Con Edison Steam Strategic Plan

January 30, 2007

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Executive Summary

Introduction

On September 22, 2006, the New York Public Service Commission (Commission) issued an order approving a two-year steam rate plan for Con Edison (Rate Plan). The Rate Plan requires that Con Edison file a strategic plan on January 31, 2007 and 2008 that contains the following components:

1. Considers the findings of the Steam Business Development Plan (SBD Plan), the Steam Production Cost Study (SPCS) and, in the January 31, 2008 plan, the Steam Resource Plan, in a manner designed to maintain the viability of the steam system.
2. Establishes one-year, three-year, five-year, and ten-year goals and schedules for business development and production.
3. Discusses the prior year's and subsequent year's business development and production planning activities.
4. Identifies and analyzes the reported reason(s) why certain SC-1, SC-2 and SC-3 customers left the steam system in the past year and the steps taken (or to be taken) to address these issues, to the extent applicable; and, identify and analyze the reported reason(s) why potential customers with buildings larger than 250,000 square feet in area did not take steam service during the past year.

This strategic plan is being formulated in the midst of a series of initiatives, analyses, and reporting activities, which are required by the Steam Business Development Order and the Rate Plan. The primary inputs to this strategic plan, as discussed in the Rate Plan, are:

- Steam Business Development Plan (completed)
- Steam Production Cost Study (Phase One completed)
- Steam Resource Plan (slated for October 2007)

Other actions and studies planned or in progress by Con Edison that it must report on over the following year are:

- Steam Demand Charge Bill Impact Report
- Energy Audit Best Practices Report
- Report on Achievement of Hybrid Chiller Milestones
- Stakeholder Contact Reports
- Customer Satisfaction Survey Reports
- Annual Plant Availability, capital, and operation and maintenance (O&M) Reports
- Quarterly Reports on Steam Business Development Work Plans

This document presents the 2007 strategic plan required by the order. This plan was required to be completed before the Steam Resource Plan. A full discussion of production planning will be contained in the October 2007 Steam Resource Plan and any further refinements as a result of that plan will be reflected in the 2008 strategic plan.

The Value of Con Edison's Steam System

Con Edison's steam system makes a valuable contribution to the overall New York City metropolitan area's energy portfolio and economy. It reliably serves approximately 1,800 customers with steam for space heating and hot water and provides about 370 of those customers with steam for building cooling.

The steam system provides advantages to customers that cannot be provided by alternative services. For example, the most competitive alternative to steam heating is gas boilers. Not only do gas boilers consume valuable space within buildings, they require flues that often take away revenue-producing space. Steam heating also provides reliability, capital cost avoidance, risk mitigation (e.g., fuel and chemical storage, emissions responsibility), and environmental benefits.

In addition to the direct value provided to its customers, the steam system reduces the need for peak summer electricity capacity by about 375 megawatts, benefiting all electric customers in the southeast New York market. The system also avoids the need for additional in-City electricity and natural gas delivery infrastructure and other energy costs that would be incurred were the steam system unavailable.

Steam heating continues to be an attractive energy alternative for large commercial buildings. In recent years, Con Edison Steam has added the new Hearst Tower, Time Warner Center, Gramercy Park Hotel, and 7 World Trade Center to the list of prestigious buildings served by our system. The capture rate for large commercial buildings continues to be 90%.

Con Edison is strongly committed to its steam system and this strategic plan demonstrates how the Company is working to maintain the viability of the steam system over the 10-year forecast period.

Sales Forecasts and Goals

The Con Edison steam system has had a small, but consistent rate of sales growth since 2000 (excluding the effect of lost sales resulting from the World Trade Center attack). The sales forecasts for the next 5 years call for an average net growth rate of about 0.6% per year. Beyond 2012, the economic forecast shows a slowdown in commercial and residential construction in Manhattan, resulting in a reduction in the sales growth rate. The 10-year sales forecast is a net growth rate of about 0.4% per year. The measures that the Company is implementing to improve its business development activities have the potential to moderately increase sales growth by increasing our capture rate for heating of new residential high-rise buildings and steam cooling. We have established marketing goals to increase the annual growth rate by 10% over the next five years.

Sales growth is limited by a number of factors: (1) the steam system is located in a mature market, Manhattan below 96th Street, and expansion of the steam system beyond its existing footprint is uneconomic because of the high cost of installing new steam mains; (2) while there are opportunities to increase cooling load during the summertime, the capital and operating costs of steam chillers are both higher than electric chillers; and (3) current tax and incentive policies favoring on-site boilers and cogeneration facilities make it difficult for the steam system to capture and retain steam load. In addition, going forward, the expiration of rate moderators (e.g., First Ave. proceeds) and the potential need for significant production investment will result in base rate increases that may further constrain the steam system's ability to retain and attract customers.

Steam Business Development Program

The Company is implementing numerous strategies and tactics to achieve its business development goals:

- Improving existing customer relationships to retain existing large accounts and to ensure that the Company captures all new large commercial accounts in the steam footprint.
- Continuing to attract new business in order to offset the loss of sales from customers installing more efficient steam equipment or leaving the steam system.
- Identifying cost competitive ways to increase penetration of steam hybrid chillers, particularly among heating only accounts.
- Implementing pricing and incentive programs to reduce peak loads to minimize the need to add new steam production capacity.

Going forward, Con Edison will continue to seek more insight into what drives customer behaviors and energy system decisions. Con Edison will also further strengthen relationships with its steam customers that will allow that insight and collaboration to flourish. Con Edison will also continue to seek changes in governmental policies that disadvantage steam as compared to other energy sources.

Con Edison's Steam Business Development (SBD) group is now fully staffed, with nine marketing and technical experts. Since 2006, this group has developed and is implementing an aggressive sales and marketing program to acquire new accounts, develop the value of our existing accounts, and retain valuable accounts against rivals. The components of this sales and marketing program are:

- A strong "value proposition" for the use of district steam for heating and cooling large commercial and residential properties, including steam as an environmentally sound resource that will help the City to achieve its carbon dioxide emission reduction goals.
- An improved sales process, which includes prospecting and qualifying leads; informing architect/engineers and other influencers of energy decisions of the benefits of district steam; retaining and expanding business with our largest existing accounts; submitting proposals and arranging sales presentations to attract new business; and improving the coordination of customer service for new business connections.

- A "steam account manager" program that provides each of our largest 450 accounts with a single point of contact to address any issues regarding steam services and to identify customer retention and expansion opportunities.
- A program to identify "at risk" steam cooling business for retention efforts and to identify those heating-only customers who might benefit from hybrid steam cooling systems.
- A sales management program that ties individual performance to achievement of marketing objectives.
- Sales tools to help SBD staff achieve their goals, including an account management system, sales training, enhanced customer intelligence, strategic alliances, "beyond the meter" services, and market research.
- Increased NYSERDA incentives for steam cooling installations, which now provide up to $1,000/kW avoided for new construction, electric-to-steam conversion, or retention.
- Promotional materials and targeted advertising, with the theme "Building on Steam," to educate potential customers and opinion leaders on the value of district steam.
- A program evaluation process involving capture rate success, retention rate, and assessments of customer favorability.

Steam Production Planning Activities

Throughout 2006 and into 2007, the Company has been pursuing a number of steam production planning activities, including the following:

- Identified capacity increases from existing resources
- Completed the Steam Production Cost Study
- Initiated the Hudson Avenue Investment Grade Evaluation
- Initiated the 2007 Steam Resource Plan

Con Edison is refining its 20-year production cost forecast, including the cost estimates for the Ravenswood and Hudson Avenue options outlined in the SPCS, as well as the costs to maintain all of the other existing stations. Three options at Hudson Avenue, as determined by the Phase 1 SCPS, are being reviewed in the Investment Grade Evaluation project at this time. The cost estimates and production goals will be contained in the Steam Resource Plan, which is to be filed with the Commission in October 2007. The Steam Resource Plan will also show how the Company will continue to provide reliable service over the 20-year period given steam sales forecasts and goals.

Steam Capture Rate and New/Lost Business

Over the past three years, the capture rate for commercial properties greater than 250,000 square feet near the steam system was about 90%, while the capture rate for residential properties of the same size and location was 50%. The average over the last five years for residential buildings larger than 250,000 square feet, near the steam system, was approximately 20%.

In 2006, a total of 13 new steam customers were connected to the system, representing 129,000 Mlb of annual sales. A total of 27 customers left the steam system in 2006, representing about 38,000 Mlb of sales, for a net gain of 91,000 Mlb. Of the total lost business, 22 were SC1 customers, 3 were SC-2 customers, and 2 were SC-3 customers. All of the "lost" SC-2 and SC-3

customers (except one SC-2 customer) represent demolished buildings that are planning to return to the steam system. The one SC-2 customer, which had about 2,000 Mlb of annual sales (an extremely low heating load), converted to electric heat and hot water. The total "lost" business for SC-1 customers (not including demolished) was approximately 4,600 Mlb, or 0.02% of 2006 sales.

Conclusion

Con Edison continues to make significant progress on implementation of the SBD Plan action items, as described in its quarterly reports. With respect to steam production planning, however, the most important insights, will take shape over the course of 2007 with the investment grade study of Hudson Avenue and the Steam Resource Plan, which will consider in particular the ability of the steam system to replace aging capacity at Hudson Avenue without increasing costs to the extent that it will result in customers leaving the steam system.

In sum, Con Edison is committed to its steam system and this report will demonstrate how the company is working to maintain the viability of the steam system.

System Overview

In terms of total production, the Con Edison system produces more steam than the next nine U.S. steam systems combined. More than half of Con Edison's steam comes from cogeneration plants. Beginning in 2005, Con Edison's customers began realizing the economic benefit of the 292-megawatt, 3.2-million pound-per-hour cogeneration system at the East River Station. The repowered plant not only benefits the Con Edison steam system, but it also allowed for the demolition and sale of the Waterside site, resulting in reduced metropolitan area air emissions and sale proceeds that benefit both steam and electric ratepayers.

The chart below lists the generating stations in Con Edison's steam system:

Station	Steam Capacity (1,000 lb/hr)	Electric Capacity (MW)
East River 1&2	3,200	292
East River Units 6 & 7	1,940	307
East River South	650	
Hudson Avenue	1,600	
Brooklyn Navy Yd. (merchant plant)	918	239
West 59th Street	1,331	
East 60th Street	762	
East 74th Street	1,960	
Ravenswood "A" House	500	
Total Capability	12,861	838

The actual peak winter demand in 2005/2006 was 8,413 Mlb/hr. The forecasted peak for the 2006-07 winter, at a 6 degree F design temperature, is 10,330 Mlb/hr and the installed reserve requirement is 1600 Mlb/hr. Accordingly, the system's capacity is well above its reserve requirement for the 2006-07 winter. In calendar year 2006, the total steam sendout was 27,272,599 Mlb, the lowest since 1962. This reduction was due to the unusually warm weather during the winter billing periods.

The steam distribution network consists of 105 miles of mains and service pipes extending from Battery Park north to 96th Street on the west side and 89th street on the east side of Manhattan. The steam system's load centers and distribution grids are located in two districts: an uptown district, which serves the concentration of large buildings in the midtown area, and a downtown district, which serves lower Manhattan. Con Edison Steam's 450 largest accounts represent approximately 80% of its steam sales and revenues.

I a. Findings of the Steam Business Development (SBD) Plan

On September 27, 2004, the Commission issued an order approving a Steam Rate Plan ("2004 Steam Rate Plan") for Con Edison. To promote the steam business, the order required the Company to work with the Steam Business Development Task Force, established by the order, to develop the Steam Business Development Plan (SBD Plan). The SBD Plan was completed and filed with the Commission in August 2005. The SBD Plan's principal findings and conclusions are as follows:

- 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.
- The fundamental barrier to development of the New York City steam system is steam's cost relative to other heating and cooling options.
- Tax policies harm steam's competitive position. For example, where steam is less expensive than natural gas, differential taxation results in steam having a higher end-use price than natural gas.
- Con Edison Steam should concentrate on developing and retaining its existing combined heating and cooling and large heating customers, while positioning itself to increase penetration in the cooling market.
- Publicly administered programs, as they affect steam-cooling options, are not fully coordinated, sometimes conflict, and are insufficient to increase steam penetration into the cooling market.
- Con Edison Steam should also examine other methods for increasing the annual load factor by encouraging its customers to manage their peak usage and, more broadly, to optimize their energy decisions with respect to the overall system economics.
- Con Edison Steam should take a more active and, where appropriate, broader role in meeting its customers' energy needs.
- Expansion into the unserved markets of Hudson Yards and the Greenpoint-Williamsburg area appears challenging under the current line extension business model. Expansion into Hudson Yards requires a capital commitment significantly higher than that required for gas.

Specific action items were included which focused on four major areas. These are:

- Information Systems
- Resource and Organizational Development
- Product and Pricing Related Development and Analysis
- Regulatory and Institutional Initiatives

Nineteen Implementation Plans were developed for the Action Items and provided to the interested parties. Four quarterly reports have been filed since then as required by the Commission's SBD Plan Order. Below is a summary of each plan and the progress made as of the last quarter in December 2006.

1. Account Management System: A comprehensive customer account information system has been purchased and implemented. It is now the central source of all customer and prospect data.

2. Pipeline Asset Management System: We have acquired software for a new, state-of-the-art Manhattan real estate property database and the vendor is incorporating the location of the steam mains into that database.

3. Mapping & Locational Analysis: The software for the database (see item 2) was delivered and SBD staff was trained in the capabilities of the software. The staff is integrating steam customer information into this database.

4. Develop a Resource Plan for the Business Development Group: The plan to identify staffing requirements of the SBD group, the skills required for the positions, and the systems required to support the staff has been implemented. All staff positions have been filled. We have also updated the external and internal resources (e.g., business publications, trade journals, and Web sites; real estate mapping technologies; coordination with government and private economic development organizations; and coordination with other Con Edison departments) needed to improve our effectiveness in intelligence gathering.

5. Strengthen Relationships with Advisors and Vendors: The plan to develop programs such as energy audits, hybrid chillers, DSM programs, demand billing tutorials, and repair service has been completed. Con Edison will continue to report on program implementation.

6. Develop Targeted Marketing Plan: Concepts were developed, brochures are being produced, and a positioning advertising campaign for steam will be launched in April 2007. Con Edison will report on further implementation of this plan.

7. Create Mechanism for Ongoing Customer Involvement: Recent activities include meetings held with individual and small groups of customers; challenge papers developed on innovative ideas for using steam that will be submitted to the World Energy Congress; a steam demand seminar held in October and attended by over 125 customers; and communication materials sent to all steam customers with steam department contact information.

8. Conduct a Marginal Cost-of-Service Study: The methodology for calculating the marginal cost was discussed and finalized. The study will be completed prior to the next steam rate case filing.

9. Propose a Steam Demand Charge and Other Initiatives: The Company will commence demand billing in November 2007, as provided for in the Rate Plan. The Company will consider other initiatives after the transition to demand billing has been completed.

10. Improve Efficient Steam Usage by Customers: A customer energy audit program was developed, an audit company was chosen, and 30 customers agreed to participate. This work plan is completed and Con Edison will report on implementation as required by the current Steam Rate Plan.

11. Position Steam as a Clean Energy Source: District steam is currently ineligible for points under the U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) program. Con Edison is in constant contact with an International District Energy Association (IDEA) representative to the USGBC in an effort to have the use of its district steam system certified as eligible for LEED points.

12. Develop Hybrid Steam Chiller Product Option: The plan to promote the use of steam hybrid chillers is complete; the milestone schedule was filed with the Commission and the Company will report on its achievement of those milestones in February of each year; the Hybrid Chiller Advisory Group was formed and has had two meetings; promotional materials are near completion; and targeted customers were selected to receive hybrid cooling proposals.

13. Develop a Condensate Re-Use Product: Draft agreements were prepared for two customers to implement condensate re-use programs. Con Edison will finalize agreements after final cost estimates are received from customers.

14. Develop an Enhanced Steam Price Risk Management Product: An advisory group was solicited and convened to determine enhancements to Con Edison's Negotiated Fuel Cost Program. There has been a significant increase in participation. The Work Plan is complete.

15. Ameliorating Capacity Constraints: The Company presented the Hudson Avenue options to the SBD Task Force and has executed the contract for the investment grade study. The Company has also executed agreements with six customers for pilot demand-side management programs. In addition, as result of the evaluation of existing plants, the Company has been able to increase its total capacity by 380 Mlb/hr. This additional capacity means that (1) the steam system is no longer close to being capacity constrained during the winter period and (2) the need to add new generating capacity in the future is mitigated. This Work Plan is complete. Con Edison will further report on implementation of this task when it files its Steam Resource Plan in October 2007.

16. Explore Alternative Business Model Options: The District Energy Study for Hudson Yards is in progress. A detailed scope of work was written and reviewed by interested parties. An RFP was issued to prospective bidders. A contract has been executed in the 1st Quarter of 2007, the kick-off meeting was held with the contractor, and the study will be filed with the Commission by July 2007.

17. Strengthen the Current Steam-to-Steam and Electric-to-Steam Chiller Incentives: As a result of information Con Edison submitted to NYS Energy Research and Development Authority (NYSERDA) for its Total Resource Cost (TRC) test, NYSERDA raised the

incentive levels for steam cooling to between $600-$1000 per kW, depending on retention or new chillers and their Coefficient of Performance (COP). This item is complete except for the development of marketing materials for hybrid chillers, which is discussed in Work Plan 12.

18. Develop New Steam-to-Steam and Electric-to-Steam Chiller Incentives: SBD is currently working with NYC Economic Development Corporation (NYC EDC) on new legislation to allow its Energy Cost Savings Program (ECSP) to fund new steam chillers. SBD is working with NY Power Authority (NYPA) to develop potential incentives for hybrid chiller installation at the World Trade Center.

19. Develop a Framework for Long-term Contractual Relationships: Con Edison has engaged in discussion with multiple major customers concerning the possibility of entering into long-term SC-5 contracts.

I b. Findings of the Steam Production Cost Study (SPCS)

The 2004 Steam Rate Plan called for Con Edison to work with a newly formed Steam Business Development Task Force (SBD Task Force) to develop the scope of a steam production cost study of long-term steam production options to be performed by an independent engineering firm selected through a competitive bid process. The Task Force developed the scope of work for the SPCS and, when the competitive bidding process was completed in October 2005, Gilbert/ Commonwealth, Inc. doing business as WorleyParsons Group, Inc. (WP) was selected to conduct the SPCS. Con Edison and the core members of the Task Force (DPS Staff and New York City) continued to work together with WP to complete the SPCS.

The SPCS was a conceptual study that developed capital cost estimates of ± 30% for the construction of new steam production capacity and reviewed indicative offers provided by potential merchant suppliers of steam as proxies for the cost of purchased steam. The conclusions of the SCPS were as follows:

Hudson Avenue:
The existing boilers are not suitable for continued reliable service for the next 20 years due to their age and deteriorated condition. WP recommended the following options be evaluated further in the Investment Grade Evaluation: a modified Annex Unit with supplemental package boilers, a gas-turbine based cogeneration plant, and a new boiler plant located in the Maintenance Area.

59th Street & 74th Street:
Continued operation of existing boilers is the least cost option.

Ravenswood Steam Generating Station (A-House):
WP evaluated rebuilding 1, 2, 3, and 4 of the existing boilers as well as replacing 1, 2 3, and 4 of the existing boilers with equivalent boilers.

KeySpan Ravenswood Unit 40:
Consider this as a potential alternative to rebuilding or replacing boilers at the Ravenswood Steam Generating Station (A-House).

TransGasEnergy:
TransGas Energy's indicative offer was not compliant with the technical requirements of SPCS.

Customer Sell Back Proxies:
Both the boiler and cogeneration proxies were not cost competitive with central station options at comparable capacity factors. These proxies were located in customer buildings and assumed benefits were avoided steam and electric payments to Con Edison.

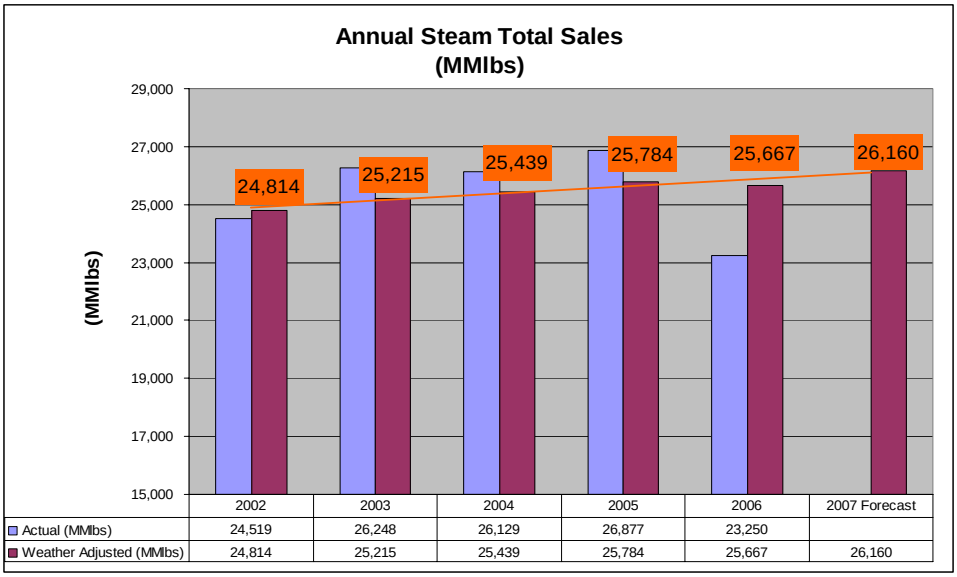
The SPCS is a preliminary Phase 1 study and, as discussed herein, the Company will be filing a Steam Resource Plan in October 2007 that will consider the findings of the SCPS and other analyses.

II. One-, Three-, Five- and Ten-Year Goals and Schedule for Business Development and Production

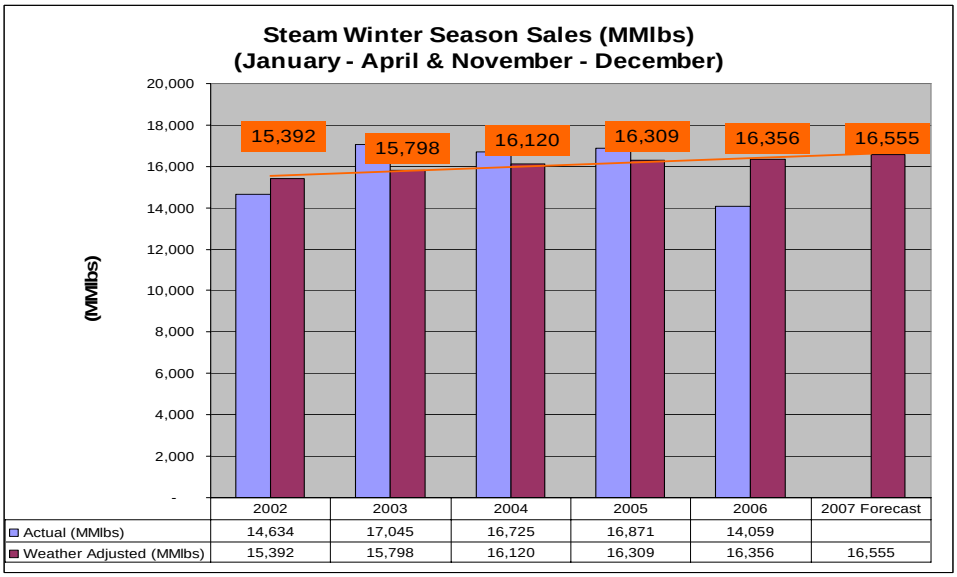
Business Development

Steam Sales

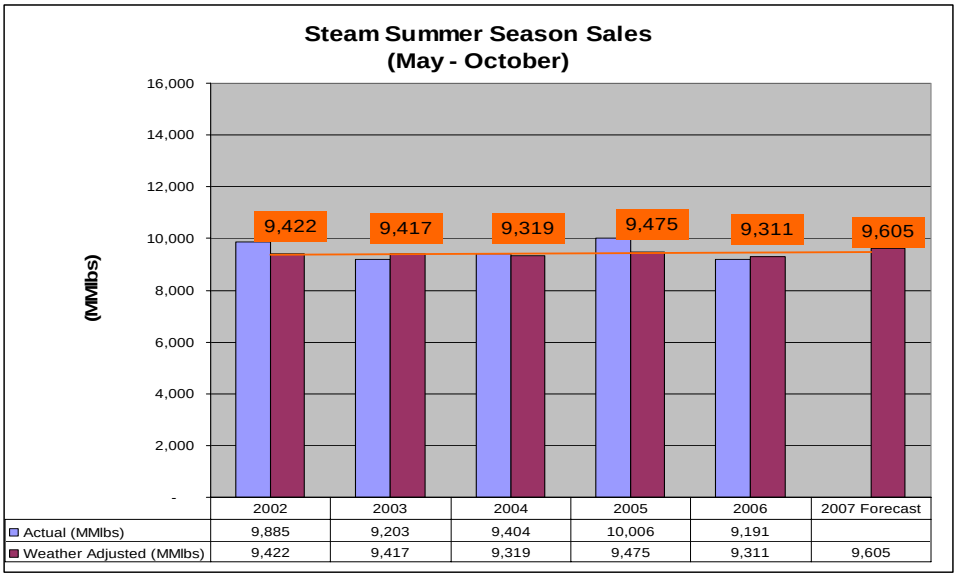
The charts below and on the next page indicate the actual and weather adjusted sales for 2002-2006 – total, winter sales, and summer sales. The reduction in weather-adjusted sales in 2006 was due to a reduction in summer period sales (May-October). This reduction was the result of the replacement of steam chillers with higher-efficiency steam equipment (38,000 tons in retention for 2005 and 2006) and the conversion of 1,250 tons of steam turbine equipment to electric at one major account that decided to increase the amount of electric chilling in a hybrid configuration.



	2002	2003	2004	2005	2006	2007 Forecast
Actual (MMlbs)	24,519	26,248	26,129	26,877	23,250	
Weather Adjusted (MMlbs)	24,814	25,215	25,439	25,784	25,667	26,160



	2002	2003	2004	2005	2006	2007 Forecast
Actual (MMlbs)	14,634	17,045	16,725	16,871	14,059	
Weather Adjusted (MMlbs)	15,392	15,798	16,120	16,309	16,356	16,555



Sales Forecasts

The weather-adjusted sales forecasts for the 1-, 3-, 5- and 10-year periods are as follows:

Time Period	Year	Forecast (MMlb)
1 year	2008	26,566
3 years	2010	26,777
5 years	2012	27,155
10 years	2017	27,252

The sales forecasts for the next 5 years call for an average net growth rate of about 0.6% per year. Beyond 2012, the economic forecast shows a slowdown in commercial and residential construction in Manhattan, resulting in a reduction in the sales growth rate. The 10-year sales forecast is a net growth rate of about 0.4% per year.

Efforts will be taken to improve on these forecasts. We have segmented the market into commercial, residential, hospitals, hotels, museums, government buildings, and universities and assigned account managers to each segment in order to maximize market share in each segment. We have established marketing goals to increase the annual growth rate by 10% for the next five years, to be attained through aggressive marketing efforts focused on major commercial and residential properties and additional steam cooling load.

Our business development goals are as follows:

- Continue to capture 90% of the large commercial market that is located near the steam system.
- Increase the capture rate in the high-rise residential market that is located near the steam system.

- Increase steam cooling penetration among heating-only customers through the installation of hybrid cooling systems. (Hybrid cooling systems will not result in a significant increase in sales because they are projected to be used during peak electric demand hours only.)
- Retain at-risk cooling business among existing customers. (It should be noted that this will not result in increased sales as existing steam cooling equipment is replaced by more efficient steam cooling equipment.)

Production

Con Edison is refining its 20-year production cost forecast, including the cost estimates for the Ravenswood and Hudson Avenue options outlined in the SPCS, as well as the costs to maintain all of the other existing stations. Three options at Hudson Avenue, as determined by the Phase 1 SCPS, are being reviewed in the Investment Grade Evaluation project at this time. The cost estimates and production goals will be contained in the Steam Resource Plan, which is to be filed with the Commission in October 2007.

As discussed in the System Overview, Con Edison will maintain an adequate reserve margin for the year 2007. The 3-, 5-, and 10-year production projections will be fully discussed in the 20-year Steam Resource Plan.

III a. Business Development Activities

Business Development Plan – 2007

In 2007, Con Edison refined its strengths, weaknesses, opportunities, and threats (SWOT Assessment) and further developed its sales approach, customer segmentation, steam cooling promotion, sales management processes, sales tools, marketing communications, and program evaluation. These initiatives are described in detail in the following pages.

SWOT Analysis

Strengths (Value Proposition)	*Weaknesses*
Reliability Ease of operations Capital cost avoidance Risk mitigation Space efficiency Clean Peak electric load reduction (cooling)	High operating costs for heating High first and operating costs for cooling Major future system investments required to maintain existing capacity Expiration of rate moderators Tax policies favoring on-site generation
Threats (Competition)	*Opportunities*
Natural gas for on-site boilers Electricity for cooling Combined Heat and Power (CHP) systems	Major new commercial developments Residential high-rise market Hybrid cooling Oil-to-steam conversions

In terms of opportunities, other than major new commercial developments, the Con Edison faces major challenges in capturing residential high-rise, hybrid cooling, and the oil-to-steam markets.

Sales Approach

The following process is in place for our sales effort.

- **Prospecting**: Designated SBD staff members monitor real estate activity within the steam footprint to identify and qualify potential steam business leads. This is accomplished by:
    - Mapping technologies to identify profitable opportunities
    - Reviewing Trade publications, newspapers, and Web sites
    - Coordinating with City and State and private real estate/economic development organizations
    - Working with Energy Services, Distribution Engineering, and the Account Executives

  All prospecting data is entered into the account management system.

- **Educating**: SBD staff members conduct meetings with engineers, architects, vendors, and consultants to provide and exchange information regarding availability of service, pricing, and benefits of district steam.

- **Retaining and expanding**: Conduct meetings with key decision makers among our top 450 accounts to identify customer retention and expansion opportunities.
    - Identify at-risk steam chiller plants and existing heating-only accounts where hybrid cooling could be an opportunity.
    - Provide potential customers with a competitive analysis demonstrating the economic benefits of district steam.

- **Attracting**: Conduct sales presentations for new steam heating and/or cooling business.

- **Servicing**: Work with customers and their representatives to maintain construction turn-on schedules for "organic" growth.
    - Reflects value of district steam in the market and reinforced by the relationships that have been developed.

- **Executing**: To convey our messages, we will conduct frequent meetings with architect/engineers, developers/owners, major accounts, and prospects.

Customer Segments/Contacts

In broad categories, our customers are segmented as follows:

- Commercial 54%
- Residential 19%
- Hospitals 7%
- Hotels 6%
- Museums 2%
- Other 12%

We have designated SBD staff members to work with particular customer segments. We have also assigned the members of the SBD staff (steam account managers) as single points of contact to each of our 450 largest customers. For major building portfolio managers, we have teamed a steam account manager with an Account Executive to provide major customers with special service for their steam business.

As part of our customer contact procedures, our steam account managers complete a customer data sheet to update information about customers' properties, equipment, and future plans. All customer and prospect information will be entered into our account management system for access by business development staff and others in Steam Operations. A major objective of these procedures is to identify customer retention and expansion opportunities.

To meet our sales goals, we must retain existing customers. For customers who demonstrate that they have viable alternatives (i.e., leaving the steam system or replacing steam cooling equipment with electric), we provide them with a competitive analysis demonstrating the economic benefits of district steam and, where appropriate, offer them rate incentives.

Steam Cooling Retention

A major challenge for the SBD group is to retain existing steam cooling business. Through the use of NYSERDA incentives and rate discounts (see Sales Tools), we have managed to retain approximately 38,000 tons of steam cooling over the past two years.

We are now determining which existing steam customers have cooling equipment that is approaching the end of life. For those customers, we will initiate a dialog to address any concerns they may have with steam technology in order to maintain continued service. We will provide assistance to these customers to ensure that they avail themselves of all possible financial incentives for full steam cooling replacement. In addition, our approach also includes a fall back position of hybrid cooling wherever customer driven economics warrant this alternative.

Hybrid Cooling Prospects

Our major business attraction effort is to target our major "heating only" customers and make proposals for hybrid cooling. The first step in the sales process is to screen these customers to determine the most attractive targets. This screening process is as follows:

Step 1 Criteria

- Existing heating-only accounts
    - Cost of access to steam eliminated in economic analysis
- Estimated total central cooling plant in 3,000-6,000 ton range
    - Optimum economic range based on evaluation of NYSERDA funding

Step 2 Criteria

- Year building was built
    - Buildings built prior to 1980 more likely to install central plant.
- 15-20 year predicted equipment life span used to narrow selection to facilities in range for upgrade of existing cooling plant
    - Higher capital costs of steam equipment can be offset by replacement costs of aged equipment
- Owner type considered related to the importance of lifecycle costs

Step 3 Criteria

- Available market information on client activity at facility
    - Recent purchase or sale
    - Recent major mechanical equipment renovation
    - Known proclivity for CHP

Using these criteria, we have identified 10 high-priority prospects for hybrid cooling. We will be making in-person proposals to these customers, followed by proposals to additional customers, if appropriate. The Company will report on these proposals by June 30, 2007, as part of the Rate Plan's reporting requirements.

The Company is also continuing its work with the Hybrid Cooling Advisory Group.

Sales Management

The SBD staff consists of a team of nine technical and marketing professionals. To align their activities with sales goals, Con Edison has established individual performance metrics related to new business activities and their performance evaluations will be linked to achieving these metrics.

Individual staff members of SBD are expected to conduct in-person meetings with key decision makers among our top 450 accounts and those "facilitators" (architects, engineers, vendors, developers, property owners/managers, etc.) who guide major decisions about construction in Manhattan.

They are also expected to conduct sales presentations, including technical and economic analyses, for new steam heating and/or cooling business. The majority of these presentations will be made as a sales team, including staff members with the required technical and economic expertise.

Sales Tools

The members of the SBD staff have the following tools to achieve their goals:

- Technology to gather and analyze customer information for the purpose of maintaining existing customer base and track new sales and opportunities. This includes:
    - Right Now Technology, an account management system
    - Demand Metering Data Management system, which gathers remote metering data for demand billing and customer profiling
    - LotInfo, which provides real estate information based on block and lot; internally developed pricing templates to bridge databases for economic analyses
    - Con Edison internal databases

- NYSERDA incentives for steam chiller installations provide up to $1,000/kW avoided (Coefficient of Performance > 1.02) with a facility Cap of $1 million for new construction, electric-to-steam conversion, or retention.
- SC-2, SC-3 – Special Provision D provides an air conditioning discount of $2 per Mlb for two years, summer only, for new and additional air conditioning load
- SC-5 rate, which provides for a negotiated rate for customer retention
- Continuous sales training – classroom, online, and joint training sessions with Account Executives
- Customer Intelligence
  - Competition's competitive economic models, cost analysis for on-site gas-fired boilers and CHP systems
  - Enhanced information about customer turnover to determine why customers are leaving the steam system
  - Use of steam field forces to gather current field intelligence (Steam Distribution and Engineering personnel, Commercial Technical Representatives, Meter Readers)
- Strategic alliances with key customer and industry organizations
  - BOMA (Building Owners and Managers Association of New York)
  - NYECC (New York Energy Consumers Council)
  - Consumer Power Advocates
  - IDEA (International District Energy Association)
  - AEE (Association of Energy Engineers)
  - ASHRAE (American Society of Heating, Refrigeration and Air Conditioning Engineers)
- The use of "beyond the meter" services as a means of providing customers with value-added services
  - Emergency repairs
  - Energy audits
  - Steam demand studies
- Market research to identify market drivers and test for competitive threats
  - Focus groups
  - Customer satisfaction surveys

Communications

We have developed a package of promotional materials, with the theme "Building on Steam," to educate customers on the value of district steam. This includes brochures, testimonials, case studies, and ongoing enhancements to the Web site.

We will also conduct a strategic advertising campaign to strengthen brand recognition of Con Edison's district steam service. The target market is potential steam consumers and opinion leaders.

Other Marketing Programs

In addition to the business attraction and retention activities described above, the SBD staff is working on several other marketing programs. These include:

- Informational meetings with customers on demand metering and billing
- Demand side management programs to help customers reduce their peak demands
- Energy audits to help customer improve energy efficiency
- A demonstration project for a steam micro-turbine at our 74th Street Station
- The Negotiated Fuel Cost Option program to help customers stabilize the fuel component of their steam rates

Program Evaluation

In order to evaluate the effectiveness of our sales and marketing program, we will closely monitor the following:

- Annual review of capture rate success
- Retention rate
- Customer satisfaction

III b. Production Planning Activities

Throughout 2006 and into 2007, the Company has been pursuing a number of steam production planning activities, including the following:

- Identified capacity increases from existing resources
- Completed the Steam Production Cost Study
- Initiated the Hudson Avenue Investment Grade Evaluation
- Initiated the 2007 Steam Resource Plan

Through plant evaluations, the Company has identified 380 Mlb/hr of additional capacity from existing resources. The testing identified capacity rating increases at East River Units 10, 20, 60, and 70, the East River South Steam Station, and at the Brooklyn Navy Yard Cogeneration facility. This additional capacity means that (1) the steam system is no longer close to being capacity constrained during the winter period and (2) the need to add new generating capacity in the future is mitigated.

The Steam Production Cost Study (SPCS) was completed in October 2006 and has already been summarized in this report. The Investment Grade Evaluation (IGE) will more deeply examine some of the lower cost options identified in the SPCS for Hudson Avenue. Specifically the IGE will examine re-starting the Annex Unit as a natural-gas fired cogeneration plant, repowering the station with new boilers, and repowering the station with a combined cycle unit. The IGE is being performed by a team that includes Company experts, as well as a consulting engineering firm, Parsons Brinkerhoff. The purpose of the IGE is to develop the scope of work and cost estimates for these Hudson Avenue options to a greater level of detail than was provided in the SPCS. These details will include capital and operating cost estimates, drawings (site plans, general arrangement, piping and instrument diagrams, instrument and control, structural and electrical diagrams), heat and mass balances, system descriptions, air emissions modeling, and permitting requirements. The conclusions of the IGE will provide important input data to the 2007 Steam Resource Plan. The IGE is scheduled for completion by June 2007.

The Steam Resource Plan (SRP) will identify a cost-effective long-range supply approach that meets steam customers' needs in a safe, reliable, and environmentally sound manner. The SRP will build on the analyses and evaluations from the Phase 1 SPCS and the IGE. The SRP will discuss Hudson Avenue and examine options such as boilers, cogeneration, and competitively procured capacity. The SRP will be filed with the Commission in October 2007. The results of the 2007 SRP will be reflected in the 2008 Strategic Plan, which will fully discuss the 3-, 5, and 10-year production schedules and goals.

As specified in the Rate Plan, the Company will be providing, for informational purposes, by February 28 of 2007 and 2008, comprehensive status reports on its annual production capital expenditures. At the same time, the Company will provide its O&M plans for each station that encompass major maintenance components (i.e., corrective maintenance, major maintenance, overhauls, plant component upgrades, and plant inspection and repairs) for the previous calendar year. The Company will also provide an annual report on plant availability for each steam production unit for the winter and summer periods.

IV a. Reasons why SC-1, SC-2, and SC-3 Customers Left the Steam System in 2006

In 2006, a total of 13 new steam customers were connected to the system, representing 129,000 Mlb of annual sales. A total of 27 customers left the steam system in 2006, representing about 38,000 Mlb of sales, for a net gain of 91,000 Mlb.

Of the customers that "left" the system, 22 were SC1 customers, 3 were SC-2 customers, and 2 were SC-3 customers.

All of the SC-2 and SC-3 customers (except one SC-2 customer) represent demolished buildings that are planning to return to the steam system. The one SC-2 customer, which had about 2,000 Mlbs of annual sales (an extremely low heating load), converted to electric heat and hot water.

Of the 22 SC-1 customers, 7 converted to gas, 7 were demolished, and 8 requested that their steam service be turned off. The total "lost" business for SC-1 customers (not including demolished) was approximately 4,600 Mlb, or 0.02% of 2006 sales.

IV b. Why Potential Customers Greater Than 250,000 Square Feet Did Not Take Steam Service

There were 22 new construction projects near the steam system (below 96th Street on the West Side, below 89th Street on the East Side and within 250 feet of a steam main), greater than 250,000 square feet, during the period 2003 through 2005 (generally buildings that came on line in 2005 and 2006).

Of the remaining 15 projects:

- 10 became active steam customers
- 1 was a commercial property that was part of a hospital campus that operates its own central steam plant
- Commercial accounts captured were 7 of 8
- Residential accounts captured were 3 of 6

The commercial property not captured is a 45-story, 340,000 square foot, mixed-use building. Based on comments from the consulting engineer's representatives, the customer was against the use of Con Edison steam for this building and the payback analysis indicated that on-site boilers were an acceptable alternative.

The three residential properties elected to install on-site, gas-fired boilers. Based on discussions with developers' representatives, the preferred option for these rental properties was on-site gas-fired boilers because they were more concerned with steam's higher operating costs then capital cost avoidance at the time of construction.