February 16, 1999

BY HAND DELIVERY

Hon. Debra Renner
Acting Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223

Re: Orange and Rockland Utilities, Inc.
Case 96-E-0900
Unbundled Rates

Dear Secretary Renner:

I am enclosing 25 copies of a Petition for Clarification and/or Rehearing relating to the implementation of the increase in the customer charge as determined by the Commission in Opinion No. 99-2, Opinion and Order Establishing Unbundled Rates in Case 96-E-0900 (issued and effective February 4, 1999).

All parties on the attached service list have been served with copies of the enclosed petition.

Very truly yours,

Andrew Gansberg

AG/rsb

cc: Parties listed on Appendix A
CASE 96-E-0900 (UNBUNDLING)
ORANGE AND ROCKLAND UTILITIES, INC.
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(As of 2/16/99)

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Petition for Clarification and/or Rehearing of the Method for Implementing the Increase in Customer Charges for Service Classification Nos. 1 and 2.

On February 4, 1999, the Commission issued Opinion No. 99-2, Opinion and Order Establishing Unbundled Rates in Case 96-E-0900, In the Matter of Orange and Rockland Utilities, Inc.’s Plans for Electric Rate/Restructuring Pursuant to Opinion No. 96-12 — Unbundling Phase. The Settlement Agreement addressing rate design and other related issues was signed on September 18, 1998. In that Settlement Agreement, the signatories (Orange and Rockland, DPS Staff, the Consumer Protection Board and the Industrial Energy Users Association) had agreed to leave the monthly customer charge for SC Nos. 1 and 2 at current levels.

The Commission decided to modify the terms of the Settlement Agreement by increasing the monthly customer charge for SC Nos. 1 and 2 by $2.00. The energy usage charges in both service classifications would have to be decreased by an amount equal to the effect of increasing the customer charge in order to produce a class revenue neutral adjustment. It is the method of reducing those energy usage charges which the Company asks the Commission to reconsider.

Because the Settlement Agreement did not increase customer charges, it did not include any compensating energy rate adjustment. Since the Commission’s decision to increase
customer charges, the Company has informally discussed with Staff a number of alternatives to implement the necessary compensating energy rate adjustment to achieve a revenue-neutral result in SC Nos. 1 and 2.

The proposed tariffs filed with the Commission under separate cover incorporate a variation on the alternatives referred to by the Commission in Opinion No. 99-2 as ways of reducing energy rates to compensate for the increase in the customer charge. We ask the Commission to consider whether the Company's proposed alternative to the options set forth in Opinion No. 99-2 is appropriate for inclusion in the approved rate design. For the reasons set forth below, the Company believes that its proposed alternative for adjusting energy rates, i.e., a uniform percentage reduction to energy charges above the first block, is the most appropriate way to design this revenue-neutral adjustment to compensate for the increase in the customer charge.

The first alternative described by the Commission would decrease energy charges by a uniform cents per kWh amount in all blocks. That alternative would assign an inordinately large relative decrease to the lower priced blocks. Rate unbundling would exacerbate this impact because the full per kWh decreases would be deducted from even lower delivery service rates, resulting in widely varying impacts among the blocks.

The Commission's second alternative would reduce only the first rate block by the equivalent of the increased customer charge. This alternative would result in an unduly low energy charge for the first block which would greatly dilute its pricing signal in relation to other blocks. In SC No. 1, such pricing would create a more inverted rate between the first and second blocks in the summer and create a newly inverted rate in the winter. This would be sharply in
conflict with the long-standing rate design principles embodied in SC No. 1 and is likely to create significant customer confusion.

Under the Company's proposal, a uniform percentage decrease for each class would be applied to each block after the first block. This alternative would be less disruptive of the current pricing relationships among the different rate blocks. In addition, maintaining the first block at its current level would support the Commission's rationale to increase the customer charge because customer-related costs not recovered in the customer charge are now, and should continue to be, recovered earlier in the block structure.

The Company, therefore, requests that the Commission authorize implementation of the rate design alternative described herein.

Respectfully submitted,

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Dated: February 16, 1999
Albany, New York