding. In addition to extending the development period, we also required Corning to

[12] Based on Saving Forecast.

accelerate the depreciation of $1,000,000 of its investment in the Virgil franchise area. If Corning did not accelerate the depreciation of $1,000,000, its shareholders would have had to write off the remainder of any shortfall.

The Company's request for a seven-year development period does not include a provision to accelerate the depreciation of the expansion project's capital expenditures as was included as part of the rationale for our decision in Case 09-G-0252. In that case, the inclusion of this provision provided protection for Corning's current customers by allowing Corning to charge customers in the Virgil Expansion area a surcharge based on its sales forecast. There, extraordinary circumstances existed to support expanding the development period to seven years and the longer development period was supported by the estimated level of savings needed for the large anchor customer. The situation faced by the large anchor customer was a determining factor in making this expansion possible. In St. Lawrence's proposal, by contrast, the economic feasibility of the expansion project is not dependent on a single customer. The level of savings achieved with a five-year development period is similar to that produced with a seven-year period. Given that the level of savings is similar and that the cost of converting is the same, the number of customers expected to convert to natural gas and enroll in service from the Company should not be materially affected.

An additional benefit of a five-year development period is a reduced risk to ratepayers and the Company. Current natural gas prices are at a level that produces substantial savings for customers that switch from propane or oil. By capturing funds upfront from new customers and paying down plant costs through the use of the CIAC surcharge, this expansion project would be less reliant on lower gas prices in the future.

Despite the upfront costs associated with the temporary revenue surcharge and CIAC surcharge, the savings are still present; a slight increase of these surcharges by using the five-year development period rather than the seven-year period would not deter customers from converting and taking service from St. Lawrence's gas system. For these reasons we continue with the five year development standard reflected in our Franchise Expansion Policy Statement and as set forth in the Certificate.

Temporary Revenue Surcharge

In the Certificate, we approved a temporary revenue surcharge of $0.660 per Dth for all service classes in the expansion area. Now, due to the increased construction costs, the temporary revenue surcharge needs to be increased to afford the Company an opportunity to earn a fair return over the development period. The Company's supplemental economic analysis, with tax modifications, proposes a temporary revenue surcharge of $1.04 per Dth for a seven-year development period, charged equally to all service classes within the franchise expansion area.

While we understand that construction estimates can vary, we believe that the original estimates used in the February Order and the resulting variances were mostly within the Company's control. To place the entire burden of increased costs on the new customers in the expansion area by increasing the revenue surcharge is unfair. We, therefore, will adjust the return on equity applicable to the expansion project, which will reduce the revenue surcharge for potential customers. We decided in the Company's last rate case, to approve a return on equity of 10.5%;[13] more recently, however, we have approved a

[13] Case 08-G-1392, *St. Lawrence Gas Co., Inc.*, Order Establishing Rate Plan (issued December 18, 2009).

lower return on equity in Cases 11-E-0408[14] and 11-G-0280[15] that reflects the current economic times. Therefore we will use 9.5% return on equity which reduces the temporary revenue surcharge to $1.22 per Dth to all service classes, which results in savings of 37% and 51% for oil and propane conversions, respectively.

Our economic model analysis is based on a five-year development period with updates to the construction costs and return on equity. Distribution revenues for each service classification were calculated in accordance with St. Lawrence's filed P.S.C. No. 3 Gas Tariff. The revised economic feasibility analysis of the expansion project has been calculated using the incremental net revenue and costs associated with the forecast of residential, commercial, and industrial customer additions. An average annual volume per customer type has been used to project the total net margin revenue incorporated in the financial analysis. Average net margin per customer type has been multiplied by the projected number of customers in each service classification to arrive at total net margin revenue.

The temporary revenue surcharge will be allocated to all customers within the expansion area. This surcharge was calculated on the basis of the aggregate five-year revenue deficiency divided by the total estimated sales volume for the first five years as described in our Franchise Expansion Policy

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[14] Case 11-E-0408, Orange and Rockland Utilities, Inc., Order Adopting Terms of Joint Proposal, with Modifications Establishing Electric Rate Plan, (issued June 15, 2012) pp. 11-14 (setting rates based upon an average of 9.5% return on equity for the three year term of the rate plan).

[15] Case 11-G-0280, Corning Natural Gas Corporation, Order Adopting Terms of Joint Proposal and Establishing A Multi Year Rate Plan, (issued April 20, 2012) pp. 8-9 (setting rates based upon a 9.5% return on equity for the three year term of the rate plan).

Statement to arrive at $1.22 per dekatherm as a temporary revenue surcharge.

CIAC Surcharge

Due to the increases in construction costs, the rate of return after the development period is lower than the system average and, therefore, the core customers would be required to subsidize the expansion project after the development period. To ameliorate the problem, the Company proposed a CIAC surcharge by class to make the expansion project economic after the development period by writing off a level of ratebase. The Company asserts that the development of the various service classification-specific CIAC surcharges is based on maintaining a minimum savings of approximately 35% over fuel oil. The Company also contends that increasing the length of the development period is necessary to keep CIAC surcharge rates at a minimum with greater savings which is the primary reason new customers will convert to natural gas.

We agree that a CIAC surcharge is necessary to write down plant costs so that the expansion project is economic after the development period. The proposed CIAC surcharges were developed by evaluating the projected savings by service class for oil to gas conversions.[16] We conclude that the concept of developing the CIAC surcharge by service class is reasonable. While the CIAC surcharge varies in cost per Dth by service class, the level of total projected savings are evenly distributed amongst all three service classes, and therefore there will be no unreasonable discrimination.

[16] $3.61 per Dth for residential, $5.15 per Dth for industrial and $3.86 per Dth for commercial customers.

We find that an additional customer protection must be established to protect the core customers in the event that the sales forecast provided by the Company under-projects customer usage. If projected customer usage is not achieved, that would adversely impact all customers of St. Lawrence after the development period, because the expansion project would not then provide a reasonable return and the existing core customers would have to subsidize the shortfall. In order to protect customers, we will continue the CIAC surcharge after the development period if the level of net plant has not been paid down to the target level established in Appendix A hereto (which is an update to Exhibit 12B as filed and received in evidence) until the Company can demonstrate that the revenues in the expansion area are sufficient to provide a reasonable return. That said, once the target is reached or the Company has demonstrated that a reasonable return has been achieved after the development period, the CIAC surcharge shall cease.

CONCLUSION

After reviewing the Company's petition, we have determined to continue the five-year development period, which will reasonably balance the interests of the Company, core customers and new customers, while reducing risk for all stakeholders. The customer protections adopted in the Certificate will be expanded as described above.

For purposes of the temporary revenue surcharge calculation, the expansion project's incremental capitalization is assumed to total $40.5 million, comprised of $34.2 million invested by St. Lawrence at the same 50% equity ratio that we

approved in St. Lawrence's most recent rate case,[17] $6.3 million from the Franklin County Industrial Development Agency, and $18.6 million CIAC surcharges from all service classes. The Company shall charge a CIAC to reduce its kkrate base by year six, or longer if need be, and use the temporary revenue surcharge to obtain a reasonable return.

The Commission orders:

1. The Certificate of Public Convenience and Necessity granted to St. Lawrence Gas Company, Inc. (the Company) on February 18, 2011 in this proceeding is amended, as discussed in the body of this Order and as follows:

a) The Company shall collect a contribution in aid of construction (CIAC) surcharge in the amount of $3.61 per Dth for Service Classification No. 1, $5.15 per Dth for Service Classification No. 2, and $3.86 per Dth for Service Classification No. 3. All revenue collected from the CIAC surcharge shall be used to write down the plant balances;

b) Pursuant to the allowance of the CIAC surcharge, should net plant costs remain above $14,724,699 (as shown in Appendix A hereto) after the five-year development period, the Company shall continue to collect the CIAC surcharge until the plant costs have reached said amount or the Company demonstrates that the revenues in the expansion area are sufficient to provide a reasonable return;

c) The Company shall report on this expansion in its annual report, showing the annual rate of return and plant pay-down for the franchise expansion;

[17] Case 08-G-1392, supra.

d) The Company shall report on this expansion once the net plant costs have reached $14,724,699 or less, or the revenues in the expansion area are sufficient to provide a reasonable rate of return; the Company shall file such notification in a separate report with the Secretary within 30 days of achieving such a status; The Company shall cease collections of the CIAC at that time;

e) The Company shall maintain Separate accounting for the new franchise area for gross plant, accumulated depreciation, net plant, base revenues, CIAC surcharges and temporary surcharge revenues for a minimum of 60 months from the date service is initiated to the first customer in the new franchise area (the Development Period). Maintenance of separate accounting beyond the Development Period shall continue until the actual revenues, including base revenues, weather normalization revenues and revenue decoupling revenues and excluding temporary surcharge revenues, for a twelve-month period exceed the minimum revenue imputation for a twelve-month period of $2,168,125, or sixty months beyond the Development period, whichever is less; the Company shall notify the Secretary in writing of the discontinuation of the maintenance of separate accounting for the new franchise area 30 days prior to the discontinuation;

f) The maximum temporary surcharge shall be $1.22 per dekatherm for the first 60 months beginning when

service is initiated to the first customer in the new franchise area;

g) Subject to any prudency reviews, normal ratemaking procedures shall apply to all revenues, costs and investments after the Development Period;

h) Within 60 days before commencing to serve any customer in the expansion project area, The Company shall file tariffs necessary to effectuate the provisions adopted in this order;

i) Future Rate Case Filings, as described in Appendix B shall conform to the methodologies specified in the section titled Facilitation of Future Rate Case Filings; and

j) Excess Revenue, if any, shall be calculated as described in Appendix B in the section title Excess Revenue Calculation.

2. At her sole discretion, the Secretary may extend the deadlines established in this order.

3. This proceeding is continued pending compliance with Ordering Clause 1(d), whereupon it shall be closed.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary

DPS Staff Economic Feasibility Model, Case 10-G-0295, Submitted June 27, 2012

SUMMARY	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total (Year 1-5)	
O&M Expense	$ 131,234	$ 170,065	$ 204,100	$ 175,646	$ 193,368	$ 198,264	$ 874,413	O&M Expense
Depreciation Expense	$ 329,836	$ 485,124	$ 481,866	$ 421,649	$ 348,943	$ 322,656	$ 2,067,418	Depreciation Expense
Property Taxes	$ -	$ -	$ -	$ -	$ 21,948	$ 107,234	$ 21,948	Property Taxes
Income Taxes	$ (47,651)	$ 281,039	$ 463,088	$ 686,812	$ 756,212	$ 442,989	$ 2,139,500	Income Taxes
Return on Net Plant	$ 1,024,157	$ 1,441,066	$ 1,377,079	$ 1,163,934	$ 920,294	$ 898,803	$ 5,926,530	Return on Net Plant
Return on Deferred Taxes	$ (92,596)	$ (181,055)	$ (173,130)	$ (157,958)	$ (139,019)	$ (119,003)	$ (743,758)	Return on Deferred Taxes
Return on Working Capital	$ 1,025	$ 1,329	$ 1,595	$ 1,372	$ 1,510	$ 1,673	$ 6,831	Return on Working Capital
Return on Material and Supplies	$ 6,016	$ 8,329	$ 8,886	$ 9,199	$ 9,474	$ 10,429	$ 41,904	Return on Material and Supplies
Return on Prepayments	$ 936	$ 1,296	$ 1,382	$ 1,431	$ 1,474	$ 1,622	$ 6,519	Return on Prepayments
Return on Excess Earnings	$ 3,075	$ 7,140	$ 9,503	$ 11,674	$ 13,196	$ 9,227	$ 44,588	Return on Excess Earnings
Total	$ 1,541,224	$ 2,576,443	$ 2,720,629	$ 2,629,675	$ 2,405,438	$ 2,111,900	$ 11,873,409	Total
Taxes on Deficiency	$ 457,134	$ 547,739	$ 242,523	$ (119,979)	$ (530,462)	$ (38,925)	$ 596,955	Taxes on Deficiency
Total Revenue Requirement	$ 1,998,358	$ 3,124,182	$ 2,963,152	$ 2,509,696	$ 1,874,976	$ 2,072,975	$ 12,470,364	Total Revenue Requirement
Net Revenue	$ 318,226	$ 870,280	$ 1,306,381	$ 1,172,239	$ 1,911,511	$ 2,168,125	$ 5,578,637	Net Revenue
Surcharge Revenue	$ 562,695	$ 914,985	$ 1,063,938	$ 1,630,739	$ 1,260,148	$ -	$ 5,432,505	Surcharge Revenue
Total Revenues	$ 880,921	$ 1,785,265	$ 2,370,319	$ 2,802,978	$ 3,171,659	$ 2,168,125	$ 11,011,142	Total Revenues
Average Gross Plant	$ 16,540,134	$ 23,620,381	$ 23,093,204	$ 20,136,939	$ 16,624,733	$ 15,543,277	$ 20,003,078	Average Gross Plant
Average Net Plant	$ 16,386,507	$ 23,057,052	$ 22,033,270	$ 18,622,936	$ 14,724,699	$ 13,315,611	$ 18,964,893	Average Net Plant
Depreciation Percent	2.08%	2.08%	2.08%	2.08%	2.08%	2.08%		Depreciation Percent
Return Percent	6.25%	6.25%	6.25%	6.25%	6.25%	6.75%		Return Percent

Revenue Surcharge ($/therm)	0.122
CIAC Surcharge ($/therm):	
Service Classification No. 1	0.361
Service Classification No. 2	0.515
Service Classification No. 3	0.386
Total Revenue Requirement ($)	$ 12,470,364
Average Net Plant ($)	$ 18,964,893

<u>Facilitation of Future Rate Case Filings:</u>

a) In order to facilitate future rate case filings, the economic feasibility model is summarized year by year for expenses, taxes, return on rate base elements, revenue requirement, base revenues, temporary surcharge revenues, average gross plant, and average net plant (see Appendix A) Actual revenues shall include base revenues, temporary surcharge revenues, contribution in aid of construction surcharges, weather normalization revenues (or credits), and revenue decoupling mechanism revenues (or credits);

b) The allowed revenue requirement for the new franchise area (base revenues, temporary surcharge revenues and CIAC surcharge revenues plus any additional revenue received through general rate increases allowed for the existing Company franchise area during the Development Period as a result of future rate proceedings) for the Development Period is projected to be $12,470,364 (see Appendix A)(Allowed Revenue Requirement);

c) The average net plant for the Development Period for the new franchise area is projected to be $18,964,893 (see Appendix A)(Imputed Average Net Plant);

d) The Company shall impute total revenues (Total revenues are defined as base revenues, temporary surcharge, and CIAC surcharge revenues for the new franchise area. Weather normalization and revenue decoupling mechanism revenues are adjusted revenues which are set at zero in revenue forecasts during the Development Period.) and average net plant for the franchise area in any future rate case filed by the Company for rate years incorporated within the Development Period. For such

rate cases, the rate design shall recover the revenue requirement exclusive of the franchise area (the resulting delivery rates shall be the same for all customers including those located within the new franchise area). Appendix A provides the minimum total revenue imputation and the maximum average net plant imputation.

Excess Revenue Calculation:

At the completion of the Development period, a two-step calculation shall be made to determine if excess revenue should be refunded to new franchise area customers. The term "Excess Revenue" is defined as the positive difference between the actual revenues during the Development Period and the Allowed Revenue Requirement or the Adjusted Allowed Revenue Requirement. Excess Revenue shall not exceed the amount of the actual temporary surcharge revenues.

a) The first step in calculating Excess Revenue, if any, is that the Company shall compare the Imputed Average Net Plant of $18,964,893 for the Development Period to the actual average net plant for the same period. If it is determined that the actual average net plant is less than $18,964,893, a downward adjustment shall be made to the Allowed Revenue Requirement. This reduced allowed revenue requirement (Adjusted Allowed Revenue Requirement) shall be used for the exclusive purpose of determining excess revenue. The downward adjustment to the annual revenue requirement shall equal 38.9% (equals 6.25% per year times 5 years times the ratio of the allowed revenue requirement to the allowed revenue requirement less income taxes (approximately 1.24)) of the difference between $18,964,893

and the actual average net plant for the Development Period. If it is determined that the actual average net plant is more than <u>$18,964,893</u>;

b) The second step in the Excess Revenue calculation is that the Company shall identify the difference between the actual revenues and the Adjusted Allowed Revenue Requirement (if actual average net plant is less than the Imputed Average Net Plant) or the Allowed Revenue Requirement (if actual average net plant is equal to or greater than the Imputed Average Net Plant) during the Development Period. If the calculation produces a positive result, the Company shall refund the Excess Revenue. If the calculation produces a negative result, no refund is required;

c) The Excess Revenue shall not exceed the actual temporary surcharge revenues. At the end of each year during the Development Period, the Company shall calculate, using Appendix A hereto, the Company's liability, if any, to date for the Excess Revenue refund and make the appropriate deferral to account for that liability. At the end of the Development Period, the Excess Revenue shall be calculated, and, if any, shall be refunded to customers of the new franchise area only. At the end of the Development Period, Excess Revenue shall be refunded to each service class in proportion to the actual surcharge revenue collected from such service class over the Development Period.