

Case 06-G-1332

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 06-G-1332 – Proceeding on Motion of the Commission as to the Rates,
Charges, Rules and Regulations of Consolidated Edison
Company of New York, Inc. for Gas Service.

JOINT PROPOSAL

June 1, 2007

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JOINT PROPOSAL

THIS JOINT PROPOSAL (“Proposal”) is made the 1st day of June 2007, by and between Consolidated Edison Company of New York, Inc. (“Con Edison” or the “Company”), New York State Department of Public Service Staff (“Staff”), the City of New York (the “City”), Consumer Power Advocates (“CPA”), New York Energy Consumers Council, Inc. (“NYECC”), Small Customer Marketer Coalition, the Pace Energy Project (“Pace”), Association for Energy Affordability (“AEA”), IDT Energy, Inc., and the New York State Energy Research and Development Authority (“NYSERDA”)(collectively referred to herein as the “Signatory Parties”).

Procedural Setting

Con Edison is operating under a three-year gas rate plan that expires on September 30, 2007.¹ On November 2, 2006, Con Edison filed new tariff leaves and supporting testimony for new rates and charges for gas service for the period October 1, 2007 through September 30, 2008. In that filing, the Company also proposed terms for a multi-year rate plan.

¹Case 03-G-1671, Consolidated Edison Company of New York, Inc. – Gas Rates, Order Adopting the Terms of a Joint Proposal (issued September 27, 2004) (“2004 Gas Rate Plan”).

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Parties to this proceeding engaged in discovery activities after the proceeding commenced. On March 16, 2007, five parties filed testimony in response to the Company's original filing.

By notice dated March 7, 2007, updated on March 14, 2007, Con Edison notified all parties of the commencement of settlement negotiations on March 20, 2007.² Settlement negotiations began on March 20, 2007, and continued on March 29, 2007.

After a revision to the schedule for this proceeding, Con Edison filed update testimony on April 2, 2007; Con Edison and NYECC filed rebuttal testimony on April 10, 2007. A hearing on the filing and the parties' testimony was scheduled to commence on April 16, 2007, but was postponed to May 9, 2007, to provide time for the parties to the proceeding to pursue settlement negotiations.

Settlement negotiations continued on April 2, 4, 5, 9, 10, 12, 13, 18, 19, 25, 26 and May 4, 7, 15, 18, 22, 29, 31 and June 1, 2007. By notice issued May 1, 2007, the hearing scheduled for May 9, 2007, was postponed sine die.

All settlement negotiations were conducted in accordance with the New York State Public Service Commission's ("Commission") Settlement Rules, 16 NYCRR § 3.9, and all parties received appropriate advance notice of all negotiating sessions, including breakout sessions, that, pursuant to agreement of the active parties, were conducted on particular issues during the same time period.

The parties' negotiations have been successful and have resulted in this Proposal, which is presented to the Commission for its consideration.

² Copies of these notices were filed with the Secretary to the Commission ("Secretary").

Overall Framework

The Signatory Parties have developed a comprehensive set of terms and conditions for a three-year rate plan for Con Edison's gas business. These terms and conditions are set forth below and in the attached Appendices. Specifically, this Proposal addresses the following topics:

- A. Term**
- B. Gas Rates and Revenue Levels**
- C. Computation and Disposition of Earnings**
- D. Reconciliations**
- E. Additional Rate Provisions**
- F. Miscellaneous Programs**
- G. Other Provisions**

A. Term

The Signatory Parties recommend that the Commission approve or adopt the three-year gas rate plan for Con Edison as set forth herein, commencing October 1, 2007 and continuing through September 30, 2010 ("Gas Rate Plan"). For the purposes of this Proposal, "Rate Year 1" ("RY1") means the 12-month period starting October 1, 2007 and ending September 30, 2008; "Rate Year 2" ("RY2") means the 12-month period starting October 1, 2008 and ending September 30, 2009; and "Rate Year 3" ("RY3") means the 12-month period starting October 1, 2009 and ending September 30, 2010.

B. Gas Rates and Revenue Levels

1. Rate Levels

This Proposal covers Con Edison's gas rates and charges for retail gas sales and gas transportation service for the term of the Gas Rate Plan.³ The Proposal includes increases to the Company's base delivery service rates designed to produce an additional \$67.4 million in revenues on an annual basis in RY1; an additional \$32.7 million in revenues on an annual basis in RY2; and an additional \$42.7 million in revenues on an annual basis in RY3. The components of the revenue requirement that led to this Proposal are set forth in Appendix A. The base rate increases reflect, among other adjustments, (i) the amortizations set forth in Appendix F and (ii) a base rate revenue imputation of \$35 million attributable to Non-Firm Revenues, as defined in section B.4. Non-Firm Revenues in excess of \$35 million for each of RY1, RY2 and RY3 will be shared by customers and the Company in accordance with section B.4. Revenues will be subject to adjustment pursuant to the revenue adjustment mechanism set forth in section B.8. In addition, the Company will recover an estimated \$17.2 million comprised of (i) uncollectibles associated with the Gas Cost Factor ("GCF") and Monthly Rate Adjustment ("MRA") and (ii) working capital on gas in storage, through the Merchant Function Charge ("MFC") and/or MRA, instead of through base delivery service rates, as explained in sections B.6 and B.7, respectively.

³ Unless specifically stated otherwise in this Proposal, the terms "customers" and "base rate" apply to the Company's firm customers, excluding CNG, Bypass and Power Generation customers served under Service Classification ("SC") No. 9 and does not include the Company's interruptible or off-peak firm customers.

2. Sales Forecasts

The firm sales forecasts used to determine the revenue requirement for each of the three Rate Years are set forth in Appendix B. The sales forecasts for RYs 2 and 3, which are significantly higher than originally forecast by the Company, were established in conjunction with resolution of the allowed return on equity and in consideration and support of all of the other provisions of this Proposal. The Company will include in its monthly O&F report the number of customers (defined as active accounts, i.e., a customer who would be eligible to receive a bill) and sales volumes by service classification. An example of this supplement is set forth in Appendix C.

3. Rate Design

The Company's base delivery service rates will be designed to implement the base rate increases, discussed in section B.1, and a low-income rate program, in accordance with Appendix D.

4. Non-Firm Revenues

For each Rate Year, the following revenues constitute "Non-Firm Revenues:"

- a. Net base revenues⁴ derived from
 - i. Customers receiving interruptible service under SC No. 12 Rate 1 and SC No. 9 Rates B and D, excluding revenues from new customers from the oil-to-gas conversion program; and

⁴Net base revenues mean total revenues less the following, as applicable: taxes, actual cost of gas (reflecting, for example, hedging costs and gas supplier take-or-pay charges), cash-out charges and credits, and any revenues included in total revenues related to reimbursements for facility costs associated with providing service, including, but not limited to, metering and communication equipment, service pipes and lines, service connections, main extensions, measuring and regulating equipment and system reinforcements and other facilities as necessary to render service.

- ii. Power generation customers⁵ receiving interruptible or off-peak firm service, including off-peak firm service under SC No. 9 Rate D(2) or special negotiated contract; the New York Power Authority (in excess of \$3.1 million per Rate Year, which is the level reflected in base rates); interruptible or off-peak firm service to Company-owned power generation, steam, and steam-electric plants; and existing, new, and divested power generation facilities owned by third parties pursuant to, for example, SC No. 9 Rate D(1); and
- b. Net revenues derived from the use of interstate pipeline capacity for capacity releases;⁶ for or by customers taking service under off-peak firm SC No. 12 Rate 2; for or by interruptible or off-peak firm customers taking service under negotiated bypass SC No. 9 Rate D(1); for SC No. 19 and bundled sales; and other off-system transactions (e.g., gas supplied to the Company's steam and steam/electric plants); and
- c. Gas balancing revenues derived from gas balancing services provided to SC Nos. 9 and 12 interruptible and off-peak firm customers, CNG, bypass and power generation customers and SC No. 20 marketers serving SC No. 9 transportation customers.

The Company is permitted to retain 100 percent of the first \$35 million of Non-Firm Revenues during each Rate Year of the Gas Rate Plan, which is the level imputed to base rates. Each Rate Year, Non-Firm Revenues above \$35 million shall be allocated to customers in the following proportions: (i) 80 percent of the amount in excess of \$35 million up to \$50 million; and (ii) 75 percent of the amount in excess of \$50 million. If Non-Firm Revenues are less than \$35 million in any Rate Year, the Company may defer for future recovery, with interest, the amount by which Non-Firm Revenues are less than \$35 million.

⁵For the purposes of this paragraph B.4, power generation customers do not include cogeneration or other customers taking off-peak firm service under SC No. 12 Rate 2 or SC No. 9 Rate C.

⁶Net capacity release revenues means the credits afforded the Company from releasing capacity to third parties excluding (i) capacity release revenues applicable to capacity releases to firm customers and/or ESCOs serving firm customers under the Company's capacity release program that became effective November 1, 2001 and any amended, extended, or superseding programs ("Capacity Release Service Program"), and (ii) the demand charges recovered through the Winter Bundled Sales Service ("WBSS").

5. Factor of Adjustment Ratio

The monthly GCF for each of RY1, RY2 and RY3 will reflect a Factor of Adjustment Ratio for line losses equal to the three-year average for the periods ending August 31, 2007, August 31, 2008 and August 31, 2009, respectively, calculated in accordance with the methodology set forth in Appendix E.⁷ However, the Factor of Adjustment Ratio will not change if the three-year average actual line losses on which the Ratio is based falls within +/-5% of the prior LLF,⁸ and for purposes of calculating the annual GCF reconciliation, the applicable LLF will also not change.⁹

The Company may petition the Commission to exclude from the calculation for any Rate Year the actual lost and unaccounted for percentage(s) for one or more prior Rate Years if the Company believes the percentage(s) are anomalous or the result of an error. In the event the percentage for a prior Rate Year is excluded, the next most recent prior Rate Year's percentage will be used in the calculation.¹⁰

The annual GCF reconciliation will reflect actual gas lost and unaccounted for, calculated as follows:

- a. If actual line losses are less than the applicable LLF (e.g., 2.3 percent), the Company will retain the benefit of the difference between the LLF and actual line losses up to and including 1 percent below the LLF (i.e., down to 1.3 percent), and will continue to reflect for the benefit of customers any actual line losses more than 1 percent below the LLF (i.e., below 1.3 percent); and

⁷ The Factor of Adjustment Ratio is equivalent to a fraction having a numerator of 1 and a denominator of 1 minus the line loss factor ("LLF").

⁸ For purposes of RY1, the three-year average will be compared to the Factor of Adjustment in effect during RY3 of the current gas rate plan.

⁹ The applicable Factor of Adjustment ratio will be used to determine the amount of gas to be retained by the Company from SC No. 9 transportation quantities as an allowance for losses.

¹⁰ For example, if in 2010, the Commission grants the Company's petition to exclude the 2008 percentage, the ratio for 2010 would be calculated on the percentages for 2006, 2007, and 2009.

- b. If actual line losses are greater than the applicable LLF (e.g., 2.3 percent), the Company will bear the cost of the difference between the LLF and actual line losses up to and including 1 percent above the LLF (i.e., up to 3.3 percent), and customers will continue to bear the cost of any actual line losses more than 1 percent above the LLF (i.e., above 3.3 percent).

Actual lost and unaccounted for gas will be calculated as follows:

Total Distribution Sendout (i.e., Marketer, Direct Customer and Con Edison deliveries, netting out gas for power generation and LNG injections) vs. Total Customer Meter Volumes (i.e., firm sales and transportation, interruptible and off-peak firm sales and transportation, Company use, netting out gas for power generation).

A sample calculation of the gas lost and unaccounted for methodology is attached as Appendix E.

6. Uncollectibles

The Company will recover uncollectibles (“UBs”) associated with the Gas Cost Factor (“GCF”) and the MRA through the MFC and the MRA, instead of through base delivery service rates. The MFC statement and MFC charge with UB component will be aligned with service classes consistent with the GCF, as described in Appendix D. The uncollectible factor applied to commodity costs for residential classes will be \$0.8053 per \$100 of commodity costs and for non-residential classes will be \$0.3466 per \$100 of commodity costs, which will remain constant during the term of the Gas Rate Plan. The revenue requirement for RY1 has been reduced by approximately \$5.7 million to effectuate the transfer of these UBs from base rates to the MFC and MRA.

7. **Gas In Storage Working Capital**

The Company will recover working capital on gas in storage through volumetric components of the MFC and the MRA, instead of through base delivery rates. The amount for working capital on gas in storage will be calculated using a return of 8.6 percent on the projected average balance of gas in storage. The Company will reconcile the actual amounts of gas storage working capital recovered through the MFC and MRA estimated to be approximately \$11.5 million in RY1 (estimated average gas storage balance of \$130.8 million multiplied by 8.6 percent plus revenue taxes) to the actual cost of gas in storage. Any difference will be reflected in the following year in the gas storage working capital components of the MFC and MRA.

The allocation of working capital on gas in storage as between full service customers and all customers, through the MFC and MRA, respectively, for each of RY1, RY2 and RY3, is described in Appendix D.

8. **Revenue Decoupling Mechanism (RDM)**

a. For RY1, Pure Base Revenues from service provided to the Company's firm customers will be subject to partial reconciliation pursuant to the following revenue per customer mechanism ("RPC").

The RPC will apply to the following groupings of customers:

- SC No. 2 - Rate I;
- SC No. 2 - Rate II;
- SC No. 3 customers with 1-4 dwelling units; and
- SC No. 3 customers with more than 4 dwelling units.

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Each grouping will include all customers taking service under SC No. 9 that would otherwise take service under such grouping. The groupings will exclude customers taking service under Rider G (Economic Development Zone), Rider I (Manufacturing Incentive Rate), customers participating in the low income program described in Appendix D (Low Income customers) and customers receiving service at a firm by-pass rate. The Weather Normalization Adjustment (“WNA”) will continue. The dead band around the existing WNA will be eliminated.

RPC factors (defined as dollars and cents per customer) for each of the four RPC groupings defined above will be calculated as follows:

- The Rate Year Pure Base Revenue target for each grouping, which was, in part, the basis for establishing the revenue requirement in this proceeding, divided by the average number of customers forecast for that grouping for the rate year. Appendix L shows the RPC factors at proposed rates for RY1, RY2 and RY3.
- Pure Base Revenues are revenues from delivery rates and charges, excluding Gross Receipts Taxes, MFCs, Billing and Payment Processing Charges and all other applicable credits or surcharges other than WNA credits or surcharges.

The Company will retain Pure Base Revenues for each grouping equal to the RPC factor for each grouping times the actual number of customers in the rate year in each grouping (“Allowed Pure Base Revenue Retention”) (the actual number of customers by grouping will be determined by dividing the number of days of service

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covered by bills issued during RY1 by 360). For each grouping, the retained Pure Base Revenues will be referred to as the Allowed Pure Base Revenues.

At the end of RY1, for each grouping, the Company will reconcile the actual Pure Base Revenues to the Allowed Pure Base Revenues and refund customers if the actual Pure Base Revenues are more than the Allowed Pure Base Revenues and surcharge customers if the actual Pure Base Revenues are less than the Allowed Pure Base Revenues. The shortfall or excess will be surcharged or refunded to customers in each grouping on a volumetric basis over the next 12 months; provided, however, should the Company's projected reconciliation for the combined RPC groupings at any point in the rate year equal or exceed \$10 million, the Company will implement interim RPC surcharges or credits, by grouping. All refunds or surcharges will be subject to reconciliation at the end of the rate year.

b. For RYs 2 and 3, a revenue adjustment mechanism ("RAM") collaborative of active parties (the "RAM Collaborative") will be formed, no later than November 1, 2007, to determine the RAM for RY2 and 3.

The RAM Collaborative will evaluate whether a RAM that relies upon rate year billing determinants is reasonable and workable, without precluding the evaluation of other alternatives, including the continuation of the RPC mechanism implemented for RY1, with or without modifications. Each of the alternatives will be premised upon continuation of the WNA with no dead band and the Company's opportunity to retain new business.

The RAM Collaborative will be chaired by Con Edison. The Company will prepare a report ("the Report") on the RAM Collaborative, to be filed with the

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Commission on or about April 15, 2008, that will include recommendations for Commission approval regarding the RAM to be implemented for RYs 2 and 3. To the extent the Company would incur incremental costs for information resource system changes required to implement a new or modified revenue adjustment mechanism (e.g., carrying charges, including depreciation, on capital expenditures), the Report will include a description of such changes and the projected costs. If the Commission orders the implementation of that mechanism (or another mechanism) requiring system changes, the Company will be entitled to defer for future recovery such incremental costs.

C. Computation and Disposition of Earnings

Following each of RY1, RY2 and RY3, Con Edison will compute its gas rate of return on common equity capital for the preceding Rate Year. The Company will submit to the Director of the Office of Accounting and Finance the computation of earnings no later than 60 days after the end of each Rate Year.

If the level of earned common equity return in any Rate Year exceeds 10.7 percent (or 10.9 percent in RY1, as provided in section F.1.a) (“Earnings Sharing Threshold”), calculated as set forth below, the amount in excess of the Earnings Sharing Threshold will be deemed “shared earnings” for the purposes of this Proposal. For all basis points above the Earnings Sharing Threshold, one-half of the revenue equivalent of any such shared earnings will be deferred for the benefit of customers and the remaining one-half of the revenue equivalent of any such shared earnings will be retained by the Company.

For purposes of determining whether the Company has earnings above the Earnings Sharing Threshold:

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1. The calculation of return on common equity capital will be computed from the Company's books of account for each Rate Year, excluding the effects of (i) Company incentives and performance-based revenue adjustments; (ii) the Company's share of property tax refunds earned during the Gas Rate Plan; and (iii) any other Commission-approved ratemaking incentives and revenue adjustments applicable during the Gas Rate Plan.

2. Such earnings computations will reflect the lesser of: (i) an equity ratio equal to 50.0 percent; or (ii) Con Edison's actual average common equity ratio. Con Edison's actual common equity ratio will exclude all components related to "other comprehensive income" that may be required by generally accepted accounting principles; such charges are recognized for financial accounting reporting purposes but are not recognized or realized for ratemaking purposes.

D. Reconciliations

The Company will reconcile the following costs to the levels provided in rates, as set forth in Appendices G and H. The reconciliations in each of RY1, RY2 and RY3 will be deferred and recovered from or credited to customers in a manner to be determined by the Commission; provided, however, at the end of each Rate Year and subject to audit and prudence review, the Company may net outstanding deferred credits and debits by applying available credits that would otherwise be returned to customers (e.g., the customers' share of Non-Firm Revenues) to offset the deferred balance.¹¹

¹¹ Such credits will not include revenues from capacity releases to firm customers and/or ESCOs serving firm customers under the capacity release program.

1. Property Taxes

If the level of actual expenditures for property taxes, excluding the effect of property tax refunds (as defined in section E.3), varies in any Rate Year from the levels provided in rates, which are set forth in Appendix G, 90 percent of the variation will be deferred and recovered from or credited to customers.

2. Interference Expenses (Other Than Company Labor)

If actual non-Company labor interference expenses (e.g., contractors' costs) vary in any Rate Year from the levels provided in rates, which are set forth in Appendix G, 90 percent of the variation will be deferred and recovered from or credited to customers. Con Edison will continue to coordinate and plan its interference work with the affected municipalities in order to reduce costs for customers.

3. Capital Program Expenditures

The Company will defer the carrying costs, including depreciation, on the amount by which the Company's actual capital expenditures for capital programs (exclusive of expenditures for capital interference plant additions) result in average net plant more or less than the "Average Plant Included In Rate Base," up to the "Average Plant Included In Cap," as set forth in Appendix H, for each of RY1, RY2 and RY3. The revenue requirement impact will be calculated by applying an annual carrying charge factor of 13.0 percent (representing a combination of a pre-tax rate of return of 10.7 percent and a depreciation rate of 2.3 percent) to the actual Rate Year variance from the capital target (see Appendix H).

The Company will defer the carrying costs, including depreciation, on the Company's actual capital expenditures for capital interference plant additions that result in average interference plant being more or less than the "Average Interference Plant"

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targets set forth in Appendix H for each of RY1, RY2, and RY3. The revenue requirement impact will be calculated by applying an annual carrying charge factor of 13.0 percent (representing a combination of a pre-tax rate of return of 10.7 percent and a depreciation rate of 2.3 percent) to the actual Rate Year variance from the capital target (see Appendix H).

The Company will defer the costs for Advanced Metering Infrastructure (“AMI”) it is initiating and such costs will be addressed in Case Nos. 94-E-0952 and 00-E-0165.

The Company will, for informational purposes, submit to Staff and the Active Parties in this proceeding, subject to confidentiality concerns, no later than 60 days after the end of calendar years 2008, 2009 and 2010, a report on its aggregate actual capital expenditures related to its Capital Program Targets, the largest five capital projects (in terms of capital expenditures during the calendar year), and, to the extent applicable, the reasons for any variance in excess of 15 percent from forecasted expenditures for any of these five projects. The Signatory Parties recognize that the Company has the flexibility, on an ongoing basis, to modify the priority, nature, scope and composition of the capital projects that comprise its overall capital program.

4. Pensions/OPEBs

Pursuant to the Pension Policy Statement, the Company will reconcile its actual pension/OPEB expenses and tax benefits related to the Medicare subsidies to the level allowed in rates as set forth in Appendix G (which level reflects the January 19, 2007 update by the Company’s actuaries).

5. Gas Transmission Main Maintenance Program

The Company will confer with Staff Gas Safety Section (“Gas Safety Staff”) upon the completion of a technical study regarding the installation of welding sleeves over

couplings on gas transmission mains. Upon Gas Safety Staff's concurrence that the study confirms that the Company should undertake this project, the Company may defer the O&M costs of this program for future recovery from customers.

6. Research and Development

If the level of the Company's actual expenditures for research and development ("R&D") (exclusive of expenditures on Millennium Fund projects) is more or less than the target level set forth in Appendix G, the Company will defer such amount for future recovery from or credit to customers. The deferral of actual expenditures above the target level will be subject to (a) a cap of \$1.1 million above the target level and (b) a demonstration by the Company to Staff as to the nature and basis for such expenditures and Staff's concurrence that such expenditures are reasonable.

7. Environmental Remediation

If the level of actual expenditures for site investigation and remediation ("SIR"),¹² including expenditures associated with former manufactured gas plant ("MGP") sites, Superfund, and 1984 Consent Order Appendix B charges, allocated to gas operations varies in any Rate Year from the levels provided in rates, which are set forth in Appendix G, such variation will be deferred and recovered from or credited to customers. The deferred balances subject to interest will be reduced by accruals, insurance recoveries, associated reserves, deferred taxes and other offsets, if any, obtained by the Company.

¹² SIR costs are the costs Con Edison incurs to investigate, remediate, or pay damages (including natural resource damages, with respect to industrial and hazardous waste or contamination spill, discharges, and emission) for which Con Edison is deemed responsible. SIR costs are net of insurance reimbursement (if any); provided, however, that while the Company will pursue insurance reimbursement, when available and appropriate, nothing in this Proposal will require the Company to initiate or pursue litigation for purposes of obtaining insurance reimbursement.

8. Pipeline Integrity Costs – New York Facilities Charges

The New York Facilities Agreement is a joint operating agreement among Con Edison and the KeySpan Delivery Companies (“KeySpan”), which provides for the sharing of certain costs. Among the costs to be shared are the costs that Con Edison and KeySpan incur to comply with new federal requirements that require gas companies, like Con Edison and KeySpan, to develop and implement an integrity management program for their affected gas facilities using in-line inspection, hydro or pressure testing, or direct assessment.

The Company’s projected share of KeySpan’s pipeline integrity costs are reflected in the gas rates for RY1, RY2 and RY3, at an estimated annual amount of \$1.845 million, as shown on Appendix G. The Company will defer the difference between payments made to KeySpan for pipeline integrity programs and the \$1.845 million included in rates. Such amounts will be recovered from or credited to gas customers in the manner described above.

9. Distribution Integrity and Gas Inspections

The Company will defer for recovery from customers costs incurred as a result of new regulatory requirements for distribution integrity and/or gas inspections promulgated by either federal or state regulatory agencies during the term of this Gas Rate Plan.

10. 263A Deferred Taxes

The Company and the Internal Revenue Service have an open audit issue concerning the Section 263A tax deduction claimed by Con Edison beginning with tax returns filed for 2002 and later years. At issue is the appropriate method(s) to be applied to different classes of plant in order to calculate the Section 263A deduction. Resolution of this matter is pending for all tax years and may result in a disallowance of a portion of

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the tax deduction claimed by the Company. The Proposal establishes a 263A deferred tax balance that reflects the anticipated outcome of this dispute. The Company will defer interest at the allowed pre-tax rate of return of 10.73 percent on any difference between the Section 263A tax benefit reflected in rate base (see Appendix G) and the actual tax benefits that result from the Section 263A deduction allowed by the Internal Revenue Service. The final Section 263A deduction reflected in rate base will recognize any related partial offset (i.e., higher/lower tax deduction), impacting the ADR/ACRS/MACRS rate base balances.¹³

11. Transition Adjustment for Competitive Services

As described in Appendix D, for each Rate Year, the Company will reconcile the credit and collections component of the POR discount rate and any lost revenue associated with the Billing and Payment Processing Charge through the Transition Adjustment for Competitive Services.

As also described in Appendix D, for each Rate Year, the Company will reconcile the supply-related and credit and collections/theft components of the MFC and reflect any deficiency or excess in the next Rate Year's MFC.

12. Additional Reconciliation/Deferral Provisions

In addition to the foregoing reconciliation provisions, all other existing reconciliations and/or deferral accounting will continue in effect through the term of this Gas Rate Plan, and thereafter until modified or discontinued by the Commission, including but not limited to Financial Accounting Standards (“FAS”) 109 taxes,

¹³ The ADR/ACRS/MACRS rate base balances reflected in rates may change if a higher or lower level of costs are capitalized for tax purposes, as a result of a change in the level of costs deducted under Section 263A.

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Metropolitan Transportation Authority (“MTA”) taxes, and the GCF and MRA mechanisms.

The treatment of deferred World Trade Center (“WTC”) capital costs allocated to gas operations will be in accordance with the Commission’s determination in Case 01-M-1958 and subject to interest at Con Edison’s allowed pretax allowance for funds used during construction (“AFUDC”) rate of return. The Company will continue to seek recovery for all WTC costs from governmental agencies and insurance carriers. All recoveries will be applied to reduce the deferred balance.

13. Limitations on Deferrals

Before calculating the level of earned common equity return for gas that may be subject to sharing under section C of this Proposal, the Company will make the following adjustments if its earnings exceed the Earnings Sharing Threshold:

For earnings above the Earnings Sharing Threshold, the Company will reduce the following expenses (debits) deferred for later recovery, up to 50 percent of the deferral, provided that such reduction in deferrals will not cause the resulting earnings to decrease below the Earnings Sharing Threshold: property taxes, interference expenses, and pensions/OPEBs.

This analysis will be performed on a single Rate Year basis. For example, costs deferred in RY1 will not be considered in the analysis for RY2.

E. Additional Rate Provisions

1. Depreciation Rates and Reserves

The average services lives, net salvage factors, and life tables used in calculating the depreciation reserve and establishing the revenue requirement, which reflect no change from the rates established in Case No. 03-G-1671, are set forth in Appendix I.

2. Interest on Deferred Costs

The Company is required to record on its books and records of accounts various credits and debits that are to be charged or refunded to customers. Unless otherwise specified in this Proposal or by Commission Order, the Company will accrue interest on these book amounts, net of federal and state income taxes, at the unadjusted customer deposit rate published by the Commission annually. FAS 109 and MTA Tax deferrals are either offset by other balance sheet items or reflected in the Company's rate base and will not be subject to interest.

3. Property Tax Refunds and Credits

Property tax refunds allocated to Con Edison's gas department that are not reflected in this Gas Rate Plan and that result from the Company's efforts, including credits against tax payments (intended to return or offset past overcharges or payments determined by the taxing authority to have been in excess of the property tax liability appropriate for Con Edison), will be deferred for future disposition for the benefit of customers, except for an amount equal to 14 percent of the refund or credit, which will be retained by the Company. Incremental expenses incurred by the Company to achieve the property tax refunds or credits will be netted against the refund or credit before any deferral of the proceeds is calculated. The Company will continue to provide Staff an annual showing of its efforts to reduce its property tax obligations.

4. Allocation of Common Expenses/Plant

During the Gas Rate Plan, common expenses and common plant will be allocated according to the percentages reflected in the gas revenue requirement calculations, as shown in Appendix J. Should the Commission approve different common allocation percentages for electric and/or steam service prior to the next base rate case for the gas

business, the resulting change in revenue requirement will be deferred on an annual basis for future recovery from or credit to customers.

F. Miscellaneous Programs

1. Gas Energy Efficiency Program

A gas energy efficiency program will be implemented in the Con Edison service territory during the term of the Gas Rate Plan in accordance with the parameters set forth below.

a. For RY1, the gas efficiency program will be the NYSERDA-administered program established by the Commission's May 16, 2007 order in Case No. 03-G-1671, or as may be amended by any subsequent order (collectively the "Transitional Program Order").

NYSERDA and Con Edison will enter into a funding agreement that will provide for quarterly payments to NYSERDA for program costs, not to exceed \$14 million in aggregate, on a graduated payment schedule. Con Edison shall recover its payments to NYSERDA through the MRA during the three months following each payment, subject to reconciliation. All payments to NYSERDA made prior to RY1 and deferred in accordance with the Transitional Program Order, plus interest, shall be recovered through the MRA over the first six months of RY1. Con Edison shall also be entitled to recover lost revenues resulting from the Transitional Program to the extent not recovered through an RDM, including lost revenues incurred from June 2007 through September 30, 2007, through the MRA. Such lost revenues shall be calculated in the same manner as under the gas energy efficiency program being conducted currently by NYSERDA under the 2004 Gas Rate Plan.

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Con Edison is authorized to collect \$300,000 for actual expenditures on outreach and education during RY1 through the MRA. Whether such funding will be recovered as part of the \$14 million budget for the Transitional Program or in addition to the program's budget, will be determined by the Commission. In that regard, nothing herein shall require NYSERDA to address funding for Con Edison outreach and education in the NYSERDA transitional program plan to be filed by NYSERDA with the Commission on June 1, 2007 pursuant to the Transitional Program Order, or restrict any Signatory Party from addressing whether such funding should be part of or in addition to the \$14 million program budget in any comments it may file on that report.

Nothing herein is intended to preclude any party from requesting the Commission to increase the funding for the program for RY1 or to seek other changes to the Transitional Program.

If the Commission determines by subsequent order issued in Case 03-G-1671 that it will consider requests to increase the \$14 million funding level for the Transitional Program, and does not otherwise direct, the Efficiency Collaborative to be formed pursuant to section F.1.b will assess, on or before December 31, 2007, or any other date established by the Commission, whether RY1 funding should be increased to capture additional cost-effective programs and make a recommendation to the Commission, as appropriate.

As indicated above, the Earnings Sharing Threshold will be 10.9 percent for RY1. The 10.9 percent earnings sharing threshold will be reduced by up to 20 Basis Points, to 10.7 percent, if: the Company fails to demonstrate that it actively supported NYSERDA in implementing the Transitional Program (10 basis points); and, NYSERDA

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does not succeed in encumbering more than 75 percent of the \$14 million of funding for the Transitional Program (10 basis points). The Company will make a filing within 60 days following expiration of RY1, demonstrating its efforts in supporting NYSERDA and the amount and percentage of funds encumbered by NYSERDA at the end of RY1. NYSERDA shall provide to Con Edison the amount and percentage of funds encumbered by NYSERDA by the end of RY1 within 30 days following the expiration of RY1.

b. For RYs 2 and 3, a gas efficiency collaborative (the “Efficiency Collaborative”) will be formed, on or about September 1, 2007, to develop a recommended Gas Efficiency Program for RYs 2 and 3, including issues of program design, funding, incentives and administration. The Efficiency Collaborative will be made up of a reasonable number of interested parties, including Con Edison, Staff, NYSERDA, the City, the County of Westchester (the “County”), New York State Consumer Protection Board (“CPB”), CPA, NYECC, Pace, Natural Resources Defense Council, Inc., the Public Utility Law Project, Inc. and AEA.¹⁴

The Efficiency Collaborative will be chaired by Con Edison, which will provide the members with a reasonable opportunity to make presentations to the Collaborative. Following coordination with the Efficiency Collaborative, Con Edison will contract with an independent consultant to perform a study (the “Study”) at a cost not to exceed \$100,000 (such cost to be recovered through the MRA), to be completed by February 1, 2008. The Study will make recommendations concerning the appropriate level of funding for RYs 2 and 3 as part of a long-term plan to maximize net benefits to

¹⁴ Interested parties are those persons on the active parties list for Case No. 06-G-1332, as updated, and any other person or party who contacts either Con Edison or the Commission and asks to become involved in this Collaborative.

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customers from gas efficiency, the need for changes, if any, to existing programs, and new programs that could be developed. Con Edison will develop the scope of work for the Study in coordination with the Efficiency Collaborative. For each suggested program, the Study will include, at a minimum, empirical data as a basis for the program's estimated cost and cost-effectiveness. Upon completion of the Study, it will be distributed to the Efficiency Collaborative for analysis and comment. After reviewing the Study, the Efficiency Collaborative may request additional information from the consultant for the Study, to the extent such request will not cause the cost for the consultant to exceed \$100,000. Contemporaneously, the Efficiency Collaborative will work to develop recommendations for the report described below and Con Edison's preparation of that report.

In coordination with the Efficiency Collaborative, Con Edison will prepare a report (the "Report"), to be filed with the Commission by April 15, 2008, that will include recommendations for Commission approval on the issues set forth below:

- (i) The Report will recommend that either Con Edison or NYSERDA serve as the administrator of the Program.
- (ii) The Report will address how the City and County, who possess unique information regarding customer planning and economic development, and other interested stakeholders can work with Con Edison and/or NYSERDA to maximize the effectiveness of the programs.
- (iii) The Report will evaluate potential gas efficiency goals for RYs 2 and 3 and their consistency with the general direction of state and local energy efficiency

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policies, and seek to maximize the Program's cost-effectiveness potential.¹⁵ In addition, the Report will recommend the targeted level of program funding for each of RYs 2 and 3 and the targeted allocations among customer classes. Any recommendation in the Report to increase funding will include an estimate of customer impact associated with any recommended increase in funding and the customer savings and benefits that are projected to result from such increase. The Report will propose efficiency programs for RYs 2 and 3, savings targets, and general program descriptions and spending levels.

(iv) Con Edison will have the opportunity to earn financial incentives if it administers the Program during RYs 2 and 3. The Report may also establish a basis for Con Edison to have the opportunity to earn such incentives even if NYSERDA is the administrator. The Report will include a recommendation as to the appropriate level of the incentives that may be earned if Con Edison or NYSERDA administers the program and how such incentives would be calculated.

(v) The Report will explain how much of the funding for the program will be for outreach and education and marketing ("OE&M") components and the budget to be established for those amounts (the program will include funding for outreach and education by Con Edison even if NYSERDA is determined to be the sole administrator). The OE&M components will incorporate any customer information and requests (e.g., requests for interconnection, new customer referrals, expanded load) about which the City or County possesses knowledge.

¹⁵ A total resource cost ("TRC") test will be used to assess cost-effectiveness. The TRC will be designed to be consistent with the relevant portions of the Commission's "Order on Demand Management Action Plan," issued on March 16, 2006 in Case 04-E-0572, with necessary adaptations to apply the TRC to gas efficiency rather than electric efficiency.

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(vi) The Report will explain the nature and extent of the monitoring, verification, and evaluation (“MV&E”) that should be performed with regard to measures and activities conducted under the program.

(vii) The Report will evaluate and recommend a method of recovery for program costs for RYs 2 and 3 (e.g., through a surcharge).

(viii) The Report will consider any developments related to gas efficiency in Commission Case No. 07-M-0548 - Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard.

(ix) The Report may also identify legislative and/or regulatory opportunities, such as improvements in energy building codes or establishing state and federal efficiency standards for residential and commercial products, that could achieve gas efficiency in Con Edison's service territory.

(x) A draft of the Report will be provided to all Efficiency Collaborative members on or before April 1, 2008. The Efficiency Collaborative will endeavor to reach consensus on all issues, and, where consensus is not reached, the Report will discuss the lack of consensus and describe the positions of the dissenting Efficiency Collaborative members in the Report. The Efficiency Collaborative members reserve the right to file comments on the Report after it is filed with the Commission.

2. Oil to Gas Conversion Program

The Company will recover through a surcharge to the MRA \$1.47 million for each of RY1, RY2 and RY3, for incentives associated with the Company's Oil Heating to Gas Heating Conversion Incentive Program. Incentives provided to customers by the Company in excess of \$1.47 million will be funded by the Company and not recoverable from customers. The Company will retain all revenues resulting from oil-to-gas

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conversions during the term of the Gas Rate Plan in order to fund incentives and other costs and expenses incurred by the Company in connection with this program. The Company will submit a report to Staff within 60 days of the end of each of RY1, RY2 and RY3, on activities under this program during the prior Rate Year, including program descriptions and the amounts of incentives committed and/or disbursed, by service classification. The Company will maintain a list of recipients of incentives of \$500 or more for inspection by Staff.

3. Communication with Interruptible Customers

Commencing November 2007, the Company will expand its current methods of notifying interruptible gas customers of service interruptions to include e-mail and, if practicable, text messaging, in addition to fax and/or phone.

To implement this change, the Company plans to contact interruptible customers in August 2007 to (i) request that they update their interruption notification contact information and (ii) provide the opportunity to include contact information for the use of email and/or text messaging. Each interruptible customer that elects to receive notice by e-mail or text messaging, in addition to fax and/or phone, will be required to provide a single “point of contact,” which may be in the form of an email “DL” (distribution list).

The Company will evaluate technical requirements of implementing email and text messaging and report its implementation plan at a meeting of interested parties in early September 2007 for interruptible and off-peak firm notification customers (“notification customers”). The Company will conduct pre-winter tests of communications protocols using both business and non-business hour contacts for notification customers in October 2007. For customers utilizing email or text messaging,

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the Company will provide an email address for purposes of these tests so that customers' contact information may be verified in advance of the winter season.

All customers must continue to provide fax and/or phone contact information, as set forth in the Company's tariff and operating procedures. A customer's failure to receive notification by email or text messaging (if and to the extent that the Company determines that it can implement text messaging) will not relieve the customer of any of its obligations under the Tariff or operating procedures.

4. Low Income Program

The Company will continue a low-income rate program, as described in Appendix D.

As noted in the Miscellaneous Tariff Changes section F.10, the reconnection fee applicable to low-income customers will be \$65.

In addition, the Company will provide annually to Staff and other interested parties, within 60 days after the end of each of RY1, RY2 and RY3, a report of customer participation and applicable rate reductions during the preceding Rate Year.

5. Retail Access Program

a. Purchase of Accounts Receivable

The Company will continue its Purchase of Receivables Program ("POR Program") in accordance with the terms of its POR Program adopted in the Commission's March 24, 2005 Order Adopting Three-Year Rate Plan in Case No. 04-E-0572, except as to the Discount Rate, which will be implemented as set forth below, and the addition of a Dispute Resolution Procedure.

Discount Rate. The discount rate applicable to the purchase of Energy Service Company ("ESCO") gas accounts receivable will continue to be compensatory,

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to the extent practicable, so that it compensates the Company for its financial risk involved in such purchases. The discount rate to be applied to ESCOs gas accounts receivables, including sales tax, shall be the sum of:

- (i) a percentage that is the Company's uncollectible rate for all residential and commercial electric and gas customers, other than the Company's corporate account customers, based on 11 months' experience and one month forecast for the calendar year preceding the year in which the discount rate will be applicable;
- (ii) a percentage that reflects the annual forecast cost of the Company's gas credit and collection function with respect to ESCO receivables;
- (iii) a percentage that is 15 percent of the uncollectible rate, to compensate the Company for its financial risk that the actual uncollectible rate for the purchased receivable may be higher than the uncollectible rate; and
- (iv) 0.15 percent for the incremental costs associated with POR Program administration.

The discount rate to be applied to ESCOs gas accounts receivables on bills issued on and after October 1, 2007, and through December 31, 2007, will be 1.69 percent.¹⁶ The discount rate applicable to gas receivables purchased during calendar year 2008 and each subsequent calendar year or portion thereof to the end of the Gas Rate Plan will be adjusted to reflect (1) the percentage change in (i) the Company's actual uncollectibles experience, including uncollectibles attributable to ESCO customers, for the then current

¹⁶ The components of this discount rate are:

- (i) 0.80 percent, which is the Company's uncollectible rate;
- (ii) 0.62 percent, which is the cost of the Company's gas credit and collection function;
- (iii) 0.12 percent, which is 15 percent of the 0.80 percent uncollectible rate; and
- (iv) 0.15 percent, which reflects the incremental administrative costs.

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calendar year (actual experience in January through November and forecast for December) and (ii) credit and collection function costs forecast for the following calendar year, (2) an adjustment to the risk factor, based on applying 15 percent to the change in the uncollectible rate, and (3) any additional incremental administrative costs beyond those included in the discount rate established herein or in any subsequent period.

On or about December 15 of each year during the Gas Rate Plan, the Company will notify all ESCOs of the discount rate (specifying the components) to be applicable in the next calendar year or portion thereof in the last year of the Gas Rate Plan.

Dispute Resolution Procedure. A dispute resolution procedure will be implemented as set forth in Appendix K. A “dispute” is a “customer claim related to an amount of ESCO charges billed and purchased by Con Edison.” The Company will review this procedure with interested parties and modify it, as appropriate, after it has been in place for one year.

b. Miscellaneous Provisions

Other than its POR Program, ESCO referral program (as approved by the Commission in Case 05-M-0858 on April 19, 2006)¹⁷ and Market Match website, which the Company will continue, the Company may, but shall be under no obligation to, continue any other elements of the Retail Access Program established in the 2004 Gas Rate Plan.

The Company will continue to amend its consolidated billing service agreement, as necessary and appropriate, to reflect changes to its Retail Access Program, including preparing a revised agreement to be signed by all ESCOs taking billing service from Con

¹⁷ The Company intends to establish a facility by which ESCOs can enroll customers in this program.

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Edison on and after October 1, 2007 reflecting the aforementioned changes to the POR program.

c. Bill Format

Con Edison will implement on October 1, 2007, a bill for gas service consistent with the unbundled rates approved in this proceeding.

6. Gas Manufacturing Incentive Rate

The Company will modify Rider I, the Gas Manufacturing Incentive Rate (“MIR”), by adding a provision that will enable any existing Con Edison gas manufacturing customers to take advantage of the MIR rate if (a) they increase their gas usage in their manufacturing process by 25 percent per month for three consecutive months and (b) submit to an energy audit pursuant to NYSERDA’s Energy Audit Program/Flex Tech. The determination of increased usage will be made on a weather normalized basis for customers that do not have a separate meter for heating load. This program will be available for up to 2 million therms of annual usage in the aggregate.

Rider I will also now be available to existing buildings that (i) qualify for a matching benefit from the City or the County, (ii) submit to an energy audit pursuant to NYSERDA’s Energy Audit Program/Flex Tech, and (iii) provide evidence of private sector job creation/retention and capital investment. Applications will be processed on a first come, first served basis.

A review and evaluation of each funding allowance shall be performed that considers the above-referenced selection criteria. The Company will work with the City and County economic development officials to identify and qualify eligible customers, but the Company will make the decision whether or not to award the MIR discount. The

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Company shall maintain documentation supporting its approval or rejection of each proposed project.

The Company will submit a report to Staff within 60 days of the end of each of RY1, RY2 and RY3, on activities under this program during the prior rate year, providing a list of applicants approved for the MIR discount during the prior rate year and describing the nature of the project. The report will include the following information:

- 1) Description of facility and operation.
- 2) The amount of rate discounts awarded, and the basis for the award.
- 3) Description of other known economic development activity or other economic benefits resulting from the project, if any.
- 4) Throughput generated by the project.

For any customer, the forecasted MIR discount cannot exceed the benefit to be provided by the City or the County. 2.5 million therms will be available to customers in the City and 0.5 million will be available to customers in the County; provided, however, that if the City and/or County have qualifying customers that would cause either or both to exceed their respective allocated volumes, and the Company has not qualified customers for the full two million therms available under its program, the Company will accept additional customers under the City and/or County programs, provided that the aggregate volume of qualifying annual therms for participating customers under all three programs does not exceed five million therms, subject further to the funding limitation set forth below.

The Company will fund this program by means of \$3 million of credits previously set aside to fund incentives pursuant to this Rider pursuant to a December 9, 2003 order

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in Case 03-G-1461. The Company may terminate the availability of rate discounts under this program when the forecasted level of aggregate discounts exceeds \$3 million.

The Company is also making the following housekeeping corrections to Rider I: (i) language will be added to the Applicability section to clarify that eligible customers must receive either a substantial real property tax incentive, energy savings under the ECSP program, or a Comprehensive Package of Economic Incentives in order to participate in the program; (ii) the heading "Gas Manufacturing Incentive Rate (MIR) for New and Vacant Premises" will be revised to exclude "for New and Vacant Premises"; (iii) references to associated SC No. 9 rates will be added to MIR tariff leaves as necessary; and (iv) a clarification that Rider I is not available to customers receiving a discounted rate pursuant to another provision of the Company's tariff (e.g., a bypass rate).

For all Rider I programs, customers will be obligated to determine whether NYSERDA funding is available for energy efficiency measures identified in the Energy Audit Program/Flex Tech, and include any such funding in their determination of the financial viability of implementing those measures.

The Company will maintain a list of recipients of incentives of \$500 or more for inspection by Staff.

7. Safety Performance Measures

i. Leak Management – Year-End Total Backlog. If the year-end total leak backlog (types 1, 2, 2A, 2M and 3)¹⁸ exceeds 1,600 for calendar year 2008, 2009 or 2010, the following negative rate adjustment will be applied to the benefit of firm

¹⁸ These are defined in Company specification G-11809.

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customers for each calendar year that the performance measure is not attained, as directed by the Commission:

1,600 or less	No adjustment
1,601 to 1,700	\$360,000
1,701 to 1,800	\$480,000
1,801 or more	\$600,000

ii. Leak Management - Year-End Workable Backlog. If the year-end workable leak backlog (types 1, 2, 2A and 2M) exceeds 75 for calendar year 2008, 2009 or 2010, the following negative rate adjustment will be applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

75 or less	No adjustment
76-85	\$360,000
86-95	\$480,000
96 or more	\$600,000

iii. Emergency Response – 30-Minute Response Time. If Con Edison does not respond to gas leak and odor calls within 30 minutes for at least 75 percent of the calls for calendar year 2008, 2009 or 2010, a \$600,000 negative rate adjustment will be applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission.

Gas leak and odor calls resulting from mass area odor complaints, major weather-related occurrences, and other circumstances outside of the Company’s control are excluded from the calculations for the 30-minute response time.

iv. Emergency Response – 45-Minute Response Time. If Con Edison does not respond to gas leak and odor calls within 45 minutes for at least 90 percent of the calls for calendar year 2008, 2009 or 2010, a \$480,000 negative rate adjustment will

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be applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission.

Gas leak and odor calls resulting from mass area odor complaints, major weather-related occurrences, and other circumstances outside of the Company's control are excluded from the calculations for the 45-minute response time.

v. Damage Prevention

a. Damages to Gas Facilities Resulting from Mismarks. If the total number of damages to Company gas facilities resulting from mismarks made by the Company and its contractors with respect to the location of Company gas facilities exceeds the targets set forth below per 1000 one-call tickets¹⁹ in calendar year 2008, 2009 or 2010, the negative rate adjustment associated with such target will be accrued and applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

.65 or less	No adjustment
.66 to .75	\$240,000
greater than .75	\$480,000

b. Damages by Company Employees and Company Contractors.²⁰ If the total number of damages to Company gas facilities made by Company Employees and Company Contractors exceeds the target set forth below per 1000 one-call tickets in calendar year 2008, 2009 or 2010, the negative rate adjustment associated with such

¹⁹ For the purposes of this section, one-call tickets are defined as locate requests involving a work area in the Company's Bronx, Queens, Manhattan and Westchester service territory only.

²⁰ For the purposes of this Safety Performance section F.7.v.b, "Company Employees" and "Company Contractors" are defined as employees in Con Edison's Gas Operations and Gas Operations contractors, respectively, and not Electric or Steam employees or contractors retained by the Company's Electric or Steam Operations.

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target will be accrued and applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

greater than .25 \$240,000

c. Total Damages. If the number of total damages to Company gas facilities made by any party exceeds the targets set forth below per 1000 one-call tickets in calendar year 2008, 2009 or 2010, the negative rate adjustment associated with such target will be accrued and applied to the benefit of firm customers for each calendar year that the performance measure is not attained, as directed by the Commission:

3.00 or less	No adjustment
3.01 to 3.20	\$120,000
greater than 3.20	\$240,000

A damage to a gas facility shall be as defined in 16 NYCRR § 753-1.2. Damages resulting from a mismatch of the same Company facilities shall be counted once, as a mismatch, to avoid double-counting. Damages resulting from hand excavation are excluded from the calculations in all three measures set forth in this section.

vi. Gas Main Replacement. The Company will remove from service 120 miles of leak-prone gas main during the three calendar-year period 2008 to 2010. In each of calendar years 2008, 2009 and 2010, the Company will remove from service not less than 30 miles of leak-prone gas main.

For each calendar year,

- a minimum of 10 miles of main removed from service will be cast iron/wrought iron main;
- not more than five miles of abandoned/retired gas main removed from service will be counted towards the 120-mile performance target; and

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- not more than 20 miles of gas main removed from service resulting from public improvement/interference replacement projects will be counted towards the 120-mile performance target.

If the Company does not meet one or more of the above-stated targets of gas main replacement/retirement in 2008, 2009 or 2010, the Company will accrue a single negative rate adjustment in the amount of \$960,000 for such calendar year(s), which will be applied to the benefit of firm customers, as directed by the Commission.

If it does not remove from service a total of 120 miles of gas main in the three calendar-year period 2008 to 2010, the Company will accrue a negative rate adjustment in the amount of \$2,880,000, which will be applied to the benefit of firm customers, as directed by the Commission; provided, however, if the Company incurred a \$960,000 negative revenue adjustment for any calendar year, the \$2,880,000 negative rate adjustment will be reduced by that amount(s) (i.e., the maximum negative rate adjustment for Gas Main Replacement for the three-year period will be \$2,880,000).

The Gas Main Replacement program will expire at the end of 2010, whether or not new gas base delivery rates are changed by Commission order.

vii. General Provisions. The Company will report its annual performance in each of the areas set forth in this section to the Director of the Office of Gas & Water no later than 60 days following the end of the calendar year. If a performance metric is not met, the associated revenue adjustment will be excused when the Company can demonstrate to the Commission extenuating circumstances that prevented it from meeting such performance metric. The determination of whether such circumstances exist will be made on a case-by-case basis and will be based upon the particular facts and

circumstances presented.

8. Customer Satisfaction

The levels of the Company's customers' satisfaction will be determined by surveys performed semi-annually by an outside vendor selected by the Company. The surveys will be designed to measure customers' satisfaction with the handling of calls to the Emergency Response Center relating to gas service. Should the average of the two system-wide satisfaction survey indices for any Rate Year fall below 88.1 percent, Con Edison will provide a credit to customers, as directed by the Commission. The gross amount of the credit will be calculated proportionately from zero at a satisfaction level of 88.1 percent or above, up to a maximum of \$3.3 million at a satisfaction level of 87.5 percent or below. System-wide emergencies will not be included in surveys conducted under this provision.

Con Edison will submit reports on its performance of the customer satisfaction surveys twice a year following performance of each survey.

9. General Outreach and Education Programs

The Company shall provide gas customer education on general topics, such as customer rights and responsibilities, and shall enhance its educational efforts with respect to gas-specific issues, such as gas pipeline awareness, gas safety, gas service programs, and gas outages. The estimated annual cost of the Company's outreach and education effort for these purposes is \$1.3 million for each year of the Gas Rate Plan.

10. Miscellaneous Tariff Changes

The Company will implement the following tariff changes as generally described below.

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(i) SC No. 9 will be amended to eliminate the Competitive Retail Choice Credit (“CRCC”). Any lost CRCC revenue not recovered as of October 1, 2007 will continue to be recovered either through allowed funding sources for such recovery or through the MRA applicable to firm sales and firm transportation customers to the extent that funding sources are inadequate.

(ii) The description of the Transition Adjustment for Competitive Services (“TACS”) in the General Information Section of the tariff will be amended as explained in Appendix D.

(iii) A provision has been added to the General Information Section to establish new gas service fees. As noted in section F.4, the reconnection fee for SC No. 1 customers and for all low income customers and associated SC No. 9 customers will be set at \$65 per occurrence. The reconnection fee for all other customers will be set at \$245 per occurrence.

(iv) As noted in section F.2, a provision will be added to the General Information Section to allow for funding through the MRA of \$1.47 million for the oil-to-gas conversion program.

(v) Riders E (Area Development Rate) and F (Business Incentive Rate) have been discontinued and removed from the General Information Section of the tariff.

(vi) Housekeeping changes, as noted in section F.6, will be made to certain provisions of Rider I.

(vii) A provision for the gas Migration Incentive will be modified to limit its applicability to incentives earned during the 2004 Gas Rate Plan.

(viii) The Company will conform the tariff provisions for the MFC to the design reflected in Appendix D.

G. Other Provisions

1. Rate Changes

Except for section F.7.vi (Gas Main Replacement), the provisions of this Proposal will continue after RY3, unless and until gas base delivery rates are changed by Commission order. For any provision subject to RY1, RY2 and RY3 targets, the RY3 target shall be applicable to any additional rate year(s). Nothing herein precludes Con Edison from filing a new general gas rate case prior to October 1, 2010, for rates to be effective on or after October 1, 2010.

Changes to the Company's base gas rates during this Gas Rate Plan will not be permitted, except for (a) changes provided for in this Proposal and (b) subject to Commission approval, changes as a result of the following circumstances:

a. A minor change in any individual base rate or rates whose revenue effect is de minimis or essentially offset by associated changes in other base rates, terms or conditions of service – for example, an increase in a specific base rate charge in one service classification that is offset by a decrease in another base rate charge in the same or in other service classifications. It is understood that, over time, such minor changes are routinely made and that they may continue to be made during the term of this Gas Rate Plan, provided they will not result in a change (other than a de minimis change) in the revenues that Con Edison's base gas rates are designed to produce overall before such changes.

b. If a circumstance occurs which in the judgment of the Commission so threatens Con Edison's economic viability or ability to maintain safe, reliable and

adequate service as to warrant an exception to this undertaking, Con Edison will be permitted to file for a change in base gas rates at any time under such circumstances.

c. The Signatory Parties recognize that the Commission reserves the authority to act on the level of Con Edison's base gas rates in the event that, in the Commission's opinion, Con Edison's gas rates are unjust or unreasonable or insufficient for the provision of safe, reliable and adequate service.

d. Nothing herein shall preclude Con Edison from petitioning the Commission for approval of new services or rate design or revenue allocation changes on an overall revenue-neutral basis, including, but not limited to, the implementation of new service classifications and/or cancellation of existing service classifications.

2. Legislative, Regulatory and Related Actions

a. If the federal government, State of New York, the City of New York and/or other local governments make changes in their tax laws (other than local property taxes, which will be reconciled in accordance with paragraph D.1 above) that result in the Company's incurring incremental gas costs in an annual amount of \$2.0 million or more, and if the Commission does not permit the disposition, through a surcharge or credit, of any such tax law changes, including any new, additional, repealed or reduced federal, state, or City of New York, fees or levies, Con Edison will defer the full change in expense and reflect such deferral as credits or debits to customers in the next base rate change, subject to any final Commission determination in a generic or other proceeding prescribing utility implementation of a specific tax law enactment,

including Commission determination of any Company-specific compliance filing made in connection therewith.²¹

b. If any other law, rule, regulation, order, or other requirement or interpretation (or any repeal or amendment of an existing rule, regulation, order or other requirement) mandated by the state, local or federal government or courts, including a requirement that Con Edison refund its tax exempt debt, results in a change in Con Edison's annual gas costs or revenues not anticipated in the forecasts and assumptions on which the rates in this Proposal are based, and in the Company's incurrence of incremental gas costs or reduced revenues in an annual amount of \$2.0 million or more,²² Con Edison will defer on its books of account the full change in costs or revenues, with any such deferrals to be reflected in the next base rate case or in a manner to be determined by the Commission.

c. The Company will retain the right to petition the Commission for authorization to defer extraordinary expenditures not otherwise addressed by this proposal.

3. Trade Secret Protections

Nothing in this document prevents Con Edison from seeking trade secret protection under 16 NYCRR Part 6 for all or any part(s) of any document or report filed (or submitted to Staff) in accordance with this Gas Rate Plan, or prohibits or restricts any other party from challenging any such request.

²¹The Company reserves all of its administrative and judicial rights in connection with such proceedings(s).

²²For purposes of this Proposal, the \$2.0 million threshold will be applied on a case-by-case basis and not to the aggregate impact of changes of two or more laws, rules, etc.; provided, however, that these thresholds will be applied on a Rate Year basis to the incremental aggregate impact of all contemporaneous changes (*i.e.*, changes made as a package even if they occur or are implemented over a period of months) affecting a particular subject area and not to the individual provisions of the new law, rule, etc.

4. Provisions Not Separable

The Signatory Parties intend this Proposal to be a complete resolution of all the issues in Case No. 06-G-1332. It is understood that each provision of this Proposal is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the Commission. Except as set forth herein, none of the Signatory Parties is deemed to have approved, agreed to or consented to any principle, methodology or interpretation of law underlying or supposed to underlie any provision herein. If the Commission fails to adopt this Proposal according to its terms, then the Signatory Parties to the Proposal shall be free to pursue their respective positions in this proceeding without prejudice.

5. Provisions Not Precedent

The terms and provisions of this Proposal apply solely to, and are binding only in, the context of the purposes and results of this Proposal. None of the terms or provisions of this Proposal and none of the positions taken herein by any party may be referred to, cited, or relied upon by any other party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose other than furtherance of the purposes, results, and disposition of matters governed by this Proposal.

6. Submission of Proposal

The Signatory Parties agree to submit this Proposal to the Commission and to individually support and request adoption by the Commission in its entirety as set forth herein, except as to those Signatory Parties whose signature pages indicate affirmative support, or withhold support, for limited aspects of this Proposal. The Signatory Parties

hereto believe that the Proposal will satisfy the requirements of Public Service Law §65(1) that Con Edison provide safe and adequate service at just and reasonable rates.

7. Effect of Commission Approval

No provision of this Proposal or the Commission's approval of this Proposal shall in any way abrogate or limit the Commission's statutory authority under the Public Service Law. The Parties recognize that any Commission approval of this Proposal does not waive the Commission's ongoing rights and responsibilities to enforce its orders and effectuate the goals expressed therein, nor the rights and responsibilities of Staff to conduct investigations or take other actions in furtherance of its duties and responsibilities.

8. Further Assurances

The Signatory Parties recognize that certain provisions of this Proposal require that actions be taken in the future to fully effectuate this Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

9. Execution

This Proposal is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

IN WITNESS WHEREOF, the Signatory Parties hereto have affixed their signatures below as evidence of their agreement to be bound by the provisions of this Proposal on the day and year first written above.

CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC.

Dated: June 1, 2007

By: _____

Case 06-G-1332

NEW YORK STATE DEPARTMENT
OF PUBLIC SERVICE

Dated: _____

By: _____

Case 06-G-1332

THE CITY OF NEW YORK

Dated: _____

By: _____

Case 06-G-1332

CONSUMER POWER ADVOCATES

Dated: _____

By: _____

Case 06-G-1332

NEW YORK ENERGY CONSUMERS
COUNCIL, INC.

Dated: _____

By: _____

Case 06-G-1332

**SMALL CUSTOMER MARKETER
COALITION**

Dated: _____

By: _____

Case 06-G-1332

THE PACE ENERGY PROJECT

Dated: _____

By: _____

Case 06-G-1332

ASSOCIATION FOR ENERGY
AFFORDABILITY

Dated: _____

By: _____

Case 06-G-1332

IDT ENERGY, INC.

Dated: _____

By: _____

Case 06-G-1332

**NEW YORK STATE ENERGY RESEARCH
AND DEVELOPMENT AUTHORITY**

Dated: _____

By: _____