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May 3, 2024

VIA ELECTRONIC MAIL

Honorable Michelle L. Phillips, Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: CASE 22-M-0429 – Proceeding to Implement the Requirements of the Utility Thermal Energy Network And Jobs Act.

Dear Secretary Phillips:

Enclosed for filing in the subject proceeding, kindly find Consolidated Edison Company of New York, Inc.'s petition for NYS Public Service Commission authorization to incur necessary administration and contingency costs for its portfolio of utility thermal energy network pilot projects. Please contact me should any questions concerning this filing arise.

Truly,

A handwritten signature in blue ink, appearing to read 'Nikolai Wolfe', written over a blue horizontal line.

Nikolai Albert T. M. Wolfe

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding to Implement the)
Utility Thermal Energy Network) Case 22-M-0429
And Jobs Act)

**PETITION OF CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
FOR NYS PUBLIC SERVICE COMMISSION AUTHORIZATION
TO INCUR NECESSARY UTILITY THERMAL ENERGY NETWORK PILOT
ADMINISTRATION AND CONTINGENCY COSTS**

I. Introduction

In September 2023, the New York Public Service Commission (“Commission”) issued guidance on the development of Utility Thermal Energy Network (“UTEN”) pilot projects.¹ Notably, the UTEN Guidance Order presented pilot project costs that the Commission authorized Consolidated Edison Company of New York, Inc. (“Con Edison” or the “Company”) to incur through Stage 2 (“Engineering Design and Customer Protection”). This included a ten (10) percent spending cap on the estimated construction, design, implementation, and operations budget for each of the Company’s three proposed pilot projects - totaling \$6.2 million for Chelsea, \$5.1 million for Rockefeller Center, and \$5.8 million for Mount Vernon.² The Commission’s guidance did not, however, reflect the Company’s previously requested forecasted administrative and contingency costs. As a result, the Company is currently authorized to spend only seven (7) percent of the total budget associated with its UTEN pilot project portfolio.

While the authorized costs address the funding necessary to cover those incurred for the engineering design studies, the funding is not sufficient to cover the associated portfolio

¹ Case 22-M-0429, *Proceeding on Motion of the Commission to Implement the Requirements of the Utility Thermal Energy Network and Jobs Act* (UTEN Proceeding), Order Providing Guidance on Development of Utility Thermal Energy Network Pilot Projects (issued September 14, 2023) (UTEN Guidance Order).

² UTEN Proceeding, UTEN Guidance Order, Appendix A, p. 1.

administration or contingency costs that the Company submitted to the Commission. With approval to move to Stage 2 for all three projects, the Company seeks authorization to spend \$6.0 million, which would bring the Company's total authorized spend to nine (9) percent of the total budget associated with its portfolio of distinct projects.³

Con Edison's request includes an additional \$3.7 million to fund portfolio administration costs for the incremental full-time staff that will develop customer agreements, manage final engineering designs, and execute other critical deliverables that the Company is currently unable to cover under the partial funding amount.⁴ This request also includes \$2.3 million of contingency to cover unexpected pilot project developments and requirements (*e.g.*, unforeseen building conditions and redesign to reduce equipment costs), which is necessary considering the nascent nature of these pilot projects.

The Commission's prompt approval of this funding request will enable the Company to complete Stage 2 development of its UTEN pilot projects, more effectively supporting the State in piloting equitable and scalable building electrification solutions and avoiding project delays. As such, the Company respectfully requests that the Commission approve this limited funding request, which was included in the Company's original request, prior to exhaustion of the current authorized budget and avoid the contract design pause that would otherwise occur in Q4 2024.

³ UTEN Proceeding, Utility Thermal Energy Network Final Proposal Consolidated Edison Company of New York, Inc. Project Located in Chelsea, Manhattan (filed November 30, 2023) (Final Chelsea Proposal), p. 35; UTEN Proceeding, Utility Thermal Energy Network Final Proposal for the Consolidated Edison Company of New York, Inc. Project at Rockefeller Center, Manhattan (filed November 30, 2023) (Final Rockefeller Center Proposal), p. 31; UTEN Proceeding, Utility Thermal Energy Network Final Proposal Consolidated Edison Company of New York, Inc. Project Located in Mount Vernon, New York (filed November 30, 2023) (Final Mount Vernon Proposal), p. 37.

⁴ The Company forecasts portfolio administration costs to be \$5.2 million through Stage 2, but after negotiating project design contracts, it forecasts it will have \$1.5 million available of the \$17.1 million budget cap to reallocate from project design to portfolio administration. See Section III.

II. Background

The Commission-authorized funding amount caps project spend, through Stage 2, at ten percent of total estimated pilot project costs that the Company proposed prior to the UTEN Guidance Order's issuance.⁵ The Company estimated total costs of \$255.3 million to develop and complete the three pilot projects in its Updated August Supplemental Information Filing.⁶ This included an estimated \$172.2 million project-specific design, construction, and operating costs (\$62.4 million, \$51.4 million, and \$58.4 million for Chelsea, Mount Vernon, and Rockefeller Center, respectively), as well as \$31.5 million for portfolio administration and \$51.6 million for contingency. However, the UTEN Guidance Order did not address the Company's portfolio administration and contingency costs, and only applied the ten percent to the individual project-specific costs - resulting in a total cost cap of \$17.1 million and insufficient portfolio funding to complete Stage 2.

III. Funding Request

In total, the Company forecasts a need of up to \$23.1 million to complete Stage 2. This is \$6.0 million more than the current authorized spend. However, it is approximately \$2.4 million less than the \$25.5 million cost cap would have been if the UTEN Guidance Order had included portfolio administration and contingency in its calculation.

As detailed below, the Company forecasts total portfolio administration costs through Stage 2 will total \$5.2 million. However, after having completed negotiations for project design contracts, the Company forecasts that project-specific engineering and design work will cost \$15.6

⁵ UTEN Proceeding, UTEN Guidance Order, p. 21.

⁶ UTEN Proceeding, Updated Supplemental Information for Consolidated Edison company of New York, Inc.'s Utility Thermal Energy Network Pilot Project Portfolio (filed August 16, 2023) (Updated August Supplemental Information Filing), p. 4.

million, which is \$1.5 million less than its prior estimate detailed in Table 1 below. The Company requests flexibility, as needed, to shift available engineering design dollars across the three projects in its cohesive portfolio and would use the approximately \$1.5 million⁷ in forecasted savings to partially fund the \$5.2 million portfolio administration costs that must be incurred through Stage 2, leaving an net portfolio administration shortfall of approximately \$3.7 million.

Additionally, the authorized funding amount is insufficient to address any unforeseen changes in project design, which reasonably requires inclusion of contingency. For the engineering design activities through Stage 2, the Company estimates a \$2.3 million contingency, or fifteen (15) percent of the \$15.6 million estimated cost. Table 1 summarizes these numbers.

Table 1. Summary of Forecasted Costs and Projected Funding Shortfall through Stage 2 (\$ MM)⁸

| Category | Chelsea | Rockefeller Center | Mount Vernon⁹ | Total |
|--|----------------|---------------------------|---------------------------------|--------------|
| Forecasted Engineering Design Costs | 6.1 | 5.6 | 3.9 | 15.6 |
| Forecasted Contingency Costs (15% of Estimated Engineering Design Costs) ¹⁰ | 0.9 | 0.8 | 0.6 | 2.3 |
| Forecasted Portfolio Administration Costs ¹¹ | 1.3 | 1.3 | 2.6 | 5.2 |
| Total Forecasted Costs through Stage 2 | 8.3 | 7.7 | 7.1 | 23.1 |
| Total Authorized Funding Amount | 6.2 | 5.1 | 5.8 | 17.1 |
| Total Forecasted Shortfall through Stage 2 (Funding Amount Requested) | 2.1 | 2.6 | 1.3 | 6.0 |

⁷ The estimated engineering costs for the Company’s UTEN pilots, on a project-by-project basis, are: \$0.1 million under budget for Chelsea, \$0.5 million over budget for Rockefeller Center, and \$1.9 million under budget for Mount Vernon.

⁸ Totals may differ due to rounding.

⁹ Forecasted engineering design costs and associated contingency costs updated since November Final Proposal to account for modest reduction in estimated total design costs partially offset by additional test boreholes in Mount Vernon. *See*, UTEN Proceeding, Final Mount Vernon Proposal, p. 37.

¹⁰ Contingency costs were originally calculated as 30% of the Engineering Design Costs.

¹¹ Stage 2 deliverables are currently due as Company filings on or before January 9, 2025, nine months after issuance of project compliance letters. Stage 2 will not complete until the Commission has ruled on these filings which the Company forecasts to be some point in Q2 2025. Forecasted portfolio administration costs estimated through Q2 of 2025.

A. Portfolio Administration

The Company seeks Commission authorization for an additional \$3.7 million to fund overarching portfolio administration costs including incremental labor, support services, program management, and data management. This funding is necessary to develop the engineering, administrative, and regulatory framework for an entirely new service commodity across the project portfolio. Each of the three proposed pilots requires that the design and development of customer protections, outreach and education, rate designs, safety and operational procedures, and workforce transition planning is done in a safe, reliable, and equitable way. To accomplish this, the Company forecasts portfolio administration costs approaching \$5.2 million through Stage 2,¹² as shown in Table 2 below.

Table 2. Summary of Forecasted Portfolio Administration Costs

| Category | Chelsea | Rockefeller Center | Mount Vernon | Total |
|--|----------------|---------------------------|---------------------|--------------|
| Labor | 0.78 | 0.78 | 1.56 | 3.12 |
| Consulting | 0.36 | 0.36 | 0.73 | 1.45 |
| Other Expenses ¹³ | 0.15 | 0.15 | 0.30 | 0.60 |
| Forecasted Administration Costs Through Stage 2 | 1.29 | 1.29 | 2.59 | 5.17 |

The Company’s labor request covers eight (8) full time equivalents (“FTEs”) and is incremental to labor funded through the 2023 Con Edison Rate Case Order.¹⁴ The Company is

¹² To date, the Company has spent \$1.6 million on portfolio administration. UTEN Proceeding, March 2024 Utility Thermal Energy Network Monthly Progress and Expenditure Report (filed April 15, 2024), p. 2.

¹³ The “Other Expenses” category includes data management, customer outreach and marketing, and admin contingency.

¹⁴ Case 22-E-0064, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service* (2022 Rate Proceeding), Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans with Additional Requirements (issued July 20, 2023) (2023 Rate Case Order), p. 42.

currently funding UTEN labor expenses as prudent and necessary costs to be recovered in the future from electric customers. Roles and responsibilities corresponding to the eight FTEs requested are summarized in Table 3 below.

Table 3. Summary of UTEN Team Labor

| Role | Responsibility | Project | Total FTE's |
|---|---|---|--------------------|
| Department Manager | Oversee UTEN workstreams across all three projects | <ul style="list-style-type: none"> • Chelsea • Mount Vernon • Rockefeller Center | 1 |
| Engineering Manager | Complete the engineering design deliverables for all three pilot projects and develop Company standards for UTENs | <ul style="list-style-type: none"> • Chelsea • Mount Vernon • Rockefeller Center | 2 |
| Regulatory and Stakeholder Manager | Develop and inform the regulatory framework for UTEN, workforce development, customer agreement templates | <ul style="list-style-type: none"> • Chelsea • Mount Vernon • Rockefeller Center | 1 |
| Billing, Legal, and Project Integration Manager | Execute the regulatory framework for UTEN, rate design, billing integration, and customer protection development | <ul style="list-style-type: none"> • Chelsea • Mount Vernon • Rockefeller Center | 1 |
| Customer Outreach and Engagement Lead | Educate, engage, and recruit pilot project customers | <ul style="list-style-type: none"> • Mount Vernon | 1 |
| PMO-certified Project Manager | Develop and manage integrated workplans for all three pilot projects | <ul style="list-style-type: none"> • Chelsea • Mount Vernon • Rockefeller Center | 1 |
| Finance Manager | Manage all project financing, modeling, forecasting, expense tracking and financial reporting | <ul style="list-style-type: none"> • Chelsea • Mount Vernon • Rockefeller Center | 1 |
| Total | | | 8 |

Portfolio administration costs encompass a wide range of labor and vendor activities necessary to support overall design and development of the Company's three pilot projects. Portfolio administration activities in Stage 1 included proposal development, stakeholder engagement, Request For Information ("RFI") evaluation, benchmarking, consulting services for rate design and Lifecycle Cost Analyses, surveys, skill development for the core project team, and portfolio-level pre-design work in preparation for Stage 2. In Stage 2, these activities will include, but will not be limited to: management of design vendors, development of final design deliverables, development of customer agreements and protection plans, rate development, and workforce development.

B. Contingency

The Company's request for an additional \$2.3 million for contingency will cover unexpected costs that may arise during engineering design. This funding will enable the Company to proceed with, and complete, design work that is actively underway, regardless of scope changes or unforeseen challenges, without introducing delays or interruptions in work while awaiting subsequent funding approval. Contingency will cover unforeseen costs associated with engineering design, in addition to metering, data collection, modelling, and test bore hole drilling. In the Company's May 2023,¹⁵ August 2023,¹⁶ and November 2023¹⁷ proposals and other updates, the Company requested thirty (30) percent of estimated project costs for contingency at a portfolio level. However, given that these projects are still in the initial stages of the design, the Company

¹⁵ UTEN Proceeding, Supplemental Information Filing, p. 34

¹⁶ UTEN Proceeding, Updated August Supplemental Information Filing, p. 4.

¹⁷ UTEN Proceeding, Final Chelsea Proposal, p. 36.; UTEN Proceeding, Final Mount Vernon Proposal, p. 37.; UTEN Proceeding, Final Rockefeller Center Proposal, p. 32.

is requesting a reasonable fifteen (15) percent of estimated engineering design costs for contingency for each pilot project through Stage 2.

IV. Budget Flexibility

Given the noted novelty of the three pilot projects, the Company must be able to quickly adapt its portfolio, whole or in part, to the inevitable challenges and opportunities that will arise during development Stage 2. To achieve this, the Company seeks budget flexibility to manage the total administration budget across the three pilot projects currently forecasted at \$5.2 million. As detailed above, most administration activities associated with the funding request support all three projects. These activities include project management, standardized customer agreement development, and cross-project engineering design review.

As noted in Section III above, the Company also requests flexibility to shift engineering design budgets, including contingency, across its portfolio of pilot projects. This will enable the Company, after consultation with Department of Public Service (“DPS”) Staff, to nimbly navigate avoidable delays and maintain momentum in project development within Stage 2’s nine-month timeline.

V. Need for Expedited Review

For the reasons outlined above, Con Edison respectfully seeks the Commission’s favorable determination of this petition and that it be issued prior to the exhaustion of the Company’s current Stage 2 budget authorization, which is projected to be in Q4 2024. This will enable the timely completion of Stage 2 for all three pilot projects, including associated engineering design and customer protection plan deliverables. Delaying or pausing this work in the absence of adequate funding will result in prohibitive delays to pilot project design and development, interruptions that would likely have disastrous impact on project cost estimates and customer engagement efforts -

particularly for the Mount Vernon and Chelsea projects, both of which will serve low-to moderate-income residents within a Disadvantaged Community.

Dated: May 3, 2024

**CONSOLIDATED EDISON COMPANY OF
NEW YORK, INC.**

By: */s/ Nikolai Albert T. M. Wolfe*

Nikolai Albert T. M. Wolfe

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