BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF
OF DELMARVA POWER & LIGHT COMPANY
FOR A CHANGE IN NATURAL GAS
BASE RATES (FILED DECEMBER 7, 2012)

PSC DOCKET NO. 12-546

ORDER NO. 8528

AND NOW, this 6th day of February, 2014:

WHEREAS, on December 7, 2012, Delmarva Power & Light Company
("Delmarva" or the "Company") filed with the Delaware Public
Service Commission (the "Commission") an application (the
"Application"), pursuant to 26 Del. C. §201, §301, and §304,
seeking among other things, to modify the language of Section
XVII of its Natural Gas Tariff to make it easier and more
affordable for residential and small business owners to
consider natural gas for their energy needs; and

WHEREAS, on August 27, 2013 the parties and intervenors (the
"Settling Parties") executed an agreement to settle most of the issues
in this Docket, which the Commission heard testimony on and approved
on October 22, 2013 (See Order No. 8465); and

WHEREAS, the settlement provided that the docket would stay open
for the limited purpose of conducting workshops to consider certain
changes to Section XVII of Delmarva’s Natural Gas Tariff, specifically
with respect to service extensions for existing residential
subdivisions and for non-residential customers for existing mains
(Leaf Nos. 27 and 28) as proposed by Delmarva in the Application
(sometimes hereinafter the "Main Extensions"); and
WHEREAS, the Settling Parties further agreed that Main Extensions workshops would be completed on or before December 2, 2013 and that on or before December 16, 2013 the Settling Parties would submit to the Commission for its consideration either: (a) mutually acceptable revisions to Section XVII of the Natural Gas Tariff; or (b) any objections or modifications to Delmarva’s proposed revisions to Section XVII of the Natural Gas Tariff language; and

WHEREAS, after several workshops, the Settling Parties have agreed to and propose for the Commission’s consideration certain revisions to Section XVII of Delmarva’s Natural Gas Tariff that are specifically set out in more detail in the Proposed Settlement Agreement attached here to as Exhibit "A"; and

WHEREAS, 26 Del. C. 512(a) provides that "insofar as practicable, the Commission shall encourage the resolution of matters brought before it through the use of stipulations and settlements," and the Commission is specially authorized after hearing to approve the resolution of matters brought before it by settlements where the Commission finds such resolution to be in the public interest; and

WHEREAS, on February 6, 2014, the Commission, exercising its authority under 26 Del. C Section 512(a), conducted a duly-noticed public evidentiary hearing on the Proposed Settlement Agreement, at which time representatives of the Settling Parties testified in support of the Proposed Settlement Agreement and provided testimony
on the issue of why the Proposed Settlement Agreement was in the public interest, and further, why the suggested tariff changes would help support the expansion of natural gas service in Delmarva's service territory;

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMISSIONERS:

1. That, for the reasons given by the Settling Parties, the Commission finds that the Proposed Settlement Agreement is in the public interest and will result in just and reasonable rates that will enable Delmarva to expand the availability of natural gas in its service territory thereby providing customers and businesses with an additional alternative form of energy.

2. That the Commission hereby approves the Proposed Settlement Agreement, a copy of which is appended hereto as Attachment "A."

3. That the proposed modifications to Section XVII of Delmarva's Natural Gas Tariff as set forth in the approved Settlement Agreement shall be effective upon receipt of an original set of the revised tariffs sheets.

4. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chair
Docket No. 12-546, Order No. 8528 Cont'd

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION
OF DELMARVA POWER & LIGHT COMPANY
FOR A CHANGE IN NATURAL GAS BASE
RATES (FILED DECEMBER 7, 2013)

PSC DOCKET NO. 12-546

PROPOSED SETTLEMENT AGREEMENT — GAS SERVICE EXTENSION TARIFF CHANGES

This proposed Settlement Agreement (the "Settlement") is entered into this

7th day of December, 2013, by and among Delmarva Power & Light Company
("Delmarva" or the "Company"), the Delaware Public Service Commission Staff ("Staff"),
the Division of the Public Advocate ("DPA"), Hillstream II Property Owners Association
("HPOA") and The Caesar Rodney Institute ("CRI") (together, the "Settling Parties" and
each individually, a "Party").

I. INTRODUCTION AND PROCEDURAL BACKGROUND

1. On December 7, 2012, Delmarva filed with the Delaware Public Service
Commission (the “Commission”) an application (the “Application”) seeking, among
other things, to modify the language of Section XVII of its Natural Gas Tariff to make it
easier and more affordable for residential and small business owners to consider natural
gas for their energy needs.

2. The Settling Parties executed a settlement agreement to settle most of
the issues in this Docket, which the Commission approved on October 22, 2013 per
Corrected Order No. 8465. As part of the approved settlement, the Settling Parties
agreed that this Docket would remain open for the sole purpose of conducting working
group meetings to consider changes to Section XVII of Delmarva’s Natural Gas Tariff, specifically with respect to service extensions for existing residential subdivisions and for non-residential customers for existing mains (Leaf Nos. 27 and 28) as proposed by Delmarva in the Application ("Main Extensions").

3. The Settling Parties further agreed that the working group meetings for Main Extensions would begin no later than September 15, 2013 and be completed on or before December 2, 2013, and that on or before December 16, 2013 the parties would submit to the Commission for its consideration either: (a) mutually acceptable revisions to Section XVII of the Natural Gas Tariff; or (b) any objections or modifications to Delmarva’s proposed revisions to Section XVII of the Natural Gas Tariff language.

4. The Settling Parties met several times between September and November 2013 to discuss the Main Extensions issue and have agreed upon a process moving forward and the revision to be made to Section XVII of Delmarva’s Natural Gas Tariff.

II. SETTLEMENT PROVISIONS

IT IS HEREBY STIPULATED AND AGREED by Delmarva, Staff, the DPA, HPOA and CRI that they will submit to the Commission for its approval the following terms and conditions:

A. Main Extensions.

5. For residential main extensions for existing homes, the Company will make extensions for existing mains of 100 feet per applicant, without charge. Applicants will be required to provide a $200 refundable deposit, which will be refunded
when the applicant becomes a customer and connects gas utilization equipment within five years of the date that gas service is first made available to their property. As part of this process, the Company will eliminate the Revenue Test Model which had been used to determine the level of contribution required from new customers to extend gas service to their properties.

6. For residential extensions for existing homes involving an extension of more than 100 feet per applicant, or where a system improvement is required to serve the applicant(s), the determination as to whether Delmarva will proceed with an extension will be based upon the results of a model that employs a discounted cash flow analysis from which the Company will derive an estimate of the cost of the capital expenditure associated with the proposed extension and the net revenues to be derived therefrom (the “DCF Model”). The DCF Model will assume that new customers to be served by this extension are “phased-in” during the first five (5) years of the extension project, as follows: (1) the cumulative phase-in rates for more than five (5) applicants are as follows: Year 1 – 33%; Year 2 – 70%; Year 3 – 85%; Year 4 – 89%; and Year 5 – 100%; and (2) if there are five (5) or fewer customers, all connections will be assumed to occur in Year 1. The DCF Model will also assume that 85% of the other homes along the main extension will convert to natural gas service within twenty (20) years. The applicant phase-in rates and the conversion rate outlined above may be adjusted with Commission approval. Using the DCF Model, the Company will discount the revenues associated with the proposed new main extension to a present value representative of the lesser of the cost of the Company’s prospective after-tax long term debt or equity.
The discount rate will be adjusted annually based on the Company's current after-tax long term debt or equity rate. If the net present value is zero or greater, no contribution will be required from the applicant. If the net present value is negative, the excess cost will be required as a contribution by the applicant. The tax rate will be adjusted annually based upon rates established by current tax laws. Payment will be required in advance of any work being performed. Variables in the DCF Model that will change with each extension project are: the estimated construction costs of the extension project; the number of homes with respect to the number of applicants and the number of homes that could be served by the main extension; and the annual non-fuel revenue. The DCF Model is attached hereto as Exhibit "A" and is expressly made a part hereof.

7. For non-residential extensions of existing mains, for the General Gas Sales Service Classification only, the Company will provide 100 feet of extension without charge; thereafter, the currently applicable three times the estimated revenue test will be used to determine the economics of the extension and the required contribution from the applicant.

8. A summary report of the main extension projects completed pursuant to this process as described in the preceding paragraphs 5 - 7 will be filed with the Commission and the Public Advocate annually, within one hundred twenty (120) days after December 31 of each year. The summary report shall include the following information for each extension project started and/or completed during the previous calendar year:

a. Main Extension Project Identification Number;
b. Main Extension Project Location (Community/business name and location);

c. Completion/In-service Date for Main Extension Project;

d. Number of Customers taking service in first five (5) years who have paid the required deposit;

e. Number of other homes/businesses located along the Main Extension that could become new customers;

f. Total Main Extension Project Footage;

g. Total Cost of the Main Extension Project;

h. Estimated Revenue for Main Extension Projects, by Year, for Years One through Five;

In addition, if requested by a Party, Delmarva will run the DCF model for a particular Main Extension Project as defined in Paragraph 6 hereof.

9. The Company will undertake a marketing campaign to make residents aware of the change in the tariff language and to promote the conversion to gas. The Company has maintained a list of individual customers and civic associations interested in converting to natural gas and will contact those customers and civic associations. Prioritization of two (2) or more competing projects with identical application dates will be based upon the most applicants per foot of pipe required.

10. The Settling Parties agree that within three (3) years from the date of issuance of a final non-appealable order by the Commission approving this Settlement Agreement, the Company will update the Commission and the Public Advocate as to the
status of conversions since the implementation of the revised tariff provisions so as to allow consideration of what, if any, further refinements need to be made to the Main Extensions provisions.

11. The revised tariff leafs incorporating the changes outlined in this Settlement Agreement are attached hereto as Exhibit "B" and made a part hereof.

B. Additional Provisions

12. This Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions. It is therefore a condition of the Settlement that the Commission approves it in its entirety without modification or condition. If this Settlement is not approved in its entirety, this Agreement shall become null and void.

13. This Settlement shall not set a precedent and no Settling Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. The purpose of this Settlement is to provide just and reasonable rates for Delmarva’s customers and the Settling Parties believe that this Settlement accomplishes this goal. In addition, the Settling Parties believe that the Settlement is in the public interest because, among other things, it avoids additional litigation costs.

14. The terms of this Settlement will remain in effect until changed by an order of the Commission, and the Commission shall retain jurisdiction over this Settlement. All statutory procedures and remedies shall be available to the Parties to ensure that rates are just and reasonable, including without limitation 26 Del. C. §§304, 309-311.
15. This Settlement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Settlement, provided that the original signature of each Settling Party is delivered to the Commission’s offices before its consideration of this Agreement. Copies of this Settlement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement on behalf of the respective Settling Party.

{Signatures appear on the following page}
or she has been duly authorized and empowered to execute this Settlement on behalf of
the respective Settling Party.

IN WITNESS WHEREOF, intending to bind themselves and their successors and
assigns, the undersigned Settling Parties have caused this Settlement to be signed by
their duly-authorized representatives.

DELAWARE PUBLIC SERVICE COMMISSION STAFF

By: **Connie S. Powell** Date: **12/16/13**

DELMARVA POWER & LIGHT COMPANY

By: ___________________________ Date: ___________________________

THE DIVISION OF THE PUBLIC ADVOCATE

By: ___________________________ Date: ___________________________

THE CAESAR RODNEY INSTITUTE

By: ___________________________ Date: ___________________________

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By: ___________________________ Date: ___________________________
or she has been duly authorized and empowered to execute this Settlement on behalf of
the respective Settling Party.

IN WITNESS WHEREOF, intending to bind themselves and their successors and
assigns, the undersigned Settling Parties have caused this Settlement to be signed by
their duly-authorized representatives.

DELWARE PUBLIC SERVICE COMMISSION STAFF

By: Connie S. McFerrin  Date: 12/16/13

DELMARVA POWER & LIGHT COMPANY

By:  [Signature]  Date: 12/17/13

THE DIVISION OF THE PUBLIC ADVOCATE

By:  [Signature]  Date: 12/17/13

THE CAESAR RODNEY INSTITUTE

By:  [Signature]  Date: 

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By:  [Signature]  Date:
THE DIVISION OF THE PUBLIC ADVOCATE

By: __________________________  Date: __________________________

THE CAESAR RODNEY INSTITUTE

By: __________________________  Date: 11/16/13

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By: __________________________  Date: __________________________
THE DIVISION OF THE PUBLIC ADVOCATE

By: ___________________________ Date: ______________

THE CAESAR RODNEY INSTITUTE

By: ___________________________ Date: ______________

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By: ___________________________ Date: 12/16/13

CONFIDENTIAL
EXHIBIT "A"

DCF Model
# Delmarva Power & Light
## Net Present Value — Main Extension

### Operational Costs

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### Costs

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$\text{GAC} = \sum_{i=1}^{n} \frac{C_i}{(1+r)^i}$

Z:\Services\GeneralCounsel\8632_Legal\LEGALJ\5IDataware PBC\Gas Base Rate Case 2010\Tariff (Main Extension) Working Group\Exhibit A to Settlement Agreement - DCF Model.xlsx|NPV Model
EXHIBIT "B"

Revised Tariff Leaves
RULES AND REGULATIONS

SECTION XVII - EXTENSIONS

A. General

Extensions to the Company's gas system shall be provided, owned and maintained under the terms and conditions herein enumerated.

Extensions, as used in this section, refer to gas mains and associated materials that must be constructed along public streets, roads and highways, or on private property from the Company's existing gas system to the service.

Extensions shall be designed according to accepted industry practices to provide adequate service and shall be installed in accordance with the rules and regulations of the Commission. Modifications to the Company's design, requested by the Requester, shall be made when such modifications are acceptable to the Company in its sole judgment.

Where a Requester requests the Company to install facilities which are more costly than those proposed to be furnished by the Company, the Requester shall pay the Company the difference in cost between the requested installation and that deemed necessary by the Company.

B. Residential Extensions - New Developments

1. If the estimated investment in the extension exceeds five (5) times the related estimated annual net base revenue, excluding all fuel costs ("Estimated Revenue") from Customers to be initially served from the extension, the Applicant shall provide a financial guarantee in accordance with Section XVII-H. This financial guarantee may be waived if the amount is less than $50.

2. For the purpose of definition, those Customers to be initially served shall include houses or multiple occupancy buildings under construction at the time the contract for the extension is signed. As additional facilities are needed to serve additional Customers, the Applicant may be required to make additional financial guarantees or may receive a refund accordingly.

C. Residential Extensions - Existing Homes - 100 feet per Applicant/Subdivisions

1. The procedure used to determine whether a Contribution in Aid of Construction ("CIAC") including all applicable taxes will be required from Applicants will be on file with and approved by the Commission. The CIAC may be waived if the amount is less than $50.

2. Applicants included in the procedure must provide a Refundable Qualifying Deposit ("RQD") of $200. The RQD will be refunded to the Applicant if gas heating/airconditioning equipment is installed and connected within five (5) years of the date that gas service is first available to that Applicant. If gas utilization equipment is not installed and connected within five (5) years of the date that gas service is first available, the RQD will not be refunded, but will be applied as a Contribution in Aid of Construction ("CIAC").

2. The Company will make extensions to existing mains of one hundred (100) feet per Applicant without charge. In the event of multiple Applicants, where no system improvements are required to serve the Applicants, the extension will be 100 feet multiplied by the number of Applicants.

D. Residential Extensions - Existing Home - more than 100 feet per Applicant or system improvement required less than 500 Feet

If the estimated investment in the extension exceeds five (5) times the Estimated Revenue, each Applicant shall provide a CIAC including all applicable taxes for the excess amount; this CIAC may be waived if the amount is less than $50. If any Applicant is not connected to Delmarva's system within...
one year of the time that gas service is available to an Applicant, that Applicant must pay the ROQ to the
Company. Such payment shall be credited as a CIAC.

Effective with Usage on or after December
Order No. 6327 Filed: December 9, 2003
Docket No. 12-54603-127

Filed in compliance with Commission Order No. 6327 in Docket No. 03-127

1. Applicant(s) included in this process must provide a ROQ of $200. The ROQ will be refunded to the Applicant(s) if gas utilization equipment is installed and connected within five (5) years of the date that gas service is first available to that Applicant. If gas utilization equipment is not installed and connected within the five (5) year timeframe, the ROQ will not be refunded but will be applied as a CIAC.

2. The Company will make extensions to existing mains using a model based upon a discounted cash flow (DCF) analysis. The DCF Model will evaluate main extensions based upon the estimated cost of the capital expenditures associated with the proposed extension and an estimate of the net revenue to be derived from the original Applicants over the first five (5) years and expected additional new customers who could be served by the main extension. The DCF Model will be on file with the Commission. Applicant(s) shall provide a non-refundable CIAC including all applicable taxes for the excess amount equivalent to the negative net present value of the project prior to the main extension being installed. The CIAC may be waived if the amount is less than the $200 ROQ per applicant.
RULES AND REGULATIONS

SECTION XVII - EXTENSIONS

E. Non Residential Extensions — For General Gas Sales Service Classification Customers Only

The Company will make extensions to existing mains of one hundred (100) feet per Applicant without charge. Beyond the first 100 feet, if the estimated investment in the extension exceeds three (3) times the Estimated Revenue, the Applicant will be required to provide a CIAC including all applicable taxes for the excess amount. This CIAC may be waived if the amount is less than $520.00.

When a line extension and service are both required, the Estimated Revenue shall be compared to the total estimated investment in both the line extension and the service, excluding the first 100 feet of main or service.

F. Non Residential Extensions — All Non-Residential Service Classifications Other Than General Gas Sales

If the estimated investment in the extension exceeds three (3) times the Estimated Revenue, the Applicant will be required to provide a CIAC including all applicable taxes for the excess amount. This CIAC may be waived if the amount is less than $50.

When a line extension and service are both required, the Estimated Revenue shall be compared to the total estimated investment in both the line extension and the service.

G. Non Residential Dual Fuel Extensions

All Non-Residential Customers who desire service and who have the ability to continuously use an alternate fuel must sign an Application that holds the Customer liable for all estimated costs not covered by actual non-fuel revenues received and retained by the Company.

When a line extension and service are both required, the Estimated Revenue shall be compared to the total estimated investment in both the line extension and the service.

H. Infrastructure Improvements

The Company may make investments in infrastructure for reasons of timing, convenience, reliability, safety or other reasons as may be appropriate, independent of extension or service requests from Customers. Investments in infrastructure will be undertaken consistent with engineering planning studies and financial analysis. Infrastructure is defined as gas transmission and distribution systems necessary to increase pipeline flow capacity and/or pressures, system reliability or service availability.

The intent of the preceding paragraph is not to avoid the extension rules contained in this Section, nor the service installation rules contained in Section VII.

I. Financial Guarantees

Financial Guarantees may be made by payment, deposit, Letter of Credit or other financial instruments at the Company's discretion.

Should the Applicant provide a deposit; it will be returned to the Applicant (without interest) in an amount equal to five (5) times the estimated revenue, excluding all fuel cost, from new Customers as each new Customer completes its permanent service connection directly from the extension for which the deposit was required. In no case shall the total refund be greater than the Applicant's deposit. Any portion of the deposit remaining unfunded after five (5) years from the date the Company is first ready to render service from the extension shall be retained by the Company and credited as a CIAC.

Should the Applicant provide a Letter of Credit or other Financial Instrument, the estimated revenue attributable to the extension shall be examined prior to the Letter's or other Instrument's
expiration. The Company may either draw on the Letter of Credit or Instrument or require that it be renewed, where a continued financial guarantee is still required. Such draw shall then be considered a deposit under the above section. The Company shall also have the right to require a Financial Guarantee where it determines that the recovery of the investment is questionable.

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