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May 14, 2003

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

Janet H. Deixler, Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

RE: Change in the Method for Pricing Gas Used in the Company's Steam and Steam-Electric Generating Stations

Dear Secretary Deixler:

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

The changes to the Company's Schedule for Gas Service are set forth in the following revised tariff leaves to become effective August 1, 2003:

Leaf 157 – Revision 5
Superseding Revision 4

Leaf 162 – Revision 3
Superseding Revision 2

Leaf 164 – Revision 5
Superseding Revision 4

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Summary of Tariff Changes

By this filing, the Company requests approval from the Commission to change the method for pricing inter-departmental gas used in the Company's steam and steam-electric generating stations. As explained below, this change in pricing is expected to result in reduced costs for the Company's gas, electric and steam customers. In order to implement the proposed pricing arrangement, the Company is amending its gas tariff in the following respects: (i) computation of the gas cost factor applicable to firm sales customers will be amended to provide for commodity costs to be allocated to the Company's steam and electric customers; (ii) computation of the Non-Firm Revenue Credit component of the monthly rate adjustment will be amended to clarify that it includes net revenues derived from the use of excess interstate pipeline capacity for gas supplied to the Company's steam and steam-electric plants; and (iii) the gas supplier refund component of the gas cost factor will be amended to allocate to the Company's steam and electric customers a share of refunds of excess charges paid to suppliers for winter season capacity used by its Steam business ("Steam").[1] Concurrent revisions are being filed to the Company's steam tariff to clarify that fuel costs include hedging costs.[2]

Reasons for Proposed Tariff Changes

Background

On April 24, 1996, the Commission approved a modification to the methodology used by the Company to price gas provided by the Company's Gas Supply Department to the electric and steam generation departments ("inter-departmental gas").[3] The purpose of this modification was to make the Company's electric generation competitive with electricity marketed by others. Under this methodology, the Company priced gas similar to the method approved by the Commission for pricing gas to large customers that could bypass the Company's system, subject to meeting streaming requirements and certain other gas cost allocation restrictions.

On May 23, 1996, the Company sought relief from the streaming requirements and other gas cost allocation restrictions discussed in the April 1996 Order. In support of its request, the Company advised the Commission that it had established a department separate and independent from the Gas Supply Department for purchasing gas for the Company's generation needs.

On September 16, 1996, the Commission approved the Company's request to remove the streaming requirements and other gas cost allocation restrictions for the gas to be purchased

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[1] In accordance with the Commission's April 22, 2002 Order adopting the Joint Proposal, all gas refunds received during the period October 1, 2002 through September 30, 2004 will continue to be deferred and applied to fund the Company's Retail Choice Credit in Rate Provision J.7 of Service Classification No. 9 of the Company's Gas Tariff.

[2] The proposed pricing changes will take effect with the gas cost factor effective August 1, 2003 and the steam and electric fuel adjustments effective September 11, 2003.

[3] *See* Case 95-G-1037, Petition of Consolidated Edison of New York, Inc. for approval of proposed changes to the method of determining the interdepartmental transfer credit applicable to natural gas used in Consolidated Edison's generation of electricity, Order issued and effective April 24, 1996 ("April 1996 Order").

independently by the new department.[4]

In 1996, when the current pricing methodology was instituted, the Company owned electric and steam generating units that used in excess of 100 Billion cubic feet of gas per year. The Company has since divested its gas-fired electric generation. The Company continues to own gas-fired steam and steam-electric generating stations as part of its steam system that use approximately 30 Billion cubic feet of gas per year.

Currently, the Company's former Gas Supply Department is part of an Energy Management organization. Energy Management includes separate departments for gas supply and electricity supply. The Electricity Supply Department currently is responsible for procuring electric energy and capacity for customers, as well as gas for the Company's steam and steam-electric plants. The Company plans to incorporate responsibility for providing natural gas to meet the requirements of the steam and steam-electric generating stations that are operated as part of its Steam business into the group responsible for the Company's gas distribution requirements.

For the reasons set forth in this filing, the Company requests the Commission to approve the proposed amendments to its gas tariff which are necessary to effectuate the proposed methodology for pricing gas for use in its steam and steam-electric generating stations, explained in this filing, in place of the streaming and other gas cost allocation restrictions established in the April 1996 Order.

Proposed Pricing Methodology

The proposed pricing methodology has the following components: (i) continued allocation to Steam of the costs of two pipeline transportation contracts entered into by the Company to meet steam and steam-electric generation needs; (ii) pricing supplemental and incremental pipeline capacity used to meet Steam's requirements; (iii) pricing gas commodity; and (iv) balancing charges.[5]

1. Existing Pipeline Transportation Contracts. In support of the East River Repowering Project ("ERRP"), Con Edison entered into long-term firm transportation agreements with Iroquois Gas Transmission System ("Iroquois"), in connection with Iroquois' Eastchester Expansion Project, and Transcontinental Gas Pipe Line Corporation ("Transco"), in connection with Transco's MarketLink Project ("MarketLink").[6] The aggregate daily capacity for these two contracts is 60,000 dekatherms ("dt") per day. This pipeline capacity is currently used to meet Steam's gas requirements and will

[4] *See* Case 95-G-1037, Order issued and effective September 16, 1996 ("September 1996 Order").
[5] Nothing in this Petition is intended to effectuate a change in the current pricing associated with the use of the Company's local gas facilities to deliver gas to the Company's steam and steam-electric plants.
[6] *See* Case 99-F-1314, Opinion and Order Granting Certificate of Environmental Compatibility and Public Need (issued August 30, 2001), Appendix B, page 4. Transco MarketLink capacity became available on December 1, 2001. Iroquois Eastchester capacity is expected to be available in the summer of 2003.

continue to be used in this manner.[7] Accordingly, 100 percent of the costs of this pipeline capacity will be the responsibility of the Company's steam and electric customers.

2. Supplemental and Incremental Pipeline Capacity. For gas required by Steam in excess of 60,000 dt/day, the Company will utilize capacity excess to the needs of the Company's firm gas customers ("Supplemental Capacity"). The Company proposes that Supplemental Capacity be priced to Steam (i) during the period April through October, at the market value of capacity releases, and (ii) during the period November through March, at the Company's weighted-average cost of capacity (i.e., the same price used when the Company provides capacity to gas marketers participating in the Company's Capacity Release Program).[8]

   The Company currently has excess seasonal capacity, under normal weather conditions, particularly during the summer period. In advance of each season, the Company will estimate the average daily quantity of Supplemental Capacity to be made available to Steam. Steam will pay for this capacity on a demand charge basis. If Steam uses in excess of the average daily quantity projected to be available during any month, Steam will pay for the additional capacity on a per dekatherm basis at the applicable market value or weighted-average cost of capacity. If Steam uses less than the average daily quantity because the Company uses all or part of this capacity to meet firm gas customer requirements, Steam's demand charge will be reduced accordingly. If Steam uses less than the average daily quantity because its requirements were lower than anticipated, and the capacity is resold in the marketplace then Steam will receive a capacity release credit.

   If Steam has anticipated requirements for pipeline capacity incremental to the Iroquois and MarketLink capacity and Supplemental Capacity projected to be available, the Company will procure additional pipeline capacity ("Incremental Capacity") and allocate 100 percent of the costs of the Incremental Capacity to the Company's steam and electric customers.[9]

   If all or part of the Supplemental Capacity anticipated to be available to meet Steam requirements is needed to meet the requirements of the Company's firm gas customers, that capacity will be used for gas customers and the Company will procure additional Incremental Capacity and allocate 100 percent of the costs of that Incremental Capacity to steam and electric customers as well.

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[7] Steam projects that it will utilize 100 percent of the Iroquois and MarketLink capacity on every day of the year. Should Steam require, on any day, less than 60,000 dt of gas, any excess capacity will be made available for the use of the Company's firm gas customers at the current market value of the capacity or to a third party(ies) at a market price.

[8] The Company currently applies a Canadian Supply Credit in calculating its weighted average cost of firm capacity to marketers. The Company does not propose to apply this credit to capacity used by Steam because the benefit of Canadian supplies will be reflected in the cost of commodity charged to Steam.

[9] As with excess Iroquois or MarketLink capacity, on any day that Steam does not require all of the incremental capacity acquired on its behalf, the excess capacity will be made available for the use of the Company's firm gas customers at the current market value of the capacity or to a third party(ies) at a market price.

3. Gas Commodity Costs. Gas to be supplied to Steam will be priced at the Company's weighted-average cost of gas ("WACOG") for all of the Company's firm gas customers, which includes flowing gas and storage withdrawals, subject to the following adjustment: the Company will exclude from the "Steam" WACOG all gas withdrawn from the Company's market area storage services until such time as there is market area storage capacity available to meet Steam's needs.

   If the Company makes any purchases of "city gate" gas (i.e., gas bundled with pipeline capacity) because Steam has requirements incremental to the Iroquois, MarketLink and available Supplemental Capacity, 100 percent of the cost of the city gate gas, including both the commodity and pipeline capacity, will be charged to steam and electric customers.

4. Balancing. The Company will provide "load following" balancing service to Steam for up to 12 Mdt/day and daily balancing service for imbalances above that amount.

   For up to 12 Mdt/day prior to the start-up of the East River Repowering Project (and 12 Mdt/day thereafter), Steam will pay balancing service charges at a rate equivalent to the Load Following Charge payable by firm transportation customers that elect the Company's Load Following Service. Net cumulative daily surplus or deficiency imbalances (not subject to cash out under the daily balancing service described below) will be cashed out at the end of each calendar month.

   This "load following" service is designed to recognize the critical nature of Steam's customer loads. Notwithstanding, just like the Supplemental Capacity to be made available to Steam during the winter, this balancing service will be interrupted to the extent that the production area storage assets used to provide this service are needed to meet the needs of firm gas customers, even though Steam will pay a charge equivalent to firm balancing service (i.e., Load Following Service).

   For daily imbalances in excess of 12 Mdt/day, Steam will be assessed imbalance charges and cash outs on a basis equivalent to those applicable to gas-fired Power Generators connected to the Company's gas system.[10]

Projected Customer Benefits

The Company estimates that the proposed pricing arrangement will yield for its gas, electric and steam customers savings of $4.6 million during the first year of operation of the East River Repowering Project.

1. An estimated $3.1 million for the Company's gas customers will be derived from (i)

[10] In recognition of the critical nature of Steam's customer loads, balancing service provided to Steam receives a higher priority than balancing service provided to Power Generators.

inter-departmental charges for the seasonal winter capacity provided to Steam, which are projected to exceed by approximately $1.0 million the value that the Company would otherwise receive in making that capacity available in the market, subject to recall, for short term periods,[11] and (ii) approximately $2.1 million in contributions by Steam to the Company's production area storage demand charges by reason of Steam's payments for the 12 Mdt/day of "load following" balancing service.

2. An estimated $1.5 million for the Company's electric and steam customers[12] will be realized from savings attributable to (i) winter Supplemental Capacity at the Company's weighted average cost of capacity, (ii) gas commodity at the Company's WACOG (as adjusted pursuant to the Gas Commodity Costs Section above), and (iii) Energy Management's cost optimization of Steam's gas requirements through hedging, balancing and capacity utilization.[13]

In addition to the above-described estimated savings during the East River Repowering Project's first year of operations, the proposed pricing arrangement will reduce volatility in the costs of gas incurred by Steam.

Other Benefits

In response to recent industry developments, the Company has instituted risk management and control procedures to mitigate the risks presented in today's energy trading markets. The proposed arrangement will reduce the Company's exposure to remaining counter-party credit risks to the extent that less pipeline capacity is released to third parties and less capacity is acquired from third parties to meet Steam's needs.

Steam's use of capacity excess to the needs of the Company's firm gas customers during off-peak periods will also facilitate the Company's ability to "recall" that capacity when needed to meet the needs of the Company's firm gas customers. For example, recently, as a result of bankruptcies affecting energy companies, firm transportation customers, like the Company, learned of a potential delay in their inability to recall capacity from a third party that is in bankruptcy as a result of the Bankruptcy Code's automatic stay of the bankrupt's contracts. While the significance of this impediment remains unclear, [14] the use of excess capacity first to

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[11] Consistent with the Commission's April 22, 2002 Order adopting the Joint Proposal, the revenues from the seasonal surplus capacity provided to Steam will be included in Non-Firm Revenues. *See* Cases 00-G-1456 and 97-G-1380, Order Concerning Gas Rates, Restructuring, Competition, and Other Issues, issued April 22, 2002, at Section F.

[12] Gas costs and savings will be allocated between steam and electric customers based on allocation formulas that the Commission approved in Case 99-S-1621on a temporary basis on December 1, 2000 and on a permanent basis on April 30, 2001.

[13] Although not quantified, the load following service for 12 Mdt/day is projected to reduce Steam's exposure to higher cost cash-out payments associated with the daily balancing service currently applicable to all of Steam's gas usage (i.e., including the first 12 Mdt/day).

[14] There have always been features of the Federal Energy Regulatory Commission's capacity release program that may delay for critical days or hours the Company's ability to regain control of capacity properly recalled under capacity release arrangements with third parties. The Company seeks to remove or mitigate these impediments, on an ongoing basis, in FERC proceedings and through industry efforts (like GISB and its successor NAESB), and

meet the needs of Steam will reduce this concern since the Company does not have to "release" capacity to itself in order to use gas in its steam and steam-electric generating stations.[15]

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.

Conclusion

For the foregoing reasons, Con Edison requests that the Commission authorize the Company to implement the pricing methodology set forth in this filing and approve the proposed amendments to its gas tariff.

Respectfully submitted,

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

By: _____
Joel H. Charkow

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manages these considerations in assembling a gas supply portfolio to meet its reliability objectives. Removal of the "bankruptcy" impediment is a current target of these efforts.

[15] Implementation of the Company's proposal will not result in a reduction in the amount of pipeline capacity available to marketers to serve firm customers in the Company's gas service territory. Prior to determining the amount of supplemental capacity available to Steam, the Company will first satisfy requests from gas marketers for service under the Company's Capacity Release Service. It bears repetition that the capacity to be made available to Steam is subject to recall by the Company whenever such capacity is needed to meet firm customers' requirements and is not expected to be available in any appreciable amounts, if at all, when gas system demand is near its peak.

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