Docket no. 13-383

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CHESAPEAKE UTILITIES

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DELAWARE P.S.C.

October 1, 2013

Ms. Alisa Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, Delaware 19904

RE: Chesapeake Utilities Corporation – Delaware Division: Request for Approval of Changes to the Transportation and Balancing Rider and the Gas Supplier Schedule of its Tariff

Dear Ms. Bentley:

Pursuant to the Settlement Agreement adopted by the Commission by PSC Order No. 8430, enclosed for filing is an original and ten (10) copies of Chesapeake Utilities Corporation's application for proposed changes to the Transportation and Balancing rider and the Gas Supplier schedule of its Delaware Division Tariff.

The basis and reasons for the proposed changes are discussed and explained in the testimony and schedules accompanying the enclosed application.

Also, enclosed is the Delaware Public Service Commission's "Filing Cover Sheet" along with the application fee of $100.00.

Should you have any questions with regard to this submission, please contact me at 302.734.6797, extension 6201.

Sincerely,

Sarah E. Hardy
Regulatory Analyst II

Enclosures

CC: William A. Denman, Esquire
David L. Bonar, Public Advocate
Jason R. Smith (w/o enclosure)

Chesapeake Utilities Corporation
350 South Queen Street • Dover, Delaware 19904 • 302.734.6797 • 302.735.3061 / fax
www.chpkgas.com

For PSC Use Only:
Docket No. _____
Filing Date: _____
Reviewer: _____
Given to: _____

DELAWARE PUBLIC SERVICE COMMISSION
FILING COVER SHEET

1. NAME OF APPLICANT: Chesapeake Utilities Corporation
2. TYPE OF FILING:
   RATE CHANGE __
   FUEL ADJUSTMENT __
   ADMINISTRATIVE __
   CPCN __
   NEW SERVICE OFFERING __
   OTHER _X_

   IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED? (PLEASE CHECK)

   BASIC___ COMPETITIVE___ DISCRETIONARY

3. PROPOSED EFFECTIVE DATE: 04/01/2015

   IS EXPEDITED TREATMENT REQUESTED? YES __ NO _X

4. SHORT SYNOPSIS OF FILING: Chesapeake Utilities Corporation requests approval of changes to its Transportation and Balancing Rider and the Gas Supplier Schedule of its Delaware Tariff, to be effective April 1, 2015.

5. DOES THIS FILING RELATE TO PENDING DOCKETS? YES__ NO X__

   IF SO, PLEASE LIST DOCKET(S) NO(S):

6. IS PUBLIC NOTICE REQUIRED? YES_X_ NO__
   IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

7. APPLICANT'S CONTACT PERSON:
   (NAME) Sarah E. Hardy
   (TITLE) Regulatory Analyst II
   (TELE. NO.) 302.734.6797 x6201
   (FAX NO.) 302.734.6011

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?

   YES _X_ NO ___ IF SO, WHEN? October 1, 2013

9. FILING FEE ENCLOSED: $100.00
   (AMOUNT)

NOTE: House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF CHANGES TO THE TRANSPORTATION AND BALANCING RIDER AND THE GAS SUPPLIER SCHEDULE OF ITS DELAWARE TARIFF (FILED OCTOBER 1, 2013)	)))))))	PSC DOCKET NO. 13-

CERTIFICATE OF SERVICE

I, Sarah E. Hardy, do hereby certify that on October 1, 2013, a copy of Chesapeake Utilities Corporation – Delaware Division's application for proposed changes to the Transportation and Balancing rider and the Gas Supplier schedule of its tariff was issued to the following persons in the manner indicated:

VIA HAND DELIVERY W/O ENCLOSURE
JASON R. SMITH
DELAWARE PUBLIC SERVICE COMMISSION
861 SILVER LAKE BLVD
SUITE 100
DOVER, DELAWARE 19904

VIA HAND DELIVERY
WILLIAM A. DENMAN, ESQUIRE
PARKOWSKI, GUERKE AND SWAYZE P.A.
116 WEST WATER STREET
P. O. BOX 598
DOVER, DELAWARE 19903

VIA OVERNIGHT DELIVERY
DAVID BONAR, PUBLIC ADVOCATE
DIVISION OF THE PUBLIC ADVOCATE
820 N. FRENCH STEET, 4TH FLOOR
WILMINGTON, DE 19801

Sarah E. Hardy
Regulatory Analyst II

"DRAFT"

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
CHESAPEAKE UTILITIES CORPORATION	)	
FOR APPROVAL OF CHANGES TO THE	)	
TRANSPORTATION AND BALANCING	)	**PSC DOCKET NO. 13-**
RIDER AND THE GAS SUPPLIER	)	
SCHEDULE OF ITS DELAWARE TARIFF	)	
(FILED OCTOBER 1, 2013)	)	

PUBLIC NOTICE

TO: ALL NATURAL GAS TRANSPORTATION CUSTOMERS AND QUALIFIED GAS SUPPLIERS OF CHESAPEAKE UTILITIES CORPORATION AND OTHER INTERESTED PERSONS

Pursuant to PSC Order No. 8430 dated August 13, 2013, in PSC Docket No. 12-450F, Chesapeake Utilities Corporation ("Chesapeake" or "the Company") has filed an application (the "Application") with the Delaware Public Service Commission (the "Commission") seeking to make certain changes to the Transportation and Balancing Rider ("Transportation Rider") and Rate Schedule "SUP" ("Gas Supplier Schedule") of its Delaware Division Tariff. More specifically, the Company requests permission to revise its current Transportation Rider to establish a new approach to its allocation of the cost of interstate pipeline capacity to transportation customers. In addition, the Company requests permission to make other changes throughout the Transportation Rider and its Gas Supplier Schedule either to clarify existing language or to modify the mechanics of the transportation program in order to improve efficiency. The proposed changes are shown in the redlined and clean copies of the Transportation Rider and Gas Supplier Schedule attached to the Application, which can found on the Commission's website at the following address:_____.

The Commission will conduct workshops, as necessary, to receive input from interested stakeholders regarding the proposed tariff changes. In addition, the Commission will conduct an

evidentiary hearing, to be scheduled at a later date, concerning this Application. The Commission's final decision will be based on the evidence presented at such hearing.

If you wish to participate informally in this matter, you may request that your name be added to the service list for the docket by contacting _____at _____. If you wish to formally participate as a party in this matter, with the right to present evidence and be represented by counsel, you must file with the Commission a written petition asking for leave to intervene in accordance with the requirements of the Commission's Rules of Practice and Procedure (26 *Del. Admin. C.* §1001-2.9) ***on or before _____, 2013.*** All such petitions should be sent to the Commission's address listed above with attention to "PSC Docket No. 13-____." Petitions filed after the deadline of _____, 2013, will not be considered except for good cause shown.

You are invited to review Chesapeake's application and supporting documents to determine how your interests may be affected. You may review documents posted on the Commission's website at http://depsc.delaware.gov/default.shtml. If you would like to review documents at the Commission's offices, please contact Monica Hall at monica.hall@state.de.us to arrange a time for your review. You may also review copies of Chesapeake's Application and supporting documents at the office of the Division of the Public Advocate located at the Carvel State Office Building, 4th Floor, 820 North French Street, Wilmington, Delaware 19801. Please call (302) 577-5077 to arrange for a time to review the documents at that location.

If you wish to request copies of documents in this matter, please submit a Freedom of Information Act Request Form. This form may be found at http://smu.portal.delaware.gov/cgi-bin/mail.php?foia-request&subj=DOS. There is also a link to the Freedom of Information Act Request Form on the Commission's website, http://depsc.delaware.gov/default.shtml. The

Commission will respond to your request in accordance with the Delaware Freedom of Information Act, 29 *Del. C. ch.* 100.

If you have a disability and wish to participate or to review the materials in this matter, please contact the Commission to discuss any auxiliary aids or services you might need to help you. You may contact the Commission in person, by writing, by telephone (including text telephone), by Internet e-mail, or other means.

If you have questions about this matter, you may call the Commission at 1-800-282-8574 (toll-free in Delaware) or (302) 736-7500 (voice and text telephone). You may also send questions regarding this matter by Internet e-mail addressed to psc@state.de.us.

Application

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF CHANGES TO THE TRANSPORTATION AND BALANCING RIDER AND THE GAS SUPPLIER SCHEDULE OF ITS DELAWARE TARIFF (FILED OCTOBER 1, 2013)	)	**P.S.C. DOCKET NO. 13-**

Chesapeake Utilities Corporation ("Applicant" or "Company"), pursuant to 26 Del. Code Sections 201 and 301, and PSC Order No. 8430 dated August 13, 2013, in PSC Docket No. 12-450F, makes the following application for approval by the Delaware Public Service Commission ("Commission") of certain changes to the Transportation and Balancing Rider ("Transportation Rider") and its Rate Schedule "SUP" ("Gas Supplier Schedule") of its Delaware Division Tariff.

1. Applicant is Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904. All communications should be addressed to the Applicant at the following address, Attention: Sarah E. Hardy, Regulatory Analyst II, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19903 or at the following email address: shardy@chpk.com. The respective phone number and fax number are 302.734.6797, extension 6201 and 302.734.6011.

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski, Guerke & Swayze P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this application should be directed to counsel at the foregoing address, or at the following e-mail address: wdenman@pgslegal.com. The respective phone number and fax number are 302.678.3262 and 302.678.9415.

3. Pursuant to Paragraph 13 of the Proposed Settlement Agreement adopted by the Commission in PSC Order No. 8430, Applicant requests permission to revise its current Transportation Rider to establish a new approach to its allocation of the cost of pipeline capacity to transportation customers. In addition, Applicant requests permission to make other changes throughout the Transportation Rider and its Gas Supplier Schedule either to clarify existing language or to modify the mechanics of the transportation program in order to improve efficiency. The proposed changes are shown in the redlined and clean copies of the Transportation Rider and Gas Supplier Schedule attached hereto as Attachment "A" and Attachment "B".[1] For reasons provided below, Applicant requests an effective date of the proposed changes of April 1, 2015.

I. Background

4. The Company's intrastate distribution system directly connects to one interstate pipeline, Eastern Shore Natural Gas Company ("ESNG").[2] The Company reserves transportation capacity on ESNG ("ESNG capacity") in the amount necessary to meet the forecasted peak demand, or "design day", of its firm customers.[3] In order to transport gas to ESNG, the Company reserves capacity on several interstate pipelines ("upstream capacity"), primarily through long-term contracts with each pipeline.[4] The Company recovers its cost of pipeline capacity, as well as its commodity cost for gas, through its Gas Sales Rate ("GSR"). The GSR is charged to customers who purchase gas from the Company; *i.e.*, its sales customers. The GSR is not charged to customers who do not purchase gas from the Company; *i.e.*, its transportation customers.

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[1] In order to improve readability, the headers and footers from the tariff are excluded, other than the first header for the Transportation Rider and the Gas Supplier Schedule.
[2] ESNG is a subsidiary of Chesapeake Utilities Corporation.
[3] The Company meets a small portion of design day demand with on-system propane air peak shaving capacity, which does not require ESNG transportation capacity.
[4] The Company reserves upstream capacity on Transcontinental Gas Pipe Line Company ("Transco"), Texas Eastern Transmission, LP ("TETCO"), Columbia Gas Transmission, LLC ("Columbia") and Columbia Gulf Transmission Company ("Columbia Gulf").

5. The Company's transportation customers must arrange for (and pay for) the pipeline capacity required to deliver their gas supply to the Company's distribution system. In practice, the Company releases to its transportation customers the ESNG capacity the transportation customers need and the Company credits the GSR with the revenues from those capacity releases. The Company is able to release ESNG capacity to transportation customers without affecting the Company's ability to meet the supply needs of its firm sales customers because the Company holds ESNG capacity in amounts sufficient to cover its transportation customers' load. In addition, transportation customers have few, if any, alternatives in the market for acquiring ESNG capacity and therefore typically rely on the Company for the capacity releases.

6. The Company does not currently release capacity upstream from ESNG to transportation customers. The reason for the difference between ESNG capacity and upstream capacity is that, until recently, the Company (in its view) has not held sufficient upstream capacity to release it to transportation customers without risking the reliability of its gas supply for its firm sales customers. On November 1, 2012, however, the Company added 30,000 Dts/day of capacity on TETCO, which strengthened the Company's upstream supply portfolio and better positioned the Company to release upstream capacity to its transportation customers.[5] In addition, transportation customers have market alternatives for upstream capacity and it is not clear that the Company holds the authority to require that transportation customers purchase upstream capacity from the Company rather than from the other market participants.

7. In the Company's 2012 Gas Sales Rate ("GSR") proceeding, Jerome D. Mierzwa, a consultant with Exeter Associates, Inc., testified on behalf of Commission Staff. Among other things, Mr. Mierzwa testified that the Company holds sufficient upstream capacity to meet the needs of its sales and transportation customers and that

[5] *See* PSC Docket No. 12-450F at Direct Testimony of Marie E. Kozel at page 5.

sales customers should not pay for upstream capacity held for transportation customers.[6] In rebuttal testimony, the Company stated that it intended to make a regulatory filing under a separate docket to propose an alternative approach to cost allocation whereby firm transportation customers would contribute a more appropriate portion of the costs of upstream pipeline capacity.[7]

8. Based on this testimony, the Proposed Settlement Agreement reached by the parties in PSC Docket No. 12-450F included a commitment by the Company to make a filing addressing the allocation of upstream capacity costs. Specifically, the Proposed Settlement Agreement, at paragraph 13, provides the following:

> On or before October 1, 2013, the Company agrees to submit a regulatory filing with the Commission in which the Company will propose changes to its current transportation program mechanics for commercial and industrial customers and which will propose an alternative approach regarding the allocation of the cost of upstream pipeline capacity to transportation customers.

With this application, the Company is making the filing required by the Proposed Settlement Agreement, as adopted by the Commission in PSC Order No. 8430.

II. Proposed Changes

9. To address the allocation of capacity costs, the Company proposes to revise its Transportation Rider by specifying that the Company will require transportation customers to purchase ESNG capacity from the Company and by authorizing the Company to require transportation customers to purchase upstream capacity from the Company. The Company would then credit the GSR for the entire amount of the revenue received from the capacity releases. As shown in the attached redlined tariff, the Company is proposing the following addition:

> 13.2 Upon receipt of the DCQ Nomination form by the Company, the Company will release ESNG transportation Capacity and may release transportation Capacity upstream of

[6] *See* PSC Docket No. 12-450F at Direct Testimony of Jerome D. Mierzwa at page 10.
[7] *See* PSC Docket No. 12-450F at Rebuttal Testimony of Jeffrey R. Tietbohl at page 13.

ESNG to the Customer, or the Customer's Agent on record, to facilitate the transportation of Gas to the Point(s) of Receipt.

a. The Customer or Customer's Agent on record, as the recipient of released Capacity, becomes the Replacement Shipper with respect to the associated interstate pipeline.
b. For all Customers other than Summer Peaking Customers, the amount of ESNG Capacity to be released will be equal to the highest DCQ within the twelve (12) months of DCQs calculated.
c. For Summer Peaking Customers, the amount of ESNG Capacity to be released will be equal to the monthly calculated DCQ.
d. For all Customers, the amount of Capacity upstream of ESNG to be released will be equal to the monthly calculated DCQ.
e. The upstream pipelines will invoice the Replacement Shipper for all pipeline Capacity and commodity charges associated with the released Capacity.

10. The reason the proposed language authorizes rather than requires the Company to release upstream capacity is to avoid the scenario where a customer adds load in an amount that exceeds the amount of upstream capacity held by the Company forcing the Company to acquire new capacity that may not be available or readily available. There is not the same concern with ESNG capacity because, as a relatively small, secondary interstate pipeline, ESNG would more likely be able to perform a small incremental expansion than the large, primary interstate pipelines. The Company notes that it will release capacity at the pipeline's tariff rate, which is the maximum reservation rate under FERC rules. If a customer declines to pay that rate, the customer would simply take service as a sales customer and pay for capacity through the GSR. In addition, the Company will only release capacity on a recallable basis so that if a customer leaves the transportation program and becomes a sales customer, the Company can recall the capacity.

11. Section 13.2(a) simply specifies that the transportation customer, or its agent, becomes the "replacement shipper" on the pipeline, which is a term used in the

pipeline companies' FERC[8] tariffs. To ensure that the transportation customer has reserved sufficient capacity, Section 13.2(b) sets the annual level of the released ESNG capacity for most customers at the customer's highest daily contract quantity ("DCQ") within the twelve (12) months of DCQs calculated. For the minority of customers whose peak usage occurs in the summer, Section 13.2(c) sets the level of released ESNG capacity at the customer's monthly DCQ for each month within the twelve (12) months of DCQs calculated. This different requirement for winter and summer peaking customers[9] reflects that the Company's overall system load peaks in the winter and, consequently, its pipeline capacity costs are driven by winter load. It makes sense, therefore, to require winter peaking customers to purchase capacity throughout the year at their highest DCQ but not summer peaking customers.

12. Section 13.2(d) sets the level of released upstream capacity for all customers at the monthly DCQ rather than at the highest monthly DCQ for the year. Because the market for upstream capacity is more liquid than that for ESNG capacity, it makes sense to allow for upstream capacity releases based on monthly DCQs rather than to base every month's release on the customer's 12-month maximum. If transportation customers were able to go to the market themselves, the capacity that would be available to them would likely be consistent with this pricing framework. In addition, because of market liquidity, the Company expects to recover some value for the upstream capacity not reserved by transportation customers in the secondary capacity release market. Section 13.2(e) is self-explanatory.

13. In addition to the change regarding capacity releases, the Company is proposing to require transportation customers to calculate their own DCQ, which is the

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[8] Federal Energy Regulatory Commission.

[9] The proposed tariff defines "summer peaking customer" as those transportation customers whose lowest DCQ from November to March does not exceed 10% of its highest DCQ for the year.

daily quantity of gas scheduled by the customer on a monthly basis for delivery to the Company's distribution system. Currently, the Company calculates each transportation customer's DCQ based on the customer's historical usage data. The transportation program, however, has grown in participation to over 250 metered customers and the DCQ calculation has become administratively burdensome. In practice, if this change is approved, the customers will likely work with their agents to develop their DCQs who will in turn provide those DCQs to the Company. The language added to the Transportation Rider to effect this change can be found at Section 12.1.

14. In order to motivate customers or their agents to provide DCQs that reflect accurate, good faith estimates of their requirements, the Company proposes adding a penalty for a customer whose DCQ proves to be substantially off the mark. Accurate DCQs help the Company minimize its system-wide imbalances, which is important from an operational standpoint and helps the Company avoid imbalance penalties levied against the Company by ESNG. The proposed language, which tracks a similar penalty provision in the Company's Maryland Division tariff, is as follows:

> 14.3 If a Customer's monthly Imbalance exceeds 50% above or below their cumulative DCQ deliveries for the billing period, a fee will be imposed that equates to 10% of the cashed-out Imbalance charge, and will be invoiced the following month.

15. The remaining changes are primarily clarifying in nature and are generally self-explanatory. In many cases, the changes are the Company's attempt to document processes already in place to provide a better road map for transportation customers to follow. The Company recommends that the Commission schedule workshops for interested stakeholders so that the Company can address questions regarding the proposed changes and can address any concerns.

III. Effective Date

16. The Company is requesting an effective date of April 1, 2015 for two

reasons. First, the Company's upstream capacity is currently released to its asset manager under an asset management agreement ("AMA") that expires on March 31, 2015. Under the AMA, the asset manager markets the Company's upstream capacity for its own benefit in exchange for a flat fee it pays the Company. In order to implement the proposed changes prior to April 1, 2015, therefore, the AMA would have to be amended. While certainly not impossible, amending the agreement to recall the upstream capacity would require a reduction to the fee paid by the asset manager to the Company (92.5% of which is credited to the GSR). When negotiating the agreement that will be executed after the expiration of the current AMA, the Company could write the new agreement to accommodate the new capacity reservation requirements for transportation customers described herein.

17. Second, it is common practice for transportation customers to enter into supplier agreements obligating them to purchase gas and upstream transportation capacity from their suppliers over terms of at least one year. If the Company were to require customers to purchase capacity from the Company prior to the expiration of their existing supplier contracts, then customers could be forced to pay twice for upstream capacity. If the effective date is set at April 1, 2015, then transportation customers will be better able to manage their supplier contracts in the interim to avoid obligating themselves to purchase capacity from a supplier after they become obligated to purchase the capacity from the Company.

18. Chesapeake believes that the proposed changes set forth herein are reasonable and consistent with the public interest, and will result in a more efficient and equitable market for the transportation of natural gas, and one that is fair to both transportation customers and firm sales customers.

WHEREFORE, the Applicant prays as follows:

A. That the Commission file this Application and schedule it for a workshop at which stakeholders can discuss the proposed changes and can establish a procedural schedule for the adjudication of this application; and

B. That the Commission approve the proposed revisions to the Transportation and Balancing Rider and to Rate Schedule "SUP" – Gas Supplier Requirements of the Applicant's Delaware tariff, effective April 1, 2015.

CHESAPEAKE UTILITIES CORPORATION

BY: Jeffrey R. Tietbohl
Jeffrey R. Tietbohl
Vice President

Parkowski, Guerke & Swayze P.A.

BY: William A. Denman
William A. Denman
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: October 1, 2013

DATED: OCTOBER 1, 2013

STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 1st day of October 2013 personally appeared before me, a notary public for the State and County aforesaid, Jeffrey R. Tietbohl, who being by me duly sworn, did depose and say that he is a Vice President for Chesapeake Utilities Corporation, a Delaware corporation and insofar as the Application of Chesapeake Utilities Corporation states facts, said facts are true and correct, and insofar as those facts are not within his personal knowledge, he believes them to be true, and that the schedules accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid schedules, and that he has executed this Application on behalf of the Company.

Jeffrey R. Tietbohl

Jeffrey R. Tietbohl

SWORN TO AND SUBSCRIBED before me the day and year above written.

Cathy L. Harrington

Notary Public
My Commission Expires: 4-25-2015

CATHY L. HARRINGTON
COM. EXP.
NOTARY
PUBLIC
4-25-2015
STATE OF DELAWARE

Attachment A

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS

1 GENERAL

1.1- Transportation service is available to commercial and industrial customers with one or more contiguous meters withinin a specific geographic location having consumption equal to, or greater than, 30,000 CCFCcf per year. This service provides the Customer with the ability to purchase that choose to have their own Gas supply (Customer-owned Gas) and transport, or have gas transported, such Gas to through the Company's distribution system. Transportation service consistsis made up of the followingseveral components with associated charges: (a) the . Components of transportation of the Customer-owned Gas through pipeline systems upstream service include delivery of the Company, including the interstate pipeline system of Eastern Shore Natural Gas Company (ESNG), (b) the transportation of the Customer-owned Gas through the Company's distribution system to the Company's installed meter, (c)gas to the Customer's metering point, balancing the difference between the Volumevolume of Gas provided by the Customergas supplied and the Volumevolume of Gasgas actually consumed by the Customer on a daily basis, and (d) the resolution ofresolving imbalances created by the difference between the Volume of Gas the Customer provided and the Volume of Gas the Customer consumed which maythat exist at the end of a billing Month.month. Customers utilizing transportation service will be billed for delivery service, balancing service, Capacity, a one-time transition charge (or credit) for under (or over) collection of gas costs from prior periods, and other charges applicable for the rate schedule under which they are served.

1.2 Once approved for transportation service In order to be eligible to transport gas it is necessary for the Customer to execute a firm contract(s) with a Qualified Suppliersupplier of Natural Gas and other entities, if necessary, to ensure thenatural gas. Firm Customers must have firm transportation of such Gas to the Point(s) of Receipt.Company's distribution system as well as a reliable gas supply. The Customer is required to notify the Company of the name of its Qualified Suppliersupplier prior to the fifteenth (15th) calendar daytenth (10th) of the Monthmonth preceding the Monthmonth for which transportation will commence.

2_ DEFINITIONS

Agent: An entity authorized to act on behalf of the Customer, more specifically defined in Section 10 of this Transportation and Balancing Rider.

British Thermal Unit: The amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit at 60 degrees Fahrenheit.

Broker: An entity or individual that acts as an intermediary in the sale and purchase of Gas but does not take title to Gas. A Broker can be an Agent.

Business Day: Monday through Friday, excluding Federal Banking Holidays for transactions in the United States.

Capacity: The physical space, in dekatherms (DTs), provided by a pipeline for a fixed monthly reservation charge which gives a shipper the right to transport up to a maximum daily Quantity of Gas between defined points on the pipeline's system.

CCF: One hundred (100) cubic feet of Gas.

CCT: Central (Clock) Time, which includes the recognition of Daylight Savings Time.

CST: Central Standard Time.

Customer: ~~*Customer:*~~ For the purposes of this Transportation and Balancing Rider~~rate schedule~~, Customer shall mean an individual Customer as defined in the Section 16.1 of the Rules and Regulations~~XVI~~ of this tariff or the aggregation of Customer accounts of one or more contiguous meters in a specific geographic location for the purpose of transporting their own Gas~~gas~~ through the Company's distribution system.

Customer-owned Gas: Gas to which the Customer has title clear of any liens and encumbrances.

Daily Contract Quantity (DCQ): The monthly Quantity of Gas~~amount of Customer-owned gas, as determined by the Company for each calendar month that is~~ scheduled by the Customer to be delivered to the Company's distribution system each Day~~day~~ of the Month, which has been adjusted by the Customer to account for the Shrinkage Factor.~~month net of the shrinkage factor.~~

~~*Decatherm (Dt) conversion to Mcf:* Dt divided by the thermal factor equals Mcf.~~

Flowing Gas: Gas~~Means gas~~ flowing ~~from a supplier~~ through a~~the~~ pipeline or distribution system excluding Gas~~to the city gate and does not include gas~~ taken out of storage.

Gas or Natural Gas: Processed or unprocessed natural gas, vaporized liquid natural gas, synthetic gas, gas from coal seams or any mixture of these gases.

Gas Day or Day: A period of twenty-four (24)~~*Day:* The 24~~ consecutive hours, beginning at nine o'clock (9:00) a.m. Central Clock Time (CCT).~~.~~

Imbalance: Any difference between the Volume of Gas provided~~amount supplied~~ by the Customer and the Volume of Gas~~volume~~ consumed by the Customer. ~~.~~ Nominations are adjusted for thermal content and shrinkage to determine the Volume of Gas provided~~volume supplied~~ by the Customer.

Marketer: An entity that purchases and takes title to Gas as an intermediary for sale to a Customer. A Marketer can be an Agent.

MCF: One thousand (1,000) cubic feet of gas.

Month: The period beginning at nine o'clock (9:00) a.m. CCT or the hour otherwise agreed upon by the Customer and the Company on the first Day of the calendar month and ending at the same hour on the first Day of the next succeeding calendar month.

Nomination: The Quantity of Gas, adjusted by the Shrinkage Factor,~~volume of gas, including shrinkage~~ that the Customer is delivering, or having delivered on its behalf, to a Point(s) of Receipt in the electronic format as provided by the Company.

Point(s) of Delivery: The ~~to a delivery~~ point(s) at the connection at which the Gas leaves the facilities of the Company and enters the downstream facilities of the Customer.

Point(s) of Receipt: The point(s) at the connection at which the Gas enters the facilities of the Company and leaves the facilities of ESNG.

Qualified Supplier: An entity that has met all qualification requirements as stated in Rate Schedule "SUP", and is deemed capable of holding title to the Gas, and causing it to be delivered to the upstream pipeline interconnect on behalf of the customer.

Quantity of Gas: The Volume of Gas adjusted by the Thermal Factor and expressed in dekatherms, unless otherwise specified.

Replacement Shipper: An entity that takes title to Capacity upstream of the ~~on the~~ Company's distribution system under the terms of the interstate pipeline's tariff.

Shrinkage Factor: A percentage applied to a Nomination to adjust for Gas lost~~nominated volumes for Company use, losses~~ and unaccounted-for within the Company's distribution system. The Shrinkage Factor~~gas to determine the quantity actually delivered to the Customer. The shrinkage factor~~ shall be determined annually and will be the five-year average.

Summer Peaking Customer: A Customer whose lowest DCQ from November to March does not exceed ten percent (10%) of its highest DCQ for the year.

Thermal Factor: The amount of BTU's in one MCF~~Mcf~~ of Natural Gas~~natural gas~~ divided by one million. -The thermal factor for converting between DT~~Dt~~ and MCF~~Mcf~~ shall be 1.035 unless otherwise specified by the Company.

Volume of Gas: The number of units of Gas expressed in cubic feet, unless otherwise specified.

Year: A period of three hundred sixty-five (365) consecutive Days; provided, however, that any such Year which contains a date of February 29th shall consist of three hundred sixty-six (366) consecutive Days.

3 REQUEST FOR TRANSPORTATION SERVICE

Each prospective transportation Customer, or existing transportation customer seeking enrollment of a new meter, must submit a completed~~written~~ application on the standard ~~in a~~ form provided by the Company no later than the first (1st) calendar day of the Month preceding the Month in which the transportation service will commence.~~acceptable to the Company.~~ Service will be provided by the Company based upon the established criteria referenced within the Customer's applicable rate schedule,~~on~~ available capacity and the Customer providing~~delivering~~ suitable Gas to the Point(s) of Receipt. ~~gas into the Company's distribution system.~~

4_ CONTRACT FOR SERVICE

A Service Agreement with an initial~~a minimum~~ term of one Year~~year~~ must be executed by each applicant as a condition of~~to~~ receiving transportation service.- The Service Agreement shall specify the date on which service is to begin, Point(s) of Receipt and Point(s) of Delivery~~receipt and delivery points~~, the rate schedule(s) under which service is to be provided and other conditions of receipt by the Company and delivery to the Customer. Transportation of Gas~~gas~~ will not begin until a fully executed Service Agreement is completed. Service Agreements must be renewed annually, and received by the Company no later than the fifteenth (15th) calendar day of the month preceding the month of renewal in order for the customer to continue participating in the transportation program without an interruption of service. The Company may waive the annual renewal requirement at its discretion.

5_ GAS TO BE TRANSPORTED BY THE COMPANY

The Customer is responsible for making all arrangements necessary for transporting~~getting~~ the Gas~~gas~~ to a Point(s) of Receipt~~delivery point on the Company's distribution system~~ in compliance with pressure requirements established by the Company or any upstream pipeline for such Point(s) of Receipt.~~the delivery point.~~ Gas received for one Customer will be commingled with the Gas~~gas~~ of other customers and suppliers.- Gas transported by the Company shall be and remain the property of the Customer.

6_ QUALITY OF GAS

Gas received by the Company for the account of the Customer shall be Natural Gas~~natural gas~~ conforming to the quality specifications as provided for in the General Terms and Conditions of the tariff of the pipeline that is interconnected to the Company's distribution system. Any Gas~~gas~~ entering the Company's system at a Point(s) of Receipt~~receipt point~~ that is not an interconnection with an interstate pipeline must also meet the "pipeline quality" standard set forth above.
~~set forth above.~~

7_ TITLE TO GAS

The Customer must have good title to all the Gas that enters the Company's distribution system ~~gas delivered to the Company~~ for transportation to a Point(s) of Delivery. Such title shall be free and clear of all liens, encumbrances, and claims whatsoever.- The Customer agrees to indemnify and hold the Company harmless against any loss or~~of~~ cost incurred by the Company on account of liens, encumbrances or claims resulting from any possession or transportation by the Company.

8_ LIABILITY

The Company shall not be liable for any loss to the Customer arising from or out of transportation service under any rate schedule, including loss of gas in the possession of the Company. -The Company makes no guarantee against and assumes no liability for interruptions of service.

9_ METERING AND ASSOCIATED EQUIPMENT

Transportation service ~~utilizing the DCQ for delivery~~ of Customer-owned Gas~~gas~~ to the

Point(s) of Delivery~~Company's distribution system~~ is not expected to require any special metering or communication equipment in excess of what would be needed to provide regular delivery and standard Gas~~gas~~ sales service.- However, there may be situations which will require~~such as~~ knowledge of daily usage by transportation~~interruptible Transportation~~ Customers that will require additional equipment. If any additional metering or communication equipment is required to provide transportation service, the Customer will reimburse the Company for such equipment and its installation. -The Customer shall provide any electrical supply or phone line needed for the operation of any~~the~~ additional equipment. -As referenced in Section~~section~~ 11.2 of the Rules and Regulations of this Tariff, remote reading will be utilized for customers with consumption greater than 100,000 annual CCF.~~Ccf.~~

10_ AGENTS ACTING ON BEHALF OF THE CUSTOMER

A Customer may use the services of ~~using~~ an Agent ~~agent, such as brokers, marketers, or producers,~~ to act on its behalf ~~of the Customer~~ for the delivery of Gas~~gas~~ to the Company's distribution system. An Agent can be a Broker, Marketer or a Qualified Supplier. All Customers are required to have a Qualified Supplier on record. If a Customer engages the use of an Agent, it is the responsibility of the Customer to ~~must~~ notify the Company, using the standard form provided by ~~in advance in writing the identity of the Agent and what responsibilities have been delegated to the Agent. Notification to~~ the Company, of their designation of such Agent to conduct business on their behalf. A Customer may choose to designate an Agent in addition to their Qualified Supplier.~~must clearly state Customer and/or Agent responsibilities for nominations, deliveries, and scheduling of gas.~~ Any notices provided to a Customer's Agent shall be deemed to have been provided to the Customer and the Company shall be held harmless from any actions taken by the Agent.

11_ COMPANY AS AGENT

The Company may act as Agent~~agent~~ for a Customer in securing and transporting Gas~~gas~~ supply~~, storage, transportation on transmission pipeline, or other services required~~ to a Point(s) of Receipt.~~meet the Customer's needs.~~ The Company shall not be responsible for charges incurred on behalf of the Customer, nor for the performance, non-performance or continued availability of any pipeline or other services.- The charges for this service shall be determined by negotiation between the Company and the Customer.

12_ DETERMINATION OF DAILY CONTRACT QUANTITY

12.1_ A Daily Contract Quantity (DCQ) for each Month for the following twelve (12)~~calendar~~ month period shall be calculated annually by the customer, subject to review and approval~~Company for a twelve-month period based on usage during a previous twelve-month period, if available. Previous usage shall be adjusted for normal weather in a matter determined~~ by the Company. -The Customer will be obligated to have the DCQ delivered each Day of the Month to the agreed upon Point(s) of Receipt.

12.2 The Company may approve adjustments to the Monthly DCQs~~adjust monthly DCQ's~~ on an ongoing basis due to changes in a Customer's Gas~~gas~~ equipment, pattern of usage, or any other information affecting demand that is deemed reliable~~supplied~~ by the Company.

12.3 The Company considers DCQ information to be confidential and proprietary data for

the Customer. The Company will only provide usage data to the Customer or the Customer's Agent~~Customer~~. If a Customer wishes to authorize a third party to have access to such data the Company must receive a written letter of authorization, on the Customer's official letterhead, and signed by the authority referenced as a contact under the Customer's account information.

12.4 The Company will ~~previous usage is~~ not provide DCQ information to multiple third parties simultaneously. If multiple parties are requesting DCQ information ~~available, the Company may estimate a DCQ~~ for the same ~~as many months as necessary based on information supplied by the~~ Customer, ~~and/or inspection of utilization equipment. As soon as possible actual usage will be used to calculate~~ the Company will provide that data directly to the ~~DCQ for future months. The~~ Customer, or one Agent for such Customer.

13 NOMINATIONS AND SCHEDULING

13.1 A Customer's DCQ will be considered their daily Nomination. The Company shall require, from either the Customer or~~Agent, will be obligated to deliver~~ the Customer's Agent on record a signed DCQ Nomination form, as specified by the Company. The Nomination form must be received by the Company via mail, electronic mail, or facsimile transmission no later than the fifteenth (15th) calendar~~each~~ day of the month prior to the first Day of the Month in which transportation service begins, and annually on that date thereafter.

13.2 Upon receipt of a completed and properly executed DCQ Nomination form by the Company, the Company will release upstream ESNG transportation Capacity and may release transportation Capacity upstream of ESNG to the Customer, or the Customer's Agent on record, to facilitate the transportation of Gas to the Point(s) of Receipt.

a. The Customer, or Customer's Agent on record, as the recipient of released Capacity becomes the Replacement Shipper with respect to the associated interstate pipeline.
b. For all Customers other than Summer Peaking Customers, the amount of ESNG Capacity to be released will be equal to the highest DCQ within the twelve (12) months of DCQs calculated.
c. For Summer Peaking Customers, the amount of ESNG Capacity to be released will be equal to the monthly calculated DCQ.
d. For all Customers, the amount of Capacity upstream of ESNG to be released will be equal to the monthly calculated DCQ, *provided said capacity is available*.
e. The upstream pipelines will invoice the Replacement Shipper for all pipeline Capacity and commodity charges associated with the released Capacity.

13.3 Upon the release of Capacity, the Customer, or their Agent on record, shall be responsible for scheduling their DCQ Nomination Quantity on the upstream pipeline(s) for the ultimate ~~to the agreed upon~~ delivery to the designated Point(s) of Receipt. ~~point on the Company's distribution system.~~

13.4 Any variance between the Nomination Quantity and the approved DCQ will be subject to a balancing penalty of $30.00 per DT. Such penalty shall be paid by the Customer in addition to the cost of Gas supply used to serve the customer.

13.5 In the event that changes to existing DCQ's, as referenced in section 12.2, are approved, the Customer is required to resubmit their DCQ nomination sheet by the deadline stated in section 13.1.

~~12.2 The DCQ determined in 12.1 in Ccf will be grossed up for shrinkage and converted to Dt using the thermal factor. The result will be rounded to the nearest Dt which will be the customer's nomination quantity. This DCQ in Dt will then be reduced by the shrinkage factor and converted to Ccf using the thermal factor. The result will be the monthly DCQ expressed in Ccf.~~

~~13 NOMINATIONS AND SCHEDULING~~

~~13.1 The Company shall deliver a Customer's gas only upon receipt from the Customer, or Customer's Agent, a properly completed and executed nomination form specified by the Company. The nomination form shall, among other things, specify the nomination quantity required during the requested period measured in Mcf and the location at which the gas is to be delivered. A nomination form must be submitted at the time specified below for each calendar month that transportation service is desired.~~

~~13.2 The nomination given to the Company will be in Decatherms (Dt).~~

~~13.3 Nominated quantities shall be reduced by the shrinkage factor and converted to Ccf to determine the quantity actually delivered to the Customer's meter, which must be equal to the Customer's DCQ in Ccf for the month.~~

~~13.4 Customers or their Agents shall provide the Company daily nominations for the calendar month by 9:00 a.m. on the sixth business day prior to the beginning of each month via mail or facsimile. If the nomination cannot be confirmed with the delivering pipeline(s) or other source(s), the nomination will be rejected.~~

14 FIRM BALANCING SERVICE

14.1 Balancing the difference between the Customer's nominated DCQ and the Volume~~volume~~ of Gas~~gas~~ consumed by the Customer is performed daily by the Company on a firm basis. The Company will charge a Firm Balancing Service Rate pursuant to the applicable rate schedule under which service is provided.

14.2 Any Imbalance ~~Imbalances between the volume of gas supplied by the Customer and the volume of gas consumed by the Customer~~ for a billing month will be reconciled (*i.e.*, "cashed-out") at the Company's weighted average cost at the city gate for flowing gas, including gas cost, variable transportation, and fuel for the calendar month in which most of the billing month occurs. ~~Estimated costs will be used based on nominations made by the Company when the applicable calendar month is not completed before billing the Customer.~~

~~14.2 If the DCQ volume is not supplied by the Customer in any gas day, the Customer shall be billed a fee of $30.00 per Dt for the difference between the DCQ nomination, which is in Dt, and the volume actually supplied by the Customer. Such penalty shall be paid by the Customer in addition to the cost of gas supply used to serve the customer.~~

~~15 INTERRUPTIBLE BALANCING SERVICE~~

~~15.1 Balancing between the Customer's DCQ and the volume of gas consumed by the Customer is performed daily by the Company on an interruptible basis. Imbalances between the volume of gas supplied by the Customer and the volume of gas consumed by the Customer for a billing month will be cashed-out at the Company's weighted average cost at the city gate for flowing gas, including gas cost, transportation at the 100% load factor rate, and fuel for the calendar month in which most of the billing month occurs.~~ Estimated costs will be used based on nominations made by the Company when the applicable calendar month is not completed before billing the customer~~Customer~~.

14.3 For the purposes of Company invoicing, nominated Quantities of Gas shall be converted to CCF using the Thermal Factor and reduced by the Shrinkage Factor to determine the volume actually delivered to the Point(s) of Delivery.

14.3 If a Customer's monthly Imbalance exceeds 50% above or below their cumulative DCQ deliveries for the billing period, a fee will be imposed that equates to 10% of the cashed-out Imbalance charge, and will be invoiced the following month.

15 INTERRUPTIBLE BALANCING SERVICE

15.1 Balancing between the Customer's DCQ and the Volume of Gas consumed by the Customer is performed daily by the Company on an interruptible basis Imbalances between the Volume of Gas provided by the Customer and the Volume of Gas consumed by the Customer for a billing Month will be cashed-out at the Company's weighted average cost at the city gate for Flowing Gas, including gas cost, transportation at the 100% load factor rate, and fuel for the calendar Month in which most of the billing month occurs. Estimated costs will be used based on Nominations made by the Company when the applicable calendar month is not completed before billing the Customer.

15.2_ The Customer is expected to cease using Gas~~gas~~ if the Customer's supply is interrupted.– When a supply interruption occurs the Customer must notify the Company immediately upon interruption and upon resumption of supply.- During the interruption period the Customer's DCQ will be set to zero for purposes of calculating daily shortfalls and monthly imbalances.- Using Gas~~gas~~ during a period of supply interruption will subject the Customer to the same penalty rate specified in the interruptible rate schedule for failure to interrupt service unless the Company is not interrupting customers and has Gas~~gas~~ supply available.- In the later case, the fee specified in 15.3, below, will apply to Gas~~gas~~ used during the Customer's supply interruption unless the Customer schedules another service from the Company.

15.3_ If the Customer, or the Customer's supplier, fails to supply the DCQ on any Gas~~gas~~ day the Customer shall be billed a fee of $30.00 per DT~~Dt~~ for the difference between the DCQ Nomination~~nomination~~, which is in DT~~Dt~~, and the Volume~~volume~~ actually supplied by the Customer. Such penalty is in addition to any cash-out price paid by the Customer for monthly imbalances.

15.4_ On a daily basis, the Company, in its sole discretion, may limit Customer usage to the Volume~~volume~~ of Customer-owned Gas~~gas~~ that is delivered to the Company's

distribution system.

15.5_ Where the Company interrupts the delivery of Customer-owned Gas to an Interruptible Transportation Customer~~Customer's transportation gas~~ for distribution system reasons any monthly imbalance up to the total DCQ Volumes~~volumes~~ delivered to the Company's distribution system by such Interruptible Transportation Customer during the period of interruption will be purchased by the Company at the Customer's cost or the otherwise effective cash-out price, whichever is greater.

16_ OPERATIONAL FLOW ORDER

At any time that Customer-owned Gas~~transportation gas results~~, in the sole judgment~~judgement~~ of the Company, adversely~~adverse operating~~ impacts~~ of~~ the Company's distribution system or its ability to serve firm Customers, the Company may issue an Operational Flow Order and refuse to accept Customer-owned Gas at the Point(s) of Receipt~~refuse delivery of Customer's gas~~ or require the Customer to adjust its Nominations~~nominations~~ up or down.- Operational Flow Orders~~orders~~ will be issued by the Company eight (8) hours in advance of implementation, unless exigent circumstances dictate a shorter notice period.

RATE SCHEDULE "SUP"

GAS SUPPLIER REQUIREMENTS

AVAILABILITY

The requirements under this Schedule apply to ~~For~~ Qualified Gas~~gas~~ S~~s~~uppliers that contract with a Customer to deliver the Customer's Daily Contract Quantity (DCQ) to the Point(s) of Receipt under the General Terms and Conditions of the Transportation~~for transportation~~ and Balancing Rider~~balancing~~. To become a Qualified Gas Supplier, a~~A~~ supplier must submit a completed~~an~~ application on~~to~~ the Company's standard form~~Company~~ to provide service to Customers~~customers~~ under this Schedule and must satisfy the Company's credit requirements set forth below.

RESPONSIBILITY FOR GAS DELIVERY

The Qualified Gas Supplier~~supplier~~ shall provide the necessary Gas supply to facilitate Nomination~~make nominations~~ and delivery of~~deliver, or arrange to have delivered,~~ the Customer's DCQ in accordance with the General Terms and Conditions of the Transportation and Balancing Rider.~~General Terms and Conditions.~~ If the Supplier has more than one Customer, and has become a Replacement Shipper on behalf of the Customer(s), a Nomination~~a nomination~~ which is the sum for more than one Customer will~~may~~ be made on interstate pipelines upstream of the Company's distribution system but the Quantity of Gas~~amount~~ for each Customer must be identified on the Nomination~~nomination~~ to the Company. –Failure to deliver the required Quantity~~amount~~ of gas will make the Supplier subject to penalties as stated in the General Terms and Conditions of the Transportation and Balancing Rider.~~General Terms and Conditions.~~ If the Supplier fails to pay any penalties, the Customer for whom the supplier~~Supplier~~ is delivering Gas~~gas~~ shall be responsible for payment of such penalties.

CREDITWORTHINESS

To become a Q~~q~~ualified Gas S~~s~~upplier, the ~~S~~supplier must demonstrate to the Company's satisfaction that it has met and continues to meet the credit-worthiness criteria of at least one non-affiliated interstate pipeline that delivers Natural Gas~~natural gas~~ to the Company's city gate or to an interstate pipeline that is connected to Eastern Shore Natural Gas. Upon notification by the Company that the supplier~~Supplier~~ no longer satisfies the credit criteria or has failed to timely pay any bill rendered under this Schedule~~schedule~~, the supplier~~Supplier~~ is disqualified until such time as satisfactory evidence is provided by the supplier~~Supplier~~ that the supplier's~~Supplier's~~ overall financial condition again meets the Company's credit criteria or an acceptable credit enhancement, including but not limited to a cash deposit, letters of credit or surety bonds, is furnished to the Company.

TAXES

Any applicable taxes including, but not limited to, the Public Utilities Tax will be added to all charges.

PAYMENT TERMS

Bills are due within ten (10) calendar days of their date.

LIABILITY LIMITS

The Company shall not be liable for any loss, cost, damage or expense occasioned by the calculation of the DCQ. -The supplier~~Supplier~~ shall warrant that, at the time of delivery of Gas~~gas~~ to the Point(s) of Receipt~~customer~~, it will have good title to deliver all Gas Quantities.~~gas volumes.~~ The Company shall have no liability with respect to any Gas~~all gas delivered~~ prior to its~~it physical~~ delivery to the Point(s) of Receipt~~Company~~ or after its delivery~~redelivery~~ to the Point(s) of Delivery~~Customer~~.

Attachment B

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS

1 GENERAL

1.1 Transportation service is available to commercial and industrial customers with one or more contiguous meters within a specific geographic location having consumption equal to, or greater than, 30,000 CCF per year. This service provides the Customer with the ability to purchase their own Gas supply (Customer-owned Gas) and transport, or have transported, such Gas to the Company's distribution system. Transportation service consists of the following components with associated charges: (a) the transportation of the Customer-owned Gas through pipeline systems upstream of the Company, including the interstate pipeline system of Eastern Shore Natural Gas Company (ESNG), (b) the transportation of the Customer-owned Gas through the Company's distribution system to the Company's installed meter, (c) balancing the difference between the Volume of Gas provided by the Customer and the Volume of Gas actually consumed by the Customer on a daily basis, and (d) the resolution of imbalances created by the difference between the Volume of Gas the Customer provided and the Volume of Gas the Customer consumed which may exist at the end of a billing Month. Customers utilizing transportation service will be billed for delivery service, balancing service, Capacity, a one-time transition charge (or credit) for under (or over) collection of gas costs from prior periods, and other charges applicable for the rate schedule under which they are served.

1.2 Once approved for transportation service it is necessary for the Customer to execute a firm contract(s) with a Qualified Supplier of Natural Gas and other entities, if necessary, to ensure the firm transportation of such Gas to the Point(s) of Receipt. The Customer is required to notify the Company of the name of its Qualified Supplier prior to the fifteenth (15th) calendar day of the Month preceding the Month for which transportation will commence.

2 DEFINITIONS

Agent: An entity authorized to act on behalf of the Customer, more specifically defined in Section 10 of this Transportation and Balancing Rider.

British Thermal Unit: The amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit at 60 degrees Fahrenheit.

Broker: An entity or individual that acts as an intermediary in the sale and purchase of Gas but does not take title to Gas. A Broker can be an Agent.

Business Day: Monday through Friday, excluding Federal Banking Holidays for transactions in the United States.

Capacity: The physical space, in dekatherms (DTs), provided by a pipeline for a fixed monthly reservation charge which gives a shipper the right to transport up to a maximum

daily Quantity of Gas between defined points on the pipeline's system.

CCF: One hundred (100) cubic feet of Gas.

CCT: Central (Clock) Time, which includes the recognition of Daylight Savings Time.

CST: Central Standard Time.

Customer: For the purposes of this Transportation and Balancing Rider, Customer shall mean an individual Customer as defined in the Section 16.1 of the Rules and Regulations of this tariff or the aggregation of Customer accounts of one or more contiguous meters in a specific geographic location for the purpose of transporting their own Gas through the Company's distribution system.

Customer-owned Gas: Gas to which the Customer has title clear of any liens and encumbrances.

Daily Contract Quantity (DCQ): The monthly Quantity of Gas scheduled by the Customer to be delivered to the Company's distribution system each Day of the Month, which has been adjusted by the Customer to account for the Shrinkage Factor.

Flowing Gas: Gas flowing through a pipeline or distribution system excluding Gas taken out of storage.

Gas or Natural Gas: Processed or unprocessed natural gas, vaporized liquid natural gas, synthetic gas, gas from coal seams or any mixture of these gases.

Gas Day or Day: A period of twenty-four (24) consecutive hours, beginning at nine o'clock (9:00) a.m. Central Clock Time (CCT).

Imbalance: Any difference between the Volume of Gas provided by the Customer and the Volume of Gas consumed by the Customer. Nominations are adjusted for thermal content and shrinkage to determine the Volume of Gas provided by the Customer.

Marketer: An entity that purchases and takes title to Gas as an intermediary for sale to a Customer. A Marketer can be an Agent.

MCF: One thousand (1,000) cubic feet of gas.

Month: The period beginning at nine o'clock (9:00) a.m. CCT or the hour otherwise agreed upon by the Customer and the Company on the first Day of the calendar month and ending at the same hour on the first Day of the next succeeding calendar month.

Nomination: The Quantity of Gas, adjusted by the Shrinkage Factor, that the Customer is delivering, or having delivered on its behalf, to a Point(s) of Receipt in the electronic format as provided by the Company.

Point(s) of Delivery: The point(s) at the connection at which the Gas leaves the facilities of the Company and enters the downstream facilities of the Customer.

Point(s) of Receipt: The point(s) at the connection at which the Gas enters the facilities of the Company and leaves the facilities of ESNG.

Qualified Supplier: An entity that has met all qualification requirements as stated in Rate Schedule "SUP", and is deemed capable of holding title to the Gas, and causing it to be delivered to the upstream pipeline interconnect on behalf of the customer.

Quantity of Gas: The Volume of Gas adjusted by the Thermal Factor and expressed in dekatherms, unless otherwise specified.

Replacement Shipper: An entity that takes title to Capacity upstream of the Company's distribution system under the terms of the interstate pipeline's tariff.

Shrinkage Factor: A percentage applied to a Nomination to adjust for Gas lost and unaccounted-for within the Company's distribution system. The Shrinkage Factor shall be determined annually and will be the five-year average.

Summer Peaking Customer: A Customer whose lowest DCQ from November to March does not exceed ten percent (10%) of its highest DCQ for the year.

Thermal Factor: The amount of BTU's in one MCF of Natural Gas divided by one million. The thermal factor for converting between DT and MCF shall be 1.035 unless otherwise specified by the Company.

Volume of Gas: The number of units of Gas expressed in cubic feet, unless otherwise specified.

Year: A period of three hundred sixty-five (365) consecutive Days; provided, however, that any such Year which contains a date of February 29th shall consist of three hundred sixty-six (366) consecutive Days.

3 REQUEST FOR TRANSPORTATION SERVICE

Each prospective transportation Customer, or existing transportation customer seeking enrollment of a new meter, must submit a completed application on the standard form provided by the Company no later than the first (1st) calendar day of the Month preceding the Month in which the transportation service will commence. Service will be provided by the Company based upon the established criteria referenced within the Customer's applicable rate schedule, available capacity and the Customer providing suitable Gas to the Point(s) of Receipt.

4 CONTRACT FOR SERVICE

A Service Agreement with an initial term of one Year must be executed by each applicant as a condition of receiving transportation service. The Service Agreement shall specify the date on which service is to begin, Point(s) of Receipt and Point(s) of Delivery, the rate schedule(s) under which service is to be provided and other conditions of receipt by the Company and delivery to the Customer. Transportation of Gas will not begin until a fully executed Service Agreement is completed. Service Agreements must be renewed annually, and received by the Company no later than the fifteenth (15th) calendar day of the month preceding the month of renewal in order for the customer to continue participating in the transportation program without an interruption of service. The Company may waive the annual renewal requirement at its discretion.

5 GAS TO BE TRANSPORTED BY THE COMPANY

The Customer is responsible for making all arrangements necessary for transporting the Gas to a Point(s) of Receipt in compliance with pressure requirements established by the Company or any upstream pipeline for such Point(s) of Receipt. Gas received for one Customer will be commingled with the Gas of other customers and suppliers. Gas transported by the Company shall be and remain the property of the Customer.

6 QUALITY OF GAS

Gas received by the Company for the account of the Customer shall be Natural Gas conforming to the quality specifications as provided for in the General Terms and Conditions of the tariff of the pipeline that is interconnected to the Company's distribution system. Any Gas entering the Company's system at a Point(s) of Receipt that is not an interconnection with an interstate pipeline must also meet the "pipeline quality" standard set forth above.

7 TITLE TO GAS

The Customer must have good title to all the Gas that enters the Company's distribution system for transportation to a Point(s) of Delivery. Such title shall be free and clear of all liens, encumbrances, and claims whatsoever. The Customer agrees to indemnify and hold the Company harmless against any loss or cost incurred by the Company on account of liens, encumbrances or claims resulting from any possession or transportation by the Company.

8 LIABILITY

The Company shall not be liable for any loss to the Customer arising from or out of transportation service under any rate schedule, including loss of gas in the possession of the Company. The Company makes no guarantee against and assumes no liability for interruptions of service.

9 METERING AND ASSOCIATED EQUIPMENT

Transportation service of Customer-owned Gas to the Point(s) of Delivery is not expected to require any special metering or communication equipment in excess of what would be needed to provide regular delivery and standard Gas sales service. However, there may be situations which will require knowledge of daily usage by transportation Customers that will require additional equipment. If any additional metering or communication equipment is required to provide transportation service, the Customer will reimburse the Company for such equipment and its installation. The Customer shall provide any electrical supply or phone line needed for the operation of any additional equipment. As referenced in Section 11.2 of the Rules and Regulations of this Tariff, remote reading will be utilized for customers with consumption greater than 100,000 annual CCF.

10 AGENTS ACTING ON BEHALF OF THE CUSTOMER

A Customer may use the services of an Agent to act on its behalf for the delivery of Gas to the Company's distribution system. An Agent can be a Broker, Marketer or a Qualified Supplier. All Customers are required to have a Qualified Supplier on record. If a Customer engages the use of an Agent, it is the responsibility of the Customer to notify the Company, using the standard form provided by the Company, of their designation of such Agent to

conduct business on their behalf. A Customer may choose to designate an Agent in addition to their Qualified Supplier. Any notices provided to a Customer's Agent shall be deemed to have been provided to the Customer and the Company shall be held harmless from any actions taken by the Agent.

11 COMPANY AS AGENT

The Company may act as Agent for a Customer in securing and transporting Gas supply to a Point(s) of Receipt. The Company shall not be responsible for charges incurred on behalf of the Customer, nor for the performance, non-performance or continued availability of any pipeline or other services. The charges for this service shall be determined by negotiation between the Company and the Customer.

12 DETERMINATION OF DAILY CONTRACT QUANTITY

12.1 A Daily Contract Quantity (DCQ) for each Month for the following twelve (12) month period shall be calculated annually by the customer, subject to review and approval by the Company. The Customer will be obligated to have the DCQ delivered each Day of the Month to the agreed upon Point(s) of Receipt.

12.2 The Company may approve adjustments to the Monthly DCQs on an ongoing basis due to changes in a Customer's Gas equipment, pattern of usage, or any other information affecting demand that is deemed reliable by the Company.

12.3 The Company considers DCQ information to be confidential and proprietary data for the Customer. The Company will only provide usage data to the Customer or the Customer's Agent. If a Customer wishes to authorize a third party to have access to such data the Company must receive a written letter of authorization, on the Customer's official letterhead, and signed by the authority referenced as a contact under the Customer's account information.

12.4 The Company will not provide DCQ information to multiple third parties simultaneously. If multiple parties are requesting DCQ information for the same Customer, the Company will provide that data directly to the Customer, or one Agent for such Customer.

13 NOMINATIONS AND SCHEDULING

13.1 A Customer's DCQ will be considered their daily Nomination. The Company shall require, from either the Customer or the Customer's Agent on record a signed DCQ Nomination form, as specified by the Company. The Nomination form must be received by the Company via mail, electronic mail, or facsimile transmission no later than the fifteenth (15th) calendar day of the month prior to the first Day of the Month in which transportation service begins, and annually on that date thereafter.

13.2 Upon receipt of a complete and properly executed DCQ Nomination form by the Company, the Company will release upstream ESNG transportation Capacity and may release transportation Capacity upstream of ESNG to the Customer, or the Customer's Agent on record, to facilitate the transportation of Gas to the Point(s) of Receipt.

a. The Customer, or Customer's Agent on record, as the recipient of released Capacity becomes the Replacement Shipper with respect to the associated interstate pipeline.
b. For all Customers other than Summer Peaking Customers, the amount of ESNG Capacity to be released will be equal to the highest DCQ within the twelve (12) months of DCQs calculated.
c. For Summer Peaking Customers, the amount of ESNG Capacity to be released will be equal to the monthly calculated DCQ.
d. For all Customers, the amount of Capacity upstream of ESNG to be released will be equal to the monthly calculated DCQ, provided said capacity is available.
e. The upstream pipelines will invoice the Replacement Shipper for all pipeline Capacity and commodity charges associated with the released Capacity.

13.3 Upon the release of Capacity, the Customer, or their Agent on record, shall be responsible for scheduling their DCQ Nomination Quantity on the upstream pipeline(s) for the ultimate delivery to the designated Point(s) of Receipt.

13.4 Any variance between the Nomination Quantity and the approved DCQ will be subject to a balancing penalty of $30.00 per DT. Such penalty shall be paid by the Customer in addition to the cost of Gas supply used to serve the customer.

13.5 In the event that changes to existing DCQ's, as referenced in section 12.2, are approved, the Customer is required to resubmit their DCQ nomination sheet by the deadline stated in section 13.1.

14 FIRM BALANCING SERVICE

14.1 Balancing the difference between the Customer's nominated DCQ and the Volume of Gas consumed by the Customer is performed daily by the Company on a firm basis. The Company will charge a Firm Balancing Service Rate pursuant to the applicable rate schedule under which service is provided.

14.2 Any Imbalance for a billing month will be reconciled (*i.e.*, "cashed-out") at the Company's weighted average cost at the city gate for flowing gas, including gas cost, variable transportation, and fuel for the calendar month in which most of the billing month occurs. Estimated costs will be used based on nominations made by the Company when the applicable calendar month is not completed before billing the customer.

14.3 For the purposes of Company invoicing, nominated Quantities of Gas shall be converted to CCF using the Thermal Factor and reduced by the Shrinkage Factor to determine the volume actually delivered to the Point(s) of Delivery.

14.3 If a Customer's monthly Imbalance exceeds 50% above or below their cumulative DCQ deliveries for the billing period, a fee will be imposed that equates to 10% of the cashed-out Imbalance charge, and will be invoiced the following month.

15 INTERRUPTIBLE BALANCING SERVICE

15.1 Balancing between the Customer's DCQ and the Volume of Gas consumed by the Customer is performed daily by the Company on an interruptible basis Imbalances

between the Volume of Gas provided by the Customer and the Volume of Gas consumed by the Customer for a billing Month will be cashed-out at the Company's weighted average cost at the city gate for Flowing Gas, including gas cost, transportation at the 100% load factor rate, and fuel for the calendar Month in which most of the billing month occurs. Estimated costs will be used based on Nominations made by the Company when the applicable calendar month is not completed before billing the Customer.

15.2 The Customer is expected to cease using Gas if the Customer's supply is interrupted. When a supply interruption occurs the Customer must notify the Company immediately upon interruption and upon resumption of supply. During the interruption period the Customer's DCQ will be set to zero for purposes of calculating daily shortfalls and monthly imbalances. Using Gas during a period of supply interruption will subject the Customer to the same penalty rate specified in the interruptible rate schedule for failure to interrupt service unless the Company is not interrupting customers and has Gas supply available. In the later case, the fee specified in 15.3, below, will apply to Gas used during the Customer's supply interruption unless the Customer schedules another service from the Company.

15.3 If the Customer, or the Customer's supplier, fails to supply the DCQ on any Gas day the Customer shall be billed a fee of $30.00 per DT for the difference between the DCQ Nomination, which is in DT, and the Volume actually supplied by the Customer. Such penalty is in addition to any cash-out price paid by the Customer for monthly imbalances.

15.4 On a daily basis, the Company, in its sole discretion, may limit Customer usage to the Volume of Customer-owned Gas that is delivered to the Company's distribution system.

15.5 Where the Company interrupts the delivery of Customer-owned Gas to an Interruptible Transportation Customer for distribution system reasons any monthly imbalance up to the total DCQ Volumes delivered to the Company's distribution system by such Interruptible Transportation Customer during the period of interruption will be purchased by the Company at the Customer's cost or the otherwise effective cash-out price, whichever is greater.

16 OPERATIONAL FLOW ORDER

At any time that Customer-owned Gas, in the sole judgment of the Company, adversely impacts the Company's distribution system or its ability to serve firm Customers, the Company may issue an Operational Flow Order and refuse to accept Customer-owned Gas at the Point(s) of Receipt or require the Customer to adjust its Nominations up or down. Operational Flow Orders will be issued by the Company eight (8) hours in advance of implementation, unless exigent circumstances dictate a shorter notice period.

RATE SCHEDULE "SUP"

GAS SUPPLIER REQUIREMENTS

AVAILABILITY

The requirements under this Schedule apply to Qualified Gas Suppliers that contract with a Customer to deliver the Customer's Daily Contract Quantity (DCQ) to the Point(s) of Receipt under the General Terms and Conditions of the Transportation and Balancing Rider. To become a Qualified Gas Supplier, a supplier must submit a completed application on the Company's standard form and must satisfy the Company's credit requirements set forth below.

RESPONSIBILITY FOR GAS DELIVERY

The Qualified Gas Supplier shall provide the necessary Gas supply to facilitate Nomination and delivery of the Customer's DCQ in accordance with the General Terms and Conditions of the Transportation and Balancing Rider. If the Supplier has more than one Customer, and has become a Replacement Shipper on behalf of the Customer(s), a Nomination which is the sum for more than one Customer will be made on interstate pipelines upstream of the Company's distribution system but the Quantity of Gas for each Customer must be identified on the Nomination to the Company. Failure to deliver the required Quantity of gas will make the Supplier subject to penalties as stated in the General Terms and Conditions of the Transportation and Balancing Rider. If the Supplier fails to pay any penalties, the Customer for whom the supplier is delivering Gas shall be responsible for payment of such penalties.

CREDITWORTHINESS

To become a Qualified Gas Supplier, the supplier must demonstrate to the Company's satisfaction that it has met and continues to meet the creditworthiness criteria of at least one non-affiliated interstate pipeline that delivers Natural Gas to the Company's city gate or to an interstate pipeline that is connected to Eastern Shore Natural Gas. Upon notification by the Company that the supplier no longer satisfies the credit criteria or has failed to timely pay any bill rendered under this Schedule, the supplier is disqualified until such time as satisfactory evidence is provided by the supplier that the supplier's overall financial condition again meets the Company's credit criteria or an acceptable credit enhancement, including but not limited to a cash deposit, letters of credit or surety bonds, is furnished to the Company.

TAXES

Any applicable taxes including, but not limited to, the Public Utilities Tax will be added to all charges.

PAYMENT TERMS

Bills are due within ten (10) calendar days of their date.

LIABILITY LIMITS

The Company shall not be liable for any loss, cost, damage or expense occasioned by the calculation of the DCQ. The supplier shall warrant that, at the time of delivery of Gas to the Point(s) of Receipt, it will have good title to deliver all Gas Quantities. The Company shall have no liability with respect to any Gas prior to its delivery to the Point(s) of Receipt or after its delivery to the Point(s) of Delivery.