STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 99-G-1695 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service.

REQUEST FOR COMMENTS ON
PROPOSED GAS RATE SETTLEMENT

(Issued September 18, 2000)

On September 12, 2000, Orange and Rockland Utilities, Inc. and three other parties to this proceeding--Industrial Energy Users Association, State Consumer Protection Board, and Department of Public Service Staff--submitted a proposed settlement agreement. A summary of the parties' settlement proposal is attached.

Interested persons are invited to submit written comments in support or opposition to the proposed settlement on or before Wednesday, October 4, 2000. An original and five copies of the comments should be sent to Janet Hand Deixler, Secretary, Public Service Commission, Three Empire State Plaza, Albany, New York 12223-1350. The comments should refer to: Case 99-G-1695 - Orange and Rockland Gas Rates.

Also, on Wednesday, October 4, 2000, the parties to the proposed settlement shall submit their statements in support of the proposed settlement.

The Commission may accept, reject, modify, or return the settlement proposal to the parties after considering it and the public comments received in this proceeding.

JANET HAND DEIXLER
Secretary

ATTACHMENT
CASE 99-G-1695
Orange and Rockland Utilities, Inc.
Summary of Settlement Agreement

On September 11, 2000, Orange and Rockland Utilities, Inc. (the “Company”), Department of Public Service Staff (“Staff”), the Consumer Protection Board (“CPB”), and the Industrial Energy Users Association (“IEUA”) entered into an Agreement and Settlement (“Settlement”) that resolved all the issues in the gas base rate case filed by the Company on December 3, 1999. The key provisions of the Settlement are as follows:

Term

The Settlement covers the three-year period from November 1, 2000 to October 31, 2003 with the possibility of a reduced term of 18 months if a successful resolution of the Phase 2 restructuring is not achieved.

Rate Plan

With the exception of the unbundling of certain gas costs and other rate design changes, the Settlement provides for no changes to base rate revenues, based on the rate year sales forecast, during its three year term.

The Settlement recognizes that the Company is entitled to an additional $18.071 million. While the Settlement provides for no increase in base rate revenue, if the Company meets certain pre-defined gas restructuring related milestones, the Settlement provides that the Company may retain $10.157 million of customer credits and $7.914 million of Gas Adjustment Clause (“GAC”) collections, for a total of $18.071 million over the three-year Settlement period.

Earnings in excess of 11.1 percent return on common equity capital allocated to New York jurisdictional gas utility operations shall be shared equally between customers and shareholders. This earnings sharing threshold shall be increased by up to 85 basis points depending on the Company's performance relative to pre-defined goals for customer awareness and understanding (10 basis points) and migration (75 basis points).

Gas Lost and Unaccounted for Factor

The Factor of Adjustment, reflecting gas lost and unaccounted for, will be 1.037, 1.036, and 1.034 for the rate years ending October 31, 2001 ("First Rate Year"), 2002 ("Second Rate Year"), and 2003 ("Third Rate Year"), respectively. The current loss factor is 1.046.

Rate Design

The Company shall (a) increase the first block charge of its firm service rates to $4.80 in the First Rate Year, $5.36 in the Second Rate Year, and $6.11 in the Third Rate Year, respectively; and (b) the cost of gas, which was previously recovered through a combination of the base cost of gas and GAC, will now be recovered solely through the Gas Supply Charge applicable to firm sales customers (Service Classification Nos. 1 and 2). A Monthly Gas Adjustment applicable to firm sales and transportation customers (Service Classification Nos. 1, 2, and 6) has been established to assess surcharges/credits, previously assessed through the monthly GAC and transportation rate adjustments. The minimum charge remains at $4.80.

The Settlement introduces a $100 per month minimum charge for large volume transportation customers (i.e., customers that consume over 5,000 Mcf per year). Currently, there is no monthly minimum charge.

Rate Year Sales

Total firm sales and firm transportation (SC Nos. 1, 2, and 6) for the First Rate Year are projected to be 21,234,351 Mcf.

Weather Normalization

The Company will employ a Weather Normalization Adjustment to adjust sales and transportation revenues in the First Rate Year and subsequent rate years covered by this Settlement to the extent actual heating degree days vary more than plus or minus 4% from the normal heating degree days consistent with those utilized in projecting rate year sales.

Base Rate Imputations

For the First, Second and Third Rate Years, respectively, a base rate revenue imputation of $6,725,000 shall be in effect. This revenue imputation reflects (i) an increase in the base rate imputation for interruptible sales margins from $4,483,000 to $5.5 million; (ii) an imputation of $ 500,000 for off-system sales; and (iii) an imputation of $725,000 for gas for power generation credits. Any variances between the actual revenue margin and the combined $6,725,000 imputation for these elements, during each rate year this Settlement is effective, will be shared on a 80% customer / 20% shareholder basis.

Property Taxes

100% of changes in the Company’s property taxes (allocated to gas operations) due to tax rate changes and 90% of changes in the Company’s property taxes (allocated to gas operations) due to assessment changes will be reconciled, to the expense allowances in each rate year.

Performance Measurements

For the First, Second, and Third Rate Years, respectively, gas safety performance measurement will be in effect relating to (i) leak management, (ii) bare steel main replacement, (iii) customer safety complaints, and (iv) the UFORIA index (which tracks the Company's performance relating to the protection of underground facilities). If the Company fails to meet certain pre-defined performance standards, it can be required to charge to income up to the following amounts for the corresponding rate year: leak management (5 basis points), bare steel replacement (10 basis points), customer safety (5 basis points), and UFORIA Index (10 basis points).

The disposition of any amounts charged to income as a result of such failure shall be as determined by the Commission.

Low Income Program

The Company will implement a pilot gas low income program, which program will include a weatherization and arrears forgiveness component, a low-income aggregation component, and an educational outreach component. The parties agree that the annual revenue requirements include about $200,000 (but not to exceed $600,000 for the three-year term) per year for such low-income program for the term of this Settlement.

Customer Outreach and Education

The Company will implement a customer outreach and education program as part of this Settlement. The cost of this program will be capped at $700,000 for the three-year term of the Settlement.

Gas Restructuring

The Company has agreed to enter into collaborative discussions with marketers and other interested parties, notifying them and serving them with a gas restructuring plan. The Company also has agreed to implement the following elements of gas restructuring by November 1, 2000:

- Institute an interim back out rate of $0.10 per Mcf applicable to firm transportation customers;
- Remove the cost of gas from delivery rates;
- Remove the inventory carrying cost of gas in storage from base rates;
- Institute a daily and monthly imbalance trading program for SC 13 Sellers and SC 8 Direct Customers;
- Institute a capacity release program that will notify marketers and direct customers by June 15 as to what capacity is available to marketers prior to posting it on the Electronic Bulletin Board;
- Modify communications protocols between the Company, marketers, and direct customers;
- Institute a $25 customer migration payment to marketers;
- Address the allocation of costs and rates for the different uses of storage by transportation and sales customers;
- Appoint a Vice President level ombudsman to address marketers’ unresolved concerns; and
- Institute an objective marketer satisfaction survey.