STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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June 30, 2009

Jaclyn A. Brilling, Secretary
NYS Department of Public Service
Three Empire State Plaza
Albany, New York 12223

Re: Case 08-G-1398 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service

Dear Secretary Brilling:

Enclosed please find for filing in the above-referenced case, a copy of the Joint Proposal entered into by Orange and Rockland Utilities, Inc., the Department of Public Service (Staff), the Consumer Protection Board, USG Corporation and the Small Customer Marketer Coalition.

I have also included the original signatures of USG Corporation and Staff. The original signatures of the other parties will be filed under separate cover.

Sincerely your,

David R Van Ort

DAVID R. VAN ORT
Assistant Counsel

Enclosure

cc: Active Parties via E-Mail

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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Case 08-G-1398 - Proceeding on Motion :
of the Commission as to the Rates, Charges, :
Rules and Regulations of Orange and :
Rockland Utilities, Inc. for Gas Service :
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JOINT PROPOSAL

Dated: June 29, 2009
Pearl River, New York

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 08-G-1398- Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service.

JOINT PROPOSAL

THIS JOINT PROPOSAL ("Proposal") is made as of June 29, 2009, by and among Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company"), Staff of the New York State Department of Public Service ("Staff"), the New York State Consumer Protection Board ("CPB"), USG Corporation ("USG"), and the Small Customer Marketer Coalition ("SCMC") (collectively referred to herein as the "Signatory Parties"), and provides a proposed regulatory regime for the gas business of Orange and Rockland.

1. Introduction

The Proposal sets forth the terms of a gas rate plan for the period November 1, 2009 through October 31, 2012 ("Gas Rate Plan"). It prescribes agreed-upon rate levels and addresses operational and accounting matters for the term of the Gas Rate Plan, as well as various other rate design and revenue allocation issues. The Gas Rate Plan is designed to provide for the continued reliability, safety, and security of the Company's gas system.

Among other things, the Gas Rate Plan reflects a revenue requirement based on the adoption of the gas sales and revenue forecast agreed to by the Signatory Parties, updates to the non-firm revenue imputation, implementation of a revenue decoupling mechanism ("RDM"), reconciliation of capital expenditures due to under-spending (or over-spending due to municipal stimulus projects), continuation of a gas economic development program, and continuation of a low-income program.

The Gas Rate Plan provides for explicit revenue adjustments to Orange and Rockland related to leak management, damage prevention, main replacement, emergency gas odor response, and customer service.

2. **Procedural Background**

On November 26, 2008, Orange and Rockland filed with the New York State Public Service Commission ("Commission") revised gas tariff leaves reflecting a gas rate increase of $17.8 million, which represents a 4.6% increase to firm full service gas customers and firm transportation customers (including gas supply costs) ("Initial Rate Filing"). Orange and Rockland's filed case also included a three-year rate plan, seeking to moderate the effect of this increase with a phased approach. The Company's phased approach would have increased rates by $6.6 million (or 1.7% including gas supply costs) for the 12-month period ending October 31, 2010 ("Rate Year One" or "RY1"), $11.9 million (or 3.0% including gas supply costs) for the 12-month period ending October 31, 2011 ("Rate Year Two" or "RY2"), and by $11.9 million (or 2.9% including gas supply costs) for the 12-month period ending October 31, 2012 ("Rate Year Three" or "RY3").

By orders dated December 15, 2008, and March 17, 2009, the Commission suspended the proposed gas rates first through April 24, 2009, and subsequently through October 24, 2009.

On January 15, 2009, a Procedural Conference was held by telephone conference before Administrative Law Judge William Bouteiller to discuss procedures for the case and a case schedule. On January 21, 2009, Judge Bouteiller issued his Ruling Setting Case Schedule.

On February 13, 2009, the Company filed various updates and corrections to its Initial Rate Filing ("Update Filing"), which resulted in an increase to the Company's revenue requirement of $6.0 million for Rate Year One, $1.6 million for Rate Year Two, and $1.4 million for Rate Year Three.

On March 27, 2009, Staff filed its direct case, in which it recommended that the Company's base rates be increased by $10.1 million. The Town of Ramapo ("Town") (economic climate, low income program), the CPB (cost of equity, service quality program, low income program), and USG (SC 8) also filed direct testimony on March 27, 2009. The Company filed rebuttal testimony on April 17, 2009. In its rebuttal testimony, the Company increased the requested first-year rate increase to $24.4 million. No other party filed update and/or rebuttal testimony.

Evidentiary hearings were held at the Commission's offices in Albany on May 4 and 5, 2009. Judge Bouteiller presided over the hearings and was joined by Commissioner Maureen Harris on May 4, 2009. In addition to the Company, the following parties entered appearances during the course of the hearings: Staff, the CPB, USG, SCMC, and the Town. Eleven Company witnesses and ten Staff witnesses were made available for cross-examination. The balance of the pre-filed testimony of the parties entered the record by affidavit.

In accordance with the Commission's rules, the Company notified all parties to this proceeding of the pendency of settlement negotiations, prior to the commencement of negotiations, by email and letter dated May 6, 2009. Notice of the impending negotiations was duly filed with the Secretary of the Commission by letter dated May 6, 2009.

Negotiations among the parties commenced on May 12, 2009. Additional settlement conferences were held on May 21, May 27, June 1, June 4, and June 5, 2009. Orange and

Rockland, Staff, the CPB, the Town, USG, and SCMC participated in the settlement conferences, which were held in person or via teleconference.

A public statement hearing was held in the Ramapo Town Hall on June 11, 2009.

The Signatory Parties have reached agreement on the following terms of the Proposal, which they believe will further the objective of giving fair consideration to the interests of customers and shareholders alike, in assuring the provision of safe and adequate service at just and reasonable rates.

3. Rate Plan

The Gas Rate Plan covers the three-year period November 1, 2009 to October 31, 2012. The First Rate Year covers the twelve-month period ending October 31, 2010, the Second Rate Year covers the twelve-month period ending October 31, 2011, and the Third Rate Year covers the twelve-month period ending October 31, 2012. Appendix A sets forth a summary of the Company's revenue requirements. Two options are presented to the Commission for its consideration with respect to implementing the base rate increases. Under Option A, the base rate revenue increase would reflect each of the Rate Year's annual revenue increase determinations over the three-year rate plan. Under Option B, the annual increases would be phased in on a levelized basis over the three-year term of the rate plan. The details and composition of the base delivery revenue requirements under both Options are set forth in Appendix A. The actual bill impact for the First Rate Year, under both Options, will be $5.3 million less than the increase in base rates due to a $1.1 million reduction in the surcharge for interruptible benefits and $4.2 million due to the expiration of a temporary surcharge in the monthly gas adjustment.[1]

[1] The temporary surcharge was implemented in Case No. 05-G-1494 in order to provide that revenues at the end of rate year three are not higher than they would have been if the rate increase in that case were not phased in.

a. Option A. In the First Rate Year, the Company's base rates will increase by $12.839 million. The Second Rate Year and the Third Rate Year base increases, which reflect higher costs for inflation, estimated increases in pension and other post employment benefit costs, property taxes and net plant additions, will be $5.236 million and $4.479 million, respectively.

b. Option B. The Gas Rate Plan would provide for the phasing in of the Rate Year One rate increase as follows:

First Rate Year	$8.964 million
Second Rate Year	$8.964 million
Third Rate Year	$4.626 million (in addition to a one time collection of $4.338 million through the Monthly Gas Adjustment ("MGA") as discussed below)

The increases to be implemented and maintained in each Rate Year (i.e., permanently and cumulatively) under the optional phase-in alternative reflect, in part, the application of interest at the Other Customer Capital rate on the rate increase that would have been collected absent the phase-in of the Rate Year One rate increase. The Company's pension and Other Post Employment Benefits ("OPEB") annual rate allowance would be adjusted to bring the calculated revenue requirements in line with the phased-in revenue requirement (see Appendix B) on an earnings neutral basis.

The Signatory Parties recognize that the option of phasing in the Rate Year One increase over three years would produce higher base revenues for the Company at the end of Rate Year Three than if the revenues were not phased in. In order to provide that revenues at the end of Rate Year Three are no higher than they would have been if the rate increase was not phased in,

$4.338 million of the RY3 rate increase will be collected via a temporary surcharge through the MGA. This MGA surcharge would expire at the end of Rate Year Three.

Except as provided pursuant to Section 25 of the Proposal, Orange and Rockland will not file for a base rate increase to become effective prior to November 1, 2012.

4. Earnings Sharing

Following each of RYs 1, 2 and 3, the Company will compute its gas rate of return on common equity capital for the preceding Rate Year. The Company will provide Staff the computations of earnings, by no later than February 28, after the end of each Rate Year covered by the Gas Rate Plan.

If the level of earned common equity return in any Rate Year exceeds 11.4% ("Earnings Sharing Threshold"), calculated as set forth below and as may be adjusted pursuant to Section 5 of the Gas Rate Plan, then the amount in excess of the Earnings Sharing Threshold shall be deemed "shared earnings" ("Shared Earnings") for the purposes of the Gas Rate Plan.

On an annual basis (i.e., RY1, RY2, RY3) any Shared Earnings will be deferred on the Company's books for treatment at the end of RY3. At the end of RY3, the net Shared Earnings from RY1, RY2, and RY3 ("Total Shared Earnings")[2] will be allocated between customers and shareholders as follows: for the first 100 basis points of Total Shared Earnings above the Earnings Sharing Threshold (i.e., in excess of 11.4% to 12.4%), one-half of the revenue equivalent of the Total Shared Earnings shall be deferred for the benefit of customers, and the remaining one-half of the revenue equivalent of the Total Shared Earnings shall be allocated to the Company. For Total Shared Earnings in excess of 12.4% and up to 14.0% return on common equity, 65% of the revenue equivalent of Total Shared Earnings shall be deferred for the benefit

[2] In calculating the Total Shared Earnings, if in any Rate Year the level of earned common equity return is less than the Earnings Sharing Threshold, any such shortfall shall be deducted from the Shared Earnings earned by the Company in other Rate Years.

of customers, and the remaining 35% of the revenue equivalent of the Total Shared Earnings shall be allocated to the Company. For Total Shared Earnings above 14.0% return on common equity, 90% of the revenue equivalent of Total Shared Earnings shall be deferred for the benefit of customers, and the remaining 10% of the revenue equivalent of the Total Shared Earnings shall be allocated to the Company.

The Company's allocated share of deferred Shared Earnings will be subject to the provisions of Section 5 K, Limitations on Deferrals, set forth below. Orange and Rockland will not be entitled by this provision to recover from customers any amounts by which earnings in RY1, RY2 and RY3 fall below 11.4%.

The customers' allocated share of Total Shared Earnings will be applied against deferred pensions and OPEB costs, property tax deferrals and environmental deferrals.

For purposes of determining whether the Company has earned in excess of the Earnings Sharing Threshold, the calculation of the actual return on common equity capital allocated to New York jurisdictional gas utility operations shall be on a per books basis, adjusted as follows:

a. Officer restricted stock payments, any earned incentive related to the base revenue imputations (i.e., interruptible benefits), property tax refunds, gas lost and unaccounted for ("LAUF"), or other incentive mechanisms made effective during the term of the Gas Rate Plan pursuant to an Order of the Commission, as well as any deferrals associated with the Gas Economic Development Enhancement Pilot Program, and deferral offsets pursuant to Section 5 K, will be excluded from the calculation.

b. Such earnings computations will reflect the lesser of (i) an equity ratio equal to 50.0% or (ii) the Company's actual average common equity ratio to the extent that it is less than 50.0% of its ratemaking capital structure. The actual common equity ratio will exclude all components related to "other comprehensive income" that may be required by generally accepted accounting principles ("GAAP"); such charges are recognized for financial accounting reporting purposes but are not recognized or realized for ratemaking purposes.

5. **Reconciliations**

The Company will reconcile the following costs to the levels provided in rates, as set forth in Appendices B and C. Except as provided in Section 5 K, the reconciliations in RY1, RY2 and RY3 will be deferred and recovered from customers or credited to customers after expiration of the Third Rate Year in a manner to be determined by the Commission provided, however, at the end of each Rate Year, the Company may net outstanding deferred credits and debits by applying available credits that would otherwise be returned to customers to offset the deferred balance.

A. Capital Expenditures

During the term of the Gas Rate Plan, average gas net plant balances will be reconciled to capital targets as set forth in Appendix C to the Gas Rate Plan. If at the end of the three-year rate plan such average net plant balances are less than the cumulative target amounts identified in Appendix C ("Capital Spending Target"), then the Company will defer the revenue requirement impact of any shortfall below the target levels for the benefit of customers. The Signatory Parties agree that Orange and Rockland will have the flexibility during the term of the Gas Rate Plan to substitute, change, and modify the capital projects identified in Appendix C.

The Company will be allowed to defer the carrying charges on amounts over the budgeted annual municipal work related to stimulus projects, particularly interference work, if it causes the Company to exceed the total annual capital spending targets as set forth in Appendix

C, up to an incremental $2.0 million per year (i.e., total spending limit for interference work would be $3.7 million per year based on budgeted amounts of $1.7 million plus $2.0 million of incremental spending). The deferral of additional carrying charges on capital interference expenditures that exceed the $2.0 million increment would require Commission approval.

The Company will provide Staff and other interested parties with detailed quarterly and annual reports on gas-related capital expenditures, including capital municipal relocation spending. These reports will be in the form set forth in Appendix D.

B. Operations and Maintenance ("O&M") Expenditures

Stimulus Projects

Incremental O&M expense associated with stimulus projects will be measured against the locating expense level allowed in rates of $369,000 for RY1. If stimulus related municipal projects cause an increase in the allowed amount, then the Company will be permitted to defer the incremental O&M expenses up to $125,000 per year on a cumulative basis. The deferral of any additional O&M expenses greater than $125,000 will require Commission approval. The Company will submit annual reports to DPS Staff detailing O&M municipal expenses.

C. Environmental Remediation

If the level of actual expenditures for site investigation and remediation ("SIR"),[3] including expenditures associated with former manufactured gas plant ("MGP") sites and Superfund sites, allocated to gas operations varies in any Rate Year from the levels provided in rates, which are set forth in Appendix B, then such variation will be deferred and recovered from or credited to customers. Deferred environmental remediation balances varying from the level

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[3] SIR costs are the costs Orange and Rockland incurs to investigate, remediate or pay damages (including natural resource damages, with respect to industrial and hazardous waste or contamination spills, discharges, and emissions) for which Orange and Rockland is deemed responsible. SIR costs are net of insurance reimbursement (if any); provided, however, that nothing herein will require the Company to initiate or pursue litigation for purposes of obtaining insurance reimbursement.

reflected in rate base will accrue a carrying cost at the pre-tax rate of return, as set forth in Appendix A. The deferred balances will be reduced by accruals, insurance recoveries, associated reserves and deferred taxes. Orange and Rockland shall continue to allocate SIR costs between the Company's electric and gas operations on a 70.75%/29.25% basis.

D. Pensions/OPEBs

Pursuant to the Commission's Pension Policy Statement, the Company will reconcile its actual pensions/OPEB expenses and tax benefits related to the Medicare subsidies to the level allowed in rates as set forth in Appendix B.

E. Research & Development Costs

Pursuant to Technical Release 16, approved by the Commission on February 6, 1980, the Company will reconcile its actual research and development ("R&D") expenses to the level allowed in rates as set forth in Appendix B.

F. Low-Income Program

The Company will be allowed to reconcile actual payments (credits) to low-income customers and incremental EmPower referral program costs to the level allowed in rates as set forth in Appendix B.

G. NYS 18-a Regulatory Assessment

New York State established the Temporary State Energy and Utility Service Conservation Assessment ("Temporary State Assessment") applicable to public utility companies, effective April 1, 2009, imposing an obligation to pay in full on September 10, 2009, the Temporary State Assessment for the 2009 - 2010 State fiscal year. On June 19, 2009, the Commission issued an Order authorizing utilities to recover this assessment through a separate non-bypassable surcharge.[4] The Company will implement deferral accounting treatment and will reconcile annually the amounts collected through the surcharge.

H. Property Taxes

If the level of actual expenditures for property taxes, excluding the effect of property tax refunds, varies in any Rate Year from the levels provided in rates, which are set forth in Appendix B, then 100% of any variations due to tax rate changes will be deferred and recovered from or credited to customers, while 86% of any variation due to assessment changes will be deferred and recovered from or credited to customers. The Company will accrue interest monthly on such deferred amounts at the Other Customer Capital rate until such amounts are fully reflected in rates. Property tax refunds (allocated to gas operations) resulting from the Company's efforts, including credits against future tax payments intended to return or offset past overcharges or payments determined by the taxing authority to have been in excess of the property tax liability appropriate for Orange and Rockland,[5] shall be deferred for future disposition, except that the Company shall retain an amount equal to 14% of the refund.[6] The 14% retention amount shall apply to all such property tax refunds and/or credits (allocated to gas operations) against future tax payments actually achieved by Orange and Rockland during the term of the Gas Rate Plan.[7]

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[4] Case 09-M-0311, Implementation of Chapter 59 of the Laws of 2009 Establishing a Temporary Annual Assessment Pursuant to Public Service Law §18-a(6), Order Implementing Temporary State Assessment (issued June 19, 2009).

[5] Outside legal and other incremental costs incurred by the Company in pursuing such property tax refunds shall first be deducted from any such refunds and/or credits before any allocation is made to the Company and its customers.

[6] The Company is not relieved of the requirements of 16 NYCRR Part 89 and Public Service Law §113(2) with respect to any refunds it receives.

[7] However, the Company will retain 14% of any property tax refunds, finalized during the term of the Gas Rate Plan, but actually received after the end of the term of the Gas Rate Plan (e.g., December 1, 2012).

I. Deferred Income Taxes – 263A and Bonus Depreciation

The Company and the Internal Revenue Service have an open audit issue concerning the Section 263A tax deduction claimed by Orange and Rockland beginning with tax returns filed for 2005 and later years. At issue is the appropriate method(s) to be applied to different classes of plant in order to calculate the Section 263A deduction. Resolution of this matter is pending for all tax years and may result in a disallowance of a portion of the tax deduction claimed by the Company. The Proposal establishes a 263A deferred tax balance that reflects the anticipated outcome of this dispute.

The Federal Economic Stimulus Act of 2008 and the American Recovery and Reinvestment Act of 2009 allowed the Company to depreciate the plant assets started in 2008 and 2009 using "bonus depreciation rates" (i.e., 50% of the eligible plant balances may be depreciated within the current tax year). The Company has projected that the net average rate base deduction related to this tax benefit are as set forth in Appendix B.

The Company will defer interest at a rate equivalent to the pre-tax rate of return of 11.8% on any difference between the actual deferred Section 263A and tax depreciation (ADR/ACRS/MACRS), including bonus depreciation, deferred tax benefits reflected in rate base (see Appendix B) and the actual tax benefits that result from the Section 263A and ADR/ACRS/MACRS deduction allowed by the Internal Revenue Service. The final Section 263A deduction reflected in rate base will recognize any related partial offset (i.e., higher/lower tax deduction), impacting the ADR/ACRS/MACRS rate base balances.[8]

[8] The ADR/ACRS/MACRS rate base balances reflected in rates may change if a higher or lower level of costs is capitalized for tax purposes, as a result of a change in the level of costs deducted under Section 263A.

J. Additional Reconciliation/Deferral Provisions

In addition to the foregoing reconciliation provisions, all other applicable existing reconciliations and/or deferral accounting will continue in effect through the terms of the Gas Rate Plan and thereafter until modified or discontinued by the Commission, including but not limited to, FAS 109 taxes, MTA taxes, vacation pay accrual pursuant to FAS 71, carrying charges for storage gas, and the Gas Supply Charge ("GSC")/MGA mechanisms and system benefit charge ("SBC") mechanisms. The Company will defer any differences between the Company's actual revenues and authorized revenues, as determined by the Company's RDM and as discussed in Section 16 of the Gas Rate Plan.

Appendix B sets forth the annual amortization of deferred regulatory assets and liabilities included in the annual revenue requirement.

K. Limitations on Deferrals

When calculating the level of earned common equity return for gas that may be subject to sharing under Section 4 of the Gas Rate Plan, the Company will make the following adjustments if its earnings exceed the Earnings Sharing Threshold:

a. For earnings on common equity above 11.4%, the Company will reduce net expenses (debits) deferred for later recovery (see below) pursuant to this Section 5, up to 50% of the deferral, provided that such reduction in deferrals will not cause the resulting earnings to decrease below an 11.4% return on common equity.

b. For purposes of (a), above, the analysis will be performed on a single Rate Year basis. For example, costs deferred in RY1 will not be considered in the analysis for RY2.

c. This deferral limitation will apply to net debit deferrals for pensions/OPEBs and property taxes.

6. **Inflation Adjustment**

If general inflation rates exceed 4.0% ("Inflation Threshold") on average over the course of the Gas Rate Plan and the Company's average gas earnings[9] are less than the authorized return of 10.4% over the three-year term of the Gas Rate Plan, then the Company will be allowed to defer inflationary increases above the Inflation Threshold applicable to the expenses set forth in Appendix E ("Inflation Pool"). Although the above-threshold calculation will be performed at the end of each Rate Year, deferral will be triggered on a cumulative basis over the three-year term of the Gas Rate Plan. That is, actual inflation must exceed 12% over the three-year period covered by the Gas Rate Plan.

The deferral will be based on the lower of the following:

(a) Inflationary increases above the Inflation Threshold, determined using Price Index numbers for Gross Domestic Product ("GDP") published by the U.S. Department of Commerce, Bureau of Economic Analysis ("BEA"),[10] applicable to the Inflation Pool; or

(b) Actual costs incurred by the Company for the expenses, contained in the Inflation Pool, above the Inflation Threshold.

For example, if during RY1, the inflation rate according to the Blue Chip Economic Indicators is 6%, as compared to the actual 5% increase in the expenses contained in the Inflation Pool, then the deferral would be equal to 1% (i.e., 5% less the 4% threshold) of the Inflation

[9] Actual return on common equity capital allocated to the Company's New York jurisdictional gas operations, calculated as set forth in Section 4 of the Proposal.

[10] The estimate of inflation that occurred during the three Rate Years (ending June 30, 2011) will be calculated using price index numbers available from BEA as of August 1, 2011. Likewise, all individual Rate Year inflation calculations will be based on available data as of August 1st in the appropriate year.

Pool, provided that such deferral will not cause the Company's earned common equity, as calculated pursuant to Section 4 of the Proposal, to increase above 10.4%.

7. **Pollution Control and Other Long-Term Debt**

The Company will reconcile the costs of its long-term taxable and tax-exempt debt to the amounts reflected in rates for such costs as set forth in Appendix F and defer as a regulatory asset or regulatory liability, as the case may be, any difference between actual and rate level costs for refund to customers (if actual is less than the rate level) or recovery from customers (if actual is greater than the rate level). Long-term debt costs include interest charges, letter of credit fees, bond insurance premiums, the costs of any related interest rate hedging activities and other costs and expenses in connection with the issuance and maintenance of the debt. Without limiting the generality of any of the foregoing, the Company's actual long-term debt costs for its two issues of tax-exempt pollution control debt will be so reconciled, including, without duplication, interest paid while such tax-exempt debt is outstanding, interest paid on borrowing used to fund purchase of the tax-exempt debt during the period from any tender of such debt by investors until such debt is remarketed or refunded, interest paid on any new tax-exempt or taxable debt the proceeds of which are used to refund the tax-exempt debt, amounts paid, including settlement or termination payments, in connection with the swap agreement entered into in 1992 with respect to one of series of the tax-exempt debt.

8. **Allocation of Common Expenses/Plant**

During the term of the Gas Rate Plan, common expenses and plant costs will be allocated according to the percentages approved by the Commission in Case 99-G-1695 (i.e., 29.25% gas operations, 70.75% electric operations). Should the Commission approve different common allocation percentages for electric service prior to the next base rate case for the gas business, the resulting change in revenue requirement will be deferred on an annual basis for future recovery from or credit to customers. For example, the Proposal reflects a change in methodology that allocates an increase in uncollectible expense for gas operations. The Proposal also provides that the resulting allocation change in gas expense is offset on a total Company basis, with a deferred credit for electric customers.

9. Direct Labor

The Company will phase in the additional employees identified in Appendix G over the three-year term of the Gas Rate Plan. The justification for each of these employees also is set forth in Appendix G.

10. Depreciation Rates and Reserves

The average service lives, net salvage factors and life tables used in calculating the depreciation reserve and in establishing the revenue requirement are set forth in Appendix H. An excess depreciation reserve of the gas portion of common plant identified in the Company's last electric base rate case and held in an unallocated depreciation reserve since July 1, 2008 (i.e., $3.335 million) will be amortized over a five-year period beginning with RY1.

11. Gas Lost and Unaccounted for Factor

The Factor of Adjustment, reflecting gas lost and unaccounted for, will be fixed at 1.0186 for the term of the Gas Rate Plan.

The annual GSC reconciliation will reflect actual gas lost and unaccounted for, calculated as follows:

a. If actual line losses are less than the line loss percentage upon which the Factor of Adjustment is based, then the Company will retain the benefit of such lower losses; and

b. If actual line losses are greater than the line loss percentage upon which the Factor of Adjustment is based, then the Company will bear the cost of such higher losses.

Actual lost and unaccounted for gas will be calculated as follows:

Total Distribution Sendout (i.e., Marketer, Direct Customer and Company deliveries, excluding gas for power generation) vs. Total Customer Metered Volumes (i.e., firm sales and transportation, interruptible and firm withdrawable sales and transportation, Company use, excluding gas for power generation).

A sample calculation of the gas lost and unaccounted for methodology is attached as Appendix I.

If an unforeseeable and uncontrollable event(s) occurs that significantly increases actual line losses, then the Company reserves the right to file a petition with the Commission to modify the annual reconciliation of the GSC in order to reflect such increased line losses. The Company will have the burden of demonstrating the increase in actual line losses and that such increase was not due to the Company's negligent actions or omissions, in the event it makes such a filing.

12. Rate Design & Unbundled Rate Components

Orange and Rockland shall implement the following rate design and unbundling changes:

A. Revenue Allocation

The incremental revenue requirement for each Rate Year will be adjusted by subtracting amounts included for New York State Gross Receipts and Franchise Tax surcharge revenues, Municipal Tax surcharge revenues and Metropolitan Transportation Authority Business Tax Surcharge revenues. In addition, Rate Year 1 incremental revenue requirement will be reduced to reflect increased revenues from Merchant Function Charges ("MFC") uncollectible rate changes. Before the adjusted incremental revenue requirement is applied to each customer class, the Rate Year delivery revenues for each class will be realigned to reduce interclass deficiencies and surpluses. Such realignment adjustments are limited to 10% of the incremental revenue requirement in each Rate Year, and capped at a total of $1.963 million for the term of the Gas Rate Plan. For each Rate Year, realigned delivery revenues by class will then be increased by the adjusted overall delivery revenue increase percentage to produce Rate Year delivery revenues by class. The Rate Year delivery revenues by class then will be adjusted for any increases or decreases in competitive service charges (e.g., MFC fixed components, purchase of receivables ("POR") credit and collections, billing and payment processing) resulting in the non-competitive incremental delivery revenue requirements by class.

B. Intraclass Rate Design

1. The first block charge (charge for the first 3 Ccf or less) for Service Classification ("SC") 1 and SC6 Rate Schedule IA shall be increased to $15.40 in Rate Year One, $16.94 in Rate Year Two, and $18.63 in Rate Year Three. For Option B, the first block charge (charge for the first 3 Ccf or less) for SC1 and SC6 Rate Schedule IA shall be increased to $15.40 in Rate Year One, $16.94 in Rate Year Two, and $18.63 in Rate Year Three.
2. The first block charge for SC2 and SC6 Rate Schedule IB shall be increased to $25.39 in Rate Year One, $27.34 in Rate Year Two, and $29.05 in Rate Year Three. For Option B, the first block charge for SC2 and SC6 Rate Schedule IB shall be increased to $24.03 in Rate Year One, $27.31 in Rate Year Two, and $29.08 in Rate Year Three.
3. The first block charge (charge for the first 100 Ccf or less) for SC6, Rate Schedule II customers shall be increased to $241.78 in Rate Year One, $247.35 in

Rate Year Two, and $255.75 in Rate Year Three. For Option B, the first block charge (charge for the first 100 Ccf or less) for SC6, Rate Schedule II customers shall be increased to $237.96 in Rate Year One, $247.45 in Rate Year Two, and $255.18 in Rate Year Three.

4. For each Rate Year, the remaining incremental revenue requirement in each class, after subtracting increases in the first block charges described above, shall be applied to all rate block charges, except first block charges, on an equal percentage basis. The revenue impacts of the rate design changes on firm customers are summarized in Appendix J to the Gas Rate Plan.

By October 1, 2009, 2010 and 2011, the Company shall file tariff revisions implementing the rate changes for Rate Year One, Rate Year Two and Rate Year Three, respectively.

C. Sales Forecast for Rate Design Purposes

The rate designs for Rate Year One, Rate Year Two and Rate Year Three shall be based on the Company's Rate Year One customer and sales forecast.

D. Merchant Function Charge

Separate MFCs shall be established for SC1 and SC2 customers to recover commodity-related competitive services. The MFCs shall include the following:

- Commodity procurement and commodity revenue-based allocations of:
  - Information resources, and
  - Education and outreach;
- Credit and collections;
- Gas in storage working capital (except the portion of such costs attributable to balancing/reliability); and

- Uncollectibles – the uncollectibles percentage shall be applied to the GSC, including any prior period reconciliation component. The uncollectibles percentage shall be reset annually effective November 1 based on the Company's actual uncollectibles experience applicable to all electric and gas POR-eligible customers for the twelve-month period ended the previous May 31 for Rate Year One and June 30 for Rate Years Two and Three.

The fixed components of the MFCs shall be trued up and designed to the following ($):

	Commodity Procurement, IR, Education and Outreach	Credit and Collections	Total
Rate Year One			
SC1	$904,932	$519,497	$1,424,429
SC2	$42,839	$24,106	$66,945
Rate Year Two			
SC1	$951,273	$546,100	$1,497,373
SC2	$45,032	$25,341	$70,373
Rate Year Three			
SC1	$990,915	$568,857	$1,559,772
SC2	$46,909	$26,397	$73,306

For Option B, the fixed components of the MFCs shall be trued up and designed to the following ($):

	Commodity Procurement, IR, Education and Outreach	Credit and Collections	Total
Rate Year One			
SC1	$870,639	$499,810	$1,370,449
SC2	$41,215	$23,193	$64,408
Rate Year Two			
SC1	$949,975	$545,354	$1,495,329
SC2	$44,971	$25,306	$70,277
Rate Year Three			
SC1	$990,917	$568,858	$1,559,775
SC2	$46,909	$26,397	$73,306

The MFCs shall be subject to a full true up on an annual basis. Each Rate Year, all MFC Fixed Component[11] revenues shall be compared to MFC recovery targets and any excess/shortfall shall be recovered in the subsequent Rate Year's Transition Adjustment for Competitive Services on an equal cents/ccf basis from SC1, 2 and 6 customers.

The separate MFCs applicable to SC6 customers whose marketers participate in the Company's POR program shall be eliminated effective November 1, 2009. Credit and collections-related costs, previously recovered from SC6 customers through an MFC, will be recovered from marketers through the POR discount effective November 1, 2009.

E. POR Discount

The POR discount shall include the following items:

- Uncollectibles;
- Credit and Collections Costs; and
- Risk factor.

[11] MFC Fixed Components are the commodity procurement and credit and collections components.

The uncollectible component of the POR discount shall be reset annually effective November 1 based on the Company's actual uncollectibles experience applicable to all gas and electric POR-eligible customers for the twelve-month period ended the previous May 31 for Rate Year One and June 30 for Rate Years Two and Three. The credit and collections component of the POR discount will be determined by dividing the Company's credit and collection expenses attributable to retail access customers whose marketers participate in the Company's POR program by estimated gas supply costs to be billed on marketers' behalf. The credit and collections expense is $448,960 for Rate Year One, $471,950 for Rate Year Two and $491,618 for Rate Year Three. For Option B, the credit and collections expense is $431,946 for Rate Year One, $471,306 for Rate Year Two and $491,619 for Rate Year Three. The percentage for credit and collections to be included in the POR discount will be determined prior to the commencement of each Rate Year based on the expense levels shown above and the Company's then-current forecast of gas supply costs to be billed on behalf of marketers through the POR program. The risk factor also shall be reset annually and shall be equal to 20% of the uncollectible rate.

F. Billing and Payment Processing

The Company's billing and payment processing charge will remain at its current level, $1.02 per bill.

The billing and payment processing charge shall apply to all full service bills and all retail access bills for customers whose marketers choose the Two Separate Bills option under General Information Section No. 6.5(2) of the Company's gas tariff. The billing and payment processing charge shall not apply to retail access bills in which either electric or gas service is billed by the Company under the Utility Single Bill billing option. If the billing and payment processing charge, applicable to both electric and gas customers, is changed in an electric rate proceeding, then the billing and payment processing charge shall be reset in a manner that is revenue neutral to the Company's gas operations and requires no changes in gas rates other than the change in the billing and payment processing charge.

G. Transition Adjustment for Competitive Services

The Transition Adjustment for Competitive Services ("TACS") will continue as an equal cents per Ccf charge applicable to SC1, SC2 and SC6 customers. The TACS shall be reset annually effective November 1. The TACS is currently determined by dividing the sum of MFC Fixed Component Lost Revenue, Billing and Payment Processing Lost Revenue, costs of enabling technologies and prior period reconciliation by the forecasted Ccf deliveries to SC1, SC2 and SC6 customers for the twelve-month period for which the TACS is to be effective. Effective November 1, 2009, the TACS component to recover the cost of enabling technologies will be eliminated and a new component will be added to the TACS to recover credit and collections lost revenue associated with retail access. The TACS is included as a separate line item in the MGA and shall be expressed to the nearest 0.001 cent per Ccf.

- MFC Fixed Component Lost Revenue

  MFC Fixed Component Lost Revenue for each Rate Year shall be equal to the target level of costs attributable to the (a) commodity procurement, information resources, education and outreach; and (b) credit and collections portions of the MFC ("MFC Fixed Components") minus revenues received through the MFC Fixed Components.

- Billing and Payment Processing Lost Revenue

  Billing and Payment Processing Lost Revenue shall be equal to the total of billing and payment processing charges avoided by retail access customers less billing service charges assessed on marketers participating in the Company's Gas Transportation Service

Program and electing the Utility Single Bill Option, less the Company's avoided costs associated with marketers participating in the Company's Gas Transportation Service Program and electing the Marketer Single Bill Option.

- Credit and Collections Lost Revenue Associated with Retail Access

Credit and Collections Lost Revenue Associated with Retail Access for each Rate Year will be equal to the target level of credit and collections costs reflected in the POR discount rate minus revenues received through the credit and collections component of the POR discount.

- Prior Period Reconciliation

Amounts to be recovered through the TACS shall be reconciled with TACS revenues each Rate Year and any over or under recovery shall be included in the subsequent Rate Year's TACS.

H. Storage Working Capital

The Company will continue to include in its MFC applicable to SC1 and SC2 customers and in its MGA applicable to SC1, 2 and 6 customers, charges to recover the working capital costs associated with gas in storage. Storage working capital costs will continue to be split between sales related and reliability/balancing related costs. Sales related costs will continue to be recovered from SC1 and SC2 customers on an equal cents per Ccf basis through the MFC. Reliability/balancing-related costs will continue to be recovered from SC1, 2 and 6 customers on an equal cents per Ccf basis through the MGA. The sales-related per Ccf rate will be set at two times the reliability/balancing-related per Ccf rate in Rate Year One, at 1.5 times the reliability/balancing-related per Ccf rate in Rate Year Two, and equal to the reliability/balancing-related rate in Rate Year Three. Therefore, the total rate for working capital associated with gas in storage applicable to SC6 customers will be 33%, 40% and 50% of the total rate applicable to SC1 and SC2 customers in Rate Year One, Rate Year Two, and Rate Year Three, respectively.

The carrying charge used in the determination of monthly storage working capital costs will be the Company's authorized pre-tax rate of return on the base storage level and the Commission's Other Customer Capital Rate on monthly amounts above the base storage level. The base storage level is defined as the lowest monthly balance excluding winter bundled sales storage gas.

The Company shall continue to perform reconciliations of storage working capital costs and recoveries on an annual basis in accordance with the above-referenced order and current tariff provisions.

I. Balancing Charge

The balancing charge currently applicable to certain SC6 customers and the balancing component of the GSC applicable to SC1 and SC2 customers shall be eliminated. The recovery of balancing assets also shall be eliminated from the Winter Bundled Sales fees applicable to marketers under SC11. Commencing November 1, 2009, costs associated with balancing assets shall be recovered from all SC1, SC2 and SC6 customers through a common cents per Ccf component in the MGA.

13. <u>Interruptible Transportation Rates</u>

A. Rate Structure

An additional, lower-priced, rate block ("Tail Block") will be added to the SC8 rate structure for usage in excess of 200,000 Ccf per month. The Tail Block charge will be set independently of the Base Charge so the Base Charge could be increased without a change in the Tail Block charge, or vice versa. The Tail Block charge will not exceed 4.3 cents per Ccf for the term of the Gas Rate Plan. The Base Charge shall not exceed 6.5 cents per Ccf for the 12 months ending October 31, 2010, 6.9 cents per Ccf for the 12 months ending October 31, 2011, and 7.2 cents per Ccf for the 12 months ending October 31, 2012.

B. Customer Eligibility

The minimum annual usage threshold for new SC8 customer eligibility shall remain at 100,000 Ccf.

14. <u>Rollover Option</u>

As of November 1, 2011, the Rollover Option contained in both the Balancing Service Option section and the Winter Bundled Sales Service Option section of SC11 ("Rollover Option") will be discontinued. Such discontinuation shall be implemented as part of the Company's RY3 compliance filing.

15. <u>Rate Year Sales and Weather Normalization</u>

Total firm SC1 and SC2 sales and total SC6 firm transportation are projected to be 19,878,600 Mcf for the Rate Year One. This level of sales and transportation was used in establishing the revenue requirements that will be used to set rates for the Rate Year One, Rate Year Two, and Rate Year Three, respectively. Orange and Rockland will employ a Weather Normalization Adjustment ("WNA") to adjust SC1 and SC2 delivery revenues and SC6 transportation revenues in the Rate Year One and subsequent Rate Years covered by the Gas Rate Plan to the extent actual heating degree days vary from the normal heating degree days. For the term of the Gas Rate Plan, normal will be defined as the average for the 30 calendar years ended 2007.

16. <u>Revenue Decoupling Mechanism ("RDM")</u>

The Company will implement an RDM, as set forth in Appendix K, effective November 1, 2009. The RDM would continue thereafter until modified by the Commission.

17. Base Rate Imputations

For each of the Rate Years ending October 31, 2010, 2011, and 2012, respectively, a base rate revenue imputation of $2.95 million shall be in effect. This revenue imputation reflects (i) an imputation for interruptible benefits[12] of $2.3 million ("Interruptible Benefits Imputation"); and (ii) an imputation of $650,000 for net benefits associated with the transfer of gas to electric generating facilities previously owned by the Company ("Power Generation Imputation"). One hundred percent (100%) of SC10 revenues for delivery will be included in the Interruptible Benefits Imputation calculation.[13] Any variances, either positive or negative, between the actual revenue margin and the Interruptible Benefits Imputation, during each Rate Year the Gas Rate Plan is effective, will be shared on an 80% customer/20% Company basis in the manner set forth in Appendix L to the Gas Rate Plan, and passed back/recovered. Appendix L includes the agreed-upon procedure using various assumed levels of actual revenue margin. The 80% customer over/under recovery of the Interruptible Benefits Imputation will be passed back/recovered through the MGA. 100% of any variances, either positive or negative, between the actual revenue margin and the Power Generation Imputation, during each Rate Year the Gas Rate Plan is effective, will be passed back/recovered from customers through the MGA.

18. Safety Performance Measurements

For each of the Rate Years ending October 31, 2010, 2011, and 2012, respectively, the gas performance measurements set forth below will be in effect. All measurements shall be on a calendar year basis. Accordingly, the results of the performance measurements, as measured during the calendar years 2010, 2011, and 2012, respectively, shall be applied to the Rate Years

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[12] Interruptible benefits shall be defined as total interruptible (SC3 and 8), firm withdrawable (SC9 and 10) and firm dual fuel (SC5) revenues minus any associated gas costs and revenue tax surcharge revenues.

[13] SC10 capacity revenues are not included in the Interruptible Benefits Imputation and 100% of amounts received by the Company will be passed back to firm sales customers through the GSC.

ending October 31, 2010, 2011 and 2012, respectively. The general categories of gas safety performance, along with the corresponding annual revenue adjustment exposure, are as follows:

- Infrastructure Enhancement (6 basis points);
- Leak Management (16 basis points);
- Damage Prevention (8 basis points); and
- Emergency Gas Odor Response (10 basis points).

A. Infrastructure Enhancement

If Orange and Rockland fails to replace a total of 330,000 feet of a combination of any bare steel main, cast iron, and Aldyl plastic main, over the term of the Gas Rate Plan (i.e., during calendar years 2010, 2011, and 2012) ("Total Replacement Target"), then Orange and Rockland shall charge to income and defer, for future disposition as determined by the Commission, the amounts set forth below for the corresponding Rate Year (i.e., the Rate Years ending October 31, 2010, 2011 and 2012). In addition, if Orange and Rockland fails to replace at least 90,000 feet of pipe, including a minimum of 35,000 feet of bare steel, 30,000 feet of Aldyl plastic, and 7,500 feet of cast iron in each of the calendar years 2010, 2011, and 2012, respectively ("Annual Replacement Goal"), then Orange and Rockland shall charge to income and defer, for future disposition as determined by the Commission, the amounts set forth below for the corresponding Rate Year (i.e., the Rate Years ending October 31, 2010, 2011 and 2012).

2010	Annual Replacement Goal < 90,000'	6 basis points
2011	Annual Replacement Goal < 90,000'	6 basis points
2012	Annual Replacement Goal < 90,000' AND	
	Total Replacement Target < 330,000'	6 basis points[14]

[14] If Orange and Rockland fails to meet both the Total Replacement Target and the 2012 Annual Replacement Goal, Orange and Rockland will be subject only to a total revenue adjustment of 6 basis points.

B. Leak Management

If Orange and Rockland fails to reduce the number of workable leaks in backlog of Type 1, 2, and 2A leaks and total year-end leak backlog so that backlog levels for the calendar years 2010, 2011, and 2012, respectively, as shown in the following table, then Orange and Rockland shall charge to income and defer, for future disposition as determined by the Commission, the corresponding annual monetary amount for the corresponding Rate Year (i.e., the Rate Years ending October 31, 2010, 2011 and 2012).

Year	Number of Workable Leaks	Negative Revenue Adjustment
2010	greater than 25	10 basis points
2011	greater than 21	10 basis points
2012	greater than 18	10 basis points

Year	Total Year-End Leak Backlog	Negative Revenue Adjustment
2010	greater than 1050	6 basis points
2011	greater than 950	6 basis points
2012	greater than 850	6 basis points

C. Damage Prevention

If for calendar years 2010, 2011, and 2012, respectively, Orange and Rockland either (i) fails to maintain an annual Overall Damages target equal to or less than the level of excavation damages per 1,000 One-Call Tickets as set forth below, (ii) fails to maintain an annual Damages Due to Mismarks per 1,000 One-Call Tickets target as set forth below, or (iii) fails to maintain an annual Damages Due to Company/Company Contractor target as set forth below, then Orange and Rockland shall charge to income and defer, for future disposition as determined by the Commission, the corresponding annual monetary amount for the corresponding rate year (i.e., for the Rate Years ending October 31, 2010, 2011 and 2012, respectively).

(i) Overall Damages

2010	greater than 4.75	2 basis points
2011	greater than 4.25	2 basis points
2012	greater than 3.75	2 basis points

(ii) Mismarks Damages

2010	greater than 0.600	3 basis points
2011	greater than 0.525	3 basis points
2012	greater than 0.450	3 basis points

(iii) Company/Company Contractor Damages

2010	greater than 0.50	3 basis points
2011	greater than 0.40	3 basis points
2012	greater than 0.25	3 basis points

D. Emergency Gas Odor Response

If Orange and Rockland fails to respond to leak and odor calls within the targets established in the following table for calendar years 2010, 2011, and 2012, respectively, then Orange and Rockland shall charge to income and defer, for future disposition as determined by the Commission, the corresponding annual monetary amount for the corresponding rate year (i.e., the Rate Years ending October 31, 2010, 2011 and 2012).

2010	75% in 30 min.	5 basis points
	90% in 45 min.	3 basis points
	95% in 60 min.	2 basis points

2011	75% in 30 min.	5 basis points
	90% in 45 min.	3 basis points
	95% in 60 min.	2 basis points
2012	75% in 30 min.	5 basis points
	90% in 45 min.	3 basis points
	95% in 60 min.	2 basis points

19. Customer Service Performance Measurements

For each of the Rate Years ending October 31, 2010, 2011, and 2012, respectively, the customer service performance measures, consisting of: (1) an annual Residential Customer Assessment Score ("RCAS"), (2) an annual Commercial and Industrial Customer Assessment Score ("CICAS"), and (3) an annual Complaint Rate Target, as described further below, will be in effect. The customer service performance measures will be measured on a calendar year basis. Accordingly, the results of the performance measurements, as measured during the calendar years 2010, 2011, and 2012, respectively, shall be applied to the Rate Years ending October 31, 2010, 2011 and 2012, respectively.

A. Customer Surveys

During the Gas Rate Plan, the RCAS and CICAS targets and associated revenue adjustments will be as follows:

Residential Customer Assessment Survey (RCAS)	Payment Amount
>=6.99	$ 0
6.84 – 6.98	$ 100,000
6.69 – 6.83	$ 200,000
< 6.69	$ 300,000

C&I Customer Assessment Survey (CICAS)	Payment Amount
> =6.73	$ 0
6.48 – 6.72	$ 100,000
6.23 – 6.47	$ 200,000
< 6.23	$ 300,000

The actual RCAS and CICAS scores will exclude price opinion and be subject to adjustment to account for any applicable margin of error. The Company will utilize the survey instruments set forth in Appendix M to determine the annual RCAS and CICAS.

B. <u>Customer Complaint Rate Target</u>

The annual Complaint Rate will be calculated in the manner approved by the Commission in its Order Approving Complaint Rate Targets issued August 26, 2005.[15] The exclusions regarding (i) duplicative rate consultant complaints, and (ii) high commodity prices complaints, as described in the Complaint Rate Targets Order, will apply to the calculation of the annual Complaint Rate. During the Gas Rate Plan, the complaint rate not to exceed targets and associated negative revenue adjustment levels will be as follows:

12-Month Complaint Rate	**Payment**
1.8	$ 75,000
1.9	$150,000
>= 2.0	$300,000

For measurement purposes, results from months having abnormal operating conditions will not be considered. Abnormal operating conditions are deemed to occur during any period of emergency, catastrophe, strike, natural disaster, "Major Storm" (as that term is defined by 16

[15] Case 02-G-1553, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules, and Regulations of Orange and Rockland Utilities, Inc. for Gas Service*, and Case 03-E-0797, *In the Matter of Orange and Rockland Utilities, Inc.'s Gas Rate Plan for an Extension of an Existing Rate Plan, filed in Case 96-E-0900*, Order Approving Complaint Rate Target (issued August 26, 2005) ("Complaint Rate Targets Order").

NYCRR Part 97), or other unusual event not in the Company's control affecting more than ten percent of the customers during any month. When abnormal operating conditions occur, application of the Customer Service Performance Measurements will be based on survey results and, if applicable, Commission complaint rates for the remaining months of the affected year.

If Orange and Rockland fails to meet the annual Complaint Rate Targets at the rates established above, then Orange and Rockland shall charge to income and defer, for future disposition as determined by the Commission, the corresponding annual monetary amount for the corresponding Rate Year. The Company will file with the Commission an annual report by March 1, with copies to Staff, the CPB, and interested parties, providing the survey results and complaint rates for the preceding calendar year, a listing and description of any abnormal operating conditions claimed, and the Company's calculation of any applicable payments to customers.

20. Austerity Adjustment

In both recognition of the economic downturn and in response to the Commission direction in Case 09-M-0435 to closely examine capital expenditures, O&M expenses and other expense areas over which companies have discretion to identify costs that may be reduced without impairing the ability to provide safe and adequate service, the Proposal reflects various Company actions agreed to by the Signatory Parties that reduce the level of and the postponement of certain capital budget and O&M budgeted items throughout the Gas Rate Plan. The Proposal reflects several actions to moderate the rate increases within the Gas Rate Plan. In consideration of economic impact, the Signatory Parties agreed to reflect a five-year recovery period, versus three years, of deferred pension/OPEB costs and of deferred environmental remediation costs in setting the expense allowance. The Company further agreed with the

Signatory Parties to withdraw its request for an additional $225,000, above the $300,000 allowance provided for in the Proposal, for the amortization of the cost of removal for gas mains and services. The Proposal also reflects the amortization of excess general plant depreciation reserve over five years.

The Proposal temporarily delays the $68,000 expense for the implementation of the distribution integrity management plan and reduces the level of requested new employee positions, as well as the Company's agreement to increase health insurance costs by GDP for 2010 and beyond. In addition, Rate Year One reflects a 2% productivity adjustment (1% above the normal 1% productivity adjustment), cumulatively worth $1.1 million of additional productivity savings throughout the Gas Rate Plan.

Through reprioritization and deferral of specific new business and gas expansion projects, but inclusive of enhanced system reliability projects that include increased replacement of leaking mains, the Proposal reduces planned capital transmission and distribution projects in excess of $1.2 million in revenue requirement throughout the Gas Rate Plan.

21. <u>Low-Income Program</u>

A. Monthly Bill Credit

The Company will modify its current gas low-income program, so that any Orange and Rockland gas customer, who receives a HEAP grant, will receive from the Company a monthly bill credit of $8.40, $9.94, and $11.63 for RY1, RY2 and RY3, respectively. The Company would commence posting such bill credits to the customer's account within 60 days of being notified by the New York State Office of Temporary Disability Assistance (or its successor) of the customer's receipt of a HEAP grant. This modified gas low-income program will commence on November 1, 2009. The program is designed to serve approximately 6,700 participants. The

Gas Rate Plan provides a rate allowance of $768,000 in RY1, $823,000 in RY2, and $878,000 in RY3 for such low-income program. To the extent that expenditures for such low-income program, including the incremental EmPower – NY services program referral costs described below, over the three-year period are more or less than $2,469,000, Orange and Rockland shall defer that amount. The Company will provide appropriate bill messages to notify customers about the discount. The Company will provide annual reports after the end of each Rate Year to Staff, the CPB and interested parties regarding the number of participants in the Company's low-income program and the amount of program money expended.

B. Reconnection Fee

The Company will waive its reconnection fee for any Orange and Rockland gas customer who receives a HEAP grant.

C. EmPower Support

The Company will provide the following support to the New York State Energy Research and Development Authority's ("NYSERDA") EmPower – NY services program. Orange and Rockland will conduct two Voice Response Unit ("VRU") call outs to low-income customers informing them of NYSERDA's EmPower – NY services program and soliciting the consent of such customers so that they can be referred to NYSERDA for participation in the EmPower- NY services program. The consent of low-income customers for referral to NYSERDA also will be sought through Company's website. For low-income customers that consent, the Company will forward through a confidential electronic means such customers' contact and usage information to NYSERDA.

The Company will defer the variation between the cost of the low-income monthly bill credits and incremental EmPower referral programs costs and the annual rate allowances described in Paragraph A above.

After the end of each Rate Year, the Company will provide annual reports to Staff, the CPB, and interested parties regarding the results of its efforts to support NYSERDA's EmPower – NY services program. The report also will include a full accounting of its incremental costs related to EmPower support. In addition, at the end of the sixth month of RY1, the Company will provide an abbreviated report regarding the results of its efforts to Staff and the other parties.

After RY1, the parties will meet to determine the level of Company support for NYSERDA's EmPower – NY services program during RY2 and RY3. Depending on such factors as the number of such referrals, the backlog of customers that NYSERDA has for the EmPower – NY services program, and the funds available, the parties will determine the level of activity necessary in Rate Years Two and Three. If the parties cannot agree as to the appropriate level of activity, with corresponding funding, appropriate for Rate Years Two and/or Three, then any party can seek Commission resolution of any open issues.

22. <u>Gas Economic Development Enhancement Pilot Program</u>

In order to encourage economic development in the Company's service territory, the Company will continue to implement a Gas Economic Development Enhancement Pilot Program, the details of which are set forth in Appendix N to the Gas Rate Plan. This Program will terminate at the end of RY3 unless modified and/or extended by the Commission. The Company will be able to complete any projects that were commenced but not completed during the term of the Gas Rate Plan.

23. Customer Outreach and Education

The Company will spend up to $225,000 on Customer Outreach and Education focusing on customer services, programs and information including retail access as set forth in Appendix O to the Gas Rate Plan. The Company will file with Staff and the CPB a general Customer Outreach and Education plan, containing the contents outlined in Appendix O, by October 1 of each year. The Customer Outreach and Education allowance includes $75,000 for retail access related Outreach and Education. Energy services companies ("ESCOs") shall be able to provide additional funding for retail access related Outreach and Education, and the Company shall be allowed to use such ESCO funding to support its retail access related Outreach and Education. Any such ESCO funding shall be considered incremental to the rate allowance and shall not be used to reduce the allowance.

24. Interest

The Company will record on its books and records of accounts various credits and debits that ultimately will be reflected in the rates to be charges to customers. Unless otherwise specified in the Proposal or by Commission Order, the Company will accrue interest on all such book amounts, net of federal and state income taxes, at the other customer provided capital rate published by the Commission annually and applicable on a calendar year basis.

25. Other Allowed Rate Changes

Notwithstanding the other provisions of the Proposal, the Signatory Parties agree that the following rate changes will be permitted[16] during the Gas Rate Plan, provided that Commission approval is granted prior to the implementation of such changes:

[16] The Signatory Parties agree that any Signatory Party will be allowed to take any position it may wish regarding any such proposed rate change.

(a) A minor change in any individual base rate or rates whose revenue effect is de minimus or essentially offset by associated changes in other base rates, terms or conditions of service -- for example, an increase in a specific base rate charge in one service classification that is offset by a decrease in another base rate charge in the same or in other service classifications. It is understood that, over time, such minor changes are routinely made and that they may continue to be made during the Gas Rate Plan period provided they will not result in a change (other than a de minimus change) in the revenues that Orange and Rockland's base gas rates are designed to produce overall before such changes. Notwithstanding the foregoing, while the Company has no intention of changing SC8 rates during the Gas Rate Plan, it will make changes to SC8 if so directed by the Commission.

(b) If a circumstance were to occur that, in the judgment of the Commission, so threatens the Company's economic viability or ability to maintain safe and adequate service as to warrant an exception to this undertaking, then Orange and Rockland will be permitted to file for an increase in base gas rates at any time.

(c) The Signatory Parties recognize that the Commission reserves the authority to act on the level of Orange and Rockland's base gas rates in the event of unforeseen circumstances that, in the Commission's opinion, have such a substantial impact on the range of earnings levels or equity costs envisioned by this Gas Rate Plan as to render Orange and Rockland's gas rates unreasonable or insufficient for the provision of safe and adequate service at just and reasonable rates.

(d) Nothing herein shall preclude Orange and Rockland from petitioning the Commission for approval of new services or of rate design or revenue allocation changes on an overall revenue-neutral basis, including, but not limited to, the implementation of new service classifications and/or cancellation of existing service classifications.

26. Legislative, Regulatory and Related Action

(a) If the federal government, State of New York, and/or other local governments make changes in their tax laws (other than local property taxes, which will be reconciled in accordance with Section 5 H of the Proposal) and if the Commission does not permit the disposition, through a surcharge or credit, of any such tax law changes, including any new, additional, repealed or reduced federal, state, or local government taxes, fees or levies, then Orange and Rockland will defer the full change in expense and reflect such deferral as credits or debits to customers in the next base rate change, subject to any final Commission determination in a generic proceeding prescribing utility implementation of a specific tax law enactment, including Commission determination of any Company-specific compliance filing made in connection therewith.[17]

(b) If amendments or changes to federal and/or state tax laws, including interpretations of the such tax laws by regulations, court decisions or otherwise, cause Orange and Rockland's income tax liability allocable to gas operations during the period of the Gas Rate Plan to be changed from the tax liability calculated in accordance with currently effective tax laws, then Orange and Rockland shall defer the full change in tax expense for rate recovery or refund in a manner to be determined by the Commission.

(c) If any law, rule, regulation, order, or other requirement or interpretation (or any repeal or amendment of an existing rule, regulation, order or other requirement) mandated by the state, local or federal government or courts results in a change in Orange and Rockland's annual gas operating expenses or revenues not anticipated in the forecasts on which the rates in the Gas

[17] The Company reserves all of its administrative and judicial rights in connection with such generic proceeding(s).

Rate Plan period are based in an annual amount of $0.5 million or more,[18] then Orange and Rockland shall defer the full change of any such expense increase or revenue decrease, with any such deferrals authorized or required to be reflected in the next base rate change, or in a manner to be determined by the Commission. In the case of any such requirements imposed by the Commission itself, the Company will defer the full revenue requirement effect of the increase or decrease.

(d) Orange and Rockland retains the right to petition the Commission for authorization to defer extraordinary expenditures not otherwise addressed by the Gas Rate Plan.

(e) Except as provided pursuant to Section 25 of the Proposal, Orange and Rockland will not file for a base rate change to become effective before November 1, 2012.

27. Continuation of Provisions

The programs and requirements adopted herein, that are not designated to expire by their own terms, will remain in effect until changed by the Commission. At the end of RY3, targets and goals set forth in the Proposal will continue at their RY3 levels unless modified by the Commission. The amortization of expiring credits/debits will cease at the end of RY3.

28. Provisions Not Separable

The Signatory Parties intend the Proposal to be a complete resolution of all the issues in Case 08-G-1398. It is understood that each provision of the Gas Rate Plan set forth in the Proposal is in consideration and support of all the other provisions, and expressly conditioned upon their acceptance by the Commission. If the Commission's Order establishing rates and

[18] For purposes of the Gas Rate Plan, the $0.5 million threshold will be applied on a case-by-case basis and not to the aggregate impact of changes of two or more laws, rules, etc.; provided, however, that these thresholds will be applied on a Rate Year basis to the incremental aggregate impact of all contemporaneous changes (i.e., changes made as a package even if they occur or are implemented over a period of months) affecting a particular subject area and not to the individual provisions of the new law, rule, etc.

terms of a three-year rate plan materially alters the terms of the Gas Rate Plan set forth in the Proposal, then the Signatory Parties will be free to pursue their respective positions in this proceeding without prejudice.

29. Provisions Not Precedent

The terms and provisions of the Proposal apply solely to, and are binding only in the context of, the purposes and results of the Proposal.. None of the terms and provisions of the Proposal and none of the positions taken herein by any party may be cited or relied upon by any other party in any fashion as precedent in any other proceeding before this Commission, or before any other regulatory agency or any court of law for any purpose except in furtherance of ensuring the effectuation of the purposes and results of the Proposal.

30. Dispute Resolution

In the event of any disagreement over the interpretation of provisions in the Proposal or the implementation of any of the provisions of the Gas Rate Plan, which cannot be resolved informally by the Signatory Parties, such disagreement will be resolved in the following manner: the Signatory Parties will promptly convene a conference and in good faith will attempt to resolve such disagreement. If any such disagreement cannot be resolved by the Signatory Parties within 30 days, then any Signatory Party may petition the Commission for relief on a disputed matter.

31. Submission of Proposal

The Signatory Parties agree to submit the Proposal to the Commission and to individually support and request adoption by the Commission of the Gas Rate Plan set forth in the Proposal in its entirety as set forth herein.

32. Further Assurances

The Signatory Parties recognize that certain provisions of the Proposal require that actions be taken in the future to fully effectuate the Gas Rate Plan. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

33. Execution

The Proposal is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

IN WITNESS WHEREOF, the Signatory Parties hereto have affixed their signatures below as evidence of their agreement to be bound by the provisions of the Proposal on the day and year first written above.

John L. Carley

Orange and Rockland Utilities, Inc.

(Signatures continued on following pages)

2009 JUN 30 AM 11:35

Staff of the Department of Public Service

Mindy A. Bockstein

Mindy A. Bockstein
Chairperson and Executive Director
New York State Consumer Protection Board

Michael B. Mager

USG Corporation
by Couch White, LLP
Its Attorneys

Usher Fogel, Counsel

Small Customer Marketer Coalition

Dated; June 30, 2009

APPENDICES

Appendix A - Summary of Revenue Requirements

Appendix B - Reconciliation Targets

Appendix C - Capital Spending Targets

Appendix D – Capital Spending Report Form

Appendix E – Inflation Pool

Appendix F - Pollution Control and Other Long-Term Debt

Appendix G – Direct Labor

Appendix H – Depreciation

Appendix I - Lost and Unaccounted for Factor and Revenue Adjustment Calculation

Appendix J – Rate Design

Appendix K - RDM Description

Appendix L - Base Rate Imputations

Appendix M - Customer Service Surveys

Appendix N – Gas Economic Development Enhancement Pilot Program

Appendix O - Customer Outreach and Education