

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on September 20, 2006

COMMISSIONERS PRESENT:

William M. Flynn, Chairman
Patricia L. Acampora
Maureen F. Harris
Robert E. Curry, Jr.
Cheryl A. Buley

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.

ORDER DETERMINING
REVENUE REQUIREMENT AND RATE DESIGN

(Issued and Effective September 22, 2006)

BY THE COMMISSION:

This order adopts terms set forth in a Joint Proposal submitted by proponents Consolidated Edison Company of New York, Inc. (Con Edison, the company), staff of the Department of Public Service (Staff), the City of New York (City), Consumer Power Advocates, New York Energy Consumers Council, Inc., Pace Energy Project, Equity Office Properties, The E-Cubed Company, Redwood Power Company, and ConsumerPowerline.¹ We thereby establish a rate plan and other provisions, to remain in effect

¹ Consumer Power Advocates, New York Energy Consumers Council, and ConsumerPowerline disavow any familiarity with, or support for, the assumptions and methodology underlying the Joint Proposal's provisions related to a steam production study (a subject of objections regarding Con Edison's resource planning, discussed below). (Their disclaimer appears on the signature pages filed with the Commission and distributed to the service list, but not on the unsigned signature pages displayed on the Department's Web site.)

for at least two years starting October 1, 2006, with respect to steam service provided by the company.

BACKGROUND

Procedural History

Con Edison serves about 1,800 steam customers which account for about 100,000 commercial and residential establishments in the Borough of Manhattan. Its most recent rate increases were approved in September 2004, under the terms of a negotiated joint proposal for a two-year rate plan with two net increases of about \$20.1 million each in October 2004 and October 2005 (after applying savings from the East River Repowering Project, or ERRP, to partly offset the revenue requirement).²

We initiated this case to consider a November 2, 2005 filing in which Con Edison proposed a base rate increase calculated to produce approximately a \$67.6 million (9.6%) net increase in steam revenues for the year ending October 1, 2007, i.e., the first rate year following expiration of the current rate plan. We have suspended the company's proposed rates through September 30, 2006.³ During the discovery phase, we directed Con Edison to supplement its filing with evidence regarding three "action items" in its Steam Business Development Plan.⁴

On February 27, 2006, after reviewing the application and conducting additional discovery, Staff and intervenors filed testimony and exhibits supporting their arguments against Con Edison's proposals, including Staff's contention that rates for the initial new rate year should not increase from their present

² Cases 03-G-1671 and 03-S-1672, Consolidated Edison Co. of N.Y., Inc. - Rates, Order Adopting the Terms of a Joint Proposal (issued September 27, 2004).

³ Case 05-S-1376, orders issued November 22, 2005 and March 22, 2006.

⁴ Case 05-S-1376, Order on Steam Business Development Plan (issued December 5, 2005).

level. Con Edison and other intervenors filed rebuttal on March 13, 2006.

The parties' testimony became a basis for settlement discussions. Interested persons were provided proper notice and opportunities to participate, in compliance with the requirements of 16 NYCRR 3.9. As the Joint Proposal describes in detail, the discussions started in mid-March, broke off after two weeks, resumed in late April, and continued until the Joint Proposal now under review was filed on June 2, 2006. In addition to the proponents named above, active participants have included the two parties that oppose elements of the proposal: TransGas Energy, LLC (TGE) and the County of Westchester (Westchester).

Pursuant to the schedule initially adopted by the Administrative Law Judge on the basis of a December 6, 2005 prehearing conference, hearings commenced in New York City on April 5, 2006.⁵ The initial hearing on that date provided an opportunity for public comment, but none was offered. Otherwise, the hearing addressed only procedural issues concerning further hearings and the possibility of a negotiated outcome, after which the hearing was twice adjourned to accommodate the settlement discussions.⁶

After the Joint Proposal was filed, the hearings reconvened July 12, 2006 in New York City and were completed the same day. Witnesses underwent, or were offered for, cross-examination concerning the Joint Proposal and their statements

⁵ This case initially was assigned to Administrative Law Judge Robert R. Garlin. Following Judge Garlin's death, the case was reassigned to Administrative Law Judge Rafael A. Epstein effective April 3, 2006. The April 5 hearing was conducted by Commissioner Thomas J. Dunleavy, since retired, and Judge Epstein.

⁶ To allow time for negotiations while also ensuring an orderly litigation process if necessary, Con Edison agreed to waive the suspension period approximately three weeks (without a make-whole provision) if no agreement materialized. Case 05-S-1376, Procedural Ruling (issued April 26, 2006).

or testimony supporting or opposing it.⁷ The Judge then authorized initial and reply briefs limited to matters explored in the hearings, namely the issues raised by TGE and Westchester as discussed below.⁸ A summary of the Joint Proposal was issued with a notice inviting public comment, but no comments were received.⁹

SUBSTANCE OF THE JOINT PROPOSAL

The Joint Proposal's major provisions, if adopted, would supersede the rate request as follows.¹⁰

1. Term

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

2. 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 nevertheless remain unchanged from their current level throughout the two-year term of the steam rate plan, except that in the second year, recovery

⁷ Initial statements or testimony dated June 19, 2006 were filed by Con Edison, Staff, the City, Consumer Power Advocates, New York Energy Consumers Council, Inc., Pace Energy Project, and ConsumerPowerline, in support; and TGE and Westchester, in opposition. Replies dated June 30, 2006 were filed by Con Edison, Staff, and the City.

⁸ Con Edison, Staff, the City, TGE, and Westchester each filed an initial brief dated August 7, 2006 and a reply brief dated August 18, 2006. As directed, the parties filed comprehensive initial briefs which generally obviated extensive replies.

⁹ Case 05-S-1376, Notice Inviting Public Comment on Joint Proposal (issued August 4, 2006).

¹⁰ This is a summary originally prepared by the Judge to accompany the August 4, 2006 notice (note 9, above). The points listed here are simply highlights of the Joint Proposal. For a complete statement of its terms, one must refer to the Joint Proposal itself, which accompanies this order as Attachment A. The Joint Proposal in turn includes Appendices A through I.

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.

3. 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 sample 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 such impacts; and, if requested, convene a technical conference following its fall 2007 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.

4. 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 ERRP carrying charges, determined according to the current method of allocation between the steam and electric departments 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.

5. 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 departments, 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 effective October 2004.

6. 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 steam and electric 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 effective 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.

7. 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.

8. 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.¹¹ 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 a separate proceeding.¹²

9. 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

¹¹ We note that the Joint Proposal's terms would result in Con Edison's flowing through to customers on a current basis the benefits the company may receive pursuant to the Prescription Drug and Medicare Improvement Act of 2003, although the appropriate accounting treatment for such items remains to be determined generically in Case 04-M-1693, Accounting and Ratemaking - 2003 Medicare Improvement Act, and Case 91-M-0890, Statement of Policy - Pensions and Post-Retirement Benefits Other Than Pensions. The accounting treatment in the Joint Proposal is an element for which the proponents bargained, and would not materially affect the revenue requirement or contradict any established Commission policy. We therefore will adopt it with respect to Con Edison steam rates at least for the duration of the two-year rate plan, notwithstanding any different treatment that we might prescribe generically at the conclusion of Cases 04-M-1693 and 91-M-0890. Our decision here is not intended to serve as precedent in setting Con Edison's electric and gas rates.

¹² Case 01-M-1958, Con Edison - World Trade Center Costs - Deferral Petition.

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.

10. 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.

TGE'S OBJECTIONS

TGE's Proposed Modifications

In a separate proceeding (Case 01-F-1276), TransGas Energy, LLC (TGE) has applied pursuant to Public Service Law Article X for a Certificate of Environmental Compatibility and Public Need to construct a steam and electric generating plant

in the Borough of Brooklyn. Here in the steam rate case, TGE objects to the Joint Proposal's alleged lack of adequate assurances that Con Edison would objectively consider the option of purchasing steam from the TGE plant as an element of Con Edison's Steam Resource Plan.¹³

TGE initially proposed that the Joint Proposal be revised to include language addressing its concerns, and then modified its proposed revisions during the proceeding to meet other parties' objections. The revisions eventually advocated by TGE would require that Con Edison:

1. negotiate with potential steam suppliers upon their request without awaiting completion of the Resource Plan;
2. treat alternative supplies as an option that Con Edison must consider, and not merely one among various options that Con Edison may or may not consider in its discretion;
3. evaluate alternative supply options by reference to Con Edison's own avoided costs; and

¹³ In addition to the statements and briefs listed in notes 7 and 8 above, TGE has filed a generic objection (here as well as in the Article X case) against any actions by the parties or Commission that might violate the antitrust laws. (Case 05-S-1376, letter dated May 30, 2006 to Administrative Law Judge from Thomas P. Puccio, Esq.) TGE and the other parties have not responded to TGE's objection directly although, as discussed in this order, they have argued about whether Con Edison's resource planning process will permit fair comparative evaluation of TGE's potential steam production vis-à-vis other resource options.

4. include in the negotiations an Administrative Law Judge from the Department's Office of Hearings and Alternative Dispute Resolution.¹⁴

Alternatively, if revision (2) were adopted, TGE says it would waive the rest of its proposals in exchange for assurances in this order that our approval of the Joint Proposal's terms is contingent on the proponents' adherence to their testimony regarding the obligation to pursue competitive supply options. Con Edison, Staff, and the City of New York (City) each opposes at least some of TGE's proposed changes.

Discussion and Conclusions

As described more precisely below, we are adopting the Joint Proposal's terms subject to TGE's second proposed revision but will not impose the other three revisions. Despite the waiver offered by TGE, we find it useful to comment on all four proposals.

¹⁴ For purposes of this order, as an organizational device, we have subdivided TGE's proposed revisions into the four enumerated points shown in the accompanying text. However, TGE's actual request is to add, to Sec. I of the Joint Proposal, the following new Paragraph (g):

Contemporaneously with the preparation of the investment grade study required herein, and within the deadlines established herein, Con Edison will agree to negotiate separately with each interested potential supplier of steam that so requests, if any, the potential terms of a steam sales agreement based upon Con Edison's full avoided steam production and capacity costs ("Potential Terms"). A DPS administrative law judge will assist the negotiations if requested by a party. The Potential Terms resulting from each negotiation will be filed with the Commission and disseminated to interested parties together with the evaluation provided in (e) above. The Potential Terms will be compared to the results of the investment grade study required herein and any other resource options studied by Con Edison and said comparison will be included in the Steam Resource Plan provided herein. Con Edison's rationale for accepting or rejecting the Potential Terms shall be provided in the Steam Resource Plan with supporting cost details.

Revision (1)

According to TGE, its proposed revision (1) is needed to ensure that Con Edison will obtain all necessary information about the option of purchasing steam from TGE before Con Edison completes a detailed comparison among all available resource options. However, we shall not adopt this revision. As Staff, Con Edison, and the City point out, the schedule and process for completion of the Steam Production Plan (Production Plan) and Resource Plan provides no basis for TGE's concern that the independent supply option would be considered too late in the planning process to receive adequate attention.¹⁵

Pursuant to Con Edison's current rate plan, the company is preparing a Production Plan that will review resource options, including reliance on Con Edison's own generation and on independent suppliers.¹⁶ Phase I of the Production Plan is intended to identify options suitable for undergoing an investment grade analysis subsequently. The Joint Proposal would specify that two options for repowering Con Edison's own Hudson Avenue steam generating units, if identified in Phase I, would be among those requiring an investment grade evaluation. Thereafter, the company would be required to submit a Resource Plan reflecting the results of the investment grade Hudson Avenue repowering analysis, or any preferable options identified in Phase I.

The Resource Plan would be due by the later of August 1, 2007 or a year after completion of the Phase I Production Plan; for purposes of the present discussion, we can reasonably assume this implies the Resource Plan would be filed

¹⁵ In opposition to this and all the other changes advocated by TGE, the City also argues generally that the Joint Proposal's terms as currently written embody a balance among the negotiators' disparate interests which we should not disturb. However, that argument provides little help in deciding whether an opponent, such as TGE, has shown that the balance struck by the proponents is flawed in that it would not produce just and reasonable results.

¹⁶ Cases 03-G-1671 and 03-S-1672, supra, Order Adopting the Terms of a Joint Proposal, Rate Plan Sec. H.8.

for our review about a year after issuance of today's order. The Resource Plan would identify and offer justifications for Con Edison's preferred choice among resource options including repowering of the company's existing steam boilers, construction of new steam generation or cogeneration capacity, and purchases from independent suppliers.

TGE apparently believes that a fair assessment of the independent supply option requires that it be subject to the same quality of analysis, performed at substantially the same time, as the Phase I Production Plan's analysis of the Hudson Avenue repowering option. Otherwise, TGE asserts, the Resource Plan would unfairly portray the independent supply option as inferior to Hudson Avenue repowering, because repowering would be supported with a more detailed analysis; and because data concerning TGE as a potential supplier would seem stale and unreliable upon completion of the Resource Plan a year hence, as the data already were provided some time ago to the consultants conducting Phase I of the Production Plan.

Notwithstanding TGE's concerns, we are adopting the proposed terms because we construe them as prescribing a process for a thorough and unbiased comparison among all resource options including purchases from independent suppliers. To begin, Con Edison is correct that TGE's objections to production analyses currently underway are not directly pertinent to the Joint Proposal, as any current analysis has been undertaken pursuant to the rate plan adopted in 2004. Aside from that difficulty, however, TGE's premise that outside purchases must be analyzed in the same manner as self-supply options, and that such analysis should be completed in the same time frame as the Phase I Production Plan, misconstrues the nature and purpose of the investment grade analysis applicable to the repowering options. As TGE itself acknowledges, outside purchases by their nature cannot undergo the same economic analysis as the various internal investment scenarios that might support a self-supply

option.¹⁷ Rather, the investment grade analysis required in preparation for the Resource Plan is a step toward identifying the best repowering option, which must be identified before that option can validly be compared with others identified in Phase I (including independent supplies) in terms of criteria such as price, terms of service, and reliability.

To the extent that TGE objects to this process on the ground that it might be conducted unfairly or on the basis of insufficient data, the objection is no more than speculation unsupported by any factual allegations at this time. We can only emphasize that the purpose of the terms we are adopting here is to allow fair competition between self-supply and independent supply options on the basis of a thorough, legitimate comparative analysis, and we expect the parties to conduct the prescribed planning process in good faith so as to ensure that result. Staff in particular, as an impartial member of the Core Group which will review the Phase I Production Plan, has a unique obligation to keep us informed of any problems that might impair the impartiality of the comparison among resource options.

As noted, the objective of the Joint Proposal's terms as we construe them--and particularly the Phase I Production Plan--is to allow even-handed competition among resource options. TGE's proposed requirement that Con Edison enter negotiations with independent suppliers prior to completion of the Resource Plan may be inconsistent with that goal, depending on how one defines "negotiation."

¹⁷ According to the Joint Proposal, the Hudson Avenue repowering analysis would include "(1) project description; (2) major equipment requirements; (3) mass and energy balances; (4) conceptual mechanical and electrical drawings; (5) permit requirements; (6) site conditions; (7) project implementation schedule; (8) project capital cost estimate; and (9) a financial analysis determining the economic viability in terms of the annual revenue requirement impact of the proposed project." Joint Proposal Sec. I.1.d. By their terms, these criteria could not be relevant in evaluating whether Con Edison should purchase the output of another party's facility.

TGE is undeniably correct that the parties or their consultants must obtain relevant information from a potential supplier such as TGE, if they have not already done so, as part of any valid analysis in the Production Plan or Resource Plan. We also recognize that a thorough analysis may require negotiations between Con Edison and TGE, as a possible buyer and seller, once the study process has established that independent supplies should constitute at least some part of Con Edison's Resource Plan. And, again, it may also be necessary that TGE and other parties continue to share additional information to properly complete the Production Plan and Resource Plan as intended.

Beyond those general observations, however, it would be premature for us to order a "negotiation" or any other communication without specific evidence of how, if at all, the comparative analysis contemplated in the Joint Proposal might be in jeopardy. (Indeed, Con Edison's witness testified that the company is obligated to negotiate in good faith if the comparative analysis identifies independent supply sources as a valid option.) As long as the parties continue to proceed in good faith and in accordance with the analytic steps prescribed in the Joint Proposal, there should be no need for us to provide the additional guidance or mandates sought by TGE.

Revision (2)

TGE's proposed revision (2) above, making independent supplies a resource option that Con Edison must consider rather than one among various options it may consider, would be effected by changing "e.g." to "i.e." in the Joint Proposal's provision that the Resource Plan must "examine and discuss various resource options (e.g., maintain and/or rebuild existing boilers, construct a new boiler(s), construct cogeneration, or seek competitively procured capacity."¹⁸

¹⁸ Joint Proposal Sec. I.2.

We shall construe the Joint Proposal to have been revised as TGE proposes, by reading the "e.g." as "i.e." (meaning "for example" and "that is," respectively) rather than as written. The revision has been opposed by Con Edison; the City; and, until the final round of briefs, Staff. These three proponents have charged that TGE is pursuing empty grammatical purism for the sole purpose of compelling Con Edison to consider a resource option that the company, in cross-examination, already has promised to consider. In fact, however, "e.g." and "i.e." imply significantly divergent obligations on Con Edison's part. Given the proponents' insistence that the Joint Proposal is intended to specify independent production as an option Con Edison is mandated to consider, the logical response is to read the Joint Proposal's language consistently with the proponents' express interpretation, rather than accept its literal meaning as the proponents advocate.

Revision (3)

TGE's proposed revision (3) above would require that negotiations between Con Edison and a supplier such as TGE address the terms of a potential agreement "based upon Con Edison's full avoided steam production and capacity costs. . . . Con Edison's rationale for accepting or rejecting the potential terms [of an agreement with an independent supplier] shall be provided in the Steam Resource Plan with supporting details." The proposed revision is opposed by Con Edison, Staff, and the City. We shall not adopt it.

To begin, as we already have discussed in connection with revision (1), TGE's basic idea of requiring negotiations is best left implicit in the Joint Proposal's proposed planning process, because at this stage it is impractical and unnecessary for us to prescribe the exact timing and nature of the communications needed to fulfill the objectives of the Production Plan and Resource Plan.

In addition, as noted by the company, Staff, and City, the Joint Proposal as drafted already requires that the Resource Plan include a thorough justification of whatever options the

Plan may favor once it is completed. We interpret that provision to mean the Resource Plan must include all information necessary to justify the Production Plan's proposed acceptance or rejection of any independent supply option. Thus the analysis already required as part of the Resource Plan obviates TGE's proposed additional requirement that the Resource Plan include "Con Ed's rationale . . . with supporting details."

Finally, we agree with the three proponents that the degree of specificity TGE seeks to achieve by introducing an avoided cost criterion is not appropriate to this stage of the planning process, because it remains to be seen whether terms offered by an independent supplier can be justified solely by reference to avoided costs as distinguished from other price criteria (e.g., minimization of utility revenue requirements), non-price criteria, or some combination thereof. It therefore would be impossible to decide such questions rationally at the present stage of the planning process, when it is not even known what terms an independent supplier might propose during or preliminary to negotiations.

Revision (4)

TGE's proposed revision (4) above, calling for an Administrative Law Judge's participation in negotiations between Con Edison and independent suppliers, evolved from TGE's initially broader proposal that the negotiating process include the Department's staff generally. While we would consider a party's request for an Administrative Law Judge in the appropriate circumstances, we will not adopt TGE's request as a modification of the Joint Proposal.

Con Edison, Staff, and the City opposed TGE's approach initially on the ground that the Department's role in a review of resource options should be more advisory than deliberative. Staff now continues to oppose the current version of TGE's request on the ground that the resource planning process contemplated in the Joint Proposal is not the type of transaction or dispute to which an Administrative Law Judge

ordinarily might be assigned for alternative dispute resolution purposes.

We share Staff's view of the matter. Here again, at the current stage of the resource planning process outlined in the Joint Proposal, it is not even clear that the level of communication required (if any) between Con Edison and independent steam suppliers deserves to be described as a "negotiation" as distinguished from, for example, an exchange of information. Should negotiations eventually materialize and then develop in a manner such that an Administrative Law Judge's participation could be beneficial, the parties presumably could request a Judge's intervention despite the Joint Proposal's silence regarding that option.

WESTCHESTER'S OBJECTIONS

Steam Procurement

The County of Westchester (Westchester) criticizes the steam procurement planning process envisioned in the Joint Proposal on the ground that it would enable Con Edison to pursue options allegedly disadvantageous to electric customers, particularly the option of continued reliance on Con Edison's own steam production at the recently upgraded East 14th Street steam and electric generating plant (East River Repowering Project or ERRP). To discourage such policies, and negate what Westchester deems the adverse effects of using confidential data in resource planning decisions, Westchester advocates a requirement that Con Edison rely entirely on independent suppliers for any incremental steam production.

As discussed above in reference to issues raised by TGE, our intent in modifying or adopting the Joint Proposal's terms regarding resource planning is that independent steam supply options, as an alternative to Con Edison's own production, will undergo thorough and fair evaluation at an appropriate stage of the planning process; and Con Edison's resource choices will be subject to our review. Thus, the preceding discussion fully responds to Westchester's concerns about steam procurement as well as TGE's.

ERRP Cost Allocation Issues

Aside from the procurement issue, Westchester's primary argument against the Joint Proposal is that Con Edison's steam customers, none of them taking service in Westchester, should bear a fair share of steam related costs, rather than obtain a subsidy by shifting steam costs onto Con Edison's electric customers in Westchester (and elsewhere).¹⁹ In particular, Westchester objects to the Joint Proposal's allocation, between steam and electric service, of ERRP related costs. Con Edison, Staff, and the City oppose the cost reallocation advocated by Westchester.

The Joint Proposal would continue the "incremental" allocation method that has evolved in our previous decisions, whereby steam customers are assigned all operating costs (predominantly fuel costs) exceeding the costs that would have been incurred for electric production alone. In general, this means that the hypothetical stand-alone electric costs would continue to be determined on the basis of the average heat rate for Con Edison's present and former generating plants collectively, using the most recent heat rate data available before Con Edison divested most of its generating units. For ERRP, however, the Joint Proposal would implement our determination in the 2004 Con Edison steam rate decision²⁰ that the electric department should be allocated the cost of fuel used by the gas turbines, while the steam department should be allocated the cost of fuel for the heat recovery system generator.

¹⁹ Westchester estimates that Con Edison serves about 340,000 electric customers in the County, representing 12% of Con Edison's electric load and therefore paying 12% of the alleged subsidy to the steam system. Westchester further alleges that the City is biased in favor of the subsidy because Con Edison's steam service to the City represents about 10% of the company's steam load.

²⁰ Cases 03-G-1671 and 03-S-1672, supra, Order Adopting the Terms of a Joint Proposal, pp. 22-28.

Although we have addressed these matters in previous rate decisions, Westchester says the issues here are novel insofar as they involve the first actual experience (rather than projections) of costs and benefits resulting from ERRP's commencement of commercial operation in April 2005 and the accompanying divestiture of Con Edison's First Avenue Properties. In the evidentiary hearings, Westchester showed that the electric department's allocation of ERRP costs pursuant to the Joint Proposal implies that ERRP's fuel cost per pound of steam is less than 10% of the company-wide average. Therefore, Westchester asserts, the allocation to the electric department is manifestly excessive.

Westchester also cites ERRP's production of wholesale electric output at a loss during most of the year, as further evidence that Con Edison did not incur the ERRP investment primarily for electric generation purposes. Therefore, according to Westchester, the proposed allocation of ERRP operating costs to the electric department would frustrate our general objective of assigning electric customers only the stand-alone costs they would have incurred in the absence of steam production. Alternatively, Westchester argues, the allocation method proposed for ERRP violates a more basic principle that consumers of a given product--such as electricity, or steam--should be assigned production costs only to the extent that the product they use is a generating station's primary product and not an incidental byproduct. (At ERRP, according to Westchester, electricity is only a byproduct of steam production.) Moreover, Westchester asserts, the ERRP cost allocation in our 2004 rate decision was based on overoptimistic expectations regarding the project's indirect benefits for electric customers, such as proceeds from Con Edison's sale of the First Avenue Properties where older generating capacity has been displaced by ERRP and retired.

To ameliorate these alleged inequities, Westchester proposes that we cap the electric department's allocation of ERRP fuel costs at a level equal to the market value of ERRP electric output sold at wholesale. Since the sale of ERRP

electric output in the wholesale market has resulted in losses throughout the first year of operation except the four summer months, Westchester's proposal would have the effect of assigning steam customers a greater share of ERRP costs than under the Joint Proposal. Specifically, Westchester estimates that its proposed market cap would reduce electric revenues by \$37 million and increase steam bills by 5%.²¹ Westchester says the result would be reasonable because the bill impact for steam customers would be only half the increase contemplated in Con Edison's original steam rate request, obviating any concern about possible erosion of a price-elastic steam customer base; and because the sales of ERRP's electric output at a loss confirm that electricity is only an incidental byproduct of a project undertaken primarily for steam production purposes.

In addition to ERRP fuel cost allocations between the steam and electric departments, Westchester takes issue with the Joint Proposal's allocation of carrying charges related to the ERRP investment. Westchester notes that the Joint Proposal would continue the present method of allocating ERRP carrying charges between electric and steam service through the FAC, except that any ERRP capital investment exceeding a \$788.3 million cap would be disallowed when calculating the carrying charges allocable to the steam department. Westchester says the portion of ERRP investment on which carrying charges are borne by the electric department should likewise be capped, so as to prevent any change in the overall allocation of carrying charges between the two departments.

In opposition to Westchester's proposals, Con Edison, Staff, and the City assert that the Joint Proposal's treatment of ERRP costs is consistent with the determinations we have reached in the past after considering and rejecting the arguments that Westchester renews here. The proponents deny that Westchester has identified any new factors sufficient to justify a change in our established allocation methods. While

²¹ Con Edison disputes Westchester's calculation, but correction of the errors alleged by the company would not materially affect our analysis.

Westchester is correct that this case presents the first opportunity to consider ERRP's actual operating results, the proponents note that only a year's worth of data were available on this record. They say even that limited operating experience is likely to have been distorted by atypical conditions contributing to below-market sales, such as natural gas supply disruptions (which would cause an aberrational divergence between the prices of gas and electricity) and the vagaries of plant operations during a start-up period. The proponents note also that ERRP's use of gas, at times when other plants would have switched to oil for economic reasons, reflects regional environmental considerations that contributed to ERRP's certification and to the ERRP cost allocations adopted in our 2004 steam rate decision.

The City adds that Westchester's proposed market-based cap on the electric department's ERRP fuel costs would introduce annual variations into an allocation method that is specifically intended to protect the electric department from fuel cost variations. The City states that commodity price movement therefore should play no role in determining the proper cost allocation method.

As to Westchester's argument that ERRP has produced electricity at a cost exceeding its market value, the proponents point out that our 2004 steam rate decision explicitly acknowledged that energy revenues might not match fuel costs. They note that our analysis relied upon other, anticipated long-term benefits for all customers and for electric customers in particular. These benefits included the proceeds from the sale of the First Avenue Properties, improved operational efficiencies, economic development, environmental mitigation, and a reduced need for electric transmission and distribution system reinforcements.

Meanwhile, Con Edison argues, ERRP's direct economic benefits can be evaluated only over the long term; the company says there was no expectation that such benefits would materialize in the first year of operation. Similarly, Staff says unexpected initial capital costs at ERRP provide no logical

reason to reallocate ERRP operating costs. And the proponents argue that differences between the incremental allocation methods proposed for ERRP and other plants, respectively, are justified by technological differences which determine whether a plant's steam production requires any energy incremental to the waste heat resulting from electric generation.

Finally, concerning Westchester's proposal that the electric department should have a cap on capital costs as a counterpart to the Joint Proposal's cap for the steam department, the proponents respond that the proper forum for any such proposal would be a Con Edison electric rate case.

Discussion and Conclusions Regarding ERRP Costs

We conclude that Con Edison, Staff, and the City have effectively rebutted Westchester's arguments for reallocating ERRP costs, and we shall adopt the cost allocation specified in the Joint Proposal rather than Westchester's alternatives. First, we agree with the three proponents that Westchester, merely by asserting that ERRP output was sold below cost and that the First Avenue Properties proceeds were less than expected, does not adequately show that the Joint Proposal's terms would assign electric customers an inequitable share of ERRP costs or assign them costs that Con Edison would have avoided in the absence of steam production.

The proponents concede that ERRP's electric output was uneconomic for eight of its initial twelve months in service. Nevertheless, they correctly observe, ERRP's initial operating experience has been consistent with our expectation (as explained when we decided this issue in the 2004 steam rate decision) that the plant would benefit electric customers by enhancing reliability in the lower Manhattan load pocket,²² and displacing the First Avenue Properties with their associated economic and environmental costs.²³ The results of the ERRP

²² Since then, ERRP also has provided valuable reliability benefits to customers in Westchester.

²³ The proponents have argued that allocation of sale proceeds from the First Avenue Properties is a relevant issue only in

project also have been consistent with our expectation that electric customers would realize their full share of the value of the displaced real estate, with the understanding that the actual value had yet to be determined and therefore could fall short of estimates at the time of our decision.

Second, regarding Westchester's attempt to organize Con Edison's planning and engineering decisions in terms of a "byproduct" theory, the disagreements in this case only reconfirm that a departure from the established incremental method leads to a morass of abstract speculation about a plant's "real" purpose rather than a predictable, consistent analysis of cost causation. ERRP's relatively low fuel cost per Mlb of steam production does not, in itself, signal the advent of an alternative cost allocation method that might be more rational or otherwise preferable.

In a more general sense, the three proponents are correct that Westchester has not sustained the burden a party must bear when seeking to show that an existing regulatory policy, such as the current method of allocating production costs, originally was adopted on the basis of unsound arguments or assumptions. In this instance a major evidentiary deficiency is ERRP's limited operating experience (as compared, for example, with the two additional years' worth of data likely to be available when parties consider a new steam plan to take effect in October 2008). Moreover, the Joint Proposal's proponents have presented valid reasons to doubt that ERRP's brief operating experience to date is sufficiently representative to support a policy reappraisal, considering for example that a plant's start-up costs in the first year are likely to be atypical and that the market cost of fuel during

Case 01-E-0377, §70 PSL Petition for Authority to Transfer Properties, and not in this case. Therefore, according to Westchester, they are estopped from asserting in this case that the sale provides benefits to electric customers. However, the fact that electric customers will benefit was established in our 2004 steam rate decision and remains unrebutted by Westchester here, regardless of any further questions that might be addressed in Case 01-E-0377.

the year in question was likely aberrant. Thus, even if Westchester's proposals might have merit in the abstract, on this record we can only conclude that they are premature because they cannot be evaluated adequately on the basis of ERRP's limited experience at this time.

Finally, we agree with the proponents that a steam rate proceeding is not the proper forum for examining the merits of Westchester's proposed cap on the electric department's share of ERRP carrying charges, which would be an electric rate determination.

OVERALL MERITS OF THE PROPOSED TERMS

We find that the Joint Proposal's sponsors have satisfied their burden of showing that adoption of the proposed terms would satisfy the Public Service Law's requirement of safe and adequate service at just and reasonable rates. The proposed terms also meet the criteria set forth in our Settlement Guidelines in that they have won the support of ordinarily adversarial parties and have been examined in an evidentiary hearing.²⁴ Moreover, the proposals result from a process that began with a fully documented rate application, followed by Staff and intervenor discovery and analysis which provided a degree of scrutiny typical of a fully litigated case. Regarding the Guidelines' additional criterion that the negotiated outcome fall within the likely range of litigated outcomes, the proposed revenue allowance meets that test insofar as it exceeds the level that would have resulted from the revenue reduction advocated as part of the City's initial litigating position, yet falls short of the level that the company's initial filing sought to justify.

In addition, the proposals comport with the Guidelines in that their adoption would reasonably balance the interests of protecting customers while supporting the utility's long-term viability, and would promote relevant public policies. These

²⁴ Cases 90-M-0255 et al., Procedures for Settlements and Stipulation Agreements, Opinion No. 92-2 (issued March 24, 1992), Appendix B, p. 8.

conclusions are justified by the public benefits inherent in adopting the various provisions summarized above.²⁵

In particular, the proponents observe that the proposed terms would hold present base rates unchanged for two more years while enabling the company to cost increases and make essential plant investment, allow earnings sharing so as to protect customers while rewarding effective management, permit a fair disposition of steam production costs at the 59th and 74th Street Stations, facilitate the transition to winter seasonal demand in the second rate year, provide a comprehensive review of salient rate design issues (including customers' fuel cost hedging options, the documentation requirements for negotiated rate service under SC-5, and backup/standby rates for customers' combined heat and power (CHP) facilities), promote the preservation and growth of Con Edison's steam business (including commitments to improve customer relations, encourage efficiency improvements, and refine the technical specifications for CHP), and ensure that steam service will be a subject of rigorous, systematic planning. Apart from the advantages cited by the proponents, we would add that the proposed business development and production planning process is effectively designed to ensure a thorough, unbiased evaluation of all supply options available to the company, including (as discussed above) procurement from competitive suppliers.

Finally, Con Edison cites significant concessions it has made for the sake of agreement, such as accepting base rates lower than those supported in its initial filing, a reduction from the current allowed return on equity, limitations on deferral recoveries depending on earnings, aggressive sales growth imputations including disregard of revenue shortfalls due to abnormal weather, and negative incentives for failure to achieve steam business development benchmarks. The company notes that the Joint Proposal reflects substantial efforts to

²⁵ The statements and briefs in support of the Joint Proposal comprehensively summarize its benefits, so as to illustrate in more detail why adoption of the proposed terms would serve the public interest.

reflect the input and concerns of all participants, and not merely those who signed the agreement.

CONCLUSION

For the reasons stated, we find that our adoption of the proposed terms will serve the public interest and satisfy our statutory obligation to ensure safe and adequate service at just and reasonable rates. Accordingly, we will direct the company to file tariff revisions consistent with this finding.

The Commission orders:

1. The terms and conditions of the Joint Proposal attached as Appendix A to this order, to the extent they are consistent with this order's provisions, are adopted and hereby incorporated and made a part of this order.

2. Consolidated Edison Company of New York, Inc. is directed to file a cancellation supplement, effective on September 30, 2006 on not less than one day's notice, canceling the tariff leaves and supplements listed in Appendix B to this order.

3. The company is authorized to file on not less than one day's notice, to take effect October 1, 2006 on a temporary basis, such further tariff changes as are necessary to effectuate the terms of this order. The company also is authorized to file such tariff changes as are necessary to effectuate rate year 2 charges and provisions pursuant to the Joint Proposal's terms as adopted in this order, including introduction of winter season demand billing for certain SC-2 and SC-3 customers as specified in the Joint Proposal. The rate year 2 changes shall be filed no later than September 1, 2007 to become effective on a temporary basis on October 1, 2007. The company shall serve copies of its filings upon all parties to these proceedings. Any comments on the compliance filings must be received at the Commission's offices within ten days of service of the company's proposed amendments. The amendments specified in the compliance filings shall not become effective on a permanent basis until approved by the Commission and will

be subject to refund if any showing is made that the revisions are not in compliance with this order.

4. The requirement of Public Service Law § 80(10)(b) that newspaper publication be completed before the effective date of the amendments is waived; provided, however, that the company shall file with the Commission, no more than six weeks following the effective date of such filings, proof that a notice to the public of the changes proposed by the amendments and their effective date has been published once a week for four successive weeks in newspapers having general circulation in the areas affected by the amendments.

5. This proceeding is continued but shall be closed by the Secretary as soon as the rate year 2 compliance filing has been made permanent by the Commission, unless the Secretary finds good cause to continue the proceeding further.

By the Commission,

(SIGNED)

JACLYN A. BRILLING
Secretary

APPENDIX A
JOINT PROPOSAL

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.

JOINT PROPOSAL

June 2, 2006

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Appendix I – Draft Tariff Leaves

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.

JOINT PROPOSAL

THIS JOINT PROPOSAL (“Proposal”) is made the 2nd day of June 2006 by and between Consolidated Edison Company of New York, Inc. (“Con Edison” or the “Company”), New York State Department of Public Service Staff (“Staff”), the City of New York, Consumer Power Advocates, New York Energy Consumers Council, Inc., Pace Energy Project, Equity Office Properties, The E-Cubed Company, LLC, Redwood Power Company, ConsumerPowerline, and other parties whose signature pages are attached to this Proposal (collectively referred to herein as the “Signatory Parties”).

Procedural Setting

Con Edison is operating under a two-year rate plan that expires on September 30, 2006.¹ On November 2, 2005, Con Edison filed new tariff leaves and supporting testimony for new rates and charges for steam service for the period October 1, 2006 through September 30, 2007.

Parties to this proceeding engaged in discovery activities after the proceeding was commenced. Seven parties filed testimony in response to the Company’s original filing on February 27, 2006. Four parties, including Con Edison, filed rebuttal testimony on March 13, 2006. A hearing on the filing and the parties’ testimony was scheduled to commence on April 5,

¹ Case 03-S-1672, Consolidated Edison Company of New York, Inc. – Steam Rates, Order Adopting the Terms of a Joint Proposal (issued September 27, 2004) (“2004 Steam Rate Order”).

2006. While a hearing was convened on that date, the introduction of testimony and cross-examination of witnesses was postponed on two occasions to provide time for the parties to the proceeding to pursue settlement negotiations.

On March 10, 2006, Con Edison notified all parties of the commencement of settlement negotiations on March 16, 2006.² Settlement negotiations began on March 16, 2006 and continued on March 29-31, 2006, at which time they were terminated. On April 12, 2006, Con Edison notified all parties of the resumption of settlement negotiations on April 24, 2006.³ The negotiations resumed on that date and continued on April 25-27, 2006 and May 2, 4, 5, 8, 23, 24, 30 and 31, and June 1 and 2, 2006.

All settlement negotiations were conducted in accordance with the New York State Public Service Commission's ("Commission") Settlement Rules, 16 NYCRR § 3.9, and all parties received appropriate advance notice of all negotiating sessions, including breakout sessions that, pursuant to agreement of the active parties, were conducted on particular issues during the same time period.

The parties' negotiations have been successful and have resulted in this Proposal, which is presented to the Commission for its consideration.

Overall Framework

The Signatory Parties have developed a comprehensive set of terms and conditions for a two-year rate plan for Con Edison's steam business. These terms and conditions are set forth below and in the attached Appendices. Specifically, this Proposal addresses the following topics:

² A copy of this Notice was filed with the Secretary to the Commission ("Secretary").

³ A copy of this Notice was also filed with the Secretary.

- A. Term**
- B. Steam Rates and Revenue Levels**
- C. Rate Design and Fuel Costs**
- D. Computation and Disposition of Earnings**
- E. Reconciliations**
- F. Additional Rate Provisions**
- G. Steam Business Development and Retention**
- H. Demand Metering Program**
- I. Steam Production**
- J. Reporting Requirements**
- K. Other Provisions**

A. Term

The Signatory Parties recommend that the Commission approve or adopt the two-year steam rate plan for Con Edison as set forth herein, commencing October 1, 2006 and continuing through September 30, 2008 (“Steam Rate Plan”). For the purposes of this Proposal, “Rate Year 1 (“RY1”)” means the 12-month period starting October 1, 2006 and ending September 30, 2007, and “Rate Year 2 (“RY2”)” means the 12-month period starting October 1, 2007 and ending September 30, 2008.

B. Steam Rates and Revenue Levels

1. Rate Level

This Proposal covers Con Edison’s steam rates and charges for retail steam sales and steam transportation service for the Steam Rate Plan. The Signatory Parties recommend that there be no changes to base rates, except the shift of recovery of certain costs between base rates

and the Fuel Adjustment Clause (“FAC”) beginning in RY2, as discussed in paragraphs C.1, 3 and 4 below. The components of the revenue requirement that lead to this recommendation are set forth in Appendix A.

As shown in Appendix A, the absence of any change to base rates has been effectuated by netting a rate decrease of \$3.815 million calculated for RY1 with a rate increase of \$7.635 million calculated for RY2. These rate changes are net of the amortizations of various customer credits and debits on the Company’s books of account that have been previously deferred by the Company and specified customer credits and debits to be applied during the Steam Rate Plan, as set forth in Appendix B. The Company will use deferral accounting to defer revenues in RY1 and credit the deferred revenues in RY2 to match the underlying decrease in RY1 and increase in RY2.

2. Allocation of 59th Street/74th Street Costs

In Opinion No. 00-15, the Commission stated that certain operating costs of the 74th Street and 59th Street Steam Stations (“Stations”), consisting of operations and maintenance (“O&M”) costs and property taxes, currently estimated to total \$23 million per year (“Transferred Costs”), should ultimately be transferred from electric rates to steam rates. In the 2004 Steam Rate Order, the Commission determined that the Transferred Costs would be transferred to steam rates concurrent with reflection in steam rates of the proceeds from the sale of the First Avenue Properties.

During the course of this proceeding, Con Edison demonstrated to the active parties that portions of both Stations are actively used by the electric department in that they house gas turbines used to support local electric networks (e.g., to meet local electric requirements during peak periods). Additionally, Con Edison informed the active parties that it needs to build a new electric substation to support networks in the vicinity of the 74th Street Steam Station, and that it

has selected the unused portion of that Station as the site for that substation. Con Edison reports that it expects to begin construction of the substation in 2007 so that it is operational by 2010, but if load growth projections are reduced, for example, as a result of demand side management efforts, construction may be deferred.

Based on this information, the Signatory Parties concluded that a portion of the common costs of these Stations (i.e., carrying charges and property taxes on land and structures and facility-related O&M costs, currently totaling approximately \$9.5 million per year) will be allocated to the electric department. After considering various allocation methodologies, the Signatory Parties agree that the allocation will be based upon the square footage of used and useful steam and electric facilities, including the footprint of the new substation and space reserved for its future expansion, and excluding unused and common space. Accordingly, the Signatory Parties agree and recommend that \$4.4 million of the Stations' annual common costs be allocated to the electric department and recovered in electric rates. Con Edison will make an electric tariff filing with the Commission, to be effective concurrent with the start of the Steam Rate Plan, that sets forth the details for implementing this provision. All other costs associated with the Stations being recovered in electric rates will be transferred to the steam department and recovered in steam base rates. The derivation of the allocation is set forth in Appendix C.

3. Sales Forecasts

The sales forecasts used to determine the revenue requirement for each of RY1 and RY2 are set forth in Appendix C.

4. Allocation of the Proceeds from the Sale of SO₂ Allowances

Subsequent to each calendar year, sulfur dioxide (“SO₂”) allowances that have not been used to meet operational needs may be sold. Since these allowances are associated with the Company’s current or former electric, steam and steam-electric generating units, proceeds from

such sales are allocable to both the electric and steam departments. The revenue requirement for each of RY1 and RY2 reflects (i) the amortization of the steam department's share of proceeds received by the Company for sales of SO₂ allowances attributable to calendar years 2000 through 2003 occurring on or before January 31, 2006 ("2000-2003 SO₂ Proceeds"),⁴ and (ii) the steam department's share of the estimated proceeds from sales of SO₂ allowances attributable to calendar years 2004 and 2005 occurring after January 31, 2006 ("2004-2005 SO₂ Proceeds").

The 2000-2003 SO₂ Proceeds were allocated to the electric and steam departments by assigning the proceeds from the sale of all 2000-2003 allowances attributable to all retired and divested generating units to the electric department and assigning the proceeds from the sale of all 2000-2003 allowances attributable to all operating generating units to the steam department. The steam department's share of 2000-2003 SO₂ Proceeds is approximately \$11 million. The Signatory Parties agree that these proceeds be amortized over a three-year period. Accordingly, the revenue requirement for each of RY1 and RY2 has been reduced to reflect an annual credit of \$3.6 million, including interest. The revenue requirement also imputes \$3.5 million attributable to estimated 2004-2005 SO₂ Proceeds.

The allocation of the actual 2004-2005 SO₂ Proceeds (and proceeds attributable to calendar years after 2005) between the electric and steam departments will be calculated pursuant to a methodology that reflects the historical basis for the United States Environmental Protection Agency's ("EPA") allocation of SO₂ allowances to Con Edison's generating units and the annual use of such allowances for steam and electric purposes. The methodology involves a multi-step calculation, as follows.

⁴ The 2000-2003 SO₂ Allowances include a limited number of 2004 allowances sold on or before January 31, 2006.

The difference between (a) the allowances granted to Con Edison by the EPA for each calendar year for electric and steam-electric generating units, except for any 2004 allowances sold on or before January 31, 2006 (“Granted Allowances”) and (b) the allowances used in each calendar year by the steam and steam-electric generating units operated by Con Edison (“Used Allowances”) as determined by the EPA is denominated herein as the “Available Allowances.” Granted Allowances are allocated between the steam and electric departments based on the fuel usage of Con Edison's electric and steam-electric generating units averaged for the years 1985-1987, the period upon which the EPA established the allowances, as follows:

Allocation of Granted Allowances

<u>Plant</u>	<u>Unit</u>	<u>Steam</u>	<u>Electric</u>
Arthur Kill	20/30	0%	100%
Astoria	10-50	0%	100%
Ravenswood	10-30	0%	100%
59th Street	110	0%	100%
74th Street	120-122	72%	28%
East River	50/60	30%	70%
East River	70	0%	100%
Waterside	41/42	62%	38%
Waterside	51/52	62%	38%
Waterside	61/62/80/90	62%	38%

Used Allowances are allocated between the steam and electric departments based on the actual fuel usage for each calendar year. For calendar years 2004 and 2005, the following allocations will apply:

Allocation of Used Allowances					
<u>Plant</u>	<u>Unit</u>	2004		2005	
		<u>Steam</u>	<u>Electric</u>	<u>Steam</u>	<u>Electric</u>
74th Street	120-122	100%	0%	100%	0%
East River	1/2	N/A	N/A	5%	95%
	60	14%	86%	21%	79%
	70	16%	84%	19%	81%
Waterside	61/62/80/90	64%	36%	64%	36%

The Available Allowances for the steam and electric departments will be determined for each calendar year by taking the difference between Granted Allowances and Used Allowances allocated to the steam and electric departments on a unit-by-unit basis and totaling them. A “Steam Allocation Factor” and “Electric Allocation Factor” will be determined for each calendar year by dividing the Available Allowances allocated to each of the steam and electric departments by the total Available Allowances for each calendar year.

As Available Allowances attributable to each calendar year are sold, the proceeds from each sale will be multiplied by the Steam and Electric Allocation Factors applicable to that calendar year to determine the proceeds to be assigned to the steam and electric departments, respectively.⁵ An example of the application of this methodology is shown in Appendix H.⁶

If the steam department’s share of actual SO₂ proceeds varies from the total proceeds imputed in rates, the variance will be deferred and recovered from or credited to customers after

⁵ While it is expected that the Available Allowances from 2004 will be sold in 2006 and the Available Allowances from 2005 will be sold in 2007, the actual timing of the sales and the quantity of allowances sold will be determined by Con Edison with the goal of maximizing the proceeds from the sales. In executing sales of allowances, the Company is required to identify the generating unit(s) from whose account(s) the allowances are to be transferred to the buyer(s). Such identification will not affect the allocation of proceeds determined by the method established herein.

⁶ The new methodology was not used to recalculate the allocation of the 2000-2003 SO₂ Proceeds because, as a practical matter, using the new methodology would not have produced materially different results.

expiration of the Steam Rate Plan. Unless and until base rates are changed, the amount imputed in rates each year is the same as for RY1 and RY2

C. Rate Design and Fuel Costs

1. East River Repowering Project (“ERRP”)

In RY1, carrying charges on ERRP (i.e., return on investment, depreciation, and property and other taxes) will continue to be allocated and recovered through the FAC in the manner set forth in the 2004 Steam Rate Order, except that the total carrying charges on capital costs allocable to steam shall be based on actual total capital costs (including AFUDC) not to exceed \$788.3 million.

Commencing October 1, 2007, pursuant to a filing to be made by the Company on or before September 1, 2007, steam’s share of ERRP’s carrying charges that would otherwise be recovered through the FAC in RY2 will be transferred into base rates on an earnings neutral basis, subject to any amount disallowed by the Commission based on its review of the construction and associated costs of ERRP. The Company will submit the ERRP carrying charge calculation for RY2 to the Directors of the Offices of Accounting and Finance and Electricity and Environment by July 31, 2007. The calculation will reflect actual data through June 30, 2007 and forecast data (i.e., capital spending, depreciation, property and other taxes) through September 30, 2008.

In each of RY1 and RY2, the ERRP carrying charges will be allocated to each service class on the basis of that rate year's forecast sales volumes. In RY2, the winter and summer block rates, as applicable, in Service Classification (“SC”) Nos. 1, 2, and 3, the on-peak and off-peak usage charges in SC No. 4, and the usage charges in SC No. 6 will be increased by a per Mlb amount expressed to the nearest \$0.001 per Mlb, to be determined by dividing the RY2 ERRP annual carrying charges by the forecast RY2 sales volume. An example of the accounting

treatment of ERRP costs in RY2 will be provided to the presiding ALJ before he closes the record in this proceeding.

2. Fuel Adjustment Clause

Variations between the actual cost of fuel and the base cost of fuel will continue to be recovered through the FAC, including continuation of the annual reconciliation of the steam fuel expenses and revenues. The Company will also recover through the FAC its total fuel costs associated with the actual steam system variance (i.e., the difference between sendout and sales), to the extent such costs are not recovered in base rates, subject to the reconciliation mechanism established by the 2004 Steam Rate Order and set forth in the steam tariff.

3. Base Cost of Fuel For RY1, the base cost of fuel for each 1,000 pounds of steam used by a customer will remain at \$5.049. Prior to the start of RY2, the Company may revise the base cost of fuel, commencing October 1, 2007, based on a review of the actual average cost of fuel in effect prior to the start of RY2 and the average costs of fuel projected to be in effect during RY2. If there is an increase in the base cost of fuel commencing October 1, 2007, the unrecovered deferred fuel costs resulting from the change would be subject to reconciliation with other costs recovered through the FAC. The Company will consult with Staff prior to making any revisions in the base cost of fuel and will provide notice of any such change in its second year rate filing. The increase to the base cost of fuel will not exceed \$3.00 per Mlb. An example of the accounting treatment associated with the change in the base cost of fuel in RY2 will be provided to the presiding ALJ before he closes the record in this proceeding.

4. Water and Water Chemicals Commencing October 1, 2007, the cost of purchased water and water chemicals used for the production of steam will be transferred from base rates to the FAC on an earnings neutral basis, on the basis of rate year sales volumes, and thereafter subject to reconciliation with other costs recovered through the FAC. An example of

the accounting treatment associated with the transfer of these costs in RY2 will be provided to the presiding ALJ before he closes the record in this proceeding.

5. **Embedded Cost of Service (“ECOS”) Study**The Company will allocate fuel associated with fixed line losses based on the footage of mains in the ECOS Study it prepares for its next general steam rate case filing. In addition, the costs associated with ERRP will be allocated in that Study using a demand allocator.

6. **Rate Design Collaborative**The Company will convene a collaborative to be held during the four-month period commencing May 2007 through August 2007 to discuss and analyze: (i) customer usage characteristics and load data that the Company will present, including data derived from demand-metered customers, in order to evaluate whether or not the SC 1, SC 2 and/or SC 3 classes should be realigned to increase homogeneity based on customer size, load factor, or other considerations; and (ii) the relevant costs of SC 4 back-up/supplementary service and consider the appropriate design for back-up/supplementary rates based on cost causation characteristics and principles of revenue neutrality. Nothing herein precludes one or more collaborative participants from using the data and analysis provided and/or discussed during the collaborative process as the basis of soliciting consensus among one or more other collaborative members for seeking revisions to the SC 4 back-up/supplementary rates or in making a specific request to the Commission for approval of such revisions either during this Steam Rate Plan or in a future steam rate proceeding.

The collaborative participants will provide input to Con Edison by October 1, 2006 regarding the data they believe is necessary in order for interested parties⁷ to consider the issues

⁷ Interested parties are those persons on the active parties list for Case 05-S-1376, as updated, and any other person or party who contacts either Con Edison or the Commission and asks to become involved in any matter related to this proceeding.

identified above during the 2007 collaborative discussions, subject to the understanding that the Company will not provide data or analyses specific to individual customers. The Company will convene a technical conference in October 2006 to discuss the input submitted and to provide an overview of its expected data collection and data analysis efforts.

7. **Demand Rates** During the 2005-2006 winter period (i.e., November 2005 – April 2006), sample demand bills were provided to the sample population identified in the 2004 Steam Rate Order, based on the winter demand rates that the Company distributed on July 29, 2005 to active parties to Case 03-S-1672. The Company will provide to Staff and interested parties a report by October 31, 2006 showing the estimated bill impacts from the demand charge on each customer class based on the data collected and sample bills issued during the 2005-2006 winter period.

During the 2006-2007 winter period, the Company will provide sample demand billing to SC 2 and SC 3 customers with annual consumption equal to or greater than 22,000 Mlbs who have demand meters installed (“Demand Metered customers”) prior to the start of that winter period. For customers who become Demand Metered customers during that winter period, the Company will provide sample demand billing starting with the next billing cycle to the end of the winter period. Sample bills will be based on revised winter demand rates that the Company will provide to active parties to this case on or before October 1, 2006. Winter rates for Demand Metered customers will be designed to yield the same winter period revenues from the Demand Metered customers within each service class as the revenues that would be collected from those customers at October 1, 2006 rates, based on the winter billing data available from the demand meters in place during the 2005-2006 winter period for Demand Metered customers. Sample bills will assume a monthly billing demand based on the customer’s peak usage in each billing

cycle. Specifically, the customer's on-peak billing demand will be the customer's maximum demand that occurs weekdays from 6 AM to 11 AM during each winter period billing cycle. The customer's monthly all-time peak billing demand will be the maximum demand that occurs at any time on any day during each winter period billing cycle. The maximum demand for each respective time period will be based on the integrated demand occurring during the two highest contiguous 15-minute intervals during each applicable time period. The Company will provide to Staff and interested parties a report by July 1, 2007 showing the estimated bill impacts from the demand charge on each customer class based on the data collected and sample bills issued during the 2006-2007 winter period.

Based on data collected during the 2006-2007 winter period, the Company will design winter demand rates that will be effective November 1, 2007 for Demand Metered customers. Winter rates for Demand Metered customers will be designed to yield the same winter period revenues from the Demand Metered customers within each service class as the revenues that would be collected from those customers at October 1, 2007 rates, based on the winter billing data available from the demand meters in place during the 2006-2007 winter period for Demand Metered customers. That is, for the winter period, when on-peak and all-time peak demand charges would apply, the rates will be designed to recover 25 percent of winter base revenues, net of base fuel, station electric usage charge, and the Customer Charge, that otherwise would be collected from eligible customers at the October 1, 2007 rate level ("demand revenue requirement"). The demand revenue requirement will then be allocated 90 percent to the winter on-peak period and 10 percent to the winter all-time peak period. The usage charges will be proportionately reduced to recover the balance of the winter pure base revenue requirement. Customers would continue to be billed at the applicable full Customer Charge during both winter

and summer months and at the applicable full summer usage charges. Also, these demand billed customers will be subject to the monthly FAC charges, taxes, and all other applicable charges.

The Company will convene a meeting(s) during July and/or August 2007 to discuss with interested parties the impact of the demand charges on customer bills, the details of the Company's plans to amend the steam tariff to formally institute demand charges, the need for and nature of any modifications to the demand rates, and other related issues. Con Edison reserves the right not to include any of the parties' recommended modifications in its proposed tariff amendments.

On or before September 1, 2007, Con Edison will file its tariff amendments to implement demand charges commencing November 1, 2007, for SC 2 and SC 3 customers with demand meters and annual consumption equaling or exceeding 22,000 Mlbs ("Compliance Filing").⁸ That filing is subject to section H regarding demand meter installation. If requested, the Company will convene a technical conference after the Compliance Filing is made to explain the derivation of the demand charges in the Compliance Filing and further discuss potential customer impacts.

8. Transportation Service ("SC 6")

Within 90 days of the date of a Commission Order approving or adopting this Proposal, Con Edison will file with the Commission a report that: (i) details the cost basis, by element, of the transportation rate; (ii) sets forth the derivation and cost basis of the contract demand charges, usage charge, interconnection charge and demand ratchet applicable to the SC 6 transportation rate; (iii) explains the basis for the limitations set forth in the tariff on the number

⁸ Although nothing herein restricts any person from submitting comments to the Commission on the Compliance Filing, including opposition to the rates proposed, no Signatory Party may object to the implementation of demand charges for these SC 2 and SC 3 customers.

of customers and volume of transportation, including the reason for limitations during the summer months (May through October); and (iv) explores the extent, if any, to which the limitations may be changed. Within 30 days of the filing, a technical conference will be scheduled to discuss the report and explore the potential for changes to the tariff.

9. Negotiated Steam Fuel Cost Option

Con Edison will convene an advisory group of interested parties on or about November 1, 2006 to consider enhancements to Rider E of the steam tariff. The Company will meet with this group over a period of two months to determine if enhancements are appropriate.

D. Computation and Disposition of Earnings

Following each of RY1 and RY2, Con Edison will compute its steam rate of return on common equity capital for the preceding Rate Year. The Company will submit to the Director of the Office of Accounting and Finance the computation of earnings no later than 60 days after the end of each Rate Year.

If the level of earned common equity return in any Rate Year exceeds 11.0 percent or 10.8 percent if the Company incurs any revenue adjustments pursuant to sections G, H or I during that Rate Year⁹ (“Earnings Sharing Threshold”), calculated as set forth below and as may be adjusted pursuant to paragraphs D.3 and E.8, the amount in excess of the Earnings Sharing Threshold will be deemed “shared earnings” for the purposes of this Proposal. For the first 100 basis points above the Earnings Sharing Threshold, one-half of the revenue equivalent of any such shared earnings will be deferred for the benefit of customers and the remaining one-half of the revenue equivalent of any such shared earnings will be retained by the Company. For shared earnings more than 100 basis points above the Earnings Sharing Threshold, 75 percent of the

⁹ Any revenue adjustment incurred by the Company will be deferred for the benefit of customers.

revenue equivalent of any such shared earnings will be deferred for the benefit of customers and the remaining 25 percent of the revenue equivalent of any such shared earnings will be retained by the Company.

For purposes of determining whether the Company has earnings above the Earnings Sharing Threshold:

1. The calculation of return on common equity capital will be computed from the Company's books of account for each Rate Year, excluding the effects of (i) Company incentives and performance-based revenue adjustments; (ii) the Company's share of property tax refunds earned during the Steam Rate Plan; (iii) the adjustment mechanism for the steam variance; and (iv) any other Commission-approved ratemaking incentives and revenue adjustments applicable during the Steam Rate Plan.

2. Such earnings computations will reflect the lesser of: (i) an equity ratio equal to 50.0 percent; or (ii) Con Edison's actual average common equity ratio. Con Edison's actual common equity ratio will exclude all components related to "other comprehensive income" that may be required by generally accepted accounting principles; such charges are recognized for financial accounting reporting purposes but are not recognized or realized for ratemaking purposes.

3. For purposes of calculating earnings for steam, the net revenue effect of steam sales related to colder-than-normal weather shall be excluded in the manner described in Appendix G.

E. Reconciliations

The Company will reconcile the following costs to the levels provided in rates, as set forth in Appendix D. Except as provided in paragraph E.8, the reconciliations in each of RY1

and RY2 will be deferred and recovered from or credited to customers after expiration of this Steam Rate Plan in a manner to be determined by the Commission.

1. Property Taxes

If the level of actual expenditures for property taxes (other than ERRP property taxes recoverable through the FAC) excluding the effect of property tax refunds (as defined in paragraph F.4), varies in any Rate Year from the levels provided in rates, which are set forth in Appendix D, 90 percent of the variation will be deferred and recovered from or credited to customers.¹⁰

2. Interference (Other Than Company Labor)

If actual non-Company labor interference expenses (e.g., contractors' costs) vary in any Rate Year from the levels provided in rates, which are set forth in Appendix D, 90 percent of the variation will be deferred and recovered from or credited to customers. Con Edison will continue to coordinate and plan its interference work with the City of New York in order to reduce costs for customers.

3. Production Plant Expenditures

If at the end of any Rate Year, average net steam production plant is less than the targeted amounts set forth in Appendix D ("Capital Targets"), the Company will defer the revenue requirement impact of any shortfall below the targeted level. Net production plant is defined as steam utility plant recorded in PSC Accounts 310-316, net of associated depreciation reserves. The targeted levels are the dollar amounts stated on Appendix D and are not related to any

¹⁰ The property tax reconciliation excludes the amortization of prior years' overcollection of property taxes that are subject to reconciliation pursuant to the 2004 Steam Rate Order over a three-year period, commencing with RY1.

specific projects.¹¹ The revenue requirement will be calculated by applying an annual carrying charge factor of 13.67 percent (representing a combination of rate of return and depreciation) to the portion of the shortfall.

In the event of any unexpected occurrence, such as a major equipment failure, that causes Con Edison to make an unplanned capital investment in its steam production plant during the Steam Rate Plan in an amount greater than \$5 million, the Company may petition the Commission to defer the carrying charges associated with such a project(s) for recovery in a manner to be determined by the Commission, subject to the materiality, incremental and earnings criteria applied by the Commission to deferral petitions.¹²

4. Pensions/OPEBs

Pursuant to the Pension Policy Statement, the Company will reconcile its actual pensions/OPEB expenses and tax benefits related to the Medicare subsidies to the level allowed in rates as set forth in Appendix D (which level reflects the May 2006 update by the Company's actuaries).

5. Environmental Remediation

If the level of actual expenditures for site investigation and remediation ("SIR"),¹³ including expenditures associated with former manufactured gas plant ("MGP") sites, Superfund and 1994 DEC Consent Order Appendix B charges, allocated to the steam department varies in any Rate Year from the levels provided in rates, which are set forth in Appendix D, such

¹¹ The Company has the flexibility to modify and re-prioritize the nature and scope of its steam production capital projects.

¹² For purposes of this Proposal, \$5 million will be a proxy for the materiality criterion.

¹³ SIR costs are the costs Con Edison incurs to investigate, remediate or pay damages (including natural resource damages, with respect to industrial and hazardous waste or contamination spills, discharges, and emissions) for which Con Edison is deemed responsible. SIR costs are net of insurance reimbursement (if any).

variation will be deferred and recovered from or credited to customers. The deferred balances subject to interest will be reduced by accruals, insurance recoveries, associated reserves and deferred taxes.

By July 1, 2006, the Company will submit to the Director of the Office of Accounting and Finance interest calculations for the period January 1999 through September 2004 on net deferred environmental expenditures. The calculation will be net of funds reflected in the earnings base/capitalization adjustments included in the Company's rates during those periods. For amounts claimed in the earnings base/capitalization adjustment, the Company will provide evidence that customers received the benefit of those funds through a lower rate base. The interest on the deferred balance net of any rate base inclusion, if any, will be deferred and credited to customers.

6. Proceeds from the Sales of SO₂ Allowances

The proceeds from the sale of SO₂ allowances will be allocated and accounted for as discussed in paragraph B.4 above.

7. Additional Reconciliation/Deferral Provisions

In addition to the foregoing reconciliation provisions for property taxes, interference (other than Company labor), capital expenditures, pension/OPEBs, environmental remediation, and proceeds from the sale of SO₂ allowances, all other applicable existing reconciliations and/or deferral accounting will continue in effect through the terms of this Steam Rate Plan and thereafter until modified or discontinued by the Commission, including but not limited to FAS 109 taxes, MTA taxes and the Steam FAC mechanisms.

The revenue requirement reflects the amortization of \$4.0 million per rate year of World Trade Center ("WTC")-related costs that the Company has deferred, as set forth in Appendix B. The balance of the Company's WTC-related capital costs allocated to the steam department will

be deferred in accordance with the Commission's determination in Case 01-M-1958 and subject to interest at Con Edison's allowed pretax AFUDC rate of return. The Company will continue to seek recovery for all WTC costs from governmental agencies and insurance carriers. All recoveries will be applied to reduce the deferred balance.

8. Limitations on Deferrals

When calculating the level of earned common equity return for steam that may be subject to sharing under section D of this Proposal, the Company will make the following adjustments if its earnings exceed the Earnings Sharing Threshold:

For earnings above the Earnings Sharing Threshold but less than or equal to 100 basis points above the Earnings Sharing Threshold, the Company will reduce expenses (debits) deferred for later recovery pursuant to this section E, up to 50% of the deferral, provided that such reduction in deferrals will not cause the resulting earnings to decrease below the Earnings Sharing Threshold.

For earnings more than 100 basis points above the Earnings Sharing Threshold, the Company will reduce expenses (debits) deferred for later recovery pursuant to this section E, up to 100% of the deferral, provided that such reduction in deferrals will not cause the resulting earnings to decrease below 100 basis points above the Earnings Sharing Threshold.

For purposes of (a) and (b), above, the analysis will be performed on a single Rate Year basis. For example, costs deferred in RY1 will not be considered in the analysis for RY2.

This deferral limitation will apply to all debit deferrals except for: Steam FAC, deferred taxes and surcharges (i.e., MTA Taxes), SO₂ allowances, WTC-related expenditures, steam variance incentives and revenue adjustments, and losses on property sales.

F. Additional Rate Provisions

1. Depreciation Rates and Reserves

The average services lives, net salvage factors and life tables used in calculating the depreciation reserve and establishing the revenue requirement are set forth in Appendix E. The reserve deficiency resulting from the use of these depreciation factors is also set forth in Appendix E and will be amortized over five years.

2. Interest on Deferred Costs

The Company is required to record on its books and records of accounts various credits and debits that are ultimately reflected in the rates to be charged to customers. Unless otherwise specified in this Proposal or by Commission Order, the Company will accrue interest on these book amounts, net of federal and State income taxes, at the unadjusted customer deposit rate published by the Commission annually. FAS 109 and MTA Tax deferrals are either offset by other balance sheet items or reflected in the Company's rate base and will not be subject to interest.

3. Allocation of Common Costs/Plant

During this Steam Rate Plan, common costs and plant will be allocated according to the percentages reflected in the steam revenue requirement calculations, as shown in Appendix F. Should the Commission approve different common allocation percentages prior to the next base rate case for the steam department, the resulting change in revenue requirement will be deferred on an annual basis for future recovery from or credit to customers.

4. Property Taxes Refunds and Credits

Property tax refunds allocated to Con Edison's steam department that are not reflected in this Steam Rate Plan and that result from the Company's efforts, including credits against tax payments (intended to return or offset past overcharges or payments determined by the taxing

authority to have been in excess of the property tax liability appropriate for Con Edison), will be deferred for future disposition except for an amount equal to ten percent of the refund or credit which will be retained by the Company. Incremental expenses incurred by the Company to achieve the property tax refunds or credits will be netted against the refund or credit before any deferral of the proceeds is calculated. The deferral, recovery, and retention of property tax refunds and incentives will be subject to an annual showing by the Company of its ongoing efforts to reduce its property tax burden; additionally, the Company is not relieved of the requirements of 16 NYCRR Part 89 with respect to any refunds it receives.

5. Distribution Plant Expenditures

In its initial rate filing, Con Edison provided a forecast of capital expenditures for distribution plant. While it is generally expected that Con Edison will undertake the specified projects, Con Edison has the flexibility to modify and re-prioritize the nature and scope of its steam distribution capital projects.

G. Steam Business Development and Retention

The Company agrees to implement the following activities to demonstrate its continued commitment to steam business development efforts.¹⁴

1. Hybrid Chiller Systems

Within 60 days of the date of a Commission Order approving or adopting this Proposal, Con Edison will establish, provide to the members of the Steam Business Development Task Force, and file with the Commission, milestones for promoting the use of hybrid chiller systems. The

¹⁴ The revenue requirement reflects an increase of \$135,000 for O&M expenses for business development. If the Company underspends this allowance, the portion that is not spent will be deferred for customers' benefit.

Company will be subject to a \$100,000 revenue adjustment if it fails to establish and file the milestones by that date.

Con Edison will proceed in good faith in its efforts to achieve and/or adhere to the milestones.

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.

The Company will be subject to a \$50,000 revenue adjustment each Rate Year if it fails to file the report by February 15.

Within 90 days of the date of a Commission Order approving or adopting this Proposal, the Company will create 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 chiller systems and compile a package of marketing materials promoting hybrid chiller systems. The marketing materials will be placed on Con Edison's web site; used by Con Edison's steam business development personnel; made available to engineers, architects, and other persons upon request; and disseminated at meetings, trade shows, other events, with the goal to broadly attract attention to the use and benefits of hybrid chiller systems. The Company will host quarterly meetings of this advisory group to discuss its marketing efforts and other issues related to the promotion and use of hybrid chiller systems.

The Company will provide two forums per year on the use and benefits of hybrid chiller systems and, in the Company's discretion, on additional steam business development issues. These forums will be advertised to customers, developers, advisors, engineers, architects, manufacturers, and other interested persons/entities.

Within 90 days of the date of a Commission Order approving or adopting this Proposal, Con Edison will complete a review of existing SC 2 and SC 3 steam heating-only customers to determine if any of these customers are viable candidates for hybrid chiller systems.

Considerations in the evaluation will include, but are not limited to, size and age of the customers' electric chiller systems. Con Edison will provide a list of all hybrid cooling candidates to the Director of the Office of Electricity and Environment on a confidential basis.

The Company will be subject to a \$50,000 revenue adjustment if it fails to complete the review and make the requisite filing by that date.

By March 31, 2007, Con Edison will make proposals to the ten most viable candidates to convert a portion of their electric air conditioning to steam air conditioning. The Company will be subject to a \$50,000 revenue adjustment if it fails to comply with this requirement by that date.

Con Edison will provide notification to the Director of the Office of Electricity and Environment within 30 days thereafter as to the Company's compliance with this requirement.

If Con Edison has identified more than ten viable candidates, by June 30, 2007, Con Edison will make proposals to a maximum of 20 of the remaining candidates that it identified. The Company will be subject to a \$150,000 revenue adjustment if it fails to comply with this requirement by that date. Con Edison will provide notification to the Director of the Office of Electricity and Environment within 30 days thereafter as to the Company's compliance with this requirement.

Con Edison will thereafter proceed in good faith in its efforts to make proposals to any remaining viable candidates it has identified.

2. Energy Audits

Con Edison will designate up to 30 existing customers with vortex meters, based on their consumption per square foot and/or load factor, who could potentially improve on either of these

screening indicators (i.e., low load factors or high consumption per square foot). Con Edison will retain a consultant to provide site-specific recommendations for potential improvement of steam usage to these customers.

The Company will share the results of the audits with the involved customers and issue a “best practices” report based on these results. This report will be filed with the Commission, posted on the Company’s web site, disseminated to customers as appropriate, and made available to interested parties at forums, trade shows, and other events. The Company will be subject to a \$100,000 revenue adjustment if it fails to complete the audits and prepare, distribute, and file the best practices report by December 31, 2007.

3. Meetings/Contacts

The Company’s steam business development (“SBD”) personnel will meet with and/or contact developers, property owners, advisors, engineers, and/or architects (“Industry Representatives”) at least 12 times per month. SBD personnel will maintain logs setting forth the date of each meeting/contact and the person(s) contacted. Failure of the SBD representatives collectively to conduct at least 175 meetings/contacts in each of RY1 and RY2 year will result in a revenue adjustment of \$2,000 multiplied by the difference between the total number of meetings/contacts to be conducted and the actual number of meetings/contacts conducted.

On or before September 30, 2007, the Company will file with the Commission a report that includes the number and nature of these meetings/contacts held through July 31, 2007, and a plan for addressing major issues raised during such meetings/contacts. The Company will be subject to a \$100,000 revenue adjustment if it fails to file the report by that date.

In or about July 2008, the Company will conduct a survey of the Industry Representatives with whom SBD personnel met/contacted to obtain and evaluate their reaction to the Company’s business development implementation efforts. The Company will prepare and file with the

Commission a report on the results of this survey on or before September 30, 2008. Copies of this report will be provided to the active parties to this proceeding.

4. Point-Of-Contact/Ombudsman

To assist customers in their steam-related transactions with the Company, the Company will appoint a point-of-contact person to handle steam business complaints, concerns, and other issues. Members of Con Edison's business development staff will each be assigned responsibility for specific major accounts (i.e., the top 450 accounts by revenue) and each major account will be informed of their specific point-of-contact person. Con Edison's Account Executives will work with the steam business development staff to address the steam-related complaints, concerns, and issues of these major accounts. The remaining steam customers will be provided with the names and phone numbers of two individuals on the steam business development staff to address their complaints, concerns, and issues.

In addition, Con Edison will appoint a customer ombudsman that customers may contact with respect to any matter(s) they believe are not being addressed in a satisfactory and/or timely manner by a customer's point-of-contact person.

5. Repair Service

The Company will develop and implement by January 1, 2007, a marketing program for its steam repair service, the tariff rates for which are being revised as noted in paragraph G.10.a.i. The Company will market this service to its customers via direct communications, through bill inserts and brochures, the use of posters and other materials at meetings, trade shows, customer forums, and other events, and its web site.

6. Microturbine Demonstration Project

The Company will install a back-pressure steam microturbine at its 74th Street Station (or alternate Company facility) to determine the feasibility of such a project. The Company will be

subject to a \$100,000 revenue adjustment if the demonstration unit is not installed on or before December 31, 2007.

7. District Energy Study

The Company will convene a meeting of interested parties within 60 days of the date of execution of this Proposal to discuss the scope of a district energy study of Hudson Yards (“District Energy Study”), for which Con Edison will retain an independent consultant to conduct. Con Edison will file the District Energy Study with the Commission and provide a copy to all active parties to this proceeding by July 1, 2007. The Company will be subject to a \$50,000 revenue adjustment if it does not complete, file and provide copies of the District Energy Study on or before July 1, 2007. This District Energy Study is the district energy study contemplated in the SBD Plan and will not be duplicated as part of that Plan.

8. Customer Service

a. Customer Focus Groups

To identify customers’ concerns and issues related to Con Edison’s steam service, and to assist in improving its level of service, Con Edison will conduct a series of focus groups with its customers.

i. The Company will work with an opinion research consultant to jointly conduct three focus groups of SC 2 and SC 3 customers.

ii. The Company will provide to interested parties a qualitative report by June 30, 2007, on the nature of concerns/issues raised by customers during the focus groups and its plans, including time frames, for addressing substantive and process concerns/issues that are identified and are not unique to individual focus group participants. The report will, at a minimum, describe each substantive and process concern/issue raised, provide the Company’s response to each such concern/issue, and discuss either the manner in which the concern/issue

will be addressed or why no action is warranted.

iii. The Company will conduct a survey by July 31, 2008 of the customers who participated in the focus groups to obtain and evaluate their reaction to the Company's efforts. It will report on the aforementioned actions taken by the Company and the results of that survey to the active parties to this proceeding and to any then-pending steam rate proceeding within 60 days of the completion of that survey.

iv. Both reports will also be submitted to the Director of the Office of Consumer Services.

v. Con Edison will be subject to a \$50,000 revenue adjustment at the end of the Steam Rate Plan if it has not completed and circulated both reports.

b. Customer Satisfaction Survey

To assess the satisfaction level of steam customers, the Company will conduct two surveys per year.

i. Con Edison will perform two surveys per year of a representative sample of the steam customers who have contacted the Company using existing vehicles that capture this information until implementation of the new steam billing system. For purposes of this Proposal, for each survey, the representative sample is defined as a valid statistical sample of customers who have contacted the Company developed in consultation with an independent professional survey vendor.

ii. The survey instrument will be fully developed in consultation with Staff and will be ready to be administered by October 1, 2006. The surveys will be conducted within one month of the end of each six-month period.

iii. Con Edison will prepare an annual report that compiles, summarizes, and identifies key issues associated with the two surveys conducted during the previous Rate Year. This report will be completed within 90 days of the end of each Rate Year and submitted to the Director of the Office of Consumer Services, with copies provided to interested parties who request them.

iv. Con Edison will be subject to a \$50,000 revenue adjustment each Rate Year if it fails to conduct the two surveys and submit the report described above.

9. Steam Business Development Task Force

The Steam Business Development Task Force established pursuant to the 2004 Steam Rate Order will continue to meet quarterly to review progress on steam business development activities and production plans.

10. Miscellaneous Tariff/Procedures Changes

a. The Company will implement the following tariff changes as generally described below.

i. For the Company's Steam Repair Service, apply fixed charges that are inclusive of labor costs and the costs of materials, plus 14.5 percent for handling and applicable gross receipts taxes and sales taxes; for any steam repair services for which fixed charges are not established, customers would continue to be charged for labor and materials as specified in the tariff; increase the current handling charge that is added to the costs of materials from 12 percent to 14.5 percent to reflect the handling charge on materials that is used for electric and gas special services performed by the Company; and update hourly labor rates to reflect current costs.

- ii. Update the costs underlying the charges for temporary disconnection of service and for each reconnection of such service in excess of one temporary disconnection and one reconnection performed in a 12-month period.
 - iii. Add a charge for investigating a leak, pressure problem, or other steam-related condition at a customer's premises, when the Company determines that there is a problem with the Customer's piping and/or equipment.
 - iv. Amend the SC 2 and SC 3 Special Provision sections to authorize the Company to continue accepting applications for the air-conditioning incentive program until September 30, 2008.
 - v. Eliminate the State Income Tax Provision as contained in Section VIII of the Steam Tariff.
- b. The Company will modify the Special Monthly Adjustment to the FAC to:
- i. Delete text related to the recovery of non-fuel operations costs of the 74th Street and 59th Street stations, and substitute text to implement paragraph B.2 relating to common costs of these stations allocated to the electric department,
 - ii. Delete the obsolete tariff language related to ERRP and clarify that ERRP carrying charges, incurred prior to October 1, 2007 will be recovered through the FAC, and
 - iii. Clarify that the inclusion of water and water chemical costs in the FAC effective November 2007 will reflect the collection of October 2007 water and water chemical costs on a one month lag, and thereafter.
- c. The Company will submit tariff leaves to amend the leaf numbers referenced in the tariff's Table of Contents (Leaf No. 2 and 2-A), correct typographical errors on

Leaf 3-B-1, delete obsolete text on Leaf 15-B, and clarify the language regarding the applicability provisions contained in the tariff leaves pertaining to SC 4 customers.

d. The specific language of the changes described in the foregoing paragraphs is shown on the draft tariff leaves attached as Appendix I.

e. To assist customers interested in applying for a negotiated rate pursuant to the Company's SC 5, Con Edison will provide written guidelines to interested customers explaining how to complete the SC 5 template form that requires cost information for the alternative to steam service (e.g., identifying the information that need not be provided in the case where the information is not applicable to the customer's competitive alternative). These guidelines will include a section on frequently asked questions and responses.

f. The Company will develop, with input from interested parties, formal, written technical specifications and interconnection procedures for Combined Heat and Power ("CHP") facilities. The Company will send a draft of the procedures to interested parties on or before November 30, 2006; interested parties may provide comments to the Company on or before January 15, 2007, and the Company will distribute the procedures to interested parties by March 1, 2007. The Company will post these procedures on the Company's web site relating to distributed generation and apply them to requests for interconnection by a CHP applicant made on or after that date, as well as pending requests for interconnection. The Company will be subject to a \$100,000 revenue adjustment if these procedures have not been adopted and implemented by the Company by March 1, 2007.

H. Demand Metering Program

A prerequisite to the implementation of demand billing (discussed in paragraph C.7 above) is the installation of demand meters for each SC 2 and SC 3 customer with annual sales equal to or in excess of 22,000 Mlbs, during the 12 month period ending April 30, 2006,

excluding any customer(s) for whom the Company has documentation establishing that the delay in installing the meter is associated with customer required actions (e.g., no access, awaiting customer asbestos removal, etc.).¹⁵ For each such customer, Con Edison will make and document multiple (at least three) attempts to complete the meter installation (“Customer-specific Exceptions”).

If the Company fails to install meters for other than Customer-specific Exceptions by November 1, 2006, it will be subject to the following revenue adjustment:

- i. \$10,000 per customer account for which the necessary meter(s) are not installed; or
- ii. \$1 million, if the Company fails to install the necessary meter(s) for more than 10 customer accounts.

If demand billing is not implemented on November 1, 2007 because the Company did not meet the foregoing meter installation criteria, demand billing will be implemented on November 1, 2008, subject to the Company meeting the foregoing meter installation criteria and the same filing and technical conference provisions set forth at the end of paragraph C.7.

I. Steam Production

1. Investment Grade Evaluation

a. Con Edison will prepare an investment grade evaluation of two Hudson Avenue repowering options identified in Phase I of the Steam Production Study unless Con Edison believes there is a clear and convincing preferred option from Phase I. The rationale for the Company's decisions will be presented to the Steam Business Development Task Force for informational purposes as part of the presentation of the Phase I Report. This presentation will

¹⁵ The Company will also exclude any customer that advises the Company in writing that it plans to leave the steam system on or before November 1, 2007.

occur within 30 days of the date of completion of the Phase I Report. The confidentiality provisions set forth in the 2004 Steam Rate Order will continue.

b. Con Edison will use a combination of outside consultants and in-house resources to conduct this evaluation. The latter will be used to the maximum extent practical to minimize the cost of the evaluation. The former will be used as determined by Con Edison to be appropriate and necessary in the evaluation of the option(s); all outside consultants will be under the sole direction of Con Edison. The Company will defer for future recovery the cost of the outside consultant(s) retained for this purpose up to a maximum amount of \$500,000.

c. Con Edison will inform Staff and interested parties as key milestones of the study are met.

d. The investment grade evaluation is intended to develop the detailed scope, cost and performance to a level of detail that would be sufficient to support an investment decision to construct a replacement plant for Hudson Avenue. The information to be developed will include: (1) project description; (2) major equipment requirements; (3) mass and energy balances; (4) conceptual mechanical and electrical drawings; (5) permit requirements; (6) site conditions; (7) project implementation schedule; (8) project capital cost estimate; and (9) a financial analysis determining the economic viability in terms of the annual revenue requirement impact of the proposed project.

e. The results of the evaluation will be filed with the Commission and disseminated to interested parties.

f. The investment grade evaluation must be considered in the development of the Steam Resource Plan (discussed in paragraph I.2 below) and therefore must be completed before the Steam Resource Plan is finalized.

2. Steam Resource Plan

By the later of August 1, 2007 or 12 months after completion of Phase I of the Steam Production Study, the Company will file with the Commission a Steam Resource Plan (“Resource Plan”), approved by Con Edison’s Chief Executive Officer, which will include a schedule for implementation. The Company will be subject to a \$2 million revenue adjustment if it does not file the Resource Plan by the applicable date.

The Resource Plan will examine and discuss various resource options (e.g., maintain and/or rebuild existing boilers, construct a new boiler(s), construct cogeneration, or seek competitively procured capacity). The Plan will identify the option(s) selected by Con Edison and fully support and justify that selection.

3. Thermal Efficiency/Losses

Within six months of the date this Proposal is filed, the Company will develop, with input from interested parties, an implementation plan for one or more cost-beneficial projects for reducing overall steam losses or improving efficiency of the production/distribution of steam. The Company will file with the Commission and provide active parties to this proceeding with a copy of the implementation plan on or before December 1, 2006. The Company will be subject to a \$150,000 revenue adjustment if it does not develop and file the implementation plan on or before December 1, 2006.

J. Reporting Requirements

1. Production Plant Capital Expenditures

The Company will, for informational purposes, file with the Commission and provide to Staff and other interested parties to this proceeding, by February 28 of each year, a comprehensive status report on its annual production capital expenditures. The report will, at a minimum:

- i. identify each completed project, the date it was commenced and completed, and its total cost;
- ii. for each ongoing project, provide its status, date of commencement, estimated date of completion, costs expended to date, and total project cost;
- iii. for each project where the Company's expenditures have varied by more than 15 percent from the estimates contained in the Company's rate case filings, as updated during the course of the proceeding, provide a detailed explanation and justification for such variation; and
- iv. for each new project (i.e., those not previously identified by the Company in this proceeding), provide a detailed project description, justification of the need for the project, cash flow requirements from inception through completion, an explanation of how the cost figures were derived, and supporting work papers and other back up materials.

2. Plant AvailabilityThe Company will file with the Commission an annual report on plant availability for each steam production unit for the winter and summer periods. This report will be filed within 60 days of the end of each calendar year.

3. O&M ExpendituresBy February 28 of each year, the Company will file with the Commission its plans for each station that encompass major maintenance components (i.e., corrective maintenance, major maintenance, overhauls, plant component upgrades, and plant inspection and repairs) for the current calendar year. These plans will include a description of the anticipated major activities and total planned expenditures in these categories. Copies of this filing will be provided to all interested parties.

Starting in February 2007, where the Company's actual O&M expenditures for the previous year vary by more than 15 percent from the estimates provided for that year, the report will provide an explanation for such variation.¹⁶

4. Strategic Plan

By January 31 each year, the Company will file a Steam Strategic Plan with the Commission that:

- i. Considers the findings of the Steam Business Development Plan, the Steam Production Study and, in the January 31, 2008 plan, the Steam Resource Plan, in a manner designed to maintain the viability of the steam system.
- ii. Establishes one-year, three-year, five-year, and ten-year goals and schedules for business development and production.
- iii. Discusses the prior year's and subsequent year's business development and production planning activities.
- iv. Identifies and analyzes the reported reason(s) why certain SC 1, SC 2 and SC 3 customers left the steam system in the past year and the steps taken (or to be taken) to address these issues, to the extent applicable; and, identify and analyze the reported reason(s) why potential customers with buildings larger than 250,000 square feet in area did not take steam service during the past year.

¹⁶ The February 2007 report will be different from subsequent reports due to changes associated with the implementation of the Maximo software management system in 2007, including reflecting variations attributable to the transition to Maximo.

5. CHP Projects

Beginning January 31, 2007, the Company will provide to the Director of the Office of Electricity and Environment and to interested parties a semi-annual report of any activities involving interconnection of CHP to Company facilities during the prior six-month period.

K. Other Provisions

1. Rate Changes

The provisions of this Proposal that do not otherwise expire by their own terms will continue after RY2, unless and until changed by Commission Order; provided, however, that except for the performance metrics and associated revenue adjustments in paragraphs G.3 and G.8, the performance metrics and associated revenue adjustments in sections G, H and I will not continue beyond RY2.¹⁷ Nothing herein precludes Con Edison from filing a new general steam rate case prior to October 1, 2008, for rates to be effective on or after October 1, 2008.

Changes to the Company's base steam rates during this Steam Rate Plan will not be permitted, except for (a) changes provided for in this Proposal and (b) subject to Commission approval, changes as a result of the following circumstances:

i. A minor change in any individual base rate or rates whose revenue effect is de minimis or essentially offset by associated changes in other base rates, terms or conditions of service – for example, an increase in a specific base rate charge in one service classification that is offset by a decrease in another base rate charge in the same or in other service classifications. It is understood that, over time, such minor changes are routinely made and that they may continue to be made during the term of this Steam Rate Plan, provided they

¹⁷ The performance metric discussed in paragraph G.3 will expire when base rates are re-set.

will not result in a change (other than a de minimis change) in the revenues that Con Edison's base steam rates are designed to produce overall before such changes.

ii. If a circumstance occurs which in the judgment of the Commission so threatens Con Edison's economic viability or ability to maintain safe, reliable and adequate service as to warrant an exception to this undertaking, Con Edison will be permitted to file for a change in base steam rates at any time under such circumstances.

iii. The Signatory Parties recognize that the Commission reserves the authority to act on the level of Con Edison's base steam rates in the event that, in the Commission's opinion, Con Edison's steam rates are unreasonable or insufficient for the provision of safe, reliable and adequate service.

iv. Nothing herein shall preclude Con Edison from petitioning the Commission for approval of new services or rate design or revenue allocation changes on an overall revenue-neutral basis, including, but not limited to, the implementation of new service classifications and/or cancellation of existing service classification.

2. Legislative, Regulatory and Related Actions

a. If the federal government, State of New York, and/or the City of New York make changes in their tax laws (other than local property taxes, which will be reconciled in accordance with paragraph E.1 above) that result in the Company's incurring incremental steam costs in an annual amount of \$0.5 million or more, and if the Commission does not permit the disposition, through a surcharge or credit, of any such tax law changes, including any new, additional, repealed or reduced federal, state, or City of New York , fees or levies, Con Edison will defer the full change in expense and reflect such deferral as credits or debits to customers in the next base rate change, subject to any final Commission determination in a generic or other proceeding prescribing utility implementation of a specific tax law enactment, including

Commission determination of any Company-specific compliance filing made in connection therewith.¹⁸

b. If any other law, rule, regulation, order, or other requirement or interpretation (or any repeal or amendment of an existing rule, regulation, order or other requirement) mandated by the state, local or federal government or courts, including a requirement that Con Edison refund its tax exempt debt, results in a change in Con Edison's annual steam costs or revenues not anticipated in the forecasts and assumptions on which the rates in this Proposal are based, and in the Company's incurrence of incremental steam costs or reduced revenues in an annual amount of \$0.5 million or more,¹⁹ Con Edison will defer on its books of account the full change in costs or revenues, with any such deferrals to be reflected in the next base rate case or in a manner to be determined by the Commission.

c. The Company will retain the right to petition the Commission for authorization to defer extraordinary expenditures not otherwise addressed by this proposal.

3. Extraordinary Circumstances Exception

For each of the performance metrics discussed in sections G, H and I, when the Company can demonstrate that extraordinary circumstances prevented it from meeting such performance metric, either the associated revenue adjustment will be excused or the time to satisfy the performance metric will be extended by the Commission, as appropriate. The determination of

¹⁸ The Company reserves all of its administrative and judicial rights in connection with such proceedings(s).

¹⁹ For purposes of this Proposal, \$0.5 million threshold will be applied on a case-by-case basis and not to the aggregate impact of changes of two or more laws, rules, etc.; provided, however, that these thresholds will be applied on a Rate Year basis to the incremental aggregate impact of all contemporaneous changes (i.e., changes made as a package even if they occur or are implemented over a period of months) affecting a particular subject area and not to the individual provisions of the new law, rule, etc.

whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented.

4. Trade Secret Protections

Nothing in this document prevents Con Edison from seeking trade secret protection under 16 NYCRR Part 6 for all or any part(s) of any document or report filed (or submitted to Staff) in accordance with this Steam Rate Plan, or prohibits or restricts any other party from challenging any such request.

5. Provisions Not Separable The Signatory Parties intend this Proposal to be a complete resolution of all the issues in Case 05-S-1376. It is understood that each provision of this Proposal is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the Commission. Except as set forth herein, none of the Signatory Parties is deemed to have approved, agreed to or consented to any principle, methodology or interpretation of law underlying or supposed to underlie any provision herein. If the Commission fails to adopt this Proposal according to its terms, then the Signatory Parties to the Proposal shall be free to pursue their respective positions in this proceeding without prejudice.

6. Provisions Not Precedent The terms and provisions of this Proposal apply solely to, and are binding only in, the context of the purposes and results of this Proposal. None of the terms or provisions of this Proposal and none of the positions taken herein by any party may be referred to, cited, or relied upon by any other party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose other than furtherance of the purposes, results, and disposition of matters governed by this Proposal.

7. **Submission of Proposal** The Signatory Parties agree to submit this Proposal to the Commission and to individually support and request adoption by the Commission in its entirety as set forth herein. The Signatory Parties hereto believe that the Proposal will satisfy the requirements of Public Service Law §79(1) that Con Edison provide safe and adequate service at just and reasonable rates.

8. **Effect of Commission Approval** No provision of this Proposal or the Commission's approval of this Proposal shall in any way abrogate or limit the Commission's statutory authority under the Public Service Law. The Parties recognize that any Commission approval of this Proposal does not waive the Commission's ongoing rights and responsibilities to enforce its orders and effectuate the goals expressed therein, nor the rights and responsibilities of Staff to conduct investigations or take other actions in furtherance of its duties and responsibilities.

9. **Further Assurances** The Signatory Parties recognize that certain provisions of this Proposal require that actions be taken in the future to fully effectuate this Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

10. **Execution** This Proposal is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

IN WITNESS WHEREOF, the Signatory Parties hereto have affixed their signatures below as evidence of their agreement to be bound by the provisions of this Proposal on the day and year first written above.

CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC.

Dated: June ____, 2006

By: _____

DEPARTMENT OF PUBLIC SERVICE STAFF

Dated: June 2, 2006

By: _____

Dated: June 2, 2006

By: _____

Dated: June 2, 2006

By: _____

CASE 05-S-1376

CITY OF NEW YORK

Dated: June ____, 2006

By: _____

CASE 05-S-1376

CONSUMER POWER ADVOCATES

Dated: June ____, 2006

By: _____

CASE 05-S-1376

NEW YORK ENERGY CONSUMERS
COUNCIL, INC.

Dated: June ____, 2006

By: _____
Gerard V. Schumm

Dated: June ____, 2006

By: _____
Timothy J. Clancy

CASE 05-S-1376

PACE ENERGY PROJECT

Dated: June ____, 2006

By: _____

CASE 05-S-1376

THE E-CUBED COMPANY, LLC

Dated: June ____, 2006

By: _____

CASE 05-S-1376

CONSUMERPOWERLINE

Dated: June ____, 2006

By: _____

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Steam Revenue Requirement
For The Twelve Months Ending September 30, 2007
\$ 000's

	Rate Year Forecast	Rate Change	Rate Year With Rate Change
Operating Revenues			
Sales Revenues	\$ 668,408	\$ (3,815)	\$ 664,593
Other Revenues	21,335	-	21,335
Net Revenues	<u>689,743</u>	<u>(3,815)</u>	<u>685,928</u>
 Operating Expense			
Fuel	385,280	-	385,280
Other fuel charges	3,886	-	3,886
Operations & Maintenance Expenses	169,330	-	169,330
Depreciation	30,954	-	30,954
Taxes Other Than Income Taxes	61,819	(81)	61,738
Gain from Disposition of Utility Plant	(25,583)	-	(25,583)
Total Deductions	<u>625,686</u>	<u>(81)</u>	<u>625,605</u>
 Operating Income Before Income Taxes	<u>64,057</u>	<u>(3,734)</u>	<u>60,323</u>
 New York State Income Taxes	2,848	(280)	2,568
Federal Income Tax	<u>8,504</u>	<u>(1,209)</u>	<u>7,295</u>
 Utility Operating Income	<u>\$ 52,705</u>	<u>\$ (2,245)</u>	<u>\$ 50,460</u>
 Rate Base	<u>\$ 651,953</u>		<u>\$ 651,953</u>
 Rate of Return	<u>8.08%</u>		<u>7.74%</u>

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Average Steam Rate Base
For The Twelve Months Ending September 30, 2007
\$ 000's

Utility plant:		
Average Book Cost of Plant	\$ 943,639	
Non-Interest Bearing CWIP	14,771	
Average Accumulated Depreciation	<u>(239,069)</u>	
Net utility plant		\$ 719,341
Rate base additions:		
Working Capital	99,904	
Unamortized Debt Discount/Premium/Expense	17,160	
Deferred Fuel - Net of Income Taxes	12,664	
Preferred Stock Expense	314	
MTA Surtax - Net of Income Taxes	<u>56</u>	
Rate base additions		130,098
Rate base deductions:		
Excess Rate Base Over Capitalization	(32,130)	
Accrued OPEB Liability	(5,603)	
Customer Advances for Construction	<u>(2,511)</u>	
Rate base deductions		(40,244)
Regulatory assets & liabilities (net of income taxes):		
Refund over 3-years- Gain from Sale of 1st Avenue Properties	(38,455)	
Refund over 3-years NYC Property Taxes - 2004 Settlement	(5,690)	
Refund over 3-years Deferred SO2 Allowance Proceeds & Interest	(5,417)	
Refund over 2-years of deferred SIT overcollections	(2,395)	
Refund over 3-years Deferred Interest on Capital Expenditures	(1,656)	
Refund over 3-years of Oil Litigation Proceeds	(875)	
Refund over 3-years Deferred Medicare Rx Legislation Savings	(774)	
Refund over 3-years NYC Property Taxes - 2000 Settlement	(539)	
Refund over 3-years Interest on Reconciliation Balances	(207)	
Refund over 3-years Interest on MGPs	(6)	
Recovery over 3-years Deferred Production Study Expenses	6	
Recovery over 3-years Deferred Business Development Plan Expense	183	
Recovery over 3-years Overcollection of Interference Expenses	216	
Recovery over 3-years Interference Expense	938	
Recovery over 3-years Interest on Sales of 1st Ave Properties	1,023	
Recovery over 3-years Deferred Pension/OPEB Expenses	4,387	
Recovery over 3-years Deferred Costs - Case 03-S-1672	5,420	
Recovery over 3-year of Deferred WTC Expenses	<u>15,560</u>	
Regulatory deferrals		(28,281)
Accumulated deferred income taxes		
ADR / ACRS / MACRS Deductions	(96,228)	
Change of Accounting Section 263 A	(25,497)	
Deferred S.I.T.	(15,676)	
Additional Pension Deduction	(9,434)	
Call Premium	(588)	
Excess Deferred SIT (2000/2001)	(361)	
Advanced Refunding of Mortgage Bonds	(13)	
Vested Vacation	739	
Contributions In Aid of Construction	765	
Capitalized Interest	7,998	
Unbilled Revenues	<u>9,334</u>	
Accumulated deferred income taxes		<u>(128,961)</u>
Total Rate Base		<u>\$ 651,953</u>

Consolidated Edison Company of New York, Inc.
 Steam Case 05-S-1376
 Average Capital Structure & Cost of Money
 For the Twelve Months Ending September 30, 2007

	<u>Capital Structure %</u>	<u>Cost Rate %</u>	<u>Cost of Capital %</u>	<u>Pre Tax Cost %</u>
Long term debt	48.97%	5.94%	2.91%	2.91%
Preferred Stock	1.48%	5.43%	0.08%	0.13%
Customer deposits	<u>1.55%</u>	3.00%	<u>0.05%</u>	<u>0.05%</u>
Preferred Stock & Debt	52.00%		3.04%	3.09%
Common Equity	<u>48.00%</u>	9.80%	<u>4.70%</u>	<u>7.82%</u>
Total	<u><u>100.00%</u></u>		<u><u>7.74%</u></u>	<u><u>10.91%</u></u>

Consolidated Edison Company of NY, Inc.
 Steam Case 05-S-1376
 Steam 2nd Stage Increase
 & Netting of Revenue Requirements
 \$ 000's

Rate Year Ending	Twelve Months Ending September 30,	
	2007	2008
First Year Rate Change	\$ (3,815)	
Steam Sales (net of fuel, water, chemicals)		\$ (4,500)
Operating Expenses		
- Increase in O&M expenses		3,600
- Non recurring RY1 Local Law 11 & Energy Audit Costs		(650)
- Book Depreciation		1,554
- Property Taxes		4,325
- Reduction to Economic Obsolescence Credit		2,045
- Plant Rate Base Additions		1,098
- Revenue taxes on above		163
Total Revenue Requirements	\$ (3,815)	\$ 7,635
Netting of Revenue Requirements		
Rate Year 1 Revenue Requirement	\$ (3,815)	\$ (3,815)
Rate Year 2 Revenue Requirement *	3,815	3,815
Net Revenue Requirement	\$ -	\$ -

* \$7.63 million / 2 years

Consolidated Edison Company of New York, Inc.
 Steam Case 05-S-1376
 Amortization of Regulatory Deferrals (Credits & Debits)
 \$ 000's

Regulatory Credits	Twelve Months Ending September 30,		Total
	2007	2008	
<u>Regulatory Liabilities:</u>			
1 NYC Property Taxes - 2000 Settlement	\$359	\$359	\$718
2 NYC Property Taxes - 2004 Settlement	3,581	3,581	7,162
3 SO2 Allowances - Principal	3,439	3,439	6,878
4 SO2 Allowances - Interest	165	165	330
5 Medicare Rx Legislation	515	515	1,030
6 Interest on Capital Expenditures	1,102	1,102	2,204
7 Interest on Rate Case Reconciliations	102	102	204
8 Proceeds From Oil Litigation, including Interest	582	582	1,164
9 MGP Superfund Sites - Interest	4	4	8
10 NYS Income Tax Overcollection (2000-2004)	2,656	2,656	5,312
11 Gain on Sale of First Avenue Properties (1)	25,583	25,583	51,166
Total Regulatory Liabilities (a)	<u>\$38,088</u>	<u>\$38,088</u>	<u>\$76,176</u>
<u>Deferred Tax Liabilities</u>			
1 Deferred Excess New York State Income Tax	\$222	\$222	444
2 FIT Refund - Investment Tax Credits	74	74	148
Total Tax Liabilities (b)	<u>\$296</u>	<u>\$296</u>	<u>\$592</u>
<u>Regulatory Assets</u>			
1 2000 Rate Settlement - Unamortized Balances			
2 - Previously Accrued Make Whole Revenues	\$242	\$242	484
3 - Interest on Reconciliation Balances	225	225	450
4 - Steam A/C Program	182	182	364
5 - Negotiated Steam Service Agreement Revenues	163	163	326
6 - Interference Expenses	586	586	1,172
7 - Excess Refund of Storage and Handling Costs	222	222	444
8 - NYC Property Taxes - 1997 Settlement	82	82	164
9 - NYC Property Taxes - 2000 Settlement	1,904	1,904	3,808
10 Sale of First Avenue Properties - Interest	681	681	1,362
11 Interference expenses - 2000 Settlement	624	624	1,248
12 Interference expenses - 2004 Settlement	144	144	288
13 WTC expenses	4,000	4,000	8,000
14 Pension and OPEB expenses	2,918	2,918	5,836
15 Business Development Plan expenses	122	122	244
16 Production Study expenses	4	4	8
Total Regulatory Assets (c)	<u>\$12,099</u>	<u>\$12,099</u>	<u>24,198</u>
Net Credits (a + b - c)	<u>\$26,285</u>	<u>\$26,285</u>	<u>\$52,570</u>

(1) If the actual net proceeds from the sale of the First Avenue Properties allocable to Steam are more or less than the amount reflected in rates, the difference will be deferred and recovered from or credited to customers after the expiration of the Steam Rate Plan in a manner determined by the Commission.

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Steam Revenue Forecast
\$ 000's

Steam Operating Revenues	Twelve Months Ending September 30,		
	2007	RY2 Update	2008
Sales Revenues	\$668,408	\$12,474	\$680,882
Less: Revenue Taxes	16,229	303	16,532
Gross Margin	<u>652,179</u>	<u>12,171</u>	<u>664,350</u>
Cost of Sales			
Fuel	385,280	7,190	392,470
Other fuel charges	3,886	73	3,959
Water	10,087	188	10,275
Water Chemicals	1,984	37	2,021
Electric and Gas Used	9,812	183	9,995
Cost of Sales	<u>411,049</u>	<u>7,671</u>	<u>418,720</u>
Net Revenue Contribution	<u>\$241,130</u>	<u>\$4,500</u>	<u>\$245,630</u>
Steam Sales (MMlbs)			
SC 1	661	9	670
SC 2	17,778	177	17,955
SC 3	7,855	117	7,972
Total	<u>26,294</u>	<u>303</u>	<u>26,597</u>

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Other Operating Revenues *
Twelve Months Ending September 30, 2007
\$ 000's

Interdepartmental Rents:	
74th / 59th Street	\$ 4,400
Other	2,025
Late Payment Charges	1,488
Steam Rev/Fuel Management Program	726
Special Services Repair Program	360
Cablevision Lightpath, Inc. - Hudson Ave. Tunnel	<u>114</u>
	<u><u>\$ 9,113</u></u>

* Excludes amortization of regulatory deferrals charged / credited to other operating revenues

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Calculation of Rent for 74th / 59th Street Facilities
\$ 000's

<u>Common Costs</u>	<u>2007 Net Book Cost</u>	<u>Carrying Charge</u>	<u>Property Taxes</u>	<u>O&M</u>	<u>Total</u>
74th Street Station	\$4.4	\$0.6	\$1.2	\$2.5	\$4.3
59th Street Station	\$15.0	\$2.1	\$1.4	\$1.7	\$5.2
Total					<u>\$9.5</u>

Steam / Electric Facility Allocation Factors (Square Feet)

	<u>Steam</u>	<u>Electric - GTs</u>	<u>Electric - T&D</u>	<u>Common Space</u>	<u>Total (excl. Common)</u>	<u>Steam (%)</u>	<u>Electric (%)</u>
74th Street	41,000	9,000	38,000	34,000	88,000	47%	53%
59th Street	42,000	28,000	-	129,000	70,000	60%	40%

<u>Electric Rents</u>	<u>2007 Net Book Cost</u>	<u>Carrying Charge</u>	<u>Property Taxes</u>	<u>O&M</u>	<u>Total</u>
74th Street Station	\$2.4	\$0.3	\$0.6	\$1.3	\$2.3
59th Street Station	\$6.0	\$0.8	\$0.6	\$0.7	\$2.1
Total					<u>\$4.4</u>

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Steam Expense True Up Targets
\$ 000's

Steam Operations	Twelve Months Ending September 30,		
	2007	RY2 Update	2008
Property Tax Expense (a)	\$51,039	\$4,325	\$55,364
Obsolescence Credit	(9,200)	2,000	(7,200)
Net Property Tax Expense (90/10 True up)	41,839	6,325	48,164
Employee Pensions	4,347	-	4,347
Other Post Employment Benefits	2,341	-	2,341
Total Pension / OPEB Expense (100%)	6,688	-	6,688
Medicare Part D Accrued Reimbursements	663	-	663
x effective State & Federal Income Tax Rate	39.875%	-	39.875%
Medicare Part D - Tax Savings	264	-	264
SO2 Allowances	3,500	-	3,500
Interference Costs - Other Than Labor (90/10 True up)	2,579	-	2,579
Environmental Remediation (MGP / Superfund)	1,504	-	1,504

(a) RY2 targets will be adjusted to include property taxes for ERRP when the carrying charges are rolled into base rates.

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Capital True-Up Targets
\$ 000's

Steam Production Capital Target (excludes ERRP)			
Rate Year	Average Plant Balance	Average Depr. Balance	Annual Target
RY1	\$352,655	\$190,336	\$162,319
RY2	\$399,905	\$197,814	\$202,091

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Carrying Charge Rate
\$ 000's

	<u>Steam Production Plant</u>
Pre Tax Overall Rate of Return	10.91%
Composite Book Depreciation Rate	<u>2.76%</u>
Total Carrying Charge Rate	<u><u>13.67%</u></u>

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DEPRECIATION RATES FOR STEAM PLANT

PSC ACCT	ACCOUNT TITLE	COMPANY ACCOUNT	LIFE TABLE	AVERAGE SERVICE LIFE	NET SALVAGE	ANNUAL DEPR. RATE
<u>PRODUCTION PLANT</u>						
(Excluding ERRP & 74th St (transferred from Electric))						
310	LAND AND LAND RIGHTS	9710	-	-	-	
310	LAND AND LAND RIGHTS - LEASEHOLDS	9712	-	-	-	Amort.
311	STRUCTURES AND IMPROVEMENTS	9714	h 1.00	50	(45)	2.90%
312	BOILER PLANT EQUIPMENT	9716	h 1.00	40	(40)	3.50%
315	ACCESSORY POWER EQUIPMENT	9718	h 1.75	40	(15)	2.88%
316	MISCELLANEOUS STATION EQUIPMENT	9720	h 2.50	50	(5)	2.10%
<u>PRODUCTION PLANT</u>						
74th St (transferred from Electric)						
311	STRUCTURES AND IMPROVEMENTS	9714	-	-	-	0.90%
312	BOILER PLANT EQUIPMENT	9716	-	-	-	1.00%
315	ACCESSORY POWER EQUIPMENT	9718	-	-	-	0.38%
316	MISCELLANEOUS STATION EQUIPMENT	9720	-	-	-	0.10%
<u>PRODUCTION & DISTRIBUTION PLANT - ERRP</u>						
311	STRUCTURES AND IMPROVEMENTS	9714	h 1.00	50	(45)	2.90%
312	BOILER PLANT EQUIPMENT	9716	h 2.50	30	(40)	4.67%
315	ACCESSORY POWER EQUIPMENT	9718	h 1.75	40	(15)	2.88%
316	MISCELLANEOUS STATION EQUIPMENT	9720	h 2.50	50	(5)	2.10%
353	MAINS	9734	h 0.75	70	(50)	2.14%
353	DESUPERHEATING EQUIPMENT	9735	h 1.50	50	(40)	2.80%
<u>DISTRIBUTION PLANT (Excluding ERRP)</u>						
351	STRUCTURES AND IMPROVEMENTS	9732	h 5.00	50	-	2.00%
353	MAINS	9734	h 0.75	70	(50)	2.14%
353	DESUPERHEATING EQUIPMENT	9735	h 1.50	50	(40)	2.80%
359	SERVICES	9736	h 0.50	50	(65)	3.30%
360	METERS	9738	h 1.75	30	-	3.33%
361	ACCESS. EQUIP. ON CUSTOMERS' PREMISES	9740	h 0.75	50	(10)	2.20%
362	INST. OF METERS AND ACCESSORY EQUIP.	9742	h 0.75	55	(25)	2.27%

In addition to the rates above, depreciation expense will include the amortization of the reserve deficiency of \$35,904,600 will be amortized over 5 years at the rate of \$598,410 per month.

Consolidated Edison Company of New York, Inc.

Common Allocation Factors

	<u>Electric</u>	<u>Gas</u>	<u>Steam</u>
<i><u>Administrative & General Expenses</u></i>			
A&G - Labor Related	78.70%	16.20%	5.10%
A&G - Other than Labor	81.14%	13.21%	5.65%
Pensions/OPEBs and Health Ins. Capitalized	72.67%	23.63%	3.70%
A&G Transferred - Other	76.55%	17.80%	5.65%
<i><u>Customer Accounting Expenses</u></i>			
Uncollectible Accounts	86.00%	14.00%	0.00%
Other Customer Accounts	82.00%	18.00%	0.00%
Energy Services	89.00%	11.00%	0.00%
Other Customer Assistance and Informational & Promotional Advertising	82.00%	18.00%	0.00%
<i><u>Taxes Other than FIT</u></i>			
Sales & Use	77.75%	15.50%	6.75%
Vehicle/Gasoline	81.00%	16.50%	2.50%
Payroll Taxes	78.75%	16.25%	5.00%
Payroll Taxes Transferred to Construction	72.50%	23.75%	3.75%
Other	81.25%	13.25%	5.50%
<i><u>Plant</u></i>			
Common Plant	83.00%	17.00%	0.00%
Common M&S	77.00%	17.00%	6.00%

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Steam Earnings Calculation

For purposes of calculating potential colder than normal weather related earnings exclusion, the net revenue effect of steam sales related to colder than normal weather will be calculated as follows:

1. The normal weather period will be defined as the winter billing months of November – April, inclusive.
2. Normal weather for RY1 will be defined as the average conditions over the 30 years ended December 31, 2005 measured in terms of Heating Degree Days (HDDs). Normal weather for RY2 will be defined as the average conditions over the 30 years ended December 31, 2006 as measured in terms of HDDs. HDDs on a daily basis are defined as the number of degrees that the average 24-hour dry-bulb temperature differs from a 56 degrees Fahrenheit reference when the average 24-hour dry-bulb temperature is less than 56 degrees. When the average 24-hour dry-bulb temperature equals or exceeds 56 degrees there will be no HDDs. For example, if the 24-hr average dry bulb temperature for a day during the winter billing period is 40 degrees, there would be 16 HDDs for that day.
3. For each billing cycle in each of the aforementioned billing months, a unit (\$/Mlb) weather normalization adjustment charge or credit will be determined separately for each service classification. (i.e., SC 1, SC 2, and SC 3) based upon the formula noted below. A billing cycle refers to the number of days between meter readings.

The weather normalization adjustment formula is:

$$\frac{(\text{NHDD} - \text{AHDD}) * \text{MLBHDD} * \text{PBR}}{(\text{BLMLB} * \text{BC}) + (\text{MLBHDD} * \text{AHDD})}$$

Where:

NHDD -	Normal Heating Degree Days
AHDD -	Actual Heating Degree Days
MLBHDD -	Thousands of Pounds per Heating Degree Days*
PBR -	Penultimate Base Rate (exclusive of electric, water and chemicals cost)
BLMLB -	Base Load, Thousands of Pounds per Day*
BC -	Number of Days in the Billing Cycle

Consolidated Edison Company of New York, Inc.
Case 05-S-1376
Steam Earnings Calculation

- * The MLBHDD and BLMLB factors on a service classification basis will be determined by regression analysis of actual monthly service classification sales divided by the average number of billing days in the month and by the associated number of customer billing in the month vs. the number of heating degree days per average number of billing days in each month over the prior winter season (i.e., the November- April billing months).

- 4. The determined unit charge/credit for each billing trip will be multiplied by the associated actual sales for that billing cycle. The net revenue effect of the credits and charges for each service classification will be netted at the end of the winter period as defined above. The net revenue impact (i.e., base revenue less base fuel less electric, water and chemical costs) per service classification will be summarized to determine the system net revenue impact.

Consolidated Edison Company of New York, Inc.

Case 05-S-1376

Illustration of the Allocation of SO2 Allowance Sales Proceeds
Based on Preliminary 2005 Data

Plant	Unit	Granted Allowances (Tons)		Steam (Tons)	Electric (Tons)	Used Allowances (Tons)		Steam (Tons)	Electric (Tons)	Available Allowances - (Tons)	
		Steam	Electric			Steam	Electric			Steam	Electric
Astoria, Ravenswood, Arthur Kill	All	17,042	0	0	17,042	0	N/A	0	N/A	0	17,042
59th Street	110	64	0	0	64	0	N/A	0	N/A	0	64
74th Street	120-122	1,343	967	967	376	1,107	100%	1,107	0%	0	376
East River	1/2	0	0	0	0	12	5%	1	95%	11	(11)
	50	1,396	419	419	977	0	N/A	0	N/A	0	977
	60	1,430	429	429	1,001	226	21%	47	79%	179	822
	70	1,033	0	0	1,033	181	19%	34	81%	147	886
Waterside	41/42	499	309	309	190	0	N/A	0	N/A	0	190
	51/52	833	516	516	317	0	N/A	0	N/A	0	317
	61/62/80/90	3,300	2,046	2,046	1,254	4	64%	3	36%	1	1,253
Total		26,940	4,687	4,687	22,253	1,530	78%	1,192	22%	338	3,495

Steam Allocation Factor = $\frac{3,495}{25,410}$ = 13.8% Electric Allocation Factor = $\frac{21,915}{25,410}$ = 86.2%

Example A: All Available Allowances Sold

Total Tons Sold in 2007 =	25,410
Total Proceeds =	\$22,869,000
Steam Proceeds =	\$3,145,131
Electric Proceeds =	\$19,723,869

Example B: A Portion of Available Allowances Sold

Total Tons Sold in 2007 =	20,000
Total Proceeds =	\$18,000,000
Steam Proceeds =	\$2,475,506
Electric Proceeds =	\$15,524,494

DRAFT STEAM TARIFF CHANGES

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Service Classifications as Listed Below:

APPLICABLE TO (Territory or Area)	FOR (Service classified according to use or uses as shown on service classification leaves)	NUMBER	
		Service Classification	Leaf
Borough of Manhattan in The City of New York, subject to stipulations and requirements noted herein...	General Service.....	1	20
Same as above.....	Annual Power Service.....	2	21
Same as above.....	Apartment House Service.....	3	22
Same as above.....	Back-up/supplementary Service.....	4	23
Same as above.....	Negotiated Agreement Service.....	5	28
Same as above.....	Transportation Service.....	6	30

GENERAL INFORMATION - Continued

III. General Rules, Regulations, Terms and Conditions under Which Steam Service Will Be Supplied, Applicable to and Made a Part of All Agreements for Steam Service - Continued

1. How to Obtain Service - Continued

(b) Residential Security Deposits - Continued

4. If the Company intends to require a deposit from a delinquent Customer with two consecutive months of arrears, it shall provide the Customer written notice, at least 20 days before it may assess a deposit, that the failure to make timely payment will permit the Company to require a deposit from the Customer. The Company shall permit a delinquent Customer to pay the deposit in installments over a period not to exceed twelve months.
5. The Company shall not demand or hold a deposit from ~~(H)~~ any residential Customer who is 62 years of age or older unless the Customer has had service terminated by the Company for non-payment of bills within the preceding 6 months, or (ii) any Customer who is known by the Company to be a recipient of public assistance, supplemental security income, or additional state payments.
6. The Company will annually review residential accounts which are secured by deposits and refund or credit the deposit to the account of a residential Customer who has not been delinquent in the payment of bills during the past year. Deposits will be credited with simple interest at a rate prescribed from time to time by the Public Service Commission. A deposit plus accrued interest may be credited to the Customer's account only to the extent of current charges and the charges of the next succeeding monthly bill, and any balance will then be paid to the depositor. Simple interest shall be paid to the Customer upon the return of the deposit, or where the deposit has been held for a period of one year, simple interest shall be credited to the Customer on the first bill rendered for service after one year. Deposits that are not refunded after 1 year will be reviewed for refund annually thereafter in accordance with the foregoing criteria.

(c) Non-Residential Security Deposits:

1. Customers Subject to Deposit Requests: The Company may require the payment of a security deposit from an applicant or a new Customer. The Company may require a security deposit from an existing Customer: (i) who is delinquent; (ii) as to whom the Company has reliable evidence that the Customer's financial condition is such that it is likely that the Customer may default in the future; (iii) who has ~~fieldfiled~~ for reorganization or bankruptcy; or (iv) who has been rendered a backbill within the last twelve months for previously unbilled charges for service through tampered equipment. Customers required to pay deposits under clauses (i) or (ii) of this paragraph shall have the opportunity to pay in three installments, 50 percent down and two equal monthly payments of the balance.

(General Information - Continued on Leaf No. 3-C)

GENERAL INFORMATION -Continued

III-A. Special Services Performed by the Company for Customers at a Charge

1. Special Services at Stipulated Rates:

Definitions

The following definitions apply, where specified, to special services performed at stipulated rates:

The term "After Hours" refers to any time other than Business Hours.

The term "Business Hours" refers to the hours of 7:30 A.M. to 3:00 P.M., Monday through Friday, excluding Holidays.

The term "Holidays" refers to the following: (a) Martin Luther King, Jr.'s Birthday, President's Day, Memorial Day, Labor Day, Columbus Day, Thanksgiving, and the day after Thanksgiving, and (b) New Year's Day, Independence Day, Veterans Day, and Christmas, except that if the date falls on a Saturday, the "holiday" will be considered to be the preceding Friday, and if the date falls on a Sunday, the holiday will be considered to be the following Monday.

Services

Upon the Customer's request, the Company will perform the following special services for a Customer and will charge the Customer at the stipulated rates. A service performed during periods encompassing both Business Hours and After Hours will be charged at the After Hours rate. The charges shown are inclusive of the Percentage Increase in Rates and Charges, unless otherwise specified.

(A) Temporary Disconnection of Service and Reconnection of Such Service

There will be a charge for each temporary disconnection of service and for each reconnection of such service requested by a Customer in excess of one temporary disconnection and one reconnection performed in a 12-month period. The charge will be ~~\$186.00~~291.00 for a disconnection or reconnection during ~~the period 7:30 A.M. to 3:00 P.M., Monday through Friday, excluding holidays,~~ Business Hours and ~~\$222.00~~331.00 for a disconnection or reconnection begun or completed ~~during any other time~~ After Hours.

(B) Historical Usage and Billing Information

A statement of the account's usage and billing information, if available, will be provided at a Customer's request at a charge of \$15.00 per year of information from two to not more than six years from the date of the request. There will no charge for a statement of usage and billing information for up to the most recent 24 months.

(C) Investigation at the Premises

There will be a charge if the Company visits a premises at the Customer's request to investigate a leak, pressure condition, or other problem, and the Company determines that there is a problem with the Customer's piping and/or equipment. The charge will be \$291.00 for an investigation during Business Hours and \$336.00 for an investigation begun or completed After Hours.

(D) Steam Repair Service

~~Upon a Customer's request, the Company will perform steam repair services, such as repairs and replacement of flange gaskets, valve packing, screwed piping on high pressure trap lines, and welding. The charge for this service will be based on (1) labor costs at an hourly rate of \$93.00 during the hours of 7:30 A.M. to 3:00 P.M., Monday through Friday, excluding holidays, and \$111.00 during all other times, and (2) the price of materials at fair market value plus 12% for handling ("material costs"). The aforementioned labor costs are inclusive of the appropriate increase in rates and charges. Material costs are subject to the applicable percentage as explained in General Information Section VII. Sales taxes will be added where applicable. Labor for part of an hour will be charged at the hourly labor rate. Labor overlapping two labor rate periods will be charged at the higher of the two rates. Labor costs will be inclusive of travel time as set forth below. The charge for each service is inclusive of the cost of materials, handling, and labor.~~

<u>Service</u>	<u>Charge during Business Hours</u>	<u>Charge After Hours</u>
<u>Replace 300 # flange valve (1" to 4")</u>	<u>\$1,338.00</u>	<u>\$1,441.00</u>
<u>Replace 300 # flange valve (greater than 4")</u>	<u>\$2,248.00</u>	<u>\$2,351.00</u>
<u>Repair gasket (1" to 16")</u>	<u>\$ 659.00</u>	<u>\$ 741.00</u>
<u>Repair/replace trap and associated equipment</u>	<u>\$ 532.00</u>	<u>\$ 570.00</u>

Services performed in conjunction with the above work:

<u>Service</u>	<u>Charge during Business Hours</u>	<u>Charge After Hours</u>
<u>Remove asbestos gasket</u>	<u>\$ 146.00</u>	<u>\$ 150.00</u>
<u>Pick up material from a Company storeroom</u>	<u>\$ 291.00</u>	<u>\$ 336.00</u>

If the Company, at the Customer's request, agrees to perform a service other than one described above, the Customer will be charged for the following:

- (a) Materials Charge: Materials at fair market price plus sales tax and 14.5% for handling, plus the applicable Percentage Increase in Rates and Charges.
- (b) Labor Charge: Hourly rate per employee of \$121.00 during Business Hours and \$140.00 After Hours. Labor hours will be inclusive of travel time.

The Company has the right to refuse a job if conditions are found to be unsafe, hazardous, or beyond its capabilities.

The Company will send the Customer a bill upon completion of the service(s). Payment is due within 30 days of the issue date of the bill. A late payment charge of 1½ percent per month will be applied to overdue bills.

The Company will guarantee its work for 90 days, except there will be no guarantee on repairs of valve packing leaks and on repairs of leaks which have damaged the sealing surfaces of the components being repaired.

(General Information - Continued on Leaf No. 7-G)

GENERAL INFORMATION - Continued

~~HH-A. Special Services Performed by the Company for Customers at a Charge - Continued~~

~~1. Special Services at Stipulated Rates - Continued~~

~~(C) Steam Repair Service - Continued~~

~~The Company will guarantee its work for 90 days, except there will be no guarantee on repairs of valve packing leaks and on repairs of leaks which have damaged the sealing surfaces of the components being repaired.~~

~~The Company has the right to refuse a job if conditions are found to be unsafe, hazardous, or beyond its capabilities.~~

IV. Leasing of Boiler Plants to the Company by Customers

1. Leases for Building Requirements

Upon written request of a Customer, the Company will lease from such Customer the boiler plant located at the Customer's premises for operations during the term of the Agreement for Service to serve the requirements of the Customer's premises, primarily at system seasonal peak periods, but not limited thereto, provided:

- (1) The Customer's premises are connected, or are about to be connected, to the Company's mains.

(General Information - Continued on Leaf No. 8)

Date of Issue: XXXX xx, 2006

Date Effective: October 1, 2006

Issued by Robert N. Hoglund, Senior Vice President and
Chief Financial Officer
4 Irving Place, New York, N.Y. 10003

GENERAL INFORMATION - Continued

VII. Adjustment of Rates Related to Changes in the Cost of Fuel - Continued

C. Average Cost of Fuel – Continued

BNYCP Adjustments – Continued

- (a) The kWh of electric energy resulting from the conversion will be computed by dividing the lbs of converted steam energy by the contractual steam conversion factor.
- (b) The excess, if any, of the variable price of steam energy over the variable price of electric energy will be determined by subtracting (i) the product of the kWh of electric energy produced by the conversion and the contractual variable electric price from (ii) the product of the mlbs of steam converted and the contractual steam variable price.
- (c) The resulting difference, if positive, will be recovered through the monthly steam fuel adjustment.

D. Special Monthly Adjustments

The following charges and credits will be reflected in the Monthly Adjustment, expressed in cents per 1000 pounds of steam: (a) ~~actual non-fuel operation any common~~ costs of the 74th Street and 59th Street steam stations ~~allocated to electric~~ that are not being recovered through a ~~monthly~~ charge ~~into~~ electric rates, to the extent not already reflected in steam base rates; (b) New York City sewer use charges, when incurred; (c) any tariff-based charges for electricity used at steam generating stations, to the extent such costs are not already recovered in steam base rates, unless the amounts are deferred for later recovery pursuant to Commission order; (d) any net revenue losses associated with the reduction of steam load supplied by the Company to a Customer under this Rate Schedule when such a Customer becomes a third-party supplier of Steam under Service Classification No. 6; ~~(e) carrying charges associated with the East River Repowering Project allocable to steam that were incurred prior to October 1, 2007; and (f) purchased water and water chemical costs used for the production of steam commencing October 2007, recovered on a one-month lag, net benefits of the East River Repowering Project (“ERRP”) allocable to steam beginning January 2005; and (f) charges, to be collected during the period April 2005 through September 2006, to recover any credits provided for ERRP estimated net benefits for January, February, and March 2005 if ERRP was not in commercial operation during all or part of any of those months.~~

At the end of each October, beginning 2005, actual expenses related to Special Monthly Adjustments over the 12-month period ending September will be compared to the amount recovered through the Special Monthly Adjustment over the 12-month period ending October. Any under-collections or over-collections will be reflected in the Special Monthly Adjustment, expressed to the nearest tenth of a cent, over the subsequent 12 months beginning November. Surcharge or credit amounts shall bear interest at the rate prescribed by the Commission on unamortized balances.

(General Information - Continued on Leaf No. 14-C)

GENERAL INFORMATION - Continued**VIII. Increase in Rates Applicable**

The rates and charges under all Service Classifications shall be increased to reflect the taxes imposed on the Company pursuant to the following statutes:

- (1) New York Tax Law, Sections 186-a (Gross Receipt Tax) ,209-B, and 1201(a);
- (2) New York Tax Law 186-c;
- (3) General City Law Section 20-b; and
- (4) Village Law Section 5-530.

Refund of all such increases will be made to a Customer who is a vendor of electricity to the extent that revenue derived from such vendor to which such increase was applied is not taxed to the Company under such statutes, as shown by the Customer's resale remission certificate.

Statement of Percentage Increase in Rates and Charges

The Statement of Percentage Increase in Rates and Charges ("Statement") sets forth the applicable percentage increase in rates and charges in effect for the City of New York. The Statement will reflect: the effective rate under Section 186-a of the New York Tax Law; the effective rate under Section 186-c of the New York Tax Law; a tax surcharge to recover the tax expense imposed by the Temporary Metropolitan Transportation Business Tax Surcharge under Tax Law Section 209-B; and the currently effective rates under the New York Tax Law Section 1201(a), General City Law Section 20-b and Village Law Section 5-530; ~~and a tax surcharge to reconcile State Income Taxes under New York State Tax Law Section 209 that were collected through the separate percentage increase that was in effect prior to October 1, 2004.~~ The percentage increases will be applied to the Company's commodity revenues, revenues derived from transmission and distribution services, and the Company's other income.

Revisions to the Statement of Percentage Increase in Rates and Charges will be made, if appropriate, in accordance with the procedure for other changes in the Statement, to reflect periodic reconciliations for actual tax expense incurred under all Sections of the New York Tax Law and the revenues collected to recover such tax expense.

When a new revenue tax or an increase in the rate of revenue taxes is enacted by a city or a village, the Company will file with the Public Service Commission a revised Statement, apart from this Rate Schedule, not less than fifteen business days before the date on which the Company proposes to increase the percentage increase in rates and charges, but no sooner than the date of the tax enactment to which the Statement responds. When a municipality eliminates or reduces the rate of revenue taxes, the Company will, within the following five business days, cancel the Statement then in effect and, where applicable, replace such canceled Statement with a revised Statement setting forth the reduced percentage increase in rates and charges. All such revised Statements shall become effective no sooner than the date when the tax enactment is filed with the Secretary of State and shall be applicable to bills subject to the tax enactment that are rendered on or after the effective date of the Statement. A copy of the Statement in effect will be available to the public at Company offices at which applications for service may be made.

(General Information - Continued on Leaf No. 15-A)

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Chief Financial Officer
4 Irving Place, New York, N.Y. 10003

GENERAL INFORMATION - Continued**VIII. Increase in Rates Applicable - Continued****Temporary Metropolitan Transportation Business Tax Surcharge**

The rates and charges under all Service Classifications shall also be adjusted to recover the tax expenses imposed on the Company by the Temporary Metropolitan Transportation Business (“MTA”) Tax Surcharge pursuant to Tax Law Sections 186-c and 209-B, as applicable, and reflected on the Statement of Percentage Increase in Rates and Charges (“Statement”). Any changes to the Company’s MTA tax expense pursuant to Tax Law Sections 186-c and 209-B shall be reflected on a revised Statement filed with the Public Service Commission not less than fifteen days before the effective date of any change. Each such change filed pursuant to this paragraph shall remain in effect for a twelve-month period. A new Statement reflecting changes to the Company’s MTA tax expense shall be filed for each year the MTA Tax Surcharge is applicable. In the second month following the conclusion of each twelve-month period, the Company will reconcile the revenues collected during that twelve-month period with the actual tax surcharge expense incurred by the Company in the corresponding year. In the event the revenues collected in each twelve-month period are substantially higher or lower (equal to or greater than plus or minus 0.5 percent) than the tax expenses incurred, the Company will make a one-time reconciliation adjustment after each twelve-month period.

State Income Tax

~~The rates and charges under all Service Classifications shall be adjusted by the application of a percentage to reflect the reconciliation of the State Income Taxes imposed on the Company under New York Tax Law Section 209 and reflected on the Statement of Percentage Increase in Rate and Charges (“Statement”) prior to October 1, 2004. The additional surcharge shall be reflected on a revised Statement filed with the Public Service Commission not less than fifteen days before the effective date of any change.~~

(General Information - Continued on Leaf No. 15-B)

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Issued by Robert N. Hogle, Senior Vice President and
Chief Financial Officer
4 Irving Place, New York, N.Y. 10003

GENERAL INFORMATION - Continued

~~VII. Increase in Rates Applicable - Continued~~

~~Special Recovery Provision~~

~~The rates and charges under all Service Classifications shall also be subject to an additional percentage increase in rates and charges to recover the increase in tax expenses resulting from the increase in the tax rate stated in Section 186-a of the New York Tax Law from 3 percent to 3.5 percent plus the increased state tax surcharge thereon imposed by Section 188 during the period January 1, 1991 through July 31, 1991 ("additional tax expenses"). Pursuant to an order of the Public Service Commission issued July 23, 1991, in Case 91-M-0637, the additional tax expenses shall be recovered from Customers during the twelve-month period commencing October 1, 1991, through a separately stated percentage increase on Statements filed to be effective during this twelve-month period. After September 30, 1992, the revenues collected hereunder shall be reconciled with the actual tax payments for additional tax expenses. In the event that the revenues collected are substantially higher or lower (equal to or greater than plus or minus 0.5 percent) than the actual tax payments, the Company will make an appropriate adjustment in the Statement filed to become effective in November 1992.~~

[RESERVED FOR FUTURE USE]

(General Information - Continued on Leaf No. 16)

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Issued by Robert N. Heglund, Senior Vice President and
Chief Financial Officer
4 Irving Place, New York, N.Y. 10003

SERVICE CLASSIFICATION NO. 2 - Continued
ANNUAL POWER SERVICE**Terms of Payment**

Net cash on presentation of bill, subject to late payment charge in accordance with provisions of General Rule III- 4(j).

Term

The term of the agreement for service shall be for a period ending no less than one year from the beginning of service under this Service Classification, and shall continue after the end of such period until terminated by the Customer upon thirty days' prior written notice, or by the Company in accordance with law or the provisions of this Rate Schedule.

Special Provisions

- A. Service will not be available under this Service Classification to Customers eligible for service under Service Classification No. 4.
- B. A Customer may request a temporary discontinuance of service by notifying the Company in writing at least five days in advance of the date on which each temporary discontinuance is to begin specifying the date on which service is to be discontinued and the date on which service is to be resumed. The Company may elect not to physically disconnect service at the service valve. In the event that a Customer takes service during a temporary discontinuance period the Customer will be billed in accordance with this Service Classification.
- C. A Customer having transferred from this Service Classification to another Service Classification may not transfer back to this Service Classification except on a date in any year which corresponds with the date when service was first supplied under this Service Classification.
- D. Where a Customer installs a new or replacement steam air conditioning system on or after October 1, 2004, base rates in each monthly billing period for service furnished under this Service Classification during monthly billing periods terminating within the months of May to October, inclusive, will be reduced by an amount equal to \$2.00 per 1000 pounds of steam used in excess of the first 250,000 pounds of steam used. A Customer applying for the foregoing reduction must notify the Company at least two months before installation of the air conditioning system. Such Customer will be eligible for the rate reduction effective with the first summer monthly billing period that commences subsequent to the date on which the Company receives written notice from the Customer that the installation is complete. Service will be provided under this Special Provision under the following conditions:
- (1) in total, no more than 75,000 tons of new or replacement steam air conditioning capacity will be accepted under this Special Provision and Special Provision D of Service Classification No. 3;
 - (2) the Company will offer service to new applicants under this Special Provision until at least September 30, ~~2006~~2008, after which time the level of the rates and charges and the terms and conditions of service may vary from those originally offered;
 - (3) the Company will provide service under the terms of this Special Provision for a two-year period to Customers who commence service under this Special Provision on or after October 1, 2004, but before October 1, ~~2006~~2008; and
 - (4) to facilitate Customers' investment decisions, the Company may, at its sole discretion, negotiate the term of service under this Special Provision with a Customer who agrees to use steam for air conditioning and other purposes during the service term. In lieu of monthly bill reductions set forth under this Special Provision, the Company may, at its discretion, make a one-time payment of the net present value of the bill reduction, provided that the Customer commits to a contract term that is equivalent to the term value of the bill reduction.

(Service Classification No. 2 - Continued on Leaf No. 21-B)

Date of Issue: xxxx xx, 2006

Date Effective: October 1, 2006

SERVICE CLASSIFICATION NO. 2 - Continued**ANNUAL POWER SERVICE****Special Provisions – Continued**

- E. Where a Customer does not own a steam air conditioning system and installs a new steam air conditioning system to replace or supplement existing electric air conditioning equipment, base rates in each monthly billing period for service furnished under this Service Classification during monthly billing periods terminating within the months of May to October, inclusive, will be reduced by \$2.00 per 1000 pounds of steam used in excess of the first 250,000 pounds of steam used. A Customer applying for the foregoing reduction must notify the Company at least two months before installation of the air conditioning system. Such Customer will be eligible for the rate reduction effective with the first summer monthly billing period that commences subsequent to the date on which the Company receives written notice from the Customer that the installation is complete. Service will be provided under this Special Provision under the following conditions:
- (1) service under this Rider will not be available until after a total of 25,000 tons of new or replacement steam air conditioning capacity is accepted under Special Provision D of this Service Classification and Special Provision D of Service Classification No. 3;
 - (2) in total, no more than 25,000 tons of new steam air conditioning capacity will be accepted under this Special Provision and Special Provision E of Service Classification No. 3;
 - (3) steam purchased from the Company must be used solely for operating air conditioning equipment and only during the months of May to October, inclusive;
 - (4) the Company will offer service to new applicants under this Special Provision until at least September 30, ~~2006~~2008, after which time the level of the rates and charges and the terms and conditions of service may vary from those originally offered;
 - (5) the Company will provide service under the terms of this Special Provision for a two-year period to Customers who commence service under this Special Provision on or after October 1, 2004, but before October 1, ~~2006~~2008; and
 - (6) to facilitate Customers' investment decisions, the Company may, at its sole discretion, negotiate the length of the term of service under this Special Provision with a Customer who does not own a steam air conditioning system and installs a new steam air conditioning system to replace or supplement existing electric air conditioning equipment. In lieu of monthly bill reductions set forth under this Special Provision, the Company may, at its discretion, make a one-time payment of the net present value of the bill reduction, provided that the Customer commits to a contract term that is equivalent to the term value of the bill reduction.
- F. The foregoing rates and charges shall apply to all steam service supplied hereunder on and after the effective date hereof. Where a bill includes periods before the effective date and after the effective date, the rates and charges applicable will be prorated based on the number of days of service rendered before the effective date and on and after the effective date related to the total number of days in the billing period.
- G. The following Riders may be applied to this Service Classification: A, B, C, D, and E on Leaf Nos. 11 to 13-B, inclusive.
- H. For form of application under this Service Classification, see Leaf Nos. 16-18.

SERVICE CLASSIFICATION NO. 3 - Continued
APARTMENT HOUSE SERVICE**Terms of Payment**

Net cash on presentation of bill, subject to late payment charge in accordance with provisions of General Rule III- 4(j).

Term

The term of the agreement for service shall be for a period ending not less than one year from the beginning of service under this Service Classification, and shall continue after the end of such period until terminated by the Customer upon thirty days' prior written notice, or by the Company in accordance with law or the provisions of this Rate Schedule.

Special Provisions

- A. Service will not be available under this Service Classification to Customers eligible for service under Service Classification No. 4.
- B. A Customer may request a temporary discontinuance of service by notifying the Company in writing at least five days in advance of the date on which each temporary discontinuance is to begin specifying the date on which service is to be discontinued and the date on which service is to be resumed. The Company may elect not to physically disconnect service at the service valve. In the event that a Customer takes service during a temporary discontinuance period the Customer will be billed in accordance with this Service Classification.
- C. On and after February 10, 1981, any new Customer requesting apartment house service will not be eligible for service under Service Classification Nos. 1 and 2.
- D. Where a Customer installs a new or replacement steam air conditioning system on or after October 1, 2004, base rates in each monthly billing period for service furnished under this Service Classification during monthly billing periods terminating within the months of May to October, inclusive, will be reduced by \$2.00 per 1000 pounds of steam used in excess of the first 50,000 pounds of steam used. A Customer applying for the foregoing reduction must notify the Company at least two months before installation of the air conditioning system. Such Customer will be eligible for the rate reduction effective with the first summer monthly billing period that commences subsequent to the date on which the Company receives written notice from the Customer that the installation is complete. Service will be provided under this Special Provision under the following conditions:
 - (1) in total, no more than 75,000 tons of new or replacement steam air conditioning capacity will be accepted under this Special Provision and Special Provision D of Service Classification No. 2;
 - (2) the Company will offer service to new applicants under this Special Provision until at least September 30, ~~2006~~2008, after which time the level of the rates and charges and the terms and conditions of service may vary from those originally offered; and
 - (3) the Company will provide service under the terms of this Special Provision for a two-year period to Customers who commence service under this Special Provision on or after October 1, 2004, but before October 1, ~~2006~~2008; and
 - (4) to facilitate Customers' investment decisions, the Company may, at its sole discretion, negotiate the term of service under this Special Provision with a Customer who agrees to use steam for air conditioning and other purposes during the service term. In lieu of monthly bill reductions set forth under this Special Provision, the Company may, at its discretion, make a one-time payment of the net present value of the bill reduction, provided that the Customer commits to a contract term that is equivalent to the term value of the bill reduction.

(Service Classification No. 3 - Continued on Leaf No. 22-B)

SERVICE CLASSIFICATION NO. 3 - Continued**APARTMENT HOUSE SERVICE****Special Provisions – Continued**

- E. Where a Customer does not own a steam air conditioning system and installs a new steam air conditioning system to replace or supplement existing electric air conditioning equipment, base rates in each monthly billing period for service furnished under this Service Classification during monthly billing periods terminating within the months of May to October, inclusive, will be reduced by \$2.00 per 1000 pounds of steam used in excess of the first 50,000 pounds of steam used. A Customer applying for the foregoing reduction must notify the Company at least two months before installation of the air conditioning system. Such Customer will be eligible for the rate reduction effective with the first summer monthly billing period that commences subsequent to the date on which the Company receives written notice from the Customer that the installation is complete. Service will be provided under this Special Provision under the following conditions:
- (1) service under this Rider will not be available until after a total of 25,000 tons of new or replacement steam air conditioning capacity is accepted under Special Provision D of this Service Classification and Special Provision D of Service Classification No. 2;
 - (2) in total, no more than 25,000 tons of new steam air conditioning capacity will be accepted under this Special Provision and Special Provision E of Service Classification No. 2;
 - (3) steam purchased from the Company must be used solely for operating air conditioning equipment and only during the months of May to October, inclusive;
 - (4) the Company will offer service to new applicants under this Special Provision until at least September 30, ~~20062008~~, after which time the level of the rates and charges and the terms and conditions of service may vary from those originally offered;
 - (5) the Company will provide service under the terms of this Special Provision for a two-year period to Customers who commence service under this Special Provision on or after October 1, 2004, but before October 1, ~~20062008~~; and
 - (6) to facilitate Customers' investment decisions, the Company may, at its sole discretion, negotiate the length of the term of service under this Special Provision with a Customer who does not own a steam air conditioning system and installs a new steam air conditioning system to replace or supplement existing electric air conditioning equipment. In lieu of monthly bill reductions set forth under this Special Provision, the Company may, at its discretion, make a one-time payment of the net present value of the bill reduction, provided that the Customer commits to a contract term that is equivalent to the term value of the bill reduction.
- F. The foregoing rates and charges shall apply to all steam service supplied hereunder on and after the effective date hereof. Where a bill includes periods before the effective date and after the effective date, the rates and charges applicable will be prorated based on the number of days of service rendered before the effective date and on and after the effective date related to the total number of days in the billing period.
- G. The following Riders may be applied to this Service Classification: A, B, C, D, and E on Leaf Nos. 11 to 13-B, inclusive.
- H. For form of application under this Service Classification, see Leaf Nos. 16-18.

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Chief Financial Officer
4 Irving Place, New York, N.Y. 10003

SERVICE CLASSIFICATION NO. 4 - Continued
BACK-UP/SUPPLEMENTARY SERVICE

Common Provisions Applicable to Rates I and II - Continued

Terms of Payment

Net cash on presentation of bill, subject to late payment charge in accordance with provisions of General Rule III-4(j).

Term

The term of the agreement for service shall be for a period ending no less than one year from the beginning of service under this Service Classification, and shall continue after the end of such period until terminated by the Customer upon thirty days' prior written notice, or by the Company in accordance with law or the provisions of this Rate Schedule.

Temporary Discontinuance of Service

A Customer who requests a temporary discontinuance of service will be required to pay the monthly contract demand charge and the monthly customer charge for each month that service is discontinued. A Customer whose service is discontinued for non-payment and who applies for service within twelve months at the same location will be regarded as having taken a temporary discontinuance of service and will be required to pay the monthly contract demand charge and the monthly customer charge for each month that service was discontinued and for which the Customer Charge would have been applicable.

Special Provisions Applicable to Rates I and II

- A. This Service Classification shall be applicable year-round ~~where to a Customer who, the Customer utilizes both steam supplied by the Company for any purpose and an energy source other than steam supplied by the Company for the same purpose at any time~~ during the months of November through April, inclusive. ~~Such use of the Company's steam service will be classified as steam back-up/supplementary service. The Company will supply steam back-up/supplementary service under either of the following conditions: (a) where the Customer utilizes one or more energy sources other than steam purchased from Con Edison's steam system for any purpose, and the customer receives/~~utilizes service from Con Edison's steam system for ~~that the same~~ either contemporaneously or when the other energy source is/are not used; ~~and, (b) where the customer utilizes a combination of Con Edison's steam system and one or more other sources of energy for the same purpose contemporaneously.~~
- B. The Contract Demand Charge and Customer Charge are applicable year-round. The Usage Charge is applicable only during the months of November through April, inclusive. During the months of May through October, inclusive, the base cost of fuel excluding the fixed Customer Charge component associated with the base cost of fuel (as explained in General Information Section VII) is applicable in place of the Usage Charge.

A Peak Period Customer is a Customer who will require service under this Service Classification during the months of November through April, inclusive, at any time during the Peak Period. The Peak Period is defined as Monday through Friday, 5:00 AM to 8:00 PM, during the months of November through April, inclusive. An Off-Peak Period Customer is a Customer who will require service under this Service Classification ~~only at times other than the times of the Peak Period~~ during the months of November through April, inclusive, but will not use service at any time during the Peak Period. A surcharge will apply to the monthly bill in the month in which an Off-Peak Period Customer utilizes service during the Peak Period, equal to twenty-four times the product of the Customer's contract demand and the difference between the On-Peak Contract Demand Charge and the Off-Peak Contract Demand Charge. Subject to the availability of the Company's steam system capacity, the Off-Peak Period Customer will become a Peak Period Customer in the month following the surcharge and thereafter.

Date of Issue: xxx xx, 2006

Date Effective: October 1, 2006

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

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

Second Revised Leaf No. 7-G
Fourth Revised Leaf No. 30
Fifth Revised Leaves Nos. 7-F, 21-B, 22-B
Sixth Revised Leaves Nos. 14-B, 23
Fourteenth Revised Leaf No. 22-A
Twenty-first Revised Leaf No. 21-A
Thirty-third Revised Leaves Nos. 20, 21, 22
Statement of Special Services at Stipulated Rates
- SVC Statement No. 1

Supplement Nos. 75, 76