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

October 9, 2003

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

Re: Proposal to Implement a New Rider I - Gas Manufacturing Incentive Rate

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 original tariff leaves (Leaf Nos. 154.12-154.19[1]) to become effective January 1, 2004.

Reason for the Proposed Changes

By this filing, the Company proposes to introduce a new Service Classification ("SC") Rider I, designated as "Gas Manufacturing Incentive Rate," to SC No. 2 – Rates I and II and SC No. 9 - Rates (A)(2) and (A)(4) of the Schedule. Rider I will be applicable to new non-governmental manufacturing Customers who utilize gas for industrial or commercial processes, occupy new or vacant premises, and receive either a substantial real property tax incentive, energy rebates under the City of New York's Energy Cost Saving Program or a comprehensive package of local municipality or state economic incentives. The Rider will also be available to non-governmental manufacturing Customers currently taking service under the same SC 2 or 9 Rates cited above who receive a comprehensive package of local municipality or state economic incentives. The Company proposes to accept applications for service under Rider I through December 31, 2008 with the Rider remaining in effect through December 31, 2013.

[1] The tariff leaves being filed herein were designated to sequentially follow tariff leaves 154.1 to 154.11 which are pending with an effective date of 11/01/03.

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This filing is a result of discussions with the City of New York ("NYC") on the perceived need for a business incentive rate that would help to retain existing load and possibly attract new load in the Company's service area. The Joint Proposal adopted by the Commission's Order issued on April 22, 2002 (establishing a three-year rate plan for the Company)[2] stated that:

> "Nothing herein shall preclude Con Edison from petitioning the Commission for approval of new services or of rate design or revenue allocation changes ***on an overall revenue-neutral basis***, including, but not limited to, the implementation of new service classifications (e.g., for gas transportation service associated with distributed generation; ***a new business incentive rate for customers that negotiate a comprehensive package of economic incentives with municipal or state economic development authorities***)."[3]

The proposed rates have been set the same as the incentive tariff rates for a Customer taking service under the Company's Rider E – Area Development Rate, Rider F – Business Incentive Rate for New and Vacant Premises, or Rider G – Economic Development Zone Rate. These incentive rates provide Customers rate reductions ranging from 33% to 50% off the SC 2 delivery rates for usage over 250 therms per month for a fixed period of five years.

In order to implement this incentive rate on an overall-revenue neutral basis, as provided in the Joint Proposal, the Company proposes to use deferred gas pipeline refunds to fund the rate reductions provided to Customers under Rider I. Deferred gas pipeline refunds are one of several funding sources used in reimbursing the Company for competitive retail choice credits ("CRCC") that it provides to its firm transportation Customers in accordance with the Joint Proposal. At September 30, 2003, the balance of deferred gas pipeline refunds was about $10.0 million. In this filing, the Company proposes to set aside $3.0 million of the December 31, 2003 balance of deferred pipeline refunds in a separate account that would be used to fund Rider I rate reductions[4]. The $3.0 million amount is based on estimated annual rate reductions of about $600,000 per year (i.e., 5,000,000 therms times the 0.1138 per therm SC 2 Rate II tail block rate reduction) multiplied by 5 years (i.e., the maximum term Rider I Customers are eligible to receive rate reductions).

Summary of Proposed Changes

Applicability of Rider I

Rider I will be applicable to non-governmental manufacturing Customers eligible to receive service under SC 2 Rate I (non-heating), SC 2 Rate II (heating) and the

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[2] Cases 00-G-1456 and 97-G-1380, Order Concerning Gas Rates, Restructuring, Competition, and Other Issues, issued April 22, 2002.

[3] Id., at Appendix I, p.30, emphasis added, footnote omitted. Per its agreement in the Joint Proposal, the Company convened a meeting with the City of New York and Staff within 75 days of the effective date of the Proposal to begin discussions on development of a business incentive rate.

[4] In the event the balance of deferred pipeline refunds is less than $3.0 million at December 31, 2003, the Company will draw on the other CRCC funding sources in establishing the separate fund for Rider I rate reductions.

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corresponding rates in SC 9. Customers will qualify for the rate if they are occupying new or vacant premises and receiving: (1) a substantial real property tax incentive of at least five years' duration established under either Section 485-b of the New York State ("NYS") Real Property Tax Law (in localities outside of NYC or Title 2-C or 2-D of the NYS Real Property Tax Law (in NYC); (2) energy rebates from NYC's Energy Cost Savings Program pursuant to Title 22, Chapter 6, of the NYC Administrative Code; or (3) a "Comprehensive Package of Economic Incentives" of at least five years' duration conferred by the local municipality or state authorities. An existing SC 2 Customer will qualify for service under Rider I upon demonstrating that it has received a "Comprehensive Package of Economic Incentives" from municipal or state authorities. A "Comprehensive Package of Incentives" is a separately negotiated comprehensive package of economic incentives of at least five years' duration conferred by the local municipality or state authorities in exchange for a long-term commitment by the Customer to locate or re-locate in the Company's service area. According to NYC's officials, the current criteria used in qualifying a business for a comprehensive package of incentives focuses on encouraging investment or employment growth in certain areas of the City. This is accomplished by requiring commitments from businesses to relocate to the area, retain or hire additional employees in the area, and/or make an investment to improve or construct on real property. Current benefits provided under the package of incentives include sales tax exemptions on equipment and building materials, property tax reductions, and/or energy cost discounts funded by NYC tax revenues.

Service under Rider I will not be available to a Customer taking service under other negotiated and incentive tariff rates, such as the rate for gas used for air conditioning, or to a Customer taking service under the Company's Rider E – Area Development Rate, Rider F – Business Incentive Rate for New and Vacant Premises, or Rider G – Economic Development Zone Rate.[5] As listed on the attached tariff leaves, there are also other instances where a Customer may not be eligible for Rider I service. For example, service under Rider I will not be available where (1) excessive capital expenditures are required to support gas service to a Customer applying for Rider I; (2) total delivery rate reductions provided by the Company under Rider I exceed fifty percent of the Comprehensive Package of Incentives, including Rider I delivery rate reductions (all computed on a net present value basis); (3) gas service is supplied to a retail establishment or residential–type premises; or (4) a Customer is using gas in distributed generation, merchant generators or co-generation units.

Scope of the Program

The Company proposes to make Rider I available to eligible Customers in its service territory, on a first-come, first-serve basis, up to an estimated aggregate annual usage not to exceed 5.0 million therms. Once gas therms are allocated towards the Rider I Program, when Rider I Customers leave the Program, the annual load eligible for the Program will be permanently reduced by the departing Customer's allocation and will not made available to new Customers.

[5] The Company stopped taking new applications for service under Riders E and F after September 30, 2000. However, since Customers are entitled to receive rate discounts for a fixed term of 5-10 years starting from their commencement date of service under the Riders, there are still Customers remaining on these Riders.

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Rate Design

Rider I rates are identical in all respects to the rates applicable to the Company's Rider F- Business Incentive Rate for New and Vacant Premises for which no new applications are currently being accepted. A Customer taking service under Rider I will be eligible for rate reductions on its usage in excess of 250 therms per month for a period of five years. Accordingly, the delivery rates for usage up to 250 therms per month have been set equal to the full SC 2 delivery rates.[6] The delivery rate for usage in excess of 3,000 therms per month ("terminal rate") has been set at 50% of the corresponding SC 2 delivery rates. To maintain the existing rate differential between the SC 2 penultimate and terminal rates, the Rider I delivery rates for usage between 250-3000 therms ("penultimate rate") have been set at the reduced terminal rate plus the difference between the full SC 2 penultimate rate and the full SC 2 terminal rate. At the end of five years, the Customer will be charged prospectively for all gas used at the applicable SC 2 or SC 9 rate.

Funding For Program

As previously explained, the Company proposes to fund the rate reductions provided to Customers under Rider I by establishing a separate funding account for Rider I reductions comprised of $3.0 million of deferred pipeline refunds or other CRCC funding sources (see note 4 above). The amount attributable to Rider I rate reductions will be determined as the difference in revenues calculated at the applicable base delivery rates of SC 2 and 9 and the base delivery rates of Rider I. Any balance remaining in the separate Rider I funding account at the end of the Program would be set aside for future disposition to firm Customers in a manner determined by the Commission. In the event there are insufficient funds to continue providing rate reductions under Rider I, the Company will retain the right to discontinue service under Rider I.

Notices

Enclosed is a proposed form of Notice of Proposed Rule Making for publication in the State Register pursuant to the State Administrative Procedure Act.

Respectfully submitted,

Consolidated Edison Company of New York, Inc.

Joel H. Charkow

Director
Rate Engineering Department

[6] The SC 9 delivery rates applicable to Customers eligible for SC 2 are the same as the SC 2 delivery rates.