conEdison
a conEdison, inc. company

Robert N. Hoglund
Senior Vice President and
Chief Financial Officer

November 6, 2009

Honorable Jaclyn Brilling
Secretary
New York State
Public Service Commission
Three Empire State Plaza
Albany, NY 12223

Dear Secretary Brilling:

Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") is filing with the Public Service Commission (the "Commission") amendments to the Company's Schedule for Gas Service, P.S.C. No. 9 - Gas (the "Gas Tariff").

The changes to the Company's Gas Tariff are set forth in the attached tariff leaves, which bear an effective date of December 6, 2009. Since the current rate plan extends until September 30, 2010, the Company anticipates that the Commission will issue appropriate orders suspending the effective date of the leaves through September 30, 2010, so that the proposed rates can become effective no later than October 1, 2010. A list of the revised tariff leaves is set forth in Appendix A.

Twenty-five 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 delivery rates to its firm sales and firm transportation customers under its Gas Tariff. The Company is proposing a three-year rate plan for its gas operations, which, if adopted, would establish rates for the three-year period ending September 30, 2013. Under the three-year levelized rate proposal advanced by the Company, the requested rate increases to take effect on October 1, 2010, 2011 and 2012, respectively, would be moderated to 6.0 percent annually on a total bill basis based on increases of $115.5 million each year. As required, however, the tariff leaves submitted herewith reflect only the Company's proposed rate increase for the Rate Year, i.e., the twelve months ending September 30, 2011, in the event the three-year plan is not adopted. The proposed increase is designed to increase total annual revenue by approximately $160.8 million or 8.4% based upon the estimated level of firm delivery volumes for the Rate Year.[1] The Company's proposal provides revenues at levels necessary for the Company to maintain and upgrade critical infrastructure in its gas system to meet the growing energy needs and demands of the Company's over one million customers, while also maintaining its strong financial standing, which benefits both customers and shareholders alike.

The last increase in gas delivery rates occurred in 2007 and was the result of a three-year rate plan adopted by the Commission in Case 06-G-1332. In addition to addressing growth in our customers' energy needs, rate relief is necessary to account for changing economic conditions as well as increases in taxes and other costs not reasonably within the Company's control, and to provide the funds necessary to maintain the safe and reliable service that our gas customers expect.

In the interest of rate predictability and stability, the filing also discusses the Company's preference for a multi-year rate plan that provides for levelized, and thus moderated, rate increases. Such a plan would provide the Company with the flexibility to manage its resources effectively while also giving the Company a strong incentive to work within the rate plan to maximize efficient operation that will ultimately benefit customers.

Proposed Revenue Allocation and Rate Design

The proposed revenue increase was allocated among the classes as follows:

- The Rate Year delivery revenues, excluding the proposed rate increase, were adjusted to reflect the surplus indication in Service Classification ("SC") 2 Non-Heating ("SC 2NH") from the Company's 2008 Embedded Cost of Service ("ECOS") Study offset to net to zero, by adjustments to the remaining classes, except for SC 2 Heating ("SC 2H"), since the rate of return for this class was at the upper level of a ten-percent tolerance band around the system rate of return. The surplus for SC 2NH resulted from a calculated return for this class that was outside of the ten-percent tolerance band. The adjustments to the remaining classes were such that the rates of return for those classes remained within the ten-percent tolerance band. The ECOS adjustments by class are as follows:
  - SC 1 (Residential/Religious) and its corresponding SC 9 (Transportation) sub-class were assigned an additional $0.36 million.
  - SC 2NH (Non-Residential Non-Heating) and SC 13 (Seasonal Off-Peak Firm) and their corresponding SC 9 sub-classes were assigned a reduction of $1.16 million to offset the indicated revenue surplus.
  - SC 2H (Non-Residential Heating) and its corresponding SC 9 sub-class were not adjusted.

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[1] The annual revenue increase was computed by dividing the $160.8 million increase by Rate Year total revenues calculated at October 1, 2009 rates, including gas supply costs, gross receipts taxes and other charges. For firm transportation customers, gas supply costs are assumed to be equivalent to gas supply costs included in the Company's full service rates. The rate increase represents a 22.14 percent increase in delivery revenues.

  - SC 3 (Residential/Religious Heating) and its corresponding SC 9 sub-class were assigned an additional $0.80 million.
- The Rate Year base delivery revenue increase applicable to the Company's firm delivery rates was developed by subtracting gross receipts taxes from the total annual revenue increase and adjusting for an increase in the number of customers taking or expected to be taking service at the Company's low income rate.
- An overall average delivery revenue percentage increase was developed by dividing the Rate Year delivery revenue increase described above, by the total Rate Year delivery revenues at current rates.
- The overall average delivery rate percentage increase was then applied to the adjusted Rate Year delivery revenues by class, i.e., SC 1, 2H, 2NH, 3 and 13, and to the corresponding SC 9 firm transportation sub-classes, to determine the delivery revenue increase applicable to each class.
- The Rate Year revenue increase associated with non-competitive services was determined by calculating the Rate Year revenue attributed to each competitive charge at proposed rates, comparing the results to the Rate Year revenue attributed to each competitive charge at current rates, and adding or subtracting the difference, as applicable, from the proposed delivery rate increases by class. As a result, an adjustment of $1.367 million, representing the net increase in competitive charges, was subtracted from the delivery revenue increase of $158.085 million to get an adjusted base rate increase of $156.718 million. The unbundled competitive service charges are described below.

Unbundled Competitive Service Charges

The Company developed unbundled functional costs for competitive services in accordance with the Commission's Statement of Policy on Unbundling and Order Directing Tariff Filings, issued August 25, 2004, in Case 00-M-0504.

1. Merchant Function Charge

The Merchant Function Charge ("MFC") is comprised of unbundled components for supply-related costs and credit and collections/theft related costs ("C&C costs"), along with uncollectible accounts expense associated with supply ("UBs"), and gas in storage working capital.

For the Supply-Related Component and the C&C Component of the MFC, separate unit costs are set for residential and non-residential classes.[2] For the UB Component of the MFC, the charge continues to be based upon actual supply costs for each month as shown in the Company's Gas Cost Factor ("GCF") and updated monthly. Separate UB factors will be calculated monthly for each class by applying uncollectible percentages of 1.0824% for residential customers and 0.5722% for non-residential customers to each of the three GCF monthly factors. These factors reflect an overall UB rate of 0.81%. A separate UB component will be applicable to the Monthly Rate Adjustments ("MRA") applicable to firm sales and firm transportation

[2] Supply-related credit and collections costs attributable to customers receiving a utility consolidated bill are collected from ESCOs through the POR discount rate rather than through the MFC.

customers and will be updated monthly and included in the MRA. The UBs applicable to the MRA will also reflect the overall UB rate of 0.81%.

The Gas in Storage Working Capital Component is allocated between firm full service customers (through the MFC) and all firm customers (through the MRA). For the Rate Year, the allocation between full service customers and all customers will continue to be such that the volumetric rate for both firm full service customers and all firm customers will be the same.

At the end of the Rate Year, the Supply-Related component and the C&C Component of the MFC will be trued up to forecasted targets. The Gas in Storage Working Capital component will be trued-up to actual costs. Any differences resulting from the true-ups will be included in the calculation of these components in the subsequent year. UB factors will continue to be trued up monthly with any adjustment included in the subsequent month's factor.

2. *Billing and Payment Processing Charge ("BPP charge")*

As noted in the Gas Rate Panel's pre-filed testimony, the BPP charge, as determined by the ECOS study is $1.09 per bill. Since the BPP charge for single full service electric customers proposed in the Company's electric rate case is $1.04, the Company is proposing to set the equivalent BPP charge for gas at $1.04 per bill in order to avoid confusion. Dual service gas customers will continue to pay half the charge as a gas charge and half as an electric charge unless the BPP charge is paid by an ESCO in connection with the Company's consolidated billing service or the ESCO bills for both Con Edison's charges and the ESCO's own charges.

Rate Design for Non-Competitive Services

The $156.718 million Rate Year revenue increase associated with non-competitive services was allocated to the Company's firm sales and firm transportation customers in SCs 1, 2, 3, 9 and 13 in the following manner:

- The minimum charge (the charge for the first 3 therms or less) for SC 1, SC 2H, SC 2NH and SC 3, and for the corresponding SC 9 firm transportation sub-classes, were increased to better reflect the Company's cost to provide service. The SC 13 minimum charge, which collects minimum charges over seven months rather than twelve months, was increased accordingly.
- The remaining block for SC 1 (for usage over 3 therms per month) was designed to collect the balance of the revenue increase assigned to SC 1 after accounting for the increased revenues to be collected through the minimum charge. In developing the SC 1 and SC 3 proposed rates, the billing determinants in these classes were adjusted to reflect the increase in the number of low income customers.
- The remaining rate blocks within SC 2H, SC 2NH and SC 3 (for usage between 4 and 90 therms, for usage between 90 and 3,000 therms, and for usage greater than 3,000 therms) were increased on a uniform percentage basis in order to collect each class's remaining revenue increase after deducting the increase in annual

revenues allocated to each class's minimum charge and to the air conditioning rates (as explained below).

- After accounting for the increased revenues to be collected through the SC 13 minimum charge, the two remaining SC 13 rate blocks were assigned the balance of the rate increase assigned to SC 13 and were increased on a uniform percentage basis. Consistent with current rate design, the SC 2H, SC 2 NH and SC 3 air-conditioning rates were set equal to the proposed block rates in SC 13, since like SC 13 rates, the air-conditioning rates apply to seasonal off-peak firm gas usage.
- Consistent with current rate design, Rider G and Rider I incentive rates were set equal to the applicable SC 2 rates for the first 250 therms of usage per month. The delivery rates for usage in excess of 3,000 therms (the "terminal rate") were set at 50 percent of the corresponding SC 2 delivery rates. The rates for usage between 250 and 3,000 therms (the "penultimate rate") were set at the increased terminal rates plus the difference between the proposed SC 2 terminal rates and the proposed SC 2 penultimate rates, thereby maintaining the existing differential between the SC 2 penultimate and terminal rates.
- Residential DG customers were assigned the average rate increase for their respective classes. Non-residential DG customers were assigned a portion of the delivery rate increase assigned to SC 2NH and were assigned its calculated average rate increase.

Appendix B shows, by service classification, the annualized service class revenues, based on sales for the twelve months ending September 30, 2011 at current (i.e., October 1, 2009) rates, the corresponding annualized service class revenues at the proposed October 1, 2010 rates, the total increase in annual service class revenues, and the effect on each customer class's bills (i.e., number of bills increasing, decreasing or remaining unchanged).

Other Tariff Changes

- The Company is proposing to modify the Gas Tariff to simplify and change the way balancing service charges are assessed on firm customers. More specifically, the proposal is to eliminate two of the current balancing service options, i.e., the Daily Delivery service (both prior day and same day service) and the Daily Cashout service, and to simplify how the charge for the remaining service, the Load Following service, is assessed on customers. Under this approach, both firm transportation customers and firm sales customers will pay a Load Following charge through their Monthly Rate Adjustment ("MRA"). For firm sales customers, this will mean that the cost of assets associated with balancing will no longer be included in their GCF and for firm transportation customers their balancing service charge will no longer be billed as a separate charge on their bill. Instead, both firm sales and firm transportation customers will pay for the cost of assets associated with balancing at the same cents per therm rate through the MRA.
- The Company is proposing tariff changes to conform the Gas Tariff to certain provisions of the electric tariff, PSC No. 9 – Electricity. Specifically, a provision has been added to the "Service is Not Available Under This Service

Classification" sections of SC 1 and SC 3 of the Gas Tariff to allow incidental non-residential activities to be served under SC 1 and SC 3 under specified conditions and entities to take service for their employees who reside in the premises served.

- It is proposed that the definition of Adjusted Gas Revenues in the General Information section of the Gas Tariff be modified to include only non-competitive delivery revenues, excluding the Minimum Charge. This change is being made to change the approach of the definition from a 'top-down' approach to a 'bottom-up' approach, since the increase in the number of unbundled and other charges, such as the System Benefits Charge require that the definition be changed fairly often.
- A housekeeping change is being made to General Information Section VII of the Gas Tariff to clarify that net revenue derived from capacity releases includes capacity released to firm customers or to ESCOs serving firm customers under the Company's capacity release program.
- Housekeeping changes are being made to the General Information Section of the Gas Tariff (primarily sections IX, VII and III) (i) to update various tariff provisions to extend them through the Rate Year, including such provisions as the Merchant Function Charge, the Oil to Gas Conversion Charge and the BPP, and (ii) to rearrange tariff provisions such as a provision related to fixed gas costs related to balancing assets, which is being moved from the Average Cost of Gas section to the Monthly Rate Adjustment section, since costs associated with assets used for balancing are proposed to be recovered through the MRA. In addition, changes are being made to delete obsolete tariff provisions, such as the tariff provisions related to the Parts Replacement Program, which was discontinued.

The Need for Rate Relief

The Company's presentation demonstrates that the rate relief requested herein is essential to allow the Company to maintain the safe and reliable gas service for customers, while enabling the Company's gas department to earn a return to investors adequate to support the financial strength needed in the current environment. The Company weighed the current economic environment against the need for rate relief before filing this case. In the end, the need for rate relief was necessary as the rate relief the Company seeks is necessitated, in large part, by increases in several major costs.

To begin, due in large part to the current economic situation, Pension and OPEB costs have increased by $37 million from the levels currently included in rates. In addition, expired credits that arose from prior period deferred non-firm gas revenues and proceeds from the 1st Avenue Property sale along with the recovery of new deferrals represent $21 million of the requested rate increase.
Also, other operating and maintenance ("O&M") expenses are projected to increase by $14 million. Interference costs, uncollectible expense, and salary and wages, which make up the majority of the increase in other O&M expenses, are partially offset by lower projected contractor costs.

For the twelve months ending September 30, 2011, the Company projects a $30 million increase in property and other taxes. Further, the Company is requesting a return on equity of 10.8%, which represents an increase of $26 million, when compared to the ROE upon which current rates are based of 9.7%.

Finally, as is the case for other critical infrastructure that serves New York City and Westchester, Con Edison's gas system must be continually maintained, upgraded and reinforced, and at times replaced, so that it remains capable of providing the safe and reliable gas service that our customers have come to expect. Accordingly, the balance of the rate increase is largely attributable to the Company's plans to spend an annual average amount approaching $300 million in capital expenditures over the next several years. This amount maintains the current levels of capital spending for the gas department. The carrying cost on the new plant including depreciation has added approximately $42 million to the required rate relief.

Partially offsetting all of these cost drivers are projected higher sales revenues of $10 million.

As indicated above, the Company advocates a three-year rate plan with levelized rate increases, which would provide customers with relatively stable and predictable rates (exclusive of increases or decreases in fuel costs) over the next several years, and would give the Company a strong incentive to work within the rate plan to maximize efficient operations that will ultimately inure to the benefit of customers. The proposed three-year plan recognizes expected changes in the second and third years for sales, rate base and a limited number of expenses for such items as property taxes, and provides for reconciliations. The plan would also require the Company to commit to refrain from requesting a further increase in gas rates to become effective before October 1, 2013, except in very limited circumstances.

The Company is also proposing to continue the existing gas revenue decoupling mechanism ("RDM"). The RDM is consistent with Commission policy that utilities reconcile forecast and actual delivery service revenues to remove the potential financial disincentive that utilities might otherwise have to promoting energy efficiency.

The presentation also addresses the goals of the August 2009 draft New York State Energy Plan, including the Plan's objectives, such as clean and reliable energy, and the role of the Company's gas business in meeting these important objectives. Con Edison believe that natural gas will have an important role for New York in the future, particularly as supply increases and the clean nature of natural gas is used as a means, along with other strategies, of achieving the state's energy goals.

Notice

The Company will provide for public notice of the changes proposed in this filing by means of newspaper publication once a week for four consecutive weeks prior to December 6, 2009.

Conclusion

The testimony and exhibits submitted herewith establish the need for rate relief requested by the Company. The Company is willing to 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 approve the changes to become effective on October 1, 2010, the day following the expiration of the current rate plan.

Very truly yours,

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Robert Hoglund

Robert N. Hoglund

C: New York State Consumer Protection Board (2 copies)
Active Parties, Case No. 06-G-1332

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Leaf 3 – Revision 1
Superseding Revision 0

Leaf 11 – Revision 1
Superseding Revision 0

Leaf 107 – Revision 1
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Appendix B

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Estimated Effect on Gas Customers' Bills and Company Revenues Resulting from Proposed Gas Rates
Based on Forecasted Sales and Revenues for the Twelve Months Ended September 30, 2011 for Service Classification Nos. 1, 2, 3, 13 and 14
and the Corresponding SC 9 Firm Transportation Sub-classes

Firm Service Classification (Sales and Transportation)	Annual Therms	Total Annual Revenues at Current 10/01/09 Rates (b) (c)	Total Annual Revenues at Proposed Rates (b) (c)	Estimated Total Annual Revenues Increase/(Decrease)	Percent Change	Number of Customers' Bills Increased
1 - Residential & Religious	46,590,000	$ 196,809,428.91	$ 229,575,191.74	$ 32,765,762.83	16.6%	7,887,989
2 - General - Rate I - Non-Heating (a)	188,830,000	$ 262,813,858.25	$ 279,862,468.32	$ 17,048,610.07	6.5%	738,055
2 - General - Rate I - Distribution Generation	47,650,000	$ 49,473,472.53	$ 50,413,316.84	$ 939,844.31	1.9%	600
2 - General - Rate II - Heating (a)	285,340,285	$ 430,418,634.40	$ 461,303,114.66	$ 30,884,480.26	7.2%	747,133
2 - Total Commercial	521,820,285	$ 742,705,965.18	$ 791,578,899.82	$ 48,872,934.64	6.6%	1,485,788
3 - Residential & Religious - Heating (a)	594,898,399	$ 983,197,566.56	$ 1,062,253,077.57	$ 79,055,511.01	8.0%	3,317,437
13 - Seasonal Off Peak Firm Service	900,000	$ 1,177,519.84	$ 1,246,142.28	$ 68,622.44	5.8%	3,828
14 - Natural Gas Vehicles	120,000	$ 198,998.40	$ 198,998.40	$ -	0.0%	-
Total Firm Sales & Firm Transportation	1,164,328,684	$ 1,924,089,478.89	$ 2,084,852,309.81	$ 160,762,830.92	8.40%	12,695,042

(a) Gas air-conditioning is included in SC 2 and SC 3.
(b) Annual Revenues reflect the gas cost factor and monthly rate adjustments, merchant function charges and various other charges used in calculating Rate Year Revenues
(c) Annual Revenues include gas supply costs for transportation customers equivalent to what these customers would have paid as full service customers.