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03-S-1672

OGC  
O&E  
OHAOR  
Reports

April 3, 2006

*Via Hand Delivery*

Honorable Jaclyn A. Brilling  
Public Service Commission  
Three Empire Plaza  
Albany, New York 12223

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Re: Case No. 03-S-1672 - Con Edison Steam Business Development Plan

Dear Secretary Brilling:

Consolidated Edison Company of New York, Inc. respectfully submits an original and five copies of its second quarterly status report, as required by the Commission's December 5, 2005 order in Case 03-S-1672 on the Company's steam business development plan.

Yours very truly,

Richard B. Miller

cc: Active Parties to Case No. 05-S-1376 (via e-mail)  
Enc.

# **STATUS REPORTS ON ACTION ITEMS**

**Work Plan No. SBDP-1**  
**Account Management System**

**Objective:** Develop and Implement a Comprehensive Customer Account Information System. Create a central database to extract reports necessary to manage the sales & marketing-end of the business from the initial prospect phase to actual turn-on to steam.

**Overall Completion Date:** September 1, 2006

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

- ◆ Contacted the following peer groups to explore their current Customer Relationship Management (CRM) systems:
  - **John Wohl, Trigen-Philadelphia Corp**
    - Trigen currently uses Access-based system, developed internally, to manage contacts, work orders and schedule. Trigen does not have an independent CRM system.
  - **Stanley Gent, Seattle Steam Co.**
    - Seattle Steam Co built a system in house in combination to using Outlook to manage contacts and billing. Seattle Steam Company system does not have the ability to manage accounts, building information and marketing.
  - **Robert Thornton, President of IDEA**
    - Suggested BDG review of Right Now Technologies CRM package.
- ◆ Steam Business Development has contacted five CRM vendors to demo their software (Right Now Technologies, Maximizer, Siebel, Sales Logix and Sales Force.com). Sales Force.com, Right Now Technologies and Sales Logix have provided focused presentations to address BDG's business and technical performance requirements.
- ◆ Right Now Technologies is the vendor of choice. Right Now Technologies has satisfied the ability to meet BDG's implementation schedule as well as its business, technical and functional requirements. Con Edison is proceeding with procurement of this vendor software.

- ◆ Con Edison completed the cost analysis of procuring the CRM system vs. in-house development. Based on this analysis, to build a system in house:
  - Will take over a year to develop and implement
  - Functionality would be limited to current technical and functional requirements with little to no room to grow/upgrade.
  - Will be more expensive than procuring vendor software.

As a result, Con Edison decided to proceed with procurement of a vendor CRM package.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

**Design and Implementation of Account Management System**

1. Kickoff meeting with vendor to confirm current business processes and reports.
2. Functional Analysis – (documents control, field administration).
3. Prototype Development.
4. Client Installation – (Prototype and Server Installation\*).
5. Initial Data Migration.

\* IR Dept will determine if Account Management System will be installed on a dedicated server

**Deliverables:**

1. Progress report - Design & Implementation

**Work Plan No. SBDP- 2**  
**Pipeline Asset Management System**

**Objective:** Develop a pipeline asset management profitability / value analysis program.

**Overall Completion Date:** September 1, 2007

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

Prior in-house studies were reviewed. The parameters and basis of these efforts can be used and enhanced upon for additional on-going analysis.

System-wide unit costs have been identified using the Annual Report (FERC Form 1) for year ending December 31, 2004, and on an interim basis, the Operating & Financial report of December 2005. A new Annual Report, for the period ending December 31, 2005, will be available in late April 2006.

Year-end costs have been identified in order to benchmark pipeline (radial main) profitability. The items to be considered in establishing a ranking metric of pipeline profitability include elements specific to steam production, distribution, and carrying charges.

The following unit costs have been identified:

**Production Elements –**

Sales Revenues – (Accts. 601, 604, 605, 607, 608, 610, and 615)  
Operation and Maintenance – fuel, water (Accts. 701 – 714)

**Distribution Plant Elements –**

Main Investment (Acct. 353)  
Services (Acct. 359)  
Maintenance of Mains and Services (Accts. 756 – 772)  
Pipe Lengths (feet) in service, by diameter (inches)

**Carrying Charges –**

Production Plant in Service (Accts. 310, 311, 312, 315, and 316)  
Depreciation on Mains (Acct. 353)  
Franchise Taxes on Mains  
Rate of Return

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

Commence evaluation of customer account costs for:

Production Costs

Distribution Costs

Carrying Charges

such that, segment-specific (de-averaged) pipeline costs may be calculated.

**Work Plan No. SBDP-3**  
**Mapping & Locational Analysis**

**Objective:** Evaluate and, if appropriate, implement mapping technologies to improve marketing opportunities and techniques.

**Overall Completion Date:** Review of systems: July 1, 2006.  
Implement system: January 1, 2007 if review indicates.

**Summary of Activities, 1st Quarter 2006:**

1. Business Development met with IR to discuss the capabilities of SOMIS to interface with external databases and with Marketing & Research to develop an understanding of the mapping technologies they employ. IR explained that the SOMIS system is not compatible with GIS systems. At some prior date customer buildings were geo-coded and those codes will be incorporated into SOMIS database for future use. The SOMIS system can be used to display customer information but cannot access and process non-customer information.
2. Discussions were held with Con Edison gas market research group. They have the capability to access New York City and other external databases, query the databases and map the results of query. As an example, in order to identify potential steam markets, the geo codes of major intersection points of the steam distribution system can be entered on city maps and connected. A query could then be run to identify all buildings over a specified square footage and the results mapped. The graphical output can then be merged with the SOMIS graphical output. This would be a manual process until overhaul of the Company's mapping technology is completed.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Complete review of Company manual system (by May 1, 2006): (a) prepare and run sample query(s) that would be of potential business development benefit to verify operation of manual system; (b) evaluate cost of manual runs; (c) evaluate value of this graphical information to assist in marketing, operating and investment decisions.
2. Implement the Company's manual system by June 30, 2006 unless review indicates otherwise.
3. Obtain input from four large steam, gas and/or water companies on their extent of and basis for use of digital/GIS mapping technologies, and compare to the Company's proposed system. Provide input to Company's Information Resource department to assure Steam Business Development needs are incorporated.

***Work Plan No. SBDP- 4***  
***Develop a Resource Plan for the Business Development Group***

**Objective:** develop a plan to identify staffing of the SBU's Business Development Group, the skills required for the positions and the systems required to support the staff. The plan will also identify external resources needed to improve effectiveness and development of intelligence gathering to identify new opportunities for steam sales.

**Overall Completion Date:** implementation of the elements defined in this work plan shall be completed by March 2006; schedules for activities provided by others are outlined herein.

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. The Resource Plan was completed and issued to the Task Force March 1, 2006. The remaining activity in the Plan is to review the compensation structure of the Business Development Group. The Company has met with Mercer Consulting, under an existing contract, and a proposal has been prepared and submitted to the Company.
2. Company has utilized the services of three external recruiting agencies as well as posting hiring advertisements in the NY Times, ASHRAE NY website, IDEA website, and Con Edison corporate website.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

Review and determine need for compensation review; if need is established, finalize proposal scope and cost. Conclude contract and release for work. Phase 1 for interviewing existing staff and position descriptions as well as benchmarking other steam systems will take 6 weeks.

Continue to identify and interview candidates for remaining open positions.



***Work Plan No. SBDP- 5***  
***Strengthen Relationships with Advisors and Vendors***

**Objective:** Develop a coordinated program to build relationships with key advisors and vendors by:

- Participating and achieving board / committee membership
- Creating and promoting an information source with “portal “ access via Con Edison resources

**Overall Completion Date:** September 1, 2006

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. Con Edison completed the research and identification process to determine the decision influencers and decision makers in the development, engineering and vendor community and compiled a list.
2. Con Edison researched and identified intermediaries who influence customers, but are not directly involved in their transactions and compiled a list.
3. On February 8, Con Edison Steam was a participant at the BOMA and IREM, 2006 Member Program.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. On April 12, Con Edison Steam will attend BOMA/NY & The New York Energy, Consumers Council Energy, Awareness Day.
2. All notifications on steam programs, initiatives and technical bulletins that are shared with our steam customers will be shared with their Advisors and Vendors.
3. A list will be developed to identify Forums and Associations that are relevant to the needs of our Steam Customers. It will provide the necessary data for enrollment and committee involvement, and will assign liaison responsibilities.

**Work Plan No. SBDP-6**  
**Develop Targeted Marketing Plan**

**Objective:** Develop a targeted marketing plan to identify and then “sell to” the business priorities of our targeted market(s). The ultimate objective is to improve the utilization of steam within strategic markets and submarkets, and thereby improving the profitability of the overall Business.

**Overall Completion Date:** March 1, 2006 and ongoing

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. Con Edison completed the development of its Targeted Marketing Plan on March 1, 2006. This document was distributed to members of the Steam Business Development on March 2.
2. Two market-specific advertisements were developed and finalized in March: one focused on the commercial market, the second on the residential market. These advertisements will be used in trade publications such as the Cooperator and Real Estate Weekly.
3. On March 16, 2006 Con Edison Steam was a featured presenter at the 19<sup>th</sup> Annual Co-op & Condo Expo. The presentation reviewed the business advantages offered to existing or potential Con Edison steam customers, including the economic opportunities associated with steam cooling if there are adequate electric DSM incentives.
4. During March Con Edison updated its Steam webpage ([www.coned.com/steam/](http://www.coned.com/steam/)) to include links to its updated technical flyers promoting the benefits of steam in the heating and cooling markets.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. On June 14 and 15, Con Edison will be a featured presenter at the Buildings NY Show. The presentation will review the business advantages offered to Con Edison steam customers, including the economic advantages associated with steam cooling. We hope to use this as an opportunity for strategic announcement of the improved steam cooling incentives.
2. We will issue notifications to our customers on programs or initiatives that are of relevance or interest to them. Topics expected to be included are our steam demand reduction program (if approved), hybrid cooling, and opportunities for condensate reuse.

3. Update the content of the Steam webpage to include links to the flyers and technical bulletins (after document development and approval).
4. Integrate the findings of our market assessment of customer's business priorities into our interactions with Customers and their agents.
5. Commence the targeted marketing of hybrid cooling to our major customers that use steam for heat and hot water service only.

**Work Plan No. SBDP-7**  
**Create Mechanisms for Ongoing Customer Involvement**

**Objective:** Identify means of involving customers in guiding ongoing development of the steam business.

**Overall Completion Date:** August 2007

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. On January 19<sup>th</sup>, February 15<sup>th</sup>, and March 22<sup>nd</sup>, the Steam Business Unit conducted its introductory half-day seminar, "How to Maintain Your Steam System More Efficiently"; more than 75 representatives of its customer base signed up for these three seminars. Topics included a steam system overview, and information about metering equipment, regulating valves, steam mains, traps, discussions about safety and environmental issues, and the opportunity to ask questions and discuss their individual concerns.
2. On March 16, Con Edison Steam was a featured presenter at the 19<sup>th</sup> Annual Co-op & Condo Expo. The presentation reviewed the business advantages offered to existing or potential Con Edison steam customers, and concluded with an interactive discussion with the attendees. We also had two exhibit booths where we were available to respond to customer issues or inquiries regarding potential programs and services. Visitors were encouraged to submit inquiry forms that would serve as the basis for follow-up conversations and/or potential site visits.
3. On March 14, Con Edison met with a customer that makes equipment investment decisions at multiple customer locations. During the pre-meeting interview, the customer expressed an interest to gain further knowledge on the steam cooling incentive programs, of immediate importance to one building but also for potential application portfolio-wide. Two members of the Steam Business Development Group met with the customer and agreed to submit outline terms and conditions for a strategic portfolio agreement (but evaluated and approved on a site-by-site basis) by the first week of April. This document was submitted by Con Edison on March 30<sup>th</sup>.
4. Con Edison Steam also met with another major customer (Top 10) to discuss issues such as service reliability, restoration procedures, and redundant service provisions. Responses to all issues were discussed at the meeting, with documentation to be provided by Con Edison as part of the meeting follow-up.
5. Con Edison updated its website to include information for customers to apply for new or modified steam service.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Conduct 2-3 seminars. Obtain participant feedback to assure presentation materials are of interest, and to determine if additional information should be included as part of the seminar.

2. Presentation and participation at the Buildings NY Show in June.
3. Establish a schedule for the next 6-8 meetings with major steam customers, and complete 4-6 meetings.

***Work Plan No. SBDP-8***  
***Conduct a Marginal Cost-of-Service Study***

**Objective:** to prepare and submit a new marginal cost-of-service study.

**Overall Completion Date:** June 1, 2007 (assuming that the next rate case will be filed in October 2007)

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

None required.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

None anticipated. First deliverable (scope of work for Marginal Cost study) is due on September 30, 2006.

**Work Plan No. SBDP- 10**  
**Improve Efficient Steam Usage by Customers**

**Objective:** Develop initiatives to stimulate efficient steam usage by customers.

**Overall Completion Date:** March 1, 2007

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. Researched and identified energy auditing firms, steam equipment manufacturers and others who could provide support to assist Con Edison Steam Customers to make better use of their equipment and reduce steam consumption. The intent will be for Con Edison to refer one of the organizations on the list to customers who complete a web-based survey indicating interest in an energy audit. Con Edison will then follow up on the survey results to help identify any steam use opportunities.
2. Researched and identified energy improvement/retrofit project financing programs that exist in the public and private sectors and compiled a list.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Prepare a web-based customer survey form to obtain information on aspects that the customer is looking to improve. Based on the information in the survey form, Con Edison will nominate qualified vendor(s) to the customer.
2. Identify and rank steam efficiency and demand reduction measures.

**Deliverables at end of 2<sup>nd</sup> Quarter 2006:**

1. Web based customer survey – available for customer access and use.
2. Web based description of cost effective demand reduction and efficient steam use measures.

***Work Plan No. SBDP-11***  
***Position Steam as a Clean Energy Source***

**Objective:** Evaluate and promote the energy efficiency and environmental benefits of Con Edison Steam as a clean energy source in the emerging "green" building market.

**Overall Completion Date:** March 1, 2007

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

USGBC has prepared a draft guidance document for the evaluation of credits for LEED certification. The Company is analyzing its application to district energy systems. There are 10 credits available in the area of energy efficiency, but the criteria are a cost per square foot basis. The cost of providing the equipment for on-site boilers is not included in the cost basis. District energy system pricing, which includes fixed costs, would accordingly be at a disadvantage.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Complete review and applicability of guidance document.
2. Begin assessment to determine LEED opportunity for Con Edison steam on building credits.
3. Seek clarification and issue comments or suggestions to USGBC.
4. Continue working with IDEA to improve recognition and benefits of district energy in Green Building markets and credits.



**Work Plan No. SBDP-12**  
**Develop Hybrid Steam Chiller Product Option**

**Objective:** promote the use of steam chillers in hybrid mode with electric chillers. Con Edison has developed modeling techniques to be shared with customers, consultants and vendors that will aid in the evaluation and implementation of hybrid cooling. Con Edison will share these techniques with third parties to demonstrate the benefits of hybrid cooling and work with NYSERDA to develop a demonstration project in conjunction with an existing hybrid cooling customer.

**Overall Completion Date:** Implementation of the elements defined this work plan shall be completed by September 1, 2006

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. The optimization model has been modified to minimize energy costs for the entire cooling season. This facilitates selecting the plant configuration that yields the lowest payback on the incremental capital invested to install a steam chiller in hybrid mode instead of an electric chiller.
2. Power point presentation has been prepared, new graphics have also been developed.
3. Conceptual contents of printed materials have been preliminary developed and will be completed by end of April.

**Anticipated Activities, 2nd Quarter 2006:**

1. Develop list of interested parties for participation in hybrid chiller working group.
2. Distribute printed materials to potential participants with invitation to kickoff meeting
3. Schedule meeting for early May.

**Work Plan No. SBDP-13**  
**Develop a Condensate Re-Use Product**

**Objective:** Assess effectiveness of pre-selected condensate re-use products, and seek recognition and integration of its benefit into appropriate energy efficiency programs (such as the USGBC LEED program).

**Overall Completion Date:** September 1, 2007

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

Reviewed the analyses and conclusions of the Condensate Re-Use study prepared by Goldman Copeland in June, 2005. The following condensate re-use measures were identified for studying in a pilot program:

- a. Cooling tower make-up
- b. Hot water pre-heating

These measures were chosen based on their anticipated potential for cost effective water or energy savings. The consultant found that retrofit work for these measures in office buildings that do not operate 24 hours per day is generally not cost effective. The consultant also found that retrofit work to use condensate in laundry facilities, although potentially cost effective in hotels and hospitals, may have limited applicability because there are relatively few of these types of buildings.

Identified the following customers who have these measures installed:

Customer:	Measure Installed:
Office building	Cooling Tower Make-Up
Office building	Hot Water Preheating
Office building	Hot Water Preheating
Hotel	Hot Water Preheating

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Establish a data logging process to measure and quantify water and heat savings (with support of consulting engineer).
2. Develop a set of representative product specifications for selected applications and post them on the Company website (with support of consulting engineer).
3. Seek partnership opportunities with NYSERDA and the City of New York to support installation of pilot or demonstration systems.

*Deliverables at end of 2<sup>nd</sup> Quarter 2006*

1. Representative product specifications for selected applications
2. Description of the pilot program

**Work Plan No. SBDP-14**  
**Develop An Enhanced Steam Price Risk Management Product**

**Objective:** Solicit customer and customer advocacy group input into why the previous programs have been unsuccessful. Assess industry experience for successful programs at other utilities.

**Overall Completion Date:** March 31, 2006

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

(1) Solicit, coordinate and summarize feedback from previous program participants, NYECC and other customer groups.

Focus meetings were held with NYECC and other customer groups on February 10, 2006 and March 24, 2006.

**Feedback Summary:**

- The goal to reduce volatility associated with fuel adjustment charges is clearly understood. Yet, the goal of customers is to reduce cost as well as volatility.
- Time provided for customer's approval of the Transaction Confirmation form too short.
- Timing for price fixing not optimal.
- Increase the eligible enrollment volume (above program limit of 50%, perhaps up to 80%).
- Pick a point in time so companies can lock in on price in advance of corporate budgeting (i.e., by July).
- In recent years, Con Edison has been doing better at controlling the volatility of fuel prices (a range of over 350% in 2000 and 2001, vs. 29% in 2004).
- Suggest that an outside service organization could provide a cost reduction program. However, this service is not presently available in the outside market.
- The program would be advantageous for Con Edison Steam to strengthen relationships with their customers.
- Suggest a potential alternate program structure:
  - Support the creation of a participant group.
  - Establish an algorithm that, if met, Con Edison would be pre-authorized to purchase a fuel hedge on behalf of the participant group.
  - Participants would agree to participate in advance at agreed-upon volumes and cost factors.

(2) Benchmark with other utilities for their experience with fixed price offerings. The president of the International District Energy Association, upon the request of Con Edison Steam, issued a "broadcast email" to its membership inquiring if they are providing fixed price offerings to customers. Only one steam utility, Seattle Steam (its president), responded and it generally hedges on behalf of all of its customers, similar to

what Con Edison does now. The Company also reviewed the fixed price options made available by some gas utilities.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

Review suggestions and proposals for integration and development into future Negotiated Fuel Cost programs. Additional/on-going meetings and communications with customer groups to discuss effectiveness and possible enhancements of the program. In particular, customer groups to develop the pricing algorithm and propose its method for defining pricing. Con Edison to assess implementation issues, including if this type of enhanced offering would be offered by the outside market, and to assess if this proposed program meets the primary interest of other customers

**Work Plan No. SBDP- 15**  
**Ameliorating Capacity Constraints**

**Objective:** Explore obtaining cost-effective and economic supply- and demand-side capacity to alleviate potential steam capacity constraints in the winter.

**Overall Completion Date:** Six (6) months after completion of SPCS

**Summary of Activities, 1<sup>st</sup> Quarter 2006:** Con Edison in collaboration with the Core Team has continued providing information to the consultants and working on evaluation of supply-side capacity options in the Production Cost Study.

In its ongoing efforts to ameliorate capacity constraints, Con Edison has been performing steam generating unit maximum load tests to verify that all available steam capacity is being claimed. As a result of winter 2005/2006 maximum load tests, the claimed ratings of the following units have been increased (M lb/hr):

	Former Rating	New Rating
East River 10	1,500	1,600
East River 20	1,500	1,600
East River South Steam	550	650
BNYCP	887	918

The Company is presently performing load flow analyses to determine the deliverability of this capacity under various peak load scenarios.

The Company has also identified and performed preliminary testing on two demand side opportunities in three locations – two Company-owned buildings and one customer building. Results are currently under review.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

Complete capacity deliverability analysis. Review Company studies on demand management opportunities and review results of Company-sponsored demand management tests performed at various buildings on the steam system.

***Work Plan No. SBDP-16***  
***Explore Alternative Business Model Options***

**Objective:** Examine potential for technologies not currently utilized by Con Edison to serve customer loads. These may include cooling or thermal loads served on the existing system or detached from the system.

**Overall Completion Date:** September 1, 2007.

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

The City of New York requested that the Company hire an independent consultant to conduct a district heating and cooling study for the Hudson Yards area of Manhattan. The Company accordingly contacted a consultant, who was requested to prepare an outline of the RFP. This project is currently on hold because of the DPS Staff proposal in the steam rate case limiting cost recovery for outside consultants for steam business development plan implementation items.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

Address and identify the regulatory and economic issues associated with providing these non-steam products to a limited customer base.  
Prepare RFP for consultant selection and issue the RFP if cost recovery issues have been resolved.

**Work Plan No. SBDP-17**  
**Strengthen the Current Steam-to-Steam and**  
**Electric-to-Steam Chiller Incentives**

**Objective:** working with the appropriate government agency(s), develop improved incentives to stimulate the installation or retention of steam-based chillers in the new construction, electric-to-steam conversion, and steam-to-steam replacement markets

**Overall Completion Date:** ongoing

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. On November 8, 2005, Con Edison submitted to NYSERDA a table of proposed steam cooling programs within the Steam Retention, Electric-to-Steam Conversion, and New Construction markets (copy of transmittal letter and table attached, Attachment 1).
2. On January 6, 2006, Con Edison had a conference call with NYSERDA to review and discuss their proposed incentives (Attachment 2) that could be offered under its ongoing SBC-II program. Con Edison noted several areas of concern:

- The incentive for electric/steam conversion (\$500/kW, or \$275/ton) covers only approx 40% of the first-cost premium associated with steam cooling. We had requested up to \$1,400/kW (with the value ultimately determined, project-by-project, to achieve first cost parity)
- The \$750,000 facility cap means that full funding is available for replacement capacity only up to 3,200 tons (steam retention) and 2,700 tons (electric conversion). This places our multi-chiller replacements (such as NYUMC and UN) at risk.
- The New Construction program remained largely unchanged: \$240/kW; custom measure capped at \$120,000; and no assigned program for steam cooling.

NYSERDA indicated that these programs would be reviewed upon approval of the Action Plan for the CE Electric Rate Case settlement and definition of the SBC III program plans. NYSERDA asked Con Edison to schedule a meeting with Carrier and York to further discuss the marketing of steam cooling in the renovation and new construction markets.

3. On January 6, 2006, NYSERDA issues its new Peak-Load Reduction Program (PON 955).

4. On January 11, 2006, Con Edison discussed its concern regarding one of the changes reflected in PON 955 -- that the NYSERDA incentive would not exceed the incremental cost of the steam chiller as compared to a comparable electric chiller (i.e., providing first-cost parity) for the steam retention program. Con Edison advised that many of the recent cooling retention projects have sought to retain 100% cooling via steam and have used the NYSERDA and Con Edison programs to fund the installation of steam chillers. An all-steam plant will have a higher O&M cost than the alternative of replacing one of the steam chillers (in an all-steam plant) with an electric chiller (creating a hybrid plant). If the NYSERDA incentive for steam retention projects only allows for first-cost parity, then it is foreseen that the customer would convert from all-steam cooling to a hybrid configuration. Con Edison indicated that its proposed incentives (in its November 8, 2005 matrix) addressed this concern, with a statement that the program should allow for a lower initial cost for the steam plant (as it had in earlier versions of the Peak Load Reduction PON), thereby creating an adequate program for the all-steam cooling market
5. On January 23, 2006, Con Edison and NYSERDA met with representatives of Carrier Corporation and York International to discuss known barriers to improving the market penetration of steam cooling, and what could potentially be done to improve the market success. Both Carrier and York stated that the fundamental barrier in the electric-to-steam conversion and new construction markets was the higher capital cost for the steam-based equipment. Con Edison indicated that its rate discount could be converted to an equivalent upfront payment, but clarified that it would only partially offset the cost premium for the steam chiller. Each chiller vendor agreed to investigate the market benefit of providing a lower cost steam turbine. Neither vendor has provided details to date; Con Edison has made follow-up calls to promote vendor response.
6. Most recent conference call between NYSERDA and Con Edison was made on March 21, 2006; its timing was coordinated to allow for the issuance and initial review of the opportunities under the NYSERDA SystemWide and the System Benefits Charge (SBC) - funded programs.

NYSERDA provided Con Edison with an overview of the proposed structure of the Peak Load Management Program, including increases in the Facility and Contractor caps and continuation of the incentive levels (\$425 per kW for steam retention, \$500 per kW for electric-to-steam conversion). The potential steam cooling incentives under the New Construction Program were not discussed because no one from NYSERDA's program team was available.

Con Edison expressed its concern that the incentives will still not overcome the primary barrier to market success, and therefore will not stimulate increased summer steam sales.

NYSERDA referred to a statement within the Business Development Plan that



suggested that a \$500 per kW incentive, coupled with the demand savings, might be adequate to promote hybrid cooling. NYSERDA also discussed the impact of the Total Resource Cost Test (TRCT) when determining allowable incentive, and requested that Con Edison provide information on its marginal cost of steam for cooling uses. Con Edison agreed to provide this information.

Both parties agreed to participate in a follow-up conversion in early/mid April.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Continued interagency meetings and conversations between NYSERDA and Con Edison, particularly on the New Construction and Electric-to-Steam conversion programs.
2. Con Edison, with NYSERDA input and concurrence, to seek and complete strategic announcement(s) of the new programs.
3. Con Edison to follow-up with chiller vendors on the viability of alternative offerings.

**Work Plan No. SBDP-18**  
***Develop New Steam-to-Steam and Electric-to-Steam Chiller Incentives***

**Objective:** **Objective:** working with the appropriate government agency(s), develop new steam-use incentives to complement existing government programs. Develop means to inform existing and potential new customers about these incentive programs.

**Overall Completion Date:** ongoing

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. On December 15, 2005, Con Edison met with the New York City Economic Development Corporation (NYCEDC) to discuss the creation of a steam incentive program that provides a rate discount to participants who install and operate steam chillers. It is noted that existing programs such as the Business Incentive Rate (BIR) and the Energy Cost Savings Program (ECSP) provide its participants with roughly a 30% reduction in their electric or gas bills, thereby promoting the use of non-steam cooling equipment.
2. On October 26, 2005 Con Edison met with the New York Power Authority, the Lower Manhattan Construction Command Center (LMCCC) and Staff to discuss the potential development of an incentive for steam-based chillers serving properties using NYPA power. Con Edison's analysis established the projected electric usage and demand reductions associated with a representative hybrid chiller plant, and converted these reductions to equivalent present-value saving based on forecasted Day-Ahead Market (DAM) and Incremental Capacity (ICAP) prices. Purpose of the meeting was to establish the potential viability for steam cooling to serve the Freedom Tower, but could be applicable to other NYPA customers that are installing new or replacement cooling equipment. Presentation established that hybrid chillers could be economical if NYPA were willing to make a contribution toward the capital cost of the chiller based in part upon the present value savings in DAM and ICAP prices. NYPA has not yet responded to this presentation.
3. On January 13, 2006, Con Edison provided to NYCEDC an analysis of the proposed terms for the new incentive program. Con Edison evaluated the economic contribution of incentives by Con Edison (via its SC-5 tariff), NYCEDC (new incentive), and NYSERDA (at approx. \$1,100 per kW, or roughly 75% of the first cost differential).

4. On February 24, Con Edison met with the NYCEDC to further review the proposed program. The primary objective was to establish the content of a presentation to be made to the NYC Office of Management and Budget (OMB) to substantiate the need and annual cost for the program. It was agreed that a new incentive program, specifically to promote steam cooling, would be proposed in order to avoid conflict or modifications with the scope and intent of the existing NYC programs.
5. March: Company helped the NYCEDC prepare a presentation for City government officials that provides the justification for a steam cooling incentive program.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Continued interagency meetings and conversations between NYCEDC and Con Edison to prepare a legislative proposal and to address appropriate modification to BIR program.
2. Seek the development of an economic incentive program with NYPA.
3. Con Edison, with NYCEDC and NYPA input and concurrence, to seek and complete strategic announcement(s) of the new programs.

***Work Plan No. SBDP-19***  
***Develop a Framework for Long-term Contractual Relationships***

**Objective:** Evaluate the potential to use long-term contracts to leverage the installation and operation of steam-based equipment.

**Overall Completion Date:** by March 2007

**Summary of Activities, 1<sup>st</sup> Quarter 2006:**

1. Initial discussions with customers about long-term negotiated service agreement to promote the installation of steam-based heating and DG equipment.
2. Initial discussions with the equipment manufacturer and customer to address opportunity to partner in the installation of steam-based DG at customer and Company locations.

**Anticipated Activities, 2<sup>nd</sup> Quarter 2006:**

1. Continued conversation on these and other similar opportunities.