

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

July 23, 2003

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

RE: Gas Transportation Rates for Distributed Generation Technologies

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, PSC No. 9 – Gas ("Gas Tariff").

The changes to the Company's Gas Tariff are set forth in Original Leaf Nos. 154.1 to 154.11. The foregoing leaves are issued July 23, 2003 to become effective November 1, 2003, in accordance with the Commission's Order Providing for Distributed Generation Gas Service Classifications in Case 02-M-0515 ("the Order"), issued and effective April 24, 2003.

Reason for the Proposed Changes

In compliance with the Order, the Company is implementing a new Service Classification Rider to its Gas Tariff, designated as Rider H – Distributed Generation Rate. This Rider contains the rates and terms of service for firm sales and firm transportation of gas used solely for the purpose of fueling on-site distributed generation ("DG") equipment by high load factor commercial and industrial customers where the electricity generated is used solely to supply all or part of the Customer's on-site electrical requirements. Rider H is applicable to Customers operating DG equipment with a rated capacity of less than 50 MegaWatts ("MW"). Service for DG equipment with a rated capacity of 50 MW and greater will be supplied under the rates and terms of the Company's power generation rate schedule set forth in Service Classification No. ("SC") 9. In accordance with the Order, the Rider will remain in effect until October 31, 2006. The Company will file permanent DG rates for commercial and industrial customers to take effect after October 2006 based on data gathered over the three-year term of the Rider.

Summary of Tariff Changes

Eligibility

Rider H is applicable to commercial and industrial customers operating DG equipment who are eligible to take service under SC 2 and SC 9 Rates A (2) and A (4) of the Company's Gas Tariff and maintain an Annual Load Factor of at least 50%. To initially be eligible for service under Rider H, a Customer must demonstrate to the Company's satisfaction that it will have an Annual

Load Factor of at least 50 % during the first year of operation under the Rider, with the first year commencing after a three-month start-up phase during which the Customer will be billed under Rider H without having its gas usage count as part of the 50% Annual Load Factor requirement.

In accordance with the Order, a Customer's Annual Load Factor will be determined by dividing a Customer's gas usage during the annual determination period by the product of the Customer's Peak Day Gas Usage and the number of days in the annual determination period. For Customers with DG units rated at less than 5 MW ("small DG Customers") who do not elect to install interval metering from which actual peak day usage may be determined, Peak Day Gas Usage will be based on: the Customer's highest Average Daily Gas Usage occurring during the annual determination period, adjusted by a Company determined factor reflecting the relationship between actual peak day gas usage and the highest average daily gas usage. Such factor will be based on load research data.¹ Average Daily Gas Usage is the Customer's metered gas usage during the monthly billing period divided by the number of days in the monthly billing period. For customers with DG units rated 5 MW and greater ("Large DG Customers") or Customers with DG units rated at less than 5 MW who elect to be billed under the rates and charges applicable to Large DG Customers, Peak Day Gas Usage will be based on the Customer's highest actual daily gas usage occurring during the annual determination period. A Customer whose load factor falls below 50 percent at the end of each annual determination period will be transferred to the otherwise applicable service classification.

Metering

In accordance with the Order, gas supplied to the Customer's DG equipment will be separately metered and the Customer will be responsible for the cost of such metering equipment, including installation and maintenance costs. To allow for measurement of hourly usage, interval metering with remote metering capability will be required for Large DG customers and for a Customer with a DG unit rated less than 5 MW who elects to be billed under the rates and charges applicable to Large DG Customers. Such interval-metered Customers will also be responsible for providing, installing and maintaining, at their own expense, all communications equipment to the meter, including a dedicated Customer installed telephone line. In the event the Company is unable to read its meter remotely because the Customer's telephone line is inoperable, the Customer will be charged a \$50 fee on each monthly billing cycle date and the current tariff fee for an on-site meter reading².

Rate Design

The starting point in designing the DG rates was the establishment of a delivery revenue requirement. For purposes of establishing this requirement, the Company assumed that all eligible commercial and industrial customers with Annual Load Factors greater than or equal to 50 % will take service under the new rate.

¹ Based on a load research sample of SC 2 non-heating and SC 2 heating customers with interval metering, the ratio of actual peak day usage to average daily usage is 1.3 and 1.5, respectively. These factors will be updated periodically.

² Currently, the special meter reading fee is \$19.00 per visit.

The delivery revenue requirement was determined by applying the applicable SC 2 and SC 9 delivery rates to the annual gas usage associated with the population of SC 2 and SC 9 firm commercial and industrial customers who have an Annual Load Factor over 50%. This revenue requirement for Customers with Annual Load Factors of at least 50% was then reduced to recognize the fact that Customers will be required to pay for the cost of the meter (and installation costs) needed to supply service under Rider H. In accordance with the Order, DG rates were designed assuming an average class load factor of 70%. To accomplish this, the adjusted delivery revenue requirement less other customer cost components of the revenue requirement was reduced by 15% to recognize the ratio of the average load factor of such customers (approximately 60%) to 70%. Using this reduced delivery revenue requirement, separate DG rates were then designed for customers with DG units with a rated generating capacity of less than 5 MW ("Rate I") and for customers with DG units with a rated generating capacity equal to or greater than 5 MW ("Rate II") assuming the same revenue requirement for each set of rates. A monthly minimum charge for Rate I and Rate II Customers was designed to recover the customer cost component of the revenue requirement.

Rates for Small DG Customers (Rate I)

The rates for Small DG are comprised of the following components: (1) a \$57 per month minimum charge for the first 3 therms (or less) of gas usage; (2) as-used charges for all usage over 3 therms per month of 6.97 cents per therm during the Summer Period (June 1 to September 30) and 17.25 cents per therm during the Winter Period (October 1 to May 31); and (3) a minimum monthly bill designed to recover the costs associated with a Customer operating at a 50% Annual Load Factor. In addition to these charges, Small DG Customers will be responsible for all other applicable charges in their otherwise applicable service classification.

The \$57 per month minimum charge is designed to recover the Company's average embedded customer costs of its SC 2 non-heating customer class, excluding average embedded meter equipment and meter installation costs. The average customer costs for SC 2 non-heating customers were used as a proxy in setting the DG minimum monthly charge since this class of customers has a class load factor averaging about 60%. Meter and meter installation costs were excluded from the computation of the minimum charge since customers will be responsible for paying up-front for the costs of the metering equipment and its installation.

Seasonal rates for usage over 3 therms were designed to recover the balance of the revenue requirement. The summer and winter rates were designed to collect 15% and 85%, respectively, of the remaining revenue requirement based on the seasonal therms of gas delivered to the Company's firm customers during the 12 months ended December 31, 2002. The Company has defined the summer period as June through September to conform to the summer billing period in its electric schedule and because the Company expects that customers will run their DG units primarily in the summer to meet their base load electrical requirements or for peak shaving purposes.

Small DG Customers will also be subject to a minimum monthly bill designed to recover the costs associated with a Customer operating at a 50% Annual Load Factor. The minimum monthly bill amount will be determined by multiplying the applicable as-used delivery charges by the product of one-half of the Customer's calculated Peak Day Gas Usage and the number of

days in the monthly billing period. The minimum monthly bill will be subject to an annual reconciliation adjustment to take into account a Customer's actual Annual Load Factor.

Rates for Large DG Customers (Rate II)

The rates for Large DG Customers and Small DG Customers who elect to be billed and comply with the terms and conditions applicable to Rate II are comprised of the following components: (1) a \$57 per month minimum charge for 3 therms (or less) of gas usage; (2) seasonal as-used charges of 1.20 cents per therm during the Summer Period and 3.28 cents per therm during the Winter Period; (3) a contract demand rate of \$24.84 per therm of contract demand; and (4) a minimum monthly bill designed to recover the costs associated with a Customer operating at a 50% Annual Load Factor. In addition to these charges, Large DG Customers will be responsible for all other applicable charges in their otherwise applicable service classification.

The \$57 monthly minimum charge for Large DG Customers was designed in the same manner as the applicable charge for Small DG Customers. However, as required by the Commission's Order, Rate II also includes a separate demand charge for larger Customers. The reduced delivery revenue requirement was allocated between demand (80%) and seasonal as-used (20%) costs based on embedded SC 2 class's distribution and transmission costs. The seasonal as-used charges were designed in the same manner as Rate I. The demand charge will be assessed on the Customer's Contract Demand which is the Customer's highest one-hour usage ("Peak Demand") recorded during or prior to the billing period. The Contract Demand Charge was determined by dividing the contract demand delivery revenue requirement by the annual contract demand billing determinants. The Customer's initial Contract Demand will be based on a reasonable estimate made by a Professional Engineer retained by the Customer and will be set forth in the Customer's request for service under Rider H. If a Customer's actual Peak Demand during any monthly billing period exceeds the initially established Contract Demand, such higher Peak Demand shall become the new Contract Demand for that monthly billing period and thereafter unless and until exceeded by a still higher Peak Demand. A Customer may request that its Contract Demand be changed to a higher or lower level at any time upon a satisfactory demonstration that there have been permanent changes to the Customer's gas usage due to physical changes in the Customer's DG equipment or changes in the kind of business or activity conducted that will result in a permanent increase or decrease in the Customer's Contract Demand.

Rate II Customers will be subject to the same minimum monthly bill described above for Rate I Customers, except that the minimum monthly bill shall also include the Contract Demand charge.

Other Applicable Provisions

In addition to the above-described changes specific to DG Customers, such DG Customers will be subject to all the applicable rates and charges and other provisions of service of the Customer's otherwise applicable service classification. DG firm sales Customers taking service under Rate I and II will be subject to the monthly gas cost factor applicable to SC 2 non-heating customers, the monthly rate adjustment and all other rates and charges applicable to an SC 2 Customer. DG firm transportation customers will be subject to the SC 9 monthly rate adjustment

and all other rate and charges applicable to SC 9 firm transportation customers, provided however that the competitive retail choice credit included in the SC 9 monthly rate adjustment will not apply to Rate II Customers.³ Accordingly, the Company is filing herewith sample Statements reflecting this change on the attachment. Assuming that the tariff leaves implementing this new Rider take effect on November 1, 2003, the "Statement of Monthly Gas Cost Factor" and the Statement of Rate to Service Classification No. 9" filed to become effective on November 1, 2003 will reflect these changes.

Term

In accordance with the Order, Rider H shall remain in effect through October 31, 2006. Customers commencing service under Rider H after November 1, 2003 will be eligible to take service under these rates for the remainder of the three-year term of the Rider.

Treatment of Losses and Gains Under Rider H

With respect to the treatment of gains and losses that may result from implementation of Rider H, we refer you to Con Edison and Orange and Rockland Utilities, Inc.'s May 27, 2003 Comments and Request for Clarification of the April 24, 2003 Order.

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.

By: _____
Joel H. Charkow

Cc: All active parties in Case No. 02-M-0515

Attachment

³ Per the direction of PSC Staff.