STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on July 26, 2001

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
Thomas J. Dunleavy
Leonard A. Weiss
Neal N. Galvin

CASE 99-G-1695 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service.

ORDER ESTABLISHING RATES IN PHASE 2

(Issued and Effective October 18, 2001)

BY THE COMMISSION:

INTRODUCTION

On November 20, 2000, in Case 99-G-1695, we adopted a rate and restructuring plan for Orange and Rockland Utilities, Inc. (Orange and Rockland or the company)(Phase 1).[1] Our Order required the company to implement components of a gas restructuring plan and to freeze base rates through May 1, 2002. The Order allowed Orange and Rockland to retain certain credits that would have been returned to ratepayers in order to avoid a base rate increase.

Phase 2 of this proceeding was established, in part, to provide the parties an opportunity to elicit proposals for encouraging greater marketer involvement and for developing

---

[1] Case 99-G-1695, Orange and Rockland Utilities, Inc. – Gas Rates, Opinion No. 00-13 (issued November 20, 2000).

additional gas restructuring provisions. It was also intended to permit the parties to work out a plan to extend the gas base rate freeze to October 31, 2003.

On April 24, 2001, Orange and Rockland and four parties – Staff, the State Consumer Protection Board (CPB), Industrial Energy Users Association (IEUA) and Multiple Intervenors (MI) - submitted a Joint Proposal recommending additional restructuring provisions. Statements in support of the Joint Proposal have been received from the company, staff, and MI. The Small Customer Marketer Coalition (SCMC) filed comments in opposition to the Joint Proposal.

TERMS AND CONDITIONS IN THE JOINT PROPOSAL

The terms and conditions in the Joint Proposal resolve most issues considered in Phase 2 of this proceeding.[2] It includes proposals for encouraging marketers' participation in the market and advancing competition in the provision of retail gas service.

Revenue Requirement

The Order in Phase 1 of this proceeding allowed Orange and Rockland to retain approximately $9.01 million of customer credits to continue the gas base rate freeze that has prevailed since 1992. This amount covered rate deficiencies for the period from November 1, 2000 to April 30, 2002. The Order also authorized the company to reserve additional customer credits totaling $9.06 million for a possible extension of the gas base rate freeze from May 1, 2002 to October 31, 2003, contingent upon development of an acceptable program to achieve additional

[2] Gas capacity and reliability issues are under consideration in a generic proceeding, Case 97-G-1380, Future of the Natural Gas Industry.

gas restructuring in Phase 2. The Joint Proposal freezes rates, allows the company to retain the $9.06 million of reserved customer credits, and requires actions to promote competition.

Gas In Storage Working Capital Cost

In Phase 1, recovery of $396,000 in working capital costs associated with gas in storage was transferred from base rates to the monthly gas adjustment. The monthly gas adjustment recovers this component equally from firm sales and firm transportation customers with a true-up at the time of the annual reconciliation.

The Phase 2 Joint Proposal establishes separate rates for the two groups of customers. Firm transportation customers pay a rate set at 20% of the rate paid by firm gas customers. This rate design recognizes the fact that firm transportation customers draw down gas supplies in storage to a lesser extent than firm sales customers. An annual reconciliation will be conducted on October 31 of each rate year. Any over- or under-collections will be added to the projected gas in storage working capital costs for the following twelve-month period.

Phase 2 Back Out Rate

Beginning November 1, 2001 and extending to October 31, 2003, the Joint Proposal provides for a back out rate of $0.08 per Mcf for firm transportation customers who receive a single bill from Orange and Rockland (the company assumes the collection risk on gas supply receivables).[3] For firm transportation customers with dual bills (the marketer assumes the collection risk on gas supply receivables), the back

[3] An additional $.62 per bill credit is available if the marketer bills the customer. (Cases 99-M-0631, Customer Billing Practices, and 99-M-1343, Retail Access Business Practices, Order Establishing Retail Access Billing and Payment Processing Practices (issued May 18, 2001)).

out rate is $0.10 Mcf.[4] The additional $0.02 per Mcf represents the uncollectible on the gas supply cost.

The Joint Proposal permits Orange and Rockland to use customer credits and over-collections through the gas adjustment clause to make up the revenue deficiency resulting from the proposed back out rate. In addition, Orange and Rockland will contribute $50,000 in each of the second and third rate years towards the revenue deficiency.

Rate Unbundling

A recent Commission order in the Competitive Markets Proceeding requires gas and electric utilities to conduct cost studies, to assign costs to the utilities' functions and services, and to establish fully unbundled, cost-based rates.[5] It established the goal of the first half of 2002, or as soon as reasonably possible thereafter, for implementing utility-specific unbundled rates. The Joint Proposal continues the Phase 2 back out rate to October 31, 2003, past the established date for implementing unbundled, cost-based rates.

The parties claim that the continuation of the back out rate to October 31, 2003 should be adopted because it provides customers and marketers more certainty, which facilitates migration decisions. In Phase 1, a back out rate at about the same level as the one proposed in Phase 2 contributed to a successful retail access program. The number of customers migrating to marketers between November 1, 2000 and June 30, 2001 increased by over 100 percent.

---

[4] When added to the gas in storage working capital cost shift described above, the back out credit totals $0.097 per Mcf and $0.117 per Mcf, for single bill customers and dual bill customers, respectively.

[5] Case 00-M-0504, Provider of Last Resort Responsibilities, Order Directing Expedited Consideration of Rate Unbunding (issued March 29, 2001).

Interruption Procedures

Orange and Rockland will implement interruption-related procedures in addition to criteria for interruptible service established by the Commission.[6] The most significant additional actions Orange and Rockland will take include: (1) localizing the geographical area affected by an interruption to the extent reasonably practicable and as long as system reliability or service is not adversely affected; (2) providing periodic informational updates about interruptions made to interrupted customers; (3) responding to inquiries within a prescribed time frame; and (4) submitting disputes to the company's Vice-President Ombudsman. If a matter remains unresolved after the parties make every effort to resolve it, the customer may file a complaint with the Commission. Given the interruption provisions contained in the Joint Proposal, MI is withdrawing an informal complaint it filed on behalf of U.S. Gypsum.

Provider of Last Resort (POLR) Pilot Program

The Joint Proposal provides various procedures for the company to evaluate the amount of interest in a POLR pilot program. The salient provisions include requirements that the company: (1) meet with and survey the views of Consumer Advisory Panels; (2) survey marketers to determine their interest in participating in a POLR Pilot program; (3) focus the survey on voluntary migration of customers and fixed and/or variable price options; and, (4) file a plan for a POLR pilot program 60 days after completion of such surveys or 90 days after issuance of the Commission's order in the Competitive Markets Proceeding, whichever is later.

[6] Case 00-G-0996, Criteria for Interruptible Gas Service, Order Adopting Permanent Rule (issued January 31, 2001).

Market Power Monitoring Mechanism

To promote the development of a competitive market and customer choice, the Joint Proposal establishes a mechanism to monitor market share. It provides that a monitoring mechanism will apply when 35% of Orange and Rockland's total firm sales and firm transportation gas customers commence to take service from marketers. The mechanism provides that in the event any marketer's share of total customers exceeds 25%, an interested party may request a meeting of the parties to this proceeding to consider whether any true market power concern exists. The Joint Proposal provides a timeframe and procedures for consideration of such concerns by the parties, and an opportunity to resolve them. Unresolved disputes and proposed remedies may be submitted to the Commission for its consideration and resolution. This provision applies to all marketers and Orange and Rockland affiliates and does not preclude the Commission or Staff from performing any normal or routine investigations or audit responsibilities.

Marketer Satisfaction Survey

The Joint Proposal requires Orange and Rockland to conduct surveys in April, 2002 and April, 2003 to gauge marketer satisfaction with the utility company's efforts to advance the competitive market. The surveys will be conducted by an independent third party and the results provided to all parties within 45 days after the results are available.

SUPPORTING STATEMENTS

Orange and Rockland, Staff, and Multiple Intervenors filed supporting statements. Orange and Rockland states that the Joint Proposal balances customers' and investors' interests and produces results that further competition in the gas market. The company further contends that the Joint Proposal continues the back out rate at a level that should result in customer migration, and taken as a whole, adequately address the concerns stated in our Policy Statement on the future of the Natural Gas Industry and related Clarifying Order.[7]

Staff also supports the proposal, maintaining that it constitutes an effective plan to implement competition and continue the customer choices that began in Phase 1 of this proceeding. Staff points out that the Joint Proposal contains many features to assist marketers and customers and that it would continue a successful customer migration program. Staff supports provisions of the proposal providing for back out rates of $0.10 per Mcf and $0.08 per Mcf, depending on the marketers' billing and collection arrangements with the company, respectively, absorption of $0.02 per Mcf by the company for uncollectibles (when $0.10 per Mcf is the back out rate), and, the company contribution of $50,000 in each of two rate years to make up revenue deficiencies resulting from the back out rate. Moreover, Staff states that an extension of the back out credit beyond the target date for implementing unbundled rates provides customers and marketers known and stable rates throughout the term of the proposal that are helpful for retail access planning purposes. Staff and the company believe these provisions and the other features of the Joint Proposal, provide ample justification for the Commission to adopt it.

Multiple Intervenors (MI) also recommends adoption of the Joint Proposal as a reasonable resolution of the issues in this phase of the proceeding. MI believes it satisfies our recent order establishing criteria for interruptible service.[8]

---

[7] Cases 93-G-0932, Restructuring of Emerging Competitive National Gas Market, and 97-G-1380, Future of the Natural Gas Industry in New York State, Policy Statement and Order Terminating Capacity Assignment (issued November 3, 1988) and Order Clarifying Gas Policy Statement (issued April 1, 1999).

[8] Case 00-G-0096, supra, Order Adopting Permanent Rule.

MI understands that the Joint Proposal's interruption provisions do not supersede our complaint procedures. It believes the provisions should minimize the likelihood of interruption-related complaints by ensuring the disclosure of relevant information and by improving communications among Orange and Rockland, customers, and Staff.

OPPOSING STATEMENTS

The Small Customer Marketer Coalition (SCMC) believes that the proposed back out rate could impede the development of a competitive market, that it does not provide an acceptable proxy of the costs associated with the elimination of the merchant function, and that it is inconsistent with the back out rates of other gas utilities in the State.

SCMC claims the back out credit does not reflect all the costs the company will avoid by eliminating the merchant function. It believes a comprehensive cost study would produce a back out rate closer to the interim back out rates established for other gas utilities.

SCMC also contends that Orange and Rockland should establish unbundled rates in mid-2002, the target date in the Commission's unbundling order,[9] rather than in November 2003. SCMC believes that the potential for lost revenues from the implementation of unbundled rates is no reason to postpone the implementation date. Instead, it suggests that a deferral mechanism be used to address the company's concerns.

[9] Case 00-M-0504, supra, Order Directing Expedited Consideration of Rate Unbundling.

DISCUSSION

The Joint Proposal's provisions are largely unopposed, except for SCMC's concerns about the level and duration of the back out rate. The interim back out rate proposed here is an acceptable interim rate. Orange and Rockland has claimed, based on its cost study, that the back out rate should be about $0.0239 per Mcf. Staff, for its part, considers the proposed back out rate to be an acceptable interim proxy until fully unbundled rates are implemented. We accept Staff's view. SCMC has not proposed any specific cost-justified back out rate for us to examine here. Nor has it shown that the rate for Orange and Rockland should necessarily be the same as those put in place for other companies. We understand that a higher back out rate, all else being equal, is desirable to SCMC. However, we recognize as well that utility companies have different cost characteristics and the differences in their operations and cost structures can support disparate rates.

Moreover, as the proponents claim, the migration of Orange and Rockland's customers to marketers (with the interim back out rate in place) has increased by over 12,000 customers in the eight month period from November 1, 2000 to June 30, 2001. This growth constitutes over a 100% increase in the customers who have migrated to marketers - almost 20% of total customers. This movement suggests that market participants are finding the back out rate and other company gas restructuring provisions advantageous, notwithstanding SCMC's claims. As this rate is only for an interim period and SCMC has not made a persuasive case for us to adopt any other back out rate, we find no reason to reject the Joint Proposal's terms.

Orange and Rockland will not have increased gas base rates for eleven years by the time the Joint Proposal ends. Furthermore, its retail access program has been very successful. These facts persuade us to allow Orange and Rockland to wait until the end of the Joint Proposal to implement unbundled rates. The eleven year base rate freeze has provided Orange and Rockland little earnings flexibility for it to absorb the incremental lost revenues that may ensue from unbundling its rates. While revenue deficiencies under Phase 2 are satisfied through the use of customer credits, there are no excess credits available to fund any additional lost revenues from unbundling. Moreover, the eleven-year base rate freeze implies the possibility of a company request for a base rate increase at the end of the Joint Proposal's term. Under these circumstances, we do not want to jeopardize the gains achieved in the company's retail access program by exposing the company to any greater amount of lost revenues. We prefer to review unbundling and any associated lost revenues in the context of any rate case filing at the end of the rate period established in Phase 2 (May 1, 2002 to October 31, 2003).

The Joint Proposal contains other features that are acceptable and beneficial. These features include provisions relating to interruptions, a POLR Pilot program, market power monitoring, and marketer surveys.

The interruption provisions provide interruptible customers greater assurances that the company will interrupt service only for reliability purposes. Moreover, new procedures will be established to provide customers specific information of such events; and, the provisions provide interruptible customers clear procedures for resolving any disputes.

The POLR pilot program provides the company, the customer advisory group, marketers, and customers a good opportunity to determine their interests in, and the range of possibilities for, such a program. The proposal properly focuses on promoting voluntary migration and fixed and variable price options. The company is committed to filing a plan for a POLR pilot program 60 days after completion of its surveys or 90 days after issuance of a Commission order in the Competitive Markets Proceeding, whichever is later. The market power monitoring mechanism also provides a useful dispute resolution path that allows the parties and future marketers to settle any retail market concerns, to continue to develop the competitive market, and to advance customer choice in the Orange and Rockland service area.

Adoption of the marketer satisfaction survey proposal will continue the process, initiated in March 2001, of gauging the company's working relationship with the marketers in its service territory. Ongoing utility company cooperation with them is essential to advance the competitive market. The results of these surveys should provide valuable information to the company and help it sustain important interactions with marketers.

The Commission orders:

1. The terms and conditions of the Orange and Rockland Utilities, Inc. (Orange and Rockland) Joint Proposal, dated April 24, 2001, are adopted and are hereby incorporated and made a part of this Order.

2. Orange and Rockland is directed to file, with the Secretary of the Commission and serve all parties, any necessary tariff amendments, no later than October 26, 2001, to become effective on November 1, 2001, and take any other necessary actions to implement requirements identified in the Order as soon as it is possible to do so. Any comments on the proposed tariff amendments must be received at the Commission's office within ten days of service of the tariff amendments. The amendments shall not become effective on a permanent basis until approved by the Commission.

3. The requirement of the Public Service Law that newspaper publication be completed prior to the effective date

of the amendments is waived, but the company is directed to file with the Commission, not later than six weeks following the effective date of the amendments, proof that a notice of the changes set forth in the amendments and their effective date has been published for four consecutive weeks in a newspaper having general circulation in the service territory of the company.

4. Orange and Rockland is directed to file a plan for a Provider of Last Resort pilot program 60 days after completion of customer and marketer surveys or 90 days after issuance of the Commission’s Order in the Competitive Markets Proceeding, whichever is later.

5. This proceeding is continued.

By the Commission,

(SIGNED) JANET HAND DEIXLER
Secretary

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 93-G-0932	Proceeding on Motion of the Commission to Address Issues Associated with the Restructuring of the Emerging Competitive Natural Gas Market
Case 97-G-1380	In the Matter of Issues Associated with the Future of the Natural Gas Industry and the Role of the Local Distribution Companies
Case 99-G-1695	Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service
Case 00-G-1642	In the Matter of Gas Restructuring for Orange and Rockland Utilities, Inc.

JOINT PROPOSAL
REGARDING THE PHASE 2
GAS RESTRUCTURING PLAN OF
ORANGE AND ROCKLAND UTILITIES, INC.

Dated: April 24, 2001
New York, New York

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 93-G-0932	Proceeding on Motion of the Commission to Address Issues Associated with the Restructuring of the Emerging Competitive Natural Gas Market
Case 97-G-1380	In the Matter of Issues Associated with the Future of the Natural Gas Industry and the Role of the Local Distribution Companies
Case 99-G-1695	Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service
Case 00-G-1642	In the Matter of Gas Restructuring for Orange and Rockland Utilities, Inc.

JOINT PROPOSAL REGARDING THE PHASE 2 GAS RESTRUCTURING PLAN OF ORANGE AND ROCKLAND UTILITIES, INC.

1. Introduction

This Joint Proposal ("Proposal") memorializes Orange and Rockland Utilities, Inc.'s ("Orange and Rockland" or the "Company") Phase 2 gas restructuring plan anticipated by the Agreement and Settlement dated September 11, 2000 ("Rate Case Settlement") and considered by the New York State Public Service Commission ("Commission") by Order dated November 20, 2000 in Case 99-G-1695[1] ("Rate Order"). This Proposal, in conjunction with the Rate Case Settlement address in a complete, comprehensive and satisfactory manner most of the issues[2]

[1] Case 99-G-1695, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service (issued November 20, 2000).

[2] The primary issues not addressed by this Proposal are the issues relating to reliability and capacity, which are being addressed in the Reliability Collaborative that has been established to address such matters. Case 97-G-1380, In the Matter of Issues Associated with the Future of the Natural Gas Industry and the Role of Local Gas Distribution Companies

identified in the Commission's Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment ("Policy Statement"), issued November 3, 1998 in Cases 93-G-0932 and 97-G-1380, as clarified by the Commission's April 1, 1999 Order Clarifying Gas Policy Statement ("Clarifying Order").

2. **Procedural Background**

The parties to the Rate Case Settlement agreed that after the issuance of the Rate Order, they would conduct further negotiations with the goal of developing a Phase 2 Restructuring Plan that would then be submitted to the Commission. To that end, Orange and Rockland on September 11, 2000, submitted its Preliminary Revised Gas Restructuring Filing. Orange and Rockland convened an all-party meeting on September 19, 2000 and additional follow-up meetings on October 6, 2000, December 13, 2000, February 22, 2001 and March 22, 2001 to address the concerns of all parties. Interested parties were afforded an opportunity to submit comments on the Company's Preliminary Revised Gas Restructuring Filing by no later than October 15, 2000. Staff was the only respondent and submitted its comments and a request for the Company to supplement its filing on October 19, 2000. Orange and Rockland responded to Staff's data requests on November 9, 2000 and November 30, 2000. The Company circulated these responses to all parties in this proceeding on December 5, 2000.

The parties hereto have reached agreement on the terms of this Proposal, which they believe will further the objective of giving fair consideration to the interests of stakeholders in assuring achievement of the goals and interests articulated in the Commission's Policy Statement and the Clarifying Order.

3. **Gas In Storage Working Capital Cost Responsibility**

According to the Rate Case Settlement, the Monthly Gas Adjustments ("MGA") for both firm sales and firm transportation customers shall include rate components to reflect gas in storage working capital costs (Appendix H, Page 2). The Rate Case Settlement established equal recovery rates for firm sales and firm transportation customers designed to recover gas in storage working capital costs of $396,000. The Rate Case Settlement also provides for an annual true-up to actual costs to be performed at the time of the annual reconciliation of the MGA.

In Phase 2, separate rates for firm sales and firm transportation customers shall be set to recover such costs while maintaining the following relationship:

Firm Transportation Customer Rate ($/ccf) = 0.2 * Firm Sales Customer Rate($/ccf)

The Phase 2 rates shall be set to continue the recovery of $396,000 through the end of the first reconciliation period. The true-up of actual gas in storage working capital costs and recoveries shall be performed at the end of each twelve-month rate year ended October 31. The over/under collection resulting from this true-up shall be added to the projected gas in storage working capital cost for the following twelve-month period. An illustrative calculation is attached as Exhibit A.

4. **Phase 2 Back Out Rate**

Effective November 1, 2001 through October 31, 2003, the Phase 2 back out rate will be $0.08 per Mcf for firm transportation customers receiving a single bill from Orange and Rockland (i.e., when Orange and Rockland incurs the risk of collecting the gas supply related account receivable) and $0.10 per Mcf for firm transportation customers with dual billing (i.e., when the marketer incurs the risk of collecting the gas supply related account receivable). For firm transportation customers receiving a single bill from Orange and Rockland, the $0.02 per

Mcf difference between $0.08 and $0.10 reflects the avoided uncollectible on the gas supply costs.

Orange and Rockland shall be entitled to defer and recover the financial effect of the Phase 2 back out rate as follows. Upon the effectiveness of the Phase 2 back out rate, for each Mcf of firm transportation, Orange and Rockland shall amortize to expense as an offset $0.08 per Mcf of deferred credits, including but not limited to, Gas Adjustment Clause ("GAC") over collections related to the twelve months ended August 31, 2000. Orange and Rockland shall contribute $50,000 in both the Second Rate Year and the Third Rate Year, as those terms are defined by the Rate Case Settlement, which funds shall be used by the Company to recover the financial effect of the Phase 2 back out rate.

The parties agree that the back outs will be expressed on a volumetric basis. For those customers with dual billing, the Company will pay the $0.02 per Mcf for the uncollectible directly to the marketer.

5. Rate Unbundling

The Commission's order[3], issued March 29, 2001 in Case 00-M-0504 ("Unbundling Proceeding"), requires gas and electric utilities to conduct cost studies, assign costs to the utilities' functions and services and establish fully unbundled, cost-based rates. Due to the expansive scope of the Unbundling Proceeding and the effort needed to complete its objectives, the Commission anticipates that utility-specific unbundled rates will be introduced across the state in the first half of 2002 or thereafter, as soon as reasonably possible. In the Unbundling Order, the Commission states:

> We recognize that the feasibility of introducing recalculated rates at any time may vary greatly from utility to utility, depending, among other things, on the existence and terms of any rate plans in effect. Therefore, **to the extent reasonably possible, gas and electric rate plans submitted for our review in the future should include provisions for incorporating the results of this proceeding.**[4] (Emphasis added.)

The Commission's desire to introduce utility-specific unbundled rates by the first half of 2002, or as soon thereafter as possible, creates a dilemma for this proceeding.

While sensitive to the Commission's deadlines and its desire to implement unbundled tariffs as soon as possible, the parties to this Proposal propose that the back out rate, with its sources of funding for the associated lost revenues, remain in effect through the term of the rate plan approved by the Commission in the Rate Order (i.e., through October 31, 2003). Orange and Rockland would implement the unbundling provisions established in the Unbundling Proceeding after the term of this Proposal expires.

---

[3] Case 00-M-0504, Provider of Last Resort Responsibilities, Order Directing Expedited Consideration of Rate Unbundling (issued March 29, 2001) ("Unbundling Order").

[4] Unbundling Order, p. 6.

As noted above, the Phase 2 back out rate will be $0.08 per Mcf for firm transportation customers receiving a single bill from Orange and Rockland and $0.10 per Mcf for firm transportation customers with dual billing. All firm transportation customers also will receive the benefit of the $0.017 per Mcf differential between the recovery rates for gas in storage working capital costs included in the MGAs for firm sales versus firm transportation customers. This differential will vary over the term of this Proposal as storage inventory costs change and due to the operation of the true-up mechanism.

Continuation of the negotiated Phase 2 back out rates provides stability and certainty to the prices upon which retail customers and marketers can base decisions. Orange and Rockland's retail access program has demonstrated success since the back out rate was implemented in Phase 1 of this proceeding, experiencing a 40% increase in the number of customers migrating to a marketer between November 2000 and March 31, 2001.

Accordingly, the parties request that the Commission consider this Proposal and the unbundled rate provisions described above to continue for the term of this Proposal (i.e., through October 31, 2003), at which time the provisions of the Unbundling Order will become effective.

6. Interruption Process

The Commission has ordered that Orange and Rockland implement the requirements contained in the Commission's Order dated January 31, 2001 in Case 00-G-0096[5], or as modified by the Commission. In addition, Orange and Rockland agrees, to the extent reasonably practicable and so long as system reliability or service is not adversely affected, to localize the geographical extent of any interruption. Orange and Rockland will limit the duration of any

[5] Case 00-G-0996, In the Matter of Criteria for Interruptible Gas Service, Order Adopting Permanent Rule (issued January 31, 2001).

interruption to the time required to resolve the operational condition(s) that gave rise to such interruption, and will provide periodic informational updates to interrupted customers.

In the event of an interruption, the Company will respond in writing to an inquiry from any interruptible customer regarding such interruption, within 14 days of receipt of such inquiry. As part of such response, Orange and Rockland will offer to arrange a teleconference or meet in person, at the customer's request, to discuss the customer's inquiry. The Company also will notify the customer that the customer can consult with Staff regarding such inquiry. If the interruptible customer making such an inquiry is not satisfied with the Company's response, such customer may request that the dispute be submitted to Orange and Rockland's Vice-President level Ombudsman, designated by the Company in Phase 1 of this proceeding (Appendix D, p. 3 of 7), for review. The Ombudsman will review the dispute and issue a written determination within seven days. If the customer then notifies the Company that the customer still considers the dispute unresolved after the issuance of the Ombudsman's report, the Ombudsman will promptly notify the Director of the Office of Gas & Water. Upon the customer's request, the Company will schedule a meeting of the customer, the Company, and Staff. Such meeting shall convene within 14 days of the customer's request at a location within the service territory, provided that the parties shall be free to resolve the matter prior to such meeting. If the matter remains unresolved, the customer may then file an informal or formal complaint with the Commission. The response times referred to above may be reasonably extended due to the breadth or complexity of the customer's inquiry, or other extenuating circumstances.

This provision will remain in effect for the term of this Proposal and thereafter, until revised or terminated by the Commission. Orange and Rockland will revise its Gas Transportation Operating Procedures Manual consistent with this provision. This provision will not supersede the requirements of any existing Commission orders addressing the issue of interruption of gas customers.

7. POLR Pilot

After consulting with Staff, within 60 days after the Commission's issuance of its Order regarding this Proposal, the Company will submit Provider of Last Resort ("POLR") related issues, including but not necessarily limited to those issues raised in the Competitive Markets Proceeding [6], to the Company's Consumer Advisory Panels for their evaluation and input. The Company will meet with and solicit from the Consumer Advisory Panels their input regarding the extent of consumer interest in a POLR pilot program ("POLR Pilot"), as well as their concerns and preferences regarding possible options for a POLR Pilot. Within 30 days after the completion of the sessions with the Company's Consumer Advisory Panels, during which time the Company will consult with Staff, Orange and Rockland will survey gas marketers to determine marketer interest in participating in a POLR Pilot. Such survey will focus on the promotion of voluntary migration including soliciting marketer interest in offering fixed and/or variable price options.

By the later of 60 days after the completion of the Company's survey of gas marketers, or 90 days following the issuance of the Commission Order in the Competitive Markets Proceeding, Case 00-M-0504 [7], the Company will develop and file with the Commission a response consistent with such Commission Order.

---

[6] Case 00-M-0504, Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities, Order Instituting Proceeding (issued March 21, 2000).

[7] Orange and Rockland reserves all its legal rights regarding this Order, including its right to seek rehearing or clarification of the Order.

8. Market Power Monitoring Mechanism

The parties agree to implement the market power monitoring mechanism described below in order to address potential market power concerns. The implementation of such mechanism does not presume the existence of market power abuse. Rather, the implementation of such mechanism is intended solely to promote continued development of a competitive market and customer choice, by providing a means for the parties to address potential market power concerns.

In order to allow a competitive market to develop, until 35 percent of Orange and Rockland's total firm sales and firm transportation gas customers have commenced taking service from marketers, the market power monitoring mechanism described below would not apply. After this 35 percent migration threshold is achieved, if an individual marketer's share exceeds 25 percent of Orange and Rockland's total firm sales and firm transportation gas customers, any interested party may request a meeting of the parties to this proceeding to determine if a market power concern exists. Any marketers attempting to market in Orange and Rockland's service territory may attend such meeting. Orange and Rockland will schedule and provide notice of such a meeting within 30 days after receipt of such request. The mere fact that a marketer's share exceeds 25 percent of Orange and Rockland's total firm sales and firm transportation gas customers, does not presume the existence of market power abuse or the violation of any Federal or state antitrust statute or regulation. The parties may discuss whether remedies to address any market power concerns are appropriate. During these discussions, and until the Commission orders otherwise, all marketers may continue to market to new customers. If the parties are unable to reach consensus as to whether and, if so, what remedies should be implemented, any party may submit the matter to the Commission for resolution. If the parties do reach consensus, the parties will submit such consensus agreement to the Commission for review and approval.

This provision shall apply equally to all marketers, including utility affiliates. This provision shall not constitute either an explicit or implicit waiver of any party's rights pursuant to any Federal or state antitrust law or regulation. This provision will remain in effect for the term of this Proposal and thereafter until revised or terminated by order of the Commission.

This provision does not preclude either the Commission or Staff from discharging its normal investigative role pursuant to the provisions of the Public Service Law and the regulations promulgated thereunder.

9. Marketer Satisfaction Survey

Orange and Rockland agrees to conduct additional marketer satisfaction surveys in April 2002 and April 2003. Such surveys will be conducted by an independent third party. Orange and Rockland will work with the parties to this proceeding to refine the survey by the end of the preceding September (e.g., September 2001 for the April 2002 survey). The results will be made available to the parties 45 days after the survey results are available.

10. Term

This Proposal shall have a term commencing on November 1, 2001 and terminating on October 31, 2003. Certain provisions of this Proposal shall continue beyond October 31, 2003, as provided for by the terms of this Proposal.

11. **Reservation of Authority**

The 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 Proposal as to render the Company's return unreasonable or insufficient for the provision of safe and adequate service at just and reasonable rates.

12. **Provisions Not Separable**

The parties agree that this Proposal, along with the Rate Case Settlement, constitute a gas restructuring proposal by Orange and Rockland that complies with the requirements of the Policy Statement and the Clarifying Order. This Proposal is an integrated whole, with each provision in consideration for, in support of, and dependent on the others. Any attempt to modify this Proposal may frustrate its purpose. In the event that the Commission fails to adopt this Proposal in its entirety, without modification, each of the parties hereto reserves the right to withdraw its acceptance by serving written notice on the Commission and the other parties hereto, and to renegotiate and, if necessary, to litigate, without prejudice, any or all issues as to which such party agreed in this Proposal; such party shall not be bound by the provisions of this Proposal, as executed or as modified, and this Proposal shall not take effect. If in such event Orange and Rockland withdraws its acceptance of this Proposal, Orange and Rockland specifically reserves its rights to take all appropriate action to secure gas base rate relief.

13. **Provisions Not Precedent**

The terms and provisions of this Proposal apply solely to, and are binding only in the context of, the purposes and results of this Proposal. None of the terms and provisions of this

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 proceeding before this Commission, or before any other regulatory agency or any court of law for any purpose except in furtherance of the purposes and results of this Proposal.

14. Captions

All titles, subject headings, section titles and similar items are provided for the purpose of reference and convenience only and are not intended to affect the meaning, the content, or the scope of this Proposal.

15. Submission of Proposal

The parties hereto agree to submit this Proposal to the Commission and to individually support and request adoption by the Commission of the Proposal as set forth herein.

Dated: April 24, 2001

____
Orange and Rockland Utilities, Inc.

(Signatures continued on following page)

George E. Trahan

Staff of the Department of Public Service

ORANGE AND ROCKLAND UTILITIES, INC.

Gas Restructuring Proceeding
Allocation of Gas in Storage Working Capital

Illustrative of Phase II Settlement

		Sales	Trans	Total
a.	Gas in Storage Working Capital Costs			\$396,000
b.	Forecast Sales (ccf)[1]	176.043,447	36.300.000	212,343,447
c.	Rate (\$/ccf)[2]	\$0.00216	\$0.00043	
d.	Revenue Check (b*c)	\$380,254	\$15,609	\$395,863

Notes:

1 Total volumes per gas rate case. Transportation volumes updated to reflect current experience.

2. Transportation rate set at 20% of sales rate.

ORANGE AND ROCKLAND UTILITIES, INC.

Gas Restructuring Proceeding
Allocation of Gas in Storage Working Capital

Illustrative of Phase II Reconciliation Process

Reconciliation for the 12 Months Ending October 31, 2001

a.	Actual Gas in Storage Working Capital Costs (12 mos. ending 10/31/01) [1]	$402,000
b.	Gas in Storage Working Capital Recoveries (12 mos. ending 10/31/01)	$383,160
c.	(Over)/Under Collection (a-b)	$18,840

Calculation of Rates for 12 Months Ending October 31, 2002

		Sales	Trans	Total
d.	Projected Gas in Storage Working Capital Costs [2]			$404,000
e.	Prior Period (Over)/Under Collection (line c)			$18,840
f.	Total Costs to be Recovered (d+e)			$422,840
g.	Forecast Sales (ccf)	174,845,300	41,745,000	216,590,300
h.	Rate ($/ccf)[3]	$0.00231	$0.00046	
i	Revenue Check (g*h)	$403,893	$19,203	$423,096

Notes:

1. Actual 12 month average gas in storage balance multiplied by the effective Other Customer Capital Rate.
2. Projected 12 month average gas in storage balance multiplied by the effective Other Customer Capital Rate.
3. Transportation rate set at 20% of sales rate.

CASE 93-G-0932
CASE 97-G-1380
CASE 99-G-1695
CASE 00-G-1642
Orange and Rockland Utilities, Inc.
Joint Proposal

On April 24, 2001, Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company"), Department of Public Service Staff ("Staff"), the Consumer Protection Board ("CPB"), the Industrial Energy Users Association (IEUA") and Multiple Intervenors ("MI") entered into a Joint Proposal ("Proposal") that memorialized the Company's Phase 2 gas restructuring plan anticipated by the Agreement and Settlement dated September 11, 2000 ("Rate Case Settlement") and considered by the New York Public Service Commission ("Commission") by Order dated November 20, 2000 in Case 99-G-1695 ("Rate Order"). The key provisions of this Proposal are as follows:

Term

This Proposal covers the period from November 1, 2001 to October 31, 2003.

Gas In Storage Working Capital

In Phase 2, separate rates for firm sales and firm transportation customers will be set to recover gas in storage working capital costs while maintaining the following relationship:

Firm Transportation Customer Rate ($/ccf) = 0.2 * Firm Sales Customer Rate ($/ccf)

In accordance with the Rate Order, a true-up of actual gas in storage working capital costs and recoveries will be performed at the end of each twelve-month rate year ended

October 31. The over/under collection resulting from this true-up will be added to the projected gas in storage working capital cost for the following twelve-month period.

Phase 2 Back Out Rate

Effective November 1, 2001 through October 31, 2003, the Phase 2 back out rate will be $0.08 per Mcf for firm transportation customers receiving a single bill from Orange and Rockland (i.e., when Orange and Rockland incurs the risk of collecting the gas supply cost related account receivable) and $0.10 per Mcf for firm transportation customers with dual billing (i.e., when the marketer incurs the risk of collecting the gas supply related account receivable). For firm transportation customers receiving a single bill from Orange and Rockland, the $0.02 per Mcf difference between $0.08 and $0.10 reflects the avoided uncollectible on the gas supply costs. For each Mcf of firm transportation sales, Orange and Rockland shall amortize to Other Operating Revenue as an offset $0.08 per Mcf of certain deferred credits.

Orange and Rockland will contribute $50,000 in each of the rate years, ending October 31, 2002 and October 31, 2003, toward the deferred credit amortization related to the lost revenue associated with the Phase 2 back out rates.

Rate Unbundling

The parties to this Proposal propose that the back out rate, with its sources of funding for the associated lost revenues, remain in effect through the term of the rate plan established by the Commission in the Rate Order (i.e., through October 31, 2003). The Company would implement the unbundling provisions established in the Unbundling Proceeding (Case 00-M-0504) after the term of this Proposal expires.

Interruption Process

Orange and Rockland will implement certain interruption related procedures, above and beyond those required by the Commission's order dated January 31, 2001 in Case 00-G-0096. Orange and Rockland will respond to inquiries regarding interruptions within 14 days of receipt of such inquiry. Any disputes can be submitted to the Company's Vice-President level Ombudsman. If the matter remains unresolved, the parties will meet to attempt to informally resolve the dispute. If unsuccessful, the customer may file an informal or formal complaint with the Commission.

Provider Of Last Resort Pilot

Orange and Rockland will meet with and solicit the views of its Consumer Advisory Panels regarding their interest in a POLR pilot program. Following the completion of these sessions, Orange and Rockland will survey marketers to determine marketer interest in participating in a POLR pilot program. Finally, following the issuance of an order regarding POLR in the Competitive Markets Proceeding, Orange and Rockland will develop and file with the Commission a response consistent with such Commission order.

Market Power Monitoring Mechanism

The Proposal would implement a market power monitoring mechanism that would become operational once 35 percent of Orange and Rockland's customers have commenced taking service from marketers. After this 35 percent migration threshold is achieved, if an individual marketer's share exceeds 25 percent of the Company's total firm sales and firm transportation gas customers, any interested party may request a meeting of the parties to determine if a market power concern exists. This provision of the Proposal provides a forum for the informal discussion and resolution of market power concerns.

Marketer Satisfaction Survey

Orange and Rockland will conduct additional marketer satisfaction surveys in April 2002 and April 2003. Such surveys will be conducted by an independent third party and their results will be provided to the parties.

Customer Credits

The Rate Case Settlement allows Orange and Rockland to take to income $9.06 million if the Commission finds the Company's Phase 2 gas restructuring plan to be acceptable. These monies are in lieu of a gas base rate increase that the Company is willing to forego until October 31, 2003 if the Commission accepts this Joint Proposal.