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Richard B. Miller
Assistant General Counsel
212-460-3389
millerrich@coned.com

January 30, 2008

VIA OVERNIGHT MAIL

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

Re: Case 05-S-1376 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service.

Dear Secretary Brilling:

The Commission's Order Determining Revenue Requirement and Rate Design, issued on September 22, 2006 in the above-referenced proceeding, provides that by January 31 each year, Con Edison will file a steam strategic plan with the Commission. Enclosed please find an original and five copies of the Company's January 30, 2008 plan.

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

Very truly yours,

Richard B. Miller

cc: Active Parties (via e-mail)

Con Edison Steam Strategic Plan

January 30, 2008

Table of Contents

Executive Summary

Introduction

On September 22, 2006, the New York Public Service Commission (Commission) issued an order approving a two-year steam rate plan for Con Edison (Rate Plan). The Rate Plan requires that Con Edison file a strategic plan on January 31, 2007 and 2008 that contains the following components:

1. Considers the findings of the Steam Business Development Plan (SBD Plan), the Steam Production Cost Study (SPCS), and, in the January 31, 2008 plan, the Steam Resource Plan, in a manner designed to maintain the viability of the steam system.
2. Establishes one-year, three-year, five-year, and ten-year goals and schedules for business development and production.
3. Discusses the prior year's and subsequent year's business development and production planning activities.
4. 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.

This document presents the 2008 strategic plan required by the order.

Sales Forecasts and Goals

The sales forecasts for the next five years call for an average net growth rate of about 0.4% per year. The 10-year sales forecast represents a net growth rate of about 0.32% per year. Our goal is to improve the forecasted sales growth rate by 10% by continuing to pursue steam heating and cooling load in major commercial and residential properties within the steam footprint and promoting additional steam cooling through electric-to-steam conversion, new construction, major building renovation, and steam-to-steam retention.

Steam Business Development Program

In 2007, a total of 18 new steam customers were connected to the system, representing 273,000 Mlb of additional annual sales. In 2007, 33 new service load letters were received for an estimated 700,000 Mlb in additional sales. In total, we have customer applications for about 1.6 million Mlb in new business through 2012 and we are working on new opportunities worth approximately 1.3 million Mlb.

Over the past two years, the SBD group, consisting of technical and marketing specialists, has developed and is implementing a sales and marketing program to acquire new accounts, develop the value of existing accounts, and retain valuable accounts against rivals.

Steam Resource Plan

The 20-year Steam Resource Plan was filed with the Commission on October 26, 2007. The principal findings are:

- Steam peak loads are expected to grow from a forecasted 2008 level of 10,510 Mlb/hour to 10,910 Mlb/hour over the next 20 years, inclusive of demand-side management.
- All existing plants are needed to reliably serve expected loads.
- Existing capacity at Hudson Avenue (HA) and Ravenswood Steam stations should be replaced with new boilers by 2014 and 2017, respectively.
- Maintain all other plants while reducing emissions through gas conversion and control technology improvements

New/Lost Business and Steam Capture Rate

In 2007, a total of 18 new customers were connected to the system, representing 273,000 Mlb of additional annual sales. A total of 36 accounts left the steam system in 2007, representing about 193,000 Mlb of sales, for a net gain of 80,000 Mlb. Eleven of the 36 lost accounts are demolished buildings or total renovations likely to return to the steam system as larger buildings. These properties could generate more than 100,000 Mlb in future annual sales when they return.

Over the past three years, the capture rate for commercial properties greater than 250,000 square feet near the steam system was about 86%, while the capture rate for residential properties of the same size and location was 44%.

Conclusion

As stated by the Commission in the Steam Business Development order[1]: "Steam is an important and essential source of energy for heating and cooling for approximately 1,800 customers in New York City, many of whom cannot switch to an alternate service. These customers include the owners of New York City landmarks, large office buildings, hotels, hospitals, schools, and residential complexes. Steam is also a critical component in reducing the demands on the electric system during peak periods in both the winter and summer. Recent data indicate that the use of steam reduces the need for peak summer electric capacity by about 375 MW, which benefits all New York electric customers, and particularly those located in Con Edison's and neighboring service territories."

Con Edison continues to make significant progress on implementation of its steam business development program, including a fully-staffed team of marketing and engineering professionals and a process for attracting and retaining steam business. With respect to steam production planning, the Company filed its Steam Resource Plan in October 2007, which concluded that the replacement of capacity at both the Hudson Avenue and Ravenswood steam plants was appropriate.

In sum, Con Edison is committed to its steam system and this report will demonstrate how the Company is working to maintain the viability of the steam system.

[1] Case 03-S-1672, Order on Consolidated Edison Company of New York, Inc.'s Steam Business Development Plan, at 2 (December 5, 2005)

System Overview

In terms of total production, the Con Edison system produces more steam than the next nine U.S. steam systems combined. More than half of Con Edison's steam comes from cogeneration plants. The chart below lists the generating stations in Con Edison's steam system as of December 31, 2007:

Station	Net Steam Capacity (1,000 lb/hr)	Net Electric Capacity (MW)
East River 1&2	3,200	297.4
East River Units 6 & 7	2,016	316.3
East River South	650	
Hudson Avenue	1,600	
Brooklyn Navy Yard (Merchant Plant)	918	255.8
West 59th Street	1,331	
East 60th Street	762	
East 74th Street	2,008	
Ravenswood "A" House	575	
Total Capability	**13,060**	**869.5**

In 2007, through plant evaluations, the Company identified 199 Mlb/hr in additional capacity from existing steam stations, which is included in the net steam capacity above.

The actual peak winter demand in 2006/2007 was 9,305 Mlb/hr. The forecasted peak for the 2007/2008 winter, at a 6 degrees Fahrenheit design temperature, is 10,510 Mlb/hr. The system's capacity is adequate to provide reliable service. A complete discussion of the Company's peak forecast and production planning can be found in the Steam Resource Plan filed on October 26, 2007. In calendar year 2007, the total steam sendout was 30,237,945 Mlb, which includes steam purchased from the Brooklyn Navy Yard Cogeneration Plant.

The steam distribution network consists of approximately 105 miles of mains and service pipes extending from Battery Park north to 96th Street on the west side and 89th street on the east side of Manhattan. The steam system's load centers and distribution grids are located in two districts: an uptown district, which serves the concentration of large buildings in the midtown area, and a downtown district, which serves lower Manhattan. Con Edison's 450 largest steam accounts represent approximately 80% of its steam sales and revenues.

I a. Findings of the Steam Business Development (SBD) Plan

On September 27, 2004, the Commission issued an order approving a Steam Rate Plan ("2004 Steam Rate Plan") for Con Edison. To promote the steam business, the order required the Company to work with the Steam Business Development Task Force, established by the order, to develop the Steam Business Development Plan (SBD Plan), which was completed and filed with the Commission in August 2005. The SBD Plan's principal findings and conclusions are as follows:

- Con Edison Steam historically captures about 80-90 percent of new large commercial customer heating loads located on or near its existing lines and has a relatively low customer defection rate.
- The fundamental barrier to development of the New York City steam system is steam's cost relative to other heating and cooling options.
- Con Edison Steam should concentrate on developing and retaining its existing combined heating and cooling and large heating customers, while positioning itself to increase penetration in the cooling market.
- Con Edison Steam should also examine other methods for increasing the annual load factor by encouraging its customers to manage their peak usage.
- Con Edison Steam should take a more active and, where appropriate, broader role in meeting its customers' energy needs.

Specific action items were included in the plan, which focused on four major areas:

- Information systems
- Resource and organizational development
- Product and pricing related development and analysis
- Regulatory and institutional initiatives

Nineteen Implementation Plans were developed for the "Action Items" and provided to the interested parties. Eight quarterly reports have been filed since then as required by the Commission's SBD Plan Order. Below is a summary of each plan and the progress made as of the last quarter in December 2007. All work plans have been completed in accordance with the SBD Plan requirements, except for Actions Items 13 and 18, which are ongoing. The Company continues to implement all of these items to the extent necessary for promoting business development.

1. Account Management System

   A comprehensive customer account information system has been purchased and implemented and is the central source of all customer and prospect data for the SBD group.

2. Pipeline Asset Management System and
3. Mapping & Locational Analysis

   The Company has purchased a Manhattan real estate database (LotInfo) that is periodically updated. The use of LotInfo, in conjunction with an existing internal system known as Steam Operations Mapping and Information System (SOMIS), resulted in identifying 32 buildings currently heated by oil-fired boilers and located near steam

mains. Fifteen of the 32 locations had oil-fired boilers that are pre-1987 installations. These locations are currently being examined for their potential as new steam customers.

4. Develop a Resource Plan for the SBD Group

   As part of the overall business development/marketing plan, all SBD staff positions have been filled and the required external and internal resources are in place. These resources include an account management system and real estate mapping technologies; business publications, trade journals, and Web sites; coordination with government and private economic development organizations; and greater coordination with other Con Edison departments.

5. Strengthen Relationships with Advisors and Vendors

   A number of programs have been implemented to strengthen relationships with advisors and vendors. These include meetings and seminars on such topics as energy audits, hybrid chillers, demand billing, demand management programs, and repair service. In 2007, we conducted two steam seminars covering such topics as hybrid cooling with steam, microsteam turbine technology, winter demand billing, best practices for steam efficiency, and the negotiated fuel cost program. More than 150 customers, vendors, and consulting engineers attended the sessions. In addition, we worked with two steam chiller vendors to conduct seminars to present information to our customers about steam chiller operation techniques to maximize reliability and performance. Sixty five customers turned out for the sessions. At these sessions, members of the SBD group discussed the July 18th steam pipe rupture, the Company's response, and Con Edison's continued commitment to the steam system.

6. Develop Targeted Marketing Plan

   In May 2007, a print advertising campaign was launched positioning district steam as a reliable, economical, and clean source of energy for heating and cooling major commercial and residential buildings in Manhattan. Using the tag line "Building on Steam," the advertisements ran in trade publications. In addition, a new sales promotion kit was produced for use by the SBD staff in their customer meetings. The kit includes brochures on the benefits of district steam, the advantages of steam cooling, and the positive environmental impact of district steam.

7. Create Mechanism for Ongoing Customer Involvement

   The SBD group assigned "account managers" to each of its 450 largest customers. Letters were mailed to each of these customers informing them of their account manager. The mailing was followed up with meetings to discuss such topics as demand billing, steam cooling, repair service, and upcoming seminars. The account managers continue to meet with their largest customers on an ongoing basis. The account manager program enabled the Company to quickly reach out to those steam customers affected by the July 18th steam pipe rupture and provide them with continuing updates and information on the Company's recovery efforts.

8. Conduct a Marginal Cost-of-Service Study

   The study was completed.

9. Propose a Steam Demand Charge and Other Initiatives

   The Company commenced demand billing in December 2007. Originally, the demand billing period was to be from November through April. However, based on feedback from major customers, we conducted an analysis of sample demand bills and found that there was considerable steam cooling used by customers during November and April. Working with customers and interested parties in the Steam Rate Plan, the demand billing period was revised to December through March to remove any impediments to steam cooling caused by demand billing. The Commission approved the Company's demand rates on January 17, 2008. The SBD Group continues to work with customers to help them adjust to demand billing.

10. Improve Efficient Steam Usage by Customers

    SBD and a consultant performed energy audits for 30 selected customers during both the heating and cooling periods. A site-specific audit report was prepared and sent to each participating customer. The Company also prepared a "Steam Use Efficiency and Demand Reduction Best Practices Report." The report has been posted on the Company's Web site and customers were notified about the report via e-mail and letters. SBD will distribute the report to customers and interested parties at various meetings and conferences. Account Managers will make the report's findings a priority in their discussions with the 450 largest customers.

11. Position Steam as a Clean Energy Source

    In its marketing communications program, SBD has emphasized the environmental benefits of Con Edison's district steam system. As part of this effort, we have worked with customers and their representatives to gain the U.S. Green Building Council's Leadership in Energy & Environmental Design (LEED) recognition for new construction (NC) and existing buildings (EB). An impediment to LEED-EB certification in New York City is the Environmental Protection Agency's (EPA) Energy Portfolio Manager, a tool used to determine the efficiency of energy sources for a building. This tool currently does not recognize the benefits of cogeneration in district steam systems because there is one energy source conversion factor for district steam for the entire United States. SBD is working with a consortium of customer organizations to reverse EPA's position on district steam energy systems that use co-generation.

    Two steam driven technologies have been identified to assist in obtaining LEED –NC credits for a new building wishing to obtain certification. One technology utilizes Con Edison steam to operate a microsteam turbine that generates electricity for a building. The other technology identified is steam absorption chilling, which eliminates the use of refrigerants for major HVAC systems.

12. Develop Hybrid Steam Chiller Product Option

In 2007, to promote the use of hybrid cooling, proposals were sent to 12 steam heating-only customers who had electric cooling systems nearing end of life. The proposals provided the economic benefits of switching to a hybrid chiller system. To date, none of the candidates have installed steam cooling. We continue to follow up with these customers. We also established an advisory group of customers, developers, advisors, vendors, engineers, architects, and other interested parties. The purpose of the group is to provide input and feedback on issues associated with the installation and use of hybrid chiller systems and to assist in the development of marketing materials promoting hybrid chiller systems. At all customer meetings related to steam or hybrid cooling, the members of the SBD staff provide information about NYSERDA incentives, as well as Con Edison's rate discounts for steam cooling. The SBD Group continues to work with the advisory group and with customers to promote the benefits of steam cooling.

13. Develop a Condensate Re-Use Product

Guidance sketches and tips for condensate heat recovery and reuse have been posted on the Company's Web site. Two customer locations have been identified and data acquisition is underway to estimate water and steam savings due to condensate heat recovery and reuse. A grant from Con Edison was provided to a major New York City university for a demonstration project to evaluate the use of steam condensate as a source of heat for the soil on a green roof.

14. Develop an Enhanced Steam Price Risk Management Product

The purpose of the negotiated fuel cost program is to provide an opportunity for customers to mitigate fuel cost volatility. During the 2006/2007 winter period, we had 40 accounts enrolled in the program and, for the winter period 2007/2008, we had 57 accounts enrolled, our highest total since the program began. Because of the interest in the winter program, we have recommended continuing it in the current Rate Case. For the summer program, however, the participation and interest have been declining in recent years. For example, this past summer, we had 10 accounts enroll in the program, the lowest number since the program began. We have recommended discontinuing the summer program.

15. Ameliorating Capacity Constraints

The Company filed its Steam Resource Plan in October 2007, which is discussed on pages 9 and 10 of this report.

16. Explore Alternative Business Model Options:

A District Energy Study was filed with the Commission on June 28, 2007, as required by the 2006 Steam Rate Plan. The Study preliminarily showed that, in the absence of tax or other economic incentives, a district energy system would not be cost beneficial. Even with such incentives, there is a significant risk that a district energy system would not be financially viable. Thus, if pursued by Con Edison, a district energy system would likely impose a significant cost burden on the existing steam customers who would be forced to

bear numerous development risks. The Company accordingly stated that district energy is not an appropriate business model for its regulated steam business.

17. Strengthen the Current Steam-to-Steam and Electric-to-Steam Chiller Incentives

    The SBD group works very closely with NYSERDA to provide incentives for steam cooling installations. The current incentives provide up to $1,000/kW avoided for new construction, electric-to-steam conversion, or retention. Based on information shared by Con Edison on the hybrid cooling proposals (see Work Plan #12), NYSERDA recently increased the project cap from $1 million to $1.25 million. We are continuing to discuss with NYSERDA steam-specific adjustments to the project cap in the range of $1.5 million.

    In our discussions with NYSERDA, we have indicated that increased incentives for both the avoided kW and project cap would be needed to make steam cooling competitive with electric. Representatives from NYSERDA have participated in SBD seminars for major customers, describing their incentive programs, and are members of the Hybrid Cooling Advisory group. Con Edison and NYSERDA meet regularly to discuss and evaluate the steam chiller incentive programs.

18. Develop New Steam-to-Steam and Electric-to-Steam Chiller Incentives

    We are continuing to work with the New York City Economic Development Corporation to enhance the Energy Cost Savings Program (ECSP) to include a customer incentive for steam cooling to help offset the operating cost differential for steam cooling versus electric. This would be similar to the ECSP currently in effect for electric and gas.

19. Develop a Framework for Long-term Contractual Relationships

    Con Edison Steam has utilized the SC-5 tariff and other rate discounts to attract and retain heating and cooling business. We have engaged in several discussions with customers that expressed interest in the use of long-term contracts to reduce costs and remain customers. These discussions have been general in nature and directed by the customers towards management of customer portfolios and linking of multiple accounts. To date, these discussions have not resulted in any contracts.

In the 2006 Steam Rate Plan, covering the period October 1, 2006 through September 30, 2008, there were several Steam Business Development activities. These included customer satisfaction surveys, energy audits, focus groups, hybrid chiller promotion, and customer contacts. Through year-end 2007, all projects were completed as required.

I b. Findings of the Steam Resource Plan (SRP)

This Steam Resource Plan (SRP) describes the Company's steam production plans for the next 20 years. The SRP was submitted in accordance with the 2006 Steam Rate Plan on October 26, 2007. The SRP's principal findings and recommendations are:

1. The Company forecasts that winter peak load will grow from 10,510 thousand pounds per hour (Mlb/hr) in 2008 to 10,910 Mlb/hr by 2027, inclusive of projected peak load reductions.

2. The boilers at the Hudson Avenue Station are expected to be replaced by November 2013 and the boilers at the Ravenswood Steam Station by November 2016. This is in accordance with the findings of the 2006 Steam Production Options Study (SPOS) that states that these plants need to be replaced during the 20-year time frame for that study.

3. Replacement capacity of up to 1,600 Mlb/hr will be required at the Hudson Avenue Station. Replacement capacity needs at the Ravenswood Steam station will likely range from 488 to 976 Mlb/hr, depending on uncertainties in the pace and location of new customer hookups, impacts of demand reduction, energy efficiency actions, attrition of existing customers, and operational considerations. The Company plans to seek permits for the full range of potential capacity needed at both sites to maximize long-term planning flexibility.

4. The studies conducted for the Hudson Avenue Station show that the need for replacement capacity will be best met by installing new package boilers. This option is preferred because it provides cost and reliability advantages, as well as significant environmental benefits.

5. The studies conducted for the Ravenswood Steam station show that the need for replacement capacity will be best met by installing two to four new boilers, each capable of providing 244 Mlb/hr. The operating condition of the Ravenswood steam boilers allows for a later replacement date than Hudson Avenue. Therefore, additional time has been allotted for further study of replacement options.

6. The Company decided not to issue a request for proposals for a merchant supplier of steam to replace Hudson Avenue capacity because: (1) a merchant supplier would have the ability to control the price of steam (i.e., the supplier would have market power) for a replacement plant for the Hudson Avenue site; (2) even if a long-term contract with a merchant provider could reduce market power concerns, there would be significant financial and accounting concerns because of the recent rule changes adopted by the Financial Accounting Standards Board; and (3) information about the cost of merchant steam supplies indicates that a merchant alternative would not be cost competitive with the Company's boiler-only option.

7. The Company will continue operating the East River, 59th Street, 74th Street, and 60th Street plants over the 20-year planning period. This determination is consistent with the conclusions of the SPOS.

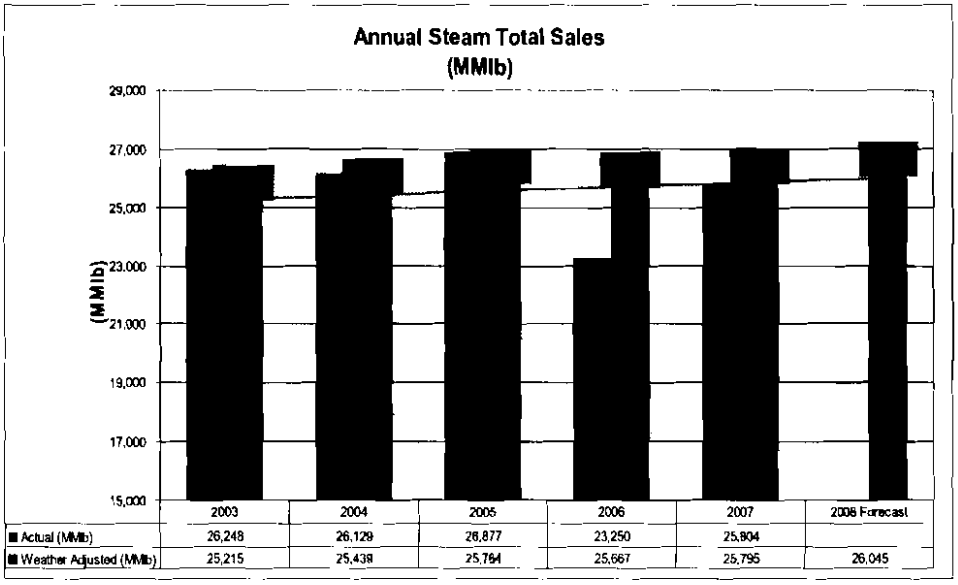
8. The Plan also provides for continued environmental improvements through equipment upgrades in the existing plants and increased use of natural gas at both existing and planned new facilities to reduce residual oil consumption.

II. One-, Three-, Five- and Ten-Year Goals and Schedule for Business Development and Production

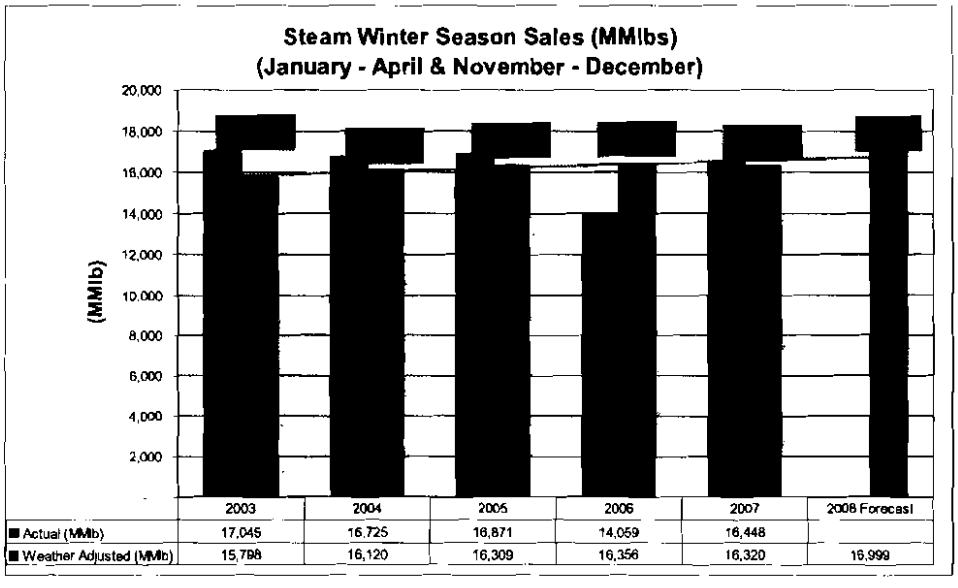
Business Development

Steam Sales

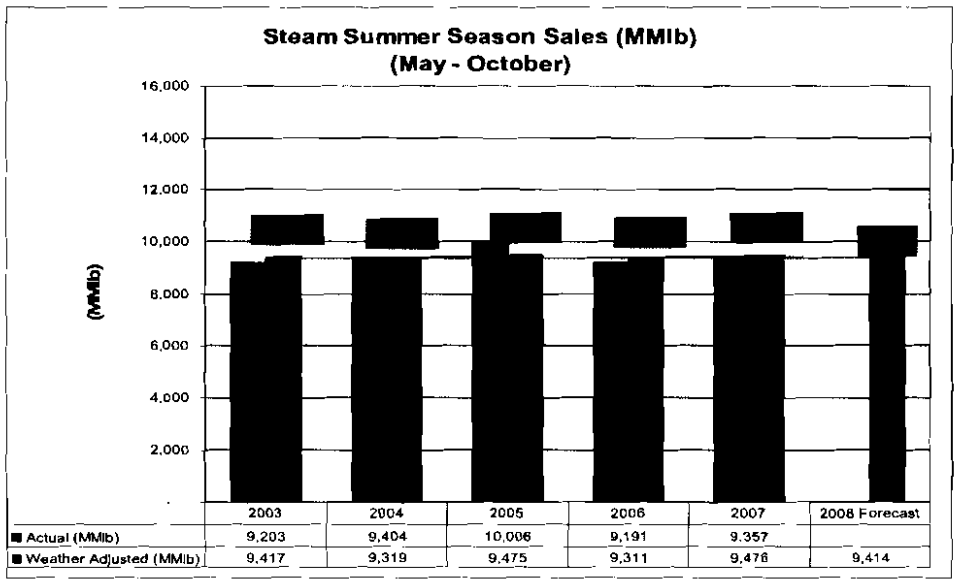
The charts below and on the next page indicate the actual and weather adjusted sales for 2003-2007 – total sales, winter sales, and summer sales – as well at the forecasted sales for 2008.



	2003	2004	2005	2006	2007	2008 Forecast
Actual (MMlb)	26,248	26,129	26,877	23,250	25,804	
Weather Adjusted (MMlb)	25,215	25,439	25,764	25,667	25,795	26,045



	2003	2004	2005	2006	2007	2008 Forecast
Actual (MMlb)	17,045	16,725	16,871	14,059	16,448	
Weather Adjusted (MMlb)	15,798	16,120	16,309	16,356	16,320	16,999



Sales Forecasts and Goals

The weather-adjusted sales for 2007 were 25,797 MMlb. The weather-adjusted sales forecasts for the 1-, 3-, 5- and 10-year periods are as follows:

Time Period	Year	Forecast (MMlb)
1 year	2008	26,045
3 years	2011	26,105
5 years	2013	26,443
10 years	2017	26,622

The sales forecasts for the next 5 years call for an average net growth rate of about 0.4% per year [(New business + economic growth) – (fuel switching, demolition, and improved efficiency)]. The 10-year sales forecast is a net growth rate of about 0.32% per year. Our goal is to improve the forecasted sales growth rate by 10%.

Our steam business development strategy is to:

- Continue to pursue steam heating and cooling load in major commercial and residential properties within the steam footprint (250 feet from our mains).
  - New construction
  - Retention
  - Major renovations
  - Oil-to-steam conversion

- Promote additional steam cooling through electric-to-steam conversion (full or hybrid systems), new construction (full or hybrid systems), and steam-to-steam retention.
  - Additional government incentives (NYSERDA, NYC Energy Cost Savings Program)
  - Expanded electric DSM programs (steam cooling rebates)

We currently have 1.6 million Mlb in new business committed through 2012. We are working on new opportunities worth approximately 1.3 million Mlb. We are estimating average lost business per year of approximately 100,000 Mlb, which includes fuel switching, demolition, total renovation, and improved efficiency. Many of the buildings undergoing demolition and total renovation will return to the steam system (see page 17), in many cases with increased steam sales.

Production Goals and Schedule

The forecasted need for replacement boiler capacity at Hudson Avenue and Ravenswood Steam Stations ranges from about 2,000 to 2,600 Mlb/hr by 2027. The Plan anticipates boiler installations of 1,600 Mlb/hr at Hudson Avenue and between 488 Mlb/hr and 976 Mlb/hr at Ravenswood Steam.

In summary, the recommended Plan is:

- Initiate in first quarter of 2009 permitting of new boilers with a capacity up to 1,600 Mlb/hr at the Hudson Avenue Station;
- Reevaluate options for the Ravenswood Steam Station before initiating the permitting process for new boilers with capacity up to 976 Mlb/hr;
- Upon receipt of permits, construct the initial amount of capacity desired at each site; and
- Complete construction at both sites when needed.

The specific amount and timing of the capacity to be installed at each site will be based on further evaluation of peak load, operational requirements, reliability/cost trade-offs, and environmental considerations. Such evaluations will be conducted on an ongoing basis and up to the receipt of permits to construct for each site.

The Company's implementation plan for Hudson Avenue is shown below. It calls for new boiler installation to be permitted, constructed, commissioned, and ready for operation by the fourth quarter of 2013. In the case of the Ravenswood Steam site, there is more flexibility in the date for planned replacement and so no specific milestones are included.

Hudson Avenue Implementation Plan

Activity	Target Month, Quarter, Year
Permitting	1Q 2009 – 1Q 2011
Engineering and Procurement	1Q 2009 – 4Q 2011
Construction	2Q 2011 – 2Q 2013
Commissioning	3Q 2013
Ready for Winter Operations	4Q 2013

III a. Steam Business Development (SBD) Activities

In 2007, a total of 18 new steam customers were connected to the system, representing 273,000 Mlb of additional annual sales. In 2007, 33 new service load letters were received for an estimated 700,000 Mlb in additional sales. In total, we have customer applications for about 1.6 million Mlb in new business through 2012 and we are working on new opportunities worth approximately 1.3 million Mlb.

Over the past two years, the SBD group, consisting of technical and marketing specialists, has developed and is implementing a sales and marketing program to acquire new accounts, develop the value of existing accounts, and retain valuable accounts against rivals.

The major components of this sales and marketing program are:

1. The implementation of a formalized sales process, which includes (1) prospecting and qualifying leads; (2) informing architects, engineers, developers, and other influencers of energy decisions of the benefits of district steam; (3) retaining and expanding business with our largest existing accounts; (4) submitting proposals and arranging sales presentations to attract new business; and (5) improving the coordination of customer service for new business connections.

2. The institution of a "steam account manager" program that provides each of our largest accounts with a single point of contact to address any issues regarding steam service. For major building portfolio managers, we have teamed a steam account manager with a corporate account executive to provide major customers with enhanced customer service.

3. The implementation of a program to identify "at risk" steam business for retention efforts. For customers who demonstrate that they have viable alternatives (i.e., leaving the steam system or replacing steam cooling equipment with electric), we provide them with a competitive analysis demonstrating the economic benefits of district steam and, where appropriate, offer them rate incentives.

4. The establishment of an advisory group of customers, developers, vendors, engineers, architects, and other interested parties to provide input and feedback on issues associated with the installation and use of steam cooling and hybrid chiller systems.

5. The implementation of market research activities, including focus groups and customer satisfaction surveys, to better understand our customers' needs and potential future programs to meet those needs.

6. The development and implementation of an integrated marketing communications program to support our sales efforts. The marketing communications materials include print advertisements, Web site, flyers, brochures, sales promotional items, and a sales kit.

As mentioned earlier, we are working on new opportunities worth approximately 1.3 million Mlb in sales. The SBD Group is working on turning these opportunities into commitments by maintaining good relationships with engineers, architects, developers, vendors, and other energy decision makers, and providing them with information on availability of service, pricing, and the benefits of district steam.

In addition to the sales and marketing program, members of the SBD group are involved in many activities to promote demand reduction, improved energy efficiency, and district energy as a sound environmental choice. Major activities include:

- Conducted energy audits for 30 selected customers in order to produce and distribute to all steam customers a "best practices" report on steam efficiency. This report is posted on the Company Web site.
- Refined our steam demand reduction technique, Storage of Thermal Energy in Existing Mechanical systems (STEEMs), which involves using stored thermal energy in buildings to shift or reduce customers' steam peak. This technique was successfully implemented at two locations in 2007.
- Completed a pilot program, General Voluntary Demand Reduction Program (GVDRP), to identify effective demand reduction techniques for customers. Tips have been posted on the Con Edison Web site.
- Proposed three energy efficiency programs in the current Steam Rate Case: (1) a steam energy efficiency program, (2) a condensate heat recovery program, and (3) a steam demand reduction program. The target is to reduce steam consumption by approximately 285,000 Mlb per year and steam demand by 70 Mlb/hr by 2011.
- Conducted many individual customer meetings to explain demand billing and how it will affect customers' budgets.
- Worked with the U.S. Environmental Protection Agency and U.S. Green Buildings Council to gain Leadership in Energy and Environmental Design (LEED) recognition for district steam as an environmentally friendly product. We are working with several customers and their representatives to help their buildings achieve LEED-Existing Building (EB) certification.
- Worked with customers who are actively pursuing Combined Heat & Power (CHP) projects at their sites to ensure understanding of the Con Edison tariff and specifications.

Some of the business attraction, retention, and customer relations activities in 2007 include:

- Conversion of a hotel from on-site oil-fired boilers to Con Edison steam
- Retention of a landmark building that was fully renovated from a hotel to a hotel/residential facility
- Negotiated discount steam rate for major hospital considering the installation of on-site boilers in a major addition. As part of the agreement, the customer installed a new steam chiller
- Negotiated steam rate for conversion of oil-fired boiler system to steam at major commercial building
- Worked with major hotel to upgrade its steam meter station and implement a steam trap maintenance program, rather than switch to on-site boilers
- Negotiated a discount steam rate with a midtown commercial landmark building on a partial chiller replacement
- As an example of good customer relations, expedited the turn-on of steam service for a small SC-1 residential customer
- Met with major building portfolio managers to discuss various topics, including demand billing, steam cooling, and steam conservation programs
- Worked with a large residential property, a major university, and a large office building on condensate re-use projects
- In the aftermath of the July 18th steam pipe rupture, met with many customers and their representatives to explain the incident, the Company's response, and Con Edison's continued commitment to the steam system.

III b. Production Planning Activities

Throughout 2007 and into 2008, the Company has completed a number of steam production planning activities, including the following:

- Identified capacity increases from existing resources
- Completed the Hudson Avenue Investment Grade Evaluation
- Completed the Steam Resource Plan (see pages 9 and 10)

In 2007, through plant evaluations, the Company has identified 199 Mlb/hr in additional capacity from existing steam stations.

The Investment Grade Study for two repowering options at Hudson Avenue was prepared by a consulting engineering firm pursuant to the terms of the 2006 Steam Rate Plan. The first option examined installing a new boiler plant, while the second option examined bringing back the retired Unit 10/100 as well as installing supplemental new boilers at Hudson Avenue. Detailed assessments and analyses were conducted for these repowering alternatives. The following information for each repowering option was developed: (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.

As specified in the 2006 Steam Rate Plan, the Company will be providing, for informational purposes, by February 28, 2008, comprehensive status reports on its annual production capital expenditures. At the same time, the Company will provide its O&M 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 previous calendar year. The Company will also provide an annual report on plant availability for each steam production unit for the winter and summer periods.

IV a. Reasons why SC-1, SC-2, and SC-3 Customers Left the Steam System in 2007

In 2007, a total of 18 new customers were connected to the system, representing 273,000 Mlb of additional annual sales. A total of 36 accounts left the steam system in 2007, representing about 193,000 Mlb of sales, for a net gain of 80,000 Mlb. Eleven of the 36 lost accounts are demolished buildings or total renovations likely to return to the steam system as larger buildings. These properties could generate more than 100,000 Mlb in future annual sales when they return.

Of the customers that left the system, 22 were SC-1 customers, 8 were SC-2 customers, and 6 were SC-3 customers.

Of the 22 SC-1 customers, 9 were demolished, 4 converted to gas, 3 converted to electric, and 6 requested that their steam service be turned off. The total lost business for SC-1 customers (not including demolished) was approximately 5,000 Mlb, or 0.019% of 2007 sales.

Six of the 8 SC-2 customers are planning to return to the steam system. One SC-2 customer, which had about 3,600 Mlb of annual sales (approximately 0.14% of annual sales), converted to gas or oil-fired equipment. One other SC-2 account, which very recently announced its planned demolition, has yet to finalize its thermal energy choice.

Of the 6 lost SC-3 customers, one represents a demolished building that is planning to return to the steam system. Five customers, which had about 135,000 Mlb of annual sales, converted to either gas- or oil-fired equipment.

- One customer is a small religious institution that converted to an oil-fired boiler.
- A large residential complex (representing 2 customers), despite Con Edison's attempts to retain the customers over several years, installed four 600 HP low pressure steam boilers that are permitted to burn solely No. 6 fuel oil.
- At another residential complex (representing 2 customers), their decision to switch to dual-fueled boilers was based on a study by an engineering consultant, partially funded by NYSERDA, which estimated a two- to three-year payback period. The buildings were originally designed to house boilers and each building contains a usable flue. Despite the Company's attempts to retain these customers, the building owners decided to move forward with the boiler installation. NYSERDA also provided a low-interest loan for the conversion.

IV b. Why Potential Customers Greater Than 250,000 Square Feet Did Not Take Steam Service

There were 32 new construction projects near the steam system (below 96th Street on the West Side, below 89th Street on the East Side and within 250 feet of a steam main), greater than 250,000 square feet, during the period 2004 through 2006 (generally buildings that came on line in 2006 and 2007). Thirteen of the projects were greater than 250 feet from a steam main. Of the remaining 19 projects within 250 feet of steam mains:

- Two are vacant lots in which no decisions have been made relative to building heating and cooling
- Ten of 16 became active steam customers
    - Commercial accounts captured were 6 of 7
    - Residential accounts captured were 4 of 9
- One was a building constructed at a major hospital campus that operates its own central steam plant

The one commercial property not captured is a 45-story, 340,000 square foot, mixed-use building. Based on comments from the consulting engineer's representatives, the customer's payback analysis indicated that on-site boilers offered lower lifecycle costs for this property.

The five uncaptured residential properties elected to install on-site, gas-fired boilers. They based their decisions on engineering analyses that indicated lower lifecycle costs for on-site boilers versus district steam.