Received: 10/3/2006

175 East Old Country Road
Hicksville, New York 11801

October 3, 2006

VIA FEDERAL EXPRESS

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

RE: Application of KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island For A Major Rate Increase, Case 06-G-____

Dear Secretary Brilling:

In accordance with the requirements of the Public Service Law, the State Administrative Procedure Act and the Rules, Regulations and Policy Statements of the Public Service Commission of the State of New York ("Commission"), KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI" or "Company") hereby submits the following:

1. One (1) copy of each of the revised tariff leaves listed in Appendix "A" hereto issued by KEDLI to its Schedule for Gas Service, P.S.C. No. 1 - Gas issued October 3, 2006, to become effective November 3, 2006. The Company's expectation is that the Commission will issue orders suspending the effective date of the tariff leaves through September 3, 2007;

2. A proposed notice of this filing suitable for use under the State Administrative Procedure Act;

3. An original and twenty-five copies of a Request for a Waiver of (i) the Commission's Policy Statement on Test Periods in Major Rate Proceedings, and (ii) the Commission's Bill Insert Regulations, and a Motion to Consolidate this Proceeding with both (a) Case 06-M-0878, the proceeding in which National Grid, PLC and KeySpan Corporation have requested, *inter alia*, approval of their proposed merger, and (b) The

Received: 10/3/2006

Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York ("KEDNY's") major rate increase filing, which is also being made with the Commission today; and

4. Fifteen (15) copies of the prepared written testimony and exhibits in support of the proposed rate and tariff changes, which constitutes KEDLI's direct case in support of its rate filing. The testimony for the following individuals is being submitted:

- Joseph F. Bodanza, presenting an overview of the Company's filing and supporting KEDLI's capital structure, cost of capital, recovery of certain costs and certain accounting changes;

- Robert G. Rosenberg, a Principal of Edgewood Consulting, Inc., supporting the proposed cost of equity and capital structure;

- Patrick J. McClellan, supporting the Company's proposed operation and maintenance expenses, rate base, taxes, and forecast of inflation;

- Jack F. Haran, supporting KEDLI's capital expenditures and safety and reliability programs;

- Justin F. Orlando, supporting KEDLI's compensation and benefits costs;

- Robert B. Moore, supporting KEDLI's marketing expenses;

- James H. Aikman of Management Applications Consulting, Inc., presenting KEDLI's depreciation study;

- Jennifer Feinstein, supporting KEDLI's revenue forecast and proposed changes to the normal heating degree days used for ratemaking purposes;

- Joseph Trainor of RJ Rudden Associates, presenting KEDLI's embedded cost of service study;

- Ronald G. Lukas, supporting the forecast of non-core revenues, the proposed rate design, certain service changes and marginal costs; and

- Nancy C. Cianflone, supporting KEDLI's expanded low-income program, certain non-gas revenues, customer service incentives and certain retail access proposals.

The Rate Filing

The Company's filing demonstrates KEDLI's need for rate relief on a stand-alone basis under the current KeySpan corporate structure. This filing revises the Company's rates in a manner designed to increase total revenues by approximately $159 million or 10.9% during the proposed rate year, which is the twelve months ending March 31, 2008. In the winter of 2005-2006, KEDLI had been in the process of preparing this filing,

Received: 10/3/2006

which it planned to submit in the Spring of 2006. In February of 2006, National Grid and KeySpan announced their proposed merger. Accordingly, KEDLI delayed its proposed rate filing to evaluate the impact of the proposed merger on the Company's rates. In July 2006, National Grid and KeySpan submitted a joint filing in Case 06-M-0878 requesting approval of the intended merger, certain additional regulatory approvals and approval of a ten-year rate plan for both KEDLI and KEDNY ("Merger Rate Plan"). The Merger Rate Plan was designed to mitigate and postpone the substantial increases in delivery rates for KEDLI that otherwise would be required. As discussed more fully in testimony that is also being filed this day in Case 06-M-0878, National Grid and KeySpan have proposed to provide KEDLI's customers significant synergy savings and other benefits that would postpone and somewhat offset KEDLI's need for rate relief.

As discussed in the filing, the total projected increase in revenues comprises two components; an increase of $145 million in base rates and a projected $14 million increase in non-gas margin revenues to be recovered through the Gas Adjustment Clause ("GAC") or the Transportation Adjustment Clause ("TAC"). With respect to these GAC/TAC adjustments, KEDLI proposes to unbundle certain gas-related costs that are currently recovered through base rates and instead recover those costs through the GAC/TAC.[1] Estimated customer and billing impacts of KEDLI's filing are shown in Appendix "B" attached hereto.

There are many factors that create the need for the proposed increase in rates at this time. As set forth in more detail in the accompanying testimony, KEDLI's last base rate increase took effect December 1, 1995. Since that time, KEDLI's base rates were reduced twice, by $12.175 million annually and $6.253 million annually, respectively in 1998. During this period, inflation has been substantial. Moreover, KEDLI has made significant incremental capital investments in order to fulfill its obligation to provide safe and reliable gas distribution service. While KEDLI has made every effort to manage expenses over the past decade, the Company can no longer avoid the need for an increase in rates under its current corporate structure. The principal factors creating the need for the rate relief proposed in this filing are (i) increases in O&M expenses, (ii) increases in rate base and the Company's cost of capital, (iii) increases in property taxes, (iv) increases in depreciation expense, and (v) the need to commence recovery of previously deferred costs.

KEDLI's proposed rate of return on equity is 11.0%, as supported by Mr. Rosenberg's testimony. KEDLI is proposing to continue its existing earnings sharing mechanism established in PSC Case 97-M-0567. That earnings sharing mechanism requires the Company to share earnings in excess of established thresholds with customers.

KEDLI's filing also proposes to recover previously deferred costs, which are largely beyond the control of the Company. These costs include increases in pension and other post-employment benefit costs and expenses associated with the investigation and

[1] These costs include the portion of uncollectible expenses associated with gas costs, the return on storage inventory and the return on gas purchase-related working capital.

Received: 10/3/2006

remediation of the Company's former manufactured ("MGP") gas plant sites. To mitigate the bill impacts associated with recovery of these expenses, KEDLI is proposing to amortize these costs over a seven-year period.

KEDLI is also proposing several accounting changes in this proceeding. The Company proposes to use deferred accounting to account for the full difference between (i) actual pension and other post-retirement benefit expenses and the level of such expenses reflected in rates, (ii) actual property tax expense and the level of such expense reflected in rates (iii) actual gas-cost related expenses including the portion of uncollectible expense associated with gas costs, return on storage inventory and return on gas cost purchase-related working capital and the level of such expenses recovered through the GAC and/or TAC, (iv) certain costs associated with the implementation of retail access, and (v) all future expenses associated with the investigation and remediation of its former MGP sites. Because it is including state income taxes in base rates, KEDLI proposes to cease using deferred accounting to record the difference between its actual state income tax expense and the level of certain revenue surcharges.

In the rate design area, KEDLI proposes to make certain interclass and intraclass revenue shifts designed to align KEDLI's rates more closely with cost causation principles. KEDLI also proposes to combine its Temperature Controlled and interruptible service classifications into a single service class and to share revenues derived from these combined classes between the Company and its core customers. KEDLI also proposes changes to certain terms and conditions of service, such as its marketer balancing charge.

KEDLI's filing contains a number of proposals designed to promote retail access and implement the Commission's pro-competitive policies. As discussed by Mr. Lukas, KEDLI proposes to implement cost-based unbundled rates and to afford the Company the ability to recover reasonable lost revenues resulting from customers migrating to unbundled services. As discussed by Ms. Cianflone, KEDLI also proposes to implement certain proposals that are designed to encourage retail choice.

Finally, as also discussed by Ms. Cianflone, KEDLI proposes several measures designed to maintain KEDLI's high level of customer service, including the continuation, with some modification, of the Company's Customer Service Quality Performance Mechanism. KEDLI is also proposing to implement the "On-Track" program in KEDLI's service territories in order to benefit low-income customers.

Request For Consolidation With Case 06-M-0878

While KEDLI is making this rate increase filing, it is the Company's hope that it will not be necessary for KEDLI to implement the proposed rates because KEDLI's need for rate relief on a stand-alone basis will be superseded and rendered moot by the Commission's approval in Case 06-M-0878 of the merger between National Grid and KeySpan and the Merger Rate Plan. To facilitate this result, KEDLI requests that this filing be consolidated with Case 06-M-0878 and assigned to the Presiding Administrative Law Judge in that proceeding, Gerald L. Lynch. By consolidating this proceeding with

Received: 10/3/2006

Case 06-M-0878, the Commission will be able to evaluate fully the benefits of the planned merger and the Merger Rate Plan in the same proceeding in which it will consider KEDLI's (and KEDNY's) stand-alone rate filing.

Waiver Requests

Included with this filing is a request that the Commission issue such waivers of the Commission's "Statement of Policy on Test Period In Major Rate Proceedings" (hereinafter "Test Period Policy Statement")[2] as may be necessary to permit KEDLI to proceed with the tariff filings transmitted herewith. KEDLI is requesting that it be permitted to use the Calendar Year 2005 as the Test Year, and the twelve months ending March 31, 2008 as the Rate Year in this proceeding.

As discussed more fully in the attached waiver request and motion for consolidation, there are a number of sound equitable reasons for the Commission to grant a waiver of its Test Period Policy Statement in this proceeding, including that (i) such a waiver will permit the Commission to conduct a reliable, comparative evaluation of KEDLI's need for rate relief as a stand-alone entity and the Merger Rate Plan proposed by National Grid, *et al.* in Case 06-M-0878, (ii) such a waiver will not change KEDLI's burden of proof, nor its obligation to establish a "quantifiable link" between Test Year and Rate Year results, and (iii) no party will be prejudiced by the waiver because discovery concerning KEDLI's rate filing has already begun in Case 06-M-0878.

The waiver request also asks the Commission to waive the requirements in 16 NYCRR Section 720.9.1 which would require KEDLI to include bill inserts explaining its proposed rate increase with the next utility bills issued within seven days of the instant filing. It is the Company's position that adoption of the Merger Rate Plan will obviate the need for the rate relief sought in the instant filing. As a consequence, a bill insert at this time would likely cause more customer confusion than it would resolve. Accordingly, KEDLI respectfully requests that it be permitted to defer the provision of a bill insert until a later time.

Additional Matters

Notice of this filing will be published and served in accordance with Section 66(12) of the Public Service Law and 16 NYCRR Section 720.8.1. Proof of publication will be submitted upon completion.

A separate transmission of this filing is being submitted to the Commission in accordance with the Commission's Electronic Tariff System requirements (16 NYCRR Subpart 720.2).

---

[2] The Test Period Policy Statement was issued November 23, 1977 and appears at 17 NYPSC 25-R. This policy was amended by order issued January 25, 1996 in Case 92-M-1145, *See* 167 P.U.R. 4th 317.

Received: 10/3/2006

Acknowledgement of the receipt of this letter is requested and an extra copy together with a return envelope is enclosed for that purpose.

Respectfully submitted,

Ronald G. Lukas
Vice President

Enclosures
cc: Active Parties in Cases 06-M-0878
(via First-Class Mail)
Administrative Law Judge Gerald L. Lynch

Received: 10/3/2006

KEYSPAN ENERGY DELIVERY LONG ISLAND
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

Second Revised Leaf No. 3
Fifth Revised Leaf No. 5
Fourth Revised Leaf No. 6
Sixth Revised Leaf No. 7
First Revised Leaf No. 11
Third Revised Leaf No. 12
First Revised Leaf No. 13
Fourth Revised Leaf No. 14
First Revised Leaf No. 15
First Revised Leaf No. 16
Second Revised Leaf No. 17
First Revised Leaf No. 48
Second Revised Leaf No. 50
Original Leaf No. 50.1
Second Revised Leaf No. 62
Fourth Revised Leaf No. 63.1
Second Revised Leaf No. 65
Third Revised Leaf No. 69
Third Revised Leaf No. 70
Fourth Revised Leaf No. 71
Original Leaf No. 71.1
Tenth Revised Leaf No. 72
Original Leaf No. 72.1
Second Revised Leaf No. 73
Original Leaf No. 73.1
Original Leaf No. 73.2
Fourth Revised Leaf No. 74
Sixth Revised Leaf No. 74.1
Original Leaf No. 74.2
Original Leaf No. 74.3
Original Leaf No. 74.4
Second Revised Leaf No. 75
Second Revised Leaf No. 76
First Revised Leaf No. 77
Second Revised Leaf No. 78
Second Revised Leaf No. 85
First Revised Leaf No. 93
Second Revised Leaf No. 94
First Revised Leaf No. 95
First Revised Leaf No. 96
First Revised Leaf No. 97
Third Revised Leaf No. 106
Fourth Revised Leaf No. 107
Fourth Revised Leaf No. 108
Third Revised Leaf No. 109
First Revised Leaf No. 110
Second Revised Leaf No. 121
Second Revised Leaf No. 122
Second Revised Leaf No. 122.1
First Revised Leaf No. 124
First Revised Leaf No. 125

Received: 10/3/2006

KEYSPAN ENERGY DELIVERY LONG ISLAND
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

First Revised Leaf No. 126
First Revised Leaf No. 127
First Revised Leaf No. 128
Seventh Revised Leaf No. 129
Fourth Revised Leaf No. 129.1
Second Revised Leaf No. 130
Second Revised Leaf No. 131
Third Revised Leaf No. 132
Fourth Revised Leaf No. 133
Second Revised Leaf No. 133.1
Eighth Revised Leaf No. 137
Ninth Revised Leaf No. 138
Tenth Revised Leaf No. 140
Eighth Revised Leaf No. 141
Third Revised Leaf No. 149
Eighth Revised Leaf No. 150
Fourth Revised Leaf No. 151
Sixth Revised Leaf No. 152
Third Revised Leaf No. 153
Sixth Revised Leaf No. 154
Second Revised Leaf No. 154.1
Second Revised Leaf No. 154.2
Second Revised Leaf No. 159.1
Fifth Revised Leaf No. 160
First Revised Leaf No. 162
Third Revised Leaf No. 170
Second Revised Leaf No. 173
Fourth Revised Leaf No. 174
Second Revised Leaf No. 180
Sixth Revised Leaf No. 182
Sixth Revised Leaf No. 187
Original Leaf No. 210.1
Original Leaf No. 210.2
Original Leaf No. 210.3
Original Leaf No. 210.4
Original Leaf No. 210.5
Original Leaf No. 210.6
Original Leaf No. 210.7
Original Leaf No. 210.8
Original Leaf No. 210.9
Original Leaf No. 210.10
Original Leaf No. 210.11
Original Leaf No. 210.12
Original Leaf No. 210.13
Original Leaf No. 210.14
Original Leaf No. 210.15
Original Leaf No. 210.16
Original Leaf No. 210.17
Original Leaf No. 210.18
Original Leaf No. 210.19
Original Leaf No. 210.20

Received: 10/3/2006

KEYSPAN ENERGY DELIVERY LONG ISLAND
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

Original Leaf No. 210.21
Original Leaf No. 210.22
Original Leaf No. 210.23
Original Leaf No. 210.24
Original Leaf No. 210.25
Original Leaf No. 210.26
Original Leaf No. 210.27
Original Leaf No. 210.28
Original Leaf No. 210.29
Original Leaf No. 210.30
Original Leaf No. 210.31
Original Leaf No. 210.32
Original Leaf No. 210.33
Original Leaf No. 210.34
Original Leaf No. 210.35
Original Leaf No. 210.36
Original Leaf No. 210.37
Original Leaf No. 210.38
Original Leaf No. 210.39
Original Leaf No. 210.40
Original Leaf No. 210.41
Original Leaf No. 210.42
Original Leaf No. 210.43
Original Leaf No. 210.44
Original Leaf No. 210.45
Original Leaf No. 210.46
Original Leaf No. 210.47
Original Leaf No. 210.48
Original Leaf No. 210.49
Original Leaf No. 210.50
Original Leaf No. 210.51
Original Leaf No. 210.52
Original Leaf No. 210.53
Original Leaf No. 210.54
Original Leaf No. 210.55
Original Leaf No. 210.56
Original Leaf No. 210.57
Original Leaf No. 210.58
Original Leaf No. 210.59
Third Revised Leaf No. 211
First Revised Leaf No. 213
Third Revised Leaf No. 215
Fourth Revised Leaf No. 216

Received: 10/3/2006

APPENDIX B

KeySpan Energy Delivery Long Island Application for Rate Increase of October 3, 2006
Comparison of Current and Proposed Rates
Bills Increased, Decreased and Unaffected

Service Classification	Rate Class	Bills Increased	Bills Decreased	Bills Unchanges	Total Bills	Margin Revenue Increase	Margin Revenue Decrease	Net Margin Revenue Increase
Residential Non-Heating	1A	1,625,448	0	0	1,625,448	$9,882,394	$0	$9,882,394
Residential Heating	1B	4,271,190	0	0	4,271,190	$88,864,227	$0	$88,864,227
Commercial Non-Heating	2A	109,044	0	0	109,044	$6,281,097	$0	$6,281,097
Commercial Heating	2B	673,914	0	0	673,914	$35,153,484	$0	$35,153,484
Multifamily	3	15,390	0	0	15,390	$2,690,443	$0	$2,690,443
High Load Factor	15	624	0	0	624	$678,563	$0	$678,563
Year Round Air Conditioning	16	135	0	0	135	$130,526	$0	$130,526
Natural Gas Vehicle Service	8	243	0	0	243	$827,769	$0	$827,769
Distributed Generation Sales	17	915	0	0	915	$478,225	$0	$478,225
Totals		6,696,903	0	0	6,696,903	$144,986,728	$0	$144,986,728

1/ Number of bills is calculated as the number of customers multiplied by 12 (monthly billing).
2/ Adjustment made to Rate 15 margin increase to mitigate the impact of rounding for the proposed Firm rates.
3/ SC 17 - Distributed Generation currently has only two customers.