CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUMMARY OF STEAM RATE CASE
JOINT PROPOSAL

May 18, 2010

A Steam Rates Joint Proposal (JP) executed or expected to be executed by Consolidated Edison Company of New York, Inc. (Con Edison or the Company), Department of Public Service Staff (Staff), the City of New York, Consumer Power Advocates, New York Energy Consumers Council, Inc., and the E-Cubed Company, LLC on behalf of the Joint Supporters (collectively, the Signatory Parties) proposes a three-year rate plan for Con Edison’s steam business commencing October 1, 2010, and continuing through September 30, 2013. Rate Year 1 (RY1) is the period from October 1, 2010 to September 30, 2011, Rate Year 2 (RY2) is the period from October 1, 2011 to September 30, 2012 and Rate Year 3 (RY3) is the period from October 1, 2012 to September 30, 2013.

The Company originally proposed that the revenue requirement be increased by $128.8 million in RY1 (an increase of 18.2% on total bills), but also included a four-year plan that included a levelized increase of $66.1 million (an increase of 9.4% on total bills) for each of the four years. The requested increase for a one-year rate plan reflected a return on equity of 10.8%; the four-year rate plan was based on a return on equity of 11.4%. The steam rates JP recommends a three-year rate plan, with increases in the Company’s retail steam rates and charges to produce an additional $84.1 million in incremental annual revenues in RY1, an additional $10.4 million in RY2, and an additional $22.4 million in RY3, respectively. These increases reflect a return on equity of 9.6%. The Signatory Parties recommend a levelized plan to moderate the first-year rate increase. Under the three-year levelized steam rates plan annual revenues would increase by $49.5 million per year (7.01%, 6.52%, and 6.09% on a total bill basis in RY1 through RY3, respectively). Figured on the total bill, the various steam customer classes would see rate increases ranging from 6.34% to 9.22% in RY1; from 5.91% to 8.39% in RY2; and from 5.57% to 7.71% in RY3. The levelization will cost customers an additional $1.7 million in interest on the delayed portion of the rate increase for RY1 compared to a non-levelized approach. Because the annual levelized increases would result in higher base rates at the end of the three-year rate plan than would a non-levelized approach, $31.7 million of the levelized increase in RY3 will be collected by class-specific temporary surcharges effective only for that rate year.[1]

The primary causes of the proposed rate increases are attributed to revenue reductions as a result of the loss of steam sales, increases in Company costs for property taxes and pensions and other post-employment benefits (OPEBs), increased plant investment and depreciation, and expiring customer credits. For example, in RY1 the proposed rate increase is driven by $21.5 million in forecast loss of sales, and projected increases of $19.1 million in property taxes, $12.7 million for pension/OPEB costs, $21.1 million in additional plant-in-service investment and depreciation, and $15.5 million in expiring credits. These revenue requirement increases are offset somewhat by $5.5 million in projected operation and maintenance (O&M) expense savings in RY1. For RY2, the most significant reasons for the proposed rate increase are projected increases

[1] See Joint Proposal, Appendix A, p.6.

of $3.5 million in labor expense and general cost escalation, $6.9 million in property taxes, and $1.8 million in depreciation and amortization. The steam rates JP attributes the RY3 rate increase principally to projected increases of $3.3 million in labor expense and general escalation, $2.1 million in fuel charges, $1.8 million in depreciation and amortization, $10.2 million in property taxes, and $3.7 million in income taxes.

The rate plan also includes a proposed change to the allocation of fuel costs at the East River Repowering Project (ERRP) from the Company's electric system to its steam system. The issue was most recently under consideration in Case 09-S-0029, the steam planning case, but was later consolidated for decision in the steam rate case. Under the proposed change, beginning in Rate Year 2 (and continuing in Rate Year 3 and beyond the term of the three-year rate plan until changed by the Commission), $7.5 million of ERRP fuel costs would be re-allocated from the electric system to the steam system and recovered from steam customers through the Fuel Adjustment Clause.

The proposed steam revenue requirements reflect austerity cost reductions in the amounts of $4.5 million in RY1, $3.0 million in RY2, and $1.5 million in RY3. Austerity may be achieved through a combination of operation and maintenance expense reductions or capital cost reductions, as well as credit for the steam system's allocable share of any corporate-wide austerity measures. The revenue requirement reflects expected productivity savings of 2%, including 1% intended to capture efficiency gains resulting from implementation of the Liberty Management Audit that have not been specifically identified or quantified.

The steam rates JP calls for partial or full reconciliation of certain expenses, including, but not limited to, property taxes, pensions/OPEBs, environmental remediation, and interference expenses. In addition, the steam rates JP recommends a downward-only reconciliation of carrying charges related to net plant and sets forth capital spending targets. To the extent Con Edison exceeds these targets, it could not recover the carrying charges associated with the additional expenditures during the remainder of the term of the steam rate plan. To the extent Con Edison exceeds the aggregate capital spending targets during the term of the steam rate plan by more than 10%, the Company would have to justify the need for and reasonableness of the additional expenditures in its next rate filing.

The steam rates JP proposes an earnings sharing mechanism which is intended to capture for customers a greater portion of savings that may be realized as a result of the Company’s implementation of the recommendations of the Liberty Management Audit. The level of earnings would be calculated annually, but any earnings to be shared would be measured on a cumulative basis over the three rate years. One-half of the Company’s portion of cumulative shared earnings would be used to write down deferred debits for property taxes, pensions/OPEBs, and interference expense.

In addition, the steam rates JP proposes that steam safety metrics on emergency response and leak backlog performance be tightened. It would also require the Company to conduct two customer satisfaction studies per rate year and to file annual reports discussing the results of the prior rate year’s surveys.

Under the steam rates JP, an additional 83 customers in Service Classification (SC) 2 (Annual Power Service) and an additional 65 customers in SC3 (Apartment House Service) would be eligible for demand billing at a lower consumption level

(14,000 MMlbs annually, rather than 22,000 MMlbs). The threshold level for all demand-billed customers to transfer from demand to non-demand billing would also be reduced to 12,000 MMlbs from the current 14,000 MMlbs. Corresponding changes would be made to tariffs for the SC4 (Back-Up Supplementary Service) and SC6 (Transportation Service) tariffs. The period for accepting new applications from SC2 (Annual Power Service) and SC3 (Apartment House Service) customers for the existing air-conditioning incentive program would be extended to September 30, 2013. In addition, charges would now apply to all temporary service disconnection and reconnection requests, with the current exemption of one disconnection/ reconnection per year eliminated.

The steam rates JP also recommends establishment of a collaborative to explore ways to mitigate the need to build new capacity by reducing the steam peak demand.