STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on September 19, 2007

COMMISSIONERS PRESENT:

Patricia L. Acampora, Chairwoman
Maureen F. Harris, dissenting
Robert E. Curry, Jr.
Cheryl A. Buley

CASE 06-G-1332 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service.

ORDER ADOPTING IN PART THE TERMS AND CONDITIONS OF THE PARTIES' JOINT PROPOSAL

(Issued and Effective September 25, 2007)

BY THE COMMISSION:

Procedural History

Consolidated Edison Company of New York, Inc. (Con Edison or the Company) has been operating under a three-year gas rate plan that expires on September 30, 2007.[1] On November 2, 2006, Con Edison filed tariff leaves and supporting testimony for new rates and charges for gas service for the period beginning October 1, 2007. Con Edison's rate request sought an increase in its annual gas revenue requirement by $196.7 million for the period ending September 30, 2008. A multi-year rate plan was also proposed under which Con Edison sought three rate increases totaling $285 million. The rates were suspended through September 30, 2007, of orders issued November 15, 2006

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[1] Case 03-G-1671, Consolidated Edison Company of New York, Inc. – Gas Rates, Order Adopting the Terms of a Proposal (issued September 27, 2004).

and February 28, 2007. On March 16, 2007, five parties[2] filed testimony opposing the Company’s rate request.

On March 7, 2007, Con Edison filed a notice of commencement of settlement negotiations in accordance with our rules, and, after a revision to the litigation schedule, Con Edison filed updated testimony on April 2, 2007. Con Edison and the New York Energy Consumer Council, Inc. (NYECC) filed rebuttal testimony on April 10. Settlement negotiations continued throughout April and May as the procedural schedule was adjourned for that purpose.

Ultimately, the negotiations were successful, and, in a document dated June 1, 2007,[3] ten parties submitted a Joint Proposal (Proposal). The Proposal was executed by Con Edison, Staff, the City, CPA, NYECC, Small Customer Marketer Coalition (SCMC), Pace, the Association for Energy Affordability (AEA), IDT Energy, Inc., and the New York State Energy Research and Development Authority (NYSERDA).

Following the submission of the Proposal, a schedule was established for filing statements in support of or in opposition to the Proposal. On June 19, the City, Con Edison, CPA, Direct Energy, NYECC, Pace, SCMC, and Staff filed comments supporting the Proposal, the Public Utility Law Project (PULP) filed comments opposing the Proposal, and the Consumer Protection Board (CPB) submitted comments describing some of the benefits the Proposal could provide. On June 29, a reply statement to PULP’s opposition was submitted by Con Edison.

On July 10, 2007, an evidentiary hearing was held at which Staff, the Company, and other parties responded to a series of questions regarding various details of the proposal. Because it could not attend the hearings on July 10, CPB submitted an electronic correspondence on July 9 responding to

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[2] Staff of the Department of Public Service (Staff), the City of New York (City), National Resources Defense Council (NRDC) and Pace Energy Project (Pace), New York State Consumer Protection Board (CPB), and Consumer Power Advocates (CPA).

[3] The Proposal was filed on June 4, 2007, entered in the record as Exhibit 1, and is Attachment 1 to this order.

questions that had been raised by the Administrative Law Judge in an e-mail to the parties prior to the hearings. Public Statement Hearings were held in Westchester on July 9 and in mid-town Manhattan on July 10.[4]

A State Administrative Procedure Act (SAPA) notice (#1332SA1) regarding the Company's filing was published on March 14, 2007. No comments were received in response to the notice.

Summary of Joint Proposal

The Proposal consists of seven major subdivisions (A-G) and 12 Appendices (A-L). The main sections of the Proposal, briefly summarized below, are term, gas rates and revenue levels, computation and disposition of earnings, reconciliations, additional rate provisions, miscellaneous provisions, and other provisions.

Term

The term of the Proposal (Section A) commences October 1, 2007 and continues through September 30, 2010. Each rate year would be construed as beginning on October 1 and ending on September 30 of the following year.

Rates and Revenues

Section B of the Proposal addresses rates and revenue levels and contains eight subsections. The rate level provisions (subsection 1) increase the Company's rates by $67.4 million in rate year one, $32.7 million in rate year two, and $42.7 million in rate year three.[5] In addition, the Proposal includes an estimated $17.2 million of revenues, which will now be collected through the Monthly Rate Adjustment (MRA) or

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[4] The hearings generated 1,673 pages of transcript and 20 exhibits (the bulk of which is the parties' prefiled testimony and exhibits). One member of the public provided comments in Westchester (concerning opposition to the rate increase and an ongoing electric outage in New Rochelle) and two members of the public provided comments in Manhattan (concerning labor issues regarding a Con Edison subcontractor and opposition to the rate increase).

[5] Proposal, p. 4.

Merchant Function Charge (MFC), rather than through base delivery rates. Further, customers could face in the first year potential surcharges for energy efficiency ($14 million or a 2.33% delivery cost increase; 0.71% total bill increase), a $1.4 million surcharge for the Company's oil to gas conversion program, and a $300,000 potential surcharge for Energy Efficiency Outreach and Education.[6] In total, new charges to ratepayers in the first year could generate additional revenue of approximately $100 million, which equates to an effective increase in delivery rates of more than 16%.

The Proposal also notes that sales forecasts have been set at a "significantly higher" level than originally forecasted by the Company;[7] that rates have been designed to implement the increases, including the low-income rate program, in accordance with the Proposal, Appendix D; and that the Company may retain the first $35 million of non-firm revenues, but will share amounts above that level with customers. In addition, this section of the Proposal addresses the sharing with customers of the costs of lost and unaccounted for gas[8] and the transfer of uncollectible costs and working capital costs on gas in storage to volumetric rates.

Section B(8) of the Proposal describes the Revenue Decoupling Mechanism (RDM). The Proposal states that the RDM will apply to "base revenues" from service provided to the Company's firm customers including those in service classifications two, three and nine.[9] The RDM does not apply to customers taking service in economic development zones, under a manufacturing incentive rate, under the low-income program, or to customers receiving service at a firm bypass rate. This section also provides that the weather normalization adjustment

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[6] In addition to these surcharges, the Proposal provides for the deferral and future recovery of costs in a number of areas (Tr. 1629-1642).

[7] Proposal, p. 5, Section B (2).

[8] Id., p. 7, Section B (5).

[9] Id., p. 9.

will continue, but that the deadband around the existing adjustment will be eliminated.[10] The mechanism will operate on the basis of a revenue-per-customer calculation, allowing the recovery of differences between original estimates and the Company's actual sales-per-customer.

For rate years two and three, the Proposal includes a collaborative process, beginning no later than November 1, 2007, to evaluate and recommend the design and conditions of an RDM for the last two years of the rate plan. The collaborative effort will be chaired by Con Edison who will prepare a report to be filed with us "on or about" April 15, 2008,[11] and which will include recommendations for an RDM.

Earnings

Section C of the Proposal addresses the computation and disposition of earnings. This Section requires Con Edison to annually submit its computation of return on common equity capital (ROE) for the preceding year. Should the level of earnings exceed 10.7%[12] (or 10.9% in the first rate year) the amount in excess will be shared by deferring 50% for the benefit of customers and allowing the balance to be retained by the Company.

Reconciliations

Section D discusses the reconciliation of the costs set forth in Proposal, Appendices G and H. Specified costs would be deferred and recovered from or credited to customers in a manner to be determined by the Commission. Included among the reconciled costs are property taxes (90% of the annual variation); interference expenses (90% of the annual variation); capital expenditures (may be deferred up to $11 million in

[10] Eliminating the deadband eliminates all weather-related revenue risk.

[11] We expect this report to be filed no later than April 15, 2008, unless Con Edison provides before that date a reasonable cause for delay.

[12] Revenue requirement includes a 9.7% allowed ROE.

excess of the rate allowance; all shortfalls will be deferred for customers);[13] pension and OPEBs costs (reconciled pursuant to the pension policy statement); gas transmission main maintenance program costs (if Staff agrees with the study to be filed by the Company); research and development expenditures (above or below the target levels, subject to a $1.1 million cap above the target level), environmental remediation costs, pipeline integrity costs, costs required by new regulatory requirements, costs related to Section 263A tax audit, and credit and collection costs[14]. Finally, the Proposal includes a limitation on certain deferrals such that 50% of deferred costs will be eliminated should the Company's earnings exceed the earnings sharing thresholds. Deferred costs will only be eliminated to the extent it does not reduce the Company's earnings below the earnings sharing thresholds.[15]

Additional Rate Provisions

Section E of the Proposal establishes depreciation rates and reserves, interest on deferred costs, property tax refunds and credits, and the allocation of common expenses and plant.

Miscellaneous Programs

Section F of the Proposal deals with a variety of programs, including Company programs regarding energy efficiency, oil to gas conversion, communication with interruptible customers, low-income program, retail access, gas manufacturing incentive rates, safety performance measures and associated rate incentive adjustments, customer satisfaction, general outreach and education, and assorted miscellaneous tariff changes.

For the first rate year, customers will fund a transitional gas efficiency program administered by NYSERDA as

[13] Tr. 1639.

[14] Tr. 1637-1642.

[15] Proposal, pp. 13-19.

established by our May 16, 2007 Order in Case 03-G-1671.[16] Pursuant to that order and the Proposal here, Con Edison will provide quarterly payments to NYSERDA for energy efficiency program costs not to exceed $14 million in the aggregate for the period ending September 30, 2008. All such payments, including those made prior to the beginning of the first rate year (October 1, 2007), will be recovered from customers in a surcharge. In addition, the Proposal creates an incentive for the Company, which, if met, would allow the Company to retain all earnings on equity in year one up to 10.9%. That earning sharing level would be reduced by ten basis points should the Company fail to demonstrate "that it actively supported NYSERDA in implementing the Transitional Program," and another ten basis points if "NYSERDA does not succeed in encumbering more than 75% of the $14 million of funding."[17]

For rate years two and three, a gas efficiency collaborative is to be formed, on or about September 1, 2007, to develop a recommended efficiency program for rate years two and three, including issues such as program design, funding, performance incentives, and program administration. This effort will be chaired by Con Edison, who will contract with an independent consultant to perform a study to make recommendations concerning the appropriate level of funding for years two and three, the need for program changes, if any, and new programs that could be developed. Ultimately, Con Edison will prepare a report to be filed with the Commission by April 15, 2008 that will include recommendations on the following questions: Who should serve as the Administrator of the Program? How can the City and County and other interested stakeholders best work with Con Edison and/or NYSERDA to maximize the effectiveness of the programs? What are appropriate gas efficiency goals for rate years two and three? Should Con Edison be provided an opportunity to earn financial

[16] Case 03-G-1671, supra, Order Establishing Gas Efficiency Program for 2007-08 Heating Season (issued May 16, 2007); Proposal, Section F, subsection 1, pp. 21-26.

[17] Proposal, pp. 22-23.

incentives if it administers the program during rate years two and three? How much of the funding for the program would be for outreach, education, and marketing efforts? What is the nature and extent of monitoring, verification, and evaluation that should be performed? How should program costs for years two and three be recovered from customers? Are there program developments related to gas efficiency in Commission Case 07-M-0548 that should be incorporated for years two and three?[18] and, Are there legislative and/or regulatory opportunities that could help achieve greater gas efficiency?[19]

The Proposal includes an oil to gas conversion program under which the Company will provide incentives for conversions and may surcharge ratepayers for those incentives up to a maximum of $1.47 million for each of the three rate years. Any incentives provided in excess of said amounts will be funded by the Company and will not be recoverable. The Company will retain all revenues resulting from such conversions.[20]

The Company also agrees to expand its current methods of notifying interruptible gas customers of service interruptions by including e-mail and, if practicable, text messaging in addition to fax and/or phone. The Company will provide its evaluation of the technical requirements for implementing e-mail and text messaging and will report its plan to interested parties in early September 2007.[21]

The Proposal includes a provision for a low-income program as described in Appendix D. Under that program, low-income residential customers taking service under SC 1 and 3 may qualify if a customer receives a benefit under any of a number of different governmental assistance programs.[22] The program will include a rate reduction of $0.2029 per therm for

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[18] Case 07-M-0548, Proceeding on the Motion of the Commission Regarding an Energy Efficiency Portfolio Standard.

[19] Proposal, pp. 23-26.

[20] Id., pp. 26-27.

[21] Id., pp. 27-28.

[22] Id., Appendix D, p. 4.

SC 1 customers and SC 3 customers. Similar rate reductions will be set for equivalent SC 9 transportation customers. Eligible SC 3 customers will also receive a reduction in their minimum charge, which will be set at the minimum charge for SC 1.[23] In addition, the reconnection fee applicable to low-income customers will be established at $65 with a reconnection fee for all other customers set at $245.[24]

Under the Company's retail access program, it will continue its Purchases of Receivables (POR) for ESCOs at a compensatory discount rate. The Proposal establishes a new dispute resolution procedure whereby the Company will assist customers in disputes between the customer and an ESCO where ESCO charges are billed and purchased by Con Edison.[25] Other than the POR program, ESCO referral program, and market match website which the Company will continue, the Company is not required to continue any other element of the retail access program established in the Company's 2004 gas rate plan.[26] The Company will also make changes to its competitive rates, specifically the gas Merchant Function Charge (which will now include credit and collections/theft), and the account level billing and payment processing charge.[27]

The Company will expand the gas manufacturing incentive rate by enabling any existing manufacturing customer to take advantage of the rate, if the customer increases its gas usage in manufacturing by 25% or more and agrees to submit to a NYSERDA energy audit. The rate will also be made available to existing buildings, if they qualify for a matching benefit from the City or County, submit to a NYSERDA energy audit, and

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[23] Id., p. 5.

[24] Proposal, pp. 29, 39.

[25] Id., p. 30.

[26] Id.

[27] Proposal, Appendix D. We direct the Company to continue working with Staff on the Company's unbundled bill format to assure that customers are provided clear and understandable bills containing accurate price signals.

provide evidence of private sector job creation/retention and capital investment.

The Proposal also contains a number of different safety performance measures which can result in negative rate adjustments should the Company's performance not attain the safety level specified. Individual performance measures include year-end total backlog of leaks, year-end workable backlog of leaks, emergency response for 30-minute response times, emergency response for 45-minute response times, damage prevention including damage from mis-marks, damage by Company or Company contractors, total damages, gas main replacement incentives, and other general provisions. The details of each of these provisions are contained in the attached Proposal, pp. 33-38.

Finally under the miscellaneous programs portion of the Proposal, targets are established for customer satisfaction, which, if not met, will require Con Edison to provide a credit to customers. Further, the Company has agreed to continue to provide outreach and education regarding safety, service, and outages.

Other Provisions

Section G of the Proposal addresses a number of additional issues including rate changes, legislative, regulatory and related actions, trade secret protection, and assorted other provisions which are standard to most agreements.[28] Under the rate change provision, the Company's base rates cannot be changed during the term of the program without Commission approval, but the Company may file a new general rate case for rates to be effective on or after October 1, 2010. Rates may be changed under the Proposal prior to October 2010 if Con Edison's economic viability or ability to maintain safe, reliable, and adequate service is threatened or in the event we conclude that Con Edison's gas rates are unjust, unreasonable, or insufficient for the provision of safe, reliable, and adequate service.

[28] Proposal, pp. 40-44.

The Proposal further provides that should legislative regulatory or related actions result in the Company incurring incremental costs exceeding $2 million, Con Edison may defer the full change in expense to customers.

Summary of Parties' Comments

On June 19, 2007, and in accordance with the schedule established for the proceeding, eight parties filed statements in support.[29] In addition, CPB filed a statement regarding the Proposal, but neither signed the Proposal nor argued that it should be adopted. PULP also filed comments on June 19 in which it opposed the adoption of the Proposal. Finally, Con Edison filed a reply statement in support of the Proposal on June 29, 2007.

The City argues that the Proposal is consistent with the public interest and should be adopted without modification. The City and many of the parties point to the Commission's evaluation factors as established in our Settlement Guidelines and Procedures arguing that the Proposal fully meets all of the evaluation factors.[30] A number of parties argue that while the Proposal provides for rate increases, the savings to consumers of the Proposal's terms compared to the Company's initial filing are substantial. The City concludes that the Proposal is consistent with the regulatory, economic, social, and environmental policies of the Commission based, inter alia, on the Proposal's economic development provisions and energy efficiency program. The City also argues that the terms of the Proposal compare favorably to a litigated result, represent a

[29] Supporting comments were filed by the City, Con Edison, CPA, Direct Energy, PACE, NYECC, SCMC, and Staff.

[30] Case 90-M-0255, Proceeding on Motion of the Commission Concerning its Procedures for Settlement and Stipulation Agreements, filed in Case 11175, and Case 92-M-0138, In the Matter of the Rules and Regulations of the Public Service Commission contained in 16 NYCRR, Chapter I, Rules of Procedures – Proposed Amendments to Subchapter A, General, Part 2, Hearings and Rehearing by the addition of a new Section 2.6, Settlement Procedures, filed in Case 11175, Opinion No. 92-2 (issued March 24, 1992), p. 30.

compromise well within the range of anticipated outcomes, and further notes that the Proposal enjoys broad support among diverse stakeholders representing varied, often adversarial, interests.

The City's comments also discuss the RDM and energy efficiency programs established for rate year one and which will both be subject to collaborative discussions to determine appropriate programs for years two and three. In the City's view, this approach is reasonable and workable and will ensure a substantial energy efficiency effort over the term of the rate plan.[31]

In support of the Proposal, the City also points to improvements: in SC 2 rate design (as addressed by their witness); in the equitable sharing mechanism allocating excess earnings; in the potential economic benefits of the gas manufacturing incentive rate; and in other provisions that will help to ensure reliable service. Finally, the City notes its full support for the continuation of the low-income discount program and concludes by urging the Commission to adopt the Proposal without modification.

Con Edison's Statement in Support reviews all of the major provisions in the Agreement and reaches the conclusion that the Proposal reasonably balances customers' interests, the Company's need for rate relief to cover increased expenses, and the need for investment in the Company's gas infrastructure to maintain reliable, safe, and secure service over the short and long term. It contends that the Proposal fully satisfies the Commission's Settlement Guidelines and should be promptly approved by the Commission in all respects.

In general, Con Edison contends that the settlement process served the parties well and allowed for the resolution of many complex and diverse issues. It suggests that all parties, including Con Edison, made numerous concessions to reach an agreement, and it lists a number of issues on which the Company conceded positions only with difficulty.[32] The Company

[31] City's Statement in Support, pp. 10-11.

[32] Con Edison's Statement in Support, p. 4.

concludes that the Proposal is reasonable on an overall basis and should be approved.

In reviewing the specific provisions of the Agreement, the Company notes the revenue decoupling mechanism being introduced for the first time in a number of years, various financial issues including the earnings sharing provision and reconciliation of costs,[33] the expanded gas energy efficiency program, the continuation of its oil to gas conversion program, improved communications with interruptible customers, the enhanced low-income program, the gas manufacturing incentive rate that may help economic development efforts, and the standards established for various safety performance measures. Con Edison argues in conclusion that the Proposal is reasonable, especially considering the numerous negotiated compromises required to reach an agreement, and that consensus was achieved by normally adversarial parties. According to Con Edison, the Proposal balances the interest of a variety of parties, produces a result within the range of reasonableness, and otherwise comports with the Commission's policies and guidelines. As such, the Company urges that the proposal be approved in its entirety.

CPA's statement in support was filed with reservations. It states that the terms and conditions of the Proposal would likely be similar to the result of litigation, that the rates established are reasonable and adequate, and that the Proposal's rate design reduces subsidies among classes. It also points approvingly to the Company's effort to improve communications with interruptible customers, and it concludes that the energy efficiency program is appropriately ambitious.[34]

CPA does not support the RDM, however, because it believes the premise for the RDM is flawed. It would prefer cost-based rates that would allow the market to determine the appropriate and most efficient level of energy efficiency investment. CPA is concerned that the RDM will result in

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[33] Id., pp. 9-10.

[34] CPA's Statement in Support, pp. 1-2.

adverse rate impacts due to annual revenue true-ups and concludes that such results can only disrupt the economic basis for conservation investments and potentially erode public support for conservation policies generally. Noting that this was exactly the result from previous experiments in decoupling in New York, CPA urges that the Commission reverse this discredited policy and allow the markets to determine the appropriate economic level of energy efficiency investments.

CPB filed a statement addressing a number of the Proposal's provisions it believes would benefit consumers. CPB notes that the Proposal incorporates the majority of its litigation positions on a variety of the expenses and issues reviewed in the proceeding.[35] CPB also argues that the return on equity developed in conjunction with an aggressive sales forecast compares favorably to its litigation position regarding return on equity. It also notes that there are a number of important policy changes being reflected for the first time, pointing, for example, to the transitional gas energy efficiency program and the long term program to be developed collaboratively. According to CPB, the RDM does not unduly shift risks to customers and is not likely to have significant bill impacts; it will, however, remove the current disincentive to promote energy efficiency. In the CPB's view, the RDM is a noteworthy achievement.

CPB further observes that its recommendations for discontinuing certain retail competition programs are being reflected in the Proposal, and it states that the Proposal's expenditures for infrastructure, rate design, and low-income customers will benefit all ratepayers. While it is not a signatory, the CPB nevertheless encourages the consideration of the "numerous consumer benefits" in the Proposal. [36]

Direct Energy also supports the Proposal in many important respects. It notes that the Proposal balances the concerns of the Company, its customers, and all of the parties,

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[35] CPB's Statement, p. 2.

[36] Id., p. 5.

and is therefore in the public interest. More specifically, Direct Energy believes the provisions relating to retail access are in the public interest, noting especially the Company's agreement to continue the purchase of receivables program, the market match website, and the ESCO referral program. It concludes that the provisions relating to retail access are in the public interest and should be adopted.

NYECC's statement contends that the Proposal in the best interest of the public in general and of the signatories in particular. NYECC points specifically to benefits from the Proposal, including the significant negotiated reductions from the Company's original rate request, the energy efficiency program and decoupling of the Company's revenues, the increased funding for gas infrastructure investments, and the establishment of safety targets with enforcement incentives. NYECC concludes, after weighing the likely cost of litigation, the probability of success, and the complexity of litigation, that the Proposal confers upon the public greater benefits than costs, and falls within the expected range of a fully litigated case.[37] It accordingly recommends that the Proposal be adopted as filed.

PACE also agrees that the Proposal is in the public interest, noting especially the creation of a transitional year-one gas efficiency program and revenue decoupling mechanism, and the related collaborative efforts anticipated for recommending programs for years two and three. PACE argues that the Proposal fully satisfies the Commission's Settlement Guidelines and therefore should be approved by the Commission in its entirety.

PULP filed comments in opposition to the Proposal and requests that the Proposal not be adopted or approved without the modifications it delineates. PULP's concerns are two-fold. First, the low-income rate program is funded in rates at $5 million of spending over three years. In addition, the Proposal permits the Company to recover up to an additional

[37] NYECC's Statement in Support, p. 2

$1 million from consumers if program enrollments result in those costs. In PULP's view, the target for spending on low-income programs therefore is $6 million, not $5 million, and the program discounts should be calculated accordingly. Second, PULP challenges what it sees as several defects in the year-one RDM which, if continued beyond year one, would be unfair to ratepayers.[38]

With regard to the low-income program, PULP argues that the Company is fully protected in recovering $6 million if it spends that amount in the low-income program over the three year rate plan. However, the Company is basing the Proposal's discount on $5 million of total expenditures and will only adjust the discount upward if total estimated expenditures become less than $5 million. PULP views this as a defect in the Proposal, and it urges that the rate plan provisions be adjusted such that the targeted spending and calculated discounts for low-income customers be based on $6 million.

PULP identifies a number of alleged defects in the operation of the year-one RDM, but nevertheless concludes that the defects in year one are unlikely to produce differences significant enough to require rejection of the RDM in the Proposal.[39] PULP explains that under the proposed RDM, the Company would be protected against declines in usage per customer due to increased gas prices (i.e., price elasticity effect). This risk, however, has nothing to do with eliminating the disincentive for utilities to aggressively implement energy efficiency programs. PULP also notes that reduced economic activity would trigger the reimbursement of lost revenues under the proposed RDM even though the reduction in economic activity is a risk the utilities otherwise bear. In neither case, according to PULP, should the RDM eliminate Company risks other than the risk of revenue losses due to the success of energy efficiency programs.

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[38] PULP's Comments in Opposition, p. 1.

[39] Id., p. 3.

PULP also notes that the existence of an RDM shifts a substantial risk of revenue shortfalls from the utility to the ratepayers. It notes that there is no downward adjustment to the Company's allowed common equity return referenced in the Proposal to account for the risk reduction associated with the RDM. If risks are significantly reduced, PULP suggests, the Company's return on equity should be reduced proportionately.

PULP also points out a potential problem under the RDM's estimated use-per-customer approach. New customers are likely to have more efficient homes or other energy uses, and therefore could reduce the actual average use per customer, thereby increasing the RDM true-up. Again, PULP notes, this result has little to do with conservation. Finally, PULP contends that the provision of the Proposal that would allow the RDM to continue after rate year three is unworkable and should be amended. Based on all of the above, PULP urges that modifications be made to the Proposal.

The statement in support filed by SCMC begins by reviewing the standards for the Commission's review of settlements and concludes that those standards have been fully met in the Proposal. The comments note that the Proposal properly balances the interests of all parties, comports entirely with the Commission's policy favoring the growth and development of competitive energy markets, and is supported by a highly diverse group of parties who are normally adversarial. In SCMC's view, the initiatives and programs in the Proposal support the growth and development of the utility's retail access program and will enhance the economic viability of the commodity market. Accordingly, SCMC supports the Proposal and recommends its adoption by the Commission.

Finally, Staff's statement in support, paralleling other party comments, provides an overview of the Proposal and our standard of review for settlements and stipulations. It concludes that the Proposal is in the public interest, clearly satisfies the guidelines we have adopted for settlements and stipulations, and urges that the Proposal's terms and conditions be adopted in their entirety. Staff further notes that virtually all parties have either signed the Proposal or have not opposed it.[40]

Staff argues that the base revenue increases over the three-year rate period are substantially below the levels requested by the Company. Nevertheless, the increases proposed are not de minimus and, according to Staff, have been driven by pension and OPEB costs, labor expenses, gas plant additions designed to enhance reliability, manufactured gas plant remediation costs, depreciation expenses, and the revenue deficiency caused by the expiration of accounting credits.[41] Staff also contends that the RDM implemented in rate year one and the collaborative effort to examine the RDM issues for years two and three will benefit all customers because it will eliminate the disincentive to undertake aggressive energy efficiency programs. Staff also concludes that the Proposal will enhance system reliability due to the gas main replacement program which will exceed the Company's historic efforts.

Rates have been set, according to Staff, based on an aggressive forecast of the number of customers. This provision should assist in eliminating any large reconciliation of amounts due from ratepayers when the RDM estimates and actuals are compared. Staff contends that the Proposal's rate design provides for the equitable allocation of increased revenue requirement premised on cost of service principles and tempered to mitigate customer impacts (e.g., by constraining the minimum customer charge for residential heating customers to a level well below that proposed by the Company). According to Staff, delivery rates will increase 6.96% on average for the first year which is a composite of 11.19% increases for residential non-heating, 6.03% for commercial non-heating, 5.17% for commercial heating, and 6.12% for residential heating.[42] Delivery rates on average for the second year will increase 4.91% and for the third year 5.98%.

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[40] Staffs' Statement in Support, p. 5.

[41] Id., p. 3.

[42] Id., pp. 8-9.

Staff also notes the significant concessions Con Edison made with regard to the terms concerning non-firm revenues, noting that the revised formula provides greater incentives for the Company to generate additional revenues from these sources. Staff also states that: the Proposal's treatment of depreciation is consistent with Staff's recommendation; the factor of adjustment ratio provisions provide fair and reasonable incentives for Con Edison to minimize gas losses; the ratemaking for uncollectible costs is consistent with Staff's recommendations; and the Proposals' treatment of storage gas carrying costs is consistent with Staff's testimony and reduces the level of risk to Con Edison.

The RDM, Staff asserts, is intended to remove disincentives to the Company to promote and implement gas efficiency and conservation programs. Staff explains that the use of a revenue-per-customer RDM as designed in the Proposal, allows the Company to benefit from additional growth in customers, protects customers from lower than projected customer growth, and decouples reduced usage per customer from Company profits. This will free Con Edison, according to Staff, to enter into gas efficiency programs without concern about the potential impacts on profits of revenues lost to energy efficiency.

In examining the cost of capital and related issues, Staff notes that the return on equity allowance 9.7% is fair and reasonable and reflects the risks inherent in the Proposal. It notes that the levels of revenues available to Con Edison under the rate plan are "largely capped" and the projected sales forecast is very aggressive.[43] Finally, Staff argues that the ROE allowance in the Proposal is similar to those provided by the Commission in recent cases.

Regarding the RDM sharing mechanism, Staff notes that if the Company exceeds the financial performance assumed in the rate plan, the sharing with customers of earnings above the threshold levels ensures a fair share of the benefits to the

[43] Id., p. 14.

public while still allowing the Company to increase its profitability. The earning sharing threshold of 10.7% is 100 basis points above the allowed return on equity, and 100 basis points lower than the earning sharing threshold in the existing rate plan.

Staff also discusses reconciliations and deferrals for costs that include property taxes, interference expenses (other than Company labor), capital program expenditures, pension and OPEB expenses, gas transmission main maintenance program costs, research and development costs, environmental remediation costs, pipeline integrity costs, New York facilities charges, distribution integrity and gas inspections, Section 263A deferred taxes, and transmission adjustment for competitive services. Each of these items, Staff concludes, have been treated consistently with other recent rate plans, are costs largely beyond the Company's control, are costs critical to maintain the Company's infrastructure, or are cost accounting procedures consistent with the practices for New York utilities.

Staff also discusses the gas energy efficiency program, noting its numerous benefits including reduced consumer energy bills, reduced CO_2 emissions, and reduced demand on constrained interstate gas pipeline deliveries.[44] Under the transitional first-year program, 50% of the energy efficiency program funds will be allocated to low-income residential customers, 25% to other residential customers, and 25% to commercial and industrial customers. Given the provisions of the energy efficiency program, Staff concludes that it balances the Commission's goals of serving the needs of natural gas consumers for the 2007-08 heating season, while providing for the thoughtful planning of efficiency programs, including the RDM, for rate years two and three.

Staff also points to other provisions in the Proposal which provide benefits to customers, including the Company's oil to gas conversion program (funded at $1.47 million annually), increased and improved communication with interruptible

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[44] Id., p. 21.

customers (which will help maintain system reliability), a continued and expanded low-income program (which recognizes the heavy burden on low-income families of energy and gas bills), and various provisions regarding retail access (e.g., the continuation of the POR program, the implementation of a new dispute resolution procedure for ESCO commodity customers, etc.). Staff further notes its approval of the gas manufacturing incentive rate (which will assist economic development), and the safety performance measures (which will reduce the Company's earnings if safety standards are not met).

In conclusion, Staff states that the Proposal falls within the bounds of the likely results of a litigated case and argues that the number of supporting parties and limited other opposition strongly suggests that the interests of all parties have been reasonably addressed. Staff also contends that the Proposal significantly advances the Commission's goals for energy efficiency, while allowing the Company sufficient funds to make substantial gas system improvements to enhance service and reliability. Staff concludes that the terms of the Proposal are in the public interest and should be adopted in their entirety.

Only Con Edison filed reply comments which addressed the statement in opposition filed by PULP. With regard to the low-income program concerns PULP raised, Con Edison disputes the reasonableness of providing $6 million of benefits without regard to the number of participating customers. The Company explains that PULP's comments also fail to consider the significant enhancements in the low-income program. As Con Edison views the Proposal, the program is premised on a $5 million funding level with the possibility of obtaining another $1 million in program benefits if there is an increase in the level of customer enrollment. If these additional funds were not provided, the Company would have to reduce the discount to participating customers should an increased number of customers qualify for the program. According to the Company, the $6 million overall cap on expenditures was intended to provide the Company flexibility to serve an increased number of customers under this low-income discount rate.

The Company also notes that the discount rate per therm has been increased 24% over the last rate plan, and that discount represents a 36% discount off the full delivery rate for rate year one. In addition, the Company states that the low-income program provides for participating SC 3 low-income customers to pay the same minimum charges as SC 1 customers, and that the new program sets a materially lower reconnection fee ($65) for low-income customers compared to the fee for other customers ($245). Con Edison concludes that low-income customers will receive materially greater benefits under the Proposal than they receive under the current rate plan, and, therefore, PULP has not demonstrated any reason for the Commission to change the program as set forth in the Proposal.

Regarding PULP's concerns about the RDM, Con Edison notes that PULP expects any flaws in the RDM in rate year one to result in a de minimis reconciliation. It acknowledges PULP's arguments that certain RDM design deficiencies may need to be addressed in the collaborative for rate years two and three, but argues that the Proposal provides a specific process where such issues can be raised. Con Edison states that "any argument relating to a mechanism for RY 2 or RY 3 is premature and should not be addressed at this time."[45] The Company disagrees with PULP's criticisms of the RDM regarding reduced Company risks, noting that, while an RDM provides revenue protection for the Company, it also reduces the Company's earnings opportunity.

Con Edison concludes that the Proposal's year-one RDM does not prejudge the appropriate terms of the RDM for rate years two and three which will be determined in a collaborative proceeding. PULP's concerns, therefore, need not be addressed now.

DISCUSSION

For the terms and conditions of a Proposal to be adopted, they must be just and reasonable and in the public

[45] Con Edison's Reply Statement in Support, p. 5.

interest.[46] We have consistently determined whether the public interest has been met in our review of such proposals by considering the following:

- Are the terms and conditions consistent with law and the regulatory, economic, social and environmental policies of the Commission and the State?
- How do the terms and conditions compare with the reasonable range of results that a fully litigated case would likely yield?
- Do the terms and conditions strike a fair balance among the interests of the ratepayers and investors, and the long-term soundness of the utility?
- Is there a rational basis for the terms and conditions?

Additional weight is given to the terms and conditions of a proposal entered into by normally adversarial parties. Finally, a review of parties' proposals must include an assessment of the completeness of the record.

In this proceeding, we note especially the number of normally adversarial signatories to the Proposal as well as the unusual breadth of the interests represented by those signatories. The parties supporting the Proposal represent environment and low-income interests, small and large volume customers, energy services companies, energy efficiency interests, three governmental parties,[47] and other diverse interests, both public and private. Additional weight should be given to the reasonableness of the Proposal's terms in this case due to the wide range of normally adversarial parties who have reached agreement. Further, the diversity of interests among the Proposal's signatories also supports a finding that the Proposal's terms strike a fair balance among the interests of

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[46] Opinion No. 92-2, supra.

[47] City of New York, New York State Department of Public Service, and the New York State Energy Research and Development Authority.

customers, investors, and the long-term viability of the utility.

We also find, as a general matter, that the terms and conditions of the Proposal are consistent with the regulatory, economic, social, and environmental policies of the State. We particularly note the institution of an RDM as a primary tool in advancing the efficiency with which New York uses energy.[48] As discussed below regarding contested issues, the transitional RDM for the first year and related provisions in the Proposal raise some concerns, but those provisions are of limited duration and adjustments to the RDM mechanism can be made in the context of the collaborative processes designed to produce RDM and energy efficiency programs for the second and third years of the rate plan. We therefore find the RDM provisions of the Proposal to be a significant step forward for the State's environmental policies and our efforts to increase the efficiency with which we use energy in New York.[49]

Similarly, the aggressive year-one energy efficiency program administered by NYSERDA is another program that presages our increased interest and emerging policies concerning energy efficiency investments.[50] Again, there are aspects of the efficiency program which raise concerns, but even assuming the validity of the issues raised, corrective measures can be taken before the second year of the program begins. We therefore find that the expanded and transitional first-year energy efficiency program and the provisions for crafting programs for years two

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[48] We have previously found that decoupling mechanisms serve two purposes: to remove the profitability disincentive for the utilities' investment in energy efficiency; and to reduce the risk to utilities during multi-year rate plans or when faced with significant financial challenges. (Case 03-E-0640, 06-G-0746, Investigation of Potential Gas Delivery Disincentives Against the Promotion of Energy Efficiency, Renewable Technologies and Distributed Generation, Order Requiring Proposals for Revenue Decoupling Mechanisms (RDM Order), (issued April 20, 2007), p. 8.)

[49] Case 07-M-0548, supra.

[50] Id.

and three substantially advance the policies of this Commission and the State of New York.

In addition, the economic, social, and regulatory policies of the Commission are incorporated in the provisions of the Proposal, for example, through the gas manufacturing incentive rate (economic development), low-income program (social and regulatory policies), and the expanded capital improvement program (regulatory and reliability policies). We therefore conclude that the terms of the Proposal are consistent with the law and policies of the Commission and the State.

Based on the extensive prefiled testimony and detailed exhibits, we also find that the Proposal's terms and conditions fall within a reasonable range of results that would be expected from a fully litigated case and that the record developed on the rate plan is complete. Compared with Con Edison's original rate increase request over three years of $285 million, increased charges of approximately $175 million over the same period falls within the range of litigated results we might expect. Further, we have examined the principle drivers of the rate increases[51] and agree, as noted by Staff, that they are largely beyond the Company's control.

In addition, the fact that no party to the proceeding has challenged the need to provide increased revenues of the magnitude proposed to cover these costs, including those who oppose or have not agreed to the Proposal, leads us to conclude that the overall revenues are just and reasonable. Nevertheless, we are concerned that the magnitude of the rate increases, particularly the proposed 16.4% year-one increase,[52]

[51] The principal drivers that support the rate increases include pensions and other post-employment benefit (OPEB) costs, labor expenses, gas plant additions designed to enhance reliability, manufactured gas plant (MGP) remediation costs, depreciation expenses, and the revenue deficiency caused by the expiration of accounting credits used to offset additional rate increases in the last case (Staff's Statement in Support, p. 3).

[52] This increase includes the energy efficiency surcharge and the transfer of costs to commodity.

do not reasonably balance the interests of customers and investors. These concerns will be discussed below.

Notwithstanding our conclusion that the terms and conditions of the Proposal satisfy our criteria for adopting them (except as otherwise discussed),[53] PULP has raised concerns regarding various aspects of the operation of the transitional, year-one RDM and the low-income program which are discussed below. In addition, we are also concerned with the need for and efficacy of the energy efficiency program incentive mechanism.

Contested Issues

As summarized earlier, PULP raises two types of concerns regarding the first-year RDM. First, it describes a number of business risks faced by the Company which are eliminated by the RDM, but which have nothing to do with removing the utility’s disincentive to promote energy efficiency and demand side reduction programs. Second, it argues that the substantial (and not wholly necessary) risk reduction provided by the RDM has not been adequately considered in setting the ROE allowance. PULP also raises objections to aspects of the low-income program, and, as noted, we have concerns about the pattern of rate increases over the three years of the rate plan and the energy efficiency program incentive. Each of these issues is discussed below.

RDM Risk Protections

PULP argues that the year one RDM provides broader risk protection to the Company than is needed to meet our goals. It notes, for example, that the RDM protects the Company from certain price elasticity demand reductions and declines in overall economic activity, risk protections which have not been

[53] A minor clarification agreed to by the parties (Tr.1626-1628), should be noted regarding the Company’s dispute resolution procedures for customer complaints regarding ESCOs. The parties agreed that the charge Con Edison may make if it finds an ESCO not in compliance with the customer complaint procedures is to be credited to the complaining customer (Proposal, App. K, p. 6). This credit was not explicitly allocated to the customer in the Proposal.

traditionally provided in rates. It also notes that the operation of the average use-per-customer approach to decouple sales from earnings may operate to the detriment of customers if the higher efficiency of new customers' uses lowers the overall average. To the extent that occurs, the Company would be entitled to recoup the difference between the rate-case estimated average and the average resulting from more efficient, new customers.

Most of PULP's concerns about the operation of the RDM appear reasonable, and the parties should examine the issues it raises in establishing the terms and conditions of future RDMs. PULP recognizes, however, that even with the flaws it alleges, the actual results in year one are likely to vary from the Proposal's estimates by a de minimus amount. According to PULP, this amount is "not significant enough to require rejection of this aspect of the Joint Proposal."[54] Given the opportunity to adjust or correct RDM provisions for years two and three, and the likely de minimus impact of the alleged problems in year one, we agree with PULP that its concerns are not sufficient to reject the transitional, year-one RDM.

Risk Reductions and ROE

An issue that can have a significant impact on rates is the level of allowed return on equity (ROE). In this case, the ROE is set at 9.7% for each of the three years. The Company is permitted to keep all earnings up to 10.7% (10.9% in year one if the Company meets certain standards), and earnings above those levels are shared equally between customers and shareholders. This is a result, as Staff argues, that compares favorably to recent ROE allowances and earnings sharing mechanisms. However, we find that the facts in this case regarding the risk faced by the Company are not completely analogous to the cases cited by Staff. We also agree with PULP's observation that the Proposal contains "no apparent

[54] PULP's Comments in Opposition, p. 3.

downward adjustment to the Company's earned (sic)[allowed] common equity return because of the adoption of the RDM . . ..″[55]

As we previously noted, one impact of an RDM is to reduce the utility's exposure to revenue losses, thereby reducing the Company's overall risk. In this case, for example, the RDM protects roughly $514 million of rate year sales revenues on a use-per-customer basis (out of a total forecast of $713 million),[56] which is a significant increase in risk protection compared to previous cases. There are also a number of provisions that provide risk protection from variations in a number of expense categories as compared to forecasts, in some cases offering risk protection that is incremental to the protection provided in previous cases.[57] In summary, some degree of risk protection is provided regarding 72% of revenues, 17% of operations and maintenance costs, and 91% of taxes other than income tax expense.[58] As PULP correctly argues, to the extent a Company's risk is reduced, the compensation for that risk, ordinarily reflected in the allowed ROE, should also be reduced.[59] The Proposal, however, does not specifically address this reduced allowance.

Despite our concern that the Proposal's allowed ROE is not set with reference to the level of risk reduction otherwise provided, we adopt as reasonable the ROE provisions in the

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[55] Id., p. 5.

[56] Tr. 1637.

[57] Tr. 1638-43.

[58] Tr. 1637-1638.

[59] While there are significant differences between gas and electric utility risks and the manner in which those risks are reflected in rates, Maryland recently reduced allowed ROEs in electricity rates to account for the risk reduction of an RDM (Case 9093, Application of Delmarva Power and Light Company for Authority to Revise its Rates and Charges for Electric Service and for Certain Rate Design Changes, Order No. 81518 (issued July 19, 2007), p. 41; Case 9092, Application of Potomac Electric Power for Authority to Revise its Rates and Charges for Electric Service and for Certain Rate Design Changes, Order No. 81517 (issued April 19, 2007), p. 71.)

Proposal. We note first the parties' claims that the forecast of the number of customers is biased, i.e., it assumes the existence of more customers during the rate year that an unbiased estimate would yield.[60] If a completely unbiased estimate were used, the level of the Company's allowed return would fall. Thus, the actual allowed return is effectively somewhat lower than as stated in the Proposal. Further, the number and diversity of the signatories who are usually adversarial, as well as the substantial record compiled in this case, provides another basis for concluding that the allowed ROE is within the range of acceptable results. However, as we have previously stated, the specific consideration of the effect of an RDM on the utility's allowed ROE, "should be considered, to the extent appropriate, along with other factors, in the context of individual rate proceedings."[61]

Low-Income Program Funding

The Proposal dedicates $5 million in base rate funding, over three years, to Con Edison's low-income program. Further, it allows the Company to recover an additional $1 million in funding should the Company have more participation in the program than it currently forecasts. Customers are eligible for the program if they are receiving benefits under any of the governmental assistance programs such as Supplemental Security Income, Temporary Assistance to Needy Persons, Safety Net Assistance, Medicaid, Food Stamps, or have received a Home Energy Assistance Program grant in the preceding 12 months. The Company does a monthly match of social services recipient lists with its customer lists and automatically enrolls all matching customers. As a result, participation in the program is virtually 100% of all eligible customers.[62]

[60] Tr. 1635-1636.

[61] RDM Order, supra, p. 15.

[62] This does not include those who are eligible but have not applied for governmental benefits, or, for some other reason, are not receiving benefits.

If, at the end of the second year of the rate plan, the Company finds that it is likely to spend more than $6 million, it is permitted to decrease the discount for customers participating in the program. Similarly, if the Company finds that it is not going to reach the $5 million spending target, the proposal allows it to increase the discount for program participants. These increases or decreases in the discount are limited to 25%.

The additional $1 million, beyond the $5 million program funded in rates, gives the Company the ability to provide the pre-established low-income discount of $.2029 per therm for up to 20% more participants should its forecast of eligible customers be underestimated. The pre-established discount under the Proposal represents a 24% increase over the discount previously in effect and is about a 36% discount off the year-one rates.[63] The extra $1 million contingency allowance was not intended to increase these enhanced discounts, as would result under PULP's proposal, but was provided to allow the program to expand the number of customers served based on potential increases in enrollment in governmental assistance programs. Based on these facts and considering the other increased low-income program benefits under the Proposal,[64] we reject PULP's arguments that the firm spending budget for the program should be increased to $6 million.

Rate Mitigation

As noted above, the proposed rate plan's first year increase in customer bills is attributable to a base rate increase, the establishment of an energy efficiency surcharge and the transfer of certain costs from delivery rates to the commodity clauses. We are concerned about the impact on

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[63] Con Edison's Reply Statement in Support, p. 3.

[64] In addition to the increased rate discount, low-income customers are receiving the following increased benefits under the Proposal: 50% of the energy efficiency program spending; SC-3 minimum charge is limited to the SC-1 minimum charge; and a reconnection charge limited to $65.

customer bills of such a large initial rate increase (16.4%) produced by these three items. We have examined the costs in the record, many of which are directly tied to infrastructure additions and other unavoidable items, but we have not found any significant opportunities to reduce the level of required revenues. However, levelizing the rate increases over the three year plan, rather than collecting a major portion of the needed revenues in a first year increase, should provide some relief for customers. Mitigating the impact on consumers of setting rates has long been our policy, whether it is applied to constrain the rate design change impacts of a single proceeding or to limit the volatility of utility retail energy rates through portfolio hedging.[65] We intend to modify the terms of the Proposal here in a similar fashion. We are adopting the three-year revenue requirement set forth in the Proposal, but we are requiring that the rate increases be levelized over the term of the rate plan to mitigate its impact on customers.[66] We are approving rate increases[67] of 11.2% for one year ($67.5 million), 10.1% for year two ($67.5 million) and 9.2% for year three ($67.5 million).

[65] For example, Case 01-M-0075, Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group plc and National Grid USA for Approval of Merger and Stock Acquisition, Order Concerning the Second Competitive Transition Charge Reset and Approving the Continuation and Expansion of the Low-Income Rate Discount Program (issued December 27, 2005), p. 17; Case 06-M-1017, Proceeding on Motion of the Commission as to Policies, Practices and Procedures for Utility Commodity Supply Service to Residential and Small Commercial and Industrial Customers, Order Requiring Development of Utility-Specific Guidelines for Electric Commodity Supply Portfolios and Instituting a Phase II to Address Longer Term Issues (issued April 19, 2007).

[66] We recognize that some of the details specified in the Proposal may need to be adjusted to accomplish the rate levelization we are requiring. We are directing Staff and the Company to work together to develop the required changes and incorporate them as necessary in the new tariffs.

[67] Delivery rates are roughly 30% of a customer’s total bill. Accordingly, the bill impact of a delivery increase would be roughly 1/3 of the delivery rate percentage increase.

The levelization of utility rate increases will likely require the company to record deferred revenues during the period of time over which the utility's actual required revenues exceed the level on which rates are set. To facilitate our desired pattern of rate increases, we will provide the company authority, subject to our continued oversight, to defer the appropriate revenue requirement amounts. Such deferrals will decline as the company collects revenues in years two and three. We also note that while the increases for years two and three are delivery rate increases, the $67.5 million increase in year one is attributable to a $14.0 million energy efficiency surcharge, $17.2 million shift of costs to commodity, and a $36.3 million rate increase.

Energy Efficiency Program Incentive

A provision of the Proposal with which we have concerns is the energy efficiency incentive mechanism in year one. The Proposal allows the Company to keep all ROE earnings up to 10.9% in that year, unless "the Company fails to demonstrate that it actively supported NYSERDA" in the energy efficiency program. Such a failure would reduce the earnings sharing level by ten basis points. Further, if "NYSERDA does not succeed in encumbering more than 75% of the $14 million of funding" for the energy efficiency program, Con Edison's sharing level would be further reduced by ten basis points.

As a general matter we have suggested that incentives or other mechanisms that would allow a Company to profit from energy efficiency investments may be required in addition to an RDM in order to generate demonstrable increases in the utility's promotion of energy efficiency.[68] The incentives proposed in this case, however, are not acceptable and are likely unnecessary under the NYSERDA-run, year-one, transitional energy efficiency program.

[68] We observed in the RDM Order (p. 8), that a RDM "alone may not produce demonstrable increases in the utilities' promotion of energy efficiency . . .", suggesting the need for incentives or a ratemaking approach that would create a profit center for utility energy efficiency investments.

In creating a more aggressive, transitional energy efficiency program for Con Edison’s gas territory for 2007-2008, we observed that including an incentive mechanism would overly complicate a process we intended to be a relatively simple expansion of an existing program.[69] The development of a more permanent energy efficiency program which includes an effective incentive based on measurable and verifiable goals and standards, will require more deliberation than time has allowed here. In addition, because NYSERDA is managing the transitional program, we conclude that it is unnecessary to provide Con Edison incentives. We are therefore rejecting the incentive provisions of the Proposal regarding the energy efficiency program.

While the incentive is unnecessary here, the provisions of the proposed mechanism also raise concerns the parties should examine in crafting future incentive proposals. The first standard to be measured under the Proposal’s mechanism is based on the Company’s “active support” of the program, but neither the Proposal nor the record provides any further definition of how the “active support” standard could be objectively met. In our view, this incentive measurement is too subjective and too vague to be used to provide the utility with incentive revenues.

The second standard measures NYSERDA’s encumbrance of funds – actions that are under NYSERDA’s control, not Con Edison’s. In addition, the goals of establishing energy efficiency programs are to use less natural gas, to reduce greenhouse gas emissions, and to provide additional capacity on the utility’s system, among others.[70] None of those goals can be meaningfully measured by the collection or encumbrance of

[69] Case 03-G-1671, Proceeding on the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service, Order Establishing Gas Efficiency Program for 2007-08 Heating Season, (issued May 16, 2007), (2007-08 Program Order), p. 20.

[70] We have previously stated that our goal is to achieve efficiency benefits, not to merely expend funds (2007-08 Program Order, pp. 9-10.)

program funds.[71] Goals on which financial incentives are based must be clearly defined, measurable, verifiable, and performance based.[72]

In a similar vein, the incentive provision here may not be of consequence to the Company's profitability, regardless of its performance, depending on whether the Company earns above the earnings sharing threshold. If the Company's equity earnings are 10.7% or less, the energy efficiency incentive provision would be of no consequence to the Company. It is not clear how effective an incentive could be if its value depends on the Company's profitability at least as much as the Company's energy efficiency accomplishments.

Recognizing that incentive mechanisms create profit centers, the Administrative Law Judge suggested that, rather than using performance incentives, a profit center could be provided by including energy efficiency investments in rate base. The record here is not sufficient to address this issue on the merits, but as we continue to develop and refine energy efficiency programs we intend to examine all approaches that could assist in achieving the conservation goals of the State at just and reasonable rates.

CONCLUSION

Except as set forth above, we find the terms and conditions of the Proposal to be just, reasonable, and in the public interest and hereby adopt them.

The Commission orders:

1. Except as otherwise discussed herein, the terms and conditions of the parties' attached Joint Proposal submitted

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[71] The record indicates (Tr. 1651-56) that the actual savings in MCF of gas and tons of CO_2 may lag by some period the collection of the program surcharge from customers.

[72] Accurately measuring energy efficiency accomplishments will be extremely important and will require specific savings targets, verification procedures, and plans designed to meet them (Case 07-M-0548, supra, Order Instituting Proceeding (issued May 16, 2007), pp. 3, 16).

June 4, 2007 are adopted, incorporated, and made a part of this order.

2. By not later than September 30, 2007, Consolidated Edison Company of New York, Inc., shall cancel the tariff leaves and supplements listed in Attachment 2 to this order.

3. Consolidated Edison Company of New York, Inc. is authorized to file on not less than one day's notice, to take effect on or after October 1, 2007 on a temporary basis, such further gas tariff changes as are necessary to effectuate the terms of this order. The company shall serve copies of its filings upon all parties to these proceedings. Any comments on the compliance filings must be received at the Commission's offices within ten days of service of the company's proposed amendments. The amendments specified in the compliance filing shall not become effective on a permanent basis until approved by the Commission and will be subject to refund if any showing is made that the revisions are not in compliance with this order.

4. Consolidated Edison of New York, Inc. is directed to work with our Staff to identify any changes required in the Appendices to the Proposal to ensure the implementation of the rate levelization required herein.

5. Consolidated Edison is authorized to defer a sufficient amount of revenues necessary to provide the revenue increases noted in this Order. The Company shall file an accounting proposal with the Director of the Office of Accounting & Finance within 45 days of the issuance of this Order describing how such deferrals are made. The Company shall provide relevant information regarding the status of its deferred revenues as part of its annual earnings filings.

6. The requirements of Public Service Law §§66(12)(b) that newspaper publication be completed before the effective date of the amendments are waived; provided, however, that the company shall file with the Commission, no later than six weeks following the effective date of each filing, proof that a notice to the public of the changes proposed by the amendments and their effective date has been published once a week for four

successive weeks in newspapers having general circulation in the areas affected by the amendments.

7. On or before January 1, 2010, Consolidated Edison Company of New York, Inc. shall file for our review pro forma financial statements for the year ending September 30, 2011, sufficient to allow a determination of the utility's revenue requirement for the 12 months ending September 30, 2011. A formal filing by the utility to increase rates submitted prior to January 1, 2010 will satisfy this requirement.

8. These proceedings are continued.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary

ATTACHMENT 1

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 06-G-1332 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service.

JOINT PROPOSAL

June 1, 2007

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CASE 06-G-1332 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service.

JOINT PROPOSAL

THIS JOINT PROPOSAL ("Proposal") is made the 1st day of June 2007, by and between Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company"), New York State Department of Public Service Staff ("Staff"), the City of New York (the "City"), Consumer Power Advocates ("CPA"), New York Energy Consumers Council, Inc. ("NYECC"), Small Customer Marketer Coalition, the Pace Energy Project ("Pace"), Association for Energy Affordability ("AEA"), IDT Energy, Inc., and the New York State Energy Research and Development Authority ("NYSERDA")(collectively referred to herein as the "Signatory Parties").

Procedural Setting

Con Edison is operating under a three-year gas rate plan that expires on September 30, 2007.[1] On November 2, 2006, Con Edison filed new tariff leaves and supporting testimony for new rates and charges for gas service for the period October 1, 2007 through September 30, 2008. In that filing, the Company also proposed terms for a multi-year rate plan.

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[1] Case 03-G-1671, Consolidated Edison Company of New York, Inc. – Gas Rates, Order Adopting the Terms of a Joint Proposal (issued September 27, 2004) ("2004 Gas Rate Plan").

Parties to this proceeding engaged in discovery activities after the proceeding commenced. On March 16, 2007, five parties filed testimony in response to the Company's original filing.

By notice dated March 7, 2007, updated on March 14, 2007, Con Edison notified all parties of the commencement of settlement negotiations on March 20, 2007.[2] Settlement negotiations began on March 20, 2007, and continued on March 29, 2007.

After a revision to the schedule for this proceeding, Con Edison filed update testimony on April 2, 2007; Con Edison and NYECC filed rebuttal testimony on April 10, 2007. A hearing on the filing and the parties' testimony was scheduled to commence on April 16, 2007, but was postponed to May 9, 2007, to provide time for the parties to the proceeding to pursue settlement negotiations.

Settlement negotiations continued on April 2, 4, 5, 9, 10, 12, 13, 18, 19, 25, 26 and May 4, 7, 15, 18, 22, 29, 31 and June 1, 2007. By notice issued May 1, 2007, the hearing scheduled for May 9, 2007, was postponed sine die.

All settlement negotiations were conducted in accordance with the New York State Public Service Commission's ("Commission") Settlement Rules, 16 NYCRR § 3.9, and all parties received appropriate advance notice of all negotiating sessions, including breakout sessions, that, pursuant to agreement of the active parties, were conducted on particular issues during the same time period.

The parties' negotiations have been successful and have resulted in this Proposal, which is presented to the Commission for its consideration.

[2] Copies of these notices were filed with the Secretary to the Commission ("Secretary").

Overall Framework

The Signatory Parties have developed a comprehensive set of terms and conditions for a three-year rate plan for Con Edison's gas business. These terms and conditions are set forth below and in the attached Appendices. Specifically, this Proposal addresses the following topics:

A. Term

B. Gas Rates and Revenue Levels

C. Computation and Disposition of Earnings

D. Reconciliations

E. Additional Rate Provisions

F. Miscellaneous Programs

G. Other Provisions

A. Term

The Signatory Parties recommend that the Commission approve or adopt the three-year gas rate plan for Con Edison as set forth herein, commencing October 1, 2007 and continuing through September 30, 2010 (“Gas Rate Plan”). For the purposes of this Proposal, “Rate Year 1” ("RY1") means the 12-month period starting October 1, 2007 and ending September 30, 2008; “Rate Year 2” ("RY2") means the 12-month period starting October 1, 2008 and ending September 30, 2009; and “Rate Year 3” ("RY3") means the 12-month period starting October 1, 2009 and ending September 30, 2010.

B. Gas Rates and Revenue Levels

1. Rate Levels

This Proposal covers Con Edison's gas rates and charges for retail gas sales and gas transportation service for the term of the Gas Rate Plan.[3] The Proposal includes increases to the Company's base delivery service rates designed to produce an additional $67.4 million in revenues on an annual basis in RY1; an additional $32.7 million in revenues on an annual basis in RY2; and an additional $42.7 million in revenues on an annual basis in RY3. The components of the revenue requirement that led to this Proposal are set forth in Appendix A. The base rate increases reflect, among other adjustments, (i) the amortizations set forth in Appendix F and (ii) a base rate revenue imputation of $35 million attributable to Non-Firm Revenues, as defined in section B.4. Non-Firm Revenues in excess of $35 million for each of RY1, RY2 and RY3 will be shared by customers and the Company in accordance with section B.4. Revenues will be subject to adjustment pursuant to the revenue adjustment mechanism set forth in section B.8. In addition, the Company will recover an estimated $17.2 million comprised of (i) uncollectibles associated with the Gas Cost Factor ("GCF") and Monthly Rate Adjustment ("MRA") and (ii) working capital on gas in storage, through the Merchant Function Charge ("MFC") and/or MRA, instead of through base delivery service rates, as explained in sections B.6 and B.7, respectively.

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[3] Unless specifically stated otherwise in this Proposal, the terms "customers" and "base rate" apply to the Company's firm customers, excluding CNG, Bypass and Power Generation customers served under Service Classification ("SC") No. 9 and does not include the Company's interruptible or off-peak firm customers.

2. Sales Forecasts

The firm sales forecasts used to determine the revenue requirement for each of the three Rate Years are set forth in Appendix B. The sales forecasts for RYs 2 and 3, which are significantly higher than originally forecast by the Company, were established in conjunction with resolution of the allowed return on equity and in consideration and support of all of the other provisions of this Proposal. The Company will include in its monthly O&F report the number of customers (defined as active accounts, i.e., a customer who would be eligible to receive a bill) and sales volumes by service classification. An example of this supplement is set forth in Appendix C.

3. Rate Design

The Company's base delivery service rates will be designed to implement the base rate increases, discussed in section B.1, and a low-income rate program, in accordance with Appendix D.

4. Non-Firm Revenues

For each Rate Year, the following revenues constitute "Non-Firm Revenues:"

a. Net base revenues[4] derived from

i. Customers receiving interruptible service under SC No. 12 Rate 1 and SC No. 9 Rates B and D, excluding revenues from new customers from the oil-to-gas conversion program; and

[4] Net base revenues mean total revenues less the following, as applicable: taxes, actual cost of gas (reflecting, for example, hedging costs and gas supplier take-or-pay charges), cash-out charges and credits, and any revenues included in total revenues related to reimbursements for facility costs associated with providing service, including, but not limited to, metering and communication equipment, service pipes and lines, service connections, main extensions, measuring and regulating equipment and system reinforcements and other facilities as necessary to render service.

ii. Power generation customers[5] receiving interruptible or off-peak firm service, including off-peak firm service under SC No. 9 Rate D(2) or special negotiated contract; the New York Power Authority (in excess of $3.1 million per Rate Year, which is the level reflected in base rates); interruptible or off-peak firm service to Company-owned power generation, steam, and steam-electric plants; and existing, new, and divested power generation facilities owned by third parties pursuant to, for example, SC No. 9 Rate D(1); and

b. Net revenues derived from the use of interstate pipeline capacity for capacity releases;[6] for or by customers taking service under off-peak firm SC No. 12 Rate 2; for or by interruptible or off-peak firm customers taking service under negotiated bypass SC No. 9 Rate D(1); for SC No. 19 and bundled sales; and other off-system transactions (e.g., gas supplied to the Company's steam and steam/electric plants); and

c Gas balancing revenues derived from gas balancing services provided to SC Nos. 9 and 12 interruptible and off-peak firm customers, CNG, bypass and power generation customers and SC No. 20 marketers serving SC No. 9 transportation customers.

The Company is permitted to retain 100 percent of the first $35 million of Non-Firm Revenues during each Rate Year of the Gas Rate Plan, which is the level imputed to base rates. Each Rate Year, Non-Firm Revenues above $35 million shall be allocated to customers in the following proportions: (i) 80 percent of the amount in excess of $35 million up to $50 million; and (ii) 75 percent of the amount in excess of $50 million. If Non-Firm Revenues are less than $35 million in any Rate Year, the Company may defer for future recovery, with interest, the amount by which Non-Firm Revenues are less than $35 million.

[5]For the purposes of this paragraph B.4, power generation customers do not include cogeneration or other customers taking off-peak firm service under SC No. 12 Rate 2 or SC No. 9 Rate C.

[6]Net capacity release revenues means the credits afforded the Company from releasing capacity to third parties excluding (i) capacity release revenues applicable to capacity releases to firm customers and/or ESCOs serving firm customers under the Company's capacity release program that became effective November 1, 2001 and any amended, extended, or superseding programs ("Capacity Release Service Program"), and (ii) the demand charges recovered through the Winter Bundled Sales Service ("WBSS").

5. <u>Factor of Adjustment Ratio</u>

The monthly GCF for each of RY1, RY2 and RY3 will reflect a Factor of Adjustment Ratio for line losses equal to the three-year average for the periods ending August 31, 2007, August 31, 2008 and August 31, 2009, respectively, calculated in accordance with the methodology set forth in Appendix E.[7] However, the Factor of Adjustment Ratio will not change if the three-year average actual line losses on which the Ratio is based falls within +/-5% of the prior LLF,[8] and for purposes of calculating the annual GCF reconciliation, the applicable LLF will also not change.[9]

The Company may petition the Commission to exclude from the calculation for any Rate Year the actual lost and unaccounted for percentage(s) for one or more prior Rate Years if the Company believes the percentage(s) are anomalous or the result of an error. In the event the percentage for a prior Rate Year is excluded, the next most recent prior Rate Year's percentage will be used in the calculation.[10]

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

a. If actual line losses are less than the applicable LLF (<u>e.g.</u>, 2.3 percent), the Company will retain the benefit of the difference between the LLF and actual line losses up to and including 1 percent below the LLF (<u>i.e</u>., down to 1.3 percent), and will continue to reflect for the benefit of customers any actual line losses more than 1 percent below the LLF (i.e., below 1.3 percent); and

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[7] The Factor of Adjustment Ratio is equivalent to a fraction having a numerator of 1 and a denominator of 1 minus the line loss factor ("LLF").

[8] For purposes of RY1, the three-year average will be compared to the Factor of Adjustment in effect during RY3 of the current gas rate plan.

[9] The applicable Factor of Adjustment ratio will be used to determine the amount of gas to be retained by the Company from SC No. 9 transportation quantities as an allowance for losses.

[10] For example, if in 2010, the Commission grants the Company's petition to exclude the 2008 percentage, the ratio for 2010 would be calculated on the percentages for 2006, 2007, and 2009.

b. If actual line losses are greater than the applicable LLF (e.g., 2.3 percent), the Company will bear the cost of the difference between the LLF and actual line losses up to and including 1 percent above the LLF (i.e., up to 3.3 percent), and customers will continue to bear the cost of any actual line losses more than 1 percent above the LLF (i.e., above 3.3 percent).

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

Total Distribution Sendout (i.e., Marketer, Direct Customer and Con Edison deliveries, netting out gas for power generation and LNG injections) vs. Total Customer Meter Volumes (i.e., firm sales and transportation, interruptible and off-peak firm sales and transportation, Company use, netting out gas for power generation).

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

6. Uncollectibles

The Company will recover uncollectibles ("UBs") associated with the Gas Cost Factor ("GCF") and the MRA through the MFC and the MRA, instead of through base delivery service rates. The MFC statement and MFC charge with UB component will be aligned with service classes consistent with the GCF, as described in Appendix D. The uncollectible factor applied to commodity costs for residential classes will be $0.8053 per $100 of commodity costs and for non-residential classes will be $0.3466 per $100 of commodity costs, which will remain constant during the term of the Gas Rate Plan. The revenue requirement for RY1 has been reduced by approximately $5.7 million to effectuate the transfer of these UBs from base rates to the MFC and MRA.

7. <u>Gas In Storage Working Capital</u>

The Company will recover working capital on gas in storage through volumetric components of the MFC and the MRA, instead of through base delivery rates. The amount for working capital on gas in storage will be calculated using a return of 8.6 percent on the projected average balance of gas in storage. The Company will reconcile the actual amounts of gas storage working capital recovered through the MFC and MRA estimated to be approximately $11.5 million in RY1 (estimated average gas storage balance of $130.8 million multiplied by 8.6 percent plus revenue taxes) to the actual cost of gas in storage. Any difference will be reflected in the following year in the gas storage working capital components of the MFC and MRA.

The allocation of working capital on gas in storage as between full service customers and all customers, through the MFC and MRA, respectively, for each of RY1, RY2 and RY3, is described in Appendix D.

8. <u>Revenue Decoupling Mechanism (RDM)</u>

a. For RY1, Pure Base Revenues from service provided to the Company’s firm customers will be subject to partial reconciliation pursuant to the following revenue per customer mechanism (“RPC”).

The RPC will apply to the following groupings of customers:

- SC No. 2 - Rate I;
- SC No. 2 - Rate II;
- SC No. 3 customers with 1-4 dwelling units; and
- SC No. 3 customers with more than 4 dwelling units.

Each grouping will include all customers taking service under SC No. 9 that would otherwise take service under such grouping. The groupings will exclude customers taking service under Rider G (Economic Development Zone), Rider I (Manufacturing Incentive Rate), customers participating in the low income program described in Appendix D (Low Income customers) and customers receiving service at a firm by-pass rate. The Weather Normalization Adjustment ("WNA") will continue. The dead band around the existing WNA will be eliminated.

RPC factors (defined as dollars and cents per customer) for each of the four RPC groupings defined above will be calculated as follows:

- The Rate Year Pure Base Revenue target for each grouping, which was, in part, the basis for establishing the revenue requirement in this proceeding, divided by the average number of customers forecast for that grouping for the rate year. Appendix L shows the RPC factors at proposed rates for RY1, RY2 and RY3.
- Pure Base Revenues are revenues from delivery rates and charges, excluding Gross Receipts Taxes, MFCs, Billing and Payment Processing Charges and all other applicable credits or surcharges other than WNA credits or surcharges.

The Company will retain Pure Base Revenues for each grouping equal to the RPC factor for each grouping times the actual number of customers in the rate year in each grouping ("Allowed Pure Base Revenue Retention") (the actual number of customers by grouping will be determined by dividing the number of days of service covered by bills issued during RY1 by 360). For each grouping, the retained Pure Base Revenues will be referred to as the Allowed Pure Base Revenues.

At the end of RY1, for each grouping, the Company will reconcile the actual Pure Base Revenues to the Allowed Pure Base Revenues and refund customers if the actual Pure Base Revenues are more than the Allowed Pure Base Revenues and surcharge customers if the actual Pure Base Revenues are less than the Allowed Pure Base Revenues. The shortfall or excess will be surcharged or refunded to customers in each grouping on a volumetric basis over the next 12 months; provided, however, should the Company's projected reconciliation for the combined RPC groupings at any point in the rate year equal or exceed $10 million, the Company will implement interim RPC surcharges or credits, by grouping. All refunds or surcharges will be subject to reconciliation at the end of the rate year.

b. For RYs 2 and 3, a revenue adjustment mechanism ("RAM") collaborative of active parties (the "RAM Collaborative") will be formed, no later than November 1, 2007, to determine the RAM for RY2 and 3.

The RAM Collaborative will evaluate whether a RAM that relies upon rate year billing determinants is reasonable and workable, without precluding the evaluation of other alternatives, including the continuation of the RPC mechanism implemented for RY1, with or without modifications. Each of the alternatives will be premised upon continuation of the WNA with no dead band and the Company's opportunity to retain new business.

The RAM Collaborative will be chaired by Con Edison. The Company will prepare a report ("the Report") on the RAM Collaborative, to be filed with the

Commission on or about April 15, 2008, that will include recommendations for Commission approval regarding the RAM to be implemented for RYs 2 and 3. To the extent the Company would incur incremental costs for information resource system changes required to implement a new or modified revenue adjustment mechanism (e.g., carrying charges, including depreciation, on capital expenditures), the Report will include a description of such changes and the projected costs. If the Commission orders the implementation of that mechanism (or another mechanism) requiring system changes, the Company will be entitled to defer for future recovery such incremental costs.

C. <u>Computation and Disposition of Earnings</u>

Following each of RY1, RY2 and RY3, Con Edison will compute its gas rate of return on common equity capital for the preceding Rate Year. The Company will submit to the Director of the Office of Accounting and Finance the computation of earnings no later than 60 days after the end of each Rate Year.

If the level of earned common equity return in any Rate Year exceeds 10.7 percent (or 10.9 percent in RY1, as provided in section F.1.a) ("Earnings Sharing Threshold"), calculated as set forth below, the amount in excess of the Earnings Sharing Threshold will be deemed "shared earnings" for the purposes of this Proposal. For all basis points above the Earnings Sharing Threshold, one-half of the revenue equivalent of any such shared earnings will be deferred for the benefit of customers and the remaining one-half of the revenue equivalent of any such shared earnings will be retained by the Company.

For purposes of determining whether the Company has earnings above the Earnings Sharing Threshold:

1. The calculation of return on common equity capital will be computed from the Company's books of account for each Rate Year, excluding the effects of (i) Company incentives and performance-based revenue adjustments; (ii) the Company's share of property tax refunds earned during the Gas Rate Plan; and (iii) any other Commission-approved ratemaking incentives and revenue adjustments applicable during the Gas Rate Plan.

2. Such earnings computations will reflect the lesser of: (i) an equity ratio equal to 50.0 percent; or (ii) Con Edison's actual average common equity ratio. Con Edison's actual common equity ratio will exclude all components related to "other comprehensive income" that may be required by generally accepted accounting principles; such charges are recognized for financial accounting reporting purposes but are not recognized or realized for ratemaking purposes.

D. <u>Reconciliations</u>

The Company will reconcile the following costs to the levels provided in rates, as set forth in Appendices G and H. The reconciliations in each of RY1, RY2 and RY3 will be deferred and recovered from or credited to customers in a manner to be determined by the Commission; provided, however, at the end of each Rate Year and subject to audit and prudence review, the Company may net outstanding deferred credits and debits by applying available credits that would otherwise be returned to customers (<u>e.g.</u>, the customers' share of Non-Firm Revenues) to offset the deferred balance.[11]

[11] Such credits will not include revenues from capacity releases to firm customers and/or ESCOs serving firm customers under the capacity release program.

1. Property Taxes

If the level of actual expenditures for property taxes, excluding the effect of property tax refunds (as defined in section E.3), varies in any Rate Year from the levels provided in rates, which are set forth in Appendix G, 90 percent of the variation will be deferred and recovered from or credited to customers.

2. Interference Expenses (Other Than Company Labor)

If actual non-Company labor interference expenses (e.g., contractors' costs) vary in any Rate Year from the levels provided in rates, which are set forth in Appendix G, 90 percent of the variation will be deferred and recovered from or credited to customers. Con Edison will continue to coordinate and plan its interference work with the affected municipalities in order to reduce costs for customers.

3. Capital Program Expenditures

The Company will defer the carrying costs, including depreciation, on the amount by which the Company's actual capital expenditures for capital programs (exclusive of expenditures for capital interference plant additions) result in average net plant more or less than the "Average Plant Included In Rate Base," up to the "Average Plant Included In Cap," as set forth in Appendix H, for each of RY1, RY2 and RY3. The revenue requirement impact will be calculated by applying an annual carrying charge factor of 13.0 percent (representing a combination of a pre-tax rate of return of 10.7 percent and a depreciation rate of 2.3 percent) to the actual Rate Year variance from the capital target (see Appendix H).

The Company will defer the carrying costs, including depreciation, on the Company's actual capital expenditures for capital interference plant additions that result in average interference plant being more or less than the "Average Interference Plant" targets set forth in Appendix H for each of RY1, RY2, and RY3. The revenue requirement impact will be calculated by applying an annual carrying charge factor of 13.0 percent (representing a combination of a pre-tax rate of return of 10.7 percent and a depreciation rate of 2.3 percent) to the actual Rate Year variance from the capital target (see Appendix H).

The Company will defer the costs for Advanced Metering Infrastructure ("AMI") it is initiating and such costs will be addressed in Case Nos. 94-E-0952 and 00-E-0165.

The Company will, for informational purposes, submit to Staff and the Active Parties in this proceeding, subject to confidentiality concerns, no later than 60 days after the end of calendar years 2008, 2009 and 2010, a report on its aggregate actual capital expenditures related to its Capital Program Targets, the largest five capital projects (in terms of capital expenditures during the calendar year), and, to the extent applicable, the reasons for any variance in excess of 15 percent from forecasted expenditures for any of these five projects. The Signatory Parties recognize that the Company has the flexibility, on an ongoing basis, to modify the priority, nature, scope and composition of the capital projects that comprise its overall capital program.

4. Pensions/OPEBs

Pursuant to the Pension Policy Statement, the Company will reconcile its actual pension/OPEB expenses and tax benefits related to the Medicare subsidies to the level allowed in rates as set forth in Appendix G (which level reflects the January 19, 2007 update by the Company's actuaries).

5. Gas Transmission Main Maintenance Program

The Company will confer with Staff Gas Safety Section ("Gas Safety Staff") upon the completion of a technical study regarding the installation of welding sleeves over couplings on gas transmission mains. Upon Gas Safety Staff's concurrence that the study confirms that the Company should undertake this project, the Company may defer the O&M costs of this program for future recovery from customers.

6. Research and Development

If the level of the Company's actual expenditures for research and development ("R&D") (exclusive of expenditures on Millennium Fund projects) is more or less than the target level set forth in Appendix G, the Company will defer such amount for future recovery from or credit to customers. The deferral of actual expenditures above the target level will be subject to (a) a cap of $1.1 million above the target level and (b) a demonstration by the Company to Staff as to the nature and basis for such expenditures and Staff's concurrence that such expenditures are reasonable.

7. Environmental Remediation

If the level of actual expenditures for site investigation and remediation ("SIR"),[12] including expenditures associated with former manufactured gas plant ("MGP") sites, Superfund, and 1984 Consent Order Appendix B charges, allocated to gas operations varies in any Rate Year from the levels provided in rates, which are set forth in Appendix G, such variation will be deferred and recovered from or credited to customers. The deferred balances subject to interest will be reduced by accruals, insurance recoveries, associated reserves, deferred taxes and other offsets, if any, obtained by the Company.

[12] SIR costs are the costs Con Edison incurs to investigate, remediate, or pay damages (including natural resource damages, with respect to industrial and hazardous waste or contamination spill, discharges, and emission) for which Con Edison is deemed responsible. SIR costs are net of insurance reimbursement (if any); provided, however, that while the Company will pursue insurance reimbursement, when available and appropriate, nothing in this Proposal will require the Company to initiate or pursue litigation for purposes of obtaining insurance reimbursement.

8. Pipeline Integrity Costs – New York Facilities Charges

The New York Facilities Agreement is a joint operating agreement among Con Edison and the KeySpan Delivery Companies ("KeySpan"), which provides for the sharing of certain costs. Among the costs to be shared are the costs that Con Edison and KeySpan incur to comply with new federal requirements that require gas companies, like Con Edison and KeySpan, to develop and implement an integrity management program for their affected gas facilities using in-line inspection, hydro or pressure testing, or direct assessment.

The Company's projected share of KeySpan's pipeline integrity costs are reflected in the gas rates for RY1, RY2 and RY3, at an estimated annual amount of \$1.845 million, as shown on Appendix G. The Company will defer the difference between payments made to KeySpan for pipeline integrity programs and the \$1.845 million included in rates. Such amounts will be recovered from or credited to gas customers in the manner described above.

9. Distribution Integrity and Gas Inspections

The Company will defer for recovery from customers costs incurred as a result of new regulatory requirements for distribution integrity and/or gas inspections promulgated by either federal or state regulatory agencies during the term of this Gas Rate Plan.

10. 263A Deferred Taxes

The Company and the Internal Revenue Service have an open audit issue concerning the Section 263A tax deduction claimed by Con Edison beginning with tax returns filed for 2002 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 Company will defer interest at the allowed pre-tax rate of return of 10.73 percent on any difference between the Section 263A tax benefit reflected in rate base (see Appendix G) and the actual tax benefits that result from the Section 263A 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.[13]

11. <u>Transition Adjustment for Competitive Services</u>

As described in Appendix D, for each Rate Year, the Company will reconcile the credit and collections component of the POR discount rate and any lost revenue associated with the Billing and Payment Processing Charge through the Transition Adjustment for Competitive Services.

As also described in Appendix D, for each Rate Year, the Company will reconcile the supply-related and credit and collections/theft components of the MFC and reflect any deficiency or excess in the next Rate Year's MFC.

12. <u>Additional Reconciliation/Deferral Provisions</u>

In addition to the foregoing reconciliation provisions**,** all other existing reconciliations and/or deferral accounting will continue in effect through the term of this Gas Rate Plan, and thereafter until modified or discontinued by the Commission, including but not limited to Financial Accounting Standards (“FAS”) 109 taxes,

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

Metropolitan Transportation Authority ("MTA") taxes, and the GCF and MRA mechanisms.

The treatment of deferred World Trade Center ("WTC") capital costs allocated to gas operations will be in accordance with the Commission's determination in Case 01-M-1958 and subject to interest at Con Edison's allowed pretax allowance for funds used during construction ("AFUDC") rate of return. The Company will continue to seek recovery for all WTC costs from governmental agencies and insurance carriers. All recoveries will be applied to reduce the deferred balance.

13. Limitations on Deferrals

Before calculating the level of earned common equity return for gas that may be subject to sharing under section C of this Proposal, the Company will make the following adjustments if its earnings exceed the Earnings Sharing Threshold:

For earnings above the Earnings Sharing Threshold, the Company will reduce the following expenses (debits) deferred for later recovery, up to 50 percent of the deferral, provided that such reduction in deferrals will not cause the resulting earnings to decrease below the Earnings Sharing Threshold: property taxes, interference expenses, and pensions/OPEBs.

This 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.

E. Additional Rate Provisions

1. Depreciation Rates and Reserves

The average services lives, net salvage factors, and life tables used in calculating the depreciation reserve and establishing the revenue requirement, which reflect no change from the rates established in Case No. 03-G-1671, are set forth in Appendix I.

2. Interest on Deferred Costs

The Company is required to record on its books and records of accounts various credits and debits that are to be charged or refunded to customers. Unless otherwise specified in this Proposal or by Commission Order, the Company will accrue interest on these book amounts, net of federal and state income taxes, at the unadjusted customer deposit rate published by the Commission annually. FAS 109 and MTA Tax deferrals are either offset by other balance sheet items or reflected in the Company's rate base and will not be subject to interest.

3. Property Tax Refunds and Credits

Property tax refunds allocated to Con Edison's gas department that are not reflected in this Gas Rate Plan and that result from the Company's efforts, including credits against 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 Con Edison), will be deferred for future disposition for the benefit of customers, except for an amount equal to 14 percent of the refund or credit, which will be retained by the Company. Incremental expenses incurred by the Company to achieve the property tax refunds or credits will be netted against the refund or credit before any deferral of the proceeds is calculated. The Company will continue to provide Staff an annual showing of its efforts to reduce its property tax obligations.

4. Allocation of Common Expenses/Plant

During the Gas Rate Plan, common expenses and common plant will be allocated according to the percentages reflected in the gas revenue requirement calculations, as shown in Appendix J. Should the Commission approve different common allocation percentages for electric and/or steam 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.

F. Miscellaneous Programs

1. Gas Energy Efficiency Program

A gas energy efficiency program will be implemented in the Con Edison service territory during the term of the Gas Rate Plan in accordance with the parameters set forth below.

a. For RY1, the gas efficiency program will be the NYSERDA-administered program established by the Commission's May 16, 2007 order in Case No. 03-G-1671, or as may be amended by any subsequent order (collectively the "Transitional Program Order").

NYSERDA and Con Edison will enter into a funding agreement that will provide for quarterly payments to NYSERDA for program costs, not to exceed $14 million in aggregate, on a graduated payment schedule. Con Edison shall recover its payments to NYSERDA through the MRA during the three months following each payment, subject to reconciliation. All payments to NYSERDA made prior to RY1 and deferred in accordance with the Transitional Program Order, plus interest, shall be recovered through the MRA over the first six months of RY1. Con Edison shall also be entitled to recover lost revenues resulting from the Transitional Program to the extent not recovered through an RDM, including lost revenues incurred from June 2007 through September 30, 2007, through the MRA. Such lost revenues shall be calculated in the same manner as under the gas energy efficiency program being conducted currently by NYSERDA under the 2004 Gas Rate Plan.

Con Edison is authorized to collect $300,000 for actual expenditures on outreach and education during RY1 through the MRA. Whether such funding will be recovered as part of the $14 million budget for the Transitional Program or in addition to the program's budget, will be determined by the Commission. In that regard, nothing herein shall require NYSERDA to address funding for Con Edison outreach and education in the NYSERDA transitional program plan to be filed by NYSERDA with the Commission on June 1, 2007 pursuant to the Transitional Program Order, or restrict any Signatory Party from addressing whether such funding should be part of or in addition to the $14 million program budget in any comments it may file on that report.

Nothing herein is intended to preclude any party from requesting the Commission to increase the funding for the program for RY1 or to seek other changes to the Transitional Program.

If the Commission determines by subsequent order issued in Case 03-G-1671 that it will consider requests to increase the $14 million funding level for the Transitional Program, and does not otherwise direct, the Efficiency Collaborative to be formed pursuant to section F.1.b will assess, on or before December 31, 2007, or any other date established by the Commission, whether RY1 funding should be increased to capture additional cost-effective programs and make a recommendation to the Commission, as appropriate.

As indicated above, the Earnings Sharing Threshold will be 10.9 percent for RY1. The 10.9 percent earnings sharing threshold will be reduced by up to 20 Basis Points, to 10.7 percent, if: the Company fails to demonstrate that it actively supported NYSERDA in implementing the Transitional Program (10 basis points); and, NYSERDA does not succeed in encumbering more than 75 percent of the $14 million of funding for the Transitional Program (10 basis points). The Company will make a filing within 60 days following expiration of RY1, demonstrating its efforts in supporting NYSERDA and the amount and percentage of funds encumbered by NYSERDA at the end of RY1. NYSERDA shall provide to Con Edison the amount and percentage of funds encumbered by NYSERDA by the end of RY1 within 30 days following the expiration of RY1.

b. For RYs 2 and 3, a gas efficiency collaborative (the "Efficiency Collaborative") will be formed, on or about September 1, 2007, to develop a recommended Gas Efficiency Program for RYs 2 and 3, including issues of program design, funding, incentives and administration. The Efficiency Collaborative will be made up of a reasonable number of interested parties, including Con Edison, Staff, NYSERDA, the City, the County of Westchester (the "County"), New York State Consumer Protection Board ("CPB"), CPA, NYECC, Pace, Natural Resources Defense Council, Inc., the Public Utility Law Project, Inc. and AEA.[14]

The Efficiency Collaborative will be chaired by Con Edison, which will provide the members with a reasonable opportunity to make presentations to the Collaborative. Following coordination with the Efficiency Collaborative, Con Edison will contract with an independent consultant to perform a study (the "Study") at a cost not to exceed $100,000 (such cost to be recovered through the MRA), to be completed by February 1, 2008. The Study will make recommendations concerning the appropriate level of funding for RYs 2 and 3 as part of a long-term plan to maximize net benefits to

[14] Interested parties are those persons on the active parties list for Case No. 06-G-1332, as updated, and any other person or party who contacts either Con Edison or the Commission and asks to become involved in this Collaborative.

customers from gas efficiency, the need for changes, if any, to existing programs, and new programs that could be developed. Con Edison will develop the scope of work for the Study in coordination with the Efficiency Collaborative. For each suggested program, the Study will include, at a minimum, empirical data as a basis for the program's estimated cost and cost-effectiveness. Upon completion of the Study, it will be distributed to the Efficiency Collaborative for analysis and comment. After reviewing the Study, the Efficiency Collaborative may request additional information from the consultant for the Study, to the extent such request will not cause the cost for the consultant to exceed $100,000. Contemporaneously, the Efficiency Collaborative will work to develop recommendations for the report described below and Con Edison's preparation of that report.

In coordination with the Efficiency Collaborative, Con Edison will prepare a report (the "Report"), to be filed with the Commission by April 15, 2008, that will include recommendations for Commission approval on the issues set forth below:

(i) The Report will recommend that either Con Edison or NYSERDA serve as the administrator of the Program.

(ii) The Report will address how the City and County, who possess unique information regarding customer planning and economic development, and other interested stakeholders can work with Con Edison and/or NYSERDA to maximize the effectiveness of the programs.

(iii) The Report will evaluate potential gas efficiency goals for RYs 2 and 3 and their consistency with the general direction of state and local energy efficiency policies, and seek to maximize the Program's cost-effectiveness potential.[15] In addition, the Report will recommend the targeted level of program funding for each of RYs 2 and 3 and the targeted allocations among customer classes. Any recommendation in the Report to increase funding will include an estimate of customer impact associated with any recommended increase in funding and the customer savings and benefits that are projected to result from such increase. The Report will propose efficiency programs for RYs 2 and 3, savings targets, and general program descriptions and spending levels.

(iv) Con Edison will have the opportunity to earn financial incentives if it administers the Program during RYs 2 and 3. The Report may also establish a basis for Con Edison to have the opportunity to earn such incentives even if NYSERDA is the administrator. The Report will include a recommendation as to the appropriate level of the incentives that may be earned if Con Edison or NYSERDA administers the program and how such incentives would be calculated.

(v) The Report will explain how much of the funding for the program will be for outreach and education and marketing ("OE&M") components and the budget to be established for those amounts (the program will include funding for outreach and education by Con Edison even if NYSERDA is determined to be the sole administrator). The OE&M components will incorporate any customer information and requests (e.g., requests for interconnection, new customer referrals, expanded load) about which the City or County possesses knowledge.

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[15] A total resource cost ("TRC") test will be used to assess cost-effectiveness. The TRC will be designed to be consistent with the relevant portions of the Commission's "Order on Demand Management Action Plan," issued on March 16, 2006 in Case 04-E-0572, with necessary adaptations to apply the TRC to gas efficiency rather than electric efficiency.

(vi) The Report will explain the nature and extent of the monitoring, verification, and evaluation ("MV&E") that should be performed with regard to measures and activities conducted under the program.

(vii) The Report will evaluate and recommend a method of recovery for program costs for RYs 2 and 3 (e.g., through a surcharge).

(viii) The Report will consider any developments related to gas efficiency in Commission Case No. 07-M-0548 - Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard.

(ix) The Report may also identify legislative and/or regulatory opportunities, such as improvements in energy building codes or establishing state and federal efficiency standards for residential and commercial products, that could achieve gas efficiency in Con Edison's service territory.

(x) A draft of the Report will be provided to all Efficiency Collaborative members on or before April 1, 2008. The Efficiency Collaborative will endeavor to reach consensus on all issues, and, where consensus is not reached, the Report will discuss the lack of consensus and describe the positions of the dissenting Efficiency Collaborative members in the Report. The Efficiency Collaborative members reserve the right to file comments on the Report after it is filed with the Commission.

2. Oil to Gas Conversion Program

The Company will recover through a surcharge to the MRA $1.47 million for each of RY1, RY2 and RY3, for incentives associated with the Company's Oil Heating to Gas Heating Conversion Incentive Program. Incentives provided to customers by the Company in excess of $1.47 million will be funded by the Company and not recoverable from customers. The Company will retain all revenues resulting from oil-to-gas conversions during the term of the Gas Rate Plan in order to fund incentives and other costs and expenses incurred by the Company in connection with this program. The Company will submit a report to Staff within 60 days of the end of each of RY1, RY2 and RY3, on activities under this program during the prior Rate Year, including program descriptions and the amounts of incentives committed and/or disbursed, by service classification. The Company will maintain a list of recipients of incentives of $500 or more for inspection by Staff.

3. <u>Communication with Interruptible Customers</u>

Commencing November 2007, the Company will expand its current methods of notifying interruptible gas customers of service interruptions to include e-mail and, if practicable, text messaging, in addition to fax and/or phone.

To implement this change, the Company plans to contact interruptible customers in August 2007 to (i) request that they update their interruption notification contact information and (ii) provide the opportunity to include contact information for the use of email and/or text messaging. Each interruptible customer that elects to receive notice by e-mail or text messaging, in addition to fax and/or phone, will be required to provide a single “point of contact,” which may be in the form of an email “DL” (distribution list).

The Company will evaluate technical requirements of implementing email and text messaging and report its implementation plan at a meeting of interested parties in early September 2007 for interruptible and off-peak firm notification customers (“notification customers”). The Company will conduct pre-winter tests of communications protocols using both business and non-business hour contacts for notification customers in October 2007. For customers utilizing email or text messaging, the Company will provide an email address for purposes of these tests so that customers' contact information may be verified in advance of the winter season.

All customers must continue to provide fax and/or phone contact information, as set forth in the Company's tariff and operating procedures. A customer's failure to receive notification by email or text messaging (if and to the extent that the Company determines that it can implement text messaging) will not relieve the customer of any of its obligations under the Tariff or operating procedures.

4. <u>Low Income Program</u>

The Company will continue a low-income rate program, as described in Appendix D.

As noted in the Miscellaneous Tariff Changes section F.10, the reconnection fee applicable to low-income customers will be $65.

In addition, the Company will provide annually to Staff and other interested parties, within 60 days after the end of each of RY1, RY2 and RY3, a report of customer participation and applicable rate reductions during the preceding Rate Year.

5. <u>Retail Access Program</u>

a. <u>Purchase of Accounts Receivable</u>

The Company will continue its Purchase of Receivables Program ("POR Program") in accordance with the terms of its POR Program adopted in the Commission's March 24, 2005 Order Adopting Three-Year Rate Plan in Case No. 04-E-0572, except as to the Discount Rate, which will be implemented as set forth below, and the addition of a Dispute Resolution Procedure.

<u>Discount Rate</u>. The discount rate applicable to the purchase of Energy Service Company ("ESCO") gas accounts receivable will continue to be compensatory,

to the extent practicable, so that it compensates the Company for its financial risk involved in such purchases. The discount rate to be applied to ESCOs gas accounts receivables, including sales tax, shall be the sum of:

(i) a percentage that is the Company's uncollectible rate for all residential and commercial electric and gas customers, other than the Company's corporate account customers, based on 11 months' experience and one month forecast for the calendar year preceding the year in which the discount rate will be applicable;

(ii) a percentage that reflects the annual forecast cost of the Company's gas credit and collection function with respect to ESCO receivables;

(iii) a percentage that is 15 percent of the uncollectible rate, to compensate the Company for its financial risk that the actual uncollectible rate for the purchased receivable may be higher than the uncollectible rate; and

(iv) 0.15 percent for the incremental costs associated with POR Program administration.

The discount rate to be applied to ESCOs gas accounts receivables on bills issued on and after October 1, 2007, and through December 31, 2007, will be 1.69 percent.[16] The discount rate applicable to gas receivables purchased during calendar year 2008 and each subsequent calendar year or portion thereof to the end of the Gas Rate Plan will be adjusted to reflect (1) the percentage change in (i) the Company's actual uncollectibles experience, including uncollectibles attributable to ESCO customers, for the then current

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[16] The components of this discount rate are:

(i) 0.80 percent, which is the Company's uncollectible rate;
(ii) 0.62 percent, which is the cost of the Company's gas credit and collection function;
(iii) 0.12 percent, which is 15 percent of the 0.80 percent uncollectible rate; and
(iv) 0.15 percent, which reflects the incremental administrative costs.

calendar year (actual experience in January through November and forecast for December) and (ii) credit and collection function costs forecast for the following calendar year, (2) an adjustment to the risk factor, based on applying 15 percent to the change in the uncollectible rate, and (3) any additional incremental administrative costs beyond those included in the discount rate established herein or in any subsequent period.

On or about December 15 of each year during the Gas Rate Plan, the Company will notify all ESCOs of the discount rate (specifying the components) to be applicable in the next calendar year or portion thereof in the last year of the Gas Rate Plan.

Dispute Resolution Procedure. A dispute resolution procedure will be implemented as set forth in Appendix K. A "dispute" is a "customer claim related to an amount of ESCO charges billed and purchased by Con Edison." The Company will review this procedure with interested parties and modify it, as appropriate, after it has been in place for one year.

b. Miscellaneous Provisions

Other than its POR Program, ESCO referral program (as approved by the Commission in Case 05-M-0858 on April 19, 2006)[17] and Market Match website, which the Company will continue, the Company may, but shall be under no obligation to, continue any other elements of the Retail Access Program established in the 2004 Gas Rate Plan.

The Company will continue to amend its consolidated billing service agreement, as necessary and appropriate, to reflect changes to its Retail Access Program, including preparing a revised agreement to be signed by all ESCOs taking billing service from Con

[17] The Company intends to establish a facility by which ESCOs can enroll customers in this program.

Edison on and after October 1, 2007 reflecting the aforementioned changes to the POR program.

c. Bill Format

Con Edison will implement on October 1, 2007, a bill for gas service consistent with the unbundled rates approved in this proceeding.

6. Gas Manufacturing Incentive Rate

The Company will modify Rider I, the Gas Manufacturing Incentive Rate ("MIR"), by adding a provision that will enable any existing Con Edison gas manufacturing customers to take advantage of the MIR rate if (a) they increase their gas usage in their manufacturing process by 25 percent per month for three consecutive months and (b) submit to an energy audit pursuant to NYSERDA's Energy Audit Program/Flex Tech. The determination of increased usage will be made on a weather normalized basis for customers that do not have a separate meter for heating load. This program will be available for up to 2 million therms of annual usage in the aggregate.

Rider I will also now be available to existing buildings that (i) qualify for a matching benefit from the City or the County, (ii) submit to an energy audit pursuant to NYSERDA's Energy Audit Program/Flex Tech, and (iii) provide evidence of private sector job creation/retention and capital investment. Applications will be processed on a first come, first served basis.

A review and evaluation of each funding allowance shall be performed that considers the above-referenced selection criteria. The Company will work with the City and County economic development officials to identify and qualify eligible customers, but the Company will make the decision whether or not to award the MIR discount. The

Company shall maintain documentation supporting its approval or rejection of each proposed project.

The Company will submit a report to Staff within 60 days of the end of each of RY1, RY2 and RY3, on activities under this program during the prior rate year, providing a list of applicants approved for the MIR discount during the prior rate year and describing the nature of the project. The report will include the following information:

1) Description of facility and operation.
2) The amount of rate discounts awarded, and the basis for the award.
3) Description of other known economic development activity or other economic benefits resulting from the project, if any.
4) Throughput generated by the project.

For any customer, the forecasted MIR discount cannot exceed the benefit to be provided by the City or the County. 2.5 million therms will be available to customers in the City and 0.5 million will be available to customers in the County; provided, however, that if the City and/or County have qualifying customers that would cause either or both to exceed their respective allocated volumes, and the Company has not qualified customers for the full two million therms available under its program, the Company will accept additional customers under the City and/or County programs, provided that the aggregate volume of qualifying annual therms for participating customers under all three programs does not exceed five million therms, subject further to the funding limitation set forth below.

The Company will fund this program by means of $3 million of credits previously set aside to fund incentives pursuant to this Rider pursuant to a December 9, 2003 order in Case 03-G-1461. The Company may terminate the availability of rate discounts under this program when the forecasted level of aggregate discounts exceeds $3 million.

The Company is also making the following housekeeping corrections to Rider I: (i) language will be added to the Applicability section to clarify that eligible customers must receive either a substantial real property tax incentive, energy savings under the ECSP program, or a Comprehensive Package of Economic Incentives in order to participate in the program; (ii) the heading "Gas Manufacturing Incentive Rate (MIR) for New and Vacant Premises" will be revised to exclude "for New and Vacant Premises"; (iii) references to associated SC No. 9 rates will be added to MIR tariff leaves as necessary; and (iv) a clarification that Rider I is not available to customers receiving a discounted rate pursuant to another provision of the Company's tariff (e.g., a bypass rate).

For all Rider I programs, customers will be obligated to determine whether NYSERDA funding is available for energy efficiency measures identified in the Energy Audit Program/Flex Tech, and include any such funding in their determination of the financial viability of implementing those measures.

The Company will maintain a list of recipients of incentives of $500 or more for inspection by Staff.

7. Safety Performance Measures

i. Leak Management – Year-End Total Backlog. If the year-end total leak backlog (types 1, 2, 2A, 2M and 3)[18] exceeds 1,600 for calendar year 2008, 2009 or 2010, the following negative rate adjustment will be applied to the benefit of firm

[18] These are defined in Company specification G-11809.

customers for each calendar year that the performance measure is not attained, as directed by the Commission:

1,600 or less	No adjustment
1,601 to 1,700	$360,000
1,701 to 1,800	$480,000
1,801 or more	$600,000

ii. Leak Management - Year-End Workable Backlog. If the year-end workable leak backlog (types 1, 2, 2A and 2M) exceeds 75 for calendar year 2008, 2009 or 2010, the following negative rate adjustment will be applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

75 or less	No adjustment
76-85	$360,000
86-95	$480,000
96 or more	$600,000

iii. Emergency Response – 30-Minute Response Time. If Con Edison does not respond to gas leak and odor calls within 30 minutes for at least 75 percent of the calls for calendar year 2008, 2009 or 2010, a $600,000 negative rate adjustment will be applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission.

Gas leak and odor calls resulting from mass area odor complaints, major weather-related occurrences, and other circumstances outside of the Company's control are excluded from the calculations for the 30-minute response time.

iv. Emergency Response – 45-Minute Response Time. If Con Edison does not respond to gas leak and odor calls within 45 minutes for at least 90 percent of the calls for calendar year 2008, 2009 or 2010, a $480,000 negative rate adjustment will be applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission.

Gas leak and odor calls resulting from mass area odor complaints, major weather-related occurrences, and other circumstances outside of the Company's control are excluded from the calculations for the 45-minute response time.

v. Damage Prevention

a. Damages to Gas Facilities Resulting from Mismarks. If the total number of damages to Company gas facilities resulting from mismarks made by the Company and its contractors with respect to the location of Company gas facilities exceeds the targets set forth below per 1000 one-call tickets[19] in calendar year 2008, 2009 or 2010, the negative rate adjustment associated with such target will be accrued and applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

.65 or less	No adjustment
.66 to .75	$240,000
greater than .75	$480,000

b. Damages by Company Employees and Company Contractors.[20] If the total number of damages to Company gas facilities made by Company Employees and Company Contractors exceeds the target set forth below per 1000 one-call tickets in calendar year 2008, 2009 or 2010, the negative rate adjustment associated with such

[19] For the purposes of this section, one-call tickets are defined as locate requests involving a work area in the Company's Bronx, Queens, Manhattan and Westchester service territory only.

[20] For the purposes of this Safety Performance section F.7.v.b, "Company Employees" and "Company Contractors" are defined as employees in Con Edison's Gas Operations and Gas Operations contractors, respectively, and not Electric or Steam employees or contractors retained by the Company's Electric or Steam Operations.

target will be accrued and applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

greater than .25	$240,000

c. Total Damages. If the number of total damages to Company gas facilities made by any party exceeds the targets set forth below per 1000 one-call tickets in calendar year 2008, 2009 or 2010, the negative rate adjustment associated with such target will be accrued and applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

3.00 or less	No adjustment
3.01 to 3.20	$120,000
greater than 3.20	$240,000

A damage to a gas facility shall be as defined in 16 NYCRR § 753-1.2. Damages resulting from a mismark of the same Company facilities shall be counted once, as a mismark, to avoid double-counting. Damages resulting from hand excavation are excluded from the calculations in all three measures set forth in this section.

vi. Gas Main Replacement. The Company will remove from service 120 miles of leak-prone gas main during the three calendar-year period 2008 to 2010. In each of calendar years 2008, 2009 and 2010, the Company will remove from service not less than 30 miles of leak-prone gas main.

For each calendar year,

- a minimum of 10 miles of main removed from service will be cast iron/wrought iron main;
- not more than five miles of abandoned/retired gas main removed from service will be counted towards the 120-mile performance target; and

- not more than 20 miles of gas main removed from service resulting from public improvement/interference replacement projects will be counted towards the 120-mile performance target.

If the Company does not meet one or more of the above-stated targets of gas main replacement/retirement in 2008, 2009 or 2010, the Company will accrue a single negative rate adjustment in the amount of $960,000 for such calendar year(s), which will be applied to the benefit of firm customers, as directed by the Commission.

If it does not remove from service a total of 120 miles of gas main in the three calendar-year period 2008 to 2010, the Company will accrue a negative rate adjustment in the amount of $2,880,000, which will be applied to the benefit of firm customers, as directed by the Commission; provided, however, if the Company incurred a $960,000 negative revenue adjustment for any calendar year, the $2,880,000 negative rate adjustment will be reduced by that amount(s) (i.e., the maximum negative rate adjustment for Gas Main Replacement for the three-year period will be $2,880,000).

The Gas Main Replacement program will expire at the end of 2010, whether or not new gas base delivery rates are changed by Commission order.

vii. General Provisions. The Company will report its annual performance in each of the areas set forth in this section to the Director of the Office of Gas & Water no later than 60 days following the end of the calendar year. If a performance metric is not met, the associated revenue adjustment will be excused when the Company can demonstrate to the Commission extenuating circumstances that prevented it from meeting such performance metric. The determination of whether such circumstances exist will be made on a case-by-case basis and will be based upon the particular facts and circumstances presented.

8. <u>Customer Satisfaction</u>

The levels of the Company's customers' satisfaction will be determined by surveys performed semi-annually by an outside vendor selected by the Company. The surveys will be designed to measure customers' satisfaction with the handling of calls to the Emergency Response Center relating to gas service. Should the average of the two system-wide satisfaction survey indices for any Rate Year fall below 88.1 percent, Con Edison will provide a credit to customers, as directed by the Commission. The gross amount of the credit will be calculated proportionately from zero at a satisfaction level of 88.1 percent or above, up to a maximum of $3.3 million at a satisfaction level of 87.5 percent or below. System-wide emergencies will not be included in surveys conducted under this provision.

Con Edison will submit reports on its performance of the customer satisfaction surveys twice a year following performance of each survey.

9. <u>General Outreach and Education Programs</u>

The Company shall provide gas customer education on general topics, such as customer rights and responsibilities, and shall enhance its educational efforts with respect to gas-specific issues, such as gas pipeline awareness, gas safety, gas service programs, and gas outages. The estimated annual cost of the Company's outreach and education effort for these purposes is $1.3 million for each year of the Gas Rate Plan.

10. <u>Miscellaneous Tariff Changes</u>

The Company will implement the following tariff changes as generally described below.

(i) SC No. 9 will be amended to eliminate the Competitive Retail Choice Credit ("CRCC"). Any lost CRCC revenue not recovered as of October 1, 2007 will continue to be recovered either through allowed funding sources for such recovery or through the MRA applicable to firm sales and firm transportation customers to the extent that funding sources are inadequate.

(ii) The description of the Transition Adjustment for Competitive Services ("TACS") in the General Information Section of the tariff will be amended as explained in Appendix D.

(iii) A provision has been added to the General Information Section to establish new gas service fees. As noted in section F.4, the reconnection fee for SC No. 1 customers and for all low income customers and associated SC No. 9 customers will be set at $65 per occurrence. The reconnection fee for all other customers will be set at $245 per occurrence.

(iv) As noted in section F.2, a provision will be added to the General Information Section to allow for funding through the MRA of $1.47 million for the oil-to-gas conversion program.

(v) Riders E (Area Development Rate) and F (Business Incentive Rate) have been discontinued and removed from the General Information Section of the tariff.

(vi) Housekeeping changes, as noted in section F.6, will be made to certain provisions of Rider I.

(vii) A provision for the gas Migration Incentive will be modified to limit its applicability to incentives earned during the 2004 Gas Rate Plan.

(viii) The Company will conform the tariff provisions for the MFC to the design reflected in Appendix D.

G. <u>Other Provisions</u>

1. <u>Rate Changes</u>

Except for section F.7.vi (Gas Main Replacement), the provisions of this Proposal will continue after RY3, unless and until gas base delivery rates are changed by Commission order. For any provision subject to RY1, RY2 and RY3 targets, the RY3 target shall be applicable to any additional rate year(s). Nothing herein precludes Con Edison from filing a new general gas rate case prior to October 1, 2010, for rates to be effective on or after October 1, 2010.

Changes to the Company's base gas rates during this Gas Rate Plan will not be permitted, except for (a) changes provided for in this Proposal and (b) subject to Commission approval, changes as a result of the following circumstances:

a. A minor change in any individual base rate or rates whose revenue effect is <u>de</u> <u>minimis</u> 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 term of this Gas Rate Plan, provided they will not result in a change (other than a <u>de</u> <u>minimis</u> change) in the revenues that Con Edison's base gas rates are designed to produce overall before such changes.

b. If a circumstance occurs which in the judgment of the Commission so threatens Con Edison's economic viability or ability to maintain safe, reliable and adequate service as to warrant an exception to this undertaking, Con Edison will be permitted to file for a change in base gas rates at any time under such circumstances.

c. The Signatory Parties recognize that the Commission reserves the authority to act on the level of Con Edison's base gas rates in the event that, in the Commission's opinion, Con Edison's gas rates are unjust or unreasonable or insufficient for the provision of safe, reliable and adequate service.

d. Nothing herein shall preclude Con Edison from petitioning the Commission for approval of new services or 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.

2. <u>Legislative, Regulatory and Related Actions</u>

a. If the federal government, State of New York, the City 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 paragraph D.1 above) that result in the Company's incurring incremental gas costs in an annual amount of $2.0 million or more, 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 City of New York, fees or levies, Con Edison 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 or other proceeding prescribing utility implementation of a specific tax law enactment, including Commission determination of any Company-specific compliance filing made in connection therewith.[21]

b. If any other 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, including a requirement that Con Edison refund its tax exempt debt, results in a change in Con Edison's annual gas costs or revenues not anticipated in the forecasts and assumptions on which the rates in this Proposal are based, and in the Company's incurrence of incremental gas costs or reduced revenues in an annual amount of $2.0 million or more,[22] Con Edison will defer on its books of account the full change in costs or revenues, with any such deferrals to be reflected in the next base rate case or in a manner to be determined by the Commission.

c. The Company will retain the right to petition the Commission for authorization to defer extraordinary expenditures not otherwise addressed by this proposal.

3. Trade Secret Protections

Nothing in this document prevents Con Edison from seeking trade secret protection under 16 NYCRR Part 6 for all or any part(s) of any document or report filed (or submitted to Staff) in accordance with this Gas Rate Plan, or prohibits or restricts any other party from challenging any such request.

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

[22]For purposes of this Proposal, the $2.0 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.

4. Provisions Not Separable

The Signatory Parties intend this Proposal to be a complete resolution of all the issues in Case No. 06-G-1332. It is understood that each provision of this Proposal is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the Commission. Except as set forth herein, none of the Signatory Parties is deemed to have approved, agreed to or consented to any principle, methodology or interpretation of law underlying or supposed to underlie any provision herein. If the Commission fails to adopt this Proposal according to its terms, then the Signatory Parties to the Proposal shall be free to pursue their respective positions in this proceeding without prejudice.

5. 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 or provisions of this Proposal and none of the positions taken herein by any party may be referred to, cited, or relied upon by any other party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose other than furtherance of the purposes, results, and disposition of matters governed by this Proposal.

6. Submission of Proposal

The Signatory Parties agree to submit this Proposal to the Commission and to individually support and request adoption by the Commission in its entirety as set forth herein, except as to those Signatory Parties whose signature pages indicate affirmative support, or withhold support, for limited aspects of this Proposal. The Signatory Parties hereto believe that the Proposal will satisfy the requirements of Public Service Law §65(1) that Con Edison provide safe and adequate service at just and reasonable rates.

7. Effect of Commission Approval

No provision of this Proposal or the Commission's approval of this Proposal shall in any way abrogate or limit the Commission's statutory authority under the Public Service Law. The Parties recognize that any Commission approval of this Proposal does not waive the Commission's ongoing rights and responsibilities to enforce its orders and effectuate the goals expressed therein, nor the rights and responsibilities of Staff to conduct investigations or take other actions in furtherance of its duties and responsibilities.

8. Further Assurances

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

9. Execution

This 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 this Proposal on the day and year first written above.

CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC.

Dated: June 1, 2007

By: ______________________________

NEW YORK STATE DEPARTMENT
OF PUBLIC SERVICE

Dated: _______________ By: __________________________________

THE CITY OF NEW YORK

Dated: _______________ By: ___________________________________

CONSUMER POWER ADVOCATES

Dated: _______________ By: ___________________________________

NEW YORK ENERGY CONSUMERS
COUNCIL, INC.

Dated: ______________ By: ________________________________

SMALL CUSTOMER MARKETER COALITION

Dated: ________________

By: ____________________________________

THE PACE ENERGY PROJECT

Dated: _______________ By: ___________________________________

ASSOCIATION FOR ENERGY
AFFORDABILITY

Dated: ________________

By: ____________________________________

IDT ENERGY, INC.

Dated: _______________ By: ___________________________________

NEW YORK STATE ENERGY RESEARCH
AND DEVELOPMENT AUTHORITY

Dated: _______________ By: ___________________________________

Consolidated Edison Company of New York, Inc.
Case 06-G-1332
Gas Revenue Requirement
For The Twelve Months Ending September 30, 2008
$ 000's

Operating Revenues	Rate Year Forecast	Rate Change	Rate Year With Rate Change
Sales Revenues	$ 645,713	$ 67,377	$ 713,090
Other Revenues	33,802	-	33,802
Net Revenues	679,515	67,377	746,892
Operating Expense			
Other Fuel Charges	1,389	-	1,389
Operations & Maintenance Expenses	255,204	364	255,568
Depreciation	90,111	-	90,111
Taxes Other Than Income Taxes	153,896	1,462	155,358
Gain from Disposition of Utility Plant	(6,533)	-	(6,533)
Total Deductions	494,067	1,826	495,893
Operating Income Before Income Taxes	185,448	65,551	250,999
New York State Income Taxes	7,974	4,654	12,628
Federal Income Tax	41,087	21,314	62,401
Utility Operating Income	$ 136,387	$ 39,583	$ 175,970
Rate Base	$ 2,306,594		$ 2,306,594
Rate of Return	5.91%		7.63%

Consolidated Edison Company of New York, Inc.
Case 0G-G-1332
Average Gas Rate Base
For The Twelve Months Ending September 30, 2008
$ 000's

Utility plant:		
Average Book Cost of Plant	$ 3,353,441	
Non-Interest Bearing CWIP	57,772	
Average Accumulated Depreciation	(898,825)	
Net utility plant		$ 2,512,388
Rate base additions:		
Working Capital	73,746	
Gas Stored Underground - Non-Current	1,239	
Accrued Unbilled Revenues	43,594	
Honeoye Storage Corporation	1,244	
Interference Cost Sharing	(5,697)	
Divested Stations - Unauthorized Gas Use	(2,362)	
Unamortized Debt Discount/Premium/Expense	30,278	
Sale / Appropriation of Property	68	
Preferred Stock Expense	523	
MTA Surtax - Net of Income Taxes	2,155	
Rate base additions		144,788
Rate base deductions:		
Excess Rate Base Over Capitalization	48,147	
Customer Advances for Construction	(1,807)	
Rate base deductions		46,340
Regulatory assets & liabilities (net of income taxes):		
Rate Case Reconciliations - Net of FIT		
Refund of Overcollection of Property Taxes - 2002 Settlement	(836)	
Refund of Interest on WTC Revenues - 2002 Settlement	(499)	
Refund of Customers' Share of Non-Firm Revenue Credits	(16,905)	
Refund of Interest on Customers' Share of Non-Firm Revenue Credits	(541)	
Refund of Miscellaneous Service Revenues	(71)	
Refund of Pipeline Integrity Costs	(1,043)	
Refund of Medicare Rx Legislation Savings	575	
Refund of Overcollection of NYS Income Tax Reconciliation	(608)	
Refund of Interest on Rate Case Deferrals - All Other	(614)	
Refund of Interest on First Avenue Property Sale	(275)	
Refund of Gains from Disposition of Utility Plants	(9,820)	
Refund of F.I.T. - Investment Tax Credits	(557)	
Recovery of Interest on Rate Case Deferrals - MGP/Superfund	109	
Recovery of Undercollection of Pension /OPEB Costs	6,376	
Recovery of Undercollection of Interference Costs	3,038	
Recovery of Undercollection Property Taxes	5,010	
Recovery of Interest on Previously Deferred POR Costs	56	
Recovery of Interest on NYS Income Tax Audit Adjustments	18	
Recovery of Costs Associated with the POR Program	342	
Recovery of WTC Expenses	18,622	
Regulatory deferrals		2,377
Accumulated deferred income taxes		
ADR / ACRS / MACRS Deductions	(350,567)	
Change of Accounting Section 263 A	(52,900)	
Prepaid Insurance Expenses	(295)	
Deferred S.I.T.	(22,878)	
Call Premium	(2,905)	
Excess Deferred SIT (2000/2001)	(595)	
Advanced Refunding of Mortgage Bonds	(27)	
Vested Vacation	1,921	
Contributions In Aid of Construction	1,134	
Capitalized Interest	109	
Unbilled Revenues	27,704	
Accumulated deferred income taxes		(399,299)
Total Rate Base		$ 2,306,594

Consolidated Edison Company of New York, Inc.
Steam Case 06-G-1332
Average Capital Structure & Cost of Money
For the Twelve Months Ending September 30, 2008

	Capital Structure %	Cost Rate %	Cost of Capital %	Pre Tax Cost % (a)
Long term debt	49.48%	5.78%	2.86%	2.86%
Preferred Stock	1.25%	5.34%	0.07%	0.11%
Customer deposits	1.27%	3.65%	0.05%	0.05%
Preferred Stock & Debt	52.00%		2.97%	3.02%
Common Equity	48.00%	9.70%	4.66%	7.71%
Total	100.00%		7.63%	10.73%

(a) Calculation reflects 7.1% NYS and 35% Federal income tax rates.

Consolidated Edison Company of NY, Inc.
Gas Case 06-G-1332
Gas 2nd & 3rd Stage Increase
$ million's

	Twelve Months Ending September 30,		
Rate Year Ending	2008	2009	2010
First Year Rate Change	$ 67.4		
Sales Revenue (Net of Fuel & Rev. Tax)		$ 6.8	$ 6.9
Other Operating Revenues		(0.7)	0.4
Subtotal (1)		6.1	7.3
Operating Expenses			
Operation & Maintenance Expense (excl. fuel)			
- Labor & General Escalations		4.2	4.5
- Pension and OPEBs		(1.6)	5.5
- MGP Remediation (Five Year Amortization)		1.3	1.3
- Uncollectibles		0.1	0.1
- Gas Efficiency Program - Staffing		0.7	0.1
- Program Savings - Shared Services and Active Health		(0.5)	-
Depreciation & Amortization		6.2	6.2
Taxes Other - excl. revenue taxes		6.0	7.2
- revenue taxes		0.7	1.0
Federal Income Taxes (Book vs. Flow Thru Deductions)		0.6	0.5
Pre Tax Return on Rate Base (Net of Interest Tax Deduction)		21.1	23.6
Subtotal (2)		38.8	50.0
Net Rate Change (2) - (1)	$ 67.4	$ 32.7	$ 42.7

Appendix B

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

FORECASTED GAS DELIVERY VOLUMES

MDT's

		Twelve Months Ended		
Line No.	**Service Classification**	**9/30/2008**	**9/30/2009**	**9/30/2010**
1	**SC 1 - Residential & Religious**	4,787	4,759	4,731
2	**SC 2 - General, Commercial and Industrial (Non-Heating)**	17,971	18,146	18,322
3	**SC 2 - General, Commercial and Industrial (Heating)**	29,424	30,186	30,949
4	**SC 2 - Commercial Distributed Generation**	100	100	100
5	**SC 2 - Firm Bypass (Non-Heating)**	1,964	1,964	1,964
6	**SC 3 - Residential and Religious (Heating)**	60,521	61,214	61,906
7	**SC 13 - Seasonal Off Peak Water Heating**	71	79	87
8	**SC 14 - Natural Gas Vehicles**	12	12	12
9	**Total Firm Delivery Volumes**	**114,849**	**116,460**	**118,071**

Appendix C

Consolidated Edison Company of New York, Inc.
October 2007

Service Classification (SC)	Gas Delivery Volumes Therms	Number of Active Accounts**
SC 1		
SC 2NHT*		
SC 2HT		
SC 3 (1-4 Dwelling Units)		
SC 3 (More than 4 Dwelling Units)		
SC 13		
SC 14		
SC 2NHT - Firm Bypass		
Total	**-**	**-**

* *Includes distributed firm generation volumes.*
** *As of Trip 21 (October 29, 2007)*

GAS RATE DESIGN

1. Billing Determinants and Rate Design Revenue Targets

Table 1 provides the billing determinants for the delivery rate design. Table 2 provides the rate design revenue targets for the Supply-Related and Credit and Collections ("C&C") components of the Merchant Function Charge ("MFC") for RY1, the C&C component of the POR discount rate for RY1, the Supply-Related component of the MFC for RY2 and RY3, the total C&C applicable to the MFC and POR discount rate[1] for RY2 and RY3, the Billing and Payment Processing charges for RY1, RY2 and RY 3, and delivery charges for RY1, RY2 and RY3. The allocation of the C&C rate design "Total" target between C&C for the MFC and C&C for the POR discount rate will be determined prior to RY2 and RY3 based upon the most recent information available.

2. Allocation of Increased Revenue Requirement

The Revenue Allocation for each Rate Year was designed to achieve the rate design revenue targets shown on Table 2. The detailed revenue allocation is shown on Table 3.

For the first Rate Year, the total increase in the Company's revenue requirement of $67,377,000, less gross receipts tax of $1,463,284, was allocated to firm sales and firm transportation customers in SC 1, 2, 3, 9 and 13 in the following manner: (a) Revenue deficiencies/surpluses as indicated in (Table 3) were used to realign Rate Year revenue at current rate levels for SC 1, SC 2 Heating and SC 2 Non-Heating; (b) The average percentage rate increase was applied to the realigned revenues for all classes; (c) The total rate increase for each class was determined by adding the rate increase for each class and the deficiency or surplus indicated in Table 3. The overall average percentage rate increase for RY1 was determined by dividing the RY1 rate increase by delivery revenues at current rates.

For the second Rate Year, the delivery rate increase was determined by subtracting Rate Year 2 forecasted sales priced at Rate Year 1 delivery rates from the Rate Year 2 delivery revenue requirement. The resulting delivery rate increase was divided by revenues resulting from Rate Year 2 sales priced at Rate Year 1 delivery rates to determine the overall average delivery rate percentage increase. The overall average delivery rate increase and delivery rate percentage increase for RY3 were determined in a similar manner.

For the second and third Rate Years all classes will be assigned the average percentage delivery rate increase.

[1] Any C&C charges related to gas transportation customers whose ESCOs participate in the Company's Purchase of Receivables program ("POR") will be included in the POR discount rate, based upon the rate design revenue target in Table 2.

3. Unbundling Changes

Con Edison will implement the following unbundling changes:

A. Merchant Function Charge

1. The Merchant Function Charge ("MFC") will be applicable to full service firm customers only and will consist of the following components:

- Supply-Related Component.
- Credit and Collections/Theft ("C&C") Component.
- Uncollectible Accounts Expense ("UBs") associated with supply (this component will change each month, and will be determined in the manner described below).
- Gas in Storage Working Capital (this component will change each Rate Year, and will be determined in the manner described below).

2. Separate MFC charges will be established for SC 1, SC 2 Heating, SC 2 Non-Heating and SC 13, and SC 3. For the Supply-Related component and for the C&C component, different unit costs will be set for residential and for non-residential classes. At the end of each Rate Year, the Supply-Related and C&C components of the MFC will be trued up to the Rate Year design targets and any reconciliation amount will be included in the subsequent year's calculation of the MFC.

   The charge for UBs associated with supply will be based upon actual supply costs for each month as shown in the Company's monthly Gas Cost Factor ("GCF"). The UBs associated with supply costs as shown in the GCF will be included in the MFC. Separate UB factors will be calculated for each of the three GCF groupings and will reflect the overall uncollectible rate of 0.543%, with uncollectible rates of .8053% for residential customers and .3466% for non-residential customers for Rate Year 1. The UB rates for residential and non-residential customers will be updated annually, prior to each Rate Year to reflect the overall uncollectible rate of .543%.

   The Gas in Storage Working Capital charge will be allocated between full service customers (MFC Component) and all customers (MRA Component) and will be the same for all classes. For RY1, the allocation between full service and all customers will be such that the volumetric rate for full service customers will be twice the rate applicable to all customers. For RY2 and RY3, the volumetric rate for full service customers will be 1½ times and 1 time the rate to all customers, respectively. At the end of each Rate Year, the Gas in Storage Working Capital included in the MFC and MRA will be trued-up to actual costs and the difference included in the subsequent year's calculation.

B. **Billing and Payment Processing Charge**

The Billing and Payment Processing ("BPP") Charge for gas will be set at \$0.94 for single service gas customers who purchase both their commodity and delivery from the Company and for retail access customers receiving separate bills from the Company and the ESCO. Dual service customers will pay no more than \$0.47 for gas BPP. Table 2 provides the rate design targets for BPP for each Rate Year. Table 4 includes the gas BPP charges for single service and dual service gas customers.

C. **Transition Adjustment for Competitive Services**

The Transition Adjustment for Competitive Services ("TACS") will reconcile (1) actual revenues received from the C&C component for POR customers included in the discount rate with the amount reflected in the discount rate, and (2) the lost revenue attributable to the BPP charges associated with customers migrating to retail access and being billed for their gas use through an ESCO consolidated bill. The reconciliation in (1) above will be calculated using the Rate Year design target in Table 2 for C&C POR for RY1, and will be based on an allocation of the C&C Total from Table 2 for RY2 and RY3.

The TACS will apply to firm full service customers and to firm transportation customers and will be assessed through the MRA. The rates will be designed so that lost revenues will be recovered at the same rate from all firm customers.

4. <u>Rate Design Within The Service Classes</u>

A summary of the proposed delivery rates resulting from the rate design described below is shown on Table 5.

A. The minimum charges (the charge for the delivery of the first three therms or less) in all three Rate Years for SC 1, SC 2 Heating, SC 2 Non-Heating, and SC 3, and for the corresponding SC 9 rates, will be increased to better reflect the Company's cost to provide service. The SC 13 minimum charge and the corresponding SC 9 firm transportation minimum charge, which is designed to collect minimum charges over seven months as opposed to twelve months, will be increased accordingly. For SC 3, the minimum charge will be \$15.38 for RYs 1, 2 and 3. For SC 1, the minimum charge for RY 1, RY 2 and RY 3 will be \$13.90, \$14.64 and 15.23, respectively.

B. For SC 1 and SC 3 (and their associated SC 9 rates), the remaining revenue increase assigned to those classes in all three Rate Years, after allocating a portion of the revenue increase to the minimum charge, will be allocated among the blocks on an equal ¢/therm basis.

C. For SC 2 Heating and SC 2 Non-Heating, the Company will distribute the net revenue increases for each Rate Year, for rate blocks of more than 3 therms in the following manner: The 4-90 block will be assigned the average ¢/therm increase for each class after assigning a portion of the revenue increase to the minimum charge; all remaining blocks in each class will be assigned an equal percentage increase.

D. For SC 13, for each Rate Year, the remaining blocks will be assigned revenue increases only to the extent that any revenue increase for SC 13 remains after assigning the revenue increase to the SC 13 minimum charge. The air-conditioning rates within SC 2 and SC 3 will be set equal to the proposed block rates in SC 13.

E. The rates for Riders G and I will be set using the same relationship that exists between SC 2 delivery rates and Riders G and I rates today.

F. No increase will be allocated to SC 14, and firm bypass rate customers. However distributed generation rates under Riders H and J will be increased by the average rate increase allowed for each Rate Year.

5. **<u>Low Income Rate Changes</u>**

The Company will continue to implement a low-income customer rate program, pursuant to the terms set forth in this Appendix D, targeted at low-income residential customers taking service under SC 1 (non-heating) and 3 (heating), and corresponding SC 9 customers. To qualify for the program, a customer must be receiving benefits under any of the following governmental assistance programs: Supplemental Security Income, Temporary Assistance to Needy Persons, Safety Net Assistance, Medicaid, or Food Stamps, or have received a Home Energy Assistance Program grant in the preceding 12 months.

The Company will set the rate reduction at $0.2029 per therm in the over-3 therm block for eligible SC 1 customers and in the 4-90 block for eligible SC 3 customers. Similar rate reductions will be set for equivalent SC 9 transportation customers. Eligible SC 3 customers will receive a reduction in their minimum charge as well. The minimum charge for eligible low income SC 3 customers will be set at the minimum charge for SC 1; the Company has designed rates to recover the estimated revenue loss of $200,000 associated with this reduced minimum charge. A customer receiving the low-income rate reduction will be subject to all other applicable rates and charges of the customer’s applicable service classification.

The program will be designed to provide approximately $5.0 million of rate reductions in total over the RY 1 through the RY 3 period based on the currently forecasted customer participation levels. If the Company, in consultation with active parties, estimates that the aggregate actual rate reductions to be provided to low income customers over the three Rate Years ending September 30, 2010 will exceed $6 million or be less than $5.0 million, the Company may, after consultation with active parties, revise the rate reduction applicable in RY3. Revised rates to implement this revision may be filed on 30 days' notice. If the Company determines to revise such rate(s), the rate reduction established for RY3 shall not increase or decrease by more than 25 percent. At the end of RY3, any difference remaining between $5.0 million and the aggregate actual level of low income reductions provided over the three Rate Years ending September 30, 2010 shall be credited or surcharged to SC 1, 2, 3 and 13 firm customers and corresponding SC 9 firm transportation customers, including low income customers, as an adjustment to the MRA over a twelve-month period, commencing October 1, 2010.

Any difference remaining between $4.8 million and the aggregate actual level of low income reductions provided over the three Rate Years ending September 30, 2007, will be credited or surcharged to all firm gas customers through an adjustment to the MRA over the twelve months commencing October 1, 2007.

6. **Recovery of Interruptible Plant**

For the first and second Rate Years recovery of the cost of plant applicable to interruptible and off-peak firm customers through September 30, 2004 will continue to be recovered by reducing the deferred balance of firm customers' share of non-firm revenues at the end of each month. This is a continuation of the amortization established in the prior rate plan which allowed for a five year amortization of the unrecovered plant. Any amount remaining unrecovered at the end of the second Rate Year will be deferred for future recovery.

The revenues for interruptible customers commencing service on or after October 1, 2007 will no longer be used to offset installation costs of those customers. Any interruptible customers commencing service on or after October 1, 2004 whose facility costs have not been fully offset against revenues as of September 30, 2007, will continue to have their revenue applied against those facility costs until such facility costs are completely offset.

APPENDIX D
TABLE 1

Rate Year Billing Determinants			
	Rate Year 1	Rate Year 2	Rate Year 3
Service Classification 1			
Annual Bills	7,250,912	7,208,618	7,166,324
Therms 0-3	14,878,760	14,791,973	14,705,188
Therms >3	26,455,762	26,295,472	26,135,181
Total Annual Sales Volumes (Therms)	41,334,522	41,087,445	40,840,369
Service Classification 1 - Low Income			
Bills	1,111,008	1,105,144	1,099,280
Therms 0-3	2,871,416	2,856,260	2,841,104
Therms >3	3,665,698	3,645,524	3,625,349
Total Annual Sales Volumes (Therms)	6,537,114	6,501,784	6,466,453
Service Classification 2 Heating			
Annual Bills	730,228	748,541	766,856
Therms 0-3	1,957,466	2,006,557	2,055,650
Therms 3-90	39,675,168	40,670,163	41,665,212
Therms 90-3000	175,211,904	179,714,101	184,218,939
Therms >3000	74,136,886	76,074,017	78,012,970
Total Annual Sales Volumes (Therms)	290,981,424	298,464,838	305,952,771
Service Classification 2 Heating - Air Conditioning			
Therms 0-1200	125,323	133,665	141,614
Therms >1200	1,323,247	1,411,335	1,495,264
Total Annual Sales Volumes (Therms)	1,448,570	1,545,000	1,636,878
Service Classification 2 Heating - Economic Development Zone			
Annual Bills	1,162	1,191	1,221
Therms 0-3	2,926	3,001	3,075
Therms 3-90	65,428	67,101	68,775
Therms 90-250	93,395	95,784	98,173
Therms 250-3000	615,229	631,036	646,847
Therms >3000	1,030,577	1,058,016	1,085,482
Total Annual Sales Volumes (Therms)	1,807,555	1,854,938	1,902,352
Service Classification 2 Non-Heating			
Annual Bills	724,355	731,280	738,205
Therms 0-3	1,848,216	1,865,887	1,883,555
Therms 3-90	29,588,218	29,869,600	30,153,391
Therms 90-3000	116,182,244	117,287,131	118,401,473
Therms >3000	30,379,140	30,668,045	30,959,423
Total Annual Sales Volumes (Therms)	177,997,818	179,690,663	181,397,842
Service Classification 2 Non-Heating - Air Conditioning			
Therms 0-1200	63,010	66,190	69,103
Therms >1200	975,123	1,024,329	1,069,410
Total Annual Sales Volumes (Therms)	1,038,133	1,090,519	1,138,513
Service Classification 2 Non-Heating - Economic Development Zone			
Annual Bills	145	146	148
Therms 0-3	388	392	396
Therms 3-90	11,718	11,835	11,954
Therms 90-250	20,054	20,255	20,458
Therms 250-3000	215,840	218,006	220,191
Therms >3000	426,704	430,987	435,304
Total Annual Sales Volumes (Therms)	674,704	681,475	688,303
Service Classification 3 (1 to 4 Housing Units)			
Annual Bills	2,835,987	2,871,899	2,907,810
Therms 0-3	8,523,776	8,631,713	8,739,646
Therms 3-90	159,380,757	161,411,902	163,440,958
Therms 90-3000	167,773,089	169,923,672	172,070,317
Therms >3000	1,109,159	1,125,561	1,141,933
Total Annual Sales Volumes (Therms)	336,786,781	341,092,848	345,392,854
Service Classification 3 (1 to 4 Housing Units) - Low Income			
Annual Bills	79,703	80,755	81,806
Therms 0-3	239,399	242,555	245,711
Therms 3-90	4,181,664	4,237,172	4,292,620
Therms 90-3000	3,226,505	3,269,512	3,312,443
Therms >3000	18,475	18,721	18,967
Total Annual Sales Volumes (Therms)	7,666,043	7,767,960	7,869,741
Service Classification 3 (1 to 4 Housing Units) - Air Conditioning			
Therms 0-1200	-	-	-
Therms >1200	-	-	-
Total Annual Sales Volumes (Therms)	-	-	-
Service Classification 3 (More than 4 Housing Units)			
Annual Bills	172,461	174,633	176,806
Therms 0-3	505,176	511,540	517,904
Therms 3-90	13,593,005	13,764,201	13,935,397
Therms 90-3000	133,060,840	134,732,753	136,402,500
Therms >3000	113,458,895	114,124,228	114,788,367
Total Annual Sales Volumes (Therms)	260,617,916	263,132,722	265,644,168
Service Classification 3 (More than 4 Housing Units) - Low Income			
Annual Bills	88	88	90
Therms 0-3	265	268	272
Therms 3-90	6,493	6,578	6,664
Therms 90-3000	21,383	21,668	21,953
Therms >3000	-	-	-
Total Annual Sales Volumes (Therms)	28,141	28,514	28,889
Service Classification 3 (More than 4 Housing Units) - Air Conditioning			
Therms 0-1200	23,605	24,872	26,045
Therms >1200	86,565	91,212	95,512
Total Annual Sales Volumes (Therms)	110,170	116,084	121,557
Service Classification 13			
Annual Bills	5,851	6,262	6,674
Therms 0-3	8,901	9,528	10,155
Therms3-1200	398,528	443,646	488,764
Therms >1200	302,571	336,826	371,081
Total Annual Sales Volumes (Therms)	710,000	790,000	870,000
Service Classification 2 - Commercial Distributed Generation			
Total Annual Sales Volumes (Therms)	998,499	998,499	998,499
Service Classifcation 2 - Non-Heating			
Firm Bypass	19,637,265	19,637,265	19,637,265
Service Classification 14			
Total Annual Sales Volumes (Therms)	120,000	120,000	120,000
Summary of Sales Volumes			
Service Classification 1 Sales Volumes (Therms)	47,871,636	47,589,229	47,306,822
Service Classification 2 Non-Heating Sales Volumes (The	200,346,419	202,098,421	203,860,422
Service Classification 2 Heating Sales Volumes (Therms)	294,237,549	301,864,776	309,492,001
Service Classification 3 Sales Volumes (Therms)	605,209,051	612,138,128	619,057,209
Service Classification 13 Sales Volumes (Therms)	710,000	790,000	870,000
Service Classification 14 Sales Volumes (Therms)	120,000	120,000	120,000
Total Annual Sales Volumes (Therms)	**1,148,494,655**	**1,164,600,554**	**1,180,706,454**

Appendix D
Table 2

RATE DESIGN REVENUE TARGETS

	Firm Rates	Supply MFC	C&C MFC	C&C POR	C&C Total	BPP	Delivery
	Rate Design Revenue Targets						
Current Rates	$ 587,770,000						
Rate Year 1 Increase	$ 67,377,000						
Less Taxes	$ (1,463,284)						
Rate Year 1	**$ 653,683,716**	**$ 7,329,186**	**$ 10,564,623**	**$ 1,348,006**	**$ 11,912,629**	**$ 5,850,756**	**$ 628,591,145**
Growth Rate Year 2	$ 6,800,000						
Less Taxes	$ (147,681)						
Rate Year 2 Increase	$ 32,700,000						
Less Taxes	$ (716,000)						
Rate Year 2	**$ 692,320,035**	**$ 7,762,381**	**TBD**	**TBD**	**$ 12,616,731**	**$ 5,858,731**	**$ 666,082,192**
Growth Rate Year 3	$ 6,900,000						
Less Taxes	$ (149,853)						
Rate Year 3 Increase	$ 42,700,000						
Less Taxes	$ (936,000)						
Rate Year 3	**$ 740,834,182**	**$ 8,306,328**	**TBD**	**TBD**	**$ 13,500,845**	**$ 5,864,835**	**$ 713,162,174**

Appendix D
Table 3

RATE YEAR 1															
	1	2	(3)=(1)+(2)	4	(5)=(3)+(4)	6	7	8	(9)=(5)-(6)-(7)-(8)	(10)=(9)-(1)	(11)=(6)+(7)+(8)	(12)=(10)+(11)	(13)=(10)/(11)	(14)=(11)/(1)	(15)=(12)/(1)
	TME 9/30/08 @	Deficiency/	Realigned RY1	RY 1			TME 9/30/08			Delivery	Competitive	Bill		Percent Increase	
Service Class	Current Rates	(Surplus)	@ Current Rates	Increase	Total	Supply	C&C	B&P	Delivery	Increase	Charges	Impact	Delivery	Competitive	Bill
SC 1	$ 119,402,451	$ 4,396,677	$ 123,799,128	$ 13,909,185	$ 137,708,313	$ 451,282	$ 805,064	$ 3,691,152	$ 132,760,816	$ 13,358,365	$ 4,947,497	**$ 18,305,862**	11.19%	4.14%	**15.33%**
SC 2 R1 - Non Heat	$ 66,586,678	$ (1,254,995)	$ 65,331,683	$ 7,340,201	$ 72,671,884	$ 712,969	$ 975,335	$ 382,194	$ 70,601,386	$ 4,014,708	$ 2,070,498	**$ 6,085,206**	6.03%	3.11%	**9.14%**
SC 2 R1 - NH DG	$ 148,225	$ (2,777)	$ 145,448	$ 16,342	$ 161,790	$ 1,587	$ 1,492	$ -	$ 158,710	$ 10,485	$ 3,079	**$ 13,565**	7.07%	2.08%	**9.15%**
SC 2 R2 - Heat	$ 111,596,542	$ (3,138,905)	$ 108,457,637	$ 12,185,525	$ 120,643,162	$ 1,256,696	$ 1,661,582	$ 362,041	$ 117,362,843	$ 5,766,301	$ 3,280,319	**$ 9,046,620**	5.17%	2.94%	**8.11%**
SC 3	$ 288,681,297	$ -	$ 288,681,297	$ 32,434,168	$ 321,115,465	$ 4,903,405	$ 8,465,563	$ 1,411,267	$ 306,335,230	$ 17,653,933	$ 14,780,235	**$ 32,434,168**	6.12%	5.12%	**11.24%**
SC 13	$ 251,840	$ -	$ 251,840	$ 28,295	$ 280,135	$ 3,248	$ 3,593	$ 4,102	$ 269,192	$ 17,352	$ 10,943	**$ 28,295**	6.89%	4.35%	**11.24%**
Subtotal	$ 586,667,033	$ -	$ 586,667,033	$ 65,913,716	$ 652,580,749	**$ 7,329,186**	**$ 11,912,629**	$ 5,850,756	$ 627,488,178	$ 40,821,145	$ 25,092,571	**$ 65,913,716**	6.96%	4.28%	**11.24%**
SC 14	$ 216,000	$ -	$ 216,000	$ -	$ 216,000	$ -	$ -	$ -	**$ 216,000**	$ -	$ -	**$ -**	0.00%	0.00%	**0.00%**
Firm Bypass	$ 886,966	$ -	$ 886,966	$ -	$ 886,966	$ -	$ -	$ -	**$ 886,966**	$ -	$ -	**$ -**	0.00%	0.00%	**0.00%**
Total	**$ 587,769,999**	**$ -**	**$ 587,769,999**	**$ 65,913,716**	**$ 653,683,715**	**$ 7,329,186**	**$ 11,912,629**	**$ 5,850,756**	**$ 628,591,144**	**$ 40,821,145**	**$ 25,092,571**	**$ 65,913,716**	6.95%	4.27%	**11.21%**

RATE YEAR 2															
	1	2	(3)=(1)+(2)	4		6	7	8	(9)=(5)-(6)-(7)-(8)	(10)=(9)-(1)	(11)=(6)+(7)+(8)	(12)=(10)+(11)	(13)=(10)/(11)	(14)=(11)/(1)	(15)=(12)/(1)
	DELIVERY			DELIVERY										Percent Increase	
	TME 9/30/09 @	Deficiency/	Realigned RY2	RY 2			TME 9/30/09			Delivery	Competitive	Bill	Delivery	Competitive	Bill
Service Class	RY1 Rates	(Surplus)	@ Current Rates	Increase	Total	Supply	C&C	B&P	Delivery	Increase	Charges	Impact			
SC 1	$ 131,893,971	$ -	$ 131,893,971	$ 6,469,849	$ 143,318,193	$ 460,168	$ 823,722	$ 3,670,483	$ 138,363,819	$ 6,469,849	$ 6,876	$ 6,476,725	4.91%	0.01%	**4.91%**
SC 2 R1 - Non Heat	$ 71,243,832	$ -	$ 71,243,832	$ 3,494,753	$ 76,890,582	$ 744,160	$ 1,022,687	$ 385,151	$ 74,738,585	$ 3,494,753	$ 81,499	$ 3,576,252	4.91%	0.11%	**5.02%**
SC 2 R1 - NH DG	$ 148,000	$ -	$ 148,000	$ 7,260	$ 158,259	$ 1,546	$ 1,454	$ -	$ 155,260	$ 7,260	$ (80)	$ 7,180	4.91%	-0.05%	**4.85%**
SC 2 R2 - Heat	$ 120,379,591	$ -	$ 120,379,591	$ 5,905,029	$ 129,765,175	$ 1,341,409	$ 1,769,603	$ 369,543	$ 126,284,620	$ 5,905,029	$ 200,236	$ 6,105,265	4.91%	0.17%	**5.07%**
SC 3	$ 309,888,114	$ -	$ 309,888,114	$ 15,201,068	$ 340,723,363	$ 5,211,009	$ 8,994,849	$ 1,428,323	$ 325,089,182	$ 15,201,068	$ 853,947	$ 16,055,015	4.91%	0.28%	**5.18%**
SC 13	$ 331,499	$ -	$ 331,499	$ 16,261	$ 361,496	$ 4,089	$ 4,416	$ 5,231	$ 347,761	$ 16,261	$ 2,793	$ 19,054	4.91%	0.84%	**5.75%**
Subtotal	$ 633,885,007	$ -	$ 633,885,007	$ 31,094,219	**$ 691,217,069**	**$ 7,762,381**	**$ 12,616,731**	**$ 5,858,731**	**$ 664,979,226**	**$ 31,094,219**	**$ 1,145,272**	**$ 32,239,491**	4.91%	0.18%	**5.09%**
SC 14	**$ 216,000**	$ -	**$ 216,000**	$ -	**$ 216,000**	$ -	$ -	$ -	$ 216,000	$ -	$ -	$ -	0.00%	0.00%	**0.00%**
Firm Bypass	**$ 886,966**	$ -	**$ 886,966**	$ -	**$ 886,966**	$ -	$ -	$ -	$ 886,966	$ -	$ -	$ -	0.00%	0.00%	**0.00%**
Total	**$ 634,987,973**	**$ -**	**$ 634,987,973**	**$ 31,094,219**	**$ 692,320,035**	**$ 7,762,381**	**$ 12,616,731**	**$ 5,858,731**	**$ 666,082,192**	**$ 31,094,219**	**$ 1,145,272**	**$ 32,239,491**	4.90%	0.18%	**5.08%**

RATE YEAR 3															
	1	2	(3)=(1)+(2)	4		6	7	8	(9)=(5)-(6)-(7)-(8)	(10)=(9)-(1)	(11)=(6)+(7)+(8)	(12)=(10)+(11)	(13)=(10)/(11)	(14)=(11)/(1)	(15)=(12)/(1)
	DELIVERY			DELIVERY										Percent Increase	
	TME 9/30/10 @	Deficiency/	Realigned RY3	RY 3			TME 9/30/10			Delivery	Competitive	Bill	Delivery	Competitive	Bill
Service Class	RY2 Rates	(Surplus)	@ Current Rates	Increase	Total	Supply	C&C	B&P	Delivery	Increase	Charges	Impact			
SC 1	$ 137,557,775	$ -	$ 137,557,775	$ 8,227,026	$ 150,765,211	$ 475,941	$ 854,655	$ 3,649,813	$ 145,784,801	$ 8,227,026	$ 26,036	$ 8,253,062	5.98%	0.02%	**6.00%**
SC 2 R1 - Non Heat	$ 75,446,706	$ -	$ 75,446,706	$ 4,512,301	$ 82,220,650	$ 787,482	$ 1,086,053	$ 388,108	$ 79,959,007	$ 4,512,301	$ 109,646	$ 4,621,946	5.98%	0.15%	**6.13%**
SC 2 R1 - NH DG	$ 148,225	$ -	$ 148,225	$ 8,865	$ 160,092	$ 1,547	$ 1,455	$ -	$ 157,090	$ 8,865	$ 2	$ 8,867	5.98%	0.00%	**5.98%**
SC 2 R2 - Heat	$ 129,457,043	$ -	$ 129,457,043	$ 7,742,539	$ 140,921,879	$ 1,443,775	$ 1,901,475	$ 377,046	$ 137,199,583	$ 7,742,539	$ 241,741	$ 7,984,281	5.98%	0.19%	**6.17%**
SC 3	$ 328,883,013	$ -	$ 328,883,013	$ 19,669,765	$ 365,242,751	$ 5,592,643	$ 9,651,950	$ 1,445,380	$ 348,552,778	$ 19,669,765	$ 1,055,791	$ 20,725,557	5.98%	0.32%	**6.30%**
SC 13	$ 383,040	$ -	$ 383,040	$ 22,909	$ 420,633	$ 4,940	$ 5,256	$ 4,488	$ 405,949	$ 22,909	$ 948	$ 23,857	5.98%	0.25%	**6.23%**
Subtotal	$ 671,875,803	$ -	$ 671,875,803	$ 40,183,405	$ 739,731,216	**$ 8,306,328**	**$ 13,500,845**	**$ 5,864,835**	**$ 712,059,208**	$ 40,183,405	$ 1,434,165	$ 41,617,570	5.98%	0.21%	**6.19%**
SC 14	**$ 216,000**	$ -	**$ 216,000**	$ -	**$ 216,000**	$ -	$ -	$ -	**$ 216,000**	$ -	$ -	$ -	0.00%	0.00%	**0.00%**
Firm Bypass	**$ 886,966**	$ -	**$ 886,966**	$ -	**$ 886,966**	$ -	$ -	$ -	**$ 886,966**	$ -	$ -	$ -	0.00%	0.00%	**0.00%**
Total	**$ 672,978,769**	**$ -**	**$ 672,978,769**	**$ 40,183,405**	**$ 740,834,182**	**$ 8,306,328**	**$ 13,500,845**	**$ 5,864,835**	**$ 713,162,174**	**$ 40,183,405**	**$ 1,434,165**	**$ 41,617,570**	5.97%	0.21%	**6.18%**

Appendix D
Table 4

BILLING AND PAYMENT PROCESSING CHARGES

A. Single Service (Gas only) accounts BPP charges				
	Full Service Single Bill	**Retail Choice Utility Single Bill (POR)**	**Retail Choice Two Bills**	**Retail Choice ESCO Single Bill**
Gas Customer	$0.94	$0.00	$0.94	$0.00
Gas ESCO	$0.00	$0.94	$0.00	$0.00

B. Dual Service (Gas and Electric) BPP charges for accounts served by Single ESCO (one ESCO for both Gas and Electric)					
	Electric Service Type	**Gas Full Service Single Bill**	**Gas Retail Choice Utility Single Bill (POR)**	**Gas Retail Choice Two Bills**	**Gas Retail Choice ESCO Single Bill**
Gas Customer	Electric Full Service Single Bill	$0.47	$0.00	$0.47	$0.00
Gas ESCO	Electric Full Service Single Bill	$0.00	$0.47	$0.00	$0.00
Gas Customer	Electric Retail Choice Utility Single Bill (POR)	$0.47	$0.00	0.47	N/A
Gas ESCO	Electric Retail Choice Utility Single Bill (POR)	$0.00	$0.47	0	N/A
Gas Customer	Electric Retail Choice Two Bill	$0.47	$0.00	$0.47	N/A
Gas ESCO	Electric Retail Choice Two Bill	$0.00	$0.47	$0.00	N/A
Gas Customer	Electric Retail Choice ESCO Single Bill	$0.00	N/A	N/A	$0.00
Gas ESCO	Electric Retail Choice ESCO Single Bill	$0.00	N/A	N/A	$0.00

C. Dual Service (Gas and Electric) BPP charges for accounts served by Two ESCO's (one ESCO for Gas and another ESCO for Electric)					
	Electric Service Type	**Gas Full Service Single Bill**	**Gas Retail Choice Utility Single Bill (POR)**	**Gas Retail Choice Two Bills**	**Gas Retail Choice ESCO Single Bill**
Gas Customer	Electric Full Service Single Bill	$0.47	$0.00	$0.47	$0.00
Gas ESCO	Electric Full Service Single Bill	$0.00	$0.47	$0.00	$0.00
Gas Customer	Electric Retail Choice Utility Single Bill (POR)	$0.47	$0.00	$0.47	N/A
Gas ESCO	Electric Retail Choice Utility Single Bill (POR)	$0.00	$0.47	$0.00	N/A
Gas Customer	Electric Retail Choice Two Bill	$0.47	$0.00	$0.47	$0.00
Gas ESCO	Electric Retail Choice Two Bill	$0.00	$0.47	$0.00	$0.00
Gas Customer	Electric Retail Choice ESCO Single Bill	$0.00	N/A	$0.00	N/A
Gas ESCO	Electric Retail Choice ESCO Single Bill	$0.00	N/A	$0.00	N/A

APPENDIX D
TABLE 5

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUMMARY OF PROPOSED GAS RATES
FOR RATE YEARS BEGINNING OCTOBER 1, 2007, OCTOBER 1, 2008 AND 0CT0BER 1, 2009

	RATE YEAR 1		**RATE YEAR 2**		**RATE YEAR 3**	
SC 1 and SC 9 Rate (A1)						
First 3 Therms (or less)	$ 13.90		$ 14.64		$ 15.23	
Over 3 Therms		$ 0.5702 per therm		$ 0.5808 per therm		$ 0.6934 per therm
SC 1 Low Income						
First 3 Therms (or less)	$ 13.90		$ 14.64		$ 15.23	
Over 3 Therms		$ 0.3673 per therm		$ 0.3779 per therm		$ 0.4905 per therm
SC 2 Rate 1 and SC 9 Rate (A2)						
First 3 Therms (or less)	$ 17.64		$ 19.79		$ 19.99	
Next 87 Therms		$ 0.5448 per therm		$ 0.5555 per therm		$ 0.5796 per therm
Next 2,910 Therms		$ 0.3019 per therm		$ 0.3134 per therm		$ 0.3392 per therm
Over 3,000 Therms		$ 0.2079 per therm		$ 0.2158 per therm		$ 0.2336 per therm
SC 2 Rate II and SC 9 Rate (A4)						
First 3 Therms (or less)	$ 19.13		$ 19.52		$ 20.00	
Next 87 Therms		$ 0.5467 per therm		$ 0.5656 per therm		$ 0.5897 per therm
Next 2,910 Therms		$ 0.3595 per therm		$ 0.3804 per therm		$ 0.4070 per therm
Over 3,000 Therms		$ 0.2443 per therm		$ 0.2585 per therm		$ 0.2766 per therm
SC 2 Rate 1 and SC 9 Rate (A7) (A/C)						
First 1,200 Therms		$ 0.1942 per therm		$ 0.1942 per therm		$ 0.2198 per therm
Over 1,200 Therms		$ 0.1662 per therm		$ 0.1662 per therm		$ 0.1881 per therm
SC 2 Rate 1 Riders G & I and SC 9 Rate (A3)						
First 3 Therms (or less)	$ 17.64		$ 19.79		$ 19.99	
Next 87 Therms		$ 0.5448 per therm		$ 0.5555 per therm		$ 0.5796 per therm
Next 160 Therms		$ 0.3019 per therm		$ 0.3134 per therm		$ 0.3392 per therm
Next 2,750 Therms		$ 0.1980 per therm		$ 0.2055 per therm		$ 0.2224 per therm
Over 3,000 Therms		$ 0.1040 per therm		$ 0.1079 per therm		$ 0.1168 per therm
SC 2 Rate II Riders G & I and SC 9 Rate (A5)						
First 3 Therms (or less)	$ 19.13		$ 19.52		$ 20.00	
Next 87 Therms		$ 0.5467 per therm		$ 0.5656 per therm		$ 0.5897 per therm
Next 160 Therms		$ 0.3595 per therm		$ 0.3804 per therm		$ 0.4070 per therm
Next 2,750 Therms		$ 0.2374 per therm		$ 0.2512 per therm		$ 0.2687 per therm
Over 3,000 Therms		$ 0.1222 per therm		$ 0.1293 per therm		$ 0.1383 per therm
SC 3 and SC 9 Rate (A6)						
First 3 Therms (or less)	$ 15.38		$ 15.38		$ 15.38	
Next 87 Therms		$ 0.5584 per therm		$ 0.5835 per therm		$ 0.6157 per therm
Next 2,910 Therms		$ 0.4056 per therm		$ 0.4307 per therm		$ 0.4629 per therm
Over 3,000 Therms		$ 0.3267 per therm		$ 0.3518 per therm		$ 0.3840 per therm
SC 3 Low Income						
First 3 Therms (or less)	$ 13.90		$ 14.64		$ 15.23	
Next 87 Therms		$ 0.3555 per therm		$ 0.3806 per therm		$ 0.4128 per therm
Next 2,910 Therms		$ 0.4056 per therm		$ 0.4307 per therm		$ 0.4629 per therm
Over 3,000 Therms		$ 0.3267 per therm		$ 0.3518 per therm		$ 0.3840 per therm
SC 3 and SC 9 Rate (A7) (A/C)						
First 1,200 Therms		$ 0.1942 per therm		$ 0.1942 per therm		$ 0.2198 per therm
Over 1,200 Therms		$ 0.1662 per therm		$ 0.1662 per therm		$ 0.1881 per therm
SC 13 and SC 9 Rate (A9)						
First 3 Therms (or less)	$ 30.24		$ 33.93		$ 34.27	
Next 1,197 Therms		$ 0.1942 per therm		$ 0.1942 per therm		$ 0.2198 per therm
Over 1,200 Therms		$ 0.1662 per therm		$ 0.1662 per therm		$ 0.1881 per therm
SC 2 Rates 1 and II - Rider H						
First 3 Therms (or less) <0.25 MW or less	$ 111.23		$ 116.68		$ 123.66	
First 3 Therms (or less) 0.25> & <= 1 MW	$ 151.87		$ 159.32		$ 168.85	
First 3 Therms (or less) 1 MW> & <= 3 MW	$ 302.67		$ 317.52		$ 336.51	
First 3 Therms (or less) 3 MW> & < 5 MW	$ 403.20		$ 422.98		$ 448.28	
Over 3 Therms Summer	$ 0.1344	per therm	$ 0.1410	per therm	$ 0.1495	per therm
Over 3 Therms Winter	$ 0.1680	per therm	$ 0.1763	per therm	$ 0.1868	per therm
First 3 Therms (or less) 5MW> and < 50 MW	$ 60.96		$ 63.95		$ 67.78	
Contract Demand Charge Per Therm	$ 23.24		$ 24.38		$ 25.84	
Over 3 Therms Summer	$ 0.0268	per therm	$ 0.0282	per therm	$ 0.0298	per therm
Over 3 Therms Winter	$ 0.0337	per therm	$ 0.0353	per therm	$ 0.0375	per therm

SC 1 - Rider J									
First 3 Therms (or less)	$ 14.12			$ 14.81			$ 15.70		
Over 3 Therms	$ 0.228		per therm	$ 0.239		per therm	$ 0.253		per therm
SC 3 - Rider J - < 4 Dwelling Units									
First 3 Therms (or less)	$ 26.67			$ 27.98			$ 29.66		
Over 3 Therms	$ 0.228		per therm	$ 0.239		per therm	$ 0.253		per therm
SC 3 - Rider J - >= 4 Dwelling Units	Summer	Winter							
First 3 Therms (or less) < 50 KW	$ 30.17	$ 30.17		$ 31.65	$ 31.65		$ 33.54	$ 33.54	
First 3 Therms (or less) 50 KW> & <= 250 KW	$ 55.84	$ 55.84		$ 58.58	$ 58.58		$ 62.08	$ 62.08	
First 3 Therms (or less) 250 KW>	$ 116.80	$ 116.80		$ 122.53	$ 122.53		$ 129.86	$ 129.86	
Next 87 Therms	$ 0.359	0.410	per therm	$ 0.377	$ 0.430	per therm	$ 0.399	$ 0.456	per therm
Next 2,910 Therms	$ 0.212	0.244	per therm	$ 0.223	$ 0.256	per therm	$ 0.236	$ 0.272	per therm
Over 3,000 Therms	$ 0.136	0.168	per therm	$ 0.143	$ 0.176	per therm	$ 0.151	$ 0.187	per therm

GAS LOST AND UNACCOUNTED FOR

A. TOTAL DISTRIBUTION METHODOLOGY

Item	Monthly Volume Data Required	Description
1	Total sendout	Total citygate volumes minus Plants and LNG injections
2	Firm sales & transportation	Firm customers metered volumes prorated into each month*
3	Off-peak firm service/Interruptible transportation	SC12 Rate 2 / SC9 transport volume utilized during calendar month
4	Interruptible sales	SC12 Rate 1 sales utilized during the calendar month
5	Company use	Gas used by Company facilities
6(2+3+4+5)	Total accounted for	Total usage by all gas customers (excluding Plants)**
7 ((1-6)/1)	12-months loss percentage	12-months ending August data

* In most cases, the billing period for firm customer usage crosses over two calendar months. Therefore, for purposes of this calculation, firm customer usage will reflect a prorated volume based on the number of days in each of the two calendar months for the billing period for which the customer's meter is read.

** Includes marketer cash-outs.

The Factor of Adjustment Ratio for line losses will remain the same for RYs 2 and 3, unless the rolling 3-year average varies by +/- 5% from the Line Loss Factor that is in effect.

B. SAMPLE CALCULATIONS FOR ILLUSTRATION PURPOSES ONLY

i. First Rate Year Scenarios

For RY1, calculate the average of:

12-months ending 8/31/05 (actual)	2.3000%
12-months ending 8/31/06 (actual)	1.9000%
12-months ending 8/31/07 (assumed)	2.3000%

3-year average (36-months ending 8/31/07) 2.1667%

Target for 12-months ending 8/31/07 is 1.9333% which based on the 36-month average for 12-months ending 8/31/04, 8/31/05 and 8/31/06.

If the actual line loss for 8/31/07 is greater than 2.0300% (105% of 1.9333%) or less than 1.8367% (95% of 1.9333%), the Factor of Adjustment Ratio will be calculated using 3-year average to establish a new Factor of Adjustment Ratio.

For RY1, the loss line percentage used to develop the Factor of Adjustment Ratio would be 1.9333%.

The Factor of Adjustment Ratio for line losses will remain the same for RYs 2 and 3, unless the rolling 3-year average varies by +/- 5% from the Line Loss Factor that is in effect.

ii. Second Rate Year Scenarios

For RY2, calculate the average of:

12-months ending 8/31/06 (actual)	1.9000%
12-months ending 8/31/07 (assumed)	2.3000%
12-months ending 8/31/08 (assumed)	1.9000%

3-year average (36-months ending 8/31/08) 2.0333%

Target for 12-months ending 8/31/08 is 2.1667%

If the actual line loss for 8/31/08 is greater than 2.2750% (105% of 2.1667%) or less than 2.0584% (95% of 2.1667%), the Factor of Adjustment Ratio will be calculated using 3-year average to establish a new Factor of Adjustment Ratio.

For RY2, the loss line percentage used to develop the Factor of Adjustment Ratio would be 2.1667%.

iii. Third Rate Year Scenarios

For RY3, calculate the average of:

12-months ending 8/31/07 (assumed)	2.3000%
12-months ending 8/31/08 (assumed)	1.9000%

12-months ending 8/31/09 (assumed)	2.000%
3-year average (36-months ending 8/31/09)	2.0333%

Target for 12-months ending 8/31/09 is 2.0333%

If the actual line loss for 8/31/09 is greater than 2.1350% (105% of 2.0333) or less than 1.9316% (95% of 2.0333%), the Factor of Adjustment Ratio will be calculated using 3-year average to establish a new Factor of Adjustment Ratio.

For RY3, the loss line percentage used to develop the Factor of Adjustment Ratio would be 2.0333%.

Consolidated Edison Company of New York, Inc.
Case 06-G-1332
Customer Credits and Debits
Amortization of Deferred Liabilities & Assets
For The Twelve Months Ending September 30, 2008, 2009, & 2010
$ 000's

		Rate Year 1	Rate Year 2	Rate Year 3	Total
	Customer Credits				
	Regulatory Liabilities				
1	Property Taxes - 2002 Settlement	$556	$556	$556	$1,668
2	Interest on WTC Revenues - 2002 Settlement	332	332	332	996
3	Interest on ITC Refunds	29	29	29	87
4	Customers' Share of Non-Firm Revenue Credits	11,606	11,606	11,606	34,818
5	Miscellaneous Service Revenues	47	47	47	141
6	Pipeline Integrity Costs	694	694	694	2,082
7	Medicare Rx Legislation Savings	1,914	1,914	1,914	5,742
8	Interest on Rate Case Deferrals	307	307	307	921
9	Sale of First Avenue Properties - Interest	183	183	183	549
10	New York State Income Tax Reconciliation	405	405	405	1,215
11	Gain on Sale of First Avenue Properties	6,533	6,533	6,533	19,599
	Total	$22,606	$22,606	$22,606	$67,818
	Deferred Tax Liabilities				
1	Deferred Excess New York State Income Tax	$238	$238	$238	$714
2	FIT Refund - Investment Tax Credits	223	223	223	669
	Total	$461	$461	$461	$1,383
	Customer Debits				
	Regulatory Assets				
1	Pension / OPEB Costs (a)	$3,491	$3,491	$3,491	$10,473
	Amortization of Environmental Remediation Costs (b)				
	- RY1 Deferrals	4,757	4,757	4,757	14,271
	- RY2 Deferrals	-	1,234	1,234	2,469
	- RY3 Deferrals	-	-	1,234	1,234
2	Interference Costs	2,021	2,021	2,021	6,063
3	Property Taxes	3,333	3,333	3,333	9,999
4	POR Program - Interest	37	37	37	111
5	NYS Income Tax Audit Adjustments - Interest	12	12	12	36
6	POR Program - Incremental Costs	227	227	227	681
7	WTC Incident Costs	7,830	7,830	7,830	23,490
	Total	$21,708	$22,942	$24,177	$68,827

(a) Deferred Pension Balance at September 30, 2007 is estimated to be $32.6 million, unamortized balance at September 30, 2010 of $22.1 million ($32.6 million - $10.5 million) will be addressed in next rate proceeding.

(b) Environmental deferrals to be amortized over five year period.
RY1 total deferrals = $23.8 million, RY2 deferrals = $6.2 million, RY3 deferrals = $6.2 million

Consolidated Edison Company of New York, Inc.
Case 05-G-1332
Gas Expense True Up Targets
$ 000's

Gas Operations	2008	RY2 Update	2009	RY3 Update	2010
	Twelve Months Ending September 30,				
Property Tax Expense					
New York City	$98,333	$4,716	$103,049	$5,658	$108,707
Westchester County	29,791	1,429	31,220	1,714	32,934
Net Property Tax Expense (90/10 True up)	128,124	6,145	134,269	7,372	141,641
Employee Pensions (a)	6,529	(987)	5,542	4,151	9,693
Other Post Employment Benefits (a)	4,454	(567)	3,887	1,213	5,100
Total Pension / OPEB Expense (100%)	10,983	(1,554)	9,429	5,364	14,793
Medicare Part D Accrued Reimbursements	2,106	-	2,106	-	2,106
x effective State & Federal Income Tax Rate	39.615%	-	39.615%	-	79.230%
Medicare Part D - Tax Savings (100%)	834	-	834	-	1,669
Environmental remediation spending to be deferred (MGP / Superfund) (100%) (b)	12,587	6,172	18,759	6,172	24,931
O&M Interference Costs - Other than labor (90/10 True up)	15,307	-	15,307	-	15,307
NY Facilities - Keyspan portion (100%)	1,845	-	1,845	-	1,845
Research & Development (100% up to Cap of $4,020) (c)	2,920	-	2,920	-	2,920
Section 263A Rate Base Reduction	(52,900)	(6,428)	(59,328)	6,321	(53,007)

(a) Amortization for prior deferrals shown in Appendix F
(b) Amounts shown above represent estimated spending, Appendix F contains rate allowance / recovery
(c) Excludes spending recovered in GSC for Millennium fund of $1,836

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AVERAGE PLANT BALANCES
CASE 06-G-1332
OCTOBER 1, 2007 - SEPTEMBER 31, 2010
($ 000's)

GAS DISTRIBUTION PLANT TARGET (excl Interference) *

Gas Distribution	PLANT IN SERVICE	ACCUMULATED DEPRECIATION	NET PLANT
RY1	$ 2,977,888	$ 775,409	$ 2,202,479
RY2	3,200,028	833,341	2,366,687
RY3	3,423,474	893,432	2,530,042

GAS INTERFERENCE PLANT TARGET *

Gas Distribution	PLANT IN SERVICE	ACCUMULATED DEPRECIATION	NET PLANT
RY1	$ 46,927	$ 814	$ 46,113
RY2	78,979	2,200	76,779
RY3	111,507	4,307	107,200

CAP ON GAS DISTRIBUTION PLANT (excl. Interference) *

Gas Distribution	PLANT IN SERVICE	ACCUMULATED DEPRECIATION	NET PLANT
RY1	$ 2,989,223	$ 775,513	$ 2,213,710
RY2	3,250,880	834,613	2,416,267
RY3	3,516,416	896,866	2,619,550

Gas Carrying Charge - Distribution Plant	
- Before Tax ROR	10.7%
- Composite Depr. Rate	2.3%
Total	13.0%

* Targets and "Cap" exclude General Plant and LNG Project Spending as well as AMI project.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

GAS DEPRECIATION RATES

Account No. P.S.C.	Account No. Co.	Account	Average Service Life In Years	Net Salvage %	Annual Rate %	Life Table
		Gas Plant in Service				
		Natural Gas Storage Plant				
		Other Storage Plant				
361		Structures and Improvements				
	9641	- Liquefied Storage	40	20 Neg.	3.00	h2.50
362		Gas Holders				
	9643	- Liquefied Storage	30	10 Neg.	3.67	h4.00
363	9644	Purification Equipment	25	10 Neg.	4.40	h3.00
363.1	9645	Liquefaction Equipment	25	10 Neg.	4.40	h3.00
363.2	9646	Vaporizing Equipment	25	10 Neg.	4.40	h3.00
363.3		Compressor Equipment				
	9647	- Liquefied Storage	25	10 Neg.	4.40	h3.00
363.4		Measuring and Regulating Equipment				
	9648	- Liquefied Storage	25	10 Neg.	4.40	h3.00
363.5		Other Equipment				
	9649	- Liquefied Storage	25	10 Neg.	4.40	h3.00
		Transmission Plant				
366	9682	Structures and Improvements	40	35 Neg.	3.38	h1.50
367	9684	Mains				
		Steel Mains and Other	80	60 Neg.	2.00	h2.00
		Cast Iron Mains and Sleeves	70	100 Neg.	2.86	h0.75
		Tunnels	85	50 Neg.	1.76	h5.00
368	9686	Compressor Station Equipment	15	10 Neg.	7.33	h3.00
369	9688	Measuring and Regulating Station Equipment	55	45 Neg.	2.64	h1.00
		Distribution Plant				
376	9656	Mains				
		Steel Mains and Other	80	60 Neg.	2.00	h2.00
		Cast Iron Mains and Sleeves	70	100 Neg.	2.86	h0.75
380	9666	Services	55	30 Neg.	2.36	h1.25
381	9668	Meters	40	10 Neg.	2.75	h1.75
382	9670	Meter Installations	40	0	2.50	-
383	9673	House Regulators	30	20 Neg.	4.00	h2.50
384	9676	House Regulator Installations	30	0	3.33	-
303	9678	Capitalized Software	5	-	20.00	AMORT.(A)

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

DEPRECIATION RATES

Account No. P.S.C.	Account No. Co.	Account	Average Service Life In Years	Net Salvage %	Annual Rate %	Life Table
		Common Utility Plant in Service				
		Intangible Plant				
303		Miscellaneous Intangible Plant				
	9814	Capitalized Software – 5 years	5	-	20.00	AMORT.(A)
	9814	Capitalized Software – 10 years	10	-	10.00	AMORT.(A)
		General Plant				
390	9812	Structures and Improvements	50	30 Neg.	2.60	h1.25
391		Office Furniture and Equipment				
	9815	Electronic Data Processing Equipment	8	5	11.88	- (B)
	9816	Other Office Furniture and Equipment	18	0	5.56	- (B)
392	9820	Transportation Equipment	8	10	11.25	- (B)
393	9824	Stores Equipment	20	5	4.75	- (B)
394	9830	Tools, Shop and Garage Equipment	18	5	5.28	- (B)
395	9828	Laboratory Equipment	20	0	5.00	- (B)
396	9829	Power Operated Equipment	12	10	7.50	- (B)
397	9832	Communication Equipment	15	0	6.67	- (B)
398	9834	Miscellaneous Equipment	20	0	5.00	- (B)

NOTES (A) Amortization in accordance with the Software Accounting Guideline.

(B) Effective 1/1/95, investment in account is being amortized in accordance with the method specified in Case No. 93-M-1098.

Consolidated Edison Company of New York, Inc.

Case 06-G-1332

Common Allocation Factors

	Electric	Gas	Steam
Administrative & General Expenses			
A&G - Labor Related	78.70%	16.20%	5.10%
A&G - Other than Labor	81.14%	13.21%	5.65%
Pensions/OPEBs and Health Ins. Capitalized	72.67%	23.63%	3.70%
A&G Transferred - Other	76.55%	17.80%	5.65%
Customer Accounting Expenses			
Uncollectible Accounts	86.00%	14.00%	0.00%
Other Customer Accounts	82.00%	18.00%	0.00%
Energy Services	89.00%	11.00%	0.00%
Other Customer Assistance and Informational & Promotional Advertising	82.00%	18.00%	0.00%
Taxes Other than FIT			
Sales & Use	77.75%	15.50%	6.75%
Vehicle/Gasoline	81.00%	16.50%	2.50%
Payroll Taxes	78.75%	16.25%	5.00%
Payroll Taxes Transferred to Construction	72.50%	23.75%	3.75%
Other	81.25%	13.25%	5.50%
Plant			
Common Plant	83.00%	17.00%	0.00%
Common M&S	77.00%	17.00%	6.00%

Appendix K

Dispute Resolution Procedure

1. For the purpose of this procedure, a “dispute” is a customer claim related to an amount billed and purchased as of the date of billing by Con Edison for ESCO charges under the Purchase of Receivables program.
2. The ESCO will examine, investigate, and seek to resolve all customer disputes. The ESCO will acknowledge receipt of the dispute or respond to the customer within two days or, if only an acknowledgement is provided, will respond to the customer within 14 days of receipt.
3. If the dispute was one brought to the ESCO’s attention by Con Edison, the ESCO will report to the utility the outcome of the dispute and the reason for its determination with a copy of any close-out correspondence from the ESCO to the customer.
4. In the event the ESCO decides to reduce the ESCO charges for which the customer is liable, the ESCO will promptly send Con Edison a check for the credit amount for application to the customer's open balance and promptly contact the customer to explain the account credit.
5. If the dispute is the basis of a proceeding before the Department of Public Service or any legal action initiated by the customer, the ESCO will participate and/or cooperate with Con Edison in the proceeding even if not a named party.
6. ESCO compliance with this procedure is a material part of Con Edison’s agreement to provide billing services. If Con Edison determines, in its sole discretion to be reasonably exercised, that ESCO is not in compliance with this procedure, Con Edison will assess a charge on the ESCO equal to the amount disputed by the customer.

Revenue Per Customer (RPC) Factors

Groups	Column (1) Rate Year Pure Base Revenue*	Column (2) Rate Year Total Number of Bills	Column (3) Average Number of Customers Col (2) / 12	Column (4) RPC Factors * Col (1) / Col (3)
RY 1				
SC 2 Heat	$ 116,759,997	730,228	60,852	$ 1,918.74
SC 2 Non-Heat	$ 70,288,526	724,355	60,363	$ 1,164.43
SC 3 (1 - 4 DU's)	$ 201,026,822	2,835,987	236,332	$ 850.61
SC 3 (> 4 DU's)	$ 101,279,282	172,461	14,372	$ 7,047.11
**RY 2 ** **				
SC 2 Heat	$ 125,642,942	748,541	62,378	$ 2,014.21
SC 2 Non-Heat	$ 74,440,545	731,280	60,940	$ 1,221.54
SC 3 (1 - 4 DU's)	$ 211,935,734	2,871,899	239,325	$ 885.56
SC 3 (> 4 DU's)	$ 108,895,567	174,633	14,553	$ 7,482.82
**RY 3 ** **				
SC 2 Heat	$ 136,462,591	766,856	63,905	$ 2,135.41
SC 2 Non-Heat	$ 79,627,524	738,205	61,517	$ 1,294.40
SC 3 (1 - 4 DU's)	$ 225,442,568	2,907,810	242,318	$ 930.36
SC 3 (> 4 DU's)	$ 118,518,750	176,806	14,734	$ 8,043.99

*** At proposed rates**
**** Assuming continuation of RPC method for Rate Years 2 and 3**
DU's = Dwelling Units

ATTACHMENT 2

Filing by: CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Amendments to Schedule P.S.C. No. 9 – Gas

First Revised Leaves Nos. 76.1, 126, 127, 128, 129, 130, 131, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 147, 154.12, 154.13, 154.14, 154.17
Second Revised Leaves Nos. 154.6, 154.7, 154.8, 154.9, 154.18, 154.24, 54.25, 154.26, 154.27, 167.1, 170, 171, 173, 182, 183.3, 235, 241, 316.4, 341.3
Third Revised Leaves Nos. 4, 76, 166.2, 175, 176, 177, 178, 179, 180, 183, 235, 303.1, 315.2
Fourth Revised Leaves Nos. 272, 303.2, 326
Fifth Revised Leaves Nos. 181, 234, 243, 251, 300.3, 315.1, 397.3
Sixth Revised Leaves Nos. 162, 183.2, 316, 397.2
Seventh Revised Leaves Nos. 132, 146, 152, 155, 231, 270, 332, 349
Eighth Revised Leaves Nos. 5, 165, 166, 183.1, 228, 230, 240, 269, 271
Tenth Revised Leaf No. 255
Supplement Nos. 30, 31