

Filed Session of January 16, 2008
Approved as Recommended
and so Ordered
By the Commission

JACLYN A. BRILLING
Secretary

Issued and Effective January 17, 2008

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

January 2, 2008

TO: THE COMMISSION

FROM: OFFICE OF ELECTRIC, GAS AND WATER – Electric Rates & Tariffs

SUBJECT: CASE 05-S-1376 – 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.

Consolidated Edison Company of New York, Inc. filed tariff amendments in compliance with Commission Order issued September 22, 2006 in this proceeding.

SUMMARY OF

RECOMMENDATION: The tariff amendments listed in the Appendix should be allowed to become effective on a permanent basis upon the issuance of this Order.

Summary

Consolidated Edison Company of New York, Inc. (Con Edison) filed amendments to its steam tariff schedule in compliance with the Commission's Order Determining Revenue Requirement and Rate Design, issued September 22, 2006 in Case 05-S-1376 (September 22 Order). The amendments effectuate the second year of its Rate Plan (12 months ending September 30, 2008) which retains the company's revenue

requirement at the current level but shifts the recovery of certain costs between base rates and the Steam Fuel Adjustment Clause (FAC). In addition, the revisions implement demand charges for customers who have demand meters and annual steam consumption of 22,000 Mlb or greater. Staff has reviewed the amendments and finds them to be in compliance with the September 22 Order. Therefore, the amendments should be allowed to become effective on a permanent basis as of the date of issuance of the order in this matter.

Background

In the September 22 Order, the Commission adopted a two-year rate plan for Con Edison's steam business commencing October 1, 2006. Effectuation and implementation of the terms and conditions of the rate plan required the amendment of numerous provisions of the company's steam tariff, P.S.C. No. 3 – Steam. The Order directed Con Edison to file the amendments necessary to effectuate its terms for both phases of the rate case. Specifically, the Commission ordered that rate year 2 (RY2) changes be filed no later than September 1, 2007 to become effective on a temporary basis on October 1, 2007. The September 22 Order further provided that such amendments were to become effective on a temporary basis but would not be made permanent until approved by the Commission. The September 22 Order required Con Edison to serve copies of the proposed tariff amendments on all active parties to the rate proceeding and publish the proposed changes in a newspaper having general circulation in its service territory.

On August 22 and 24, 2007, Con Edison filed tariff amendments to implement rate changes for RY2. Con Edison advised the Secretary that copies of the filings had been served on all parties to Case 05-S-1376 and that newspaper publication would be completed in accordance with the Commission's regulations.

Rate Year 2 Compliance Filing

On August 22, 2007, Con Edison filed amendments implementing RY2 pursuant to the September 22 Order. There are no changes to the company's revenue requirement for RY2, but there is a shift in the recovery of certain costs between base rates and the Steam FAC. Specifically, the steam customers' portion of the East River Repowering Project (ERRP) carrying charges have been transferred into base rates in a revenue neutral manner and allocated among steam classes in proportion to the classes' forecasted sales. To reflect this transfer, base rates have been increased by \$1.3775 per Mlb, based on the annual ERRP carrying charges allocated to steam customers of approximately \$36.5 million and the forecasted steam sales level for RY2. In addition, the recovery of the costs of water and water chemicals, previously recovered through base rates are now recovered through the Steam FAC. The base rates have been reduced by \$0.5230 per Mlb to reflect this transfer of approximately \$13.8 million of annual purchased water and water chemical cost.

The base cost of fuel recoverable through base rates has been increased from \$5.049 per Mlb to \$8.049 per Mlb to reflect recent and anticipated average costs of fuel, which are projected to range from \$12.960 per Mlb to \$18.176 per Mlb during the second rate year. As allowed by the September 22 Order, the company can increase the fuel cost recoverable through base rates (subject to a cap of \$8.049 per Mlb) to be effective at the start of RY2, if justified by recent and anticipated fuel costs.

Demand Rates for Service Classification (S.C.) Nos. 2 and 3

On August 24, 2007, Con Edison filed amendments implementing demand charges for RY2 for customers who have demand meters and annual consumption of 22,000 Mlb or greater pursuant to the September 22 Order.

Con Edison initially designed monthly demand rates to recover 25% of the revenues that would otherwise have been collected through the existing variable charges for the period of November 2006 through April 2007. These new demand rates were used to provide monthly sample bills (for informational purposes only) to a population of 289 customers during the winter of 2006-2007 (November to April), who had installed demand meters and had annual steam consumption amounts of 22,000 Mlbs or greater.

As required under the Joint Proposal, Con Edison held a meeting on July 17, 2007 with interested parties to discuss the impact that the new demand charges would have on a customer's bill (based on the sample bills provided during the winter of 2006-2007). At the meeting, the company indicated that the bill impacts for those customers that used steam air conditioning during the "shoulder" months of November and April were significant. Based on the customer feedback, Con Edison proposed an alternative steam demand charge rate design that collects 25% of the pure base revenue (i.e., base revenues less the base cost of fuel, station electric usage charges, and the customer charge) for the four winter billing months of December through March instead of the original six month period. For November and April, customers will be billed under the current winter non-demand rates. This is the demand charge rate design that is reflected in the August 24, 2007 compliance filing. There are no changes to the summer (May through October) rates under the proposed demand rate structure.

The rate design includes two demand charge periods. The demand charge for the peak period (Monday through Friday, 6 a.m. to 11 a.m.) is set to recovery 90% of the demand revenue requirement, and the demand charge for the "all hours-all days" period is set to recover the balance. The variable usage charges for the months of December through March have been reduced to provide the same level of revenue to the company for those months as would be collected at October 1, 2007 rates.

Public Comments

The September 22 Order specified that any comments on the company's compliance filings must be received at the Commission's offices within ten days of service of the company's proposed amendments. Consumer Power Advocates (CPA) submitted comments on September 28, 2007. Although these comments were received outside of the comment period, they have been summarized below. No other comments were received in response to the newspaper publication or from the parties served.

Consumer Power Advocates Comments

CPA objects to the company's filing implementing demand rates for certain steam customers by Con Edison. CPA does not agree that the bill impacts on customers who use steam air conditioning during November and April are significant. CPA states that the possibility exists that some or even all of the shoulder season peak events could be caused by building operators running heating systems at the same time as running steam chillers.

CPA claims that the company's recognition of bill impacts is unwarranted and that the fact that the implementation of demand charges have not been implemented until RY2 and that they are designed to only collect 25% of the pure base revenues already provides bill impact mitigation. CPA urges the Commission to reject the company's compliance filing and to direct the company to file demand charges that reflect 25% of the pure base revenues that would otherwise have been collected through the existing variable charges for the six month period of November 2006 through April 2007.

Discussion and Conclusion

Staff has reviewed the company's filings and confirmed that the amendments properly reflect the terms and conditions of the September 22 Order. Specifically, steam's share of ERRP's carrying charges that have been transferred into base rates from the FAC, as specified in the Joint Proposal. This transfer was subject to Staff's review. Staff has reviewed all significant costs associated with the re-powering effort and finds these costs to be reasonable.

The company's change to the base cost of fuel, as allowed under September 22 Order, is justified based on the recent actual and forecasted cost of fuel. In addition, increasing the base cost of fuel will reduce the magnitude of the monthly Steam FAC adjustment.

In regard to CPA's comments, Staff recommends that the Commission reject them on a procedural basis since they were received after the comment period had expired. If the Commission chooses to consider them, Staff recommends that they be rejected due to the customer bill impacts that are expected if CPA's recommendations were accepted. As the company states, significant bill impacts on steam cooling customers would be contrary to the Commission's policy of promoting steam air conditioning and reducing demand on the electric system during peak periods. The Joint Proposal adopted by the Commission in the September 22 Order provided for the company to determine the need for and nature of any modifications to the demand rates, and other related issues, based upon the impact of demand charges on customers bills. The company's four month demand charge rate design, addresses the possibility that some cooling loads could cause a monthly peak in November or April resulting in significant bill impacts. Staff finds the company's demand charge rate design to be reasonable.

Based on Staff's review of the company's filing and the review of the comments received, Staff does not believe any modifications to the amendments are needed. Accordingly, Staff recommends that the Commission adopt the tariff amendments filed on August 22 and 24, 2007 on a permanent basis.

Recommendation

It is recommended that:

- 1) the amendments listed in the Appendix be allowed to become effective on a permanent basis upon the issuance of this Order; and
- 2) the comments by the Consumer Power Advocates be denied, as discussed in this memorandum.

Respectfully submitted,

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SUBJECT: Filings by CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Amendments to Schedule P.S.C. No. 3 – Steam

Fifth Revised Leaf No. 30
Seventh Revised Leaf No. 23
Thirty-Second Revised Leaf No. 14
Thirty-Fourth Revised Leaves Nos. 20, 21, 22

Issued: August 23, 2007 Effective on a Temporary Basis: October 1, 2007

Amendments to Schedule P.S.C. No. 3 – Steam

Original Leaves Nos. 21-C, 21-D, 21-E, 22-C, 22-D, 22-E
Seventh Revised Leaves Nos. 21-B, 22-B
Sixteenth Revised Leaf No. 22-A
Thirty-Third Revised Leaf No. 21-A
Thirty-Fifth Revised Leaves Nos. 21, 22

Issued: August 27, 2007 Effective on a Temporary Basis: October 1, 2007

NEWSPAPER PUBLICATION: August 31, September 7, 14 and 21, 2007