

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on February 12, 2009

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
Robert E. Curry, Jr.
James L. Larocca

CASE 07-E-0523 - Proceeding on Motion of the Commission as to
the Rates, Charges, Rules and Regulations of
Consolidated Edison Company of New York, Inc.
for Electric Service.

ORDER CONCERNING MARKET SUPPLY CHARGE
(Issued and Effective February 20, 2009)

BY THE COMMISSION:

INTRODUCTION

On March 25, 2008, the Commission issued an Order in Case 07-E-0523¹ (March 25 Order) directing Consolidated Edison Company of New York, Inc. (Con Edison or the Company), among other things, to file a plan subject to Commission approval that: 1) revises its Market Supply Charge (MSC) so that the MSC reflects actual day-ahead market prices that were in effect during each customer's billing period, 2) identifies specific issues that the Company will need to address in its implementation of the revised MSC, and 3) includes a proposed implementation schedule, milestones and draft tariff amendments.

¹ Case 07-E-0523, Consolidated Edison Company of New York, Inc. - Electric Rates, Order Establishing Rates for Electric Service (issued March 25, 2008).

Con Edison filed a plan and draft tariff amendments to revise its MSC as required by the Commission. Staff reviewed the Company's plan and draft tariff amendments and conducted follow up discussions with the Company. A technical conference was conducted and party comments were received, reviewed and analyzed. In this Order we adopt, with modification, the plan filed by Con Edison and direct the Company to file permanent tariff revisions in accordance with this decision.

COMPANY FILING

Pursuant to Ordering Clause 5 of our March 25 Order, the Company made a filing on June 23, 2008 that contained a detailed proposal to revise the MSC mechanism. The specific proposed revisions are described below.

Energy Component of the MSC

The Company proposes that energy prices be developed each billing cycle, for each rate class, using New York Independent System Operator (NYISO) day-ahead hourly energy prices and hourly weights developed from class-specific load shapes. These class-specific energy prices would also vary by NYISO load zone. Specifically, the Company would calculate a class-specific MSC for those customers located in New York City which is NYISO Zone J, and for those customers located in Westchester which can be either Zone H or Zone I, depending upon the customer's geographic specific location. Currently, the Company estimates the MSC on a monthly basis, each quarter, for a three month period prospectively. In addition, the Company currently calculates a separate class-specific MSC for New York City and Westchester.

Capacity Component of the MSC

Under the proposal, the Company will estimate the price of capacity twice per year using the NYISO six-month strip auction price as of November 1st and May 1st of each year. The MSC rate design used to recover capacity costs will not change. That is: for the non-time-of-day energy only rates (Service Classification (SC) Nos. 1, 2, 6, 7, 9 (maximum rate) and 12), capacity costs will be recovered through an adder to the energy MSC applicable to all kWh usage; for the time-of-day energy only rates (Rate II of SC Nos. 1, 2, 7, and Rate III of SC No. 12 (energy only)), capacity costs will be recovered through an adder to the energy MSC applicable to the on-peak (10 AM - 10 PM, M-F) kWh usage. For all the classes which have a separate demand MSC component, the capacity costs will be reflected through that rate component on a per-kW basis.

Applying the Energy and Demand MSCs to Customer's Bills

The Company will price each customer's metered kWh usage during the corresponding billing period at a load-weighted MSC for each customer's class, reflecting the NYISO hourly prices in effect during the specific billing period. The Company will perform the specific calculation by multiplying the rate class's hourly weight by the NYISO hourly price, summed across every hour of every day in the billing period, and divided by the sum of the rate class's hourly weights for all days during the billing period.

The revised MSC will also include Ancillary Service Charges and the NYPA Transmission Adjustment Charge based on average monthly values as determined from NYISO market information. These charges will be determined and become effective on the eighth billing cycle of each month.

MSC Adjustment Factors MSC I and MSC II

The Company proposes that the current Adjustment Factor - MSC I will continue to recover the difference between the MSC amounts recovered in the MSC rates and the actual MSC costs incurred by the Company. The Adjustment Factor - MSC I will continue to be calculated separately for NYISO Zone J and for Zone NYISO Zones H and I combined and will be calculated and become effective on the eighth billing cycle of the month. The Company proposes no change to the Adjustment Factor - MSC II, which recovers hedging related costs or benefits, NYISO commodity-related re-bills, and Transmission Congestion Contract (TCC) costs and revenues purchased on behalf of its full service customers.

Monthly Adjustment Clause (MAC)

The Company currently estimates the MAC based on forecasted energy and capacity prices and posts it four times a year for a three-month period. The Company has not proposed changes to the MAC at this time, but indicates that it may consider doing so in the future.

Class Load Shapes, System Design, Development & Testing

The Company provided specific details on the development of the classload shapes to be used under the proposed MSC calculation. In addition, the filing includes a detailed description of the design and development of the changes to the Company's major systems and applications necessary to implement the revised MSC mechanism. Descriptions of the class load shapes are provided in Appendix A.

Outreach and Education

The Company proposes to provide educational supply price information to customers through its Customer Central

section of its internet site and in Customer News. In addition, the Company has indicated that it will inform Energy Service Companies (ESCO) of the revisions to the MSC through its' periodic ESCO Newsletter. The Company asserts that it will provide both of these information resources without the need for any incremental cost recovery.

Proposed Schedule and Costs

A proposed schedule containing a detailed timeline and description of tasks necessary to complete the necessary system changes was provided by the Company and is included in Appendix B. The three major categories of the required system design and development are development of an 8760 Hour Pricing Calculator, Bill Calculation & Verification, and System Testing. As shown in Appendix B, the Company anticipates that it will require 268 days to implement the proposed revisions to its MSC. The Company estimates the total cost at \$379,000. The Company proposes to recover these amounts contemporaneously through the Monthly Adjustment Clause (MAC).

Draft Tariff Amendments

The Company provided draft tariff amendments that modify the descriptions of the MSC to reflect the proposed changes to the mechanism.

PUBLIC NOTICE AND COMMENTS

Pursuant to the State Administrative Procedure Act (SAPA), Notice of Proposed Rulemaking in Case 07-E-0523 was published in the State Register on August 6, 2008. The public comment period expired September 22, 2008. On September 17, 2008, the Retail Energy Supply Association ("RESA"), an organization of energy services companies, submitted a letter to the Secretary stating that since an all-party technical

conference to discuss the proposal and share views and concerns was scheduled to be held after the SAPA comment period expired, it reserved its right and ability to submit comments, if needed, after the conclusion of the conference. On October 10, 2008, the Company held an all-party technical conference to explain the proposal, discuss concerns and answer any questions. At the conclusion of the conference, Staff suggested to parties that additional comments, if any, should be filed with the Secretary by October 20, 2008.

Comments were received from RESA on October 20, 2008. RESA asserts that Con Edison's plan to revise the MSC would be a step in a right direction, advancing the State's transition towards greater energy pricing transparency and providing customers with more accurate and timely information concerning the market costs associated with their energy usage patterns. RESA requests that the Company maintain its current practice of providing monthly price forecasts four times a year in addition to providing the day-ahead market hourly pricing by zone on an after-the-fact basis, claiming that this would provide benefits for customers. It also recommends requiring the Company to identify the percentage of load by class for the MSC Adjustment Factor; provide hourly losses by zone. In addition, RESA claims that it would be extremely useful for the Company to provide shadow billing under the new MSC methodology for some period while the Company is still utilizing the current MSC computation methodology.

The Company replied to RESA's comments requesting that they be disregarded and that the Commission approve the Company's plan as filed. Con Edison asserts that there is no need for it to continue to provide a forecast of market prices once the Company implements the revised MSC. Further, the Company asserts that the MSC estimates it currently provides are not intended to be a benchmark against which customers should

make purchasing decisions. The Company also states that it is more effective in telling customers about upcoming energy pricing changes through its Outreach and Education efforts designed to encourage conservation when prices are expected to increase. The Company further explains that the hourly losses by zone that RESA asked the Company to provide were never intended to aid customers in making purchasing decisions. The Company also disagrees with RESA's request to provide shadow billing. The Company asserts that the purpose of the methodology reflected in its filing is simply to replace quarterly estimated energy charges with charges calculated on actual day-ahead market prices for each customer. This, the Company relates, is expected to reduce the impact of the MSC Adjustment Factor on customer bills by making pricing more contemporaneous with usage. The Company notes that this proceeding was only intended to replace the methodology by which the Company prices energy for its full-service customers and not to develop additional information for the marketplace.

DISCUSSION AND CONCLUSION

Staff's review of the Company's plan and draft tariff amendments concludes that the proposed revisions to the MSC address our intent to have the MSC more closely reflect the market prices in effect during a customer's consumption period and reduce the volatility associated with the current MSC mechanism. Based on information obtained during the technical conference, follow-up discussions with the Company, a review and analysis of the party comments received, we find the proposed plan to revise the various components of the MSC mechanism to be reasonable and to satisfy our March 25 Order. The proposal will result in revisions to the MSC that will enable it to reflect actual day-ahead market prices in effect during the customers billing period. In addition, the Company identified and

described in detail the major issues relating to the revision and provided a proposed implementation schedule and draft tariff amendments.

The Company indicated that the majority of the tasks relating to implementation of the revised MSC are expected to be performed by contractors. As shown in Appendix B, Design and Development of System Changes, \$265,500 of the \$353,800 resource costs are related to contractor costs. In addition, the Company estimates that \$25,000 will be required for hardware. The Company stated that it did not propose to recover these costs in its rates filed in Case 08-E-0539², which is currently under review by the Commission, because it did not have an estimate of the costs at that time. The Company has not provided any information demonstrating that these costs are incremental to costs currently being recovered in rates. Modifications to rate mechanisms are appropriately considered part of the Company's everyday procedures and responsibilities and should not rise to the level of requiring special contemporaneous cost recovery through the MAC. Furthermore, the magnitude of the costs is de minimis when compared to the Company's overall operating budgets. Based upon the foregoing considerations, we find that the proposed cost recovery should be denied.

As the proposed schedule reveals, the Company expects the effort leading to implementation of the revised MSC will take approximately one year. Currently, estimated MSCs are forecast quarterly on a three month basis, beginning each February 1, May 1, August 1, and November 1. In order to avoid implementing the new mechanism in the middle of one of the quarterly three month forecasting periods and to avoid implementation coincident with the beginning of a rate year

² Case 08-E-0539 - Proceeding on Motion of the Commission as to Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service.

(which is currently April 1), the Company should implement the new MSC mechanism beginning February 1, 2010.

The Company's filing notes that it does not intend to modify the Company's Monthly Adjustment Clause (MAC) at this time. The MAC is used, among other things, to collect from or pass back to all customers, the costs / benefits related to the Company's retained generation and public policy generation contracts. The MAC is currently estimated and posted quarterly for each prospective three month period based on forecast energy and capacity prices. Given the fact that the revised MSC will no longer be forecast, we find that the calculation of the Company's MAC should also be modified to a one month forecast. As with proposed revisions upon the MSC, we expect this change to reduce volatility in the MAC mechanism. We find that the Company should incorporate this change into its plan such that it is implemented at the same time as the revised MSC takes effect.

Staff conducted discussions with the Company regarding revisions to the Adjustment Factor MSCII, which is used to collect or pass back to customers cost or benefits of hedging instruments entered into for the benefit of its full service customers. The discussions focused on ways that the Adjustment Factor MSCII could be revised to better align the effect of the hedging instruments with the period on which the revised MSC will be calculated. Several proposals, such as pro-rating, were discussed and analyzed and it was concluded that the current calculation method was reasonable but that the Company would re-examine the methodology in the future. We support this approach, and we find it to be appropriate.

In regard to the party comments, we believe that there is no need for Con Edison to continue to provide a forecast of market prices as RESA requests once the Company implements the revised MSC methodology. The forecast of market

prices will be of no value because customers will no longer be billed at such rates. Because the MSC, as proposed, will be calculated using NYISO day-ahead market prices, Energy Service Companies or individual customers can do their own forecast using readily available market data. As the Company stated in its reply comments, it currently provides an after-the-fact "price to compare" to its full-service customers, which more accurately shows the previous cost of service to that customer. The Company intends to continue to provide such information upon implementation of the new MSC methodology. To enhance this information, the Company agreed during the technical conference to a web-based application that would allow customers to input a specific billing period and rate class and the application would reveal the appropriate MSC based on the NYISO day-ahead market prices in effect. The Company should add this functionality to its website concurrently with the institution of the revised MSC mechanism.

RESA's request for the Company to provide hourly losses by zone, which RESA claims is necessary for customers to understand the development of adjustment factors, should be rejected. RESA has not sufficiently explained how this information would be helpful to customers and the Company, in its reply, indicated that it currently provides average monthly losses by zone through its monthly ESCO newsletter. Furthermore, RESA's request for the Company to provide shadow billing under the new MSC methodology for some period while the Company is still utilizing the current MSC methodology is rejected. Such an approach would delay the implementation of the MSC revision beyond a year thus delaying the expected reduction in volatility from the current forecast and reconciliation process. In addition, shadow billing could lead to customer confusion. To aid Energy Service Companies such as those represented by RESA, the Company agreed during the

technical conference to make class load shapes available. We believe that this will aid in making the revised MSC calculation more transparent, and therefore, will benefit customers and the retail access market. Accordingly, the Company is directed to make such data available on its website.

We find, based upon the foregoing, that the Company's plan to revise its Market Supply Charge should be adopted with modifications as described in this Order. The Company is directed to file the necessary tariff amendments to effectuate the provisions of the plan.

The Commission orders:

1. The plan filed by Consolidated Edison Company of New York, Inc. to revise its Market Supply Charge are approved with the modifications set forth in the body of this order.

2. Consolidated Edison Company of New York, Inc. is directed to file the requisite tariff amendments to implement the directives contained in this order, on not less than 30 day's notice to become effective on a temporary basis on February 1, 2010, unless otherwise specified by the Secretary.

3. The requirement of Section 66(12)(b) of the Public Service Law and 16 NYCRR 720.8.1, regarding newspaper publication of the further revisions directed in Ordering Clause 2, are waived.

4. This proceeding is continued.

By the Commission

(SIGNED)

JACLYN A. BRILLING
Secretary

Development of Class Load Shapes

A daily load shape is a series of 24 time-ordered values representing hourly usage of a customer or group of customers. These load shapes rely on the test data used in the most recent Class Demand Study and form the basis for the 8,760-hour load-weighted class shapes the Company proposes to use for the application of market prices to customer bills.

For the 12-month forecasted period selected, day-type (weekday, weekend, holiday) and weather characteristics are assigned to each day. The weather variable assignment is randomly selected from a 10-year historic period for that day. Using these day-type and weather characteristics, the appropriate 24-hour load shape is selected for each day from the load shape tables. After assigning a load shape to each day for each class grouping (strata reflected in the most recent class demand study), the resulting 8,760 hourly values are extrapolated to class proportions using class population data from a recent year's billing records. These class shapes are then adjusted to company sales projections for the selected 12-month period. The final step in the development of the class shapes is to convert usage into hourly weights across the 8,760 hours. The value of the weight represents the fraction of yearly energy used in that hour of the year.

The 8,760 class load shapes will be revised every 12 months for uploading to the billing system.

Design and Development of System Changes

Major systems processes and applications must be changed to implement an MSC calculation using 8,760 class load shapes. A brief description of each process and the changes required are provided. A separate testing component is included for each process as well as an overall system testing process. The Company has both Bill Calculation and Rate Verification systems, and both systems will need to be modified to implement the new MSC calculation methodology. The Company plan already identifies tasks that can run concurrently and those that require completion before the next task is undertaken; thus, no additional time savings would be achieved by increasing staffing or allocating additional resources to these tasks. The timeline and costs for systems development is attached as Appendix A.

The processes and applications that would need to be developed are:

8760 Pricing Calculator8760 Shape Warehouse

Once the load shapes described above are created, there needs to be a process that will upload each load shape into a separate file. This job will be run annually. The data will contain the date, the hour, and the usage factor. A column for each NYISO hourly price for each load zone adjusted for losses will be contained in these files but will be left blank in this process.

- Date
- Hour
- Weight
- H Zone - NYISO Hourly Price
- I Zone - NYISO Hourly Price
- J Zone - NYISO Hourly Price

NYISO DAM Daily Update

A process must be created to obtain the day-ahead hourly prices by zone from the NYISO. This process will also update the day-ahead hourly price for each zone.

Bill System Tables

Because of the potential volume of storage that would be required to retain hourly information, a process must be developed that will convert the hourly weights and prices to daily weights and weighted prices for use in billing and storage in the billing system. The use of these daily factors will have the same result as calculating a bill based on the hourly MSC zonal energy prices times the load-weighted hourly usage for all hours in the customer's billing period. This process will update the daily price file that will be used in the bill calculation and rate verification processes. The NTAC and Ancillary Services component, adjusted for line losses, will be added to the energy MSC to come up with the daily zonal price factors for all customers. The capacity MSC for energy-only customers served under Service Classification Nos. 1, 2, 6, 7, 9 (maximum rate) and 12 will be added to the energy MSC for these customers. For Rate II of SC Nos. 1, 2, and 7 and Rate III of SC No.12 (energy only), capacity prices will be developed per on-peak kWh and added to the on-peak energy MSC. Other customers, who are demand-billed, will continue to have the capacity MSC applied on a per-kilowatt basis. Record fields include the following:

- Date
- Daily Weight
- H Zone - NTAC
- H Zone - Ancillary
- H Zone - Capacity
- H Zone Line Loss
- H Zone Daily On Peak Price
- H Zone Daily Off Peak Price
- H Zone Daily Price (Non TOD)
- I Zone - NTAC
- I Zone - Ancillary
- I Zone - Capacity
- I Zone Line Loss
- I Zone Daily On Peak Price
- I Zone Daily Off Peak Price
- I Zone Daily Price (Non TOD)
- J Zone - NTAC
- J Zone - Ancillary
- J Zone - Capacity
- J Zone - Line Loss
- J Zone Daily On Peak Price
- J Zone Daily Off Peak Price
- I Zone Daily Price (Non TOD)

Bill Calculation and Rate Verification

MSC price per kWh

The Company will need to modify the bill calculation and rate verification processes to calculate each bill. Specific routines that will be affected by the change in MSC calculation are the calculation of the price per kWh, calculation of bills using both monthly average rates and daily average rates for the transition from the current MSC to the proposed MSC, calculation of level payment plan amounts, calculation of total MSC amount, and updating of bill records to display and report pricing information. Extensive testing of these processes is necessary to reveal and provide time to address unanticipated and unintended consequences created by programming.

In order to verify that the prices provided by the NYISO the prior day are accurate, the Company will create an hourly price verification process to compare data from two different sources prior to the next day's billing. Any discrepancies will be reported prior to the start of the trip.

System Testing

The Company proposes extensive overall system testing on an "end-to-end" basis. This would involve retesting of all steps and simulation of work flows from data load to billing to insure performance in a time-constrained bill-processing environment.

This includes but is not limited to the development of test data that will cover all billing scenarios especially those that involve transition between monthly and hourly charges in the billing period; billing for Time-of-Day customers; billing under the Level Payment Plan; verification of hourly price and daily price calculations for each service class and load zone and system integration testing to ensure that the implementation of the new pricing mechanism does not effect other bill calculations and system processes.

Design and Development of System Changes

Timeline	Description	Task Description	Resource Requirements			
			Days	Resource Type	Cost \$1000	
Day 1 to 82	8760 Pricing Calculator		Development	115	Contractor	\$116.5
\$151,500			Testing	35		\$35.0
	8760 Shape Warehouse	Load Weighted Shapes	Development	47	Contractor	47.5
			Testing	10		10.0
	NYISO DAM Daily Update	Links to Process Daily Updates	Development	11	Contractor	11.5
			Testing	5		5.0
	Bill System Table	Multiple Inputs	Development	57	Contractor	57.5
		NYISO, Load Weights, NTAC	Testing	20		20.0
		Anc Serv, Capacity for kWh classes				
Day 77 to 225	Bill Calculation & Verification		Development	196		\$128.0
\$167,320			Testing	71		\$39.3
	MSC price per kWh	Mod of various billing routines	Development	163		95.0
		(incl. Transitional & Budget Bills)	Testing	61		34.3
		NYISO Price Verification	Development	33		33.0
			Testing	10		5.0
Day 225 to 268	System Testing	Testing	Testing	42	In House	\$35.0
\$35,000						
				Days		Cost
				269	Contractor	\$265.5
Total				190	In House	88.3
\$353,820	Resources			459		\$353.8
\$25,000	Hardware					
\$378,820						