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..TXT:

ORANGE AND ROCKLAND UTILITIES, INC.
4 Irving Place
New York, New York 10003

December 3, 1999

Public Service Commission
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223

Dear Commissioners:

Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company") hereby submits for filing revisions to its Schedule for Gas Service, PSC No. 4 – Gas. The filing reflects increases in the Company's rates for gas service that are needed in order to ensure safe and reliable service to our customers and a fair return to our stockholders. As described below, the Company also is proposing a four-year rate plan designed to moderate the gas rate increase reflected in the tariff leaves included in Appendix A.

The tariff leaves are issued as of December 3, 1999, with an effective date of January 2, 2000. The Company's expectation is that the Commission will issue appropriate orders suspending the effective date of the leaves through October 31, 2000, so that the proposed rates may become effective November 1, 2000.

Fifteen copies of the prepared written testimony and exhibits, which comprise the Company's direct case in support of this rate filing, are also submitted herewith.

Summary of Proposed Changes

By this filing, the Company proposes to increase the charges to customers under tariff rates in its Schedule for Gas Service, PSC No. 4.

The filed leaves reflect the traditional method of calculating the revenue requirement for the rate year, the twelve months ending October 31, 2001, and provide for an increase of approximately $12 million or 7.64% of total gas revenues. However, the Company is proposing, as an alternative, a four-year rate moderation plan for gas operations that would permit the Company to

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increase rates at more modest levels, each November 1 from Year 2000 through and including Year 2003. The plan provides gas customers with stable and predictable rates while, at the same time, providing revenues at levels consistent with the need to maintain the gas system infrastructure and continue to provide safe and reliable service.

Orange and Rockland gas customers have experienced stable rates for many years. The Company has not increased base gas rates since 1992. As a result, gas rates have risen at a rate that is far below the annual rate of inflation over the past 10-year period. Indeed, in real terms, gas rates have decreased over this period. There are several factors contributing to the current need for increased gas revenues. These include gas construction expenditures of approximately $100 million since 1992 necessary to maintain a safe and reliable infrastructure, property tax increases and expenditures for environmental investigation and remediation. The Company's presentation provides appropriate evidence that gas rates must rise above existing levels if gas service is to continue to meet the highest levels of safety and reliability, increases in gas load are to be served, and the Company's gas operations are to be financially viable. In order to reduce the rate increase in the first rate year and to effectuate needed increases in gas revenues, the Company proposes a four-year gas rate plan which incorporates various mitigation and moderation measures. This plan will bring gas rates to the level required by the year 2004, provide for rate increases that continue to fall below expected rates of general inflation, and give the Company a strong incentive to work within the rate plan to maximize efficient operations.

One of the Company witnesses, Mr. Frank Marino, sets forth in his testimony the various rate mitigation and moderation measures that the Company proposes to implement in order to smooth the required increases in the revenue requirements over the four-year rate plan. Specifically, through the use of a Rate Moderation Adjustment, the Company will defer $7.0 million of rate year costs in the first rate year ended October 31, 2001 and will recognize this expense in rates over the subsequent three years. The Company also proposes to retain and utilize certain customer credits and benefits, which are currently passed back to customers through the Company's Gas Adjustment Clause, to offset the impact of phasing in the required rate increase.

The revenue requirement increase for the first year of the four-year rate plan period would be $5 million, or 3.2%, instead of the $12 million increase that would be required under the traditionally-calculated revenue requirement for the rate year. For the remaining three years of the four-year rate plan period, the Company proposes modest annual gas rate increases of approximately 3.0 percent, 2.1 percent and 0.5 percent, respectively. In total, these increases are less than the projected increases in the Consumer Price Index during the period.

Appendix B shows the estimated effect on customers' bills and Company

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revenues resulting from the traditionally-calculated revenue requirement, based on sales and revenues for the rate year, the twelve months ending October 31, 2001. Appendix C shows the estimated effect on customers' bills and Company revenues for the first year of the four-year rate plan period under the Company's rate moderation plan, based on sales and revenues for the rate year.

The Proposed Rate Structure Changes

The Company is proposing to unbundle its tariff rates for firm sales service customers to identify total gas costs and delivery charges separately. To accomplish this, the base cost of gas and the factor of adjustment have been removed from Service Classification ("SC") Nos. 1 and 2 base rates, resulting in "delivery service rates". The cost of gas, which was previously recovered through a combination of the base cost of gas and the Gas Adjustment Charge, will now be recovered through a Gas Supply Charge applicable to Service Classification SC Nos. 1 and 2. A Monthly Gas Adjustment, applicable to SC Nos. 1, 2 and 6 will be established to assess surcharges/credits, previously assessed through the GAC and SC No. 6 Adjustment.

The Proposed Increased Revenue Allocation

The revenue increase was allocated to the Company's SC Nos. 1, 2 and 6 in the following four step process:

- First, as noted above, the base cost of gas and factor of adjustment were removed from SC Nos. 1 and 2 base rates in order to establish delivery-only rates.

- Second, in order to make the migration of Large Volume Customers (i.e., customers whose annual usage exceeds 5,000 Mcf) to firm transportation service revenue neutral to the Company, the Company proposes to implement a flat-rate delivery service charge under SC 2, priced at the tail block rate, and add the resulting revenue shortfall to the revenue requirement.

- Third, the Company proposes to increase the first block charge (i.e., the charge for the first 3 Ccf or less) for SC Nos. 1, 2 and 6 to a level which better reflects the Company's cost to provide service.

- Fourth, the remainder of the incremental revenue requirement is applied to all rate blocks charges, other than the first block charges, of SC Nos. 1, 2 and 6 on an equal cents per Ccf basis.

The proposed revenue increase allocation is supported by the 1997 gas embedded cost of service study (Exhibit G-11 in the Company's pre-filed case).

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As explained in the pre-filed testimony, the embedded cost study shows that wide differences exist between the cost contributions being made by the Company's SC No. 1 class and the SC No. 2 class. After employing a ten percent tolerance band around the average system rate of return from the service classes, the 1997 cost study shows that SC No. 1 has a revenue deficiency of approximately $4.9 million, and that SC No. 2 has a revenue surplus of about $5.8 million.

Performance Incentive Plan

The Company is proposing a three-part incentive plan that will establish specific targets of performance and reward or penalize the Company based on its actual performance. The incentive plan covers the following areas of performance:

1. In recognition of the importance of replacing bare steel main, the Main Replacement and Leak Management incentive component would measure the Company's replacement of 3" to 12" bare steel main in a cost-effective manner.

2. The Customer Choice incentive component will encourage the development of a competitive market. The Company will earn the incentive only if there is significant migration to third party suppliers during the rate plan.

3. The Gas Main Safety incentive component would measure the handling of one call notices, mark-outs, and damaged mains as measured by an algorithm developed by Commission Staff.

The incentive plan would be applicable to all full service sales customers (i.e., SC Nos. 1 and 2) through the Gas Supply Charge.

Other Tariff Changes

The Company is proposing to modify its gas tariff weather normalization adjustment clause ("WNA"). The current WNA calculation utilizes an average annual heat factor for all included rate codes. The Company proposes that the calculation be refined to monthly heat factors, by rate code to reflect both the rate code sensitivity to weather changes and the seasonality of that sensitivity. In addition, the Company is proposing that the WNA be applied to all weather sensitive firm rate codes.

The Company is proposing a change to the Factor of Adjustment that will be used in the determination of the Company's proposed Gas Supply Charge.

The Need for Gas Rate Relief

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The Company's evidence documents the need for rate relief. The four-year rate plan takes into account the interests of customers in a safe, reliable, efficient and financially viable gas service. The four-year plan the Company has put forward balances the interests of customers with the Commission's objective of effective regulation and the Company's goal of providing safe and reliable service while protecting the interests of its investors in earning a reasonable return on investment.[1]

Rate increases are rarely, if ever, a sought-after or otherwise welcome development. Orange and Rockland has worked hard to balance the objective of keeping rates as low as practicable with the need to maintain a strong energy infrastructure. The Company is proud of its record of rate stability, having gone eight years without a rate increase. The rate filing contains a detailed outline of the Company's proposal for a multi-year plan, including proposed revenue changes for the second, third, and fourth years of the plan.

The Company will discuss the parameters of its rate plan with Commission Staff and other parties to the rate proceeding with a view toward establishing a multi-year plan for gas operations covering the four-year period ending October 31, 2004, including the overall moderate levels of revenue increases expected to flow from the Company's plan. The Company looks forward to obtaining the input of all stakeholders in formulating a comprehensive gas rate plan that reflects the numerous interests at stake. The Company wishes to emphasize that, while a fair return to investors is essential for any such plan to be acceptable to it, the final elements of such a rate plan will inevitably reflect the input and perspectives of the other parties to the proceeding, and we look forward to those discussions.

Also included with this filing are the SAPA notice and General Filing Information Form. Notice of this filing will be published in accordance with 16 NYCRR 270.70 and proof of publication will be submitted upon completion. In addition, the Company will issue appropriate bill inserts in accordance with 16 NYCRR 270.8.

[1] The revenue requirement implicit in the first year of the four-year rate plan is not intended to reflect the revenue requirement needed to permit the Company to earn a reasonable rate of return under a single-year rate increase order. If the Commission rejects the Company's multi-year proposal, the Commission should authorize a revenue increase and accounting relief sufficient to allow the Company the opportunity to earn a reasonable rate of return, as reflected in the filed tariff leaves.

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Conclusion

The testimony and exhibits submitted herewith establish the need for the rate relief requested by the Company. The Company will pursue discussions with the Commission Staff and other parties to the proceeding in an effort to reach agreement on the issues presented. The Company respectfully requests that, in the absence of agreement of the parties, the Commission allow the proposed rate leaves to become effective on November 1, 2000, thereby providing the rate relief consistent with the Company's submission herein.

Very truly yours,

ORANGE AND ROCKLAND
UTILITIES, INC.

By: ____________________________
Hyman Schoenblum
Vice President, Chief Financial
Officer and Controller

Enclosure

c: New York State Consumer
Protection Board (2 sets)

198697

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STATE OF NEW YORK
COUNTY OF NEW YORK

HYMAN SCHOENBLUM, being duly sworn, says:

I am Vice President, Chief Financial Officer and Controller of ORANGE AND ROCKLAND UTILITIES, INC., the applicant above-named, on behalf of which I have subscribed the foregoing application and know the contents thereof and the same is true to the best of my knowledge, information and belief.

____
Hyman Schoenblum

Subscribed and sworn to
Before me this ___ day of December 1999

____
Notary Public

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Appendix A

P.S.C. No. 4 Gas

Leaf 3	Revision 3	Leaf 116	Revision 4
Leaf 4	Revision 3	Leaf 117	Revision 5
Leaf 72	Revision 2	Leaf 119	Revision 2
Leaf 73	Revision 8	Leaf 123	Revision 4
Leaf 74	Revision 3	Leaf 126	Revision 2
Leaf 75	Revision 3	Leaf 127	Revision 3
Leaf 76	Revision 2	Leaf 130	Revision 4
Leaf 77	Revision 3	Leaf 131	Revision 4
Leaf 78	Revision 2	Leaf 132	Revision 3
Leaf 79	Revision 4	Leaf 133	Revision 8
Leaf 80	Revision 5	Leaf 137.1	Revision 1
Leaf 80.1	Revision 6	Leaf 138	Revision 5
Leaf 81	Revision 4	Leaf 138.1	Revision 2
Leaf 81.1	Revision 3	Leaf 139	Revision 3
Leaf 82	Revision 3	Leaf 139.1	Revision 1
Leaf 83	Revision 2	Leaf 141	Revision 3
Leaf 112	Revision 2	Leaf 143	Revision 2
Leaf 113	Revision 2	Leaf 144	Revision 2
Leaf 114	Revision 3	Leaf 150	Revision 3
Leaf 115	Revision 5	Leaf 155	Revision 4