

## 2. Gas Commodity Price

The Gas Commodity Price procedure establishes gas prices based on the market price for gas at BGE's City Gate. The Gas Commodity Price procedure includes a sharing mechanism, described more fully below, for most gas purchased by BGE reflecting the difference between the market price for gas and the actual costs.

The Gas Commodity Price applies to all gas sold under all rate schedules and consists of a Market Gas Commodity Price, an Other Gas Costs Factor, Pipeline Refunds, and adjustments due to the maximum monthly increase limitation. The Other Gas Costs Factor recognizes all of BGE's other purchased gas costs and credits not included in the Market Gas Commodity Price and Pipeline Refunds components. BGE files the details of the Gas Commodity Price with the Public Service Commission each month and files the details of annual adjustments with the Commission by December 31. The calculation of the Gas Commodity Price is described below.

### A. Market Gas Commodity Price

At the beginning of each month, the Company determines the Market Gas Commodity Price per therm of gas supply, beginning with the City Gate Index.

#### 1. Calculate the City Gate Index

BGE receives gas from primary supply and/or primary market area basins. The price of each basin area gas volume is developed using the average of price quoted in *Inside FERC's Gas Market Report* and the closing price on the New York Mercantile Exchange (NYMEX) for the last three days of "Bid Week", plus the variable transportation costs from the basin to the City Gate. The price for any market area basin also reflects a basis adjustment to the NYMEX price, which is intended to represent the market value of transportation between the supply area and the market area. The resulting price from each basin is weighted by the ratio of firm pipeline transportation capacity from the basin to total firm transportation capacity from all the basins. The City Gate Index is the sum of these weighted prices.

#### 2. Calculate the Weighted City Gate Price

The Weighted City Gate Price is the weighted average value of the estimated volumes of flowing gas delivered, storage gas withdrawn, and on-system Liquefied Natural Gas (LNG) vaporized.

Flowing gas is delivered to the City Gate from either production or market areas. Between April 1 and September 15 of each year, BGE will secure fixed-price contracts, or the financial equivalent thereof, for at least 10%, but not more than 20%, of forecasted flowing gas requirements for the upcoming November through March period, based on normal weather. The fixed price purchases are valued at the total actual delivered price to the City Gate and are not subject to the sharing mechanism. All other flowing gas is valued at the current City Gate Index. Neither the quantities nor the timing of BGE's fixed price purchases shall be subject to prudence review.

Pipeline Storage gas is valued at the City Gate Index for the month the gas is purchased for injection. Storage gas delivered to the City Gate is valued at the weighted average City Gate Index of storage inventory.

On-System LNG is valued at the City Gate Index for the month the gas is purchased for liquefaction. LNG vaporized is valued at the weighted average City Gate Index of LNG inventory.

### *3. Calculate the Market Gas Commodity Price*

The Market Gas Commodity Price for the month is determined by dividing the Weighted City Gate Price by the BGE distribution system Unaccounted - For Gas Factor determined under Rider 11.

## **B. Other Gas Costs Factor**

The monthly Market Gas Commodity Price is adjusted by the Other Gas Costs Factor, which consists of a Baseline amount and an Automatic Cost Adjustment (ACA). The Baseline is the net estimated amount of cost or credits for the upcoming billing months of November through October for Sharing, Net Capacity Reservation Costs, Storage and LNG Activity Costs, Peakshaving Costs, Off-System Sales, Balancing Service Revenues, and Standby Service Revenues. The Baseline portion of the Other Gas Costs rate is calculated by dividing the estimated Baseline amount by the estimated BGE sales for the upcoming twelve-months ended October 31. The Baseline portion of the rate will be implemented November of each year. This rate will be in effect for one year, subject to an immediate adjustment if actual period-to-date costs fail to match period-to-date revenues by more than \$5 million.

The ACA amount is the difference due to deviations between estimated and actual deliveries to the City Gate plus the difference between the Baseline amount collected and the actual Baseline amount for the prior period. The ACA portion of the Other Gas Costs Factor rate is calculated by dividing the total ACA amount by the estimated annual BGE sales for the following calendar year. The ACA portion of the rate will be implemented each January and will be in effect for one calendar year.

### *1. Sharing*

Flowing gas (except for fixed-price contracts as noted in Section A.2), storage gas and LNG are subject to the sharing mechanism. The Other Gas Costs Factor includes one-half the difference between the total actual commodity cost of gas purchased and the City Gate Index cost. The cost of financial instruments to hedge the risk of these gas costs and gains or losses generated by such instruments are included in the total actual commodity cost.

### *2. Net Capacity Reservation Costs*

The Other Gas Costs Factor includes the annual reservation cost of interstate gas pipeline transportation and storage capacity, plus \$300,000 for annual gas procurement costs in excess of the City Gate Index.

Annual capacity reservation costs are reduced by BGE Gas Commodity Service customers' share of net pipeline reservation credits resulting from BGE's participation in the interstate Capacity Release Program. Between November 1 and October 31, BGE Gas Commodity Service customers will receive 100% of the first \$500,000 of net pipeline reservation credits and 90% of all additional credits.

BGE will file an annual Capacity Plan with the Public Service Commission prior to the beginning of the Winter Heating Season.

### 3. *Storage and LNG Activity Costs*

The Other Gas Costs Factor includes the costs of storage retention losses, injection and withdrawal costs, and the cost of transporting storage gas from the storage field to the City Gate, including transportation retention losses, priced at Columbia Gas Transmission tariff rates. The Other Gas Costs Factor also includes other LNG activity costs as well as the difference between City Gate volumes and liquefied volumes resulting from the application of BGE's Unaccounted for Gas Factor.

### 4. *Peakshaving Costs*

BGE relies on propane mixed with air and special gas purchase contracts to meet customers' demand for gas during high use periods. The Other Gas Costs Factor includes the difference between these peakshaving gas costs and the City Gate Index revenue from these peakshaving sales.

### 5. *Off-System Sales*

The Other Gas Costs Factor includes the customers' share of the gross margins from Off-System Sales operations. Between November 1 and October 31, when Company assets are used, BGE Gas Commodity Service customers will receive 100% of the first \$1 million of the gross margins from Off-System Sales and 80% of all additional gross margins. When Company assets are not used, BGE Gas Commodity Service customers will receive 50% of the gross margins from Off-System Sales.

### 6. *Balancing Service*

The Other Gas Costs Factor includes revenues collected through the application of the Balancing Service Price.

### 7. *Standby Service Revenues*

The Other Gas Costs Factor includes revenues collected through the application of the Standby Service Price.

## **C. Pipeline Refunds**

BGE applies a credit to the Gas Commodity Price when it receives a refund related to interstate gas pipeline transportation or storage, or any other service purchased by the Company related to the acquisition of gas. These adjustments apply unless otherwise directed by the Public Service Commission. BGE apportions the credits in the relationship that like-month BGE sales bear to total BGE sales for the retroactive refund period. The Company includes interest from the date of receipt of the refund to the 15th of the month during which the refund is returned at the rate prescribed by the Public Service Commission. To calculate the refund rate per unit of gas, the refund credits are divided by estimated BGE sales for the current month.

**D. Maximum Monthly Increase**

The maximum monthly increase in the Gas Commodity Price is limited to 20%. Under-collections are carried forward and charged to customers in a future calculation of the Gas Commodity Price.

**E. FERC Account Numbers**

The actual costs used in the determination of the Gas Commodity Price are those found in the following accounts and subaccounts of the Uniform System of Accounts:

- Account 804 – Natural Gas City Gate Purchases
- Account 806 - Exchange Gas
- Account 808.1 - Gas Withdrawn from Storage
- Account 808.2 - Gas Delivered to Storage
- Account 728.2 - Liquefied Petroleum Gas - Fuel
- Account 723.2 - Fuel for Liquefied Petroleum Gas Process - Purchased Fuel
- Account 724 - Other Gas Fuels
- Account 812 – Gas Used for Other Utility Operations - Credit