

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 03-G-1671 - 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.

CASE 03-S-1672 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service.

NOTICE OF JOINT PROPOSAL
INVITING PUBLIC COMMENTS

(Issued June 15, 2004)

On May 28, 2004, Consolidated Edison Company of New York, Inc., Department of Public Service Staff and various parties participating in the gas and steam rate proceedings submitted a Joint Proposal for the Commission to consider. The multi-year rate proposals, if adopted, would increase gas rates for the next three years and steam rates would also be increased in each of the next two years. A summary of the Joint Proposal's terms and provisions is attached to this notice.

The Joint Proposal, and the proponents' statements supporting it, is available for inspection at the Department of Public Service's Albany office on the 14th Floor, Three Empire State Plaza and the Department's New York City office on the 8th Floor, One Penn Plaza.

The public is invited to submit written comments concerning the Joint Proposal by August 6, 2004. An original and five copies of the comments should be delivered on or before the due date to the Secretary to the Public Service Commission, Three Empire State Plaza, Albany, New York 12223-1350.

(SIGNED)

JACLYN A. BRILLING
Secretary

NEW YORK STATE
PUBLIC SERVICE COMMISSION

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SUMMARY OF JOINT PROPOSAL

On May 28, 2004, a Joint Proposal (Proposal) in the above-captioned proceedings was filed with the Secretary to the Public Service Commission. Signatories to the Proposal include Consolidated Edison Company of New York, Inc. (Con Edison), Department of Public Service Staff, the City of New York, Consumer Power Advocates, New York Energy Buyers Forum, Owners' Committee on Electric Rates, Inc., Amerada Hess Corporation, National Energy Marketers Association, Small Customer Marketer Coalition, Pace Law School Energy Project, Natural Resources Defense Council, Association for Energy Affordability, Inc., Public Utility Law Project of New York, Inc., and North American Energy, Inc. The following is a summary of the Proposal.

I. Term

For Con Edison's gas business, the parties recommend a three-year term, commencing October 1, 2004 and expiring September 30, 2007 (Gas Rate Plan). For the company's steam business, the parties recommend a two-year term, commencing October 1, 2004 and expiring September 30, 2006 (Steam Rate Plan).

II. Gas Rates & Revenues

The parties have agreed that there is a need to increase the company's rates to provide safe and adequate gas service, and the Proposal presents two options for implementing the increase. Under Option A, base rates would increase by \$28.7 million,

\$18.4 million, and \$18.3 million, respectively, for each of the three years of the Gas Rate Plan. Under Option B, base rates would increase by \$46.8 million in the first year, with rates frozen at that level for the remaining two years of the Rate Plan. Rates for each firm service class would be modified to reflect the rate increases, with provision made for reducing the impact on low-income customers (funding for the low-income program is obtained through rate redesign).

Under both options, rate increases are mitigated by three sources of funds: (i) amortization of funds set aside in 2002 to offset World Trade Center (WTC) related costs;¹ (ii) imputation in base rates of \$35 million attributable to Non-Firm Revenues; and (iii) a one-time charge to pre-tax earnings of \$17.5 million to settle issues raised in this proceeding, including issues related to the prospective application of the Commission's Pension Policy Statement to the company's pension and other post-employment benefits (OPEB) costs.

Because of the imputation of the Non-Firm Revenues in base rates, Con Edison will receive the first \$35 million of such revenues. Thereafter, the revenues will be apportioned among customers and shareholders as follows: \$35-\$50 million – 80% / 20%; \$50-\$70 million - 75% / 25%; above \$70 million – 90% / 10%. If Option B is selected, 50% of Non-Firm Revenues allocated to customers will be deferred, with interest, for future use. The balance of the customers' share of revenues, and, under Option A, all of the customers' share, will be flowed back to customers through the Monthly Rate Adjustment and Gas Cost Factor (MRA and GCF; the MRA and GCF are equivalent to a gas adjustment clause).

The Proposal establishes a factor of 2.9% for lost and unaccounted for (LAUF) gas for the first rate year and calculates the LAUF gas for the remaining years based upon a three-year rolling average. The company's annual exposure for LAUF gas costs or savings is capped at \$6.25 million. The Proposal also recommends resolution of

¹ The company is currently seeking reimbursement of WTC related costs through federal and State programs. Additionally, the Proposal provides in rates a certain level of funding for any costs that remain outstanding after federal and State program have been exhausted.

the dispute over the company's LAUF revenue adjustment for the 12 months ended August 31, 2003 by setting the adjustment at \$2.7 million.

III. Steam Rates & Revenue

The parties have also agreed that there is a need to increase the company's rates to provide safe and adequate steam service. The Proposal recommends a first year increase of \$49.6 million and a second year increase of \$27.4 million. These amounts reflect a shift of \$13 million from the first year base rate increase to the second year revenue requirement in order to mitigate the rate increase. Interest on this amount will be deferred for future disposition. The base rate increase provided in the Steam Rate Plan will be allocated to the different service classifications and recovered within each class through a redesign of rates.

The company agrees to take a one-time charge to pre-tax earnings of \$6.2 million to settle issues raised in this proceeding, including issues related to the prospective application of the Commission's Pension Policy Statement to the company's pension and OPEB costs. This charge has been factored into the second year rate increase.

The Proposal also includes various steam rate design proposals. During the term of the Steam Rate Plan, the company will install demand meters and conduct dummy demand billing for most if not all of the SC2 and SC 3 customers who use more than 14,000 Mlbs per year. Additionally, the company agrees to modify its proposed new Rider E tariff to permit customers taking such service to receive a credit for any unused fuel if the customer used less than the agreed upon volume of steam, and to aggregate steam purchases for multiple buildings.

In the first rate year, \$2.2 million in fuel costs associated with the production of steam will be shifted from a volumetric to a fixed customer charge; in the second rate year, an additional \$2.2 million in fuel costs will be similarly shifted. The Proposal sets an annual target range for steam line losses of 4,322 - 4,541 MMlbs. The company is permitted to recover 90% of costs associated with line losses exceeding

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4,541 MMlbs and receive 10% of the savings below 4,322 MMlbs, with its total annual exposure, and savings, for line loss costs capped at \$5 million.

IV. East River Repowering Project

All East River Repowering Project (ERRP) carrying charges and fuel savings allocated to Steam would flow through the steam Fuel Adjustment Clause (FAC) for the duration of the Steam Rate Plan, with the plant costs subject to recovery (including capitalized property taxes and AFUDC) capped at \$685 million. If ERRP is not operational by January 2005, the company agrees to provide on a monthly basis through the FAC a credit for estimated net benefits from fuel savings (approximately \$36 million per year). The credits provided to customers during January, February and March would be recouped by the company over an 18 month period, without interest, starting in April 2005. Recovery of credits for estimated fuel savings provided to customers after March is subject to authorization by the Commission.

The Proposal continues the current allocation of operating costs of the 74th and 59th Street Steam Stations to the electric business. Once the sale of the First Avenue properties is consummated and the proceeds become available, the steam business' share would be used to offset the costs of those Stations and, upon Commission approval, the costs would be transferred to the steam business.

V. Earnings

The company's rates for both the Gas and Steam Rate Plans have been set based on the cost of service shown on Appendix A to the Proposal. If the return on equity (ROE) in any rate year exceeds 11.75%, earnings above the threshold are shared 50% / 50% between customers and shareholders. The Proposal also sets out the manner and requirements by which the company will calculate annually its ROE.

VI. Reconciliations and Deferrals

The Proposal recommends that the company be permitted to reconcile, for both steam and gas, costs exceeding the amount allowed in rates for costs associated with

property taxes, interference other than company labor, plant additions, pensions and OPEBs, environmental remediation, and pipeline integrity.² The Proposal provides a dead-band of 2.5% for property taxes and non-company labor interference expenses. Any amount outside that dead-band would be deferred and recovered from or credited to customers, except that for purposes of property taxes under the Gas Rate Plan, if the amount exceeds \$10 million after the second rate year, the company would recover the amount above \$10 million during the third rate year through the MRA. The company would defer for the benefit of customers the revenue requirement impact of capital additions that are less than the capital target for each rate year (set forth on Appendix I to the Proposal).

The deferral balances will be subject to interest and reduced by accruals, insurance recoveries, associated reserves and deferred taxes. The Company is also permitted to defer and recover from or credit to gas customers, any costs associated with a federally mandated pipeline integrity program that exceed the annual amount of \$1 million provided in rates relating to payments the Company will make to KeySpan for such costs under the New York Facilities Agreement.

The company's ability to defer expenses is limited by its earnings. If the ROE is above 11.75% but below 15%, the company may defer only 50% of its eligible expenses. If the ROE is 15% or more, the company cannot defer the otherwise eligible expenses. Excluded from the limitation on deferral are any deferrals associated with, but not limited to, WTC expenditures, gas efficiency program costs, and gas migration incentives.

VII. Steam & Gas Common Issues

The Proposal: (1) requires the company to submit, by June 30, 2005, new depreciation studies evaluating the impact of infrastructure improvements/replacements on the gas and steam system; (2) continues the existing State Income Tax (SIT) surcharge to refund the remaining 2003 SIT reconciliation and continues the mechanism for

² The company is also permitted to defer WTC capital costs, subject to offsets for cost recovery from governmental agencies and insurance carriers.

reconciliations only; (3) maintains the current allocation of common expenses and common plant for gas and steam; and (4) requires the company to defer tax refunds not reflected in rates, except that the company may retain up to fourteen percent of the refund or credit.

VIII. Gas-Only Items

The Proposal outlines a retail access program that includes the purchase of accounts receivable of energy service companies/marketers (ESCO) at a discount designed to recover program and uncollectible costs, continuation of the competitive retail choice credits at 24.0 cents per Dth, and a shareholder migration incentive of \$40 or \$50 per customer, depending on the number of migrating customers and subject to certain conditions. In addition, the Proposal establishes a retail marketing program, retail choice promotion, Market Match and Market Expo Programs, continues the ESCO satisfaction and competition awareness surveys, makes provision for an ESCO ombudsman, continues and expands competition outreach and education, and makes provision for an assignment program of ESCO pipeline capacity.

The Proposal provides for a gas energy efficiency study and gas energy efficiency programs with funding set at \$200,000 and \$5 million, respectively. Funding will be provided through the MRA. The programs would be administered by the New York State Energy Research and Development Authority (NYSERDA) or Con Edison, with input from an advisory group comprised of representatives from state and local government, environmental and consumer groups, and other parties. The expenditure of funds for these measures is subject to prior Commission approval.

The company's current customer satisfaction incentive is continued for the term of the Gas Rate Plan. Gas safety incentives are also continued, but with higher revenue adjustments for failure to achieve specified target levels.

IX. Steam-Only Items

The Proposal contains an economic development plan (Plan) that would be administered by the company, in coordination with a Steam Business Development Task

Force, whose membership is comprised of representatives from state and local governments, consumer groups, and other parties. The Plan includes modifying the SC 5 tariff to provide greater flexibility in attracting and retaining steam customers, modifying and extending the service line and steam main extensions/reinforcements necessary to connect customers to the company's steam system, and examining ways to further grow the steam business. Additionally, the company will, in coordination with specific local and state agencies, develop energy infrastructure master plans for areas of New York City and Westchester County undergoing extensive redevelopment. The company shall also contract for a steam production study that will examine the company's present costs of production at each steam unit, estimate costs for the next 20 years, and analyze repowering costs.

X. Miscellaneous

The Proposal also contains standard provisions regarding the use of the document, separability of the Proposal's provisions, effect of Commission approval of the Proposal, and ability of parties to participate in other proceedings. Ten appendices are attached to the Proposal that provide greater details of, and formulae for calculations related to, certain terms and conditions.