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SEHAM, SEHAM, MELTZ & PETERSEN, LLP

ATTORNEYS AT LAW
445 HAMILTON AVENUE, SUITE 1204
WHITE PLAINS, NEW YORK 10601
TEL: (914) 997-1346
FAX: (914) 997-7125
ssmplaw@ssmplaw.com
www.ssmplaw.com

February 27, 2006

Jaclyn A. Brilling
Secretary to the Commission
Public Service Commission
3 Empire State Plaza
Albany, NY 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:

Pursuant to the Procedural Ruling, Issued December 23, 2005 in the above referenced proceeding, enclosed are twenty-five (25) copies of the direct testimony and exhibit of summary thereto (EXHIBIT __ (DFB-1) of David F. Bomke, Executive Director on behalf of the New York Energy Consumers Council, Inc. ("NYECC").

Please advise if you require anything further or if you have any questions. Thank you for you attention to this matter. Your courtesy is appreciated.

Very truly yours,

George Diamantopoulos

Enclosures

cc: Administrative Law Judge Robert Garlin (By E-mail and Federal Express on 2/27/06)
Kevin Lang, Esq. (By E-mail and Federal Express on 2/27/06)
Mary Krayeske, Esq. (By E-mail and Federal Express on 2/27/06)
Active Parties List (By E-mail only)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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.	))))	Case 05-S-1376

NEW YORK ENERGY CONSUMERS COUNCIL, INC.

Testimony of David F. Bomke, Executive Director of NYECC

George Diamantopoulos, Esq.
SEHAM, SEHAM, MELTZ & PETERSEN, LLP
445 Hamilton Avenue, Suite 1204
White Plains, NY 10601
(914) 997-1346
Attorneys for
New York Energy Consumers Council, Inc.

Dated: February 27, 2006

Q. Please state your name, occupation and business address?

A. My name is David F. Bomke, and I serve as the Executive Director of the New York Energy Consumers Council, Inc., which is located at 11 Pennsylvania Plaza, Suite 1000, New York, New York, 10001-2006.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the New York Energy Consumers Council, Inc. ("NYECC"), which was created on July 30, 2004 as a result of the consolidation of the Owners Committee on Electric Rates ("OCER") and the New York Energy Buyers Forum ("NYEBF"). NYECC's members represent a broad spectrum of energy buyers, including hospitals, universities, financial institutions, residential and commercial property managers, public benefit corporations, energy service companies and energy consultants.

Q. Please describe your educational background and relevant work experience.

A. I graduated from MacMurray College in Jacksonville, Illinois and I completed a year of graduate studies at Rice University in Houston, Texas. I have worked in various capacities in the utilities and educational sectors in Texas, Florida, New York, and Connecticut. I have undertaken extensive work as a data analyst in the fields of educational staffing, facilities management, and energy management since 1985. Since 1991, I have worked primarily in the New York energy management sector. As a consultant I had primary responsibility for managing the energy data and procurement activities of the New York State Office of Mental Health from 1991 through early 2004. I also served on the steering committee of the New York Energy Buyers Forum, Inc. from

1993 through its consolidation with the Owners' Committee on Electric Rates, Inc. on July 30, 2004 to form the New York Energy Consumers Council, Inc. I served as the chairman of the New York Energy Buyers Forum, Inc.'s Steering Committee in 1995 and served in various capacities on the boards of directors of both the Buyers Forum and the Energy Consumers Council until I became the first full-time Executive Director of the New York Energy Consumers Council in November of 2004.

Q. What are your responsibilities as Executive Director of NYECC?

In my present capacity I am primarily responsible for the twin focuses of advocacy and education. My advocacy responsibilities include representing the needs of energy consumers in regulatory proceedings (such as this one), in collaboratives resulting from such proceedings (such as the collaboratives resulting from Commission Orders and Joint Proposals in the most recent Con Edison Steam and Electric Rate Cases, 03-S-1671 and 04-E-0572, respectively), in interactions with energy supply companies and with the regulated utility company (i.e., Con Edison), and in interactions with agencies such as the Federal Energy Regulatory Commission and the New York Independent System Operator. A particularly relevant component of my advocacy role is my service on the Steam Business Development Task Force and that Task Force's preparation of the Steam Business Development Plan for the Consolidated Edison Steam System. The educational component of my responsibilities includes the development and presentation of various seminars, newsletters, and member briefings on issues of critical urgency to energy consumers in Con Edison's territory on behalf of NYECC. The New York Energy

Consumers Council is focused exclusively on the needs of energy consumers in Con Edison's service territory.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to examine the Con Edison Steam Rate filing from the perspective of certain aspects of the recently filed Steam Business Development Plan for the Consolidated Edison Steam System, dated August 26, 2005 (the "Plan") and address the broad inconsistencies of the Con Edison Steam Rate filing with the Plan. Specifically, my testimony addresses that:

- the filing continues to increase rather than decrease the fundamental barrier to development of the steam system;
- the Company's changes to the depreciation schedules seem totally inappropriate for the great majority of the book investment whose origins are within the last decade or so and are so close to their service dates;
- demand charges may encourage customers to desert the steam system;
- some mitigation mechanism of the expected hurt to customers is needed, especially to large commercial steam customers, perhaps a reduction of the demand charge recovery from 25% to 10% until the relative effects are better known and a better mechanism for mitigation of the extreme increases has been achieved;

- the Commission instruct the Company to redesign the SC4 tariff to appropriately balance the need to protect the system with the need to encourage Combined Heat & Power / Distributed Generation, which the current SC4 tariff discourages;
- customers that are large enough to have demand metering be allowed to assume the risk of designating their contract demand; and
- the Company's treatment of customers for back-billing for meter degradation calls into question the Company's ability to implement its proposed demand metering rate structure.

The Steam Business Development Plan

Q. Are you familiar with the Con Edison Steam Business Development Plan?

A. Yes. The Plan was filed by the Steam Business Development Task Force ("Task Force") on August 29, 2005 and accepted by Order of the Public Service Commission, Issued and Effective on December 5, 2005. The quality of the Plan is largely due to the efforts of my fellow members of the Steam Business Development Task Force, and most notably the Task Force's chairpersons, Michael Delaney of New York City Economic Development Corporation and Catherine Luthin of Luthin Associates. The Plan also owes much to the thoughtful contributions of other Task Force members such as the Department of Public Service Staff, NYSERDA Staff, and Con Edison's representatives.

Q. Why was the Task Force established by the Commission?

A. The Commission established the Task Force in Con Edison's previous Steam Rate Case (PSC Case No. 03-S-1672) because the active parties in this preceding Steam Rate Case

expressed concerns regarding the increasing cost of steam, Con Edison's management of the steam business, the relatively slow steam load growth and declining steam market share particularly during key summer months, as well as the effectiveness of Con Edison's steam business development efforts.

Q. What direction did the Task Force receive from the Commission?

A. The Commission directed the Task Force to conduct a comprehensive evaluation of the activities Con Edison was performing and recommend enhancements and improvements to those activities. Specifically, the Commission instructed the Task Force to submit a plan that, at a minimum:

- identifies market sectors and geographic areas suitable for expansion of steam service, identifies market risks and obstacles impeding the growth of steam sales, and recommends the means to overcome them;
- investigates with applicable equipment vendors possible means of reducing the financing cost and other financial arrangements for purchasing and leasing steam equipment;
- explores the use of business incentives, including negotiated rates, to promote load growth;
- sets sales growth targets and evaluates the need for educational workshops and meetings for contractors, building owners and managers, architects, engineers, and equipment manufacturers to increase knowledge of steam benefits; and
- develops mechanisms for monitoring steam business development.

Case 03-S-1672 - 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 on Consolidated Edison Company of New York, Inc.'s Steam Business Development Plan, Issued and Effective December 5, 2005).

Each of these five plan items relates to expanding the steam business. For the large part this expansion concerns not a growth in the scale of the system but rather a growth in load and customers served with the current capacity of the system, particularly with regard to the summer load.

Q. Why do you believe the Plan, which emphasized growth is relevant to Con Edison's current Steam Rate Case filing?

A. The Plan concludes that "[t]he fundamental barrier to development of the New York City steam system is steam's cost relative to other heating and cooling options." (Plan at 15). The current Steam Rate Case filing will increase this fundamental barrier to development of the New York City steam system rather than reducing it. The Con Edison Steam Rate filing calls for a 9.6% increase in base rates (after netting out the shift of the expenses of the East River Repowering Project from the Fuel Adjustment Clause to base rates). This proposed increase needs to be viewed in the light of the conditions that gave rise to the need for the Plan. Since 1996 Con Edison's steam rates have increased approximately 70%. While the non-fuel portion of those rates has risen slightly slower by about 60%, this still is more than 2.5% above the rate of inflation per year. These rate increases have had the cumulative effect of eroding the steam system's cost competitiveness. The

current steam rate filing exacerbates the fundamental barrier to development of the New York City steam system that was highlighted by the Plan.

Q. It is clear why steam customers, such as your members, would be concerned about the currently proposed increase in steam rates, but why would your members, or any steam customers, current or potential, be concerned about the past increases in steam rates?

A. The members of the NYECC are businessmen and women, or the equivalent managers of not-for-profit institutions. From the perspective of their organizations, they have to look at steam and alternative energy sources through a hard eye. While they do not like it, they can and do understand the fluctuations in fuel costs. These will affect both the cost of steam and the costs of firing up their own boilers or other equipment. But when they, or any customer, look at the history of increases in the non-fuel costs and see another increase immediately following a plan identifying such costs as the barrier to expansion, they cannot have great confidence in this Company as a provider of cost-competitive energy, at least through its steam business. When looking over the history of cost increases and the current proposed increase, I believe a reasonable observer must continue to question this Company's commitment to providing cost competitive steam energy to its customers.

Q. Has not the Company made millions of dollars of investment to make the steam system better?

A. The Company has indeed made millions of dollars of investment. In 1995 the steam utility plant was less than a half billion dollars. In the current filing, the utility plant for 2005 is listed as over one and a half billion. That is more than a 200% increase in a system that is essentially serving the same load level and the same number of customers. If that increase were largely offset by increased efficiency, the increase would probably be more palatable to customers. However, in the last steam rate case the Company achieved a reduction in its efficiency requirements as measured by the sales to sendout ratio. The Company may make the investments, but it is the customers through their rates who service the debt and supply the return and depreciation of those investments. Were the analysts who calculate the payback and savings for commercial and industrial energy projects to look at the steam system history, I believe that they would find the steam system a disappointing investment.

Depreciation

Q. Do you agree with the Company's depreciation adjustments?

A. No. The Company's changes to the depreciation schedules is particularly upsetting because the Company is in effect saying that it underestimated the amount of investment that needs to be recovered and, therefore, it needs to increase its recovery rate. The change in the depreciation schedules must be looked at from the perspective of the increase in utility plant over the years previously mentioned. The great majority of the book investment is new in the sense that its origins are within the last decade or so. It seems totally inappropriate for this investment to have a modified depreciation schedule

so close to its service date. This change in the Company's depreciation schedules serves little purpose as to the basic objectives of the Plan but it does impose a greater burden of cost on Con Edison's steam customers.

Demand charges

Q. The Plan recommended that the Company investigate steam demand charges and the Company has proposed implemented demand charges in the 2008 rate year. Do you believe that such demand charges have been shown to be beneficial?

A. No. The basic idea of the demand charges is to lower the peak for essentially the same amount of energy so that the existing capacity can serve more customers, which in turn will spread the system's fixed costs over a broader customer base. But, there is a problem in how it is done. Suppose that the demand charges hurt some customers so badly that they leave the system. Demand charges are supposed to produce a price reaction. Changing the consumption manner as envisioned in the Plan would be good, but leaving the system is also a price response. Of course, customers leaving the steam system is exactly the kind of response that nobody who is interested in the preservation of the steam system wants. If this occurs, the demand charges have done nothing but increased the share of the fixed costs that the remaining customers have to bear.

Q. Should the Commission be concerned about a negative response to the demand charges in the Company's steam tariffs that results in customers leaving the steam system?

A. Yes. Right now, that is, with the current filing, it appears that the Company is assuming that the response to the demand charges will be beneficial to customers as a collective group. However, I represent a customer group and I am unsure of (1) whether the demand charges will do more to move consumption from the system peak to other times, or move customers off the system, and (2) whether there is any mechanism or effort to mitigate the extreme effects of demand charges for individual customers. The manager of the Company's Steam Business Development Group, George Gerritsen, has testified that the demand reduction programs of the Plan will "ultimately work together with the Company's proposal to implement demand charges." [Testimony of George Gerritsen, page 3, lines 9-13] I am worried that "ultimately" may not be good enough. Those programs provide positive incentives for customers to reduce their demand. The demand charge, on the other hand, works as a negative incentive for not reducing the customer's demand. For the demand charge tariff to work, those customers who might desert the system because of the demand charge alone, must be tied to the positive incentives, and further new customers, who have better than the current load factors, must be brought into the system if the goal of spreading the fixed costs to more customers is going to be achieved. This coordination cannot be left to happen in some future happenstance convergence of forces. It must begin from the start.

Q. You mentioned the mitigation of the effect of the demand charges on individual customers. Would not mitigating that effect also reduce the effectiveness of the demand charge in reducing peak load?

A. This is the point where one must weigh theory with reality. In theory, we would not want any mitigation of the correct demand charge, assuming for argument's sake that the proposed demand charges are correct. In that theoretical world all the customers, current and new, would simply adjust the timing of their loads to better disperse the peak load. However, non-theoretical, real customers are going to look hard at the costs the demand charges impose on them. Consider for a moment the customer who has the lowest load factor relative to its peak use. That customer will presumably derive the greatest impact from the demand charges. Now we, and here I mean the customers, the Company and the Commission, must ask is it beneficial to have this low load factor customer leave the system? Remember the goal of the business plan is to reduce the peak to allow more customers onto the system. But, if the demand charges significantly increase the likelihood that customers will leave, then those charges are counterproductive toward what the Steam Business Development Plan is trying to accomplish. The fairness and continuity of rates should be a selling point of the Steam System. A "sticker shock" effect of the moving to demand charges is not going to help sell the system to new customers. Yes, we want to shift load off the peak, but we must remember why we are trying to shift load off the peak. We are trying to shift load off the peak for the very practical effect of otherwise reducing the overall rates. Shocks that the customer base feels are unfair do not fit into that basic idea.

Q. How do you expect Con Edison's proposed new steam rate structure will affect your members and other large commercial customers?

A. Con Edison's proposed rate plan will have a significant and adverse impact on customer costs that are already relatively higher than other heating and cooling options. Moreover, the new rate structure is designed to impose a demand component to deter steam consumption during the approximately 50 hours each year when the demand for steam is at its highest. It is suggested that a reduction in this peak load will enable Con Edison to expand its business development efforts and secure additional customers. Unfortunately, this conclusion is simply unreasonable given the profile of Con Edison's most attractive customers. As cited on page 16 of the Business Development Plan, "Con Edison Steam historically has won about 80-90 percent of new large commercial customer heating loads on or near its existing lines and has a relatively low customer defection rate [among such customers]." As noted on page 35 of the Business Development Plan, "The 649 SC 2 Annual Power Service customers account for almost 70 percent of both sales volume and revenues…." Most of these customers either do not operate at all on weekends or operate at significantly reduced occupancy rates, allowing them the opportunity to reduce heating loads and steam demand at that time. By extension, most of these customers are required to increase their demand for steam early on Monday mornings to restore comfort levels in advance of restored building occupancy – driving the peak demand cited in the Business Development Plan. Although the demand rates proposed by the Company are marketed as "Revenue Neutral" for the company, they will not be "Expense Neutral" for many of those customers who make up a significant portion of the highly valued customer base – large commercial customers. In other words, Con Edison has offered no mitigation of the

expected hurt to its customers and good rate design typically provides for such mitigation. Those large commercial steam customers whose facilities have designed around the steam system and the traditional steam rate design could be facing 5, 10 maybe 20% increases in their steam costs with few alternative solutions to their winter energy needs. The fairness of the transition to demand charges to customers who have long been on the system but will be drastically affected must be addressed. Perhaps, the portion of the demand charge recovery could be reduced from 25% to 10% until the relative effects are known and a better mechanism for mitigation of the extreme increases has been achieved.

The SC4 Back-Up/Supplemental Rate

Q. Do you believe that the proposed SC4 Back-Up/Supplemental tariff is consistent with the purposes of the Steam Business Development Plan?

A. No. The underlying theme of the Steam Business Development Plan is expansion, more customers and more load over which to spread the fixed costs. The current SC4 tariff is a discouragement to the kind of Combined Heat & Power/Distributed Generation (CHP/DG) investments that can free both steam and electric capacity to serve new load. Let me give, what is called in the physical sciences, a thought experiment. Suppose the entire SC2 class could move to SC4 but left its entire load unchanged. As I understand it, the SC4 tariff would then recover the same revenues as the SC2 tariff if the class actually had the test year loads used to design rates. That is I am presuming, although I have not

seen the Company demonstrate it, that the SC4 rates are revenue neutral for the test year loads. Call that revenue $400 million to pick a round number.

Now suppose the entire SC2 moved to SC4 but each customer actually reduced its loads by 20% at every instance by the installation of a CHP/DG system. The class will, now, pay about 10% less because there is an energy rate in the SC4 at about half the SC2 rate. The class then pays $360 million: the load reduction does not produce a pro rata revenue reduction because of the existence of the SC4 contract demand. Next suppose for the moment, and I will address the complications after, that the Company finds new customers to exactly fill up the 20% load reduction I have assumed in this example. These are SC2 customers with the same load profiles as the class, and therefore they will add another (20% x $400 million), or $80 million. The Company's revenues are now $440 million, a 10% increase.

Q. You said there was a complication. Could you please explain it and its relevance?

A. Yes. The complication is that by the nature of the Supplemental/Back-up rate, which I will refer to as standby, the Company must supply that 20% load reduction in the case loads resume their original level. This complication can be, at least partially, addressed by considering what would have happened if the SC2 class stayed as an SC2 class but exactly reduced its loads by 20% and there were new customers to exactly fill up the load reductions. In this case, the simple decrease in SC2 demand for steam, the Company does not standby. In the former, CHP/DG case, it does, for every Mlb that consumer could have taken but not for the CHP/DG investment. The point here is that the standby

rates are designed to protect against the absolute worst case scenario: all customers resuming their contract loads at the time of system peak.

Q. Does not the Company have to protect against the worst case scenario because any single customer could resume its old loads at exactly the time of system peak?

A. No, at least not unless the single customer is so large as to constitute a class onto itself. Consider the single standby customer and suppose the worst case for that customer. Does the system collapse or fail to meet load? No, of course not. How about two customers? It might be twice as bad in a worst case but still the system has sufficient capacity to serve even if both of the standby loads reappear exactly at peak. As more and more customers are added for consideration at some point the worst case does indeed become a disaster in the sense the Company cannot meet load. So consider the situation I brought up previously: the entire SC2 class has reduced its load by 20% which has been entirely filled up by new customer loads. If all of those customers demand their maximum standby load, there is the worst case capacity shortage. But is that even remotely likely? No. I do not know what the design day temperature or temperature range is, but I do know that weather varies and we could have an even colder day, say 40 degrees colder than normal coldest day of the year (normal coldest day in Central Park is 25° F; the coldest day was -15° F February 9, 1934). This is not a likely scenario, but it is still not the worst case scenario regarding temperatures. I raise the issue of temperatures merely to illustrate that even in the utility business one cannot necessarily cover all the worst cases. To do so would misallocate resources that would better meet other needs.

Our City is not built on protecting against worst cases. Probable, even unlikely bad cases, yes, but absolute worst cases no. The standby rates should also not be designed as a worst case protection.

Q. How do you apply this principle to the standby rates?

A. We should ask before we proceed, "What is a better situation?" That is, we should ask if the steam system is better off with a large number of customer investing in CHP/DG or very few? I believe, and I believe the Plan supports this, that we are better off with a great deal more CHP/DG. Recall the situation I previously outlined where the entire SC2 class had CHP/DG and new customers came to fill the entire reduction in load. That is a situation that we all should desire if the risks are tolerable. In that situation we would probably say the risks are not tolerable because only a few standby customers would need to resume full contract demand for the load to exceed the capacity during a peak use day. If, at the other end of load increase, only one new customer were added, we would then have to assume a near worst case scenario to get to a serious risk of exceeding capacity. Somewhere in between is the right amount: an amount that might add some risk but would compensate the customers through lower rates by spreading the system costs over a bigger base. We will, however, never get to this right amount if the standby rates continue to assume that all standby customers must be completely backed up by the system under the presumption they could all need backup at once.

I ask the Commission to think about my "somewhere in between" level of new load. That "somewhere in between" level means that the SC4 requirements to cover fully the

system costs of the contract demand are commensurately relaxed. I believe that standby rates can be designed to encourage a "somewhere in between" solution, and I ask the Commission to instruct the Company to redesign the SC4 tariff to appropriately balance the need to protect the system with the need to encourage CHP/DG.

Q. Are there things that could be done to improve the SC4 tariff before a full redesign has been accomplished?

A. Yes. For customers that are large enough to have demand metering, those customers should be allowed to designate their contract demand. If the customer wants to trust its alternative source, I do not believe that it is fair for the Company to say, "No, we will not let you take that risk." I am certain that there are reasonable combinations of penalties and physical controls that will allow a practical enforcement of the contract limit. The failure to allow the customer to take the risk makes the standby rates punitive to any kind of alternative steam source other than leaving the system, something that I think may happen more frequently unless the rate picture starts improving.

Steam Metering

Q. Do you have any concerns regarding Con Edison's metering of steam used by its customers?

A. Yes. Absent sound and reliable instrumentation to quantify that information it seems very counter-productive to the customer service element of business development to implement a new rate structure that necessitates increased reliance on a technology that has long proven fallible. NYECC members have mentioned to me problems with

metering. Consequently, I have the impression that many commercial steam customers believe that the Company is using meter degradation to its advantage. As I understand the rules, the Company may back-bill a customer for meter degradation for a 12 month period if there is a reasonable basis for concluding that the customer has not informed the Company of degradation when the customer has a basis for doing so. I wish to raise two questions about the Company's practices in this area. First, how is the degradation over the 12 month period calculated? I believe that the presumption should be, absent contrary evidence, that the meter is operating correctly at the beginning of the period and that degradation is gradual from that point onward. Thus, for a 12 month period the degradation average would be half of that measured at the end. It is my understanding that the Company does not practice the calculation in this way, and I believe it should be required to do so. Second, the back-billing should only be for 12 months unless there is clear evidence that the customer should have informed the Company of the problem earlier, and the back-billing should be limited to only 12 months prior to the point when the customer should have reasonably informed the Company. This issue raises the question of what are the standards for a customer reasonably determining meter degradation. Certainly if the customer has a 2000 Mlb average winter usage and in the coldest month of the year with normal heating the customer's meter only reads 500 Mlb., the customer should inform the Company. But what if the customer's meter reads 2100 Mlb. when in fact it should have read 2800 Mlb? This is a 30% misreading, but in the situation should the customer be aware of the discrepancy? The Company also bears

some responsibility here in that the process of being aware at the time of reading also resides with the Company. I would like to see this issue investigated further by the Commission and see rules on the customer responsibility made explicit so that I can justify such rules before the members of NYECC. The Company's ability to implement its proposed demand metering rate structure is called into question by technology that has long proven fallible and customer service practices concerning back-billing for meter degradation, in which customers perceive Con Edison as using to its advantage and to the disadvantage of its customers

Q. Does this conclude your testimony?

A. Yes.

Summary of Testimony of David F. Bomke, Executive Director of NYECC

The Testimony of David F. Bomke, the Executive Director of the New York Energy Consumers Council, Inc. ("NYECC") covers the following areas:

1) The Con Edison Steam Rate Case filing continues to increase rather than decrease the fundamental barrier to development of the New York City steam system, the fundamental barrier being steam's cost relative to other heating and cooling options as found in the Steam Business Development Plan. The Con Edison steam rates' increases since 1996 have had the cumulative effect of eroding the steam system's cost competitiveness. The current proposed increase continues this cumulative erosion. The payback and savings for commercial and industrial energy projects has been disappointing given the relative investment by Con Edison of more than a 200% increase in utility plant while essentially serving the same load level and the same number of customers.

2) The Company's changes to the depreciation schedules seem totally inappropriate for the great majority of the book investment whose origins are within the last decade or so and which are so close to their service dates.

3) Demand charges, which may hurt some customers so badly that they leave the system is not the desired price response sought by those seeking preservation of the steam system. Customers who might desert the steam system because of the demand charge alone must be tied to the positive incentives from the start, and new customers who have better than the current load factors must be brought into the system if the goal of spreading the fixed costs to more customers is to be achieved.

4) Con Edison's proposed rate plan will have a significant and adverse impact on customer costs that are already relatively higher than other heating and cooling options.

Con Edison has offered no mitigation of the expected hurt to its customers and good rate design typically provides for such mitigation. Those large commercial steam customers whose facilities have designed around the steam system and the traditional steam rate design could be facing 5, 10 maybe 20% increases in their steam costs with few alternative solutions to their winter energy needs. The fairness of the transition to demand charges to customers who have long been on the system but will be drastically affected must be addressed. Perhaps, the portion of the demand charge recovery could be reduced from 25% to 10% until the relative effects are known and a better mechanism for mitigation of the extreme increases has been achieved.

5) The current SC4 tariff is a discouragement to Combined Heat & Power/Distributed Generation (CHP/DG) investments that free both steam and electric capacity to serve new load. Standby rates can be designed to encourage a "somewhere in between" solution, and the witness requests that the Commission instruct the Company to redesign the SC4 tariff to appropriately balance the need to protect the system with the need to encourage CHP/DG.

6) The SC4 tariff can be improved before a full redesign has been accomplished by allowing customers that are large enough to have demand metering to designate their contract demand. Failure to allow the customer to take this risk makes the standby rates punitive to any kind of alternative steam source other than leaving the system, something that may happen more frequently unless the rate picture starts improving.

7) The Company's ability to implement its proposed demand metering rate structure is called into question by technology that has long proven fallible and customer service

practices concerning back-billing for meter degradation, in which customers perceive Con Edison as using to its advantage and to the disadvantage of its customers.