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a conEdison, inc. company

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June 30, 2006

Via Overnight Delivery

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

Re: Case No. 03-S-1672 - Con Edison Steam Business Development Plan

Dear Secretary Brilling:

Consolidated Edison Company of New York, Inc. respectfully submits an original and five copies of its third quarterly status report on the Company's implementation of the steam business development plan, as required by the Commission's December 5, 2005 order in Case 03-S-1672

Yours very truly,

Richard B. Miller

cc: Active Parties to Case No. 05-S-1376 (via e-mail)
Enc.

STATUS REPORTS ON ACTION ITEMS

Work Plan No. SBDP-1
Account Management System

Objective: Develop and implement a comprehensive customer account information system. Create a central database to extract reports necessary to manage sales and marketing end of the business from the initial prospect phase to actual turn to steam.

Overall Completion Date: September 1, 2006

Summary of Activities, 1st Quarter 2006:

1. Contacted the following peer groups to explore their current Customer Relationship Management (CRM) systems:
   - **John Wohl, Trigen-Philadelphia Corp**
     - Trigen currently uses an Access-based system, developed internally, to manage contacts, work orders, and schedule. Trigen does not have an independent CRM system.
   - **Stanley Gent, Seattle Steam Co.**
     - Seattle Steam Company built a system in-house in combination with Outlook to manage contacts and billing. Seattle Steam Company's system does not have the ability to manage accounts or marketing opportunities, or collect building information.
   - **Robert Thornton, President of IDEA**
     - Suggested Steam Business Development (SBD) review of Right Now Technologies CRM package.

2. Con Edison completed a cost analysis of procuring the CRM system vs. in-house development. Based on this analysis, to build a system in-house would take more than a year to develop and implement, the functionality would be limited to current technical and functional requirements with little or no room to grow/upgrade, and would be more expensive than procuring vendor software. As a result, Con Edison decided to proceed with procurement of a vendor CRM package.
3. SBDS contacted five CRM vendors to demonstrate their software (Right Now Technologies, Maximizer, Siebel, Sales Logix, and Sales Force.com.) Sales Force.com, Right Now Technologies, and Sales Logix provided focused presentations to address SBD's business and technical performance requirements.
4. Right Now Technologies (RNT) was selected. RNT was able to meet SBD's implementations schedule, as well as its business, technical, and functional requirements. Con Edison procured this vendor's software.

Anticipated Activities, 2nd Quarter 2006:

1. Hold kickoff meeting with the vendor to confirm current business processes and reports.
2. Perform functional analysis – (documents control and data management)
3. Develop prototype
4. Client installation – (prototype and server installation)
5. Perform initial data migration.

Summary of Activities, 2nd Quarter 2006:

1. Initial kickoff meeting with Con Edison and RNT was held on May 19, 2006, to align project with department and corporate strategies and to develop project implementation schedule.
2. Weekly steering committee meetings were conducted to manage the project implementation schedule. Items discussed include:
   - Project status indicators
   - Items for management attention (issues/risks)
   - Action items accomplished to date
   - Upcoming deliverables and milestones
3. An extensive five-day user and administrator training session was conducted from June 5 through June 9, 2006 by RNT on a prototype system.

Anticipated Activities, 3rd Quarter 2006:

1. Determine the custom reports required
2. Migrate data from existing databases
3. Conduct additional staff training and user acceptance testing
4. Develop a maintenance process
5. Document procedures
6. Implement the new Account Management System by 9/1/06

Work Plan No. SBDP- 2
Pipeline Asset Management System

Objective: Develop a pipeline asset management profitability/value analysis program.

Overall Completion Date: September 1, 2007

Summary of Activities, 1st Quarter 2006:

1. Prior in-house studies were reviewed. The parameters and basis of these efforts can be used and enhanced upon for additional on-going analysis.

2. System-wide unit costs have been identified using the Annual Report (FERC Form 1) for year ending December 31, 2004, and, on an interim basis, the Operating & Financial report of December 2005. A new Annual Report, for the period ending December 31, 2005, was available in April 2006.

3. Year-end costs have been identified in order to benchmark pipeline (radial main) profitability. The items considered in establishing a ranking metric of pipeline profitability include elements specific to steam production, distribution, and carrying charges.

The following unit costs have been identified:

Production Elements
- Sales Revenues – (Accts. 601, 604, 605, 607, 608, 610, and 615)
- Operation and Maintenance – fuel, water (Accts. 701 – 714)

Distribution Plant Elements
- Main Investment (Acct. 353)
- Services (Acct. 359)
- Maintenance of Mains and Services (Accts. 756 – 772)
- Pipe Lengths (feet) in service, by diameter (inches)

Carrying Charges
- Production Plant in Service (Accts. 310, 311, 312, 315, and 316)
- Depreciation on Mains (Acct. 353)
- Franchise Taxes on Mains
- Rate of Return

Anticipated Activities, 2nd Quarter 2006:

1. Commence evaluation of customer account costs for production costs, distribution costs, and carrying charges such that segment-specific (de-averaged) pipeline costs may be calculated.

Summary of Activities, 2nd Quarter 2006:

1. The following additional unit costs have been identified:

    - Production Elements
      Production Plant – (Accts. 310, 311, 312, 315, 316)

    - Distribution Elements
      Trap Manholes – quantity and inspection cost
      Slip Joint Manholes – quantity and inspection cost
      Pump Manholes – quantity and inspection cost

    - Operating Revenues
      Send out – Mlbs sold

2. Carrying charges were eliminated from the evaluation based upon advice from the Accounting department. Mains are regulatory assets, included in rate base, and therefore are subject to capital recovery from the customer through base rates (Depreciation and Rate of Return). Any asset, regardless of the age at which it is retired, will be fully recovered through the rate base.

3. The spreadsheets that accompanied the original in-house evaluation have been updated with the above referenced Distribution Plant cost items.

Anticipated Activities, 3rd Quarter 2006:

1. Refine the original database that accompanied the in-house radial main evaluation with additional data that can be extracted from the electronic mapping system to more effectively identify underutilized radial mains.

2. When the manual mapping is completed for Work Plan SBDP No. 3, this map will be used as a tool to determine if there are any potential customers in close proximity to a radial main that has low usage. If there are no potential customers that exist on a low usage radial main, a well-informed decision can be made whether the radial main can be capped, i.e., disconnected from the system, consistent with the Company's Public Service Law obligations.

Work Plan No. SBDP-3
Mapping & Locational Analysis

Objective: Evaluate and, if appropriate, implement mapping technologies to improve marketing opportunities and techniques.

Overall Completion Date: Review of systems: July 1, 2006
Implement system: January 1, 2007, if review indicates

Summary of Activities, 1st Quarter 2006:

1. Steam Business Development (SBD) met with Information Resources (IR) to discuss the capabilities of Steam Operations Management Information System (SOMIS) to interface with external databases and met with Marketing & Sales to develop an understanding of the mapping technologies they employ. IR explained that the SOMIS system is not compatible with Geographic Information Systems (GIS). In the past, customer buildings were geo-coded and those codes were incorporated into SOMIS database for future use. The SOMIS system can be used to display customer information, but cannot access and process potential customer information.

2. Discussions were held with the Con Edison gas market research group. They have the capability to access New York City and other external databases, query the databases, and map the results of query. As an example, in order to identify potential steam markets, the geo codes of major intersection points of the steam distribution system can be entered on and connected to city maps. A query could then be run to identify all buildings over a specified square footage and the results mapped. This graphical output can then be merged with SOMIS graphical output. This would be a manual process until overhaul of the Company's mapping technology is completed.

Anticipated Activities, 2nd Quarter 2006:

1. Complete review of Company manual system (by May 1, 2006): (a) prepare and run sample query(s) that would be of potential business development benefit to verify operation of manual system; (b) evaluate cost of manual runs; (c) evaluate value of this graphical information to assist in marketing, operating, and investment decisions.

2. Implement the Company's manual system by June 30, 2006, unless review indicates otherwise.

3. Obtain input from four large steam, gas, and/or water companies on their extent of and basis for use of digital/GIS mapping technologies and compare to the Company's proposed system. Provide input to Company's IR department to assure SBD's needs are incorporated.

Summary of Activities, 2nd Quarter 2006:

Completed review of the Company's manual system. We developed a map of the location of all buildings, 300,000 square feet or larger, which are not steam customers by filtering out the geo-coded customers. The results were then overlaid onto the steam system map to serve as a basis for identifying potential customers that were within 250 feet of a main. The results indicate that the geo-coding of customers is not consistent with the databases. It appears that steam system service addresses were geo-coded while common street addresses are used in the databases. As a result, many addresses were highlighted as potential customers but were already found to be steam customers. A detailed review of each potential customer is being conducted to ensure consistency between the map and the reality in the field.

Anticipated Activities, 3rd Quarter 2006:

1. We will purchase a license to use the manual mapping software described above for $1,500 and begin implementation of that software.

2. Obtain input from four large steam, gas, and/or water companies on their use of digital/GIS mapping technologies.

Work Plan No. SBDP- 4
Develop a Resource Plan for the Business Development Group

Objective: develop a plan to identify staffing of the Steam Business Development (SBD) group, the skills required for the positions, and the systems required to support the staff. The plan will also identify external resources needed to improve effectiveness and development of intelligence gathering to identify new opportunities for steam sales.

Overall Completion Date: March 2006

Summary of Activities, 1st Quarter 2006:

1. The Resource Plan was completed and issued to the Steam Business Development Task Force on March 1, 2006. The remaining activity in the Plan is to review the compensation structure of the SBD group. The Company has met with Mercer Consulting, under an existing contract, and a proposal has been prepared and submitted to the Company.

2. Company has utilized the services of three external recruiting agencies, as well as posting hiring advertisements in the NY Times, ASHRAE NY website, IDEA website, and Con Edison corporate website.

Anticipated Activities, 2nd Quarter 2006:

Review and determine need for compensation review. If need is established, finalize proposal scope and cost. Conclude contract and release for work. It was estimated that Phase 1 for interviewing existing staff and developing position descriptions, as well as benchmarking other steam systems, would take six weeks. We will continue to identify and interview candidates for remaining open positions.

Summary of Activities, 2nd Quarter 2006:

Patrick Wheeler, a new department manager with responsibility for SBD, started on April 1, 2006. He has extensive experience in HR and has revised the approach to this Work Plan. Activities in the 2nd quarter 2006 were:

1. Worked with the Company's Compensation group to prepare new position guides for all positions within SBD, which detail the skills required, responsibilities for each position, and the compensation ranges for each position.
2. Posted externally and hired two experienced professionals from outside the Company to fill the senior project developer and marketing specialist positions in the group.
3. Posted internally and externally to fill remaining four open positions in SBD. Interviews have been conducted for these positions.
4. Each member of the SBD staff has been provided with the appropriate support systems to meet their job requirements, including work stations, computers, and field electronic communications devices.

5. Based on benchmarking conducted by the Company's Compensation group, the Company's current management salary structure matches the requirements for the positions in SBD. This includes incentive-based compensation consisting of variable pay (bonuses) based on individual performance and long-term incentives (currently stock options).

Anticipated Activities, 3rd Quarter 2006:

1. Fully staff the SBD group (10 positions) by 9/30/06.

Work Plan No. SBDP- 5
Strengthen Relationships with Advisors and Vendors

Objective: Develop a coordinated program to build relationships with key advisors

Overall Completion Date: September 1, 2006

Summary of Activities, 1st Quarter 2006:

1. Con Edison's Steam Business Development (SBD) group completed the research and identification process to determine the decision influencers and decision makers in the development, engineering, and vendor community and compiled a list.
2. SBD researched and identified intermediaries who influence customers, but are not directly involved in their transactions, and compiled a list.
3. On February 8, 2006, SBD was a participant at the BOMA and IREM, 2006 Member Program.

Anticipated Activities, 2nd Quarter 2006:

1. On April 12, Con Edison Steam will attend BOMA/NY & the New York Energy Consumers Council Energy Awareness Day.
2. All notifications on steam programs, initiatives, and technical bulletins that are shared with our steam customers will be shared with their advisors and vendors.
3. A list will be developed to identify forums and associations that are relevant to the needs of our steam customers. This list will provide the necessary data for enrollment and committee involvement.

Summary of Activities, 2nd Quarter 2006:

As a result of the June 2nd Joint Proposal with the DPS Staff and other parties, the scope of this project has been modified. Con Edison has agreed to a major outreach program as follows:

1. Meet and/or contact developers, property owners, advisors, engineers, architects, etc. at least 175 times in each rate year.
2. Make annual compliance filing reporting on number and nature of meetings.
3. Conduct a survey of the developers, etc. with whom Con Edison has met to obtain and evaluate their reaction to the Company's implementation efforts and file a report on the results of the survey to Staff and interested parties.

During the 2nd quarter, representatives of SBD maintained contact with the advisor and vendor community. Examples of contacts over the past quarter include:

1. On April 12, 2006, SBD attended the BOMA/NY & the New York Energy Consumers Council Energy Awareness Day at Baruch College.
2. On June 14 and 15, 2006, SBD was a featured presenter at the Buildings NY trade show and held regular information sessions at a trade booth devoted to steam.

3. On June 20 SBD attended a gala event of the New York Chapter of the Association of Energy Engineers and met with numerous advisory engineers.
4. On June 27, SBD attended the Multifamily Buildings 2006 conference.

Anticipated Activities, 3rd Quarter 2006:

1. SBD will continue making contacts with advisors and vendors and begin tracking the number and nature of these meetings.
2. SBD plans to hold a seminar in the early fall for customers, advisors, and vendors that will cover steam conservation practices for the winter season, and will address how to control costs when the new steam demand charges take effect fall '07.
3. Con Edison will host the International District Energy Association (IDEA) Marketing Conference from September 6-8, 2006.

Work Plan No. SBDP-6
Develop Targeted Marketing Plan

Objective: Develop a targeted marketing plan to identify and then "sell to" the business priorities of our targeted market(s). The ultimate objective is to improve the utilization of steam within strategic markets and submarkets, and thereby improving the profitability of the overall Business.

Overall Completion Date: March 1, 2006 and ongoing

Summary of Activities, 1st Quarter 2006:

1. Con Edison completed the development of its Targeted Marketing Plan on March 1, 2006. This document was distributed to members of the Steam Business Development on March 2.

2. Two market-specific advertisements were developed and finalized in March: one focused on the commercial market, the second on the residential market. These advertisements will be used in trade publications such as the Cooperator and Real Estate Weekly.

3. On March 16, 2006 Con Edison Steam was a featured presenter at the 19th Annual Co-op & Condo Expo. The presentation reviewed the business advantages offered to existing or potential Con Edison steam customers, including the economic opportunities associated with steam cooling if there are adequate electric DSM incentives.

4. During March Con Edison updated its Steam Operations' Web page (www.coned.com/steam/) to include links to its updated technical flyers promoting the benefits of steam in the heating and cooling markets.

Anticipated Activities, 2nd Quarter 2006:

1. On June 14 and 15, Con Edison will be a featured presenter at the Buildings NY Show. The presentation will review the business advantages offered to Con Edison steam customers, including the economic advantages associated with steam cooling. We hope to use this as an opportunity for strategic announcement of the improved steam cooling incentives.

2. We will issue notifications to our customers on programs or initiatives that are of relevance or interest to them. Topics expected to be included are our steam demand reduction program (if approved), hybrid cooling, and opportunities for condensate reuse.

3. Update the content of the Steam Web page to include links to the flyers and technical bulletins (after document development and approval).

4. Integrate the findings of our market assessment of customer's business priorities into our interactions with customers and their agents.

5. Commence the targeted marketing of hybrid cooling to our major customers that use steam for heat and hot water service only.

Summary of Activities, 2nd Quarter 2006:

1. On June 14 and 15, Con Edison was a featured presenter at the Buildings NY Show, where SBD had a booth and spoke to more than 100 customers and potential customers. The presentation covered hybrid chiller technology, future demand charge information, available incentives, and benefits of using steam energy.
2. To supplement the existing Targeted Marketing Plan, SBD prepared a comprehensive marketing plan, which describes strategies to reach target markets, analyzes competitor strengths and weaknesses, identifies internal and external environmental issues, and outlines the overall marketing strategy moving forward (e.g., product positioning, pricing opportunities, and communications tools).

Anticipated Activities, 3rd Quarter 2006:

1. Retain the internal and external resources required to implement the comprehensive marketing plan. This includes Con Edison's Corporate Communications department, a market research vendor, an advertising agency, technical writers, and graphic designers.
2. Other marketing activities include:
   - Improve the usefulness of the Steam Web site by increasing the linkages to important steam-related sites. This will include Federal, State and City agencies, vendors, and other industry-related links.
   - Continue to develop technical flyers based on energy efficiency opportunities, steam-based equipment, and steam-based systems.
   - Begin meeting with and interviewing major customers, using the customer data sheet to gather information about customer satisfaction, future needs, and priorities.

Work Plan No. SBDP-7
Create Mechanisms for Ongoing Customer Involvement

Objective: Identify means of involving customers in guiding ongoing development of the steam business.

Overall Completion Date: August 2007

Summary of Activities, 1st Quarter 2006:

1. On January 19, February 15, and March 22, 2006, the Steam Business Development group (SBD) conducted its introductory half-day seminar, "How to Maintain Your Steam System More Efficiently." More than 75 representatives of the steam customer base signed up for these three seminars. Topics included a steam system overview, metering equipment information, regulating valves, steam mains and traps, discussions about safety and environmental issues, and the opportunity to ask questions and discuss customer concerns.
2. On March 16, 2006, SBD was a featured presenter at the 19th Annual Co-op & Condo Expo. The presentation reviewed the business advantages offered to existing or potential Con Edison steam customers, and concluded with an interactive discussion with the attendees. SBD had two exhibit booths where we were available to respond to customer issues or inquiries regarding potential programs and services. Visitors were encouraged to submit inquiry forms that would serve as the basis for follow-up conversations and/or potential site visits.
3. On March 14, 2006, SBD met with a customer that makes equipment investment decisions at multiple customer locations. During the pre-meeting interview, the customer expressed an interest in gaining further knowledge on the steam cooling incentive programs, which was of immediate importance to one building but also for potential application portfolio-wide. Two members of the SBD met with the customer and agreed to submit terms and conditions for a strategic portfolio agreement by the first week of April. The portfolio will be evaluated and approved on a site-by-site basis. The portfolio agreement was submitted by Con Edison on March 30, 2006.
4. SBD also met with one of its top 10 customers to discuss issues such as service reliability, restoration procedures, and redundant service provisions. Responses to all issues were discussed at the meeting, with documentation to be provided by Con Edison as part of the meeting follow-up.
5. Con Edison updated its Web site to include information for customers to apply for new or modified steam service.

Anticipated Activities, 2nd Quarter 2006:

1. Conduct three customer seminars at The Learning Center. Obtain participant feedback to assure presentation materials are of interest and to determine if additional information should be included as part of the seminar.
2. Present and participate in the Buildings NY Show in June 2006.
3. Establish a schedule for the next six to eight meetings with major steam customers, and complete four to six meetings.

Summary of Activities, 2nd Quarter 2006:

1. As a result of the June 2nd Joint Proposal with the DPS Staff and other parties, the scope of this project has been modified. Con Edison has agreed to the following:
    - Appoint primary customer point-of-contact persons to handle steam business complaints, concerns, and other issues.
    - Appoint a customer ombudsman for the steam business.
2. On April 12, May 17, and June 7, the SBU held "How to Maintain Your Steam System More Efficiently" seminars at The Learning Center. A total of 27 customers attended and their feedback was obtained.
3. On June 14 and 15, 2006, SBD was a featured presenter at the Buildings NY trade show and held numerous discussions with customers and others at the Company's trade booth devoted to steam.
4. On June 23, 2006, SBD attended the Consumer Powerline's Steam Day. SBD spoke at the seminar about customer concerns regarding the steam system. As a result of that seminar, a meeting with a large steam customer has been scheduled for early July to discuss customer's steam needs and address any concerns he may have.
5. Met with numerous customers at a variety of venues. Some examples include:
    - On May 30, 2006, SBD met with a large governmental account and their consulting engineer to present alternatives available in the design of its mechanical plant, and to discuss the relevance to the design limitations imposed by the facility's landmark status. At the Buildings NY show, SBD met again with this customer. The customer currently has steam heat and SBD would like to expand their steam use to cooling as well. Further meetings will be held.
    - On June 22, 2006, SBD met with a major mixed-use customer with very high profile residents and tenants to discuss issues such as service reliability, restoration procedures, and notification of steam service shutdown. All issues were discussed at the meeting, with documentation to be provided by Con Edison as part of the meeting follow-up. A point of contact was established in the event of another shutdown or other customer concerns. Also discussed was the upcoming demand charge. An invitation was extended to the fall steam demand billing seminar. Follow up will commence.

Anticipated Activities, 3rd Quarter 2006:

1. Designate the members of the SBD staff who will serve as the single point of contact for each major customer and the point of contacts for the remaining steam customers.
2. SBD plans to offer workshops to major governmental accounts on hybrid chillers.
3. SBD is developing a plan to issue a "Challenge Paper" to invite customers who may have developed innovative ideas for using steam at their facilities. Winning ideas could be used in a "technical paper" presented at a forum of industry peers.
4. A database is being prepared consisting of SBD's new marketing specialists' past industry contacts to be used to develop sales leads and relationship building.
5. SBD will work with the Company's Account Executives to strengthen relationships between major steam customers and new members of the SBD staff.

Work Plan No. SBDP-8
Conduct a Marginal Cost-of-Service Study

Objective: To prepare and submit a new marginal cost-of-service study.

Overall Completion Date: June 1, 2007 (assuming that the next rate case will be filed in October 2007)

Summary of Activities, 1st Quarter 2006:

None required.

Anticipated Activities, 2nd Quarter 2006:

None anticipated.

Summary of Activities, 2nd Quarter 2006:

None required.

Anticipated Activities, 3rd Quarter 2006:

1. Organize and hold project kick-off meeting with relevant Company personnel.
2. Develop schedule and scope of work for study, due on September 30, 2006.

Work Plan No. SBDP- 10
Improve Efficient Steam Usage by Customers

Objective: Develop initiatives to stimulate efficient steam usage by customers.

Overall Completion Date: December 31, 2007*

Summary of Activities, 1st Quarter 2006:

1. Researched and identified energy auditing firms, steam equipment manufacturers and others who could provide support to assist Con Edison steam customers to make better use of their equipment and reduce steam consumption. The intent will be for Con Edison to refer one of the organizations on the list to customers who complete a Web-based survey indicating interest in an energy audit. Con Edison will then follow up on the survey results to help identify any steam use opportunities.

2. Researched and identified energy improvement/retrofit project financing programs that exist in the public and private sectors and compiled a list.

Summary of Activities, 2nd Quarter 2006:

We have identified and ranked steam efficiency and demand reduction measures. This information is posted on our Web site.

As a result of the June 2nd Joint Proposal with the DPS Staff and other parties, the scope of this project has been modified. Con Edison has agreed to a major energy audit promotional program that will include:

- Reviewing customers with vortex meters to identify up to 30 customers that could potentially improve efficiency in their buildings
- Retaining a consultant to provide specific recommendations for improvement of energy usage for each customer.
- Issuing a "best practices" report to all steam customers.

Anticipated Activities, 3rd Quarter 2006:

1. Inform our customers, via bill inserts, of the availability of the steam efficiency improvement measures listed on our Web site.
2. Identify customers that could best benefit from an energy audit.
3. Review qualifications of consultants from which one will be selected to conduct the energy audits at 30 customer locations.

* Project completion date continued to 3/1/07 as a result of Joint Proposal.

Work Plan No. SBDP-11
Position Steam as a Clean Energy Source

Objective: Evaluate and promote the energy efficiency and environmental benefits of Con Edison steam as a clean energy source in the emerging "green" building market.

Overall Completion Date: March 1, 2007

Summary of Activities, 1st Quarter 2006:

The United States Green Building Council (USGBC) has prepared a draft guidance document for the evaluation of credits for Leadership in Energy and Environmental Design (LEED) certification. The Company is analyzing USGBC's document related to district energy systems. There are 10 credits available in the area of energy efficiency, but the criteria are based on a cost per square foot basis. The cost of providing the equipment for on-site boilers is not included in the cost basis. Given these parameters, district energy system pricing, which includes fixed costs, would be at a disadvantage.

Anticipated Activities, 2nd Quarter 2006:

1. Complete review and applicability of USGBC guidance document.
2. Begin assessment to determine LEED opportunity for Con Edison steam on building credits.
3. Seek clarification and issue comments or suggestions to USGBC.
4. Continue working with the International District Energy Association (IDEA) to improve recognition and benefits of district energy in Green Building markets and credits.

Summary of Activities, 2nd Quarter 2006:

1. The USGBC draft guidance document prepared in November 2005, was released for evaluation on March 16, 2006 ("March 16 document") for clarification to the October 2005 LEED New Construction (LEED NC) version 2.2 rating system.
2. Discussions with an IDEA member serving on the LEED sub-committee, who assisted with the production of the March 16 document, indicated that this guidance document still requires further refinement.
3. It was indicated that the LEED sub-committee would be reconvened at some future date in order to further clarify the March 16 document.
4. The Company has reviewed and commented to the sub-committee member regarding the March 16 document and its application to district energy systems.
5. There is some discussion within LEED that the rating system may need to move away from ASHRAE 90.1, where the current evaluation methodology is based on energy cost(s), to a system based on energy inputs/outputs. This would be a major change in the overall LEED philosophy. There are currently 10 credits available in the area of energy efficiency, but, as indicated, the criteria are based on cost per square foot. The cost of providing the equipment for on-site boilers is not included in the cost basis.

Anticipated Activities, 3rd Quarter 2006:

1. Remain in contact with the LEED sub-committee regarding the development and/or revision of the NC rating guidance document for district steam systems.
2. Review any updates of the revised guidance document.
3. Assess possible LEED opportunities for Con Edison steam on building energy credits.
4. Seek clarification and issue comments or suggestions to USGBC.
5. Continue working with IDEA to improve recognition and benefits of district energy in Green Building markets and credits.
6. Initial steps are being taken to assess effectiveness of pre-selected condensate re-use products as described in Work Plan 13, "Develop a Condensate Reuse Product." The intent is to obtain data on the effectiveness of the condensate reuse products and seek recognition and integration of its benefit into appropriate energy efficiency programs such as USGBC's LEED program.

Work Plan No. SBDP-12
Develop Hybrid Steam Chiller Product Option

Objective: promote the use of steam chillers in hybrid mode with electric chillers in the following manner:

- Con Edison will develop modeling techniques to be shared with customers, consultants, and vendors that will aid in the evaluation and implementation of hybrid cooling.
- Con Edison will share these techniques with third parties to demonstrate the benefits of hybrid cooling and work with NYSERDA to develop a demonstration project in conjunction with an existing hybrid cooling customer.

Overall Completion Date: September 1, 2006.

Summary of Activities, 1st Quarter 2006:

1. The hybrid chiller optimization model has been modified to minimize energy costs for the entire cooling season. This facilitates selecting the plant configuration that yields the lowest payback on the incremental capital invested to install a steam chiller in hybrid mode instead of an electric chiller.
2. A PowerPoint presentation on the model has been prepared, including new graphics and related printed materials.

Anticipated Activities, 2nd Quarter 2006:

1. Develop list of interested parties for participation in hybrid chiller working group.
2. Distribute printed materials to potential participants, including invitations to kickoff meeting.
3. Schedule meeting for early May.

Summary of Activities, 2nd Quarter 2006:

As a result of the June 2nd Joint Proposal with the DPS Staff and other parties, the scope of this project has been modified. Con Edison has agreed to a major hybrid chiller promotional program that will include:

- Establishing milestones promoting the use of hybrid chillers.
- Making an annual filing, setting forth efforts to achieve milestones on hybrid chillers.
- Creating an advisory group of customers, developers, advisors, vendors, engineers, architects and other persons/entities to provide input and feedback on issues associated with the installation and use of hybrid chillers; group is to meet at least quarterly.
- Compiling a package of marketing materials touting hybrid chillers, to be placed on Web site, used by business development personnel, and provided to engineers, architects, and others.

- Providing two forums per year on the use and benefits of hybrid chillers and other steam business development issues.
- Reviewing existing S.C. 2 and S.C. 3 steam heating only customers, based on size and age of electric chillers to determine if any of these customers are viable candidates for hybrid cooling.
- For the ten most viable candidates, making a proposal to convert a portion of the electric air conditioning to steam air conditioning.
- If more than ten viable candidates, making proposals to a maximum of 20 remaining candidates.

Anticipated Activities, 3rd Quarter 2006:

1. Begin establishing milestones.
2. Identify candidates for the advisory group.
3. Work with internal and external communications resources to develop the marketing materials.

Work Plan No. SBDP-13
Develop a Condensate Re-Use Product

Objective: Assess effectiveness of pre-selected condensate re-use products and seek recognition and integration of its benefit into appropriate energy efficiency programs, such as the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) program.

Overall Completion Date: September 1, 2007

Summary of Activities, 1st Quarter 2006:

1. Reviewed the analyses and conclusions of the Condensate Re-Use study prepared by Goldman Copeland in June, 2005. The following condensate re-use measures were identified for studying in a pilot program:
    a. Cooling tower make-up
    b. Hot water pre-heating

These measures were chosen based on their anticipated potential for cost effective water or energy savings. The consultant found that retrofit work for these measures in office buildings that do not operate 24 hours per day is generally not cost effective. The consultant also found that retrofit work to use condensate in laundry facilities, although potentially cost effective in hotels and hospitals, may have limited applicability because there are relatively few of these types of buildings in Manhattan.

2. Identified the following customers who have these measures installed:

Customer:	**Measure Installed:**
Office building	Cooling Tower Make-Up
Office building	Hot Water Preheating
Office building	Hot Water Preheating
Hotel	Hot Water Preheating

Anticipated Activities, 2nd Quarter 2006:

1. Establish a data logging process to measure and quantify water and heat savings (with support of consulting engineer).
2. Develop a set of representative product specifications for selected applications and post them on the Company web site (with support of consulting engineer).
3. Seek partnership opportunities with NYSERDA and the City of New York to support installation of pilot or demonstration systems.

Summary of Activities, 2nd Quarter 2006:

1. Established a data logging process to measure and quantify water and heat savings.
2. Developed a set of guidance sketches for cooling tower make-up and domestic hot water pre-heating using condensate reuse/recovery applications and posted them on the Company Web site.

3. Started discussing partnership opportunities with NYSERDA for a pilot program. The following is a proposed pilot program scope:

- Install a data logger, water meters, and temperature sensors in up to four customer locations that already use condensate to either preheat domestic hot water or as cooling tower make up (at least one customer for each measure).
- Collect data for 3 months in the case of domestic water preheating and for five cooling months (May – September) for cooling tower make-up.

4. Obtained tentative agreement with a residential customer who could potentially participate in a pilot program to measure steam savings resulting from domestic water preheating using condensate.
5. Started discussions with New York City to identify City office buildings that use condensate for cooling tower make up and that would be interested to participate in a pilot program to measure water savings.

Anticipated Activities, 3rd Quarter 2006:

1. Obtain tentative agreement for pilot program participation from up to four customers.
2. Develop pilot program installation cost estimates and obtain commitment for any funding from NYSERDA or other sources.

Work Plan No. SBDP-14
Develop an Enhanced Steam Price Risk Management Product

Objective: Solicit customer and customer advocacy group input into why the previous programs have been unsuccessful. Assess industry experience for successful programs at other utilities.

Overall Completion Date: March 31, 2006

Summary of Activities, 1st Quarter 2006:

1. Meetings were held with New York Energy Consumers Council (NYECC), Consumer Power Advocates (CPA), and customers on February 10, 2006 and March 24, 2006. Feedback from the meetings included:

- The goal to reduce volatility associated with fuel adjustment charges is clearly understood, however, the goal of customers is to reduce cost as well as volatility.
- Time provided for customer's approval of the Transaction Confirmation form is too short.
- There is a desire to increase the eligible enrollment volume (above program limit of 50%, perhaps up to 80%).
- Pick a point in time so companies can lock in on price in advance of corporate budgeting (e.g., by July).
- In recent years, Con Edison has been doing better at controlling the volatility of fuel prices (a range of over 350% in 2000 and 2001, vs. 29% in 2004).
- Suggest that an outside service organization could provide a cost reduction program. (this service is not presently available in the outside market).
- The program would be advantageous for Con Edison Steam to strengthen relationships with their customers.
- CPA suggested an alternate program structure that would (1) create a participant group that would agree to participate in advance at agreed-upon volumes and prices; and (2) establish an algorithm that, if met, Con Edison would be pre-authorized to purchase a fuel hedge on behalf of the participant group.

2. Benchmarked with other utilities for their experience with fixed price offerings. The president of the International District Energy Association, upon the request of Con Edison Steam, issued a "broadcast e-mail" to its membership inquiring if they are providing fixed price offerings to customers. Only one steam utility, Seattle Steam (its president), responded and it generally hedges on behalf of all of its customers, similar to what Con Edison does now. The Company also reviewed the fixed price options made available by some gas utilities to determine the potential applicability of such programs to Steam.

Anticipated Activities, 2nd Quarter 2006:

Review suggestions and proposals for integration and development into future Negotiated Fuel Cost programs. Conduct additional meetings with customer groups to discuss

effectiveness and possible enhancements of the program. In particular, the Company will look to customer groups to develop the pricing algorithm and propose its method for defining pricing. Con Edison will assess implementation issues, including if this type of enhanced offering would be offered by the outside market, and assess if this proposed program meets the primary interest of other customers

Summary of Activities, 2nd Quarter 2006:

As a result of the June 2nd Joint Proposal with the DPS Staff and other parties, Con Edison agreed to convene an advisory group of interested parties to consider enhancements to this program. The Company agreed to meet with this group over a period of two months in the 4th quarter of 2006 to determine if enhancements are appropriate.

Anticipated Activities, 3rd Quarter 2006:

The Company will expand the program to permit hedging of 60% of average consumption over the past two years.

Work Plan No. SBDP- 15
Ameliorating Capacity Constraints

Objective: Explore obtaining cost-effective and economic supply- and demand-side capacity to alleviate potential steam capacity constraints in the winter.

Overall Completion Date: Six (6) months after completion of Steam Production Cost Study (SPCS)

Summary of Activities, 1st Quarter 2006:

Con Edison, in collaboration with the Core Team, has continued providing information to the consultants and working on evaluation of supply-side capacity options in the SPCS.

In its ongoing efforts to ameliorate capacity constraints, Con Edison has been performing steam generating unit maximum load tests to verify that all available steam capacity is being claimed. As a result of winter 2005/2006 maximum load tests, the claimed ratings of the following units have been increased (M lb/hr):

	Former Rating	**New Rating**
East River 10	1,500	1,600
East River 20	1,500	1,600
East River South Steam	550	650
BNYCP	887	918

The Company is presently performing load flow analyses to determine the deliverability of this capacity under various load scenarios.

The Company has also identified and performed preliminary testing on two demand side opportunities in three locations – two Company-owned buildings and one customer building. Results are currently under review.

Anticipated Activities, 2nd Quarter 2006:

Complete capacity deliverability analysis. Review Company studies on demand management opportunities and review results of Company-sponsored demand management tests performed at various buildings on the steam system.

Summary of Activities, 2nd Quarter 2006:

Preliminary load flow analysis was performed under peak load conditions. This analysis indicates that the new claimed ratings shown above are deliverable and can be included in the reserve margin analysis. Consequently, available winter capacity has increased by 230 M lb/hr, which is equal to approximately 15 commercial customers with 600,000 square feet of floor space.

Company studies on demand management opportunities and results of Company-sponsored demand management tests performed at various buildings on the steam system were reviewed. Of the two measures tested, one yielded promising results that it would result in cost-effective demand reductions. The Company has called this measure STEEMs, or Storage of Thermal Energy in Existing Mechanical systems. Below are some of the preliminary results of the testing using this measure:

Building	Peak Demand (lbs/hr)	Achieved Reduction in Demand (lbs/hr)	Duration of Demand Reduction (hrs)
Company-owned	25,000	2,500	4
Company-owned	3,700	600	1
Customer building	55,000	3,500	3

Building temperatures did not decrease during these tests.

Anticipated Activities, 3rd Quarter 2006:

1. Continue management of the Steam Production Cost Study, including the investigation of the Ravenswood A-House. Target conclusion of the study during the third quarter.
2. Issue an RFP for an investment grade study of Hudson Avenue repowering opportunities.
3. Assess the need for and identify the scope of a Company-funded steam DSM pilot program for this winter.
4. Begin meetings with customers to assess the potential for STEEMs and other potential steam demand reduction measures.

Work Plan No. SBDP-16
Explore Alternative Business Model Options

Objective: Examine potential for technologies not currently utilized by Con Edison to serve customer loads. These may include cooling or thermal loads served on the existing system or detached from the system.

Overall Completion Date: September 1, 2007.

Summary of Activities, 1st Quarter 2006:

The City of New York requested that the Company hire an independent consultant to conduct a district heating and cooling study for the Hudson Yards area of Manhattan. The Company accordingly contacted a consultant, who was requested to prepare an outline of the RFP. This project is currently on hold because of the DPS Staff proposal in the steam rate case limiting cost recovery for outside consultants for steam business development plan implementation items.

Anticipated Activities, 2nd Quarter 2006:

Address and identify the regulatory and economic issues associated with providing these non-steam products to a limited customer base.

Prepare RFP for consultant selection and issue the RFP if cost recovery issues have been resolved.

Summary of Activities, 2nd Quarter 2006:

As part of the June 2nd Joint Proposal with the DPS Staff and other parties, we reached an agreement to conduct a District Energy Study of Hudson Yards.

Anticipated Activities, 3rd Quarter 2006:

By 8/1/06, the Company will convene a meeting of interested parties to discuss the scope of the District Energy Study.

Work Plan No. SBDP-17
Strengthen the Current Steam-to-Steam and Electric-to-Steam Chiller Incentives

Objective: working with the appropriate government agency or agencies, develop improved incentives to stimulate the installation or retention of steam-based chillers in the new construction, electric-to-steam conversion, and steam-to-steam replacement markets

Overall Completion Date: ongoing

Summary of Activities, 1st Quarter 2006:

1. On November 8, 2005, Con Edison submitted to NYSERDA a table of proposed steam cooling programs within the Steam Retention, Electric-to-Steam Conversion, and New Construction markets (copy of transmittal letter and table attached, Attachment 1).

2. On January 6, 2006, Con Edison had a conference call with NYSERDA to review and discuss their proposed incentives (Attachment 2) that could be offered under its ongoing SBC-II program. Con Edison noted several areas of concern:

   - The incentive for electric/steam conversion ($500/kW, or $275/ton) covers only approximately 40% of the first-cost premium associated with steam cooling. We had requested up to $1,400/kW (with the value ultimately determined, project-by-project, to achieve first cost parity)

   - The $750,000 facility cap means that full funding is available for replacement capacity only up to 3,200 tons (steam retention) and 2,700 tons (electric conversion). This places our multi-chiller replacements (such as NYU Medical Center and the United Nations) at risk.

   - The New Construction program remained largely unchanged: whole building measure capped at $240/kW; custom measure capped at $120,000; and no assigned program for steam cooling.

   NYSERDA indicated that these programs would be reviewed upon approval of the Action Plan for the Con Edison Electric Rate Case settlement and definition of the SBC III program plans. NYSERDA asked Con Edison to schedule a meeting with Carrier and York to further discuss the marketing of steam cooling in the renovation and new construction markets.

3. On January 6, 2006, NYSERDA issues its new Peak-Load Reduction Program (PON 955).

4. On January 11, 2006, Con Edison discussed its concern regarding one of the changes reflected in PON 955 -- that the NYSERDA incentive would not exceed the incremental cost of the steam chiller as compared to a comparable electric chiller (i.e., providing first-cost parity) for the steam retention program. Con Edison advised that many of the recent cooling retention projects have sought to retain 100% cooling via steam and have used the NYSERDA and Con Edison programs to fund the installation of steam chillers. An all-steam plant will have a higher O&M cost than the alternative of replacing one of the steam chillers (in an all-steam plant) with an electric chiller (creating a hybrid plant). If the NYSERDA incentive for steam retention projects only allows for first-cost parity, then it is foreseen that the customer would convert from all-steam cooling to a hybrid configuration. Con Edison indicated that its proposed incentives (in its November 8, 2005 matrix) addressed this concern, with a statement that the program should allow for a lower initial cost for the steam plant (as it had in earlier versions of the Peak Load Reduction PON), thereby creating an adequate program for the all-steam cooling market

5. On January 23, 2006, Con Edison and NYSERDA met with representatives of Carrier Corporation and York International to discuss known barriers to improving the market penetration of steam cooling, and what could potentially be done to improve the market success. Both Carrier and York stated that the fundamental barrier in the electric-to-steam conversion and new construction markets was the higher capital cost for the steam-based equipment. Con Edison indicated that its rate discount could be converted to an equivalent upfront payment, but clarified that it would only partially offset the cost premium for the steam chiller. Each chiller vendor agreed to investigate the market benefit of providing a lower cost steam turbine. Neither vendor has provided details to date; Con Edison has made follow-up calls to promote vendor response.

6. Most recent conference call between NYSERDA and Con Edison was made on March 21, 2006; its timing was coordinated to allow for the issuance and initial review of the opportunities under the NYSERDA SystemWide and the System Benefits Charge (SBC) - funded programs.

   NYSERDA provided Con Edison with an overview of the proposed structure of the Peak Load Management Program, including increases in the Facility and Contractor caps and continuation of the incentive levels ($425 per kW for steam retention, $500 per kW for electric-to-steam conversion). The potential steam cooling incentives under the New Construction Program were not discussed because no one from NYSERDA's program team was available.

   Con Edison expressed its concern that the incentives will still not overcome the primary barrier to market success, and therefore will not stimulate increased summer steam sales.

   NYSERDA referred to a statement within the Business Development Plan that

suggested that a $500 per kW incentive, coupled with the demand savings, might be adequate to promote hybrid cooling. NYSERDA also discussed the impact of the Total Resource Cost Test (TRCT) when determining allowable incentive, and requested that Con Edison provide information on its marginal cost of steam for cooling uses. Con Edison agreed to provide this information.

Both parties agreed to participate in a follow-up conversion in early/mid April.

Anticipated Activities, 2nd Quarter 2006:

1. Continued interagency meetings and conversations between NYSERDA and Con Edison, particularly on the New Construction and Electric-to-Steam conversion programs.

2. Con Edison, with NYSERDA input and concurrence, to seek and complete strategic announcement(s) of the new programs.

3. Con Edison to follow-up with chiller vendors on the viability of alternative offerings.

Summary of Activities, 2nd Quarter 2006:

1. A meeting was held with NYSERDA on May 18, 2006, to discuss the application of the total resource cost (TRC) test as it applies to hybrid chiller plants to determine if the aggregate amount of funding available for the promotion of hybrid chillers should be increased.

2. Additional information was sent to NYSERDA on June 26, 2006, providing input to the TRC test related to the marginal cost of steam and the calculated generic T&D avoided cost.

3. Improvements obtained to date in NYSERDA programs have been announced and publicized at the meeting and forums attended by steam business development representatives.

4. Company had discussions with a chiller vendor and established that it could meet the coefficient of performance standard established by NYSERDA. Company has also had discussions with turbine manufacturers concerning the potential to lower prices for the turbine drives.

Anticipated Activities, 3rd Quarter 2006:

Continue discussions with NYSERDA on the TRC test and hybrid chiller incentives and start discussions on joint marketing efforts for steam chillers.

Work Plan No. SBDP-18
Develop New Steam-to-Steam and Electric-to-Steam Chiller Incentives

Objective: working with the appropriate government agency or agencies, develop new steam-use incentives to complement existing government programs. Develop means to inform existing and potential new customers about these incentive programs.

Overall Completion Date: ongoing

Summary of Activities, 1st Quarter 2006:

1. On December 15, 2005, Con Edison met with the New York City Economic Development Corporation (NYCEDC) to discuss the creation of a steam incentive program that provides a rate discount to participants who install and operate steam chillers. It is noted that existing programs such as the Business Incentive Rate (BIR) and the Energy Cost Savings Program (ECSP) provide its participants with roughly a 30% reduction in their electric or gas bills, thereby promoting the use of non-steam cooling equipment.

2. On October 26, 2005 Con Edison met with the New York Power Authority, the Lower Manhattan Construction Command Center (LMCCC) and Staff to discuss the potential development of an incentive for steam-based chillers serving properties using NYPA power. Con Edison's analysis established the projected electric usage and demand reductions associated with a representative hybrid chiller plant, and converted these reductions to equivalent present-value saving based on forecasted Day-Ahead Market (DAM) and Incremental Capacity (ICAP) prices. The purpose of the meeting was to establish the potential viability for steam cooling to serve the Freedom Tower, but could be applicable to other NYPA customers that are installing new or replacement cooling equipment. The presentation established that hybrid chillers could be economical if NYPA were willing to make a contribution toward the capital cost of the chiller based in part upon the present value savings in DAM and ICAP prices. NYPA has not yet responded to this presentation.

3. On January 13, 2006, Con Edison provided to NYCEDC an analysis of the proposed terms for a new ECSP incentive program. Con Edison evaluated the economic contribution of incentives by Con Edison (via its SC-5 tariff), NYCEDC (new incentive), and NYSERDA (at approx. $1,100 per kW, or roughly 75% of the first cost differential).

4. On February 24, 2006 Con Edison met with the NYCEDC to further review the proposed program. The primary objective was to establish the content of a presentation to be made to the NYC Office of Management and Budget (OMB) to substantiate the need and annual cost for the program. It was agreed that a new incentive program, specifically to promote steam cooling, would be proposed in order to avoid conflict or modifications with the scope and intent of the existing NYC programs.

5. March 2006: The Company helped the NYCEDC prepare a presentation for City government officials that provides the justification for a steam cooling incentive program.

Anticipated Activities, 2nd Quarter 2006:

1. Continue interagency meetings and conversations between NYCEDC and Con Edison to prepare a legislative proposal and to address appropriate modification to ECSP program.

2. Seek the development of a hybrid chiller incentive program with NYPA.

3. Con Edison, with NYCEDC and NYPA input and concurrence, will complete strategic announcement(s) of the new programs.

Summary of Activities, 2nd Quarter 2006:

1. The Company made inquiries but is still waiting to hear from NYEDC on whether the City is ready to move forward with an amendment to ECSP. In addition, the Company reviewed the need for a steam BIR with the City and concluded that no steam BIR was necessary. The potential for making changes to the electric BIR to include a steam component will be discussed during the next electric rate case.

2. The Company made contacts to determine if NYPA was prepared to move forward with a hybrid chiller incentive program and was informed that NYPA was not ready.

Anticipated Activities, 3rd Quarter 2006:

1. Continue working with the NYCEDC on development of an ECSP steam cooling program that can be proposed for the next legislative session.

2. Continue to pursue a hybrid chiller incentive program with NYPA.

Work Plan No. SBDP-19
Develop a Framework for Long-term Contractual Relationships

Objective: Evaluate the potential to use long-term contracts to leverage the installation and operation of steam-based equipment.

Overall Completion Date: by March 2007

Summary of Activities, 1st Quarter 2006:

1. Initial discussions were held with customers about long-term negotiated service agreements to promote the installation of steam-based heating and DG equipment (e.g., steam microturbine).
2. Initial discussions were held with a microturbine equipment manufacturer to discuss a partnership for the installation of a microturbine at a Company location as a demonstration project.

Anticipated Activities, 2nd Quarter 2006:

Continue conversation on these and other similar opportunities.

Summary of Activities, 2nd Quarter 2006:

The Company engaged in a preliminary discussion with a major customer concerning the possibility of entering into a long-term SC-5 contract (up to 20 years) for multiple locations.

As part of the June 2nd Joint Proposal with the DPS Staff and other parties, the Company will be installing a back-pressure steam microturbine at the 74th Street Station to determine the project's feasibility.

Anticipated Activities, 3rd Quarter 2006:

If major customers express interest in pursuing this type of arrangement, SBD will work with Con Edison's Law department to determine the consistency of this type of arrangement with existing laws and regulations.