

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE

APPLICABLE TO USE OF SERVICE FOR:

The balancing of gas delivered by an Aggregation Pool Operator for Customers receiving delivery service from NYSEG pursuant to a non-daily metered service classification (i.e., SC 13 and SC 14) of this Schedule.

Only Aggregation Pool Operators serving non-daily metered transportation customers in the Eastern Gas Transmission and Storage ("EGTS") Aggregation Pooling Area shall be able to elect this Citygate Swing Customer Balancing Service (also referred to herein as "CSC Balancing" or "CSC Balancing Service"), as defined in and pursuant to the terms herein.

CHARACTER OF SERVICE:

CSC Balancing is a process whereby the Aggregation Pool Operator accommodates the difference, on a daily basis, between the estimated total usage of the Aggregation Pool Operator's customers and the net quantity of gas delivered on a scheduled basis by the Aggregation Pool Operator to the Company's system, using its No-Notice Storage assets and associated transportation capacity entitlements held on the EGTS system. This difference may be either positive (injection) or negative (withdrawal). This service operates in conjunction with the Delivery Point Operator ("DPO") service and the Citygate Swing Customer ("CSC") service offered under the EGTS FERC rate schedules.

AGGREGATION POOL OPERATOR RESPONSIBILITY:

Under this service classification, the Aggregation Pool Operator is responsible for planning a gas supply sufficient for the needs of the customers in its Aggregation Pool, for delivering that gas to the Company's system, and for meeting the requirements of all other provisions of this service classification, and all applicable sections of General Information Section 18 of this Schedule and Section 10 of PSC No. 90 Gas. The Aggregation Pool Operator is responsible for payment to the Company of any charges associated with this service classification, including but not limited to all cashout amounts, surcharges, penalties and applicable taxes. Aggregation Pool Operators electing to take CSC Balancing Service must also take service under, and be in continuing compliance with, all appropriate EGTS FERC jurisdictional tariffs. It is the Aggregation Pool Operator's responsibility to nominate and deliver, on a daily basis, those volumes that it expects its customers to consume.

AGGREGATION POOL:

Customers in the EGTS Aggregation Pooling Area taking delivery service pursuant to a non-daily metered service classification (i.e., SC 13 and SC 14) of this Schedule shall be included in a single Aggregation Pool for balancing service performed by an Aggregation Pool Operator pursuant to this service classification. Aggregation Pool Operators electing to take CSC Balancing Service must include all of their non-daily metered customers (i.e., SC 13 and SC 14) in that single Aggregation Pool and shall not also operate a non-daily metered pool under Section 5, Non-Daily Metered Transportation Requirements, of this Schedule while receiving CSC Balancing Service.

ISSUED BY: Joseph J. Syta, Vice President, Controller and Treasurer, Binghamton, New York

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE (CONT'D)

SERVICE ELECTION:

Each Aggregation Pool Operator serving non-daily metered transportation customers (i.e., SC 13 and SC 14) in the EGTS Aggregation Pooling Area is required to make an initial election to take service under this CSC Balancing Service Classification by March 1, to be effective for one year beginning April 1. The Aggregation Pool Operator must communicate such election to the Company by submitting the Enrollment Form set forth in the Company's Gas Transportation Operating Procedures Manual. At that same time, such Aggregation Pool Operator must notify NYSEG of its specific capacity needs for the CSC Balancing Service annual period (i.e., April 1 through March 31). For each succeeding annual period, the Aggregation Pool Operator must provide written notice to the Company by March 1 to continue its CSC Balancing Service for the next annual period, including capacity needs. If such notice is not provided to the Company, the Aggregation Pool Operator's service under this CSC Balancing Service Classification shall terminate as of April 1, and the Aggregation Pool Operator shall immediately operate their non-daily metered pool under Section 5, Non-Daily Metered Transportation Requirements, of this Schedule.

CONDITIONS OF SERVICE:

1. Delivery Point Operator

The Company must apply to, and be accepted by, EGTS for service under EGTS's FERC rate schedule DPO and act as the Delivery Point Operator. The Company shall have all of the rights under and be responsible for meeting all requirements of that schedule.

2. Citygate Swing Customer

The Aggregation Pool Operator must apply to, and be accepted by, EGTS for service under EGTS's FERC rate schedule CSC. The Aggregation Pool Operator shall be responsible for meeting all requirements of that schedule. Upon notification to the Company by EGTS that CSC service to the Aggregation Pool Operator has been suspended or terminated, the customers served by the Aggregation Pool Operator shall be immediately transferred by the Company to the applicable service classification pursuant to PSC No. 87 Gas (NYSEG's Gas Sales Service tariff). The Aggregation Pool Operator shall be responsible for paying the Company any costs incurred by the Company as a result of the Aggregation Pool Operator's failure to maintain service under EGTS's FERC rate schedule CSC.

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE (CONT'D)

CONDITIONS OF SERVICE (CONT'D.):

3. Capacity Requirements

The Aggregation Pool Operator is responsible for planning a gas supply sufficient for the needs of the Customers in its Aggregation Pool and for the transportation and storage capacity required to deliver it to the Company's system.

a) Capacity to Be Released

The Company will release capacity on EGTS to Aggregation Pool Operators participating in this CSC Balancing Service, on behalf of customers in a prearranged release transaction at Maximum Demand Rates in accordance with the tariffs and/or agreements applicable to the released capacity provisions of the EGTS FERC tariff. The capacity to be released by NYSEG will include storage capacity and associated transportation entitlements on the EGTS system. The total capacity available for release will be sufficient to meet the design day load, as adjusted for reliability capacity requirements, (as specified in General Information Section 18 of this Schedule and pursuant to the Company's Phase 2A Joint Proposal as approved by the PSC in its September 23, 2003 Order issued in Case 01-G-1668), of all customers of the Aggregation Pool Operator eligible for service under this service classification.. References to "release" of capacity are intended to include all transfers to Aggregation Pool Operators of rights and obligations pertaining to capacity held by the Company, unless the context requires otherwise.

Aggregation Pool Operators must take a release of the Company's capacity for customers that migrate to or initiate service under this service classification after April 1 during the remainder of the annual period.

The Aggregation Pool Operator must maintain, as determined by the Company, sufficient EGTS storage and associated transportation capacity entitlements under the CSC Balancing Service to cover the imbalance between the amount of gas nominated and delivered to the Company's system on a scheduled basis, and the estimated total usage for the customers in the Aggregation Pool multiplied by the factor of adjustment, as stated in Section 14 of PSC No. 90 Gas, on a daily basis.

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE (CONT'D)

CONDITIONS OF SERVICE (CONT'D.):

3. Capacity Requirements (Cont'd)

b) Methodology for Initial Release

The Company shall release EGTS transportation and storage capacity to Aggregation Pool Operators serving non-daily metered transportation customers in the EGTS Aggregation Pooling Area. Such release shall be based on winter season design day requirements of the load, as adjusted by reliability capacity requirements served by each Aggregation Pool Operator as calculated by the Company. The mix of assets allocated, as provided by the Company, shall reflect the Company's operational distribution system requirements, including, but not limited to, maintaining the appropriate ratio of storage supply to flowing supply and reliability capacity.

c) Administration of Assets During the Annual Period

After the initial release of assets, the Company shall administer allocation of assets so as to maintain a correspondence between winter season design day requirements, as adjusted for reliability capacity, of the load served by each Aggregation Pool Operator and capacity released to that Aggregation Pool Operator on a periodic basis. As load served by the Aggregation Pool Operator changes, the Company shall make corresponding adjustments to the quantity of capacity released to the Aggregation Pool Operator,

d) Recall of Capacity Entitlements

If for any reason, the Aggregation Pool Operator becomes unqualified to sell gas on the Company's system or transport gas on pipelines upstream of the Company's citygates, the Company shall recall all capacity released to the Aggregation Pool Operator. The Company shall also have the right to recall capacity: 1) if the Aggregation Pool Operator fails to perform its obligations under the tariff; 2) if the Aggregation Pool Operator ceases to meet the credit or security requirements set forth in General Information Section 22, Creditworthiness, of this Schedule; or 3) for system reliability purposes. References to "recall" of capacity are intended to include all returns to the Company of all rights and obligations pertaining to capacity previously released to an Aggregation Pool Operator, unless the context requires otherwise.

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE (CONT'D)

CONDITIONS OF SERVICE (CONT'D.):

3. Capacity Requirements (Cont'd)

e) Transfer of Storage Gas and Capacity to Aggregation Pool Operators

When storage assets are released to an Aggregation Pool Operator in conjunction with the CSC Balancing Service after the commencement of the storage injection season (April 1 of each year), the Company shall transfer to the Aggregation Pool Operator a quantity of gas equivalent to a pro-rata share of gas that the Company has acquired to provide service to the migrated customers. The quantity of gas transferred shall be the storage capacity to be released, multiplied by a percentage representing the planned degree to which the Company's EGTS storage shall be filled at the beginning of the month during which the release is made.

As detailed below, there shall be an Aggregation Pool Operator Charge associated with transfers of gas in storage to the Aggregation Pool Operator.

Aggregation Pool Operator Charge

The Aggregation Pool Operator shall pay the Company: 1) the weighted average commodity cost of gas in storage ("WACOSG"), multiplied by the quantity of gas transferred; plus, 2) a contribution to storage capacity costs ("CSCC"), calculated as shown below.

The CSCC shall be calculated as follows:

The CSCC rate shall be equal to the system average unrecovered EGTS demand charge revenue per therm beginning in the month of April through the initial month that storage capacity is released to the marketer. That overall per therm rate shall be adjusted by the applicable residential or non-residential load factor to develop monthly residential and non-residential CSCC rates. The demand charges in this calculation include EGTS Storage Capacity, Firm Transportation No-Notice Gas Storage Service ("FTNNGSS"), and Gas Storage Service ("GSS"). The system average unrecovered EGTS demand charge revenue shall equal the sum of the differences between the EGTS demand charge revenues collected and the average EGTS fixed demand costs incurred beginning in the month of April through the initial month that storage capacity is released to the marketer. The CSCC rate shall be set forth on the Company's Statement of Contribution to Storage Capacity Costs to be filed monthly with the Public Service Commission not less than three days prior to the effective date. This Statement shall also include the Company's WACOSG.

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE (CONT'D)

CONDITIONS OF SERVICE (CONT'D.):

3. Capacity Requirements (Cont'd)

f) Transfer of Storage Gas and Capacity to NYSEG

In the event that an Aggregation Pool Operator's load declines, necessitating a transfer of capacity to the Company, the Aggregation Pool Operator shall transfer to the Company an amount of gas equal to the returned storage capacity, multiplied by a percentage representing the Company's planned storage level at the time the return is made. If no capacity is transferred to the Company, no gas shall be transferred. If the Aggregation Pool Operator does not have a quantity of gas in storage equal to the above-calculated amount, the Aggregation Pool Operator must procure an amount of gas in storage and make it available for immediate withdrawal by the Company to meet this requirement. This gas must be transferred to NYSEG's account on the first calendar day of the appropriate month. If the Aggregation Pool Operator does not transfer the required gas in storage on the first calendar day of the appropriate month, the Aggregation Pool Operator shall be subject to a penalty of \$2.50/therm/day for each therm of required storage gas not available to the Company.

In addition, as detailed below, there shall be an Aggregation Pool Operator Credit associated with the return of storage capacity to NYSEG.

Aggregation Pool Operator Credit

The Company shall reimburse the Aggregation Pool Operator: 1) the weighted average commodity cost of gas in storage ("WACOSG"), multiplied by the quantity of gas transferred; plus, 2) a contribution to storage capacity costs ("CSCC") calculated as shown below.

The CSCC shall be calculated as follows:

The CSCC credit rate shall be equal to the system average recovered EGTS demand charge revenue per therm beginning in the month of April through the month that storage capacity is returned to the Company. That overall per therm rate shall be adjusted by the applicable residential or non-residential load factor to develop monthly residential and non-residential CSCC rates. The demand charges in this calculation include EGTS Storage Capacity, Firm Transportation No-Notice Gas Storage Service ("FTNNGSS"), and Gas Service Storage ("GSS"). The System average recovered EGTS demand charge revenue shall equal the sum of the differences between the EGTS demand charge revenues collected and the average EGTS fixed demand costs incurred beginning in the month of April through the month that storage capacity is returned to the Company. The CSCC rate shall be set forth on the Company's Statement of Contribution to Storage Capacity Costs to be filed monthly with the Public Service Commission not less than three days prior to the effective date. This Statement shall also include the Company's WACOSG.

SERVICE CLASSIFICATION NO. 18

CITYGATE SWING CUSTOMER BALANCING SERVICE (CONT'D)

CONDITIONS OF SERVICE (CONT'D.):

3. Capacity Requirements (Cont'd)

g) Term of Release

Releases of capacity pursuant to this CSC Balancing Service Classification shall be made in accordance with the EGTS FERC tariff.

h) Pipeline and Regulatory Requirements

Aggregation Pool Operators to whom capacity is to be, or has been, released pursuant to this CSC Balancing Service shall cooperate with the Company, meet all applicable requirements of the respective pipelines and governmental entities having jurisdiction over the relevant assets, and make all required payments to the respective pipelines.

4. Amount of Gas to be Delivered

The Aggregation Pool Operator is expected to achieve a balance between its deliveries and the consumption of gas by the Customers within its Aggregation Pool. The Aggregation Pool Operator shall determine the amount of gas to be delivered to the Company's citygate. On a daily basis, the imbalance between the amount of gas nominated and delivered to the Company's citygates on a scheduled basis, and the calculated consumption for the Customers within the Aggregation Pool Operator's Aggregation Pool, multiplied by the factor of adjustment stated in General Information Rule 18.F., Allowance For Losses, of this Schedule, must be within the Aggregation Pool Operator's entitlements under its CSC Balancing Service contract with EGTS.

5. Calculation and Reporting of Daily Usage

After the close of each gas Day, the Company shall calculate an estimated total usage for each Aggregation Pool for that gas Day, based upon the weather that actually occurred during the gas Day. The Aggregation Pool Operator's CSC measurement shall be reported to the Aggregation Pool Operator and to EGTS by 5:00 p.m. after the close of each gas day.