BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

January 9, 2001

IN RE:	)	
	)	
UNITED CITIES GAS COMPANY, a Division	)	**Docket No. 00-00459**
of ATMOS ENERGY CORPORATION	)	
INCENTIVE PLAN ACCOUNT (IPA) AUDIT	)	

NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (hereafter "Energy and Water") hereby gives notice of its filing of the United Cities Gas Company Incentive Plan Account (hereafter "IPA") Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of United Cities Gas Company's (hereafter the "Company") IPA for the year ended March 31, 2000.

2. The Company's IPA filing was received on May 30, 2000, and the Staff completed its audit of same on October 31, 2000.

3. On November 1, 2000, the Energy and Water Division issued its preliminary audit findings to the Company, and on December 8, 2000, the Company responded thereto..

4. The Audit Report is attached hereto as <u>Exhibit A</u> and is fully incorporated herein by this reference.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same.

Respectfully Submitted:

Pat Murphy

Pat Murphy
Energy and Water Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of January, 2001, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ms. Patricia J. Childers
Manager – Regulatory Affairs
United Cities Gas Company
810 Crescent Centre Dr., Suite 600
Franklin, TN 37067-6226

Mr. Bob Cline
Manager – Rate Administration
Atmos Energy Corporation
381 Riverside Drive, Suite 600
Franklin, TN 37064-5393

Pat Murphy
Pat Murphy

EXHIBIT

A

COMPLIANCE AUDIT REPORT
OF

UNITED CITIES GAS COMPANY'S
INCENTIVE PLAN ACCOUNT

Docket No. 00-00459

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

JANUARY 9, 2000

EXHIBIT A

TENNESSEE REGULATORY AUTHORITY'S
COMPLIANCE AUDIT
of
UNITED CITIES GAS COMPANY'S
INCENTIVE PLAN ACCOUNT

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this compliance audit is the Performance Incentive Plan (hereafter "Incentive Plan" or "IPA") of United Cities Gas Company (hereafter "United Cities" or the "Company"), a division of Atmos Energy Corporation. The objective of the audit was to determine whether the balance in the Incentive Plan Account (IPA) as of March 31, 2000, the first full year of the permanent plan, was calculated in conformance with the terms of the Incentive Plan and to verify that the factors utilized in the calculations were supported by appropriate source documentation. The IPA consists of two mechanisms, which are more fully described in Section III below.

The following chart summarizes the results of the current period of the Incentive Plan, as presented in the Company's filing:

		Year Ended 3/31/00
Total Actual City Gate Purchases	$	36,983,041
Total Annual Benchmark	$	38,163,102
Percentage Actual Purchases to Benchmark		96.91%
Total Incentive Savings from:		
Gas Procurement	$	363,769
Capacity Management		1,100,109
Total Incentive Savings	$	1,463,878
Incentive Savings retained by Ratepayers:		
Gas Procurement	$	181,885
Capacity Management		990,098
Total Incentive Savings to Ratepayers	$	1,171,983
Incentive Savings retained by Company:		
Gas Procurement	$	181,885
Capacity Management		110,011
Total Incentive Savings to Company	$	291,895

The results of the audit indicate that except for the Staff's Findings, during the plan year under review, the Company's calculations were in conformance with the terms of the Incentive Plan. Section IV of this report further describes the actual results of the plan year and Section V. details the Staff's findings.

II. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (hereafter "T.C.A.") gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. § 65-4-104 states:

> The Authority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. § 65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. has conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. § 65-3-108, said power includes the right to audit:

> The department is given full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

The Authority's Energy and Water Division is responsible for auditing those companies under the Division's jurisdiction to insure that each company is abiding by the rules and regulations of the TRA. Pat Murphy of the Energy and Water Division performed this audit.

III. BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN

On May 12, 1995, the Tennessee Public Service Commission (hereafter the "TPSC"), the predecessor to the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA"), issued an Order in Docket Number 95-01134 approving an Incentive Plan (as modified by the TPSC) for a two-year experimental period, effective April 1, 1995. On February 2, 1996, an independent consultant filed a report on the results of the first year. On March 5, 1996, the TPSC held a hearing to consider the recommendations of the consultant and testimony submitted by the Company and the Consumer Advocate Division (hereafter the "CAD"). In its May 3, 1996 Order, the TPSC modified the plan in accordance with the consultant's recommendations and continued the plan for a second year. Because it was not permitted to cross-examine the consultant during the March 5 hearing, the CAD filed a petition with the Tennessee Court of Appeals, requesting a review of the May 3, 1996 Order and the May 12, 1995 Order. The Court denied the request for review of the May 12, 1995 Order. With respect to the May 3, 1996 Order, the Court agreed with the CAD that it was denied due process. On March 5, 1997 the Court vacated the May 3, 1996 Order and remanded the case back to the Authority.[1]

On February 28, 1997, the consultant filed his report on the second year of the two-year experimental period. Following the Court of Appeals March 5, 1997 Order, United Cities filed a petition on March 31, 1997, requesting the Authority to adopt the two consultant reports and approve the Incentive Plan on a permanent basis. The CAD opposed the petition. Therefore, on May 20, 1997, the Authority ordered that a contested case be convened to address issues pertaining to the Court's remand of the May 3, 1996 TPSC Order and consider United Cities petition for a permanent plan. The Authority addressed the issues in two separate hearings. Phase I hearing on March 26 and 27; 1998 dealt with the remand of the May 3, 1996 TPSC Order, including a review of the consultant's report and whether the plan should continue for the second year. Phase II hearing was held on March 27 and 31, 1998 to deal with the March 31, 1997 United Cities petition, including the consultant report for the second year and whether the Incentive Plan should be made permanent.

The Authority issued its Phase I Order on January 14, 1999, and its Phase II Order on August 16, 1999. The Phase II Order authorized United Cities to continue operating under a modified Incentive Plan. The Incentive Plan automatically rolls over for an additional plan year on each April 1st, beginning April 1, 1999, and continues until the Incentive Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by United Cities to the Authority or (b) modified, amended or terminated by the Authority. The period April 1, 1999 to March 31, 2000 is the first year of the permanent plan and is the subject of this audit.

---

[1] On June 30, 1996, the TPSC was dissolved by act of the Tennessee Legislature.

The Incentive Plan consists of two mechanisms: (1) the Gas Procurement Incentive Mechanism, and (2) the Capacity Management Incentive Mechanism. Under the **Gas Procurement Incentive Mechanism**, United Cities retains 50% of the savings on gas purchased below 97.7% of a pre-determined index. Should the Company purchase gas above 102% of the same pre-determined index, the Company is penalized for 50% of the excess. The computation of savings/losses are made on a monthly basis. The lower end of the deadband (the range within which no savings or losses are computed), is to be readjusted at the end of every three-year period based on the most recent audited results. The **Capacity Management Incentive Mechanism** encourages the Company to market off-peak unutilized transportation and storage capacity. The associated savings are shared by the ratepayers and the Company on a 90/10 basis. Interest is accrued on the outstanding monthly balance in the Incentive Plan Account using the same computation that is provided for in the Authority's Purchased Gas Adjustment Rule 1220-4-7-.03(vii).[2] The specific details of the Incentive Plan are included in United Cities Performance Based Ratemaking Mechanism Rider, which was issued on March 16, 1999 and was effective on April 1, 1999. A copy of this tariff is attached to the report as **Attachment 1**.

The TRA's Final Order on Phase II also provided that the Company should submit annually to the Authority's Staff the following items:[3]

1. The calculation of the Company's Reserve Margin to ensure that its level of contract demand is prudent.
2. Details of the gas supply incentive and rewards program for its non-executive employees who are involved in implementing the incentive plan.
3. Documentation of the Company's compliance with the Tennessee Guidelines for United Cities Gas Company's Affiliate Transactions.[4]

Staff has determined that United Cities has complied with all three of the above filing requirements:

1. The Company filed its Reserve Margin calculation on June 13, 2000. Calculations for East Tennessee Natural Gas and Texas Eastern/Columbia Gulf show a 5.7% margin above projected peak day requirements. For Texas Gas, there was no reserve margin as the Company is charged only for capacity actually used. The Company's tariff states that a reserve margin of 7.5% or less will be presumed reasonable.[5]
2. The Company states that the Incentive and Rewards Program remains the same as that originally submitted to the Authority Staff on June 1, 1999.
3. The Staff discussed the Company's compliance with the affiliate rules during the course of this audit. On November 21, 2000, Staff sent a letter requesting additional information. On December 14, 2000, the Company

2 TRA Final Order on Phase II, August 16, 1999, page 28, paragraph 12.
3 Ibid., page 27, 28, paragraphs 4, 9, and 10.
4 Performance Based Ratemaking Mechanism Rider, TRA No. 1, Original Sheet No. 45.3, 45.4, and 45.5
5 Ibid., TRA No. 1, Original Sheet No. 45.5.

replied. Staff is satisfied that the Company is complying with the intent of the affiliate rules as detailed in its tariff.

IV. ACTUAL PLAN YEAR RESULTS

On May 30, 2000, United Cities submitted a rate adjustment to recover the balance in the Incentive Plan Account as of March 31, 2000, the end of the first full year of the permanent Incentive Plan. According to the Company filing, the Incentive Plan generated $1,463,878 in total incentive savings. Of this amount, $1,171,983 benefited the ratepayer and United Cities retained $291,895. Adding the $11,909 in calculated monthly interest due resulted in an unrecovered balance in the account of $303,804. To recover this balance, a surcharge of $0.00191 per ccf became effective October 1, 2000.

According to the Staff's calculations, the Company was able to purchase gas at less than the benchmark during all twelve months in the audit period. However, in one of those months, United Cities was not able to participate in the savings generated from the Gas Procurement Incentive Mechanism. This was due to the fact that the total monthly purchases for that month were above the 97.7% lower limit of the deadband (the range within which no savings or penalties are calculated). The Company had no total monthly purchases above the 102% upper limit of the deadband. Total actual city gate purchases for the year averaged 96.91% of the total annual benchmark. According to the Company's calculations, of the $363,769 in savings generated, the Company retained $181,885. Staff's calculations showed a total savings of $302,656, with $151,328 accruing to the Company.

According to the Company's calculations, the Capacity Management Incentive Mechanism generated a total of $1,100,109 in savings. Under the terms of the Incentive Plan, United Cities is entitled to retain 10% ($110,011) of the total savings under this mechanism, and 90% ($990,098) benefited the ratepayer. Staff's calculations showed a total of $1,102,065 in savings under this mechanism, with $110,207 accruing to the Company.

The Staff's audit resulted in 5 Findings, the net effect of which is that the Company is **over-collecting $30,946** from the ratepayers. The corrected balance in the Incentive Plan Account as of March 31, 2000 is $272,859. The difference between the Company's filing and the Staff's audit results will be adjusted to the Incentive Plan Account in the next plan year. See Section V. for details of these findings.

V. IPA AUDIT FINDINGS

As outlined in Section IV., above, the result of the Staff's audit was a **net overrecovery of $30,946**. A summary of the IPA account as filed by the Company and adjusted by the Staff is shown below, followed by a detail of each finding.

SUMMARY OF THE IPA ACCOUNT:

Incentive Benefit	Company Filing	Staff Audit Results	Difference (Findings)
Gas Procurement	$181,885	$151,328	$-30,557
Capacity Release	110,011	110,207	196
Interest	11,909	11,324	-585
Total	$303,805	$272,859	$-30,946

SUMMARY OF FINDINGS:

				See page
FINDING #1	Gas Procurement Incentive	$ -	no effect	8
FINDING #2	Gas Procurement Incentive	9,748	Underrecovery	9
FINDING #3	Gas Procurement Incentive	40,304	Overrecovery	10
FINDING #4	Capacity Release Incentive	196	Underrecovery	11
FINDING #5	Interest on Account Balance	585	Overrecovery	12
	Net Result	**$ 30,946**	**Overrecovery**	

FINDING #1:

Exception

The Company used incorrect Tennessee allocation factors in the calculation of the Gas Procurement Incentive Benefits.

Discussion

In order to properly allocate gas purchases between Tennessee and Virginia, an allocation factor is calculated monthly based on sales. When the Staff audited these allocation percentages, errors were found in the calculations for the months of September 1999 through March 2000. However, the net dollar value of the combined errors was less than $1 and, therefore, had no effect, in itself, on the account balance.

Company Response

The Company agrees with this finding.

FINDING #2:

Exception

The Staff calculated an **underrecovery of $9,748** in the Gas Procurement Incentive Mechanism.

Discussion

The Company used incorrect Natural Gas Intelligence (NGI) indices for various pipelines in calculating the Average Index for the months of July 1999 through March 2000.

Company Response

The Company agrees with this finding.

FINDING #3:

Exception

The Staff calculated an **overrecovery of $40,304** in the Gas Procurement Incentive Mechanism.

Discussion

During the first year of the two-year experimental period for United Cities' Incentive Plan, the Company computed gains and losses for the Gas Procurement Mechanism on a transaction by transaction basis. Contested hearings were held on March 26, 27 and 31, 1998 to consider issues associated with the remand of the 1996 proceeding and whether the plan should continue for a second year (Phase I) and whether the plan should be made permanent (Phase II). The Final Order on Phase I concluded that the mechanism should be modified to calculate the gains and losses on a monthly basis rather than transaction by transaction.[6] The Company failed to make this change in their calculations.

Company Response

The Company agrees with this finding.

[6] TRA Final Order on Phase One, January 14, 1999, page 29, paragraph 12.

FINDING #4:

Exception

The Staff calculated an **underrecovery of $196** in the Capacity Release Incentive Mechanism.

Discussion

The Company used an incorrect amount of capacity release credits for Columbia Gulf for the month of November 1999. The amount used in calculating the Capacity Release Incentive amount was $16,054.62 (Tennessee allocated portion). The correct amount according to the invoice was $18,010.77 (Tennessee allocated portion). The difference between these two amounts ($1,956.15) should have been shared 10% to United Cities and 90% to the ratepayers.

Company Response

The Company agrees with this finding.

FINDING #5:

Exception

The Staff calculated an **overrecovery of $585.16** in the interest calculation.

Discussion

The Staff recalculated the interest on account balance based on the above findings, resulting on an overrecovery.

Company Response

The Company agrees with this finding.

VI. STAFF CONCLUSIONS AND RECOMMENDATIONS

The Company correctly implemented the Incentive Plan in its calculation of incentive savings except in one area. In its Final Order on Phase One, the Authority supports the method of computing gains and losses on a monthly basis, rather than a transaction by transaction basis. The conclusion of the Authority is that using a transaction method distorts the true savings of the Incentive Plan in favor of the Company.[7]

For the first year of the permanent plan, the Company continued its transaction by transaction method of calculating gains and losses under the Incentive Plan. Staff brought this to the Company's attention. The Company agreed with the Staff and took immediate steps to correct the quarterly reports already filed with the Authority for the 2000 – 2001 plan year. Finding number 3 shows the overrecovery generated by transaction method.

The Staff recommends that the net overrecovery of $30,946 be an adjustment to the Incentive account balance in the Company's next annual filing with the Authority.

[7] TRA Final Order on Phase One, January 14, page 24.

ATTACHMENT 1

UNITED CITIES GAS COMPANY, A DIVISION OF
ATMOS ENERGY CORPORATION

T.R.A. No. 1
1st Revised Sheet No. 45.1
Cancelling Original Sheet No. 45.1

PERFORMANCE BASED RATEMAKING MECHANISM RIDER

Applicability

The Performance-Based Ratemaking Mechanism (the PBRM) replaces the reasonableness or prudence review of the Company's gas purchasing activities overseen by the Tennessee Regulatory Authority (the Authority) in accordance with Rule 1220-4-7-.05, Audit of Prudence of Gas Purchases. This PBRM is designed to encourage the utility to maximize its gas purchasing activities at minimum costs consistent with efficient operations and service reliability, and will provide for a shared savings or costs between the utility's customers and shareholders. Each plan year will begin April 1. The annual provisions and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end of a plan year by not less than 90 days notice by the Company to the Authority or (b) modified, amended or terminated by the Authority.

Overview of Structure

The Performance-Based Ratemaking Mechanism consists of two parts:

Gas Procurement Incentive Mechanism
Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism establishes a predefined benchmark index to which the Company's commodity cost of gas is compared. It also addresses the use of financial instruments or private contracts in managing gas costs. The net incentive savings or costs will be shared between the Company's customers and the Company on a 50% / 50% basis.

The Capacity Management Incentive Mechanism is designed to encourage the Company to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. The net incentive benefits will be shared between the Company's customers and the Company on a 90% / 10% basis.

The Company is subject to a cap on overall incentive savings or costs on both mechanisms of $1.25 million annually.

Gas Procurement Incentive Mechanism

Commodity Costs:

On a monthly basis, the Company will compare its commodity cost of gas to the appropriate benchmark amount. The benchmark amount will be computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate price index. For monthly spot purchases, the price index will be a simple average of the appropriate *Inside FERC Gas Market Report, Natural Gas Intelligence,* and NYMEX indexes for that particular month. For swing purchases, the published *Gas Daily* rate for the first business day of gas flow will be used as the index. For long-term purchases, i.e., a term more than one month, these indexes will be adjusted for the Company's rolling three-year average premium paid to ensure long-term supply availability during peak periods. For city gate purchases, these indexes will be adjusted for the avoided transportation costs that would have been paid if the upstream capacity were purchased versus the demand charges actually paid to the supplier.

Gas purchases under the Company's existing seven-year Nora supply contract effective November 1, 1993, will be excluded from the incentive mechanism. The Company will continue to recover 100% of the Nora costs through its PGA with no savings or loss potential. If, upon the expiration of the current Nora contract and if the Company continues to operate under the PBRM, the contract is renewed or renegotiated, it will be considered for inclusion in the PBRM at that time.

If the total commodity cost of gas in a month falls within a deadband of 97.7% to 102% of the total of the benchmark amounts, there will be no incentive savings or costs. If the total commodity cost of gas falls outside of the deadband, the amount falling outside of the deadband shall be deemed incentive savings or costs under the mechanism. Such savings or costs will be shared 50/50 between the Company's customers and the Company. At the end of each three-year period, the deadband will be readjusted to 1% below the most recent annual audited results of the incentive plan.

Financial Instruments or Other Private Contracts:

To the extent the Company uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs, any savings or costs will flow through the commodity cost component of the Gas Procurement Incentive Mechanism.

Capacity Management Incentive Mechanism

To the extent the Company is able to release daily transportation or daily storage capacity, the associated savings will be shared by the Company's customers and the Company on a 90/10 basis. The sharing percentages shall be determined based on the actual demand costs incurred by the Company (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers. Any incentive savings or costs resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

Affiliate Transactions

The following guidelines present the minimum conditions deemed necessary to ensure that affiliate transactions between the Company and its affiliate(s) do not result in a competitive advantage over others providing similar services. These guidelines will remain in effect as long as the Company is operating under a performance based ratemaking plan. We note that these guidelines may fail to anticipate certain specific methods by which such advantages may be conferred by the Company on its marketing affiliates. All parties should be aware that to the extent such instances arise in the future, they will be judged according to this stated intent.

Definitions:

Terms used in these guidelines have the following meanings:

1. Affiliate, when used in reference to any person in this standard, means another person who controls, is controlled by, or is under common control with, the first person.

2. Control (including the terms "controlling", "controlled by", and "under common control with"), as used in this standard, includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these guidelines of conduct.

3. Marketing, as used in this standard, means selling or brokering natural gas to any person or entity, including the Company, by a seller that is not a local distribution company.

Standards of Conduct:

The Company must conduct its business to conform to the following standards:

1. If there is discretion in the application of tariff provisions, then the Company must apply such provisions relating to any service being offered in a consistent manner to all similarly situated entities.

2. The Company must strictly enforce a tariff provision for which there is no discretion in the application of the provision.

3. The Company must process all similar requests for services in the same manner and within the same period of time.

4. The Company may not give its marketing affiliate preference over nonaffiliated companies in natural gas supply procurement activities.

5. The Company may not give its marketing affiliate preference over nonaffiliated companies in its upstream capacity release activities.

6. The Company may not disclose to its marketing affiliate any information that the local distribution company receives from a non-affiliated marketer, unless the prior written consent of the parties to which the information relates has been voluntarily given.

7. To the extent the Company provides information related to its natural gas supply activities and upstream capacity release activities, it must do so contemporaneously to all nonaffiliated marketers, that have submitted a written request for such information to the Company.

8. To the extent the Company provides information related to natural gas services being offered to a marketing affiliate, it must do so contemporaneously to all non-affiliated marketers, that have submitted a written request for such information to the Company.

9. In transactions that involve either the purchase or receipt of information, assets, goods or services by the Company from an affiliated entity, the Company shall document both the fair market price of such information, assets, goods, and services and the fully distributed cost to the Company to produce the information, assets, goods or services for itself.

10. When the Company purchases information, assets, goods or services from an affiliated entity, the Company shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

11. To the maximum extent practicable, the Company's operating employees and the operating employees of its marketing affiliate must function independently of each other. For the purposes of these guidelines, operating employees are those who are in any way involved in identifying and contracting with customers, locating gas supplies, making any and all arrangements with intervening pipelines and in any way managing or facilitating those contracted services.

12. The Company must maintain its books of accounts and records separately from those of its affiliate.

13. If the Company offers a discount to an affiliated marketer, it must make a comparable offer contemporaneously available to all similarly situated non-affiliated marketers.

14. The Company may not condition or tie its agreement to release its dedicated, stored, inventoried or optioned gas or supply contracts or upstream transportation and storage contracts to an agreement with a producer, customer, end-user or shipper relating to any service by its marketing affiliate, any services offered by the Company on behalf of its marketing affiliate, or any services in which its marketing affiliate is involved.

15. Prearranged, non-posted, capacity release transactions may not be entered into with any affiliate of the Company in any two consecutive thirty-day periods.

16. The Company must maintain a written log of tariff provision waivers which it grants. It must provide the log to any person requesting it within 24 hours of request. Any waivers must be granted in the same manner to the same or similar situated persons.

17. The Company shall maintain sufficiently detailed records that compliance with these guidelines can be verified at any time.

Complaints:

Any party may file a complaint relating to violations of these guidelines.

1. Any customer, marketer, or other interested third-party may file a complaint with the Authority relating to alleged violations of the affiliate standards set forth in these guidelines. At or before the time of filing, the complainant shall serve a copy of the complaint on the Company.

2. Within ten (10) days of service of the complaint upon the Company, the Company shall file a written response to the complaint with the Authority.

3. The Authority may hold hearings on any complaint filed or may take such other action (as it may deem appropriate), including requesting further information from the parties or dismissing the complaint.

4. After notice and opportunity for a hearing, should the Authority find that the Company has violated the standards contained in these guidelines, the Authority may impose any penalty or remedy provided for by law.

Reserve Margin

The Company may maintain a reserve of natural gas in excess of its projected peak day requirement and recover the cost of the reserve from their customers through the purchased gas adjustment (PGA). The projected peak day requirement shall be based upon a five-year recurrence interval or the coldest day expected in a five-year period. All firm peak day capacity contracted for by the Company, excluding the daily delivery capacity of liquefied natural gas and propane storage facilities, shall be considered as gas available to meet peak day demand. "Contract demand" shall be the amount of firm peak day capacity the Company is entitled to on a daily basis, pursuant to contract. The maximum peak day firm demand of the projected heating season shall form the base period demand to establish the Company's maximum peak day firm demand. A reserve margin of 7.5% or less in excess of the base period firm demand adjusted for specific gain or loss of customers and/or throughput on a specific case by case basis will be presumed reasonable.

All capacity available to meet the peak day demand in excess of an amount needed to meet the base period peak day demand plus a 7.5% reserve margin must be shown by the Company to be necessary to meet its customers' requirements before it can be included in the PGA. All capacity available to meet demand less than an amount of base period demand plus a 7.5% reserve margin is presumed to be reasonable unless a factual showing to the contrary is made.

Determination of Shared Savings

Each month during the term of the PBRM, the Company will compute any savings or costs in accordance with the PBRM. If the Company earns any savings, a separate below the line Incentive Plan Account (IPA) will be debited with such savings. If the Company incurs any costs, that same IPA will be credited with such costs. During a plan year, the Company will be limited to overall savings or costs totaling $1.25 million. Interest shall be computed on balances in the IPA using the same interest rate and methods as used in the Company's Actual Cost Adjustment (ACA) account. The offsetting entries to IPA savings or costs will be recorded to income or expense, as appropriate.

Savings or costs accruing to the Company under the PBRM will form the basis for a rate increment or decrement to be filed and placed into effect separate from any other rate adjustments to recover or refund such amount over a prospective twelve-month period.

Each year, effective October 1, the rates for all sales customers will be increased or decreased by a separate rate increment or decrement designed to amortize the collection or refund of the March 31 IPA balance over the succeeding twelve month period. The rate increment or decrement will be established by dividing the March 31 IPA balance by the appropriate sales billing determinants for the twelve months ended March 31. During the twelve-month amortization period, the amount collected or refunded each month will be computed by multiplying the sales billing determinants for such month by the rate increment or decrement, as applicable. The product will be credited or debited to the IPA, as appropriate. The balance in the IPA will be tracked as a separate collection mechanism. Each October 1 the unamortized amount of the previous year's IPA balance will be trued-up in the new rate increment or decrement.

Filing with the Authority

The Company will file calculations of shared savings and shared costs quarterly with the Authority not later than 60 days after the end of the quarter and will file an annual report not later than 60 days following the end of each plan year. Unless the Authority provides written notification to the Company within 180 days of such reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Rider. The Company will file calculations annually to verify the reasonableness of its reserve margin.

Incentive and Rewards Program

The Company will have in place an incentive and rewards program for selected Gas Supply non-executive employees involved in the implementation of the Company's PBRM in a manner consistent with the benefits achieved for customers and shareholders through improvements in gas procurement and secondary marketing activities. Participants in the program will receive incentive compensation as recognition for their contribution to the customers and shareholders of the Company through lower gas costs and savings related thereto.

During the time this tariff is in effect, the Company will continue to have in place a gas supply Incentive and Rewards Program, the details of which will be provided to the Authority on an annual basis within 60 days of the beginning of each plan year. Unless the Company is advised within 60 days, said details will become effective. No filing for prior approval is required for changes in the performance measures.