

STATE OF NEW YORK
DEPT. OF PUBLIC SERVICE
DATE 7/12/06
CASE NO. 81-5-1376
EX 2

2

Exhibit _____

ACCOUNTING TREATMENT FOR FAC/BASE RATE CHANGES

Pursuant to Sections C.1, 3 and 4 of the Joint Proposal, the following are examples of the accounting treatment for Rate Year 2 ("RY2") associated with a potential increase in the base cost of fuel, the transfer of East River Repowering Project ("ERRP") costs from the Fuel Adjustment Clause ("FAC") to base rates, and the transfer of purchased water and water chemical costs from base rates to the FAC.

Background

The Joint Proposal provides for the base cost of fuel included in base rates to be increased by up to \$3.00 per Mlb (i.e., from \$5.049 per Mlb to up to \$8.049 per Mlb) commencing October 1, 2007. The increase in the base cost of fuel would result in a corresponding decrease to additional fuel costs that will continue to be recovered through the FAC.

The Joint Proposal also provides that Steam's share of ERRP carrying charges that would otherwise be recovered through the FAC will be transferred into base rates, and the cost of purchased water and water chemicals used for the production of steam will be transferred from base rates to the FAC, commencing on October 1, 2007, on the basis of RY2 forecast sales volumes. Since FAC recoveries are on a one-month lag basis, there are variations when items are transferred from the FAC to base rates or vice versa. Prorating the FAC and base rates in the month when such changes are implemented, as provided in the tariff, lessens the extent of such variations.

The sections that follow illustrate how the Company would account for these changes between the FAC and base rates, commencing October 1, 2007.

Base Cost of Fuel

Pages 1 and 2 of Appendix A show the current true-up mechanism in place for reconciling fuel cost recoveries and incurred fuel costs.

The top portion of page 1 shows estimated sales for the months of September through November 2007 at the existing base cost of fuel of \$5.049 per Mlb and shows the computation of deferred fuel costs. The top portion of page 2 shows the calculation of the monthly FAC rate and FAC recoveries¹ for the same period using data from page 1. The bottom portion of each page shows corresponding data when the base rate fuel charge is increased to \$8.049 per Mlb. In accordance with the Company's tariff, the Company will prorate both the base rate and FAC changes in October 2007 bills (i.e., September usage billed in October will be billed at September rates and October usage billed in October will be billed at October rates).

The differential between the level of base fuel recoveries assumed in the development of the FAC rate for cost month October (i.e., \$8.049 per Mlb) and the actual level billed through

¹ In practice, base fuel collections are determined by applying the base cost of fuel rate to calendar month sendout adjusted for losses. For purposes of this illustration, it is assumed that sales are equal to sendout adjusted for losses.

base rates for that month (i.e., in part at \$8.049 per Mlb and in part at \$5.049 per Mlb) will be deferred and recovered through the "Annual Fuel Reconciliation" over a twelve-month period. In the illustration, the difference between level of base fuel recoveries assumed in the development of the FAC rate for cost month October of \$10,463,700 (see note (c) on p. 2 of the Appendix) and actual October base rate fuel recoveries of \$8,963,700 is \$1.5 million.

The differential between the level of FAC recoveries is shown on page 2 of the illustration. That is, the FAC recovery for the month of October would be \$2.4 million less after the base rate change (\$5,731,952 vs. \$8,131,952). Normally, the October FAC would recover all of September's deferred fuel costs, subject to variations in monthly sales volumes. However, with the proration, 800,000 Mlb of October sales volumes would be billed at a FAC rate that is \$3.00/Mlb lower. The \$2.4 million difference and any offset due to the variation in monthly sales volumes would be included in the Annual Fuel Reconciliation.

If the base cost of fuel is increased by some amount up to a maximum of \$3.00 per Mlb commencing October 1, 2007, the Company will propose an amendment to its tariff, as appropriate, as part of the RY 2 filing to be made on or before September 1, 2007.²

East River Repowering Project

Pages 3 and 4 of Appendix A show the current true-up mechanism in place for ERRP carrying charges and the impact of moving this recovery into base rates. Again, the top portion of each schedule shows estimated sales and ERRP recoveries for the months of September through November 2007 before the proposed rate change.

For purposes of this illustration, the ERRP recovery rate was calculated by dividing the annual carrying costs by the annual estimated sales (see note (a) on page 3). The monthly recoveries vary with customer consumption. The estimated monthly sales for October through November 2007 were multiplied by the estimated ERRP recovery rate of \$1.385 per Mlb to calculate the recoveries in those months. The recoveries were compared to the monthly carrying charges, which would be fairly level throughout the year (i.e., approximately \$3.0 million per month).

The bottom portion of each page shows how the Company would bill the FAC and base rates in each month with the change in ERRP recovery commencing October 1, 2007. Since the FAC recovers costs on a one-month lag, the September ERRP costs would continue to be recovered through the October 2007 FAC. The base rate change effective October 1, 2007 would be prorated and revenues accrued for ERRP for the prior month would be reversed.

In the illustration, the Company would recover approximately \$1.1 million more of ERRP costs in October since the Company would be recovering both September and October costs for ERRP. That is, the FAC would recover \$1.8 million for September ERRP costs and base rates would recover a portion of October's costs of \$1.1 million. Variations between ERRP

² For example, the tariff will explain that October 2007 base fuel costs that are unrecovered as of the end of October due to the change in the base cost of fuel will be calculated by multiplying the estimated September 2007 usage billed in October 2007 by the increase in the base cost of fuel.

costs for October 2006 – September 2007 and the FAC billed in November 2006 – October 2007 would be included in the Annual Special Monthly Adjustment (“SMA”) reconciliation. In addition, as a result of prorating the base rate change for October, approximately \$0.7 million (500,000 Mlb x Base Rate of \$1.385 per Mlb) of reduced ERRP recoveries would be recognized in the determination of ERRP carrying charges that will be transferred into base rates.

Water and Water Chemicals

Pages 5 and 6 of Appendix A show the current base rate recovery mechanism in place for water and water chemicals and illustrates the impact of moving this recovery into the FAC. The top portion of each schedule shows estimated sales and water and water chemical recoveries for the months of September through November 2007. For water and water chemicals, a recovery rate of \$0.462 per Mlb is calculated by dividing the annual water and water chemical costs by the annual estimated sales (see note (a) on p. 5).

The bottom portion of each page shows how the Company would bill the FAC and base rates in each month. Since the FAC recovers costs on a one-month lag, no water or water chemical costs would be billed to customers through the FAC in the month of October. This would result in a \$369,600 shortfall for that month. Under the normal operation of the FAC, each month’s costs would continue to be recovered on a one-month-lag through the FAC.

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Illustration of Base Rate Fuel Change
Effective October 1, 2007
\$ 000's

Before Rate Change	September	October	November	Total
Billed Sales (Mlbs)	1,150,000	1,300,000	1,450,000	3,900,000
x Base Cost of Fuel	\$5.049	\$5.049	\$5.049	\$5.049
Base Fuel Recoveries	\$5,806,350	\$6,563,700	\$7,321,050	\$19,691,100
Less Cost of Fuel	(13,000,000)	(14,000,000)	(15,500,000)	(42,500,000)
Unrecovered Def. Fuel Balance (a)	(7,193,650)	(7,436,300)	(8,178,950)	(22,808,900)
FAC Recovery (See Page 2)	-	8,131,952	8,294,335	16,426,287
Deferred Fuel Cost	(\$7,193,650)	\$695,652	\$115,385	(\$6,382,613)

w/Base Rate Change	September	October	November	Total
Billed Sales (Mlbs) - Old Rate	1,150,000	500,000	-	1,650,000
x Base Cost of Fuel - Old Rate	\$5.049	\$5.049	\$5.049	\$5.049
Base Fuel Recoveries	\$5,806,350	\$2,524,500	\$0	\$8,330,850
Billed Sales (Mlbs) - New Rate	-	800,000	1,450,000	2,250,000
x Base Cost of Fuel - New Rate	\$8.049	\$8.049	\$8.049	\$8.049
Base Fuel Recoveries	-	6,439,200	11,671,050	18,110,250
Total Base Rate Fuel Recoveries	5,806,350	8,963,700 (b)	11,671,050	26,441,100
Less Cost of Fuel	(13,000,000)	(14,000,000)	(15,500,000)	(42,500,000)
Unrecovered Def. Fuel Balance (a)	(7,193,650)	(5,036,300)	(3,828,950)	(16,058,900)
FAC Recovery (See Page 2)	-	5,731,952	3,944,335	9,676,287
Deferred Fuel Cost	(\$7,193,650)	\$695,652	\$115,385	(\$6,382,613)
Net Difference In Customer Bill	\$0	\$0	\$0	\$0

(a) Variations between actual fuel costs and base rate fuel are deferred and collected from customers on a one month lag. Unrecovered September fuel costs due to the change in the base cost of fuel will be recovered through the Annual Fuel Reconciliation over 12 months commencing with the FAC effective November.

(b) For purposes of calculating FAC rate to be billed in November, base rate recoveries would all be re-priced at \$8.049/Mlb or \$10,463,700. The \$1.5 million variation in base rate recoveries (\$10,463,700 - \$8,963,700), attributable to the \$3.00 per Mlb differential for 500,000 Mlbs, would be included in the Annual Fuel Reconciliation over a 12-month period.

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Illustration of Base Rate Fuel Change - FAC Recovery Calculation
Effective October 1, 2007
\$ 000's

<u>Before Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	1,300,000	1,450,000	3,900,000
x FAC Rate - Old Rate (a)	<u>\$0.000</u>	<u>\$6.255</u>	<u>\$5.720</u>	<u>\$4.212</u>
FAC Recoveries	<u>\$0</u>	<u>\$8,131,952</u>	<u>\$8,294,335</u>	<u>\$16,426,287</u>

(a) Development of FAC Rate

Prior Month's Fuel Charges		\$13,000,000	\$14,000,000	
- Prior Months Sales x Base Rate		<u>(5,806,350)</u>	<u>(6,563,700)</u>	
= Fuel costs subject to FAC		7,193,650	7,436,300	
/ Prior month's sales		<u>1,150,000</u>	<u>1,300,000</u>	
= FAC Rate		<u>\$6.255</u>	<u>\$5.720</u>	

<u>w/Base Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	500,000	-	1,650,000
x FAC Rate - Old Rate (b)	<u>\$0.000</u>	<u>\$6.255</u>	<u>\$0.000</u>	<u>\$1.896</u>
FAC Recoveries	<u>\$0</u>	<u>\$3,127,674</u>	<u>\$0</u>	<u>\$3,127,674</u>
Billed Sales (Mlbs) - New Rate	-	800,000	1,450,000	2,250,000
x FAC Rate - New Rate (c)	<u>\$0.000</u>	<u>\$3.255</u>	<u>\$2.720</u>	<u>\$2.910</u>
FAC Recoveries	<u>\$0</u>	<u>\$2,604,278</u>	<u>\$3,944,335</u>	<u>\$6,548,613</u>
Total FAC Fuel Recoveries	<u>\$0</u>	<u>\$5,731,952</u>	<u>\$3,944,335</u>	<u>\$9,676,287</u>

(b) Development of FAC Rate

Prior Month's Fuel Charges		\$13,000,000	
- Prior Months Sales x Old Base Rate		<u>(5,806,350)</u>	
= Fuel costs subject to FAC		7,193,650	
/ Prior month's sales		<u>1,150,000</u>	
= FAC Rate		<u>\$6.255</u>	

(c) Development of FAC Rate

Prior Month's Fuel Charges		\$13,000,000	\$14,000,000	
- Prior Months Sales x New Base Rate		<u>(9,256,350)</u>	<u>(10,463,700)</u>	(c)
= Fuel costs subject to FAC		3,743,650	3,536,300	
/ Prior month's sales		<u>1,150,000</u>	<u>1,300,000</u>	
= FAC Rate		<u>\$3.255</u>	<u>\$2.720</u>	

(c) FAC recovery rate is calculated based on prior month's sales x new base cost of fuel. Actual base rate recoveries for October 2007 in this example were \$8,963,700. \$1,500,000 variation would be included in annual true up and recovered over twelve months. (see footnote b on prior page).

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Illustration of Base Rate Change For ERRP
Effective October 1, 2007
\$ 000's

<u>Before Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs)	1,150,000	1,300,000	1,450,000	3,900,000
x Fuel Adjustment Clause (a)	\$1.385	\$1.385	\$1.385	\$1.385
Fuel Adjustment Clause Recoveries	<u>\$1,592,750</u>	<u>\$1,800,500</u>	<u>\$2,008,250</u>	<u>\$5,401,500</u>
Less: ERRP Carrying Charges	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>(9,000,000)</u>
Unrecovered ERRP Charges (b)	<u><u>(\$1,407,250)</u></u>	<u><u>(\$1,199,500)</u></u>	<u><u>(\$991,750)</u></u>	<u><u>(\$3,598,500)</u></u>

<u>w/Base Rate Change</u>	<u>September</u>	<u>October (c)</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	500,000	-	1,650,000
x Fuel Adjustment Clause (a)	\$1.385	\$1.385	\$1.385	\$1.385
Fuel Adjustment Clause Recoveries	<u>\$1,592,750</u>	<u>\$692,500</u>	<u>\$0</u>	<u>\$2,285,250</u>
Billed Sales (Mlbs) - New Rate	-	800,000	1,450,000	2,250,000
x Fuel Adjustment Clause (a)	\$0.000	\$1.385	\$0.000	\$0.000
Fuel Adjustment Clause Recoveries	<u>-</u>	<u>1,108,000</u>	<u>-</u>	<u>-</u>
Total FAC ERRP Recoveries	1,592,750	1,800,500	-	3,393,250
Less: ERRP Carrying Charges	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>(9,000,000)</u>
Unrecovered ERRP Costs	(1,407,250)	(1,199,500)	(3,000,000)	(5,606,750)
Reversal - Deferred Revenues 9/06	-	(1,407,250)	-	(1,407,250)
Base Cost Recovery (See Page 4)	<u>-</u>	<u>1,108,000</u>	<u>2,008,250</u>	<u>3,116,250</u>
Unrecovered ERRP Charges (b)	<u><u>(\$1,407,250)</u></u>	<u><u>(\$1,498,750)</u></u>	<u><u>(\$991,750)</u></u>	<u><u>(\$3,897,750)</u></u>

(a) Assumes annual carrying charges of \$36 million and annual sales of 26,000 MMlbs = \$1.385 per Mlb FAC Rate

(b) Due to seasonality of steam sales, the Company under collects during the Spring - Fall time period and recovers the undercollection in the winter heating months. Balances remaining at end of the rate year are recovered through the Annual Special Monthly Adjustment Reconciliation over twelve months.

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Illustration of Base Rate Fuel Change - ERRP Base Cost Recovery
Effective October 1, 2007
\$ 000's

<u>Before Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	1,300,000	1,450,000	3,900,000
x Base Rate - Old Rate	\$0.000	\$0.000	\$0.000	\$0.000
Base Rate Recoveries	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>w/Base Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	500,000	-	1,650,000
x Base Rate - Old Rate	\$0.000	\$0.000	\$0.000	\$0.000
Base Rate Recoveries	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Billed Sales (Mlbs) - New Rate	-	800,000	1,450,000	2,250,000
x Base Rate - New Rate	\$1.385	\$1.385	\$1.385	\$1.385
Base Rate Recoveries	<u>\$0</u>	<u>\$1,108,000</u>	<u>\$2,008,250</u>	<u>\$3,116,250</u>
Total Base Rate Recoveries	<u>\$0</u>	<u>\$1,108,000</u>	<u>\$2,008,250</u>	<u>\$3,116,250</u>

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Illustration of Base Rate Change - Rollout of Water & Water Chemicals
Effective October 1, 2007
\$ 000's

Before Rate Change	September	October	November	Total
Billed Sales (Mlbs)	1,150,000	1,300,000	1,450,000	3,900,000
x Base Rate (a)	<u>\$0.462</u>	<u>\$0.462</u>	<u>\$0.462</u>	<u>\$0.462</u>
Base Rate Recoveries	\$531,300	\$600,600	\$669,900	\$1,801,800
Less Cost of Water / Water Chemicals	<u>(531,300)</u>	<u>(600,600)</u>	<u>(669,900)</u>	<u>(1,801,800)</u>
Variation	-	-	-	-
FAC Recovery (See Page 6)	-	-	-	-
Recoveries vs. water / water chemical (b)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

w/Base Rate Change	September	October	November	Total
Billed Sales (Mlbs) - Old Rate	1,150,000	500,000	-	1,650,000
x Base Rate - Old Rate	<u>\$0.462</u>	<u>\$0.462</u>	<u>\$0.462</u>	<u>\$0.462</u>
Base Rate Recoveries	\$531,300	\$231,000	\$0	\$762,300
Billed Sales (Mlbs) - New Rate	-	800,000	1,450,000	2,250,000
x Base Rate - New Rate	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>
Base Fuel Recoveries	-	-	-	-
Total Base Rate Water Recoveries	531,300	231,000	-	762,300
Less Cost of Water / Water Chemicals	<u>(531,300)</u>	<u>(600,600)</u>	<u>(669,900)</u>	<u>(1,801,800)</u>
Variation	-	(369,600)	(669,900)	(1,039,500)
FAC Recovery (See Page 2)	-	-	669,900	669,900
Unrecovered water/water chemicals (c)	<u>\$0</u>	<u>(\$369,600)</u>	<u>\$0</u>	<u>(\$369,600)</u>
Net Difference In Customer Bill	<u>\$0</u>	<u>(\$369,600)</u>	<u>\$0</u>	<u>(\$369,600)</u>

(a) Assumes annual water / water chemical charges of \$12 million and annual sales of 26,000 MMlbs = \$0.462 per Mlb

(b) Due to seasonality of steam sales and sendout it was assumed that usage matches recoveries

(c) Like fuel costs recovered through the FAC, Water & Water Chemical Costs will be recovered on a one month lag

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Illustration of Base Rate Change - FAC Water / Water Chemical Recovery Calculation
Effective October 1, 2007
\$ 000's

<u>Before Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	1,300,000	1,450,000	3,900,000
x FAC Rate - Old Rate	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>
FAC Recoveries	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>w/FAC Rate Change</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>Total</u>
Billed Sales (Mlbs) - Old Rate	1,150,000	1,300,000	-	2,450,000
x FAC Rate - Old Rate	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>
FAC Recoveries	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Billed Sales (Mlbs) - New Rate	-	-	1,450,000	1,450,000
x FAC Rate - New Rate	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.462</u>	<u>\$0.462</u>
FAC Recoveries	<u>\$0</u>	<u>\$0</u>	<u>\$669,900</u>	<u>\$669,900</u>
Total FAC Recoveries	<u>\$0</u>	<u>\$0</u>	<u>\$669,900</u>	<u>\$669,900</u>

(a) Development of FAC Rate
 Prior Month's Fuel Charges
 - Prior Months Sales x Base Rate
 = Fuel costs subject to FAC
 / Prior month's sales
 = FAC Rate

\$600,600
-
<u>600,600</u>
<u>1,300,000</u>
<u>\$0.462</u>

