

..DID: 21067

..TXT:

ORANGE AND ROCKLAND UTILITIES, INC.

One Blue Hill Plaza
Pearl River, New York 10965

November 27, 2002

VIA HAND DELIVERY

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 tariff leaves implementing the Company's proposal are set forth in Appendix A.

The tariff leaves are issued as of November 27, 2002, with an effective date of December 27, 2002. The Company's expectation is that the Commission will issue appropriate orders suspending the effective date of the leaves through October 31, 2003, so that the proposed rates become effective as soon as practicable but no later than November 1, 2003.

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 revenue requirement for the rate year, the twelve months ending October 31, 2004, and provide for an increase of approximately \$27.2 million, which represents a 14.7% increase to firm full service gas customers and firm transportation customers (including an equivalent level of gas supply costs).
The
Company's proposal provides revenues at levels consistent with the need to ensure

the continued reliability, safety and security of the gas system for the Company's 121,000 gas customers, and would constitute the first increase in gas distribution base rates since 1992. In addition to addressing gas reliability, safety and security today and in the future, the Company is also seeking to ensure that its gas infrastructure can accommodate economic growth as businesses relocate to, or expand in, the service area.

Over the past decade, Orange and Rockland has added approximately 1,500 new residential, commercial or industrial gas customers per year, for an annual customer growth rate of about 1.3 percent. During that same period, Orange and Rockland has invested approximately \$130 million in capital improvements and has endured years of inflationary cost increases, yet customers' delivery rates remained steady for the entire period.

Orange and Rockland's service area has experienced a record setting five consecutive years of job growth. The large number of businesses moving into or expanding within the area has sustained the job growth rate, which provides a robust broadening of the tax base for municipalities. Yet, the infusion of new and increased usage of the natural gas system places greater demands on the existing infrastructure.

Orange and Rockland will continue to invest the resources needed to ensure reliable, safe and secure gas delivery service in the future and to further strengthen and improve the gas system infrastructure. Chief among the initiatives proposed are meeting load growth requirements in Orange County by installing five new 12" mains – each approximately 4,000 feet long. In recent years, Orange County's population growth rate has been a dramatic 11 percent annually, compared to the statewide average of five percent.

The Company proposes to initiate a ten-year Reliability Improvement Program that will, among other things, result in greater security in this post-September 11 environment by increasing the resiliency and redundancy of Orange and Rockland's gas system. The capital investment will include a new gate station, new mains for redundancy in Orange County, additional looping on the distribution system in areas where supply is currently restricted to a one-way source, back-up gas feeds for Monroe and Washingtonville, and increased redundancies at regulator stations.

Over the past year, the financial position of many companies in the energy industry has deteriorated sharply. Investors have been shaken by reported financial and ethical irregularities. As a result, the ability of many companies to build and operate the necessary infrastructure has been seriously impaired.

The best protection against the impacts of economic and credit shocks – and consequently the greatest protection to utility customers – is a healthy and strong capital structure, and a rate structure that provides fair returns to both debt and equity investors. While Orange and Rockland has maintained its A+ credit rating, its cash flow measures are weak for that rating. In a report on O&R published earlier this year, Standard & Poor's specifically notes that its rating rationale "reflects expectations that regulatory support from the PSC will continue to be strong and that it will allow the [company] to pass through prudent capital expenditures" and "also assumes that the financial ratios will show improvement" over the next several years. This rate proposal is intended to ensure that Orange and Rockland retains the financial strength that will enable it to attract both short-term and long-term capital at reasonable rates, so that it can build the projects required to meet its customers' needs.

The Company's presentation provides appropriate evidence that gas rates must rise above existing levels if reliable, safe and secure gas service is to be provided, increases in gas load are to be served, and the Company's gas operations are to be financially viable.

Appendix B shows the estimated effect on customers' bills and Company revenues resulting from the proposed increase, based on sales and revenues for the rate year, the twelve months ending October 31, 2004. The testimony also includes provisions for a multi-year rate plan that addresses rates for an additional two-year period.

The Proposed Increased Revenue Allocation

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

- First, 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 SC No. 6 Rate Schedule I customers to a level which better reflects the Company's cost to provide service and increase the first block charge (the charge for the first 100 Ccf or less) for SC No. 6 Rate Schedule II customers by the proposed percentage increase in overall delivery revenues.
- 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 2001 gas embedded cost of service study (Exhibit G-11 in the Company's pre-filed case).

Performance Incentive Plan

The Company is proposing a three-part incentive plan that sets performance targets in the areas of safety, customer service, and customer choice. This incentive plan will establish specific targets of performance and reward the Company for improvement in performance. The incentive plan covers the following areas of performance:

1. The safety component of the Incentive Plan combines performance measurements in the areas of (1) bare steel main replacement, (2) leak management, (3) odor response, and (4) UFORIA. In recognition of the importance of replacing bare steel main, the bare steel main replacement incentive component would require the Company's replacement of 32,000 feet of 3" to 12" bare steel main in a cost-effective manner. The leak management element requires that Orange and Rockland reduce and maintain its workable gas leaks to less than 75 for each year of the rate plan. The odor response element requires that O&R respond to at least 75% of gas odor calls within 30 minutes. The UFORIA element requires that Orange and Rockland achieve an index of less than 1.3.
2. The customer service component of the incentive plan will encourage superior customer service on the part of Orange and Rockland by meeting certain preset targets for customer satisfaction.
3. The Customer Choice incentive component will encourage the development of a competitive market. The Company will earn the incentive based on the number of gas customers that commence firm transportation service during the rate plan.

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Other Tariff Changes

The Company is proposing to modify its gas tariff weather normalization adjustment clause ("WNA") by eliminating the bandwidth around normal weather used in computing the WNA credits or surcharges.

The Company is also proposing a change to its dishonored check charge and to implement a re-inspection fee for gas service installations that fail to meet the Company's requirements.

The Need for Gas Rate Relief

The Company's evidence documents the need for rate relief. 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 more than a decade without a base rate increase.

The Company will discuss the parameters of its rate proposal with Commission Staff and other parties to the rate proceeding. 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.

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 720-8.1 and proof of publication will be submitted upon completion. In addition, the Company will issue appropriate bill inserts in accordance with 16 NYCRR 720-9.1.

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 at the earliest practicable date, but no later than November 1, 2003, thereby providing the rate relief consistent with the Company's submission herein.

Very truly yours,

**ORANGE AND ROCKLAND
UTILITIES, INC.**

By _____
Stephen B. Bram
President & Chief Executive
Officer

Enclosure

c: New York State Consumer
Protection Board (2 sets)
198697

STATE OF NEW YORK
COUNTY OF NEW YORK

Stephen B. Bram, being duly sworn, says:

I am the President and Chief Executive Officer 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.

Subscribed and sworn to
Before me this day of November 2002

Notary Public

Appendix A

P.S.C. No. 4 Gas

<u>Leaf 25</u>	<u>Revision 1</u>
<u>Leaf 35</u>	<u>Revision 3</u>
<u>Leaf 36</u>	<u>Revision 2</u>
<u>Leaf 80.3</u>	<u>Revision 3</u>
<u>Leaf 81</u>	<u>Revision 6</u>
<u>Leaf 114</u>	<u>Revision 7</u>
<u>Leaf 116</u>	<u>Revision 8</u>
<u>Leaf 130</u>	<u>Revision 8</u>