



CHAUTAUQUA UTILITIES, INC.

April 8, 2011

Honorable Jaclyn A. Brillling, Secretary
State of New York Public Service Commission
Office of the Secretary, 19th Floor
Three Empire State Plaza
Albany, New York 12223-1350
Via e-filing:

Dear Secretary Brillling:

Enclosed are the following materials issued and transmitted for filing by Chautauqua Utilities, Inc. ("CUI" or "Company") in accordance with the requirements of the New York State Public Service Commission ("Commission").

1. Revised Tariff Leaf 91 Revision 2 and Revised Tariff Leaf 92 Revision 2 for CUI's P.S.C. No. 1 Gas Tariff to become effective September 1, 2011. CUI understands that, after customary suspension periods, the revised Tariff leafs may not become effective until a later date.
2. A proposed notice of this filing suitable for use under the New York State Administrative Procedure Act.
3. Prepared testimony and exhibits of the Company's witness panel, comprising Mr. Scott Sampson and Mr. Howard Gorman, in support of the proposed rate and tariff changes, which constitutes CUI's direct case in support of this rate filing.

Request for Waiver of Portions of Initial Order

CUI requests the Commission amend its Order in Cases 04-G-0537 and 04-G-0576 ("Initial Order") as necessary to consider this filing, including the "as fully constructed" clause, which states "CUI's future rates will be set assuming a full level of conversions, or 518 customers" (Initial Order p. 17).

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The "as fully constructed" clause would continue rates at the level set in the Initial Order in 2005, which were based on projections that have turned out to be wrong. The 518 customers is not the actual or projected number of customers or the "as fully constructed" basis of the system.

As discussed in the testimony, it is inappropriate to set rates based on a six-year old projection that has turned out to be wrong; and it is also inappropriate to set rates based on the number of customers that produces no rate increase. That would be different from the methodology used for other utilities and would be inappropriate. Utilities typically are permitted to adjust their rates to reflect actual number of customers at customers' actual usage, even if the system was constructed for a greater number of customers and usage.

The testimony shows that customers in CUI's service territory are better off by having the choice to use gas heating, compared to alternative fuels oil, propane and electric heating.

To address the Commissions concerns, CUI's proposed rates are based on 300 customers, which is higher than at present; rate base and depreciation expense are reduced to remove assets that are not presently "used and useful"; and CUI proposes a Revenue Adjustment, discussed below to reduce rates when CUI has 350 customers (or Delivery revenue exceeds \$290,000) in any year.

Therefore, CUI requests of the Commission as follows, for the reasons set forth in the testimony:

1. To amend the Initial Order, including the "as fully constructed" clause, to the extent necessary to consider this filing, and to accept the rates CUI has proposed in this filing.
2. If the Commission applies the "as fully constructed" clause, it should be applied based on the current capacity of 382 customers, not the 518 customers cited in the Initial Order.
3. If the Commission continues to set rates based on 518 customers, the rate base should be adjusted to add the cost of serving those additional customers.

The Rate Filing

CUI seeks to increase its base gas delivery revenue by an estimated \$105,353. This increase is necessary to permit timely recovery of CUI's ongoing operating costs and capital investments, and an opportunity to earn a reasonable return. CUI has not been able to recover its costs and has had ongoing losses since the start of operations, requiring its shareholders to contribute additional capital in the form of cash and time. The primary reason that CUI has not been able to

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recover its costs is that a number of potential customers who submitted applications for service, did not ultimately become customers of CUI.

The rates proposed in this filing are established to enable CUI to recover its costs if it has on average 300 customers. The filing also includes a proposed Revenue Adjustment, such that in the year after CUI achieves an average of 350 customers (or Delivery revenue exceeds \$290,000) in any year, its rates will be reset (i.e., adjusted downward) to produce the rate of return approved by the Commission in this case.

CUI is also proposing changes to its Tariff to reflect costs applicable to customers requesting seasonal suspension of service, and to customers who terminate service within 60 months.

Newspaper publication will be made on four successive weeks in accordance with the provisions of § 66(12) of the Public Service Law and 16 NYCRR § 720-8, and proof will be forwarded to the Commission.

Acknowledgement of the receipt of this letter is requested.

Please copy Mr. Gorman (address below) on all correspondence on this matter.

Respectfully submitted,



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Attachments

STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

NOTICE OF PROPOSED RULEMAKING

PURSUANT TO THE PROVISIONS OF THE State Administrative Procedures Act, NOTICE is hereby given of the following proposed rule:

Proposed Action: The Public Service Commission is considering whether to approve or reject, in whole or in part, revised tariff leaf filed by Chautauqua Utilities, Inc. ("CUI") that would increase rates for all customers.

Statutory Authority: Public Service Law § 66.

Subject: A tariff filing requesting a base delivery rate increase.

Purpose: To determine whether CUI's tariff filing should be approved.

Substance of proposed rule: CUI has filed a revised tariff leaf to increase its base gas delivery rates for all customers effective May 1, 2011. CUI also proposes a Revenue Adjustment, which would reduce rates for all customers in the year after CUI achieves an average of 350 customers (or Delivery revenue exceeds \$290,000) in any year. CUI also proposes charges for customer-requested seasonal suspensions of service and for customers who terminate service less than 60 months after commencing service.

Text of proposed rule and any required statements and analyses may be obtained by filing a Document Request Form (F-96) located on our website

<http://www.dps.state.ny.us/f96dir.htm>

For questions, contact: Central Operations, Public Service Commission, Bldg. 3, Empire State Plaza, Albany, NY 12223-1350, (518) 474-6530.

Data, views or arguments may be submitted to: Jaclyn A. Brillings, Secretary, Public Service Commission, Bldg. 3, Empire State Plaza, Albany, NY 12223-1350, (518) 474-6530.

Public comment will be received until: Forty-five (45) days after publication of this notice.

Regulatory Impact Statement, Regulatory Flexibility Analysis, Rural Area Flexibility

Analysis and Job Impact Statement: Statements and analyses are not submitted with this notice because the rule is within the definition contained in § 102(2)(a)(ii) of the State Administrative Procedure Act.