

STATE OF NEW YORK

Public Service Commission

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PSC APPROVES RATE FREEZE FOR CON EDISON'S STEAM SERVICE

-Two Year Rate Plan Emphasizes Business Development and System Planning-

Albany, NY—9/20/06—The New York State Public Service Commission (Commission) today voted to approve a two-year rate plan for Consolidated Edison Company of New York, Inc.'s (Con Edison) steam service that will maintain base rates at current levels through September 30, 2008. To promote the preservation and growth of the steam business, and to ensure reasonable system planning, the rate plan also requires the company to file an annual Strategic Plan that will address steam business development and production planning efforts over a 10-year timeframe, and a Steam Resource Plan identifying how the company can provide more cost-effective steam service.

"Today's decision by the Commission balances the interests of protecting customers and supporting the viability of Con Edison's steam service in the long term," said Commission Chairman William M. Flynn. "The rate plan includes incentives for the provision of safe and adequate steam service, while maintaining current base rates for the company's 1,800 steam service customers. Equally important, our decision today seeks to improve customer service, encourage efficiency improvements and provide for systematic planning for the steam system."

In November 2005, Con Edison filed with the Commission a proposal to increase base rates which would increase annual steam revenues by about \$67.6 million (9.6%) for the year ending September 30, 2007. That increase consisted of a \$102.1 million base rate increase that included \$34.5 million of costs related to the East River Repowering Project which were

formerly collected from steam customers in the fuel adjustment clause. On June 2, 2006, a Joint Proposal containing modifications to the original rate request was filed by a number of parties in the case, including Con Edison, the City of New York and the Staff of the Department of Public Service.

Under a two-year rate plan approved today, the Commission froze base rates at their current level throughout the two-year rate term, except in the second year, recovery of certain costs would be shifted between base rates and steam fuel adjustment clause charges. Various credits, including a portion of the proceeds from the company's sale of its First Avenue Properties and credits from past and future sales of sulfur dioxide allowances, would be used to hold base rates constant despite increases in the revenue requirement over the two years.

To benefit and protect steam customers, the Commission determined that if the company's return on equity (ROE) in either rate year exceeds 11.0%, earnings in excess of 11.0% would be shared equally (50/50) between customers and shareholders. Earnings exceeding 12.0% would be shared 75/25 between customers and shareholders, respectively. If Con Edison does not achieve performance standards related to retaining or expanding its steam business, installing demand meters for large customers, and identifying measures to produce and deliver steam service more effectively, the earnings sharing thresholds outlined above would be reduced to 10.8% and 11.8%, respectively.

To address the company's future steam production requirements, Con Edison must develop a Steam Resource Plan that will identify and justify future supply options, including repowering of the company's existing steam boilers, construction of new steam generation or cogeneration capacity, and competitive resource options. The Commission determined that independent steam supply options, as an alternative to Con Edison's own production, should undergo a thorough and fair evaluation at an appropriate stage of the company's planning process. Con Edison would be subject to a \$2 million revenue adjustment if the company does not file the Steam Resource Plan, as specified by the Commission. Also, the company is required to file with the Commission an annual Strategic Plan for its steam business, addressing

business development and production planning efforts over horizons of one, three, five, and ten years.

Today's decision by the Commission also promotes the preservation and growth of Con Edison's steam business, including a commitment by Con Edison to improve customer relations and encourage efficiency improvements. To identify customer concerns and issues related to Con Edison's steam service, and to assist in improving service quality, the company must conduct a series of focus groups with customers. Further, Con Edison will appoint a customer ombudsman whom customers may contact with respect to any matter(s) regarding the handling of steam business complaints, concerns, and other issues.

Con Edison is required to retain a consultant to provide site-specific recommendations for more effective customer use of steam service through the introduction of demand meters and sample demand billing, and encourage use of combined heat and power (CHP) facilities. Additionally, the company is required to implement other numerous Steam Business Development (SBD) task force initiatives to maintain the steam system's customer base, rate stability, and infrastructure integrity.

Con Edison serves about 1,800 steam customers which account for about 100,000 commercial and residential establishments in the Borough of Manhattan. These customers include owners of New York City landmarks, large office buildings, hotels, hospitals, schools, and residential complexes.

A copy of the Commission's order in Case 05-S-1376, when issued, will be available on the Commission's Web site www.dps.state.ny.us by accessing the Commission Documents section of the homepage. Many libraries offer free Internet access. Commission orders can also be obtained from the Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518) 474-2500.