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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
4 Irving Place
New York, NY 10003

July 5, 2005

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

RE: Case 02-M-0515 – Proceeding on Motion of the Commission to Establish Gas Transportation Rates for Distributed Generation Technologies

Dear Secretary Brilling:

Consolidated Edison Company of New York, Inc. ("the Company") is filing today with the Public Service Commission ("the Commission") amendments to its Schedule for Gas Service, PSC No. 9 – Gas ("Gas Tariff") in reference to Rider J – Residential Distributed Generation Rate filed November 2, 2004 in compliance with the Commission's Order Providing for Gas Service for Residential Distributed Generation ("the Order"), issued and effective August 4, 2004, in the above referenced proceeding.

The specific leaves being revised are identified in Appendix A and are being filed on not less than one day's notice to become effective July 6, 2005, on a temporary basis, in accordance with Ordering Clause 2 of the Order.

Reason for Proposed Changes

The Company's November 2, 2004 filing ("November 2004 Filing") proposed changes to the Gas Tariff implementing a new Service Classification Rider, designated as Rider J – Residential Distributed Generation Rate, in compliance with the Order in the subject case. This Rider contains the rates and terms of service for firm sales and firm transportation of gas to residential Customers using gas to fuel on-site distributed generation ("DG") facilities. In the November 2004 filing, the Company designed two different delivery rates based on the number of residential dwelling units. The first rate applied to both Service Classification ("SC") 1 non-heating and SC 3 heating Customers in buildings with one to four residential dwelling units ("Small DG Customers"). The second rate applied to SC 3 heating Customers in buildings with five or more residential dwelling units ("Large DG Customers").

As a result of discussions with Commission Staff, the Company is proposing to amend its initial compliance filing (1) to further reduce the delivery rates for Large DG Customers; (2) to increase the minimum charge (for the first 3 therms of usage) for Small

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SC 3 heating customers and Large DG Customers who currently use gas for space heating; (3) to establish separate DG rates for SC 1 residential non-heating Customers; (4) to reduce the minimum load factor requirement applicable to Small DG Customers; and (5) to exclude from the definition of residential Small DG Customers those Customers that install emergency/standby generators. In addition, the Company is making a housekeeping change by removing Special Provision (1) - Metering Equipment, which was inadvertently inserted in the tariff.

Proposed Changes

In accordance with the Order, rates for DG Customers included in the November 2004 Filing were designed assuming an average class load factor of 50%. This was accomplished by reducing the delivery revenue requirement by the revenues collected through the minimum charge and multiplying the result by the ratio of an average load factor of Customers in each residential sub-class (40%-SC 3 five family and above; 35%-SC 1; and 30%-SC 3 one to four families) to the 50% assumed average class load factor. In addition, a DG Customer's continued eligibility for service under Rider J was made contingent upon the Customer's maintaining an Annual Load Factor of at least 50% for the gas usage supplied under this Rider.

The Company proposes in this filing to redesign its delivery rates applicable to Large DG Customers consistent with the Company's commercial DG tariffs by basing rates on an average class load factor of 70%, subject to each Customer's maintaining an Annual Load Factor of at least 50% for the gas usage supplied under this Rider (which will be separately metered). Staff advised that redesigning rates in this manner would make the Company's rates for large residential DG Customers more consistent with the DG rates of other local utilities whose large residential DG Customers are served under commercial DG delivery rates.

The Company is also proposing to increase the minimum charge applicable to Small and Large SC 3 DG Customers to $24.94 for small SC 3 DG Customers and $24.21 for Large SC 3 DG Customers (adjusted for the applicable meter charge). The filed rates were $14.54 and $13.81, respectively. As discussed with Staff, increasing the minimum amount collectible from Customers is necessary and appropriate to reduce the risk associated with Customers taking unfair advantage of the discounted rates under Rider J.

The Company has also separated the rates for SC 1 DG Customers and SC 3 Small DG Customers. These rates had originally been filed using a combined revenue requirement. The new minimum charge for SC 1 has been set at $13.20 (down from $14.54) so that the as-used charge for all usage over 3 therms for both SC 1 and SC 3 small DG Customers is the same. This minimum charge is below the embedded customer cost for SC 1 of $14.54, since using the fully embedded cost for SC 1 would have resulted in a very low over 3 therm charge of approximately 1.5 cents per therm.

In its November 2004 Filing, the Company proposed a minimum 50% load factor eligibility requirement for Small DG Customers to minimize Customers taking unfair

advantage of this rate structure to reduce charges for existing non-DG gas usage. Although the increase to the minimum charge is a step in the right direction to reduce the risk of Customers taking unfair advantage of the new discounted DG rates, it does not go far enough to prevent a very real potential for gaming that would result in unwarranted subsidies from non-DG Customers and unwarranted lost revenues to the Company.

While the Company has reconsidered its proposal for a 50% minimum load factor requirement for Small DG Customers as a result of its discussions with Staff, the Company continues to believe that a minimum load factor requirement at some level is necessary and appropriate. Accordingly, the Company is now proposing that for Small DG Customers, for whom rates will continue to be designed assuming a 50% average class load factor, the minimum load factor requirement should be 35% for SC 1 Customers and 40% for SC 3 Customers with four or fewer dwelling units. The lower minimum load factor requirements recognize the customer's existing non-DG usage and approach the average load factors of the corresponding residential subclass.

Absent such a minimum load factor requirement, unwarranted subsidization is both possible and likely. This likelihood is directly attributable to the fact that Small DG Customers' DG and non-DG load will be served using a single meter and the 50% load factor rates will produce significantly lower rate revenues from such Customers' non-DG use. While the Order appeared to balance such a revenue loss against the incremental cost of installing a separate meter for the DG load and potential incremental revenue from DG gas load, absent a minimum load factor requirement, residential Customers could receive bill reductions on existing non-DG usage whether or not they actually operate the DG equipment installed as a basis for qualifying for the lower rate.

For example, a typical residential 1-4 family Customer who uses about 1,600 therms annually (excluding DG load) would save about $340 per year off their gas delivery rates under the current Small Customer DG rate ($260 per year with the proposed rate) assuming the Customer purchases and installs, but does not run, its DG unit. For the Company to remain revenue neutral on the gas side, the Customer would need to produce about 10,000 kWh annually through the DG unit, an annual usage well above the typical electric usage for a small electric customer (i.e., 3,800 kWh). Although the Order disagreed with the Company's revenue neutrality concerns, stating *"it appears unlikely that DG customers will provide lower revenues to the LDCs than standard residential customers,"* it was premised on the assumption that DG Customers would in fact contribute new incremental revenues to LDCs. However, the absence of a minimum load factor requirement creates a substantial opportunity for Customers to take advantage of lower gas rates for their gas existing usage without providing any incremental revenues associated with gas usage for distributed generation and without providing to electric Customers the anticipated benefits of increased distributed generation. Retailers, such as Home Depot, advertise and sell relatively inexpensive Residential DG units, which can produce very attractive payback opportunities for Customers based on the gas savings on existing gas usage alone. Further, it is reasonable to expect the cost of these units to decline over time, which would thereby make these payback opportunities even more attractive.

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A reasonable minimum load factor requires Customers to utilize their DG units to maintain or increase their load factor to make them eligible for the discounted DG rate. Although the Order authorizes LDCs to *"petition for authority to defer any net lost revenues,"*[1] if this new rate structure is not implemented in a manner that minimizes or avoids the opportunity for Customers to "game" the system, the Company's other Customers will ultimately and unfairly bear the burden of this rate subsidy, without any offsetting benefit attributable to the increased use of gas for distributed generation.

Finally, in order to further minimize Customers getting a free ride as a result of applying discounted rates to existing usage, the Company proposes that Rider J be amended to make explicit that it is not available to any Small DG Customer whose residential DG unit is either an emergency electric generator or a standby generation unit. Emergency/standby generators are low cost units designed to primarily operate only during the hours of an electric utility outage. Such units could not have been among those reasonably considered by the Commission when it concluded that *"it appears unlikely that DG customers will provide lower revenues to the LDCs than standard residential customers."* Accordingly, this limitation is fully consistent with the Commission's findings in the Order.

The following tables show the original and revised DG rates under Rider J.

Large SC 3 DG Customers

	As Filed (50% Load Factor)		**Revised (70% Load Factor)**	
	Summer	Winter	Summer	Winter
0- 3 therms*	$13.81	$13.81	$24.21	$24.21
4-90 therms	0.4191	0.4803	0.3359	0.3835
91-3,000 therms	0.2816	0.3275	0.1984	0.2284
Over 3,000 therms	0.2106	0.2486	0.1274	0.1571

*Note: The minimum charge (0 – 3 therms) is $24.21 plus the following metering charges applicable to Customers having different DG equipment ratings: $4 – 50 kW or less; $28 – greater than 50 kW but less than or equal to 250 kW and $85 - greater than 250 kW.

Small SC 3 DG Customers

	As Filed		**Revised**	
	Summer	Winter	Summer	Winter
0- 3 therms	$14.54	$14.54	$24.94	$24.94
Over 3 therms	0.2396	0.2396	0.2130	0.2130

[1] Order, p.13.

SC 1 DG Customers

	As Filed		Revised	
	Summer	Winter	Summer	Winter
0- 3 therms	$14.54	$14.54	$13.20	$13.20
Over 3 therms	0.2396	0.2396	0.2130	0.2130

Housekeeping Change

In the November 2004 Filing, Special Provision (1) contained in Rider J was inadvertently included in the proposed tariff leaves. This language, which states that Large DG Customers will be required to pay for the capital costs and maintenance costs associated with metering equipment, was carried over from the Rider H – Commercial Residential Distributed Generation Rate tariff leaves. The minimum charge for Large DG Customers includes metering charges, and therefore this language should not have been included.

Notices

In accordance with Ordering Clause 5 of the August 4th Order, the Company hereby requests waiver of newspaper publication of the tariff revisions filed herein.

Respectfully submitted,

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

By: _____
Christine Colletti
Director, Rate Engineering

PSC No. 9 Gas

Leaf 154.22
Revision 1
Superseding Revision 0

Leaf 154.23
Revision 1
Superseding Revision 0

Leaf 154.24
Revision 1
Superseding Revision 0

Leaf 154.25
Revision 1
Superseding Revision 0

Leaf 154.26
Revision 1
Superseding Revision 0

Leaf 154.27
Revision 1
Superseding Revision 0

Leaf 154.28
Revision 1
Superseding Revision 0