

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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.

NOTICE INVITING
PUBLIC COMMENT ON JOINT PROPOSAL

(Issued August 4, 2006)

On June 2, 2006, Consolidated Edison Company of New York, Inc., staff of the Department of Public Service, and other parties active in the above steam rate proceeding submitted a negotiated Joint Proposal which the Commission will consider together with supporting and opposing arguments. The parties propose a two-year steam rate plan starting October 1, 2006, which would hold base rates at their current level although the calculation of fuel adjustment clause charges would be modified in the second year. A summary of these and other terms and provisions of the Joint Proposal is attached to this notice.

The Joint Proposal, and the active parties' statements supporting or opposing it, are available for inspection at the Department of Public Service's Albany office on the 14th floor, Three Empire State Plaza, and at the Department's New York City office on the 4th Floor, 90 Church Street. This notice and the attached summary have been posted on the Department's Web site, <http://www.dps.state.ny.us> (click on "Commission Documents" and use the search options).

The public is invited to submit written comments concerning the Joint Proposal by September 5, 2006. An original and five copies of the comments should be delivered on or before the due date to the Secretary, Public Service Commission, Three Empire Plaza, Albany, New York 12223-1350.

(SIGNED)

JACLYN A. BRILLING
Secretary

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SUMMARY OF JOINT PROPOSAL

On June 2, 2006, a negotiated Joint Proposal in the above-captioned proceeding was filed with the Public Service Commission, in which the parties propose that the Commission adopt certain rates and conditions for steam service provided by Consolidated Edison Company of New York, Inc. (Con Edison). The signatories include Con Edison, staff of the Department of Public Service, the City of New York, Consumer Power Advocates, ConsumerPowerline, E-Cubed Company, LLC, New York Energy Consumers Council, and Pace Energy Project. The following is a summary of the Joint Proposal.

I. Term

The parties propose a two-year steam rate plan commencing October 1, 2006 and expiring September 30, 2008.

II. Steam Revenue Allowances

The parties agree that Con Edison's allowed steam revenues should be adjusted to maintain safe and adequate steam service. They propose that base rates remain unchanged from their current level throughout the two-year term of the steam rate plan, except that in the second year, recovery of certain costs would be shifted between base rates and steam fuel adjustment clause (FAC) charges (as described below). Various credits would be used to hold base rates constant despite a calculated decrease in the revenue allowance for the first year, offset by a calculated increase for the second year. The credits would include a portion of the proceeds from the company's sale of its First Avenue Properties, and a portion of past and projected revenues from sales of sulfur dioxide (SO₂) allowances.

III. Rate Design

In addition to other miscellaneous tariff changes not summarized here, the parties propose that winter demand charges be imposed on Service Classification (SC) 2 and SC 3 steam customers with demand meters and consumption that equals or exceeds 22,000 thousand pounds (Mlb) per year, starting November 1, 2007. The new demand charges would be revenue-neutral to

the company, but their impact on individual customers would depend on the extent to which each customer can shift its usage toward off-peak periods. To help customers prepare to manage their steam loads accordingly, the parties propose that the winter demand charges be applied only to those otherwise eligible customers for whom the company has initiated dummy demand billing by November 1, 2006. Con Edison would compile and make available estimated impacts of demand billing for the 2005/2006 and 2006/2007 winter periods; convene a collaborative with interested parties in July or August 2007 to review of such impacts; and, if requested, convene a technical conference following its fall 2006 compliance filing in this proceeding.

The parties also propose that the company take several initiatives to explore other possible rate design changes, as follows. In May 2007, Con Edison would convene a collaborative to analyze whether the SC 1, SC 2, and/or SC 3 classes should be realigned based on customer size, load factor, or other considerations, and whether rates for SC 4 back-up and supplementary service should be redesigned. Regarding SC 6 transportation rates, the company would file an analysis which would serve as a basis for discussion at a technical conference to consider possible tariff revisions. Regarding Rider E of the steam tariff, which provides a negotiated steam fuel cost option, the company would meet with an advisory group of interested parties through November and December 2006 to consider possible enhancements of that option.

IV. Cost Recovery Through FAC vs. Base Rates

For the first year of the steam rate plan, the parties propose that the steam customers' portion of East River Repowering Project (ERRP) carrying charges, determined according to the current method of allocation between steam and electric service and capped at \$788.3 million, continue to be recovered through the steam fuel adjustment clause (FAC). For the second year, such ERRP costs would be transferred into base rates in a revenue neutral manner, and would be allocated among steam service classes in proportion to the classes' forecasted sales so as to minimize bill impacts.

The parties further propose that the steam FAC continue to recover or refund variances between actual fuel costs and the base fuel cost specified in the steam rate plan, in accordance with the reconciliation method currently in use, except as follows. For the first year of the steam rate plan, the base cost of fuel recoverable through base rates would be held at its present level of \$5.049 per Mlb of steam. For the second year, the base cost would be adjusted to reflect recent

and anticipated fuel costs, subject to a cap of \$8.049 per Mlb, and the fuel cost variances recoverable through the FAC would be diminished accordingly.

Finally, the parties propose that the costs of purchased water and water chemicals, recovered through base rates currently, would continue to be recovered in that manner through the first year of the steam rate plan but would instead be recovered through the FAC for the second year.

V. 74th and 59th Street Plant Costs

The parties propose a new method for allocating the operating costs of the 74th and 59th Street Steam Stations between steam and electric service, based on the square footage of plant devoted to each of the two types of service. As a result, the parties project that the electric customers' share of those plants' costs would decline from its current level (approximately \$23 million per year) to \$4.4 million per year, although it would not decline to zero as the Commission had anticipated when it set the company's current rates in October 2004.

VI. SO₂ Allowances

Con Edison has accumulated sulfur dioxide (SO₂) allowances related to its former electric generating stations and its current and retired steam/electric generating stations. The company sells whatever allowances it does not need for operating its existing stations, and applies the proceeds for its customers' benefit. The amount allocated to steam operations is based on the historical allocation of SO₂ allowances between the electric and steam departments, as well as actual fuel usage at the company's generating stations in the year when the allowances were granted.

Con Edison's current steam rates were set in October 2004 on the basis of an expectation that proceeds from the sale of SO₂ allowances allocable to steam would amount to \$3.6 million (\$1.8 million annually over two years). However, as of January 31, 2006, proceeds actually available for steam customers amounted to \$13.9 million, or \$10.3 million more than the forecast. The parties propose that the \$10.3 million be flowed back to customers, with interest, by means of an annual \$3.6 million credit.

The Joint Proposal also would impute to the steam department an additional \$3.5 million annually from future sales of SO₂ allowances. To the extent actual proceeds varied from that level, the variance would be deferred and recovered from or credited to steam customers at the end of the steam rate plan.

VII. Earnings Sharing

The proposed steam rates are calculated on the basis of the cost of service shown on Appendix A to the Joint Proposal. Should the return on equity (ROE) in either rate year exceed 11.0% (or 10.8%, should Con Edison fail to achieve performance standards set forth in the Joint Proposal), such excess would be shared equally (50:50) between customers and shareholders. Earnings exceeding 12.0% (or 11.8%, should the company not achieve the performance standards) would be shared 75:25 between customers and shareholders respectively. The Joint Proposal prescribes in detail how the ROE would be calculated for purposes of the sharing mechanism. Some of the deferrals discussed in the next section would be limited by half to the extent that the ROE exceeded the 11.0%/10.8% threshold noted above; or would become unavailable altogether if the ROE exceeded the 12.0%/11.8% threshold.

VIII. Reconciliations and Deferrals

The parties propose that Con Edison be permitted to reconcile costs exceeding the amount allowed in rates for property taxes, interference other than company labor, production plant expenditures, pensions and other post-employment benefits, environmental remediation, and SO₂ allowance proceeds. Depending on the nature of the costs and the policies to be achieved by allowing their deferral and amortization, some costs would be fully recoverable from customers while others would be subject only to partial reconciliation, as specified in the Joint Proposal. World Trade Center costs would be amortized at \$4 million per year, with the remainder of the steam customers' share to be deferred as the Commission may determine in Case 01-M-1958, Con Edison – World Trade Center Costs – Deferral Petition.

IX. Steam Business Development and Production Planning

The Joint Proposal reflects Con Edison's agreement to undertake numerous steam business development (SBD) initiatives and other measures in the interest of maintaining the steam customer base, rate stability, and infrastructure integrity. The enumerated SBD efforts include plans to encourage the use of hybrid chiller systems; site-specific energy efficiency consultation for up to 30 large customers; a minimum annual quota of contacts between Con Edison's SBD staff and customers (actual or potential), engineers, and other energy advisors; an ombudsman system appropriate to the needs of various sized customers; a project

to identify and address SC 2 and SC 3 customers' service concerns; a marketing program for the company's steam repair service; a back-pressure microturbine demonstration project; and a district energy study of Hudson Yards, as recommended by the SBD Task Force (comprising representatives of state and local government, consumer groups, and others).

Regarding steam production planning, Con Edison would undertake an investment grade study of options for repowering or replacing the Hudson Avenue Station, and a Steam Resource Plan addressing the company's future steam production requirements. The company would implement demonstration projects to explore the potential for improved thermal efficiency as an additional resource, and would file various reports regarding production plant capital expenditures and operating and maintenance expense, plant availability factors, and interconnection of combined heat and power projects to Con Edison facilities.

Con Edison also would file an annual Strategic Plan for its steam business, addressing business development and production planning efforts, over horizons of one, three, five, and ten years.

X. Miscellaneous

The Joint Proposal contains standard provisions regarding the use of the document, separability of its provisions, effect of Commission adoption of its terms, and parties' ability to participate in other proceedings. Nine appendices accompanying the Joint Proposal provide calculation formulas and other details regarding certain terms and conditions.