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a conEdison, inc. company

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February 14, 2007

VIA OVERNIGHT MAIL

Honorable Jaclyn A. Brilling
Secretary
State of New York
Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: 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.

Dear Secretary Brilling:

The Commission's Order Determining Revenue Requirement and Rate Design, issued on September 22, 2006 in the above-referenced proceeding, provides as follows with respect to the milestones for the promotion of hybrid chillers that the Company has previously provided to the Commission:

> Con Edison will file with the Commission by each February 15 (so long as there are outstanding milestones) a report setting forth the efforts the Company has undertaken to achieve these milestones and, if applicable, to provide the reason(s) why a milestone has not yet been achieved.

Enclosed please find an original and five copies of the first milestone update report for February 15, 2007.

Please contact me if you have any questions regarding this matter.

Very truly yours,

Richard B. Miller

cc: Active Parties (via e-mail)

Con Edison Hybrid Chiller Milestone Achievement
February 15, 2007 Report

A milestone schedule including task detail was filed with the Commission on November 21, 2006. This report, as required by the Steam Rate Plan, sets forth the efforts the Company has undertaken to achieve these milestones and, if applicable, to provide the reason(s) why a milestone has not yet been achieved. For each task set forth below, the scheduled and actual completion dates for that milestone are provided.

Update Benefits Description

Scheduled and Actual: December 1, 2006

The Company has developed a table of benefits as a punch list for consideration in any dialogue with the customers, including the presentation of a hybrid cooling proposal. The benefits set forth below can also be customized for specific customers.

Hybrid Cooling Plant Benefits

Avoids electric demand charges at peak rates	Energy costs can be reduced by 10 to 15% of previous all-electric chiller plant energy costs where steam is designed to satisfy one-third of the cooling demand.
Alleviates electric capacity at peak periods for alternate use.	Realize up to a 30% reduction in electric demand dedicated to cooling. For 3,000 to 10,000 ton cooling plants, this would mean 500 to 2,500 kW of contingency demand.
Alternative energy source	Bring Con Edison steam system reliability of 99.998% into your tenant cooling solution.
Intrinsic variable speed operation	Variable Speed Drive capabilities are inherent in a steam turbine driven chiller, without the need to add equipment and incur additional costs.
Lowers risk of interrupted electric service from system strain in peak periods (within building and within region).	With the all-electric central chiller plant typically accounting for __% of your building's electric load, a hybrid plant alleviates a load of __% during peak periods.
Steam Chiller provides economical "on demand" supply of chilled water as opposed to storage systems.	Pay only for what energy you use after you use it. Avoids committing valued space to mechanical systems.
Societal benefit of lower emissions during summer ozone alert periods.	Extremely hot days and ozone alerts run hand in hand. Steam generation operates within its optimum efficiency range during those periods whereas electrical generation is focused on meeting demand. Estimated 50% reduction in NOx emissions dispatching to steam.
No special certifications required for operators of steam absorption chillers.	Existing skill sets of your staff will readily apply to a hybrid plant.

Update Pricing Template Format
Scheduled: December 6, 2006
Actual: December 11, 2006

The Company updated the reference usage profile used in its operating cost analysis spreadsheet and "What's Best?" solution targeting program. In addition, the Company refined the spreadsheet so that it can be customized for a usage profile when needed or for comparative analyses.

The model includes the information from the Company's newly-created NYSERDA funding pricing templates, which were developed to provide the updated NYSERDA Incentive Program fund amounts for a simple life cycle cost spreadsheet. More specifically, NYSERDA Program Opportunity Notice (PON) 1097 was analyzed to identify the maximum funding available for select size ranges of hybrid plants. The table below demonstrates the impact of three financial factors within PON 1097 using a Coefficient of Performance of 1.02 or greater to justify an incentive of $1,000 per kW. (NYSERDA responded to the Company's request and raised the level of the dollar per kW incentive for steam chillers in this PON.) They are:

1. 65% of eligible costs
2. Not To Exceed (NTE) differential cost
3. Maximum $1,000,000 per site

NYSERDA PON 1097 Peak Load Reduction Program - Permanent Demand Reduction Incentives

Cooling Plant Tonnage	Hybrid Cooling with Steam Tonnage at 1/3 Plant Capacity	NYSERDA General Reimbursement Incentive @ $1,000/kW	Estimated cost/Ton Steam Installation*	Estimated Steam Installation Cost	NYSERDA Incentive Cap of 65% of eligible costs	Estimated Electric Installation Cost/ton*	Estimated Electric Installation Cost	NYSERDA Incentive Cap "Not to Exceed" Incremental "Reference Electric" vs. Steam Installation Cost	NYSERDA Facility Maximum Incentive Cap	PON 1097 Estimated Project Funding	Steam Chiller Installation Cost Net of Funding	Net Steam Chiller cost/ton
1,500	495	$272,250	$1,560	$772,200	$501,930	$960	$475,200	$297,000	$1,000,000	**$272,250**	$499,950	$1,010
2,500	825	$453,750		$1,287,000	$836,550		$792,000	$495,000		**$453,750**	$833,250	$1,010
3,500	1,155	$635,250		$1,801,800	$1,171,170		$1,108,800	$693,000		**$635,250**	$1,166,550	$1,010
4,500	1,485	$816,750		$2,316,600	$1,505,790		$1,425,600	$891,000		**$816,750**	$1,499,850	$1,010
5,500	1,815	$998,250		$2,831,400	$1,840,410		$1,742,400	$1,089,000		**$998,250**	$1,833,150	$1,010
6,500	2,145	$1,179,750		$3,346,200	$2,175,030		$2,059,200	$1,287,000		$1,000,000	$2,346,200	$1,094
7,500	2,475	$1,361,250		$3,861,000	$2,509,650		$2,376,000	$1,485,000		$1,000,000	$2,861,000	$1,156

NYSERDA factors for Cap on Incentive
* Installation Costs per Ton based on estmated "typical" building

These factors may create economic boundaries for proposing projects. The Company is further examining the NYSERDA incentives to determine whether additional adjustments are necessary. The Company is also continuing to work with New York City to have it adopt a discount program for steam chillers that would be similar to its Energy Cost Savings Program that is currently in place for electric and gas.

Create an Advisory Group
Scheduled: December 22, 2006
Actual: December 14, 2006

We have established a hybrid cooling advisory group and have held two meetings (the first on December 14, 2006 and the second on January 25, 2007). As part of the selection process for invitations to participate on the advisory team, Con Edison held discussions with various equipment and service providers and reviewed the provider's recent business activity to establish its market interest in steam. Con Edison then asked the companies deemed to be most involved and proactive to join and they accepted. The members of the advisory group are as follows:

Catherine Luthin	Luthin Associates
Charles Copeland	Goldman Copeland Associates, P.C.
David Morse	York International
Ernie Biron	Carrier
John Farrell	AKF engineers
Jon Hettinger	Tishman Speyer
Scott Frank	Jaros, Baum & Bolles
Theo Breitenstein	emacx
Tim Angerame	Utility Programs and Metering
David Bomke	New York Energy Consumers Council
Lee Smith	NYSERDA
Marco Padula	NYS- DPS
Craig Wilson	NYEDC
Alison King	NYEDC

These 14 participants provide a balanced representation of entities interested in promoting steam cooling (controls, equipment, engineering, consulting, customer representatives, New York City, and PSC staff). The meetings focused on reviewing verifiable benefits and available incentives for hybrid cooling. Con Edison presented the group with a sensitivity analysis of the base economic model for hybrid cooling. This model showed that capital cost differential remains the primary obstacle and operating costs remain a concern.

Members of the advisory group expressed concerns surrounding the historical economic life of two-stage steam absorption chillers. The Company has used steam turbine chillers as the primary basis for economic analysis because of their lower first cost compared to two-stage absorbers. The life span issues reinforce the Company's preference for turbine drives in proposing solutions to customers. Therefore, where two-stage absorption is considered appropriate for environmental reasons (i.e., no refrigerant requirements) it will be reviewed with an eye toward higher contingency allowances in the economics presented.

The advisory group is also providing Con Edison with case studies for use in marketing, proposals, and as possible topics for a Company steam forum to be held in the first half of 2007.

Address Hybrid Cooling for WTC with NYPA
Scheduled: December 28, 2006
Actual: December 6, 2006

On December 6, 2006, Con Edison met with New York Power Authority to review a revised economic model for installation of hybrid cooling at the World Trade Center site. Without SBC funds, the capital cost differential between electric and steam would have to be carried by NYPA or some other funding source. NYPA took the proposed configuration under advisement.

Determine Viable Candidates for Hybrid Cooling
Scheduled: December 29, 2006
Actual: December 20, 2006

The Company developed the candidate selection steps noted below to determine the first 10 candidates with favorable economic parameters. Where we could not verify a customer's match to the elimination criteria in steps 1 and 2 using internal data, a conservative approach was taken and the facility was not selected as a potential hybrid cooling candidate until further information becomes available. However, where the building passed the basic parameters in steps 1 and 2, but we could not get timely responses from the facility itself for current status, the candidate was maintained as a prospect.

Screening Process for Hybrid Cooling Proposal Candidates

The screening process was as follows:

Step 1 Criteria
- Existing heating-only accounts
  - Cost of access to steam eliminated in economic analysis
- Estimated total central cooling plant in 3,000-6,000 ton range
  - Optimum economic range based on evaluation of NYSERDA funding

Step 2 Criteria
- Year building was built
  - Buildings built prior to 1980 more likely to install central plant
- 15-20 year predicted equipment life span used to narrow selection to facilities in range for upgrade of existing cooling plant
  - Higher capital costs of steam equipment can be partially offset by replacement costs of aged equipment
- Owner type considered related to the importance of lifecycle costs

Step 3 Criteria
- Available market information on client activity at facility
  - Recent purchase or sale
  - Recent major mechanical equipment renovation
  - Known proclivity for CHP

The result of this screening was an initial list of ten prospective candidates from our existing customer base and one external prospect identified through a customer contact reference. This confidential list was provided to the Department of Public Service.

Discovery meetings with the first 10 candidates are in process to review current facility conditions, customers' project timetables, and customers' billing relationship to tenants (e.g., owner, developer, rent inclusion, submetered, etc.) This information will be used to determine the ultimate opportunity and proposal parameters. This up-to-date information is also being populated in our customer database and will be used to re-evaluate previously screened out candidates for further potential.

The Company will provide all of the potential hybrid candidates with written proposals to convert a portion of their electric air conditioning to steam air conditioning by March 31, 2007, as required by the Steam Rate Plan.

Existing Hybrid Performance Measurement Customer
Scheduled: January 3, 2007
Actual: January 3, 2007

We are in discussions with a customer that utilizes hybrid cooling to determine if that customer's existing measurement systems will provide sufficient details for analysis. The concern is primarily in extracting electric chiller consumption data from the full building electric consumption data. The intent is to validate our proposed hybrid model with an actual case study for reference that shows use of steam and electric chillers in a hybrid configuration.

Compile a Package of Marketing Materials
Scheduled: January 30, 2007
Actual: January 30, 2007

Con Edison has developed a package of promotional materials that is used to present the benefits of hybrid cooling to prospects. The advisory group has commented favorably on the materials. We will be updating these materials to coincide with the launch of a new theme and presentation format for steam marketing.

Issue First Proposal from Prospective Candidate List
Scheduled: January 30, 2007
Actual: January 9, 2007

The Company held its first face-to-face meeting to present a hybrid cooling proposal to one of the ten candidates on January 9, 2007. The customer was amenable to the concept and requested alternative scenarios based on specific issues at the facility. We are developing a revised proposal to satisfy its criteria.