

RULES AND REGULATIONS

19. Extension of Distribution Facilities.

A. General.

The Company will install gas distribution main extensions in permanently established public streets, roads, and highways along the shortest practical route, as determined by the Company. Extensions of mains into or across private property will be made by the Company at its option, provided, that the right-of-way agreement and other conditions are satisfactory to the Company.

The Company will install service pipe along the shortest and most practical route that will avoid future construction on applicant's property and permit a safe and satisfactory service pipe installation. Installation of service pipe across private property other than the property of the customer will be made only in those cases where the customer has secured and furnished the Company a right-of-way, for such service pipe, satisfactory to the Company.

The customer shall provide a meter location on his property that is satisfactory to the Company. Any and all piping, appliances, equipment or facilities installed by the customer downstream of the Company's point of delivery shall be the customer's expense, shall be the sole responsibility of the customer, shall conform with all applicable laws, rules and regulations of the applicable governmental authorities. The customer shall be responsible for obtaining any permits or approvals necessary to install such customer owned appliances or equipment.

The customer shall protect the portions of the customer extension installed within his premises and shall, unless otherwise authorized by the Company, permit no one but the Company's employees or its authorized agents to handle same. In the event of loss or damage to such property of the Company arising out of carelessness, negligence, or misuse by the customer or his authorized agent the cost of making good such loss or repairing such damages shall be borne by the customer. Customer shall permit access to the Company's employees, or other authorized agents, for the purpose of inspecting, modifying, maintaining, or operating the Company's facilities at all times.

B. Sizing of the Customer Extension.

The Company will install only certain standard sizes of mains, service pipes, meters, and regulators in conjunction with the extension of its distribution facilities. The Company reserves the right, as economic or other conditions warrant, to change or modify its standards in this regard. Estimates of the cost of customer extensions will be based on the minimum standard size facilities which will adequately distribute the gas load to be served.

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19. Extension of Distribution Facilities (continued).

C. Estimated Cost of Customer Extension.

Upon receipt of application from a prospective customer, the Company will prepare an estimate, with an administratively reasonable level of detail, of the cost of installing the customer extension necessary to provide the requested service. This estimate will control the amount of deposit which may be required of the prospective customer.

The estimated cost of any line extensions and/or modifications of the Company's distribution system to add new customers will include the direct cost of all labor, materials, easements, permits, all other direct costs and any variable indirect cost. The variable indirect costs will include the costs that increase with the addition of customers including customer accounts expense, sales expense, bad debts expense, mains and services distribution expense, and a percentage of employee benefits and injuries and damages expenses. The percentage used for indirect costs reflects the Company's historical main extension capital allocation percentage. The Company's extension cost estimates relative to Extension Allowances or Customer contributions are based on the conditions prevailing at the time the estimate is made. Subject to prudent decision-making, the Company may install a distribution extension of greater length or capacity than initially required for the Customer requesting service, due to general engineering, economic, operating, or reliability reasons, in which case the additional cost of such increases in distribution system length or capacity shall not be included in the cost of the extension applicable to Customer.

D. Free Extensions.

The Company will furnish, at its own expense, such meters, regulators, and accessories as may be necessary to measure the consumption of gas by the customer, or prospective customer. The Company will also furnish, at its own expense, that portion of the service pipe which lies in the public street or right-of-way, and which extends from the gas main to the customer's, or prospective customer's, property line.

The design and extent of any extension of the Company's facilities will be determined solely by the Company, applying sound principles of economics and engineering. Within this context, the Company will invest in distribution main and in that portion of the service pipe which extends from the property line to the meter the total amount determined, as follows:

For a prospective customer, the Company will install at no cost to the customer up to 175 feet of main and 75 feet of service line. In no case, however, shall the Company be obligated to invest more than \$1,000 per customer in the aggregate for both the main extension and service extension.

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D. Free Extensions. (continued)

The number of prospective customers shall be that number established by the Company based on, but not limited to, the information supplied by the customer(s), a legal description of the area, maps, and the Company's experience in similar developments.

For a prospective customer who requires additional main or service footage, the total amount of main and service the Company will install at no cost to the customer will be determined by calculating the project's internal rate of return (IRR). This value will be determined by calculating the Net Present Value using the Pre-Tax weighted average cost of capital (WACC) and the sum of 20 years of customer revenues less capital expenditures, variable O&M expense and property taxes. This amount is added to the initial capital investment and the projects IRR is returned. The IRR must equal or exceed the Company's current WACC. Any project that returns an IRR less than the Company's WACC will require a contribution in aid of construction (CIAC). The required CIAC amount will be the amount required to obtain an IRR equal to the Company's WACC.

E. Main and Service Pipe Extensions Beyond the Free Allowance.

Extension of distribution facilities, in excess of that provided by the free allowance as determined under Section D, will be made by the Company, provided the applicant requiring such extension deposits, as a contribution-in-aid-of- construction, the Company's estimated cost of such excess or requests that such excess amount be financed by the Company. If the customer requests financing, the Company shall determine the charge necessary to recover the excess investment over a 15 year period, unless a shorter period is requested by the customer. Such charge shall be designed to recover over that 15 year period all estimated property taxes, depreciation and carrying costs for the excess investment at a rate equal to the Company's overall cost of capital and shall be based on the number of customers who are expected to take service off of the new facilities in the next 5 years. Such charge shall be added to the fixed monthly charge of all customers receiving natural gas service off of the new facilities, provided that the charge shall be reduced during, or eliminated prior, to the expiration of the 15 year period if the number of customers or volumes exceed those initially anticipated when calculating the charge.

In any instance where financing of facilities is provided, the Company shall take steps to ensure that any customer who is or will be subject to the financing charge is notified of the amount, duration and other terms of the charge at the time the customer purchases a property from a developer or applies for service. The Company shall also post on its website an explanation of how the financing arrangements authorized by this Section are applied and are charged.

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E. Main and Service Pipe Extensions Beyond the Free Allowance. (continued)

The Company shall maintain records of all financing arrangements provided under this provision showing for each facility extension and financing arrangement to ensure that customers who are not part of the extension will not bear any costs for the extension in excess of the free allowance: (1) the calculation of the free allowance and excess amount to be financed; (2) the calculation of the per customer financing charge; (3) all amounts collected from customers as a result of application of the charge; and (4) the date on which the excess amount was fully collected and the charge removed from customer bills. The investment in excess of the free allowance and related costs shall not be included in general rates as part of the Company's cost of service, and in the event the excess amount cannot be fully collected over the 15 year period specified in this section, any uncollected amount shall be absorbed by the Company. To the extent that any uncollected amount is absorbed by the Company, the Company shall book such amounts separately and shall not seek rate recovery.

F. Refund on Contributions for Main Extensions.

Only in those cases where the total number of prospective customers is uncertain, and no financing arrangement is entered into under Section E the Company may require a deposit for the Company's estimated investment cost in excess of that provided by the free allowance. If the number of customers connected within four years of the completion of the extension exceeds the number of customers estimated to be connected at the time the deposit was derived, all or a portion of such deposit will be refunded to the original contributor(s) in proportion to the amount of the original contribution(s). The refund(s) to be made will be determined by a survey of the additional customers connected to the extension. Such survey will be made within one year of the attachment of such customers. However, this Section F shall not apply to any contributions-in-aid-of-construction made pursuant to Section E, with respect to which no refunds will be made.

There shall be no refunds based on the attachments of customers to facilities which are main extensions of the customer extension for which contribution was originally made.

G. Refund Not to Exceed Original Contribution.

In no event shall refund made to the applicant exceed the original contribution.

H. Title to the Customer Extension.

All parts and portions thereof, regardless of any contribution made by the customer, shall be and remain in the Company.

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