Received: 11/21/2003

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

November 21, 2003

Hon. Jaclyn A. Brilling
Acting Secretary
State of New York
Public Service Commission
Three Empire State Plaza
Albany, N.Y. 12223-1350

Dear Acting Secretary Brilling:

Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") is filing today with the Public Service Commission ("the Commission") amendments to its Schedule for Gas Service ("the Schedule"), PSC No. 9 - Gas.

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 21, 2003. Since our current rate plan extends until September 30, 2004, the Company anticipates the Commission will issue appropriate orders suspending the effective date of the leaves through September 30, 2004, so that the proposed rates become effective no later than October 1, 2004. A list of the revised tariff leaves is set forth on Appendix A.

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 delivery rates to its firm sales and firm transportation customers under its Schedule for Gas Service, PSC No. 9 - Gas. The proposed increases are designed to produce a total annual revenue increase of approximately $107.5 million or 9.8% based on the estimated level of firm delivery volumes for the Rate Year, i.e., the twelve months ended September 30, 2005.[1] The Company's proposal provides revenues at

[1] The annual revenue increase was computed by dividing the $107.5 million increase by Rate Year total revenues at current October 1, 2003 rates, including projected gas supply costs and gross receipt taxes. For firm transportation

Received: 11/21/2003

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 more than one million gas customers taking either full or retail access gas service from the Company, while also maintaining its strong financial standing, which inures to short and long term benefit of customers and shareholders alike.

The proposed increase in gas delivery rates would be the first such increase since 1995. During this period, the Company aggressively sought to minimize capital and operating cost increases, producing, among other customer benefits, a number of rate reductions, including the $25 million rate reduction that is currently in effect. In fact, the base rates proposed for the Rate Year, when adjusted for inflation, would be approximately 7.6% lower than the rates charged to customers in 1995.

In addition to addressing growth in our customers' energy needs, rate relief is necessary to address changing economic conditions, and increases in taxes and other costs not reasonably within the Company's control, and to provide the Company with the funds necessary to maintain the safe and reliable gas service which its gas customers have come to expect and rely upon.

In the interest of rate stability, the filing also discusses various rate mitigation efforts, mechanisms to adjust rates to actual property taxes, health insurance and other costs incurred by the Company, and the Company's willingness to enter into a multi-year agreement that would minimize rate changes to the Company's gas customers until September 30, 2007. Such a plan would provide the Company with the flexibility to manage its resources effectively in executing critical programs while also giving the Company a strong incentive to work within the rate plan to maximize efficient operations that will ultimately inure to the benefit of its customers.

Proposed Increased Revenue Allocation

The revenue increase was allocated to the Company's firm sales and firm transportation customers in Service Classification Nos. ("SC") 1, 2, 3, 9 and 13. Starting with the total increase in the Company's revenue requirement of $107,537,000, gross receipts taxes of $4,086,000 were deducted to derive the base rate increase of $103,451,000 applicable to the Company's delivery rates. The proposed base rate increase was allocated to SC 1, 2, 3, 9 and 13 in the following manner:

- An overall average delivery rate percentage increase was developed by dividing the Rate Year delivery revenue increase by the total Rate Year delivery revenues;
- SC 1 and the corresponding SC 9 firm transportation sub-class were assigned 1.25 times the average delivery rate percentage increase;
- SC 2 HTG and the corresponding SC 9 firm transportation sub-classes were assigned 0.75 times the average delivery rate percentage increase;
- SC 3 and the corresponding SC 9 firm transportation sub-classes were assigned the average delivery rate percentage increase; and

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customers, gas supply costs are assumed to be equivalent to the gas supply costs included in the Company's full service rates.

Received: 11/21/2003

- SC 2 NH and SC 13 and the corresponding SC 9 firm transportation sub-classes were assigned the balance of the increased revenue requirement resulting in increases for these classes that are slightly below the average delivery rate percentage increase.

As explained in the pre-filed testimony, the proposed allocation of the revenue increase was based on the indications from the Company's 2002 Embedded Cost of Service ("ECOS") study. After employing a ten-percent tolerance band around the average system return from the firm classes, the cost study showed that: SC 1 has a revenue deficiency of $10.1 million; SC 2 NH has a revenue surplus of $1.4 million; SC 2 HTG has a revenue surplus of $13.6 million; and SC 3 has an average return. While the proposed revenue allocation will not bring the deficient and surplus classes within the system return tolerance band, it will at least move them in that direction.

State Income Tax

In accordance with the Commission's Order Implementing Tax Law Changes on a Permanent Basis, issued and effective June 28, 2001, in Case 00-M-1556, the Company is proposing in this filing to recover State Income Tax ("SIT") through base delivery rates. Currently, SIT, as well as gross receipt taxes, are recovered from gas customers through a separate percentage increase in rates and charges. The $103,451,000 increase includes $7,721,000 of SIT related to the increased revenue requirement. There is also $6,974,000 remaining related to the Company's Rate Year SIT expense before the rate increase. The latter amount is neutral to customers and will not affect Con Edison's overall revenues, but it will increase base revenues with a corresponding decrease in the amounts collected through the separate percentage increase in rates and charges. This amount was allocated across each service class based on the ratio of Rate Year delivery revenues in each class to the total Rate Year delivery revenues.

Proposed Rate Design Within the Firm Classes

The gas rates were designed in steps. First, the current October 1, 2003 rates were redesigned to account for the Company's proposal to expand the circumstances under which religious customers, community residences (that are supportive or supervised living facilities) and veterans' posts or halls may elect to transfer from residential to non-residential rates. Second, starting with the Rate Year delivery revenues at the redesigned October 1, 2003 rates, the increased revenue requirement was allocated to the firm service classes based on the indications from the 2002 ECOS study as described above. Third, each class's delivery rate increase was expressed on the basis of the historical annual period ending December 31, 2002, i.e., the period for which detailed billing data were available. Finally, proposed gas delivery rates 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) in SCs 1, 2, and 3 were increased from $11.08 to $14.08 to better reflect the Company's cost to provide service. The SC 13 minimum charge and the corresponding SC 9 firm transportation rates, which collect minimum charges over seven months as opposed to twelve months, were increased from $18.99 to $24.14. As explained, in the Company's pre-filed testimony,

Received: 11/21/2003

the gas ECOS study shows an overall system customer cost of $27.95 with average customer costs ranging from $14.54 per month for an SC 1 residential non-space heating customer to $60.99 per month for an SC 2 non-residential, non-space heating customer. Given the disparity between costs and rates, the $3.00 proposed increase to the minimum charge moves the minimum charge in a direction more closely matching the cost of service.

- The SC 1 remaining rate block (for usage over 3 therms per month) was designed to collect the balance of the historical revenue increase assigned to SC 1 after accounting for the increased revenues to be collected through the proposed minimum charge.
- As previously mentioned, the minimum charges in SCs 2 and 3 are the same as SC 1. Also, reflective of the current design of Con Edison's firm rates, the rates applicable to the 4-90 therm block in SCs 2 and 3 were set equal to the proposed SC 1 block rate for usage over 3 therms. This ensures that low usage residential and non-residential customers continue to pay an equivalent level across service classes for delivery service.
- The remaining two rate blocks within SCs 2 and 3 (for usage between 90 and 3,000 therms and for usage over 3,000 therms) were set to collect each class's respective revenue increase remaining after deducting the increase in annual revenues resulting from the changes to the minimum charges, the rate for usage between 4 and 90 therms and the air-conditioning rates (as explained below).
- After accounting for the increased revenues to be collected through the proposed SC 13 minimum charge, the remaining rate blocks in SC 13 were assigned the balance of the rate increase applicable to SC 13. Consistent with the current design of our rates, the SCs 2 and 3 air-conditioning rates were set equal to the proposed block rates in SC 13 since the air-conditioning rates, like SC 13, apply to seasonal off-peak firm gas usage.
- Consistent with current rate design, Riders E, F, and G incentive rates, for usage up to 250 therms per month, were set equal to the proposed SC 2 rates. The delivery rates for usage in excess of 3,000 therms per month ("terminal rate") were set at 50% of the corresponding proposed SC 2 delivery rates. To maintain the existing rate differential between the SC 2 penultimate and terminal rates, the Riders E, F and G delivery rates for usage between 250-3,000 therms ("penultimate rate") were set at the increased terminal rates plus the difference between the proposed SC 2 penultimate rate and the proposed SC 2 terminal rate. This same rate design will apply to pending Rider I - Gas Manufacturing Incentive Rates that were filed by the Company on October 9, 2003.

Appendix B shows by service classification, the annualized service class revenues for the twelve months ended December 31, 2002 at current (i.e., October 1, 2003) rates, including the effect of the religious adjustment referred to above, the corresponding annualized service class revenues at the proposed rates, the total increase in annual service class revenues and the associated number of customers' bills increased.

Retail Choice

The Company proposes to continue the 24.0 cents per dekatherm Competitive Retail Choice Credit ("CRCC") applicable to firm transportation customers that is currently scheduled to expire on October 1, 2004. The Company is also proposing a Transition Adjustment for Competitive Services ("Transition Adjustment") that is designed to collect net retail choice credits equal to:

Received: 11/21/2003

(1) the proposed 24.0 cents per dekatherm CRCC less 1.2 cents per dekatherm;[2] plus (2) the currently effective $0.65 per bill credit provided to firm transportation customers related to consolidated bills issued by marketers to their firm transportation customers; plus (3) marketer and Direct Customer non-payments for rates and charges that exceed the security deposits held by the Company.

Other Tariff Changes

For the reasons explained in the Company's pre-filed testimony, the Company is proposing tariff changes to accommodate different proposals being made in this proceeding, including:

- New service fees associated with activities related to disconnection and reconnection of gas service have been added to the tariff. Specifically, a $26 fee will be charged to both residential and non-residential customers each time the Company sends a Company employee to a customer's premises to seasonally disconnect gas service. However, the charge will be increased to $37.50 if both gas and electric service are disconnected at the meter during the visit. Fees of $66 and $248, respectively, will be charged to SC 1 residential customers and to all other customers each time the Company sends an employee to a customer's premises to re-establish service to a seasonal customer or to a customer whose service has been discontinued for non-payment of a deposit or other rates and charges. Where the Company is unable to gain access to a customer's premises to reconnect service, the charge will be reduced to $29 and $45, respectively, for an SC 1 customer and all other gas customers.
- The computation of the annual reconciliation of the gas cost factor will be revised to eliminate the incentive for distribution line losses. Consistent with this change, the gas cost factor computation will be changed to reflect current levels of line losses in adjusting the average costs of gas that form the basis for the monthly gas cost factor computation. For SC 9 firm transportation customers, the line-loss factor used in adjusting a customer's daily transportation quantity will be updated on an annual basis based on line-loss data for the twelve months ended August 30th of each year.
- The definitions of an SC 9 firm transportation customer's deficiency and surplus imbalances have been changed to charge or credit the customer for line losses occurring on the Company's local distribution system related to such imbalances.
- The computation of the non-firm revenue credit has been revised consistent with the Company's proposal to modify the disposition of non-firm revenues. Under this proposal, any variation between actual non-firm revenues generated during the Rate Year and a $15 million revenue imputation will be allocated 75 percent to firm customers and 25 percent to the Company. The non-firm revenue credit tariff provision has also been revised to update the monthly amount of non-firm revenues that is retained towards recovery of unrecovered interruptible plant.
- Clarifying tariff changes have been made to the language contained in SCs 2 and 3 describing the monthly minimum charge applicable to dual fuel customers with an annual allocation or actual annual usage greater than 100,000 therms. The tariff has been

[2] Consistent with current recovery of retail choice credits as set forth in the Company's Joint Proposal dated February 15, 2002 in Case Nos. 00-G-1456 and 97-G-1380 ("2002 Joint Proposal"), the 1.2 cents per dekatherm amount offset to the 24.0 cents per dekatherm CRCC is being used as a proxy for net avoided costs associated with providing competitive services.

Received: 11/21/2003

modified to clarify that the minimum charge provision also applies to a new customer and to an existing customer who subsequently converts from gas only to dual fuel burning equipment or who increases its annual usage to 100,000 therms.

- Tariff provisions contained in SC 12 and the corresponding provisions in SC 9 related to customer prepayments for facility costs have been modified to require interruptible and off-peak firm customers to pay in advance for facility costs except to the extent such customers qualify for one of the Company's incentive programs.
- SC 9 (Rate B) and SC 12 (Rate 1) have been amended to add a monthly minimum charge applicable to interruptible customers who have an estimated annual usage exceeding one million therms. The minimum charge will be tied to 50% of the customer's estimated annual usage.
- The virtual storage option service has been eliminated from the SC 20 Marketer tariff.
- Tariff provisions related to the Company's 2002 Joint Proposal, which will expire at the end of the current rate year ending September 30, 2004, as well as other obsolete tariff provisions, have been deleted.

The Need for Rate Relief

The Company is currently operating under a three-year rate plan that provides for a $25 million reduction in delivery revenues for the three-year period ending September 30, 2004. However, times have materially changed since these new rates took effect a mere three weeks following the tragic events of September 11.

In fact, almost 80 percent or approximately $85 million of the $107.5 million increase the Company is requesting is a direct result of different economic conditions than those reflected in the expiring rate plan. First, $32 million of earnings from the Company's pension funds that had, in the past, been used to lower customer rates were never realized. Instead, the Company's pension assets experienced significant losses during the economic downturn. In addition, sales revenues did not reach the anticipated levels and are approximately $20 million, or 4.4%, less than expected. Next, the proposed rates reflect an $18 million increase in property taxes. Finally, the currently effective rates are artificially understated by approximately $15 million as a result of the Company's agreement to a three-year rate plan reflecting a $25 million levelized reduction, rather than a more substantial reduction in the first year followed by rate increases in years 2 and 3.

As is the case for other critical infrastructure that serves New York City and Westchester – its roads, bridges, water mains, to name a few – Con Edison's gas system must be continually maintained, restored and, at times, replaced, to ensure 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 attributable to the Company's efforts to maintain, improve and extend its gas system to meet the growing needs of its customers and to provide the necessary funds to meet its financial obligations and maintain the Company's financial health and credit standing. This includes (1) $25 million of carrying costs on $200 million that the Company will invest in upgrading, reinforcing and replacing its gas infrastructure over the next several years; (2) $15 million in increased operation and maintenance expenses resulting from higher insurance costs,

Received: 11/21/2003

planned environmental remediation and costs related to the World Trade Center; and (3) a return to the investors adequate to support the financial strength needed in the current environment.

The Company has actively sought to mitigate the amount of the increase and the filing reflects these mitigation efforts, which include (1) reducing the proposed increase by $15 million of anticipated non-firm gas revenues, (2) the effect of productivity and a decrease of various operating costs, and (3) passing back to customers various accounting credits deferred on the Company's books for the reimbursement of World Trade Center costs, interference expenses and late payment charges.

Investment in the Company's infrastructure will result in both immediate and long-term benefits to the Company's customers, by enabling the Company to continue its record as one of the leading natural gas distribution companies in the country. These investments address, in part, new challenges in terms of maintaining the security and diversity of our facilities as recommended by the Commission and other stakeholders following the tragic events of September 11, 2001. These enhancements will reduce the chances that future incidents could materially disrupt service to major parts of our service territory. The Company has worked diligently to manage its expenditures in a manner that has avoided increases to the Company's delivery service charges for many years. However, the programs that comprise the Company's current construction and operation and maintenance programs are necessary to ensure that the Company's gas delivery service will continue to sustain and support the economic revitalization of the Company's service territory.

Notice Requirements

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 21, 2003.

Conclusion

The testimony and exhibits submitted herewith establish the need for the rate relief requested by the Company. The Company is willing to 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 approve the changes to become effective on October 1, 2004, the day following the expiration of the current rate plan.

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

By: ______________________________
Joan S. Freilich
Executive Vice-President and
Chief Financial Officer

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

Received: 11/21/2003

PSC NO. 9 – GAS

Leaf 5 – Revision 5
Superseding Revision 4

Leaf 76 – Revision 2
Superseding Revision 1

Original Leaf No. 76.1

Leaf 132 – Revision 5
Superseding Revision 4

Leaf 146 – Revision 5
Superseding Revision 4

Leaf 152 – Revision 5
Superseding Revision 4

Leaf 155 – Revision 5
Superseding Revision 4

Leaf 156 – Revision 11
Superseding Revision 10

Leaf 157 – Revision 6
Superseding Revision 5

Leaf 159 – Revision 7
Superseding Revision 6

Leaf 160 – Revision 4
Superseding Revision 3

Leaf 162 – Revision 4
Superseding Revision 3

Leaf 164 – Revision 6
Superseding Revision 5

Received: 11/21/2003

Leaf 165 – Revision 6
Superseding Revision 5

Leaf 166 – Revision 3
Superseding Revision 2

Leaf 166.1 – Revision 1
Superseding Revision 0

Leaf 167 – Revision 4
Superseding Revision 3

Leaf 169 – Revision 5
Superseding Revision 4

Leaf 183.2 – Revision 4
Superseding Revision 3

Original Leaf 183.3

Leaf 228 – Revision 5
Superseding Revision 4

Leaf 230 – Revision 6
Superseding Revision 5

Leaf 231 – Revision 5
Superseding Revision 4

Leaf 233 – Revision 1
Superseding Revision 0

Leaf 234– Revision 3
Superseding Revision 2

Received: 11/21/2003

Leaf 235 – Revision 2
Superseding Revision 1

Leaf 240 – Revision 5
Superseding Revision 4

Leaf 242 – Revision 1
Superseding Revision 0

Leaf 243 – Revision 3
Superseding Revision 2

Leaf 251 – Revision 2
Superseding Revision 1

Leaf 255 – Revision 6
Superseding Revision 5

Leaf 258 – Revision 2
Superseding Revision 1

Leaf 259 – Revision 3
Superseding Revision 2

Leaf 260 – Revision 5
Superseding Revision 4

Leaf 263 – Revision 3
Superseding Revision 2

Leaf 265 – Revision 5
Superseding Revision 4

Leaf 269 – Revision 6
Superseding Revision 5

Leaf 270– Revision 5
Superseding Revision 4

Received: 11/21/2003

Leaf 271 – Revision 5
Superseding Revision 4

Leaf 277.2 – Revision 2
Superseding Revision 1

Leaf 278 – Revision 2
Superseding Revision 1

Leaf 303.1 – Revision 1
Superseding Revision 0

Leaf 303.2 – Revision 2
Superseding Revision 1

Leaf 318 – Revision 2
Superseding Revision 1

Leaf 319 – Revision 1
Superseding Revision 0

Leaf 335 – Revision 1
Superseding Revision 0

Leaf 336 – Revision 1
Superseding Revision 0

Leaf 339 – Revision 1
Superseding Revision 0

Leaf 342.1 – Revision 1
Superseding Revision 0

Leaf 343 – Revision 1
Superseding Revision 0

Leaf 344 – Revision 1
Superseding Revision 0

Received: 11/21/2003

Leaf 349 – Revision 5
Superseding Revision 4

Leaf 350 – Revision 2
Superseding Revision 1

Leaf 362 – Revision 4
Superseding Revision 3

Leaf 389 – Revision 2
Superseding Revision 1

Leaf 389.1 – Revision 1
Superseding Revision 0

Leaf 389.2 – Revision 1
Superseding Revision 0

Leaf 389.3 – Revision 1
Superseding Revision 0

Leaf 389.4 – Revision 3
Superseding Revision 2