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conEdison
a conEdison, inc. company

Robert N. Hoglund
Senior Vice President and
Chief Financial Officer

November 2, 2006

Honorable Jaclyn Brilling,
Secretary
New York State
Public Service Commission
Three Empire State Plaza
Albany, NY 12223

Dear Secretary Brilling:

Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") is filing with the Public Service Commission (the "Commission") amendments to the Company's Schedule for Gas Service, P.S.C. No. 9 - Gas ("the Schedule" or "the Gas Tariff").

The changes to the Company's Schedule for Gas Service are set forth in the attached tariff leaves, which bear an effective date of December 2, 2006. Since the current rate plan extends until September 30, 2007, the Company anticipates that the Commission will issue appropriate orders suspending the effective date of the leaves through September 30, 2007, so that the proposed rates can become effective no later than October 1, 2007. A list of the revised tariff leaves is set forth in Appendix A.

Twenty-five 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 delivery rates to its firm sales and transportation customers under its Schedule for Gas Service, PSC No. 9 – Gas. The proposed increase is designed to increase total annual revenue by approximately $196.7 million or 10.7% based upon the estimated level of firm delivery volumes for the Rate Year, i.e., the twelve months ended September 30, 2008.[1] The Company's proposal

[1] The annual revenue increase was computed by dividing the $196.7 million increase by Rate Year total revenues calculated at October 1, 2004 rates, including gas supply costs and gross receipts taxes. For firm transportation customers, gas supply costs are assumed to be equivalent to gas supply costs included in the Company's full service rates.

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provides revenues at levels necessary for the Company to maintain and upgrade critical infrastructure in its gas system needed to meet the growing energy needs and demands of the over one million customers taking either full service or gas retail choice service from the Company, while also maintaining its strong financial standing, which benefits both customers and shareholders alike.

The last increase in gas delivery rates occurred in 2004 and was the result of a three-year rate plan adopted by the Commission in Case 03-G-1671. The rates being proposed for the Rate Year, when adjusted for inflation, would be approximately 8.7% lower than the rates charged to customers in 1997. In addition to addressing growth in our customers' energy needs, rate relief is necessary to account for changing economic conditions as well as increases in taxes and other costs not reasonably within the Company's control, and to provide the funds necessary to maintain the safe and reliable service that our gas customers expect.

In the interest of rate stability, the filing also discusses various rate mitigation efforts, and the Company's interest in a multi-year rate plan that would minimize rate changes to the Company's firm gas customers after the first year of the plan. Such a plan would provide the Company with the flexibility to manage its resources effectively while also giving the Company a strong incentive to work within the rate plan to maximize efficient operation that will ultimately benefit customers.

Proposed Revenue Allocation and Rate Design

The steps used in the allocation of the proposed revenue increase among the classes are as follows:

- The Rate Year delivery revenues, excluding the proposed rate increase, were adjusted to reflect deficiency and surplus indications from the Company's 2005 Embedded Cost of Service Study ("ECOS"), with the deficiencies and surpluses adjusted to net the deficiencies and surpluses to zero. As explained in the Gas Rate Panel's pre-filed testimony, the class surpluses and deficiencies were calculated based upon the application of a ten-percent tolerance band around the calculated system rate of return.
- The Rate Year base rate increase of $192,383,000, applicable to the Company's firm delivery rates, was developed by subtracting gross receipts taxes from the total increase in the Company's proposed delivery revenue rate increase.
- An overall average delivery rate percentage increase was developed by dividing the Rate Year delivery revenue increase by the total Rate Year delivery revenues.
- The overall average delivery rate percentage increase was then applied to the adjusted Rate Year delivery revenues by class, i.e., to Service Classifications ("SC") 1, 2 Heating ("2H"), Non-Heating ("2NH"), 3 and 13, and to the corresponding SC 9 firm transportation sub-classes, to determine the base rate increase applicable to each class. The ECOS surpluses and deficiencies used to adjust Rate Year revenues were then used to adjust the proposed base rate increase by class as follows:
    - SC 1 and its corresponding SC 9 sub-class were assigned an additional $4.4 million to offset an indicated revenue deficiency.

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- SC 2NH and SC 13 and its corresponding SC 9 sub-classes were assigned a reduction of $1.3 million to partially offset an indicated revenue surplus.
- SC 2H and its corresponding SC 9 sub-class were assigned a reduction of $3.1 million to partially offset an indicated revenue surplus.
- SC 3 and its corresponding SC 9 sub-class were not adjusted since the average return for the class was within the tolerance band.

- The Rate Year revenue increase associated with non-competitive services was determined by subtracting the Rate Year level of competitive service charges for each class, i.e., Merchant Function Charges and the Billing and Payment Processing Charge, from the Rate Year increase assigned to each class. The unbundled competitive service charges are described below.
- Revenue ratios were developed by dividing the applicable Rate Year base revenues by the Historic Year base revenues.
- Finally, the base rate increase associated with non-competitive charges for each class for the Historic Year, i.e., the twelve months ended December 31, 2005, was developed by multiplying the Rate Year base rate increase for each class, after the deduction for the Rate Year level of competitive services, by the revenue ratios described above.

Unbundled Competitive Service Charges

The Company unbundled functional costs for competitive services in accordance with the Commission's Statement of Policy on Unbundling and Order Directing Tariff Filings, issued August 25, 2004, in Case 00-M-0504. As explained in detail in the Gas Rate Panel's pre-filed testimony, the major components of unbundled costs associated with the commodity function are supply-related costs (that is, the costs associated with procuring commodity and Information Resources, education and outreach, and uncollectibles associated with commodity) and supply-related credit and collections/theft-related costs. The Company also unbundled billing and payment processing costs.

The supply-related cost component and the supply-related credit and collections/theft cost component are reflected in two Merchant Function Charges ("MFC"). For full service customers, the MFC combines these components, while for firm transportation (retail access) customers whose ESCO participates in the Company's Purchase of Receivables (POR) program for their accounts, the MFC includes only the supply-related credit and collections/theft-related component. Retail access firm gas customers whose accounts are not billed on a consolidated (commodity and delivery) basis will not pay an MFC.

The Billing and Payment Processing ("BPP") charge recovers the cost of bill preparation, mailing, and payment processing costs and is a per bill charge that is not service specific. As noted in the Gas Rate Panel's pre-filed testimony, the BPP cost as determined by the ECOS is $0.96 per bill. Since the current BPP credit as stated in the Company's Retail Access Rate Schedule, P.S.C. No. 2 - Retail Access, is $0.94 (i.e., the electric credit), and in order to avoid customer confusion, the Company is proposing to set the unbundled BPP Charge at $0.94 per bill. It is anticipated that the $0.94 electric credit will be replaced with a $0.94 per bill charge in the next electric rate case. The

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Company proposes that single-service gas customers purchasing both commodity and delivery from the Company and single-service gas retail access customers receiving separate bills from the Company and their ESCO pay $0.94 per bill while gas customers who are also electric customers ("dual service customers") will pay either $0.47 per bill or nothing for this service, depending on whether they are taking competitive commodity service for electricity and the billing arrangement provided by the ESCO. The Company is proposing that the charge to ESCOs for the Company's billing and payment processing services be set at the cost avoided by the retail access customer.

Proposed revisions to the Company's electric tariffs - PSC No. 9 – Electricity and PSC No. 2 – Retail Access - that may be necessitated by the adoption of the proposed BPP charge will be included in the Company's revised bill format filing. The actual tariff leaves necessary to effect these revisions will be filed as appropriate to achieve tariff provisions that are effective the same date as the BPP charge for gas customers.

Rate Design for Non-Competitive Services

As previously noted, the base rate increase associated with non-competitive charges for the Historic Year was developed by multiplying the Rate Year base rate increase, after the deduction for the Rate Year level of competitive service charges, by the revenue ratios for each class. The proposed gas delivery rates for non-competitive services were designed for each firm service class to collect its respective assigned historical increase as follows:

- The minimum charge (the charge for the first 3 therms or less) for SC 1, SC 2H, SC 2NH and SC 3, and for the corresponding SC 9 firm transportation sub-classes, were increased to better reflect the Company's cost to provide service. The SC 13 minimum charge, which collects minimum charges over seven months rather than twelve months, was increased accordingly.
- The remaining block for SC 1 (for usage over 3 therms per month) was designed to collect the balance of the Historic Year revenue increase assigned to SC 1.
- The remaining three rate blocks within SC 2H, 2NH and SC 3 (for usage between 4 and 90 therms, for usage between 90 and 3,000 therms, and for usage greater than 3,000 therms) were allocated, on a uniform per therm basis, each class's remaining revenue increase after deducting the increase in annual revenues allocated to each class's minimum charge and to the air conditioning rates (as explained below).
- After accounting for the increased revenues to be collected through the SC 13 minimum charge, the two remaining SC 13 rate blocks were assigned the balance of the rate increase assigned to SC 13. Consistent with current rate design, the SC 2H, SC 2 NH and SC 3 air-conditioning rates were set equal to the proposed block rates in SC 13, since like SC 13 rates, the air-conditioning rates apply to seasonal off-peak firm gas usage.
- Consistent with current rate design, Rider G incentive rates were set equal to the applicable SC 2 rates for the first 250 therms of usage per month. The delivery rates for usage in excess of 3,000 therms (the "terminal rate") were set at 50 percent of the corresponding SC 2 delivery rates. The rates for usage between

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250 and 3,000 therms (the "penultimate rate") were set at the increased terminal rates plus the difference between the proposed SC 2 terminal rates and the proposed SC 2 penultimate rates, thereby maintaining the existing differential between the SC 2 penultimate and terminal rates. This same rate design will apply to Rider I – Gas Manufacturing Incentive Rate that is currently being funded with $3 million of deferred pipeline refunds.

- Residential and non-residential DG customers were assigned the average rate increase for their respective classes. Since the DG delivery rates for residential gas customers are fixed until at least December 31, 2007, we propose that any increase applicable to this class become effective January 1, 2008.

Appendix B shows, by service classification, the annualized service class revenues for the twelve months ended December 31, 2005 at current (i.e., October 1, 2004) rates, the corresponding annualized service class revenues and the associated number of customers' bills increased.

Other Tariff Changes

- The Company is proposing to modify the tariff to reflect the elimination of the 24.0 cents per dekatherm Competitive Retail Choice Credit ("CRCC") applicable to the Company's SC 9 firm transportation customers (except for CNG, Bypass, and Power Generation customers, since their rates are market based). The Company will continue to recover any lost revenues that result from the CRCC that have not been recovered as of October 1, 2007, either through the funding sources currently in place to recover such revenue or through a surcharge to the Monthly Rate Adjustment applicable to firm sales and transportation customers to the extent that funding sources are inadequate.
- The Company is also proposing to modify tariff provisions regarding the Transition Adjustment for Competitive Services ("Transition Adjustment"). The Transition Adjustment will include a calculation of the (1) lost revenue attributable to the components of the MFC (i.e., the supply component and the credit and collections component), and (2) lost revenue attributable to the Billing and Payment Processing Charge. The lost revenue attributable to the MFC components identified in (1) above will be calculated as the difference between the rate year MFC target of $27,773,607 and the revenues received through the MFC related to such components. The lost revenue attributable to Billing and Payment Processing will be equal to the total of Billing and Payment Processing Charges avoided by Retail Choice customers less charges assessed on ESCOs where the Company issues a consolidated utility bill on behalf of the ESCO, less avoided costs associated with billing and payment processing when ESCO consolidated bills are issued.
- The Transition Adjustment for Competitive Services will be a per therm adjustment. Separate Transition Adjustments will apply to full service customers (i.e., those customers taking service under SCs 1, 2, 3, and 13) and to the corresponding SC 9 firm transportation sub-classes and will be assessed in the applicable Monthly Rate Adjustments. Consistent with the Commission's Order Adopting Unbundled Rates and Backout Credits and Specifying Terms for the Recovery of Revenues Lost as a Result of Such Rates and Credits, issued April

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15, 2005, in Case 04-E-0572, approving Con Edison's unbundled rates, the Transition Adjustment applicable to full service customers will be designed to recover the first 50 percent of lost revenues. The Transition Adjustment applicable to both full service and firm transportation customers will recover the remaining 50 percent of lost revenues.

- Tariff changes regarding the sharing of non-firm revenues, whereby the Company would retain 100 percent of the first $35 million of non-firm revenues and 20 percent of such revenues in excess of $35 million, and eliminate the deferral of 50 percent of the customers' allocation.
- Tariff changes to allow the amortization of the cost of unrecovered gas plant for existing firm customers transferring to interruptible service between October 1, 2004 and December 31, 2005, as well as the cost of unrecovered interruptible gas plant currently being amortized based on net revenue, over three years. Consistent with the current provision governing the recovery of interruptible plant based on net revenue, the tariff will be revised to allow for the recovery of such costs by reducing the deferred balance of the customers' share of non-firm revenue, and deferring for future recovery, any unrecovered balances at September 30, 2010.
- Tariff changes to continue to true-up through the MRA of any unrecovered costs associated with the Gas Energy Efficiency program as provided under the current rate plan so that pilot programs initiated under the current rate plan have an opportunity to develop.
- The tariff provisions of Rider I, the Manufacturer's Incentive Rate, will be expanded to allow customers occupying existing premises who increase their usage by at least 25% in three successive months to participate in the program. Currently, Rider I applies only to manufacturing customers occupying new or vacant premises.
- The Company is proposing to keep the low-income program applicable to residential customers in place at the $1.6 million annual funding level currently included in rates. This will be accomplished by setting the discount at the levels initially set in the current rate agreement and in place as of October 1, 2004, i.e., $0.1359 for both eligible SC 1 customers in the over-3-therm block and for eligible SC 3 customers in the 4-90 therm block. Tariff language has been added to extend the discount through the rate year and to indicate that any difference between aggregate actual and allowed rate reductions through the end of the current rate agreement will be flowed through the MRA.
- Tariff provisions have been added to the general information section of the tariff to introduce new gas service fees associated with reconnections of gas service.
- Other miscellaneous tariff changes including the deletion of obsolete tariff provisions.

The Need for Rate Relief

The rate relief the Company seeks is necessitated, in large part, by increases in several major costs. Operating and maintenance expenses are projected to increase by $75 million. Rates currently reflect employee pensions as a credit, which has been a benefit to customers. Pensions became a cost to the Company in 2006, and are expected

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to be a cost to the Company for the foreseeable future. The change from employee pensions being treated as a benefit for customers to being a cost represents $27 million of the requested rate increase. Approximately $15 million of the increase arises from Company and contract labor costs that include the staffing impact resulting from new programs that are identified for Gas Operations; $8 million is for expenses associated with remediation of former MPG sites. Other costs, such as for interference costs, uncollectible expense, customer outreach and education expenses, and World Trade Center related charges account for the remainder of the $75 million.

In addition, the Company is seeking rate relief in part to recover $54 million of accounting credits that will be expiring at September 30, 2007, the end of the current rate plan. These include: the impact of implementing a one-time rate increase rather than phasing the increase in over the term of the existing rate plan ($18 million); funds set aside for the World Trade Center ("WTC") that were passed back to customers ($14 million); the amortization of the one-time settlement charge incurred by the Company to go back on the Pension Policy Statement ($13 million); interference overcollections ($7 million); and the passback of previously deferred Late Payment Charge revenues ($2 million).

For the twelve months ending September 30, 2008, the Company projects a $24 million increase in property taxes. Of this amount, $17 million represents increases already incurred by the Company for Special Franchise Taxes, and the balance represents $7 million for anticipated future increases.

Finally, as is the case for other critical infrastructure that serves New York City and Westchester, Con Edison's gas system must be continually maintained, upgraded and reinforced, and at times replaced, so that it remains capable of providing the safe and reliable gas service that our customers have come to expect. Accordingly, the balance of the rate increase is largely attributable to the Company's plans to spend an annual average amount approaching $300 million in capital expenditures over the next several years. The carrying cost on the new plant has added approximately $39 million to the required rate relief, plus an annual increase of $20 million for depreciation.

Partially offsetting all of these cost drivers are higher sales and new credits that are reflected in the Company's filing.

Notice

The Company will provide for public notice of the changes proposed in this filing by means of newspaper publication once a week for four consecutive weeks prior to December 2, 2006.

Conclusion

The testimony and exhibits submitted herewith establish the need for rate relief requested by the Company. The Company is willing to pursue discussions with the

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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 approve the changes to become effective on October 1, 2007, the day following the expiration of the current rate plan.

Respectfully submitted,
Consolidated Edison Company of New York, Inc.

By: Robert N. Hoglund

Robert N. Hoglund
Senior Vice President and Chief
Financial Officer

C: New York State Consumer Protection Board (2 copies)

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Leaf 4 – Revision 3
Superseding Revision 2

Leaf 5 – Revision 8
Superseding Revision 4

Leaf 76 – Revision 3
Superseding Revision 1

Leaf 76.1 – Revision 1
Superseding Revision

Leaf 126 – Revision 1
Superseding Revision 0

Leaf 127 – Revision 1
Superseding Revision 0

Leaf 128 – Revision 1
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Leaf 129 – Revision 1
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Leaf 130 – Revision 1
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Superseding Revision 0

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Superseding Revision 6

Leaf 133 – Revision 1
Superseding Revision 0

Leaf 134 – Revision 1
Superseding Revision 0

Leaf 135 – Revision 1
Superseding Revision 0

Leaf 136 – Revision 1
Superseding Revision 0

Leaf 137 – Revision 1
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Leaf 145 – Revision 1
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Leaf 147 – Revision 1
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Appendix B

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Estimated Effect on Gas Customers' Bills and Company Revenues Resulting from Proposed Gas Rates
Based on Sales and Revenues for the Twelve Months Ended December 31, 2005 for Service Classification Nos. 1, 2, 3, 13 and 14
and the Corresponding SC 9 Firm Transportation Sub-classes

Firm Service Classification (Sales and Transportation)	Annual Therms	Total Annual Revenues at Current 10/01/04 Rates (b) (c)	Total Annual Revenues at Proposed Rates (b) (c)	Estimated Total Annual Revenues Increase/(Decrease) (d)	Percent Change	Number of Customers' Bills Increased
1 - Residential & Religious	50,449,531	$ 186,101,090.87	$ 235,721,603.45	$ 49,620,512.58	26.7%	7,970,663
2 - General - Rate I - Non-Heating (a)	166,689,546	$ 260,915,769.47	$ 280,941,029.59	$ 20,025,260.12	7.7%	673,240
2 - General - Rate I - Distribution Generation	998,499	$ 1,327,962.92	$ 1,375,952.04	$ 47,989.12	3.6%	99
2 - General - Rate II - Heating (a)	291,088,678	$ 456,570,870.86	$ 490,973,644.34	$ 34,402,773.48	7.5%	653,898
2 - Total	458,776,723	$ 718,814,603.25	$ 773,290,625.97	$ 54,476,022.72	7.6%	1,327,237
3 - Residential & Religious - Heating (a)	532,226,890	$ 898,434,181.49	$ 991,690,666.83	$ 93,256,485.34	10.4%	2,896,920
13 - Seasonal Off Peak Firm Service	750,656	$ 1,124,403.80	$ 1,198,989.63	$ 74,585.83	6.6%	3,899
14 - Natural Gas Vehicles	170,450	$ 216,000.00	$ 216,000.00	$ -	0.0%	-
Total Firm Sales & Firm Transportation	1,042,374,250	$ 1,804,690,279.41	$ 2,002,117,885.88	$ 197,427,606.47	10.9%	12,198,719

(a) Gas air-conditioning is included in SC 2 and SC 3.
(b) Annual Revenues reflect the gas cost factor and monthly rate adjustments used in calculating Rate Year Revenues.
(c) Annual Revenues include gas supply costs for transportation customers equivalent to what these customers would have paid as full service customers.
(d) Based on projected firm sales and transportation volumes for the Rate Year Ended September 30, 2008, the estimated annual change in revenues is $196.7 million.