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One MetroTech Center
Brooklyn, New York 11201

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 The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York 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"), The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York ("KEDNY" or "Company") hereby submits the following:

1. One (1) copy of each of the revised tariff leaves listed in Appendix "A" hereto issued by KEDNY to its Schedule for Gas Service, P.S.C. No. 12 - Gas on 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) KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island's

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("KEDLI'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 KEDNY'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 KEDNY'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 KEDNY's capital expenditures and safety and reliability programs;
- Justin F. Orlando, supporting KEDNY's compensation and benefits costs;
- Robert B. Moore, supporting KEDNY's marketing expenses;
- James H. Aikman of Management Applications Consulting, Inc., presenting KEDNY's depreciation study;
- Jennifer Feinstein, supporting KEDNY's revenue forecast and proposed changes to the normal heating degree days used for ratemaking purposes;
- Joseph Trainor of RJ Rudden Associates, presenting KEDNY'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 KEDNY's low-income programs, certain non-gas revenues, customer service incentives and certain retail access proposals.

The Rate Filing

The Company's filing demonstrates KEDNY'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 $213 million or 9.1% during the proposed rate year, which is the twelve months ending March

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31, 2008. In the winter of 2005-2006, KEDNY had been in the process of preparing this filing, which it planned to submit in the Spring of 2006. In February of 2006, National Grid and KeySpan announced their proposed merger. Accordingly, KEDNY 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 KEDNY and KEDLI ("Merger Rate Plan"). The Merger Rate Plan was designed to mitigate and postpone substantial increases in delivery rates for KEDNY 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 KEDNY's customers significant synergy savings and other benefits that would postpone and somewhat offset KEDNY's need for rate relief.

As discussed in the filing, the total projected increase in revenues comprises two components; an increase of $180.7 million in base rates and a projected $32.8 million increase in non-gas margin revenues that will be recovered through the Gas Adjustment Clause ("GAC") and/or the Transportation Adjustment Clause ("TAC"). With respect to these GAC/TAC adjustments, KEDNY 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 KEDNY'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, KEDNY's last base rate increase took effect October 1, 1993. Since that time, KEDNY's base rates were reduced twice, by $3.8 million annually and $23.866 million annually in 1996 and 1998, respectively. During this period, inflation has been substantial. Moreover, KEDNY has made significant incremental capital investments in order to fulfill its obligation to provide safe and reliable gas distribution service. While KEDNY 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.

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

KEDNY's filing also proposes to recover previously deferred costs, which are largely beyond the control of the Company. These costs include increases in special

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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.

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

KEDNY is also proposing several accounting changes in this proceeding. The Company proposes to use deferred accounting to account for the difference between (i) actual pension and other post-retirement benefit expenses and the level of pension and other post- retirement benefit expenses reflected in rates, (ii) actual special franchise and other property tax expenses and the level of such expenses 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, KEDNY proposes to cease using deferred accounting to record the difference between its actual state income tax expense and the level of certain revenue surcharges. Finally, KEDNY also proposes to change the way it accounts for the cost of removal so that such costs will now be charged to KEDNY's reserve for accumulated depreciation in accordance with standard accounting practices.

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

KEDNY'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, KEDNY proposes to implement cost-based unbundled rates and to afford the Company the ability to recover non-mitigable lost revenues resulting from customers migrating to unbundled services. As discussed by Ms. Cianflone, KEDNY also proposes to purchase third party supplier receivables and to implement other proposals that are designed to encourage retail choice.

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

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Request For Consolidation With Case 06-M-0878

While KEDNY is making this rate increase filing, it is the Company's hope that it will not be necessary for KEDNY to implement the proposed rates because KEDNY'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, KEDNY 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 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 KEDNY's (and KEDLI'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 KEDNY to proceed with the tariff filings transmitted herewith. KEDNY 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 KEDNY'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 KEDNY'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 KEDNY'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 KEDNY 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 misinformation and confusion than it would resolve. Accordingly, KEDNY respectfully requests that it be permitted to defer the provision of a bill insert until a later time.

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[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.

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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).

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

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KEYSPAN ENERGY DELIVERY NEW YORK
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

Eleventh Revised Leaf No. 5
Third Revised Leaf No. 9
Third Revised Leaf No. 10
Second Revised Leaf No. 22
Sixth Revised Leaf No. 35
Second Revised Leaf No. 39
Second Revised Leaf No. 60
Second Revised Leaf No. 61
Second Revised Leaf No. 63
Second Revised Leaf No. 66
Eighth Revised Leaf No. 67
Eighth Revised Leaf No. 68
Seventh Revised Leaf No. 69
Fourth Revised Leaf No. 70
Sixth Revised Leaf No. 71
Seventh Revised Leaf No. 72
Ninth Revised Leaf No. 73
Sixth Revised Leaf No. 73.1
Fifth Revised Leaf No. 74
Fourth Revised Leaf No. 75
Sixth Revised Leaf No. 76
Second Revised Leaf No. 77
Sixth Revised Leaf No. 78
Fifth Revised Leaf No. 79
Original Leaf No. 79.1
Original Leaf No. 79.2
Seventeenth Revised Leaf No. 81
Third Revised Leaf No. 91
Second Revised Leaf No. 92
Second Revised Leaf No. 93
Second Revised Leaf No. 121
Second Revised Leaf No. 131
Seventh Revised Leaf No. 140
Seventh Revised Leaf No. 144
Second Revised Leaf No. 148
Third Revised Leaf No. 151
Seventh Revised Leaf No. 152
Seventh Revised Leaf No. 153
Third Revised Leaf No. 154
Second Revised Leaf No. 156
Second Revised Leaf No. 158.1
Seventh Revised Leaf No. 159
Seventh Revised Leaf No. 160
Seventh Revised Leaf No. 163
Seventh Revised Leaf No. 164
Tenth Revised Leaf No. 167
Eighth Revised Leaf No. 168
Seventh Revised Leaf No. 171
Seventh Revised Leaf No. 172
Second Revised Leaf No. 174
Third Revised Leaf No. 175

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KEYSPAN ENERGY DELIVERY NEW YORK
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

Second Revised Leaf No. 175.1
Second Revised Leaf No. 176
Fourth Revised Leaf No. 177
Second Revised Leaf No. 178
Second Revised Leaf No. 179
Fourth Revised Leaf No. 180
Fourth Revised Leaf No. 180.1
Fourth Revised Leaf No. 181
Second Revised Leaf No. 188
Second Revised Leaf No. 189
Second Revised Leaf No. 190
Second Revised Leaf No. 191
Fifth Revised Leaf No. 197
Fifth Revised Leaf No. 198
Third Revised Leaf No. 199
Second Revised Leaf No. 201
Second Revised Leaf No. 203.1
Fifth Revised Leaf No. 207
Fifth Revised Leaf No. 208
Third Revised Leaf No. 209
Second Revised Leaf No. 210
Fifth Revised Leaf No. 217
Fifth Revised Leaf No. 218
Fifth Revised Leaf No. 219
Fifth Revised Leaf No. 220
Third Revised Leaf No. 221
Second Revised Leaf No. 223
Second Revised Leaf No. 229
Second Revised Leaf No. 230
Eleventh Revised Leaf No. 334
Third Revised Leaf No. 335
Original Leaf No. 335.1
Ninth Revised Leaf No. 339
Ninth Revised Leaf No. 340
Fifteenth Revised Leaf No. 341
Eleventh Revised Leaf No. 342
Tenth Revised Leaf No. 343
Sixth Revised Leaf No. 347
Second Revised Leaf No. 368
Second Revised Leaf No. 370
Second Revised Leaf No. 371
Second Revised Leaf No. 373
Second Revised Leaf No. 374
Second Revised Leaf No. 375
Second Revised Leaf No. 377
Third Revised Leaf No. 378
Second Revised Leaf No. 380
Second Revised Leaf No. 385
Second Revised Leaf No. 390
Second Revised Leaf No. 396
Third Revised Leaf No. 400

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KEYSPAN ENERGY DELIVERY NEW YORK
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

Second Revised Leaf No. 401
Fourth Revised Leaf No. 402
Twelfth Revised Leaf No. 403
Third Revised Leaf No. 404
Fourth Revised Leaf No. 405
Fourth Revised Leaf No. 406
Third Revised Leaf No. 407
Fourth Revised Leaf No. 408
Original Leaf No. 408.1
Seventh Revised Leaf No. 409
Second Revised Leaf No. 411
Thirteenth Revised Leaf No. 411.1
Fourth Revised Leaf No. 411.2
Fourth Revised Leaf No. 412
Fifth Revised Leaf No. 413
Fourth Revised Leaf No. 414
Sixth Revised Leaf No. 427.4
Second Revised Leaf No. 427.28
Third Revised Leaf No. 427.29
Fourth Revised Leaf No. 427.30
Second Revised Leaf No. 427.31
Second Revised Leaf No. 427.32
First Revised Leaf No. 427.33
Original Leaf No. 427.34
Original Leaf No. 427.35
Original Leaf No. 427.36
Original Leaf No. 427.37
Original Leaf No. 427.38
Original Leaf No. 427.39
Original Leaf No. 427.40
Original Leaf No. 427.41
Original Leaf No. 427.42
Original Leaf No. 427.43
Original Leaf No. 427.44
Original Leaf No. 427.45
Original Leaf No. 427.46
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Original Leaf No. 427.61

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KEYSPAN ENERGY DELIVERY NEW YORK
APPLICATION FOR RATE INCREASE OF OCTOBER 3, 2006
REVISED TARIFF LEAVES

Original Leaf No. 427.62
Original Leaf No. 427.63
Original Leaf No. 427.64
Original Leaf No. 427.65
Original Leaf No. 427.66
Original Leaf No. 427.67
Original Leaf No. 427.68
Original Leaf No. 427.69
Original Leaf No. 427.70
Original Leaf No. 427.71
Original Leaf No. 427.72
Original Leaf No. 427.73
Original Leaf No. 427.74
Original Leaf No. 427.75
Original Leaf No. 427.76
Original Leaf No. 427.77
Original Leaf No. 427.78
Original Leaf No. 427.79
Original Leaf No. 427.80
Original Leaf No. 427.81
Original Leaf No. 427.82
Original Leaf No. 427.83
Original Leaf No. 427.84
Original Leaf No. 427.85
Original Leaf No. 427.86
Original Leaf No. 427.87
Original Leaf No. 427.88
Original Leaf No. 427.89
Original Leaf No. 427.90
Original Leaf No. 427.91
Original Leaf No. 427.92
Second Revised Leaf No. 448
Second Revised Leaf No. 449

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APPENDIX B

KeySpan Energy Delivery New York 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 1/	Bills Decreased	Bills Unchanges	Total Bills	Margin Revenue Increase	Margin Revenue Decrease	Net Margin Revenue Increase
Residential Non-Heating	1A	3,808,124	0	0	3,808,124	$34,295,088	$0	$34,295,088
Residential Heating	1B	3,028,793	0	0	3,028,793	$107,333,360	$0	$107,333,360
Commercial Non-Heating	2-1	143,003	0	0	143,003	$14,105,003	$0	$14,105,003
Commercial Heating	2-2	152,730	0	0	152,730	$10,412,816	$0	$10,412,816
Multifamily	3	166,329	0	0	166,329	$11,088,062	$0	$11,088,062
High Load Factor 2/	4A	1,083	0	0	1,083	$2,299,742	$0	$2,299,742
Year Round Air Conditioning	4B	1,536	0	0	1,536	$378,137	$0	$378,137
Seasonal Off-Peak Service	7	36	0	0	36	$3,506	$0	$3,506
Natural Gas Vehicle Service	14	594	0	0	594	$534,887	$0	$534,887
Totals		7,302,227	0	0	7,302,227	$180,450,601	$0	$180,450,601

1/ Number of bills is calculated as the number of customers multiplied by 6 (bi-monthly billing) or 12 (monthly billing).
2/ An adjustment was made to the SC 4A margin increase to mitigate the impact of rounding for the proposed Firm rates.
Note: SC 21 - Baseload Distributed Generation is not included because there are currently no customers.