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Orange & Rockland
a conEdison, inc. company

Orange and Rockland Utilities, Inc.
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Pearl River NY 10965-9006
www.oru.com

November 28, 2005

<u>VIA HAND DELIVERY</u>

Public Service Commission
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223

Dear Commissioners:

Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company") hereby submits for filing revisions to its Schedule for Gas Service, PSC No. 4 – Gas. The tariff leaves implementing the Company's proposal are set forth in Appendix A.

The tariff leaves are issued as of November 28, 2005, with an effective date of December 28, 2005. The Company's expectation is that the Commission will issue appropriate orders suspending the effective date of the leaves through October 31, 2006, so that the proposed rates become effective November 1, 2006.

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 charges to customers under tariff rates in its Schedule for Gas Service, PSC No. 4 - Gas.

The filed leaves reflect the revenue requirement for the rate year, the twelve months ending October 31, 2007, and provide for an increase of approximately $23.7 million. This increase reflects a shift of off-system sales revenues from a base rate imputation to the gas supply charge. This shift, combined with other adjustments, results in a net effect on customers' bills for the rate year of $19.7 million, which represents a 4.7% increase to firm full service gas customers and firm transportation customers (including gas supply costs). The Company's proposal provides revenues at levels consistent with the need for continued reliability, safety and security of the gas system for the Company's 123,000 gas customers. In addition to addressing gas reliability, safety and security today and in the future, the Company is also seeking to reinforce its gas infrastructure to accommodate economic growth as businesses relocate to, or expand in, the service area.

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Over the past decade, Orange and Rockland has added approximately 1,200 new residential, commercial or industrial gas customers per year, for an annual customer growth rate of about 1.0 percent. During that same period, Orange and Rockland has invested approximately $155 million in capital improvements and has experienced substantial inflationary cost increases.

Orange and Rockland's service area has seen record-setting job growth – by far the highest rate of job growth performance of any of New York State's ten economic regions. The large number of businesses moving into or expanding within the area has sustained the job growth rate, which provides a robust broadening of the tax base for municipalities. Yet, the infusion of new and increased usage of the natural gas system places greater demands on the existing gas delivery infrastructure.

Orange and Rockland intends to continue to invest the resources needed for reliable, safe and secure gas delivery service in the future and to further strengthen and improve the gas system infrastructure. Chief among the initiatives proposed are those meeting load growth requirements in Orange County, where the population over the past five years has grown by a dramatic nine percent annually. The capital investments will include a new gate station, new mains for reliability in Orange County areas where supply is currently restricted to a one-way source, replacement of aging gas main, installation of gas odorization equipment, and increased reinforcement at regulator stations. The Company also has proposed to implement an Orange County expansion pilot project that will facilitate economic development by allowing for the installation of gas facilities in priority growth areas.

Orange and Rockland also proposes to implement various operational improvements to provide better service to customers. Gas Distribution Supervisors and Dispatchers will be added so that the Company's Gas Distribution Control Center can be manned around the clock. This, and the addition of Gas Servicemen, is expected to improve the Company's ability to deal with gas emergencies. The addition of other personnel including Compliance Specialists, Locators, a Standards Engineer, a Cathodic Protection Engineer and a Senior Technical Specialist, will enhance the Company's ability to provide safe and reliable service. The cost of these additional employees will be offset in part by a reduction in overtime.

Over the past few years, the financial position of many companies in the energy industry has deteriorated sharply. Financial weakness reduces the ability to attract, at reasonable terms, capital needed to make long-term investments in infrastructure.

Maintenance of financial integrity is key to a critical infrastructure company like Orange and Rockland. While Orange and Rockland has maintained its A+ credit rating, its cash flow measures are weak for that rating. In a report on Orange and Rockland published on September 6, 2005, Standard & Poor's specifically notes in its rating rationale that, "[H]istorically, regulatory treatment from the New York Public Service

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Commission (PSC) has supported the company's healthy financial profile, and this support is a key underpinning for the strong company ratings." This rate proposal is directed to Orange and Rockland's financial strength, to give the Company the ability to make the investments needed to meet its customers' needs.

The Company's presentation provides appropriate evidence that gas rates need to be above existing levels if reliable, safe and secure gas service is to be maintained and improved, increases in gas load are to be served, and the Company's gas operations are to be financially viable.

The tariffs and data submitted herewith are predicated on providing the Company a reasonable opportunity to earn a return of 11 percent on common equity capital. This level, which is lower than the level provided utilities in most other jurisdictions, is in line with what in several past cases has been the Commission's view on appropriate earnings levels. We respectfully believe that increased allowed levels for earnings are indicated.

Appendix B shows the estimated effect on customers' bills and Company revenues resulting from the proposed increase, based on sales and revenues for the rate year, the twelve months ending October 31, 2007. The testimony also includes provisions for a multi-year rate plan that addresses incremental revenue requirements for an additional two-year period.

The Proposed Increased Revenue Allocation

The revenue increase was allocated to the Company's SC Nos. 1, 2 and 6 customers in the following three-step process:

- First, the Company proposes to increase the first block charge (i.e., the charge for the first 3 Ccf or less) for SC Nos. 1, 2 and SC No. 6 Rate Schedule I customers and the first block charge (the charge for the first 100 Ccf or less) for SC No. 6 Rate Schedule II customers to a level which better reflects the Company's cost to provide service.

- In order to address the revenue deficiency attributable to residential and small non-residential heating customers (i.e., SC No. 1 and SC No. 6, Rate Schedule I residential customers), the Company proposes to allocate the first $3 million of the incremental revenue requirement remaining after the increases to first block charges to these customers.

- Based on delivery volumes during the historic period, the remainder of the incremental revenue requirement is applied between (a) the residential and small non-residential heating customers; and (b) the general service non-residential customers.

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The proposed revenue increase allocation is supported by the enclosed gas embedded cost of service study (Exhibit G-11 in the Company's pre-filed case).

Base Rate Revenue Imputation

Currently the Company has a revenue imputation of $6.725 million for non-firm revenues. In the currently-effective rate plan, established by the Commission in Case No. 02-G-1553, the Commission authorized the Company to retain the first $6.725 million of net benefits from the sale and transportation of gas to interruptible customers, off system sales (defined to include all efforts of the Company to generate revenue from its portfolio of assets), and net benefits from the transfer of gas to electric generating facilities previously owned by the Company. Eighty percent of net profits above or below the imputation were passed back or surcharged to both retail access and full service customers through the Monthly Gas Adjustment.

The Company is proposing to eliminate the off-system sales component from this mechanism and to reduce the base rate imputation to $4,057,000 for the twelve-month period ending October 2007. Any variances between actual benefits and the revised imputation would continue to be shared on an 80% customer / 20% shareholder basis.

The Company proposes to provide 100% of off-system sales benefits to firm sales customers through the monthly Gas Supply Charge. The 80% customer / 20% shareholder sharing of off-system sales benefits would be eliminated.

Interruptible Transportation Service

The Company is also proposing changes with regard to its interruptible transportation service. Specifically, the Company is proposing to:

- Allow the cap on the Base Charge, used to determine the blocked rates for interruptible transportation service, to expire effective November 1, 2006;
- Increase, from 3,500 Mcf to 10,000 Mcf, the minimum annual usage requirement for new interruptible transportation customers (i.e., those commencing service on or after the effective date of revised rates resulting from this proceeding); and
- Implement a scheduling penalty applicable when the amount of gas scheduled and nominated to the Company by the interruptible transportation customer/marketer varies by more than 5% from the amount of gas delivered.

Unbundling

Pursuant to the Commission's Unbundling Policy Statement issued on August 25, 2004 in Case No. 00-M-0504, the Company has unbundled certain charges for competitive services from delivery rates, based upon the enclosed gas embedded cost of service study. This unbundling also includes a proposal for a Transition Adjustment for

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Competitive Services to recover revenue losses relating to competitive services. The Company is proposing a revised bill format that will reflect these unbundled charges.

Other Tariff Changes

The Company is proposing the following additional tariff changes:

- A revised gas reconnection charge in order to reflect the costs associated with reconnecting a customer's service;
- The elimination of the interim backout credit which is no longer necessary with the implementation of competitive service charges;
- Continuation of the interim backout credit lost revenue adjustment mechanism for an additional twelve months to reconcile lost revenues recovered through this mechanism and actual lost revenues due to operation of the interim backout credit for the twelve-month period ending October 31, 2006;
- A limit on the incentive/penalty for lost and unaccounted for gas; and
- Elimination of the roll over option for settling marketers' monthly imbalance volumes under Service Classification No. 11.

The Need for Gas Rate Relief

The Company's evidence documents the need for rate relief. Rate increases are rarely, if ever, a sought-after or otherwise welcome development. Orange and Rockland has worked hard to balance the objective of keeping rates as low as practicable with the need to supply safe and reliable service and to maintain a strong energy infrastructure capable of supporting continued economic growth. Granting the requested rate relief will allow the Company an opportunity to achieve these important objectives and maintain financial integrity.

The Company recognizes the recent sharp increases in the cost of gas commodity for the winter of 2005-2006. Working with public officials, the Company is taking appropriate steps to communicate and deal with consumers affected by these sharp increases. These steps include hedging of gas supply to reduce gas price volatility, facilitation of supply competition via third-party supply and extensive customer outreach. The Company does not expect the proposals set forth in this filing to take effect prior to November 2006, and, with reference to the winter of 2006-2007, the Company and other stakeholders will continue efforts to monitor and mitigate impacts of commodity price volatility.

The Company will discuss the parameters of its rate proposal with Commission Staff and other parties to the rate proceeding. The Company looks forward to obtaining the input of all stakeholders in formulating a comprehensive gas rate plan that reflects the numerous interests at stake.

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Also included with this filing is a proposed form of Notice of Proposed Rulemaking for publication in the State Register pursuant to the State Administrative Procedure Act. Notice of this filing will be published in accordance with 16 NYCRR 720-8.1 and proof of publication will be submitted upon completion. In addition, the Company will issue appropriate bill inserts in accordance with 16 NYCRR 720-9.1.

Conclusion

The testimony and exhibits submitted herewith establish the need for the rate relief requested by the Company. The Company will 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 allow the proposed rate leaves to become effective not later than November 1, 2006, thereby providing the rate relief consistent with the Company's submission herein.

Very truly yours,

ORANGE AND ROCKLAND UTILITIES, INC.

By ______________________

John D. McMahon
President & Chief Executive Officer

Enclosure

c: New York State Consumer Protection Board (2 sets)

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STATE OF NEW YORK
COUNTY OF NEW YORK

John D. McMahon, being duly sworn, says:

I am the President and Chief Executive Officer of ORANGE AND ROCKLAND UTILITIES, INC., the applicant above-named, on behalf of which I have subscribed the foregoing application and know the contents thereof and the same is true to the best of my knowledge, information and belief.

Subscribed and sworn to
Before me this 28th day of November 2005

John L. Carley
Notary Public

JOHN L. CARLEY
Notary Public, State of New York
No. 4906281
Qualified in Rockland County
Commission Expires August 31, 2009

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Appendix A

Orange and Rockland Utilities, Inc.
Gas Rate Case
Proposed Tariff Leaves effective December 28, 2005

P.S.C. No. 4 Gas

Leaf 33.3	Revision 3	Leaf 94.21	Revision 0
Leaf 34	Revision 7	Leaf 94.22	Revision 0
Leaf 37	Revision 3	Leaf 94.23	Revision 0
Leaf 61	Revision 2	Leaf 94.24	Revision 0
Leaf 72	Revision 11	Leaf 94.25	Revision 0
Leaf 73	Revision 12	Leaf 94.26	Revision 0
Leaf 77	Revision 8	Leaf 94.27	Revision 0
Leaf 77.1	Revision 0	Leaf 114	Revision 11
Leaf 78	Revision 5	Leaf 115	Revision 7
Leaf 79.1	Revision 0	Leaf 116	Revision 12
Leaf 79.2	Revision 0	Leaf 127	Revision 5
Leaf 79.3	Revision 0	Leaf 130	Revision 14
Leaf 80	Revision 9	Leaf 130.1	Revision 0
Leaf 80.1	Revision 11	Leaf 130.2	Revision 0
Leaf 80.2	Revision 5	Leaf 134	Revision 4
Leaf 80.3	Revision 6	Leaf 137	Revision 6
Leaf 80.4	Revision 1	Leaf 137.1	Revision 8
Leaf 94.9	Revision 2	Leaf 137.2	Revision 4
Leaf 94.10	Revision 2	Leaf 138	Revision 12
Leaf 94.11	Revision 3	Leaf 138.1	Revision 11
Leaf 94.12	Revision 4	Leaf 138.2	Revision 0
Leaf 94.13	Revision 2	Leaf 139	Revision 11
Leaf 94.14	Revision 2	Leaf 141.3	Revision 8
Leaf 94.15	Revision 3	Leaf 141.4	Revision 3
Leaf 94.16	Revision 4	Leaf 154.1	Revision 2
Leaf 94.17	Revision 3	Leaf 155	Revision 11
Leaf 94.18	Revision 2	Leaf 157	Revision 6
Leaf 94.19	Revision 0	Leaf 166.12	Revision 5
Leaf 94.20	Revision 0		

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Impact of Proposed Rate Change on Total Revenue
For the Rate Year Twelve Months Ending October 31, 2007
(Based on Billed Sales and Revenues)

S.C. No.	Type of Service	Total Sales (Mcf)	Customers	Total Revenue at: Present Rates (000's)	Proposed Rates (000's)	Increase: Amount (000's)	Percent
Sales to the Public:							
1	Residential	8,310,300	67,733	$170,522.0	$177,971.0	$7,449.0	4.4%
1/2	Commercial	2,420,400	5,694	46,940.9	48,836.4	1,895.5	4.0%
	Total Firm Sales	10,730,700	73,427	217,462.9	226,807.4	9,344.5	4.3%
6	Firm Trans.*	10,534,300	52,664	205,639.9	216,019.3	10,379.4	5.0%
	Total Firm	21,265,000	126,091	423,102.8	442,826.7	19,723.9	4.7%
3	Interruptible	2,900	1	43.1	43.1	0.0	0.0%
5	Firm Dual Fuel	17,100	12	252.5	252.5	0.0	0.0%
7	NGV	0	0	0.0	0.0	0.0	0.0%
8	Interruptible Trans	3,886,800	95	3,124.9	3,124.9	0.0	0.0%
9	Withdrawable Trans	0	0	0.0	0.0	0.0	0.0%
10	Withdrawable Sales	2,939,300	1	12,038.9	12,038.9	0.0	0.0%
Total Sales to the Public		28,111,100	126,200	438,562.2	458,286.1	19,723.9	4.5%
Sales for Resale		0	0	2,413.0	2,413.0	0.0	0.0%
Other Operating Revenue				2,259.0	2,259.0	0.0	0.0%
	Total	28,111,100	126,200	443,234.2	462,958.1	19,723.9	4.5%

* For comparison purposes, a cost of gas supply has been included in the SC No. 6 revenue. This is equivalent, on a per unit basis, to the cost of gas supply included in SC No. 1 and 2 revenues at proposed rates. With the cost of gas excluded from SC No. 6 revenue, the percentage increase is 26.10%