STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 07-S-1315 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service.

ORDER ESTABLISHING RATE PLAN

Issued and Effective (September 22, 2008)

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At a session of the Public Service Commission held in the City of Albany on September 17, 2008

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
Robert E. Curry, Jr.

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BY THE COMMISSION:

INTRODUCTION

This order establishes a two-year rate plan for steam service provided by Consolidated Edison Company of New York, Inc. (Con Edison or the Company). The rate plan terms and conditions are generally consistent with terms and conditions that were set forth in a negotiated Joint Proposal (JP) supported by Con Edison, Department of Public Service Staff (Staff), the City of New York (NYC or the City), the New York Energy Consumers Council (NYECC) and Consumer Power Advocates (CPA).

PROCEDURAL HISTORY

On November 2, 2007, Con Edison filed tariff revisions to change its rates, charges, rules and regulations for steam service. In its filing, the Company proposed a three-year rate plan which called for rate increases each year. Most significantly, the Company sought to increase steam rates by $126.6 million (19% on a total bill basis) during the 12-month period ending September 30, 2009. The filing was suspended and this case was established to examine the propriety and reasonableness of the Company's proposals.[1] The matter was further suspended through September 30, 2008.[2]

Staff began its audit and investigation of the rate filing soon after it was submitted. A procedural conference was held on January 15, 2008, at which the schedule for this case, excluding the post-hearing briefing due dates, was set.

Staff, the City, NYECC, CPA and the County of Westchester (Westchester or the County) responded to the Company's rate and tariff proposals in pre-filed testimony and exhibits submitted on February 29, 2008. Con Edison answered the parties and provided further updates in its March 17, 2008 rebuttal filing. At the time of its rebuttal filing, the Company's request for rate relief in the first rate year had grown to $130.3 million.

Evidentiary hearings were held in New York City on April 7-10, 2008. During the hearings, the administrative law judge was joined by Commissioners Patricia L. Acampora and Robert E. Curry, Jr.

On April 11, 2008, Con Edison provided its notice of intent to enter into settlement negotiations. In accordance with our rules, the required review of the notice was completed and reported on April 11, 2008.[3] Settlement negotiations began on April 16, with an initial meeting at our New York City offices. The due dates for post hearings briefs were postponed

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[1] Case 07-S-1315, Order Suspending Major Steam Rate Filing (issued November 8, 2007).

[2] Case 07-S-1315, Order Regarding Further Suspension of Rate Filing (issued March 25, 2008).

[3] 16 NYCRR 3.9(a)(2).

because the negotiating parties reported that they had reached an agreement in principle on a joint proposal.[4]

A negotiated Joint Proposal was filed on June 16, 2008. A revised schedule, adopted on June 17, 2008, required the filing of statements in support or opposition on June 26, 2008, reply statements in support or opposition on July 3, 2008, and an evidentiary hearing on July 17, 2008.[5] Statements and reply statements in support were filed by the JP signatories and a statement and a reply statement in opposition were filed by Westchester. At the July 17, 2008 hearing, counsel answered questions concerning the Joint Proposal and various parties commented on procedural concerns that had been raised subsequent to the filing of reply statements but prior to the hearing.[6] In all, the record consists of 2,192 transcript pages and 219 exhibits.

Public comments on the Joint Proposal were requested by August 1, 2008,[7] but none were received.

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[4] Case 07-S-1315, Ruling Postponing Briefing Dates (issued June 3, 2008).

[5] Case 07-S-1315, Ruling on Revised Schedule (issued June 17, 2008).

[6] See Tr. 2174-86.

[7] Case 07-S-1315, Notice Seeking Public Comment on Joint Proposal (issued June 26, 2008).

PROPOSED RATE PLAN AND ISSUES BY SECTION[8]

The proposed rate plan consists of a two-year term beginning on October 1, 2008 and ending September 30, 2010. Its most salient provisions are summarized below.

Steam Revenues/Rates

The proposed plan increases base rates in each of the two rate years. The initial revenue increase is $53.0 million, followed by an additional increase of $24.7 million in the second rate year. The revenue requirement would be net of the amortizations of various customer credits and debits that are currently on the Company's books and have been previously deferred.[9]

The JP signatories recommend that the increases be levelized so that revenues increase each rate year by $43.7 million. Under this approach, the rates reflect, in part, the application of interest at the Other Customer Capital rate on the portion of the rate increase that would have otherwise been collected in the first rate year. In addition, the Company's base revenues will be approximately $9.6 million higher at the end of second rate year than if rate increases were not levelized. On a total bill basis, excluding certain discounts and contract revenues, the percentage increases associated with each alternative are 7.85% and 3.33% in the first and second

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[8] In the following discussion, some of the terms of the Joint Proposal are generally summarized and discussed. For a complete statement of the Joint Proposal's terms and provisions, please refer to the Joint Proposal, its appendices (A-H), and a September 8, 2008 letter that sets forth certain inadvertent omissions from JP §J, which accompany this order as Attachment 1.

[9] Net credits include the steam department's share of the net proceeds from the sale of the First Avenue Properties (approximately $28.4 million), prior sales of SO_2 allowances (about $2.5 million), and anticipated proceeds from additional sales of SO_2 allowances during the term of this rate plan (roughly $4.2 million). JP at 5.

rate years, respectively (non-levelized) or 6.47% each rate year (levelized).

Revenue Allocation, Rate Design and Fuel Costs

Among other things, the proposed revenue allocation reflects a phase-in of the revenue surpluses and deficiencies identified in the Company’s embedded cost of service (“ECOS”) study; this phase-in completely eliminates the deficiencies and surpluses over the rate plan’s two-year term.

The demand billing that is currently available to customers with annual usage equal to or greater than 22,000 Mlbs will be expanded to customers with annual usage ranging between 14,000 and 22,000 Mlbs as follows: the Company will provide demand meters to customers with the requisite usage who do not yet have them; in the 2008-09 winter period, it will study the billing impacts on customers with annual usage ranging between 14,000 and 22,000 Mlbs and those with annual usage equal or greater than 22,000 and hold a technical conference in July 2009 to present its study results and provide sample bills for the 2009-10 winter period; and finally the Company will implement demand billing for these customers in the 2010-11 winter period.

Rate design changes include increases in the customer charge and a revenue neutral redesign of usage rates for SC 2 rate II demand rate customers to reflect a declining block rate structure.

The fuel adjustment clause (FAC) continues as the mechanism for the recovery of (1) variations between the actual cost of fuel and the base cost of fuel (including continuation of the annual reconciliation of the steam fuel expenses and revenues); (2) any portion of the total fuel costs associated with the actual steam system variance (i.e., the difference between sendout and sales) that are not already recovered in base rates; and (3) all costs associated with oil storage and handling, including Company labor. During the term of the proposed rate plan, the base cost of fuel for each 1,000 pounds of steam used by a customer will remain at $8.049 and rates will continue to reflect the current allocation of the costs of the East River Repowering Project ("ERRP") between steam and electric customers.[10]

Earnings Sharing

The Company's allowed return on equity is 9.3%. If the level of earned common equity return in any rate year exceeds 10.1%, earnings above this threshold are shared equally by the ratepayers[11] and the Company.

Reconciliations

Con Edison is permitted to reconcile several categories of costs including, but not limited to,[12] property taxes, interference costs, production plant expenditures, pensions/OPEBs, environmental remediation, proceeds from the sales of SO_2 allowances, deferred income taxes, tax exempt debt, the Ravenswood O&M contract, and steam incident-related programs.[13] The deferral of variations of property taxes and municipal infrastructure support expenses is limited to 90% of the variation from the amounts that are in base rates. The

[10] Con Edison will undertake a detailed study of the allocation of ERRP costs, which will be filed with us on or before April 30, 2009. The signatories recommend that we establish a procedure for allowing comments on the filed study. If changes are recommended by the study, Con Edison commits to reflect such changes in its next steam base rate filing. JP at 9-10 (§C.6).

[11] The ratepayers' portion will be deferred and will accrue interest at the unadjusted customer deposit rate published by us annually. JP at 20 (§F.2).

[12] The proposed reconciliations also include "all other applicable existing reconciliations and/or deferral accounting…." JP at 19 (§E.11).

[13] See JP Appendix D.

reconciliation for production plant capital expenditures is downward only.

As to the steam incident-related program costs, Con Edison will defer for recovery in its next steam rate filing the difference between the amounts included in rates and the Company's actual costs.[14] This category of costs/deferrals is subject to the outcome of the Show Cause proceeding and to our review of the costs identified by Con Edison as incremental to the costs of programs already funded in rates, net of any savings and efficiencies obtained by implementing such programs.

The revenue requirement also reflects the continued amortization of $4.0 million per rate year of deferred World Trade Center ("WTC")-related costs.[15] With one exception,[16] the reconciliations for each rate year will be deferred with interest and either refunded to or credited from customers after the rate plan expires in a manner determined by us.[17]

Depreciation

The average service lives, net salvage factors and life tables used in calculating the depreciation reserve and establishing the revenue requirement are set forth in JP

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[14] On July 18, 2007, a Con Edison steam pipeline ruptured at the intersection of 41st Street and Lexington Avenue in Manhattan ("steam incident"). An investigation thereof ensued (Case 07-S-0984, "Show Cause Proceeding"). Con Edison filed a steam incident report, pursuant to 16 NYCRR Part 420, in August 2007 and filed its Recommendations and Action Plan in December 2007. By order issued January 18, 2008, the Company was required to show cause why a prudence proceeding should not be initiated and explain why additional procedures should not be implemented to improve the steam system's operation. A February 2008 Staff report concluded that the cause of the pipeline rupture was excessive internal pressure resulting from a condensation-induced water hammer. By order issued February 13, 2008, the Company was required to implement the recommendations in the Staff Report or show cause why the recommendations should not be implemented. The preceding documents were issued in Case 07-S-0984. Another order, also issued on February 13, 2008, instituted a proceeding to determine the prudence of Con Edison's actions and practices relating to the steam incident (Case 08-S-0153, "Steam Prudence Proceeding"). On August 6, 2008, a joint proposal was submitted to resolve the Steam Prudence Proceeding. On August 26, 2008, an August 22, 2008 letter agreement in lieu of a penalty proceeding/action was filed. The letter agreement states it is subject to the approval of the August 6 joint proposal.

[15] Con Edison will continue to seek recovery for all WTC costs from governmental agencies and insurance carriers. JP at 19 (§E.11).

[16] The Company will apply 50 percent of its share of any excess earnings (i.e., earnings over the 10.1% target, discussed above) to reduce deferred undercollections of property taxes, if any. JP at 19 (§E.12).

[17] Deferrals will not be netted during the term of this rate plan. JP at 19 (§E.12). As a general rule, deferrals will accrue interest at the unadjusted customer deposit rate. JP at 20 (§F.2).

Appendix E. In order to mitigate the rate increase, Con Edison will terminate its five-year amortization of the reserve deficiency established by our last Con Edison steam rate order.[18]

Property Tax Refunds and Credits

Eighty-six percent of property tax refunds allocated to steam that are not reflected in the steam rate plan and which result from the Company's efforts will be deferred for future disposition; the remaining 14 percent of any such refund or credit will be retained by the Company.[19] The deferral and retention of property tax refunds and incentives are subject to an annual showing by the Company of its ongoing efforts to reduce its property tax burden. In addition, the Company is not relieved of the requirements of 16 NYCRR Part 89 with respect to any refunds it receives.

Steam Business Development and Retention

Meetings or contact by Company personnel with developers, property owners, advisors, engineers, and/or architects are required at least 12 times per month; failure to meet this requirement subjects the Company to a negative revenue adjustment. The Company will report to us on the nature and number of such meetings/contacts on or before September 30, 2009, and include a plan for addressing major issues raised during such meetings/contacts. The Company will also conduct a survey, with the results thereof filed with us by September 30, 2010.

With respect to customer service efforts, the Company will conduct customer focus groups and customer satisfaction

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[18] Case 05-S-1376, Consolidated Edison Company of New York, Inc. – Steam Rates, Order Determining Revenue Requirement and Rate Design (issued September 22, 2006)(2006 Rate Order).

[19] Incremental expenses incurred by the Company to achieve such refunds or credits will be deducted prior to allocating such proceeds. JP at 21 (§F.5).

surveys, and prepare reports on such efforts for submission to DPS Staff and any interested parties who so request. Failure to conduct the surveys and submit the reports could result in revenue adjustments.

Thermal Efficiency/Losses

Based upon a consensus reached among the Company, Staff and interested parties to this proceeding, the Company will select and take steps necessary to retain an independent consultant to review the thermal efficiency studies performed by or for the Company since 1995. The consultant will work with the Company to develop a detailed action plan to prioritize, implement and maintain economic projects for reducing overall steam losses. The Company will file any action plan developed by the consultant with us and provide a copy to interested parties to this proceeding. The costs paid by the Company for the consultant will be recovered through the FAC; the Company will, as part of its filing to us, make a proposal for recovery of implementation costs associated with the action plan.[20]

Steam Energy Efficiency

The Company will convene a collaborative to consider both the market potential for steam energy efficiency programs for steam customers to be implemented during the second rate year and any customer and Company incentives associated with such programs. The recommended rate levels include $100,000 to cover the cost of program development, administrative costs, and a market potential analysis by an independent consultant. By April 15, 2009, the Company will provide us with a report on this collaborative, which will include proposals for cost recovery of any recommended programs and customer and Company

[20] The very last paragraph of JP section H erroneously cross-references JP section C.5. The correct cross-reference is JP section C.4. JP at 24 (§H).

incentives. The signatories recommend that we solicit comments on the report.

Safety Performance Measures

Several safety performance measures are set forth in the JP. They include performance measures for emergency response to steam vapor conditions within 45 minutes and within 60 minutes for calendar years 2009 and 2010 with a maximum negative revenue adjustment of 6 basis points in each year.[21] Additionally, Staff and the Company will evaluate the Company's leak backlog management for calendar year 2008 and jointly propose a performance metric for the year-end total steam leak backlog to be implemented for calendar year 2010.

Steam Resource Plan (SRP)

Con Edison will complete the investment grade study of a cogeneration plant of up to 500 MW at the Hudson Avenue Station; this Cogeneration Study is currently being conducted by an independent consultant retained by the Company.

It will file a supplement to its SRP[22] on or before December 31, 2008, which will incorporate updated fuel and energy price forecasts, include the results of the Cogeneration Study, and give consideration to various other cogeneration plant designs and electric and steam outputs, in addition to the Hudson Avenue options presented in the SRP. The Company will select an option that meets its reliability and capacity needs

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[21] Steam leak/vapor calls resulting from major weather-related occurrences and other circumstances outside of the Company's control will be excluded from the calculations of the 45- and 60-minute response times. The associated revenue adjustment will also be excused if Con Edison can demonstrate extenuating circumstances that prevented it from meeting the performance metric. The Company will report its annual performance to Staff no later than 60 days following the end of the calendar year. JP at 28 (§K.4).

[22] Pursuant to the terms of the 2006 Rate Order, the Company filed a Steam Resource Plan with us.

and considers cost-effectiveness and statewide and NYC-wide energy planning objectives. The signatories recommend that we establish a procedure for parties to file comments on the supplement but state that the confidentiality provisions set forth in the 2004 Steam Rate Order should continue; that is, cost projections will be kept confidential and be disclosed only to the core members of the Steam Business Development Task Force (i.e., two representatives from Staff, the Company, the New York City Economic Development Corporation, and New York State Empire Development).[23]

Miscellaneous

The Joint Proposal contains a section entitled “Other Provisions.” These include, but are not limited to, standard boilerplate language (e.g., circumstances permitting rate changes during the term of the agreement and the effect of legislative or regulatory changes) and agreement among the signatories to support the JP and advocate its adoption.

Appendices

There are eight appendices accompanying the Joint Proposal. They provide calculations, formulas and other details regarding certain terms and provisions.

STATEMENTS IN SUPPORT

Con Edison

Con Edison states that the JP comprehensively resolves all the issues that were raised in this proceeding. It opines that the collaborative process for this Joint Proposal served the parties well and provided an appropriate setting for resolving the many conflicts and diverse issues that were raised in this proceeding. According to the Company, parties were able to fully explore their respective positions and all parties,

[23] See Ex. 219; see also Tr. 2142-2156.

including the Company, made significant concessions to reach this agreement.

The Company highlights several of the provisions which it states were difficult for it to accept. These include the level of the base rate increases, rate of return, and annual depreciation expense; the negative revenue adjustments for emergency response and steam-leak backlog; the number of downward-only reconciliation mechanisms; and the extended amortization periods for the recovery of various material expenses.

While the JP provides for rate increases, the Company states those increases are significantly lower than its request. It adds that the recommended increases compare favorably to its litigated position of $130.3 million and even Staff's $60 million revenue requirement increase.

Con Edison argues that the agreement adequately addresses concerns about production plant capital expenditures and operating programs, including those specifically related to the steam incident programs. In particular, it notes that the recovery of program costs related to the steam incident is subject to the outcome of Case 07-S-0984.

With respect to rate design, the Company argues that the JP better aligns cost causation with cost responsibility. The Company avers that the JP's proposed expansion of demand billing implements the Staff, CPA, City and Company positions in a way that recognizes that implementation of demand billing for the Company's steam customers is relatively new and that the impact on such customers should be evaluated to determine if there may be adverse impacts associated with such a change.

The Company asserts that the JP's proposals regarding fuel costs and recovery of such costs through the FAC provides the parties time to reasonably consider the costs that are included in this category and to determine which costs, if any, should be recovered in a different manner prospectively.

The Company contends that the requirement that it reexamine and file a study on the allocation of ERRP costs is more than adequate to address any long-run issues while allowing for the continued use of a demonstrably reasonable allocation of costs between steam and electric.

The Company asserts that the various reconciliations, for the most part, protect both it and customers against uncontrollable cost variations. The Company states that the use of such reconciliation mechanisms in the context of a multi-year rate plan is consistent with prior Commission practice and facilitated the resolution of differences between the Company and Staff regarding various cost forecasts that are outside of the Company’s control.

The Company notes the differing opinions of Staff, the City and itself with respect to the conclusions of its steam resource plan (SRP). It states that the JP contains a reasonable compromise between the Staff position (a further proceeding in which the SRP could be “fully reviewed”), the City’s proposal (the Company should consider the addition of significant additional cogeneration at the Hudson Avenue steam site and be required to conduct the study for Hudson Avenue to include a larger project), and the Company’s position (the 2007 SRP was complete and no further study was needed).

According to the Company, the resulting JP represents a good-faith effort to address all interests. It asserts that criticisms by parties of individual elements of the proposal must be measured against the numerous compromises that were negotiated in order to reach an agreement. The Company states that it faces numerous operating and regulatory risks under the JP and that it assessed such risks in concluding that the proposal as presented is acceptable. Thus, if the JP is not approved in its entirety, the Company urges that the Commission remand it to the parties to enable them to pursue their respective positions and remedies.

Staff

Staff argues that the JP satisfies the Commission's criteria as set forth in Opinion No. 92-2[24] and should therefore be adopted. Specifically, it asserts that all parties to this proceeding received reasonable and sufficient notice of the settlement negotiations as required by our regulations and that either the Company and/or Staff routinely circulated emails to all active parties advising them of upcoming dates for negotiating sessions. It notes that the negotiations resulted in a JP that has broad support among the active parties to this proceeding.

Staff asserts that while some parties may oppose discrete provisions of the JP, it must be considered as a whole, and as a product of fair and balanced negotiations. Staff continues that when it is considered in its proper context, it is clear that the JP protects customers, is fair to shareholders, promotes the objective of ensuring the future viability of the Company's steam business and is reasonable relative to the possible fully-litigated outcome.

Staff also asserts that the record is adequate to justify adoption of the JP. It argues that the testimony and exhibits filed by Staff, the Company and other parties show the wide range of disputed issues that have been addressed in the JP. In particular, Staff notes as an example the two-year term of the rate plan, stating that it agreed to this term in lieu of its litigated position of a one-year plan because of the

[24] Case 90-M-0255 et al., Proceeding on Motion of the Commission Concerning its Procedures for Settlement and Stipulation Agreements, filed in C 11175, Opinion No. 92-2, Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines (issued March 24, 1992).

additional customer benefits that could be achieved in a multi-year agreement. Staff also discusses the fact that the revenue increases set forth for rate years one and two compare favorably to its litigated position, which advocated a one-year increase of $58.7 million. Staff continues that the overall rate of return of 7.5% with a 48% equity ratio and authorized return on equity of 9.3% are significantly more favorable to ratepayers than the Company’s litigated position, particularly given recent developments which have increased the risk and the dynamics of multi-year rate plans.

Staff notes that the proposed earnings sharing mechanism provides the Company with a strong incentive to minimize costs and improve efficiencies by allowing shareholders to share in savings produced by the Company’s efforts, but at the same time capturing a fair share of any benefits should the Company exceed the parties’ expectations. Like the Company, Staff notes that the proposed reconciliations are material items that are largely beyond the Company’s ability to control and thus are appropriately reconciled in the context of a multi-year rate plan, but adds that the reconciliations of Ravenswood and production plant expenditures are downward only, thus protecting customers if the Company spends less than is forecasted.

With respect to the reflection of production plant expenditures, Staff argues that ratepayers will not pay depreciation, property and other taxes and return on the investment in water-softening facilities that are “being replaced prematurely.” Staff continues that the proposed deferral of such costs will protect customers from shortfalls and ensure that the Company does not earn a return on investments that are not actually made. It notes that the Company will be at risk for expenditures above the levels that are specified in the Joint Proposal (specifically Appendix B), but has the opportunity to petition the Commission should any unplanned or unexpected capital investment in production plant exceed $5 million. According to Staff, this proposed limitation is appropriate because it will assign the Company the responsibility for keeping within its forecast, will ensure that customers do not pay for plant that is not in service, and will not permit the Company to defer such costs without Commission approval.

Since steam incident related costs may be significant, Staff argues that some recovery should be allowed in rates now, to avoid the likelihood of building up a large deferral that will need to be collected from customers in the next rate proceeding. Staff notes that the JP provides for the Company to defer such costs for recovery in its next steam rate filing, but subjects cost recovery to the outcome of the Commission's review of such costs. Staff also notes that the Commission and Company would continue to review and influence plans for dealing with the steam incident and the Commission could provide guidance on how it wants such costs to be handled.

Staff argues that requiring the Company to offset WTC costs with recoveries from governmental agencies and insurance carriers is appropriate because recovery of such costs should first be sought from sources other than customers.

As to the JP's proposed treatment of depreciation and reserves, Staff states that while it did not address this issue in testimony, the proposal to terminate depreciation amortization will decrease the overall revenue requirement, thus benefiting customers.

New York City

The City argues the compromises reflected in the JP are consistent with the law and Commission policies in that they balance the Company's need to upgrade its facilities and the corresponding need for it to reduce the rate impact of those efforts on customers. The City asserts that the results of the

JP compare favorably with likely results of litigation. It states that the parties vigorously contested numerous issues, and as a result, there is an extensive record supporting the JP and providing a rational basis for concluding that its provisions are justified. According to the City, it is noteworthy that the JP enjoys support from stakeholders representing varied interests, and the only opposition comes from Westchester -– a party who does not represent Con Edison steam customers or any entity who, either now or in the future, provides or has a contract to provide, steam to Con Edison. It contrasts this limited opposition with the JP supporters, who the City states represent a broad spectrum of Con Edison steam customers and other interests that are in fact dependent on the terms of Con Edison steam tariffs for their business interests. It concludes that a complete review of the record will confirm that the support for the JP overwhelms the limited opposition to it.

The City compares the levelized annual rate increases of $43.7 million to Con Edison’s litigated position which sought an increase in base rates of approximately $130 million during the first rate year, along with a $22.4 million increase in the second rate year. It concludes that the JP provides very substantial savings to steam customers.

With respect to the proposed revenue allocation, the City notes the use of a 10% tolerance band around the system rate of return and the elimination of one-half of the deficiencies and surpluses in each rate year was supported by its witness’s testimony, was not opposed by any party, and reflects agreement of all the signatories. The City also observes that there are two rate design modifications for S.C. 2 rate (demand) billed customers that incorporate elements of its litigated position. First, such rates will be more properly aligned with cost of service principles. Second, there will be continued study of the S.C. 2 rate design with the potential for making additional cost of service base rate changes in the future.

The City states that the proposed allocation of ERRP costs is critical to its support of the JP and is fully supported by the record. The City asserts that the Commission has long recognized that the value of ERRP to Con Edison's electric customers is greater than the market value of its electric output. It adds that the Commission has also recognized that the ERRP provides substantial benefits, including its low level of environmental emissions and the construction costs that have been avoided by the ERRP's presence.

The City states that the Commission recognized in Case 03-S-1672 that there was a need for a comprehensive approach to ensuring the future economic viability of the steam business and thus, in December 2005, approved a Steam Business Development Plan for Con Edison.[25] It contends that since the future viability of the Con Edison steam business is dependent on finding new ways to expand the customer base and retain existing customers, the steam business development and retention plan set forth in this JP should be approved.

The City states that the JP establishes a procedure for identifying ways for Con Edison to reduce its steam losses that is consistent with the City's testimony regarding the need for Con Edison to reduce its steam losses. It adds that there is also a provision concerning steam energy efficiency. The City asserts that these proposals further State and New York

[25] Case 03-S-1672, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service, Order on Consolidated Edison Company of New York, Inc.'s Steam Business Development Plan (issued December 5, 2005).

City goals of promoting energy efficiency and thus should be approved.

The City notes that while it generally supports the SRP provisions, it seeks the addition of a requirement for Con Edison to issue a Request for Proposals (RFP) to ascertain whether there is third-party developer interest in developing a large cogeneration facility at Hudson Avenue.[26] It contends that Con Edison would not be obligated to implement a proposal received in response to an RFP; however, it argues that the Company should be obligated to consider any RFP responses on equal footing with, and under the same criteria that will be applied to, other options arising from the Cogeneration Study and the supplement. According to the City, an RFP would offer substantial potential benefits, including enabling the Company to determine whether a third party can satisfy the Company’s steam requirements at a lower price. The City adds that an RFP will inject competition into the development of a cogeneration facility which may also lower the cost of construction or operation or both. Finally, the City states that soliciting proposals from other parties may yield an alternative that the Company had not considered.

The City reiterates that it is not advocating that the Company be bound by the RFP results. It asserts that the cost and administrative burden of issuing an RFP are relatively low, whereas the potential for public benefit from a competitive third-party proposal could be sustained.

The City discounts Con Edison’s opposition to issuing an RFP. First, the City says the Company could design a solicitation with terms requiring a long-term contract at fixed prices and with additional terms and conditions to address

[26] On its signature page, NYC reserved the right to request a modification to JP §L. The City uses “Yards” and “Avenue” interchangeably in its statement in support (at 15), but the SRP addresses options for Hudson Avenue.

potential market power issues. Second, in response to Company testimony that a response to an RFP issued now would not be anymore productive than ones issued in the past, the City notes Company witnesses' concessions that the electric and steam markets have changed materially since the prior steam production options studies and that these changes might yield different results. With respect to Company witnesses' citation to a determination by the New York Independent System Operator (NYISO) that there is no need for electric capacity, the City suggests the Company need not await a NYISO determination if it were otherwise conclude that a cogeneration facility constitutes the best solution for its electric and steam systems. The City concludes that the steam resource plan is a fundamental building block for a viable steam system and that such a plan would be strengthened by a consideration of all viable options.

Consumer Power Advocates

CPA states that the JP is a result of a long process of negotiation marked by compromise and patient cooperation among the Company, Staff and other parties. It believes that the JP addresses the concerns of both the Company and its customers. In particular, it notes that the JP provides for: substantially smaller rate increases than the Company initially requested; significant movement to realign rates with costs; implementation of demand billing for all customers using between 14,000 Mlbs and 22,000 Mlbs annually; a rational process to settle the issue of proper allocation of ERRP costs; the study, implementation, and maintenance of cost-effective measures to minimize thermal losses; and the development of performance mechanisms for leak management. CPA concludes that, taken as a whole, these provisions will assure rate stability, enhance equity, align incentives for customers to control their own costs with actual costs imposed on the system, and assure improved public safety and system efficiency through the use of performance measurements. Given the number and complexity of the issues addressed in this case, CPA opines that the result of litigation would likely have been worse on some all or of the points highlighted above. Accordingly, CPA urges approval of the JP.

New York Energy Consumers Council

NYECC argues that the provisions of the JP are in the best interests of the public, in general, and of the signatories, in particular, mainly because of the significant rate reductions that were negotiated by the parties. In its view, the salient features of the JP include not only the reduced level of base rate increase, but the phasing in of the Company’s embedded cost of service study; the continuation of the current allocation of ERRP costs; the provision for earnings sharing above the 10.1% return on equity threshold; provisions for steam business development and retention; customer focus groups and the customer satisfaction survey, and associated report filing requirements, which if not timely met, will result in revenue adjustments; the extension of the period for accepting applications for S.C. 2 and S.C. 3 steam air conditioning summer discounts; and inclusion of a performance mechanism for the steam backlog management to take effect for calendar year 2010.

After weighing the probable costs of further litigation, the probability of success, the litigation’s complexity, further attendant expense, inconvenience and delay, NYECC concludes that the Joint Proposal confers upon the public and the signatories significantly greater benefits than costs, and falls within the expected range of the fully litigated case, and thus should be approved.

STATEMENT IN OPPOSITION

Westchester objects to the provisions regarding the allocation of ERRP costs. The County asserts that continuing the current allocation of such costs is not just, reasonable or in the public interest. It claims that the parties supporting the ERRP provisions consist mainly of entities that will benefit from the continuation of such allocations. The County avers that continuing the current allocation is detrimental to electric customers, including the businesses and residents in Westchester.

The County contends that Con Edison’s electric customers, no matter where located, have been subsidizing the steam rates since at least 1975. It further claims that, at various times, both the Commission and Con Edison have stated that the subsidy should be eliminated. The County states that it raised this issue in the previous steam rate case and proved that the electric system was subsidizing the steam system by at least $80 million per year. The County notes that the Commission decided not to modify the allocation of ERRP costs in the last rate case, but stated that “even if Westchester’s proposals might have merit in the abstract, on this record we can only conclude that they are premature because they cannot be evaluated adequately on the basis of ERRP’s limited experience at this time.”[27] The County argues that we now have two additional years of data and facts which support its arguments.

According to the County, if ERRP is viewed simply as an electric generating plant, it produces electricity at a cost that is almost 50% above the marketplace and operates at a factor that is wholly out of line with turbines that operate in the competitive market. Thus, the County concludes that “electric ratepayers are burdened with the worst of both worlds;

[27] 2006 Rate Order at 25-26.

a plant with a design that is uncompetitive in a deregulated electric marketplace and one that operates almost all the time."[28] The County states that a comparison of the market value of electricity produced at ERRP to the fuel costs allocated to the electric system demonstrates there is no reason to "delay" changing the current allocation.

The County also claims that the allocation of 66.4% of the plant's fixed costs to the electric system exacerbates the current situation. It argues that when both fuel costs and fixed costs at ERRP are considered, the costs allocated to the electric system have exceeded the value of the electricity generated for 30 of its 33 months in operation. It avers that a subsidy is also evident upon examination of the charges to the steam system for steam itself. Westchester claims that the steam system charges, when compared to average costs of production, result in a yearly subsidy by the electric system of the steam system of over $81 million per year.

The County argues that the additional two years' operating experience confirms that ERRP costs must be reallocated. The County claims that the subsidy for calendar year 2007 (comparing average system costs with the current charge for steam produced at ERRP) was over $90 million per year. It further claims that if the steam system were charged for the cost of production at ERRP consistent with what it is charged for production at other cogeneration facilities, the subsidy is $112 million per year. The County recites its proposals for reallocating ERRP costs, stating there are various reallocation levels that could provide savings to the steam system. The County states that the time has come to end or at least reduce the subsidy of the steam system by the electric

[28] Westchester Statement in Opposition at 9.

system. It asserts that the data necessary to make such an adjustment are available.[29]

With respect to JP §L (the steam resource plan), the County asserts that any resultant study or supplement should not be allowed to transfer costs from the steam system to the electric system by designing a plant for the benefit of the steam system. In addition, any joint production facility that is considered should be required to take into account the costs to the electric system and must allow full participation of Westchester. The County states that steps should be taken to assure that Con Edison does not repeat at other facilities the “mistakes” it made at ERRP.

REPLY STATEMENTS

CPA

CPA argues that the County’s arguments rest on several assertions that are neither self-evident nor universally accepted. According to CPA, the claim that there is a subsidy of the steam system by electric customers has not been proven and is based only on a simplistic comparison of fuel costs and electric market prices. It states that the Company described substantial ERRP benefits which, beyond the value of electricity production, include improved air quality, load pocket relief, and the avoided cost of transmission and distribution projects. CPA continues that the JP properly addresses this issue by maintaining the current allocation and allowing for the complete and careful examination of all of the costs and value of ERRP. It argues that the disproportional impact of this issue on the steam system renders the proposed treatment of this issue the

[29] The County also contends there is no justification for Con Edison to have constructed an electric generating facility at the ERRP location and there is no Company analysis as to which system should pay for the “purported” ERRP environmental benefits.

only prudent course. It also notes that the proposed resolution of this issue is the key element in CPA's support for the JP.

CPA characterizes the County's concerns about the SRP as "unfounded" saying they will be addressed in the design and examination of the studies.

NYECC

NYECC argues that the record in this proceeding along with Commission precedent do not support a change in the current allocation of ERRP costs. It also contends that Westchester has not sustained its burden (showing that the existing regulatory policy was originally adopted on the basis of unsound arguments or assumptions); but that the JP signatories have (showing that adoption of the proposed terms satisfies applicable requirements and criteria).

NYECC argues that the County is playing "fast and loose" with the record in this case, frequently misstating and selectively citing Commission precedent. It adds that the County's position is simply a restatement of its previously rejected arguments, noting that the Commission expressly rejected the County's arguments in the last steam case, Case 05-S-1376, as well as Case 99-S-1621. NYECC observes that in the prior rate order, the Commission specifically noted that its analysis of the treatment of ERRP relied upon other, anticipated long-term benefits for all customers and for electric customers in particular, including the proceeds from the sale of the First Avenue Properties, improved operational efficiencies, economic development, environmental mitigation, and a reduced need for electric transmission and distribution system reinforcements.

NYECC goes on to highlight other relevant findings from that same order (e.g., ERRP was selected and is being constructed for the substantial benefits that it will provide for both the electric and steam system; the electric system will receive substantial benefits from this in-city electric plant;

and the ERRP will become an essential component of both the electric and steam system). NYECC notes that in the instant proceeding, the Company's resource planning panel testified that "considering the avoided costs of generation and transmission capacity and the benefits from the sale of Waterside, ERRP's 2007 electric fixed costs of $93 million are fair and reasonable with respect to estimated avoided costs totaling $90 million. Thus, no change in fixed cost allocation is warranted."[30]

NYECC also argues that it is "hyperbole" for Westchester to state that a key element in the Commission's last rate decision was ERRP limited operating experience. NYECC argues that one cannot reasonably extrapolate such a conclusion from the Commission's highly conditional statement if it is read in its entirety.

Staff

Staff also argues that the County's opposition does not justify rejection of either the JP or the particular provisions to which the County objects.

Staff states that Westchester's approach of examining the allocation of ERRP-related costs using market value is one of several ways to examine the proper allocation of ERRP-related costs. Staff also adds that the JP does not ignore this issue, but instead provides a process that will result in a detailed study on the allocation of such costs. It states that all interested parties will be given the opportunity to provide input on the study which will be filed on or before April 30, 2009. Staff concludes that Westchester's opposition to the ERRP provision should be rejected in favor of producing a detailed study upon which to base any future cost allocation adjustment.

As to Westchester's opposition of the JP's steam resource plan provisions, Staff notes that the provisions at

[30] NYECC Reply Statement at 4, citing Tr. 1748.

issue make no mention of the allocation of costs of any of the options to be considered in the proposal. Staff adds however that they do allow for an update of fuel and energy price forecasts and the inclusion of the results of an investment-grade cogeneration study that is currently ongoing. Staff argues that the supplement will provide the Commission with the most up-to-date analysis and review of various options that can be relied upon during its consideration of the Company-selected option to replace the current Hudson Avenue plant.

City of New York

The City also argues that the Commission should reject the County's proposal to change the ERRP cost allocation. The City argues that the JP establishes a fair and open process for reexamination of ERRP costs that includes providing interested parties the opportunity to submit comments on the study after it is filed with the Commission. The City adds that parties could use the study to support a position that Con Edison may not elect to take in the next rate case.

The City argues that the weight of Commission precedence supports the established allocation of ERRP costs. The City notes that the Commission recognized, as far back as 1978, that a different allocation could spur a devastating exodus from the steam system that would have detrimental environmental and economic impacts, affecting both electric and steam ratepayers. The City adds that, in disposing of the County's arguments in Case 03-S-1672, the Commission approved the current ERRP cost allocation methodology based on its finding that ERRP was constructed for the substantial benefits it will provide to both the electric and steam system and on its conclusion that Westchester had incorrectly asserted that the facility's primary or exclusive benefits only extend to the steam system. The City continues that the Commission also specifically recognized that the electric department's share of

ERRP costs might exceed the market value of electricity generated at the plant, yet nonetheless concluded that the cost allocations would be fair because the portion of costs that may not be covered were roughly matched by Waterside-related costs that Con Edison would be able to avoid.

The City also argues that the decision in the last steam rate case dispensed with the notion that a simple comparison of fuel costs with the market value of electricity is a sufficient means of properly recognizing the full array of benefits that ERRP confers on the electric department. The City states there is no easy way to allocate costs between jointly produced projects. However, it argues that any allocation must recognize the nature of the facilities, the reason why it was constructed and the environmental and economic impacts of that allocation. It asserts that the County's failure to engage in a lifetime analysis or consider other benefits that ERRP provides to electric ratepayers is why its arguments have been repeatedly and properly rejected as too narrowly focused.

The City also urges rejection of the County's opposition to the SRP provisions. It states that since the County incorrectly and improperly assumes that the outcome of the study is predetermined, its efforts to derail the provision must be rejected.

Con Edison

The Company makes similar points in its reply to Westchester's objections. According to the Company, Westchester's claim that the last two years of ERRP operation would compel the Commission to revisit the allocation of such costs is erroneous and does not withstand scrutiny. The Company states that the unchallenged testimony of its Resource Planning Panel demonstrates that a simple market price comparison is inappropriate because, for one thing, the current market costs do not reflect the generation and transmission costs that have been avoided due to ERRP. As to the fixed cost, the Company argues that it demonstrated in great detail that the allocation of ERRP costs reasonably reflects avoided generation and transmission capacity costs. It states that Westchester did not challenge its testimony describing those benefits nor did it convincingly rebut the Commission's 2004 finding that ERRP will serve load pockets on Manhattan's east side and elsewhere in the borough.

With respect to Westchester's criticisms of the Company for not quantifying or explaining "clean air premiums," the Company contends that such evidence is in the record.

The Company asserts that Westchester's cost benefit analysis omits a number of significant ERRP benefits which have been, and will continue to be, enjoyed by electric customers, including those in Westchester County. The most glaring example of this is, according to the Company, Westchester's failure to account for the direct benefits electric customers received as a result of inclusion of Waterside in the sale of the First Avenue properties. The Company states that the net proceeds from this sale amounted to some $162 million credited to electric customers, including the recovery by the Company of $145 million in remaining book costs of Waterside, more than 93% of which would otherwise continue to be recovered in electric rates.

The Company states there is no merit to Westchester's claims that ERRP fuel costs have been misallocated to electric customers simply because the method used to allocate fuel at ERRP is different from the method used by the Company for its other steam electric plants. The Company claims that the electricity generated in a gas turbine plant (i.e., ERRP) properly is allocated in a method different from the heat recovery steam generation plants to which Westchester refers.

The Company argues that none of the alternative methods suggested by Westchester for allocating ERRP costs are worthy of consideration. It states that the folly in Westchester's proposed alternatives was made clear during cross-examination when the County witness conceded that if fuel were to be charged to ERRP using the same heat rate as applied to East River 6 (as suggested by Westchester), a total of $112 million per year would be shifted from electric to steam. The Company observes, *inter alia*, that this amount is far greater than the total base rate increased proposed in this proceeding during the two-year term.

Con Edison challenges Westchester's assertion that steam is the primary output of ERRP and electricity is the by-product, saying it lacks record basis. It adds that Westchester presents not one valid reason why the Commission's contrary conclusion, made in 2004, is not still applicable today.

Contrary to Westchester's contention that ERRP operates in the winter season merely to supply steam, the Company contends that ERRP is an efficient cogeneration plant whose operation maximizes fuel and emission savings on both systems all year long. The Company also challenges Westchester's assertion that the electric heat rate of ERRP is "exceptionally high," pointing to Company testimony that the heat rate of ERRP is very comparable to the implied heat rate of other electric units that set market prices. Con Edison adds that if ERRP's capacity value were to be estimated using as a baseload unit, its value would be even higher.

The Company notes that the Commission has repeatedly reaffirmed its determination that one of the fundamental justifications for the "incremental cost" method for allocating costs of steam and electric facilities is to keep the steam system viable to insure that, in the long term, electric customers, including those in Westchester County, would not be required to incur the even higher costs that would accompany the transfer of customers from steam to electric service. The

Company states that in the final analysis, Westchester provides no basis for the Commission to abandon this long-standing methodology as it applies to ERRP costs.

In response to the City's request for Con Edison to issue an RFP, the Company claims that the steam production option study, completed in October 2006 by an independent consultant, has already done what the City is requesting.

Con Edison also argues that an RFP for steam supply would raise market power problems for a steam system that cannot function as a wholesale competitive market. The Company notes that the Commission has reiterated concerns about market power in its Order approving the National Grid/KeySpan merger. The Company adds that it addressed the market power issue in its Resource Plan and concluded that a merchant supplier of steam at Hudson Avenue would indeed have market power because Hudson Avenue is a key source of steam for this steam system's downtown district and there would be few, if any, viable alternatives.

In response to the City's arguments that the Brooklyn Navy Yard (BNY) contract is an example of a long-term contract without market power abuses, Con Edison states that BNY is a special case that does not provide any assurance about a merchant plant at Hudson Avenue. According to the Company, the construction phase risks were minimal because the BNY steam-electric contract was negotiated while the plant was under construction and at a time when Hudson Avenue was not in need of replacement. The Company states the City also ignores, among other things, the history of above-market payments of long-term contracts.

Westchester

The County argues that the signatories' statements only support its position that the current allocation of ERRP costs is just an attempt to forestall the reallocation of such costs. According to the County, the current allocation approach is not “incremental” as that term is defined.

According to Westchester, the ERRP plant was designed to add an exceptionally high heat rate for an electric plant so that it would produce “free” excess heat for steam production. Westchester states that this results in steam customers “getting something for nothing” while the electric system pays the fuel costs for the production of the excess heat.

The County states that when the Commission made its original decision on the ERRP subsidy, it believed the Electric Department’s share of net ERRP-related costs would approximate $60 million. However, the County contends it has clearly shown that the net cost to the Electric Department now exceeds $105 million. The County does not accept the purported load-pocket theory and says that, even if it did, there were cheaper ways for the electric system to have addressed the load pocket.

DISCUSSION AND CONCLUSION

In general, we review a Joint Proposal to determine whether it achieves a balance among the protection of the ratepayers, fairness to investors, and the long-term viability of the utility; is consistent with sound environmental, social and economic policies of the Commission and the State; and produces results that are within the range of the likely results of a fully litigated proceeding. Moreover, in judging the Joint Proposal, the Commission gives weight to the fact that it reflects agreement by normally adversarial parties.[31]

We have reviewed the terms of this Joint Proposal in the context of the parties’ pre-filed testimony and exhibits, their statements and reply statements in support of and opposition to the Joint Proposal, and the further information and exhibits provided at the April 7-10, 2008 and July 17, 2008

[31] Opinion No. 92-2, *supra*, Appendix B.

hearings. Based on that review, we find that adoption of the rate terms of the Joint Proposal, consistent with the discussion herein, will establish just and reasonable rates, terms and conditions, and is in the public interest.

At the outset, we note that the Joint Proposal in these proceedings is the product of settlement negotiations that were noticed and executed in accordance with our settlement guidelines and rules of procedure. In the litigation phase of this proceeding, parties filed direct, responsive and rebuttal testimony and exhibits, and four days of evidentiary hearings were held. The litigation phase produced a record consisting of over 2,100 transcript pages and over 200 exhibits. In addition, after parties concluded they might be able to reach a settlement, all interested parties received notice of the negotiations and had the opportunity to participate therein. Finally, the interested parties were provided the opportunity to file two rounds of statements (supporting or opposing the JP, in whole or in part) and to test the reasonableness of the JP’s terms during an additional day of hearings. We are therefore satisfied that parties had a full and fair opportunity to develop and litigate their respective positions, participate in the negotiations, and to oppose or support, in whole or in part, the resulting settlement.[32]

[32] In its reply statement, Westchester refers to the negotiations as “back room” (Westchester Reply Brief at 4); this reference elicited objections from several of the parties and thus was further explored at the July 17, 2008 hearing. At that hearing, it was established that Westchester’s concerns were “generic” and that, in this proceeding, Westchester participated fully in the negotiations and had an opportunity to present its views of the resulting settlement (Tr. 2174-2186). As a result, we are satisfied that the full participation and opportunity for comment envisioned by our guidelines (Opinion 92-2, Appendix B at 2, 6-7) was provided in this proceeding.

We are also satisfied that the proponents have met their burden with respect to demonstrating that the terms of the Joint Proposal strike a reasonable balance among the protection of the ratepayers, fairness to investors, and the long-term viability of the utility.

The overall base rate increases of $53 million in rate year one, followed by a $24.7 million increase in rate year two compare favorably with the possible range of litigated outcomes. The rate levels were vigorously contested, with the Company proposing a three-year rate plan with increases each year; Staff proposing a one-year increase of about $60 million; and the City seeking to adjust the Company's proposed rate levels downward by a total of $79.4 million.

Key elements in dispute included, but were not limited to, return on equity, capital structure, depreciation, the application of the proceeds from the sale of the First Avenue properties, line losses, the treatment of deferred World Trade Center costs, property taxes, revenue allocation and rate design issues, sales forecast, steam business development, and institution of a proposed steam revenue adjustment mechanism. These disputes have been resolved in a way that garnered broad support.

In their respective statements in support, the proponents have submitted their views of the Joint Proposal and have pointed to sufficient record basis for our decision to adopt the JP's rate plan terms.[33] In particular, the proponents observe that the proposed terms would reduce and mitigate the overall level of proposed increases and provide for a lower rate of return than advocated by the Company, while still allowing for the Company to make essential plant investment; allow

[33] The initial and reply statements in support of the Joint Proposal summarize its benefits and illustrate, in more detail, why adoption of the proposed terms would serve the public interest.

earnings sharing so as to protect customers while rewarding effective management; and increase incentives to maintain safety performance and to enhance and further develop the steam business. The Company's endorsement of the Joint Proposal supports our finding that that revenue requirement will be sufficient for it to meet its obligations to the public to operate and maintain a safe and adequate system.

With respect to demonstrating consistency with environmental, social and economic policies of the Commission and the State, the proponents point to the revenue allocation and rate design provisions and the effect they will have in better aligning cost causation with cost responsibility. They also highlight the proposals to expand demand billing, to convene a collaborative on energy efficiency, to formulate plans for reducing thermal losses and eliminating steam leaks, and the implementation of negative incentives to maintain safety performance.

We note that the Joint Proposal reflects agreement by normally adversarial parties. Con Edison specifically cites the significant concessions it made for the sake of agreement, such as accepting base rate increases and a rate of return that were significantly lower than it requested in its updated rebuttal filing, the level and number of downward only reconciliations, its commitments to file an ERRP study and SRP supplement, and negative incentives for failure to achieve steam business development benchmarks, to name a few. The Company also notes that the proposed treatment of thermal efficiency/losses reflects a compromise between its litigated position and the positions advocated by CPA and the City. Here, the Company, the City, Staff, CPA and NYECC were able to resolve their differences and craft an agreement that was acceptable to them all, despite having taken very different and often widely divergent positions in litigation. The willingness of such disparate parties to support the Joint Proposal, even though it calls for rate increases, strongly indicates that the resultant rate plan satisfactorily addresses a variety of interests.

As noted above, however, two parties seek modification of the Joint Proposal's terms. The City requests an additional SRP requirement and the County opposes the ERRP cost allocation provisions. As discussed in more detail below, we have considered their arguments, and we reject their proposed modifications.

Steam Resource Plan (SRP)/Cogeneration Study

The City's request that we impose a requirement for Con Edison to issue a Request for Proposals (RFP) to ascertain whether there is third-party developer interest in developing a large cogeneration facility at Hudson Avenue will not be adopted. The proposal we are here asked to adopt provides, in relevant part, that the Company will file a supplement to the SRP. As a supplement to the SRP, we conclude that it must also satisfy the same standards as the SRP; that is, together they must include all information necessary to justify the option that is ultimately selected by the Company. The language of the proposed provision supports this conclusion as it expressly provides that the supplement will incorporate updated fuel and energy price forecasts, include the results of the Cogeneration Study, and give consideration to various other cogeneration plant designs, and electric and steam outputs, as well as the Hudson Avenue options presented in the SRP.

We are persuaded that the SRP provision as written adequately addresses the City's concern. The SRP provision states that "[t]he Company will select an option that … considers cost-effectiveness …." The signatories also ask that we establish a procedure for comments on the supplement. City representatives are members of the core task force and therefore will have access to all of the information that will be reflected in the supplement.[34] Since we are adopting the recommendation to establish a comment procedure, they will have the opportunity to file comments on the supplement. Therefore, they, along with other core task force members, should be poised to comment on whether the Company's ultimate choice gave due consideration to cost-effectiveness and to other supply options. In addition, we are not persuaded that the purported benefits of requiring an RFP for Hudson Avenue outweigh the market power concerns, and potential delay and additional cost that could accompany such a requirement, especially since, under the City's proposal, the Company would not be obligated to implement the results of an RFP for Hudson Avenue if it were required.

At the July 17, 2008 evidentiary hearing, Westchester expressed concerns regarding the proposal to continue the confidentiality provisions adopted by the previous steam rate order.[35] It asserted that the provision precludes any meaningful opportunity for parties who are not members of the core task force to comment on the supplement. The Company objected to the timing of the County's arguments, stating that any objection should have been raised in the statements, and added that the proposal merely continues a "long-standing provision" that the Commission has approved twice.[36]

In large part because of the untimeliness of raising this issue, Westchester has not sufficiently demonstrated that its ability to comment on the supplement will be impaired. Westchester will have access to everything except cost projections and will have the right to participate in any further proceeding we conduct to evaluate the supplement. There is no reason to disturb this longstanding provision here, but Westchester is not foreclosed from seeking additional

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[34] See Tr. 2142-45, 2149-2150 and Ex. 219.

[35] Tr. 2146-2147.

[36] Tr. 2147-2148.

information at a later date, after the supplement is filed, if it appears that its access to the information is justified or necessary for Commission consideration of the matter.

ERRP Cost Allocation

Westchester's foremost objection to the Joint Proposal is that it continues the current allocation of ERRP costs. We will approve the JP over Westchester's objection.

As the proponents correctly observe, previous decisions regarding ERRP clearly establish that the value of the plant and the allocation of its associated costs are based on a consideration of numerous factors, including the desire to "stem an unacceptable exodus of steam customers to electric and gas service" and "retain steam customers and maintain a viable steam system";[37] enhancing reliability in Manhattan;[38] securing the economic and environmental benefits associated with the displacement and sale of the First Avenue Properties;[39] and avoiding costs for electric transmission and distribution system reinforcements that would have otherwise been needed.[40] The proponents have amply demonstrated that Westchester only

[37] Case 03-S-1672, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service, Order Adopting the Terms of a Joint Proposal (issued September 27, 2004)(2004 Rate Order) at 26. Though Westchester does not specifically address this consideration in its statements, its witness testified that every other steam system that existed in New York ceased operations due to economic considerations. Tr. 2001.

[38] 2004 Rate Order at 26-27; 2006 Rate Order at 24.

[39] 2004 Rate Order at 27-28; 2006 Rate Order at 24-25.

[40] 2004 Rate Order at 28.

addresses some of these considerations and that its arguments are not persuasive.[41]

For example, we note the record evidence that "ERRP's 2007 electric fixed costs of $93 million are fair and reasonable with respect to estimated avoided costs totaling $90 million."[42] We further note that the County does not account for the significant and direct benefits that electric customers received as a result of including Waterside in the sale of the First Avenue properties. Specifically, Westchester's estimates ignore at least $4 million dollars a year in estimated, quantifiable environmental value.[43] In addition, we have previously rejected the County's assertion that the plant's location only serves the steam system and benefits only steam customers[44] and Westchester offers no explanation why our previous determination is incorrect and should be revisited. For these and other reasons

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[41] The propriety of the Commission's reliance on such considerations when setting rates generally, and, specifically with respect to approving the allocation of costs related to the production of steam, have been affirmed by the Third Department (County of Westchester v. Helmer, 296 A.D.2d 68, 74, 3d Dept. 2002); see also Company Statement at 16-17, fn 19. There, the court noted the effects of immediately eliminating the steam "subsidy" when it upheld a PSC rate decision that was challenged by the County. By way of comparison, here, the impact on total annual revenues, including supply charges, of transferring $100 million of costs from the electric system to the steam system, for example, would be about a 1% reduction to the electric system and a 15% increase to the steam system. See Response to on-the-record request (Tr. 2171-2173), ALJ email to All Active Parties, sent July 28, 2008 at 11:02 a.m., and copied to PSC Correspondence File.

[42] Tr. 1748.

[43] The $4 million figure only represents the quantifiable NO_x emissions benefits, based on 2007 NO_x trading costs and pro rated for electric fuel responsibility; it is the low end of the Company's range of estimated environmental value ($4 to $14 million). Tr. 1751.

[44] 2004 Rate Order at 26-27; 2006 Rate Order at 24-25.

set forth in the proponents' statements, we find that Westchester's arguments for reallocating ERRP costs do not warrant disrupting the Joint Proposal in this case.

We agree with proponents that the Joint Proposal establishes a fair and open process for addressing the ERRP cost allocation issue in the future. We do not find support for the County arguments that the procedures established in the Joint Proposal are designed to produce a specific result, with no substantive change in the allocation of costs. In fact, the provision expressly states that the Company will form the study with input from "interested parties", which presumably will include the County. In addition, we are adopting the signatories' recommendation to establish a process for comments on the study. This should further help to ensure that the County has the opportunity to be heard.

Other Issues

JP §M, paragraphs 5, 6, 7, 9, and 10;

There are no disputes about any of these terms but their adoption is not warranted. Rate plans we adopt need not and should not include terms that govern the relationship among the parties or between us and the parties.[45] Thus, for example, it is not appropriate that we memorialize the parties' legal rights in a rate plan.[46] Nor should we adopt terms that would potentially put us in the position of being required to evaluate whether or not one or more parties are cooperating sufficiently with one another when taking future actions in this proceeding.[47] Our decision not to adopt such provisions does not indicate or imply that these and other similar terms are not important, it merely reflects that they are unnecessary for rate plans.

[45] I.e., JP §M, ¶¶5, 7 and 10.

[46] I.e., JP §M.6.

[47] I.e., JP §M.9.

Additionally, we note that the terms of this order may be cited as precedent. We clarify that JP §H is being adopted with the correction that it should cross-reference paragraph C.5. And finally, we expressly note that our adoption of the rate plan terms do not affect our reserved authority to require a change in base rates, should we find that, because of unforeseen circumstances, Consolidated Edison's actual return in any annual period during the rate term is unreasonable or insufficient to support safe and adequate service at just and reasonable rates.

Conclusion

The rate plan established herein will provide just and reasonable rates, terms and conditions, and its adoption, consistent with the discussion herein, is in the public interest.

The Commission orders:

1. The rates, terms, conditions, and provisions of the Joint Proposal dated June 16, 2008, filed in this proceeding and attached hereto as Attachment 1, are adopted and incorporated herein to the extent consistent with the discussion herein.

2. Consolidated Edison Company of New York, Inc. is directed to file a supplement, on not less than one day's notice, to be effective on September 30, 2008, to cancel the tariff leaves and supplements listed in Attachment 2.

3. Consolidated Edison Company of New York, Inc. is directed to file, on not less than one day's notice, to take effect on October 1, 2008 on a temporary basis, such tariff amendments as are necessary to effectuate the terms of this Order. The Company is also authorized to file such tariff changes as are necessary to effectuate ratepayer charges and provisions pursuant to the terms adopted in this Order. The rate year 2 changes shall be filed no later than September 1,

2009 to become effective on a temporary basis on October 1, 2009. Consolidated Edison Company of New York, Inc. shall serve copies of its filings on all active parties to this proceeding. Any party wishing to comment on the tariff amendments may do so by filing an original and five copies of its comments with the Secretary and serving its comments upon all active parties within ten days of service of the tariff amendments. The amendments specified in the compliance filings shall not become effective on a permanent basis until approved by the Commission and will be subject to refund if any showing is made that the revisions are not in compliance with this Order.

4. The requirement of the Public Service Law Section 66(12)(b) that newspaper publication be completed prior to the effective date of the amendments for rate year 1 is waived; provided, however, that Consolidated Edison Company of New York, Inc. shall file with the Secretary, no later than six weeks following the effective date of the amendments, proof that a notice to the public of the changes set forth in the amendments and their effective date has been published once a week for four consecutive weeks in one or more newspapers having general circulation in the service territory of the Company. Advance newspaper publication of the amendments for rate year 2 shall be completed according to the requirement of Public Service Law Section 66(12)(b).

5. This proceeding is continued.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary

Attachments

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 07-S-1315 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service.

JOINT PROPOSAL

June 16, 2008

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 07-S-1315 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service.

JOINT PROPOSAL

THIS JOINT PROPOSAL ("Proposal") is made the 16th day of June 2008 by and between Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company"), New York State Department of Public Service Staff ("Staff"), the City of New York, Consumer Power Advocates, New York Energy Consumers Council, Inc., and other parties whose signature pages are attached to this Proposal (collectively the "Signatory Parties").

Procedural Setting

Con Edison is operating under a two-year steam rate plan that expires on September 30, 2008.[1] On November 2, 2007, Con Edison filed new tariff leaves and supporting testimony for new rates and charges for steam service for the period October 1, 2008 through September 30, 2009. The Company's filing included testimony and exhibits detailing a three-year rate plan, which would have, as proposed, commenced on October 1, 2008 and continued through September 30, 2011.

After the Company's filing, the parties to this proceeding engaged in discovery activities resulting in a total of approximately 440 discovery questions propounded by the parties and answered by Con Edison.

[1] Case 05-S-1376, Consolidated Edison Company of New York, Inc. – Steam Rates, Order Determining Revenue Requirement and Rate Design (September 22, 2006) ("2006 Steam Rate Order").

Pursuant to a notice dated November 29, 2007, Administrative Law Judge Michelle Phillips conducted a Procedural Conference on January 15, 2008 to discuss procedures and a case schedule, as well as surveying the parties on the record of their major areas of interest in this case. On January 23, 2008, Judge Phillips issued a Procedural Ruling detailing the schedule and other items associated with the case.

On February 20, 2008, in order to assist the parties in the preparation of their direct testimony, the Company provided the parties with a preliminary accounting update of its expected costs in the rate year. In total, the preliminary updates resulted in a $5,083,000 reduction to the initial revenue requirement increase of $126,587,000 as requested by the Company in its November 2, 2007 filing.

On February 29, 2008, five of the active parties in this proceeding filed testimony in response to the Company's initial filing.

On March 17, 2008, Con Edison filed rebuttal and update testimony. Con Edison's March update testimony included an increase to the revenue requirement requested in the initial filing of approximately $3.7 million, resulting in an updated revenue requirement increase of $130,296,000. This updated increase was primarily attributable to an update to the Company's sales forecast to reflect the actual weather normalized sales that had occurred during the period November 2007 through February 2008.

On April 7, 2008, evidentiary hearings on the Company's requested rate increase commenced. The hearings concluded on April 10, 2008. During the four hearing days, the witnesses for all parties provided testimony and/or were cross-examined for the record. In total, the record comprises 2,127 pages, in addition to 216 exhibits. All 28 witnesses that had provided testimony were made available for cross-examination.

On April 11, 2008, Con Edison notified all parties that settlement negotiations would commence on April 16, 2008.[2] Settlement negotiations began on April 16, 2008 and continued through June 16, 2008. Negotiations, either in person or via teleconference, took place on April 16-18, 30, May 7, 15-16, 20-21, and June 11, 13 and 16, 2008.

All settlement negotiations were conducted in accordance with the New York State Public Service Commission's ("Commission") Settlement Rules, 16 NYCRR § 3.9, and all parties received appropriate advance notice of all negotiating sessions, including breakout sessions that, pursuant to agreement of the active parties, were conducted on particular issues during the same time period.

The parties' negotiations have been successful and have resulted in this Proposal, which is presented to the Commission for its consideration.

Overall Framework

The Signatory Parties have developed a comprehensive set of terms and conditions for a two-year rate plan for Con Edison's steam business ("Steam"). These terms and conditions are set forth below and in the attached Appendices. Specifically, this Proposal addresses the following topics:

A. Term

B. Steam Rates and Revenue Levels

C. Revenue Allocation, Rate Design and Fuel Costs

D. Computation and Disposition of Earnings

E. Reconciliations

F. Additional Rate Provisions

G. Steam Business Development and Retention

[2] A copy of this Notice was filed with the Secretary to the Commission.

H. Thermal Efficiency/Losses

I. Steam Energy Efficiency

J. Miscellaneous Tariff Changes

K. Safety Performance Measures

L. Steam Resource Plan

M. Other Provisions

A. Term

The Signatory Parties recommend that the Commission approve or adopt the two-year steam rate plan for Con Edison as set forth herein, commencing October 1, 2008 and continuing through September 30, 2010 ("Steam Rate Plan"). For the purposes of this Proposal, "Rate Year 1" ("RY1") means the 12-month period starting October 1, 2008 and ending September 30, 2009, and "Rate Year 2" ("RY2") means the 12-month period starting October 1, 2009 and ending September 30, 2010.

B. Steam Rates and Revenue Levels

1. Rate Level

This Proposal covers Con Edison's steam rates and charges for retail steam sales and steam transportation service for the term covered by the Steam Rate Plan. The Proposal includes increases to the Company's base rates designed to produce an additional $53.0 million in revenues on an annual basis in RY1 and an additional $24.7 million in revenues on an annual basis in RY2.

In addition, the Signatory Parties recommend that these two base rate increases be implemented on a levelized basis to mitigate the impact on customers of the RY1 increase. The levelized annual rate increases would be $43.7 million in revenues on an annual basis in RY1 and an additional $43.7 million in revenues on an annual basis in RY2.

Under either alternative implementation, the rate increase for RY1 would take effect on October 1, 2008 and the rate increase for RY2 would take effect on October 1, 2009.

The revenue requirement underlying this Proposal is set forth in Appendix A and is net of the amortizations of various customer credits and debits on the Company's books of account that have been previously deferred by the Company. The list of deferred customer credits and debits to be applied during the period covered by the Steam Rate Plan is attached as Appendix B. The net credits include (i) approximately $28.4 million that comprises Steam's share of Con Edison's estimate of the net proceeds from the sale of the First Avenue Properties and (ii) approximately $2.5 million from prior sales of SO_2 allowances allocable to Steam. As shown on Appendix D, the proposed rates also reflect the imputation of approximately $4.2 million attributable to Steam's anticipated share of proceeds from additional sales of SO_2 allowances during the term of the Steam Rate Plan.

The increases to be implemented and maintained in each rate year (i.e., permanently and cumulatively) under the recommended levelized rate alternative reflect, in part, the application of interest at the Other Customer Capital rate on the rate increase that would have been collected in RY1 absent the phase-in of the RY1 rate increase. The annual rate allowances for the Company's Pension and Other Post Employment Benefits ("OPEB") were adjusted to bring the calculated revenue requirements in line with the phased-in revenue requirement (see Appendix D) on an earnings neutral basis.

The Signatory Parties recognize that phasing in the RY1 increase over two years would produce higher base revenues for the Company at the end of RY2 of approximately $9.6 million than those revenues would be were they not phased in. However, the Signatory Parties also recognize that the one-time credit to customers in Rate Years 1 and 2 representing the proceeds from the sale of the First Avenue Properties will be fully utilized and will create a revenue shortfall of approximately $12.8 million at the end of RY2.

2. <u>Sales Forecasts</u>

The sales forecasts used to determine the revenue requirement for each of RY1 and RY2 are set forth in Appendix C.

C. <u>Revenue Allocation, Rate Design and Fuel Costs</u>

1. <u>Revenue Allocation</u>

The allocation of the revenue increase and associated rate design is set forth in Appendix H. The revenue allocation reflects, among other things, a phase-in of the revenue surpluses and deficiencies as identified in the Company's embedded cost of service ("ECOS") Study submitted in this proceeding, which reflects the employment of a 10 percent tolerance band around the system rate of return, where 50 percent of the deficiencies and surpluses are eliminated in RY1 and the remaining 50 percent of the deficiencies and surpluses are eliminated in RY2.

2. <u>Rate Design Within Each Service Class Group</u>

Rates implementing this Proposal will be developed as set forth in Appendix H.

a. Customer Charge

Customer charge increases are described in Appendix H. The SC No. 2 Rate II (Demand) Customer Charge for Rate Year 1, excluding the component relating to the fixed fuel costs, will be increased to the ECOS Study level.

b. SC No. 2 Rate II (Demand) Billed Customers

The Company will implement a change to the design of its rates for the SC 2 Rate II (Demand) billed customers, effective October 1, 2008, as follows:

- <u>Summer Period (May through October, inclusive)</u> – Establish a $1.50 per Mlb price differential between the initial and second usage block rates with a subsequent decrease to the terminal usage block rate.

- Winter Peak Period (December through March, inclusive) and Winter Shoulder Period (November and April) - Establish a $0.50 per Mlb price differential between the initial and second usage block rates with a subsequent decrease to all the usage block rates.

3. Demand Rates

The Company implemented demand billing commencing November 1, 2007, for SC 2 and SC 3 customers with usage equal to or greater than 22,000 Mlbs. The Company will study the impact(s) of demand billing on this group of customers for the 2007-2008 and 2008-2009 winter periods and the potential impact of demand billing on customers with annual usage of less than 22,000 Mlbs but equal to or greater than 14,000 Mlbs for the 2008-2009 winter period. The Company will evaluate the potential customer impacts of (i) a change in the amount of winter peak period pure base revenues recovered in demand rates during December to March, inclusive, from 25 percent to 50 percent, and (ii) setting the same usage block rates for the winter shoulder period and winter peak period. The Company will also validate the billing determinants for SC 2 and SC 3 customers with annual usage of less than 22,000 Mlbs but equal to or greater than 14,000 Mlbs during the 2008-2009 winter period.[3]

At a technical conference to be held in July 2009, the Company will present to Staff and interested parties the results of the above-mentioned study and the proposed sample winter demand rates for customers to be sample billed during the 2009-2010 winter period, with actual demand billing to be implemented in the following rate year, 2010-2011.

[3] The Company currently has 20 customers with estimated annual usage of less than 22,000 Mlbs but equal to or greater than 14,000 Mlbs for which the Company has not yet installed vortex meters. The Company will take steps necessary to complete the installation of vortex meters for these customers prior to the 2009-2010 winter period. The Signatory Parties recognize that the installation of some meters may be delayed due to customer required actions (e.g., no access, awaiting customer asbestos removal). The Company will also exclude any premises where the customer advises the Company that it will not require steam service beyond the 2010-2011 winter period.

During the 2009-2010 winter period, the Company will provide sample bills to SC 2 and SC 3 customers with annual consumption less than 22,000 Mlbs but equal to or greater than 14,000 Mlbs who have demand meters installed prior to the start of the winter period. Sample bills will be based on sample winter demand rates, which will be designed on a Company revenue neutral basis, that the Company will provide to the active parties to this case on or before October 1, 2009.

Based on winter billing data available from the demand meters in place, the Company will design winter peak demand rates that will be effective for the 2010-2011 winter demand period for the demand billed customer classes (i.e., SC 2 and SC 3 customers with annual usage of less than 22,000 Mlbs but equal to or greater than 14,000 Mlbs and SC 2 and SC 3 customers with annual usage equal to or greater than 22,000 Mlbs). The winter rates for all demand billed customers will be designed to yield the same winter period revenues from the customers within each service class as the proposed revenues that would be collected at the rates effective commencing October 1, 2010. The Company will file to implement these proposed rates to be effective beginning at the start of the 2010-2011 winter demand period (i.e., December 2010 through March 2011), on a Company revenue neutral basis.

4. Fuel Adjustment Clause ("FAC")

Variations between the actual cost of fuel and the base cost of fuel will continue to be recovered through the FAC, including continuation of the annual reconciliation of the steam fuel expenses and revenues.

The Company will also recover through the FAC its total fuel costs associated with the actual steam system variance (i.e., the difference between sendout and sales), to the extent such costs are not recovered in base rates, subject to the reconciliation mechanism established by the 2004 Steam Rate Order[4] and set forth in the steam tariff.

The Company will also continue to recover all costs associated with oil storage and handling, including Company labor, through the FAC. In its next steam rate filing, the Company will propose to recover all Company labor costs currently recovered through the FAC in base rates and exclude such Company labor costs from its FAC calculation. By no later than June 30, 2009, the Company will review with Staff and other interested parties the oil storage and handling costs that the Company currently recovers through the FAC (e.g., dredging costs, dock repairs) to consider which of these costs, if any, should be recovered in base rates the next time the Company's steam base rates are reset; the Company's next steam base rate filing will identify such costs and the Company, Staff and other parties may propose that the Company recover certain costs in steam base rates instead of continuing to recover such costs through the FAC; any such costs that the Commission determines should be recovered in base rates will thereafter be excluded from the Company's FAC calculation.

5. Base Cost of Fuel

During RY1 and RY2, the base cost of fuel for each 1,000 pounds of steam used by a customer will remain at $8.049.

6. Allocation of ERRP Costs

During the period covered by the Steam Rate Plan, the Company's rates will continue to reflect the current allocation of the costs of the East River Repowering Project ("ERRP") between Steam and Electric.

[4] Case 03-S-1672, Consolidated Edison Company of New York, Inc. – Steam Rates, Order Adopting The Terms of A Joint Proposal (September 27, 2004) ("2004 Steam Rate Order").

During RY1, the Company, with input from Staff and other interested parties, will perform a detailed study on the allocation of the ERRP costs (e.g., capital, property taxes, O&M and fuel) between Steam and Electric. The Company will file the study with the Commission on or before April 30, 2009. The Signatory Parties recommend that the Commission establish a procedure for interested parties to submit comments on the study after it is filed with the Commission.

To the extent the study results in the Company recommending any changes to the allocation of ERRP costs, the Company will reflect such changes, if any, in its next general steam base rate filing. Any party may propose revisions to any change to the allocation of ERRP costs proposed by the Company in such case.

D. Computation and Disposition of Earnings

Following each of RY1 and RY2, Con Edison will compute its steam rate of return on common equity capital for the preceding Rate Year. The Company will submit to the Director of the Office of Accounting and Finance the computation of earnings no later than 60 days after the end of each Rate Year.

If the level of earned common equity return in any Rate Year exceeds 10.1 percent ("Earnings Sharing Threshold"), calculated as set forth below and as may be adjusted pursuant to paragraphs D.3 and E.12, the amount in excess of the Earnings Sharing Threshold will be deemed "shared earnings" for the purposes of this Proposal. One-half of the revenue equivalent of any shared earnings will be deferred for the benefit of customers and the remaining one-half of the revenue equivalent of any such shared earnings will be retained by the Company.

For purposes of determining whether the Company has earnings above the Earnings Sharing Threshold:

1. The calculation of return on common equity capital will be computed from the Company's books of account for each Rate Year, excluding the effects of (i) Company incentives and performance-based revenue adjustments; (ii) the Company's share of property tax refunds earned during the applicable Rate Year; (iii) the adjustment mechanism for the steam variance; and (iv) any other Commission-approved ratemaking incentives and revenue adjustments in effect during the applicable Rate Year.

2. Such earnings computations will reflect the lesser of: (i) an equity ratio equal to 50.0 percent, or (ii) Con Edison's actual average common equity ratio. Con Edison's actual common equity ratio will exclude all components related to "other comprehensive income" that may be required by generally accepted accounting principles; such charges are recognized for financial accounting reporting purposes but are not recognized or realized for ratemaking purposes.

3. For purposes of calculating earnings for steam, the net revenue effect of steam sales related to colder-than-normal weather shall be excluded in the manner described in Appendix G.

E. <u>Reconciliations</u>

The Company will reconcile the following costs to the levels provided in rates, as set forth in Appendix D. Except as provided in paragraph E.12, the reconciliations in each of RY1 and RY2 will be deferred, with interest as specified in paragraph F.2, and recovered from or credited to customers after expiration of this Steam Rate Plan in a manner to be determined by the Commission.

1. <u>Property Taxes</u>

If the level of actual expenditures for property taxes, excluding the effect of property tax refunds (as defined in paragraph F.5), varies in any Rate Year from the projected levels provided in rates, which are set forth in Appendix D, 90 percent of the variation will be deferred and recovered from or credited to customers.[5]

2. Municipal Infrastructure Support (Interference)

If actual non-Company labor Municipal Infrastructure Support expenses (e.g., contractor costs) vary in any Rate Year from the levels provided in rates, which are set forth in Appendix D, 90 percent of the variation will be deferred and recovered from or credited to customers. Con Edison will continue to coordinate and plan its interference work with the City of New York in order to reduce costs for customers.

3. Production Plant Expenditures

Con Edison's rate filing provided a forecast of capital expenditures for steam production plant. This forecast included, among other projects, demineralization facilities at the 59th Street and 74th Street stations. Appendix D includes steam production capital targets for Rate Years 1 and 2 reflecting this forecast.[6]

If at the end of any Rate Year, average net steam production plant is less than the targeted amount set forth in Appendix D ("Capital Target"), the Company will defer the revenue requirement impact of any shortfall below the targeted level. Net production plant is defined as steam utility plant recorded in PSC Accounts 310-316, net of associated depreciation reserves. The targeted level is not related to specific projects.[7]

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[5] The property tax reconciliation excludes the amortization of prior years' undercollection of property taxes that are subject to reconciliation pursuant to the 2006 Steam Rate Order and are being recovered over a three-year period commencing with RY1. The amounts to be recovered in RY1 and RY2 are set forth on Appendix B.

[6] The Signatory Parties acknowledge that the concerns raised in Staff's direct case with respect to the Company's past actions or inaction regarding the demineralization facilities are addressed in this Proposal and, accordingly, there is no need for further review of these past actions or inaction.

[7] While it is generally expected that Con Edison will undertake the projects specified in its forecast, Con Edison has the flexibility to substitute, modify and re-prioritize the nature and scope of its steam capital projects.

The revenue requirement impact of any shortfall will be calculated by applying an annual carrying charge factor of 13.23 percent (representing a combination of rate of return and depreciation) to the shortfall.

In the event of any unexpected occurrence, such as a major equipment failure, that causes Con Edison to make an unplanned capital investment in its steam production plant during the period covered by the Steam Rate Plan in an amount greater than $5 million, the Company may petition the Commission to defer the carrying charges associated with such a project(s) for recovery in a manner to be determined by the Commission, subject to the materiality, incremental and earnings criteria applied by the Commission to deferral petitions.[8]

4. Pensions/OPEBs

Pursuant to the Pension Policy Statement, the Company will reconcile its actual pensions/OPEB expenses and tax benefits related to the Medicare subsidies to the level allowed in rates as set forth in Appendix D, which level reflects the January 2008 update by the Company's actuaries.

5. Environmental Remediation

If the level of actual expenditures for site investigation and remediation ("SIR"),[9] including expenditures associated with former manufactured gas plant ("MGP") sites, Superfund and 1994 DEC Consent Order Appendix B sites, allocated to Steam varies in any Rate Year from the levels provided in rates, which are set forth in Appendix D, such variation will be deferred

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[8] For purposes of this Proposal, a deferral petition submitted pursuant to this provision for a project with a capital investment of $5 million or more will not be rejected by the Commission for consideration solely on the grounds that the amount of the proposed investment is not material.

[9] SIR costs are the costs Con Edison incurs to investigate, remediate or pay damages (including natural resource damages), with respect to industrial and hazardous waste or contamination due to spills, discharges, and emissions, for which Con Edison is deemed responsible. SIR costs are net of insurance reimbursement (if any). SIR costs exclude Company labor, except for the cost of Company labor that would normally be charged to construction projects (e.g., field forces for on-site inspections, lab processing, and construction management).

and recovered from or credited to customers. The deferred balances subject to interest will be reduced by accruals, insurance recoveries, associated reserves and deferred taxes.

By April 30, 2009, Con Edison will submit to Staff a report showing (i) its environmental reserve balance as of March 31, 2009 and changes in such balance in the prior twelve months; (ii) its environmental regulatory asset balance as of March 31, 2009 and changes in such balance in the prior twelve months; and (iii) remediation expenditures for the twelve month period ending March 31, 2009.

6. Proceeds from the Sales of SO_2 Allowances

If the level of proceeds from the sale of SO_2 allowances allocated to Steam varies in any Rate Year from the levels provided in rates, which are set forth in Appendix D, such variation will be deferred and recovered from or credited to customers. The allocation of such proceeds between Steam and Electric will continue to be computed according to the method established in the 2006 Steam Rate Order.

7. Deferred Income Taxes – 263A and Bonus Depreciation

The Company and the Internal Revenue Service have an open audit issue concerning the Section 263A tax deduction claimed by Con Edison beginning with tax returns filed for 2002 and later years. At issue is the appropriate method(s) to be applied to different classes of plant in order to calculate the Section 263A deduction. Resolution of this matter is pending for all those tax years and may result in a disallowance of a portion of the tax deduction claimed by the Company. The Proposal establishes a 263A deferred tax balance that reflects the anticipated outcome of this dispute.

The Federal Economic Stimulus Act of 2008 will allow the Company to depreciate plant assets that are started and completed during the 2008 tax year using “bonus depreciation rates” (i.e., 50 percent of the eligible plant balances may be depreciated within the current tax year).

The Company has projected that the net average rate base deduction related to this tax benefit would be $8.654 million in each of RY1 and RY2.

The Company will defer interest at a rate equivalent to the pre-tax rate of return of 10.47 percent on any difference between the actual deferred Section 263A and tax depreciation (ADR/ACRS/MACRS), including bonus depreciation, deferred tax benefits reflected in rate base and the actual tax benefits that result from the Section 263A and ADR/ACRS/MACRS deduction allowed by the Internal Revenue Service. The final Section 263A deduction reflected in rate base will recognize any related partial offset (i.e., higher/lower tax deduction), impacting the ADR/ACRS/MACRS rate base balances.[10]

8. Tax Exempt Debt

The Company has five issues of auction rate tax exempt debt (i.e., Series 1999A, Series 2001B, Series 2004A, Series 2004B1, and Series 2004B2) ("Auction Rate Debt") totaling approximately $636 million that were used to finance utility infrastructure projects. The debt is insured by Ambac Assurance Corporation and XL Capital Assurance Inc. The sub-prime mortgage crisis has resulted in increased scrutiny for bond insurers and has caused the auction rate debt market to be very unsettled at this time. Recognizing the uncertainty related to this debt, the Company will be allowed to true-up its actual interest costs related to the Auction Rate Debt to the amount reflected in rates as set forth in Appendix D. This treatment is the same as that provided by the Commission for the Company's electric service in Case No. 07-E-0523. In the event the Auction Rate Debt is refinanced prior to October 1, 2010, the Company will defer for future recovery from or credit to customers the difference between the interest costs of the replacement debt and the amount reflected in rates for the Auction Rate Debt as set forth in

[10] The ADR/ACRS/MACRS rate base balances reflected in rates may change if a higher or lower level of costs is capitalized for tax purposes, as a result of a change in the level of costs deducted under Section 263A.

Appendix D, in addition to its incremental costs associated with the retirement and refinancing of the Auction Rate Debt.

9. Ravenswood O&M Contract

The Company has an agreement with the operator of the Ravenswood A House (originally dated June 18, 1999, renewed on October 1, 2002, and then extended to April 1, 2009) that requires the Company to reimburse the operator for certain costs related to the daily operations to produce steam at the plant ("Ravenswood Agreement"). The term of the Ravenswood Agreement expires on April 1, 2009. The Company may enter into a new agreement with the current or future operator of the Ravenswood A House, which may result in a change in labor rates (including applicable labor overheads), materials and supplies overhead rates and the annual management fees.

To the extent that the total payment under a new agreement is less than the level provided in rates (as set forth in Appendix D) due to a reduction in labor rates (including applicable labor overheads), materials and supplies overhead rates and/or the annual management fees, the variation will be deferred and credited to customers.

If the Ravenswood Agreement expires and the Company does not enter into a new O&M agreement with the current or future operator of the Ravenswood A House, and the Company therefore undertakes such operation and maintenance obligation, there will not be any reconciliation between the level of expenses provided in rates and the costs the Company incurs in undertaking this responsibility.

10. Steam Incident-Related Programs

As a result of the July 17, 2007 steam pipe incident, the Company has instituted programs to implement its December 17, 2007 Recommendations and Action Plan and Staff recommendations pursuant to the Commission's February 13, 2008 Order Directing The

Company To Implement Staff Recommendations Or Show Cause in Case 07-S-0894 ("Show Cause Proceeding").

The Company's initial filing in this proceeding included $5 million and $800,000 as placeholders for capital expenditures and O&M costs for such programs during RY1, respectively. The Company updated these projections as part of its formal update presentation in this proceeding, to reflect approximately $50.7 million of capital expenditures for the period 2008 through 2011 and approximately $6.4 million for O&M expenses during RY1.

The Capital Targets established by this Proposal reflect $5.9 million in RY1 and $10.7 million in RY2 of average net plant balances for these programs, respectively, as a placeholder. As shown in Appendix D, the rates also reflect $3 million of steam incident-related O&M expenses per year as a placeholder for RYs 1 and 2.

During the term of this Steam Rate Plan, the Company will reconcile actual costs of steam incident-related programs to the placeholder amounts and any variation will be deferred and, subject to Commission review and approval, recovered from or credited to customers, pending the outcome of the Show Cause Proceeding, in a manner to be determined by the Commission no later than in the Company's next Steam rate proceeding. The carrying charge rate for the over or under collection of the deferrals will be at an interest rate equivalent to the pre-tax rate of return for capital expenditures and the other customer capital rate for O&M expenses.[11]

As part of the Company's next base rate filing, and unless otherwise determined in the Show Cause Proceeding, the Company will reflect (i) either recovery from or credit to customers any variation between the Company's actual capital expenditures and O&M expenses for steam

[11] Deferring recovery of a portion of these steam incident-related costs until the Company's next steam base rate filing shall not be construed as the Company's acknowledging that it is not entitled to full recovery of these costs, in any proceeding, including the Show Cause Proceeding.

incident-related programs and the placeholder amounts during the period covered by this Steam Rate Plan pursuant to the above-described reconciliation mechanism, and (ii) the Company's forecasted capital expenditures and O&M expenses for such programs on a going forward basis.

The Company will, as part of its next base rate filing, identify the costs it incurred during the period covered by this Steam Rate Plan and that the Company projects that it will incur on a going forward basis that are incremental to the costs for programs already funded in rates (e.g., to the extent that the Company seeks recovery of incremental costs for the trap inspection program, the Company will show that the level of trap inspection activity has increased as compared to the pre-incident level of trap inspection activity). All incremental costs will also be net of savings and efficiencies obtained by implementing the action plan (e.g., the incremental costs will be net of any reduced inspection costs that may result from the installation of remote monitoring equipment.)

The Company will provide to the Director of Electric, Gas and Water and all parties to this proceeding, on February 28, 2009 and February 28, 2010,[12] a report that identifies the costs it incurred during the preceding calendar year that are incremental to the costs for programs already funded in rates, net of savings and efficiencies obtained by implementing the action plan, as explained above. This report should also include the Company's then current forecasted budget for the calendar year in which the report is made related to these programs.

11. Additional Reconciliation/Deferral Provisions

In addition to the foregoing reconciliation provisions for property taxes, municipal infrastructure support, capital expenditures, pension/OPEBs, environmental remediation,

[12] The Company does not have to file the February 28, 2010 report if the Company has filed for new steam base rates before that date.

proceeds from the sale of SO_2 allowances, deferred income taxes, tax exempt debt, the Ravenswood O&M contract and steam incident-related costs, all other applicable existing reconciliations and/or deferral accounting will continue in effect through the term of this Steam Rate Plan and thereafter until modified or discontinued by the Commission, including but not limited to FAS 109 taxes, MTA taxes and the Steam FAC mechanisms.

The revenue requirement reflects the amortization of $4.0 million per rate year of World Trade Center ("WTC")-related costs that the Company has deferred, as set forth in Appendix B. The balance of the Company's WTC-related capital costs allocated to Steam will continue to be deferred in accordance with the 2006 Steam Rate Order and subject to interest at Con Edison's allowed pretax AFUDC rate of return. The Company will continue to seek recovery for all WTC costs from governmental agencies and insurance carriers. All recoveries will be applied to reduce the deferred balance.

12. Limitations on Deferrals

For earnings above the Earnings Sharing Threshold, the Company will apply 50 percent of its share of any such earnings to reduce deferred undercollections of property taxes, if any. This analysis will be performed at the end of the two-year rate plan on a cumulative rate year basis. There will be no netting of deferrals during the term of the Steam Rate Plan.

F. Additional Rate Provisions

1. Depreciation Rates and Reserves

The average services lives, net salvage factors and life tables used in calculating the depreciation reserve and establishing the revenue requirement are set forth in Appendix E.

To mitigate the rate increase, the Proposal provides for the Company to terminate the five-year amortization of the reserve deficiency established by the 2006 Steam Rate Order, without prejudice to the Company proposing to reinstitute such amortization in the future.

2. <u>Interest on Deferred Costs</u>

The Company is required to record on its books and records of accounts various credits and debits that are ultimately reflected in the rates to be charged to customers, including those specified in paragraphs E and M.2. Unless otherwise specified in this Proposal or by Commission Order, the Company will accrue interest on these book amounts, net of federal and State income taxes, at the unadjusted customer deposit rate published by the Commission annually. FAS 109 and MTA Tax deferrals are either offset by other balance sheet items or reflected in the Company's rate base and will not be subject to interest.

3. <u>Allocation of Common Costs/Plant</u>

During the period covered by this Steam Rate Plan, common costs and plant will be allocated according to the percentages reflected in the steam revenue requirement calculations, as shown in Appendix F. Should the Commission approve different common allocation percentages prior to the next base rate case for Steam, the resulting change in revenue requirement will be deferred on an annual basis for future recovery from or credit to customers.

4. <u>Water Treatment and Local Law 11 Facilities Maintenance Expenses</u>

In order to normalize the cost of scheduled work on water treatment facilities and maintenance projects required by Local Law 11, the Company will be allowed to defer $2.46 million of water treatment expenses and $4.9 million of Local Law 11 costs incurred during RY1. The deferred water treatment costs will be amortized to expense over four years (<u>i.e</u>., $615,000 per year starting in RY1). The costs deferred for the Local Law 11 work will be amortized to expense over three years (<u>i.e</u>., $1,633,333 annually starting in RY1). Carrying charges will be accrued on the unamortized balances at the other customer capital rate.

5. Property Taxes Refunds and Credits

Property tax refunds allocated to Steam that are not reflected in this Steam Rate Plan and that result from the Company's efforts, including credits against tax payments or similar forms of tax reductions (intended to return or offset past overcharges or payments determined to have been in excess of the property tax liability appropriate for Con Edison), will be deferred for future disposition, except for an amount equal to fourteen percent of the refund or credit which will be retained by the Company. Incremental expenses incurred by the Company to achieve the property tax refunds or credits will be netted against the refund or credit before any allocation of the proceeds is calculated. The deferral and retention of property tax refunds and incentives will be subject to an annual showing by the Company of its ongoing efforts to reduce its property tax burden. Additionally, the Company is not relieved of the requirements of 16 NYCRR Part 89 with respect to any refunds it receives.

G. Steam Business Development and Retention

1. Meetings/Contacts

The Company's steam business development ("SBD") personnel will meet with and/or contact developers, property owners, advisors, engineers, and/or architects ("Industry Representatives") at least 12 times per month. SBD personnel will maintain logs setting forth the date of each meeting/contact and the person(s) contacted. Failure of the SBD representatives collectively to conduct at least 175 meetings/contacts in each of RY1 and RY2 will result in a revenue adjustment of $2,000 multiplied by the difference between the total number of meetings/contacts to be conducted and the actual number of meetings/contacts conducted.

On or before September 30, 2009, the Company will file with the Commission a report that includes the number and nature of these meetings/contacts held through July 31, 2009, and a plan for addressing major issues raised during such meetings/contacts. The Company will be subject to a $100,000 revenue adjustment if it fails to file the report by that date.

In or about July 2010, the Company will conduct a survey of the Industry Representatives with whom SBD personnel met/contacted to obtain and evaluate their reaction to the Company's business development implementation efforts. The Company will prepare and file with the Commission a report on the results of this survey on or before September 30, 2010. Copies of this report will be provided to the active parties to this proceeding.

2. <u>Customer Service</u>

a. <u>Customer Focus Groups</u>

To identify customers' concerns and issues related to Con Edison's steam service, and to assist in improving its level of service, Con Edison will conduct a series of focus groups with its customers.

i. The Company will work with an opinion research consultant to jointly conduct three focus groups of SC 2 and SC 3 customers in RY1 and again in RY2.

ii. The Company will provide to interested parties a qualitative report by June 30, 2009 and June 30, 2010, on the nature of concerns/issues raised by customers during the focus groups and its plans, including time frames, for addressing substantive and process concerns/issues that are identified and are not unique to individual focus group participants. The report will, at a minimum, describe each substantive and process concern/issue raised, provide the Company's response to each such concern/issue, and discuss either the manner in which the concern/issue will be addressed or why no action is warranted.

iii. Both reports will also be submitted to the Director of the Office of Consumer Services and the Director of Electric, Gas and Water.

iv. Con Edison will be subject to a $50,000 revenue adjustment at the end of the period covered by this Steam Rate Plan if it has not completed and circulated both reports.

b. Customer Satisfaction Survey

To assess the satisfaction level of steam customers, the Company will conduct two surveys per year.

i. Con Edison will perform two surveys per year of a representative sample of the steam customers who have contacted the Company. The representative sample is defined as a valid statistical sample of customers who have contacted the Company developed in consultation with an independent professional survey vendor.

ii. The Company will continue to use the same survey instrument that it used as part of the 2006 Steam Rate Plan. The surveys will be conducted within one month of the end of each six-month period.

iii. Con Edison will prepare an annual report that compiles, summarizes, and identifies key issues associated with the two surveys conducted during the previous Rate Year. This report will be completed within 90 days of the end of each Rate Year and submitted to the Director of the Office of Consumer Services and the Director of Electric, Gas and Water, with copies provided to interested parties who request them.

iv. Con Edison will be subject to a $50,000 revenue adjustment each Rate Year if it fails to conduct the two surveys and submit the report described above.

H. Thermal Efficiency/Losses

Within 60 days after the effective date of this Proposal, the Company will select, based upon a consensus reached among the Company, Staff and interested parties to this proceeding, and take steps necessary to retain an independent consultant(s) to (i) review thermal efficiency studies performed by the Company since 1995 (which the Company has provided to the active parties in response to a discovery request) and (ii) develop, in conjunction with the Company and to the extent the findings so indicate, a detailed action plan to prioritize, implement and maintain economic projects for reducing overall steam losses. The parties will determine by consensus the cost and extent of the consultant's study. If the parties are unable to reach a consensus as to the cost and/or extent of the study or as to the choice of independent consultant(s) within 45 days of the effective date of this Proposal, the matter will be submitted to the Commission for resolution.

The Company will recover through the FAC all amounts paid to such consultant(s), contemporaneous with payments made.

The Company will file with the Commission any action plan developed by the consultant and provide a copy to interested parties to this proceeding. Any action plan will include an implementation schedule, an estimate of implementation costs and a process to assess the results and effectiveness of the action plan. The Company will describe the means by which it would recover such costs.

The Signatory Parties agree to not propose to the Commission a change to the existing steam variance reconciliation mechanism (discussed in paragraph C.5) to be effective before the implementation of any Commission-adopted action plan for thermal efficiency or October 1, 2010, whichever is earlier.

I. Steam Energy Efficiency

Within 60 days of the Commission's issuance of an order adopting this Proposal, the Company will convene a collaborative of interested parties to consider (1) the market potential for steam energy efficiency programs for steam customers proposed for RY2, and (2) customer incentives and Company incentives associated with such programs. The Company will chair the collaborative.

On or about April 15, 2009, the Company will provide to the Commission a report on the results of the collaborative, which will contain either a consensus recommendation or the Company's proposal for energy efficiency programs for RY2. Party positions not in agreement with either a partial consensus recommendation or with the Company's proposal will be included in the report. The report will include a proposal for the Company to recover the costs of any recommended programs and customer and Company incentives. The Signatory Parties recommend that the Commission solicit comments from interested parties on the report.

The rates recommended by this Proposal reflect $100,000 to cover the cost of (1) program development and administrative costs and (2) a market potential analysis by an independent consultant during the course of the collaborative.

J. Miscellaneous Tariff Changes

The Company will implement the following tariff changes as generally described below:

a. The General Information Section III-A.1 (D) of the steam tariff will be changed from "Steam Repair Service" to "Steam Repairs and Other Services" to permit the Company to charge customers tariff rates for other customer-requested services, such as charging customers who want to obtain pulse signals from demand meters. The Company will eliminate the specific tariff charges for replacing a flange valve greater than four inches or repairing a gasket of 1-to-16 inches; instead, the Company will assess a customer-specific charge for the requested service on the basis of the Materials Charge and Labor Charge identified in the steam tariff.

b. To encourage customers to take appropriate care of the Company's meter and associated equipment, the Company will institute a $900 charge when the Company must replace a damaged meter and/or associated equipment due to customer negligence or tampering.

c. The Company will add a $12 dishonored check fee to the steam tariff to conform to the fee charged in the electric and gas tariffs to customers who make payments that are subsequently dishonored.

d. The Company will extend the period for accepting applications for the SC No. 2 and SC No. 3 steam air conditioning program's $2-per-Mlb summer discount through September 30, 2010, and will provide the discount for a two-year period to customers who commence service under the program before October 1, 2010.

e. The Company will amend the General Information Section III.1 (e) and General Information Section III.2 (b) to provide the Company with the right to require a subsequent customer payment if the Company determines that the customer did not provide sufficient revenue within two years of the mains extension/reinforcement or service line installation to justify the initial expenditure involved for applications received on or after October 1, 2008.

f. The “Special Monthly Adjustments” Section of the Steam FAC will be amended to provide for recovery of (i) the costs for the consultant(s) to study thermal efficiency/losses (discussed in section H, infra) and (ii) all program costs not recovered in rates, inclusive of incentives that may be paid to customers, and incentives that may be earned by the Company, for the steam energy efficiency programs that may result from the Steam Energy Efficiency Program collaborative discussed in Section I of this Proposal.

g. The Company will make the following housekeeping or clarifying steam tariff changes:

- Eliminate the tariff provisions pertaining to the leasing of boiler equipment by the Company from a customer since the Company no longer leases boilers from customers;

- Add “Mlb” to General Information Section II – Definitions and Abbreviations of Terms Used in this Rate Schedule and replace “1,000 pounds” of steam with “Mlb” Steam throughout the tariff, because “Mlb,” rather than “1,000 pounds,” is shown on customers’ bills. The definition for Mlb will be “1000 pounds”;

- Clarify changes to SC 4 to eliminate customer confusion, by separately stating charges applicable to Peak Period Customers and charges applicable to Off-Peak Period Customers;

- The current FAC mechanism that provides for the 12-month reconciliations of the Monthly Adjustment and Special Monthly Adjustments will be revised to allow for any under or over-collection amounts to be billed over the 12 months beginning December instead of November. This change is intended to mitigate any potential refiling of reconciliation amounts due to subsequent revisions of information available at the time of the November FAC filing;

- Eliminate obsolete text about the annual adjustment to the Fuel Adjustment for the annual period ending September 30, 2004 (in General Information Section VII.E.1) and about the Deferred Fuel Cost Amortization to be recovered over the 12 months ending November 2005 (in General Information Section VII.F); and

- Correct a typographical error in the General Information Section VIII – Increase in Rates Applicable, by changing "a vendor of electricity" to a "vendor of steam."

K. Safety Performance Measures

1. Emergency Response – 45-Minute Response Time

If Con Edison does not respond to steam leak/vapor calls from third parties within 45 minutes at the percentages set forth below for calendar years 2009 and 2010, the following negative rate adjustment will be applied to the benefit of customers for each calendar year that the performance measure is not attained, as directed by the Commission.

85% or more	No adjustment
More than 80% but less than 85%	1.5 basis points
80% or less	3.0 basis points

2. Emergency Response – 60-Minute Response Time

If Con Edison does not respond to steam leak/vapor calls from third parties within 60 minutes at the percentages set forth below for calendar years 2009 and 2010, the following negative rate adjustment will be applied to the benefit of customers for each calendar year that the performance measure is not attained, as directed by the Commission.

95% or more	No adjustment
More than 90% but less than 95%	1.5 basis points
90% or less	3.0 basis points

Should the Company not file a general base steam rate case for rates to be effective on October 1, 2010, the Company and Staff agree that they will meet in the first quarter of 2010 to discuss the 45 and 60 minute response time Safety Performance metrics and associated rate adjustments to develop a proposal for such metrics beyond the 2010 calendar year. Any such proposal will be submitted to the Commission for approval.

3. Leak Management – Year-End Total Backlog

The Company and Staff will jointly evaluate the Company's leak backlog management for calendar year 2008, considering, among other relevant factors, the impact of not using leak sealant services on the Company's management of leak backlogs.

On or about April 15, 2009, the Company and Staff will jointly propose to the Commission a performance mechanism for steam leak backlog management to take effect for calendar year 2010. If Staff and the Company are unable to reach agreement as to such mechanism, the Company will file a proposed mechanism with the Commission by such date. The Commission will establish a procedure for comment by interested parties on such proposal.

4. General Provisions

Steam leak/vapor calls resulting from major weather-related occurrences, and other circumstances outside of the Company's control will be excluded from the calculations for the 45- and 60- minute response times. The Company will report its annual performance in each of the areas set forth in this section K to the Director of the Office of Electric, Gas & Water no later than 60 days following the end of the calendar year. If a performance metric is not met, the associated revenue adjustment will be excused when the Company can demonstrate to the Commission extenuating circumstances that prevented it from meeting such performance metric. The determination of whether such circumstances exist will be made on a case-by-case basis and will be based upon the particular facts and circumstances presented.

L. Steam Resource Plan

The Company filed a Steam Resource Plan with the Commission on October 26, 2007 ("SRP") in accordance with the terms of the 2006 Steam Rate Plan.

The Company will complete the investment grade study of a cogeneration plant, of up to 500 MW, at the Hudson Avenue Station that is currently being conducted by an independent consultant retained by the Company ("Cogeneration Study").

The Company will file a supplement to the SRP with the Commission on or before December 31, 2008 ("Supplement"). The Supplement will incorporate updated fuel and energy price forecasts and include the results of the Cogeneration Study. In addition, consideration will be given to various other cogeneration plant designs, and electric and steam outputs, as well as the Hudson Avenue options presented in the SRP. The Company will select an option that meets its reliability and capacity needs and considers cost-effectiveness and statewide and NYC-wide energy planning objectives.

The Commission will establish a procedure for parties to file comments on the Supplement. The confidentiality provisions set forth in the 2004 Steam Rate Order will continue.

M. <u>Other Provisions</u>

1. <u>Rate Changes</u>

The provisions of this Proposal that do not otherwise expire by their own terms will continue after RY2, unless and until changed by Commission Order. For any provision subject to RY1 and RY2 targets, the RY2 target shall be applicable to any additional rate year(s). Nothing herein precludes Con Edison from filing a new general steam rate case prior to October 1, 2010, for rates to be effective on or after October 1, 2010.

Changes to the Company's base steam rates during the period covered by this Steam Rate Plan will not be permitted, except for (a) changes provided for in this Proposal and (b) subject to Commission approval, changes as a result of the following circumstances:

i. A minor change in any individual base rate or rates whose revenue effect is de minimis or essentially offset by associated changes in other base rates, terms or conditions of service – for example, an increase in a specific base rate charge in one service classification that is offset by a decrease in another base rate charge in the same or in other service classifications. It is understood that, over time, such minor changes are routinely made and that they may continue to be made during the term of this Steam Rate Plan, provided they will not result in a change (other than a de minimis change) in the revenues that Con Edison's base steam rates are designed to produce overall before such changes.

ii. If a circumstance occurs which in the judgment of the Commission so threatens Con Edison's economic viability or ability to maintain safe, reliable and adequate service as to warrant an exception to this undertaking, Con Edison will be permitted to file for a change in base steam rates at any time under such circumstances.

iii. The Signatory Parties recognize that the Commission reserves the authority to act on the level of Con Edison's base steam rates in the event that, in the Commission's opinion, Con Edison's steam rates are unreasonable or insufficient for the provision of safe, reliable and adequate service.

iv. Nothing herein shall preclude Con Edison from petitioning the Commission for approval of new services or rate design or revenue allocation changes on an overall revenue-neutral basis, including, but not limited to, the implementation of new service classifications and/or cancellation of existing service classifications.

2. Legislative, Regulatory and Related Actions

a. If the federal government, State of New York, and/or the City of New York make changes in their tax laws (other than local property taxes, which will be reconciled in accordance with paragraph E.1 above) that result in the Company's incurring incremental steam costs in an annual amount of $0.5 million or more, and if the Commission does not permit the disposition, through a surcharge or credit, of any such tax law changes, including any new, additional, repealed or reduced federal, state, or City of New York fees or levies, Con Edison will defer the full change in expense and reflect such deferral as credits or debits to customers in the next base rate change, subject to any final Commission determination in a generic or other proceeding prescribing utility implementation of a specific tax law enactment, including Commission determination of any Company-specific compliance filing made in connection therewith.[13]

b. If any other law, rule, regulation, order, or other requirement or interpretation (or any repeal or amendment of an existing rule, regulation, order or other requirement) mandated by the state, local or federal government, agency or courts, including a requirement that Con Edison refund its tax exempt debt, results in a change in Con Edison's annual steam costs or revenues not anticipated in the forecasts and assumptions on which the rates in this Proposal are based, and in the Company's incurrence of incremental steam costs or reduced revenues in an annual amount of $0.5 million or more,[14] Con Edison will defer on its books of account the full change in costs or revenues, with any such deferrals to be reflected in the next base rate case or in a manner to be determined by the Commission.

c. The Company will retain the right to petition the Commission for authorization to defer extraordinary expenditures not otherwise addressed by this Proposal.

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[13] The Company reserves all of its administrative and judicial rights in connection with such proceeding(s).

[14] For purposes of this Proposal, $0.5 million threshold will be applied on a case-by-case basis and not to the aggregate impact of changes of two or more laws, rules, etc.; provided, however, that these thresholds will be applied on a Rate Year basis to the incremental aggregate impact of all contemporaneous changes (i.e., changes made as a package even if they occur or are implemented over a period of months) affecting a particular subject area and not to the individual provisions of the new law, rule, etc.

3. Extraordinary Circumstances Exception

For each of the performance metrics discussed in section G, when the Company can demonstrate that extraordinary circumstances prevented it from meeting such performance metric, either the associated revenue adjustment will be excused or the time to satisfy the performance metric will be extended by the Commission, as appropriate. The determination of whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented.

4. Trade Secret Protections

Nothing in this document prevents Con Edison from seeking trade secret protection under 16 NYCRR Part 6 for all or any part(s) of any document or report filed (or submitted to Staff) in accordance with this Steam Rate Plan, or prohibits or restricts any other party from challenging any such request.

5. Provisions Not Separable

The Signatory Parties intend this Proposal to be a complete resolution of all the issues in Case 07-S-1315. It is understood that each provision of this Proposal is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the Commission. Except as set forth herein, none of the Signatory Parties is deemed to have approved, agreed to or consented to any principle, methodology or interpretation of law underlying or supposed to underlie any provision herein. If the Commission fails to adopt this Proposal according to its terms, then the Signatory Parties to the Proposal shall be free to pursue their respective positions in this proceeding without prejudice.

6. Provisions Not Precedent

The terms and provisions of this Proposal apply solely to, and are binding only in, the context of the purposes and results of this Proposal. None of the terms or provisions of this Proposal and none of the positions taken herein by any party may be referred to, cited, or relied upon by any other party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose other than furtherance of the purposes, results, and disposition of matters governed by this Proposal.

7. Submission of Proposal

The Signatory Parties agree to submit this Proposal to the Commission and to individually support and request its approval or adoption by the Commission in its entirety as set forth herein. The Signatory Parties hereto believe that the Proposal will satisfy the requirements of Public Service Law §79(1) that Con Edison provide safe and adequate service at just and reasonable rates.

8. Effect of Commission Approval

No provision of this Proposal or the Commission's approval or adoption of this Proposal shall in any way abrogate or limit the Commission's statutory authority under the Public Service Law. The Parties recognize that any Commission approval or adoption of this Proposal does not waive the Commission's ongoing rights and responsibilities to enforce its orders and effectuate the goals expressed therein, nor the rights and responsibilities of Staff to conduct investigations or take other actions in furtherance of its duties and responsibilities.

9. Further Assurances

The Signatory Parties recognize that certain provisions of this Proposal require that actions be taken in the future to fully effectuate this Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

10. Execution

This Proposal is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Steam Revenue Requirement
For The Twelve Months Ending September 30, 2009
$ 000's

Operating revenues	Rate Year 1 Forecast	Rate Change	Rate Year 1 With Rate Change
Sales revenues	$ 671,655	$ 53,048	$ 724,703
Other revenues	80,070	87	80,157
Total operating revenues	751,725	53,135	804,860
Operating expense			
Fuel & purchased steam costs	365,705	-	365,705
Other fuel charges	4,983	-	4,983
Operations & maintenance expenses	176,532	-	176,532
Depreciation	56,415	-	56,415
Taxes other than income taxes	83,847	1,284	85,131
Gain from disposition of utility plant	(12,792)	-	(12,792)
Total operating expenses	674,690	1,284	675,974
Operating income before income taxes	77,035	51,851	128,886
New York State income taxes	2,113	3,681	5,794
Federal income tax	6,194	16,860	23,054
Utility operating income	$ 68,728	$ 31,310	$ 100,038
Rate Base	$ 1,333,842		$ 1,333,842
Rate of Return	5.15%		7.50%

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Steam Revenue Requirement
For The Twelve Months Ending September 30, 2010
$ 000's

Operating revenues	Rate Year 1 Forecast	Rate Year 2 Revenue/Expense Rate Base Changes	Rate Change	Rate Year 2 With Rate Change
Sales revenues	$ 724,703	$ 24,631	$ 24,733	$ 774,067
Other revenues	80,157	(1,828)	41	78,370
Total operating revenues	804,860	22,803	24,774	852,437
Operating expense				
Fuel & purchased steam costs	365,705	13,510	-	379,215
Other fuel charges	4,983	137	-	5,120
Operations & maintenance expenses	176,532	15,336	-	191,868
Depreciation	56,415	3,686	-	60,101
Taxes other than income taxes	85,131	3,096	599	88,825
Gain from disposition of utility plant	(12,792)	-	-	(12,792)
Total operating expenses	675,974	35,765	599	712,338
Operating income before income taxes	128,886	(12,962)	24,175	140,099
New York State income taxes	5,794	(1,138)	1,716	6,372
Federal income tax	23,054	(4,941)	7,860	25,973
Utility operating income	$ 100,038	$ (6,883)	$ 14,598	$ 107,753
Rate Base	$ 1,333,842	102,867		$ 1,436,709
Rate of Return	7.50%			7.50%

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Average Steam Rate Base
For The Twelve Months Ending September 30, 2009 and September 30, 2010
$ 000's

	Rate Year 1	Rate Year 2 Changes	Rate Year 2
Utility plant:			
Average Book Cost of Plant - steam plant	$ 1,824,561	$ 134,971	$ 1,959,532
- water treatment facilities	(2,361)	-	(2,361)
Non-Interest Bearing CWIP	24,140	971	25,111
Average Accumulated Depreciation - steam plant	(385,587)	(42,452)	(428,039)
- water treatment facilities	446	-	446
Net utility plant	1,461,199	93,490	1,554,689
Rate base additions:			
Working Capital	83,772	3,515	87,287
Unamortized Debt Discount/Premium/Expense	16,238	-	16,238
Deferred Fuel - Net of Income Taxes	(1,729)	-	(1,729)
Preferred Stock Expense	286	-	286
MTA Surtax - Net of Income Taxes	(351)	-	(351)
Rate base additions	98,216	3,515	101,731
Rate base deductions:			
Elimination of Water Treatment Facilities (Plant, Depreciation & Def. Taxes	-	-	-
Excess Rate Base Over Capitalization	27,685	-	27,685
Customer Advances for Construction	(1,807)	-	(1,807)
Rate base deductions	25,878	-	25,878
Regulatory assets & liabilities (net of income taxes):			
Refund of Gain from Disposition of Utility Plant - 1st Ave Properties	(13,759)	8,593	(5,166)
Refund of NYC Property Taxes - 2000 Settlement	(181)	72	(109)
Refund of NYC Property Taxes - 2004 Settlement	(2,561)	1,024	(1,537)
Refund of Previously Deferred SO2 Allowance Proceeds	(1,918)	767	(1,151)
Refund of Medicare Rx Legislation Savings - 2004 Settlement	(319)	128	(191)
Refund of Capital Expenditure Reconciliation - 2004 Settlement	(407)	163	(244)
Refund of Proceeds from Oil Overcharge Litigation - 2004 Settlement	(277)	111	(166)
Refund of Interest on Rate Case Deferrals - 2006 Settlement	(164)	66	(98)
Refund of Customer Benefits Resulting from ADR Taxes	(1,097)	439	(658)
Recovery of Previously Deferred Items Subject to Reconciliation	1,814	(726)	1,088
Recovery of Previously Deferred Business Development Plan exp	202	(81)	121
Recovery of Previously Deferred Production Study Expense	278	(111)	167
Recovery of Previously Deferred Interference Exp - 2000 Settlement	315	(126)	189
Recovery of Previously Deferred Interference Exp - 2004 Settlement	417	(167)	250
Recovery of Previously Deferred Interference Exp - 2006 Settlement	(253)	101	(152)
Recovery of Previously Deferred NYC Property Taxes - 2006 Settlement	2,387	(955)	1,432
Recovery of Previously Deferred Pension/OPEB Exp - 2006 Settlement	1,079	(432)	647
Recovery of Previously Deferred Interest on MGP/Superfund Balances	100	(40)	60
Recovery of Excess Refund of SIT to Customers	(54)	(21)	(75)
Recovery of Interest on SIT Audit Adjustments	1	-	1
Recovery of Shortfall in SO2 Imputation	718	(287)	431
Regulatory deferrals	(13,679)	8,518	(5,161)
Accumulated deferred income taxes			
ADR/ACRS/MACRS Deductions	(183,963)	(7,772)	(191,735)
Prepaid Insurance Expenses	(200)	-	(200)
Vested Vacation	742	-	742
Unbilled Revenues	9,326	-	9,326
Contributions in Aid of Construction	1,778	-	1,778
Capitalized Interest	5,296	-	5,296
Capitalized Major Maintenance - 1998 - 2002	1,941	-	1,941
Advanced Refunding of Mortgage Bonds	(5)	-	(5)
Change of Accounting - Section 263A	(32,578)	5,899	(26,679)
Call Premium	(822)	-	(822)
FIN 48 - Simplified Service Cost Method - 2002 - 2005	(9,469)	-	(9,469)
Deferred SIT/FIT Due to Update in Pension/OPEB Contributions	269	-	269
Deferred FIT in rate base related the water treatment facilities	160	-	160
Deferred SIT in rate base related the water treatment facilities	35	-	35
Excess Deferred SIT	(915)	-	(915)
Deferred SIT	(29,368)	(783)	(30,151)
Accumulated deferred income taxes	(237,773)	(2,656)	(240,429)
Total Rate Base	$ 1,333,842	$ 102,867	$ 1,436,709

Consolidated Edison Company of New York, Inc.
Steam Case 07-S-1315
Average Capital Structure & Cost of Money
For the Twelve Months Ending September 30, 2009 and September 30, 2010

	Capital Structure %	Cost Rate %	Cost of Capital %	Pre Tax Cost %
Long term debt	49.66%	5.91%	2.94%	2.94%
Preferred Stock	1.08%	5.34%	0.06%	0.10%
Customer deposits	1.26%	3.76%	0.05%	0.05%
Preferred Stock & Debt	52.00%		3.04%	3.08%
Common Equity	48.00%	9.30%	4.46%	7.39%
Total	100.00%		7.50%	10.47%

Consolidated Edison Company of NY, Inc.
Steam Case 07-S-1315
Calculation of Levelized Rate Increase
For the Twelve Months Ending September 30, 2009 and September 30, 2010

	Twelve Months Ending		Cumulative
Rate Increase	Oct. 31, 2009	Oct. 31, 2010	Total
RY - 1	$53,048	$53,048	$106,096
RY - 2		24,733	24,733
Total	$ 53,048	$ 77,781	$ 130,829
Levelized rate increase w/o interest			
RY - 1	$ 43,610	$ 43,610	$ 87,219
RY - 2	-	43,610	43,610
Total	$ 43,610	$ 87,219	$ 130,829
Interest @ 5.5%	$ 157	$ 157	$ 314
Levelized rate increase w/ interest			
RY - 1	$ 43,714	$ 43,714	$ 87,429
RY - 2	-	43,714	43,714
Total	$ 43,714	$ 87,429	$ 131,143

Appendix B

Consolidated Edison Company of New York, Inc.
Steam Case 07-S-1315
Amortization of Regulatory Deferrals (Credits & Debits)
$ 000's

	Regulatory Liabilities (Credits)	Twelve Months Ending September 30, 2009	2010	Total
1	NYC Property Taxes - 2000 Rate Plan	$ 120	$ 120	$ 240
2	- 2004 Rate Plan	1,697	1,697	3,394
3	SO2 Allowance - Principal	1,146	1,146	2,292
4	- Interest	124	124	248
5	Medicare Rx Legislation Savings	211	211	422
6	Capital Expenditure Reconciliation Expenses	269	269	538
7	Oil Overcharge Litigation Proceeds	184	184	368
8	Interest on Rate Case Deferrals	108	108	216
9	Interference Expense - 2006 Rate Plan	168	168	335
10	ADR Tax Amortization - Principal	683	683	1,366
11	- Interest	44	44	88
12	Refund to Customers of an SIT Overcollection	36	36	72
13	Proceeds from First Avenue Property - Principal	12,792	12,792	25,584
14	- Interest	1,439	1,439	2,878
	Total Regulatory Liabilities (a)	$ 19,021	$ 19,021	$ 38,041
	Regulatory Assets (Debits)			
1	WTC expenses	$ 4,029	$ 4,029	$ 8,058
2	Items subject to reconciliation prior to 2000 Rate Plan	1,202	1,202	2,404
3	Business Development Plan Expenses	134	134	268
4	Production Study Expenses	184	184	368
5	Interference Expense - 2000 Rate Plan	208	208	416
6	- 2004 Rate Plan	276	276	552
7	NYC Property Taxes - 2006 Rate Plan	1,581	1,581	3,162
8	Pension/OPEB Expenses - 2006 Rate Plan	715	715	1,431
9	Interest on MGP/Superfund Expenses	66	66	132
10	Interest on SIT Audit Adjustment	1	1	2
11	Shortfall in SO2 Proceeds Imputed in 2006 Rate Plan	476	476	952
	Total Regulatory Assets (b)	$ 8,872	$ 8,872	$ 17,745
	Net Credits (a - b)	$ 10,148	$ 10,148	$ 20,297

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Steam Revenue Forecast
$ 000's

	Twelve Months Ending September 30,		
Steam Operating Revenues	2009	RY2 Update	2010
Sales Revenues	$724,703	$49,364	$774,067
Less: Revenue Taxes	17,394	599	17,993
Gross Margin	707,309	48,765	756,074
Cost of Sales			
Fuel and purchased steam costs	365,705	13,510	379,215
Other fuel charges	4,983	137	5,120
Water	11,153	6,987	18,140
Water Chemicals	3,131	1,962	5,093
Electric and Gas Used	12,973	273	13,246
Cost of Sales	397,945	22,869	420,814
Net Revenue Contribution	$309,364	$25,896	$335,260

Steam Sales (MMlbs)			
SC 1	629	(9)	620
SC 2	17,556	81	17,637
SC 3	7,686	17	7,703
Total	25,871	89	25,960

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Other Operating Revenues *
Twelve Months Ending September 30, 2009 and September 30, 2009
$ 000's

	Twelve Months Ending September 30,		
Interdepartmental Rents:	2009	RY2 Update	2010
East River Repowering Project	$ 69,518	$ (1,942)	$ 67,576
74th / 59th Street	6,500	-	6,500
Cablevision Lightpath, Inc. - Hudson Ave. Tunnel	2,089	44	2,133
Late Payment Charges	1,107	40	1,147
Steam Rev/Fuel Management Program	1,077	23	1,100
Special Services Repair Program	361	8	369
GHP Interest / Other Rents	(13)	(1)	(14)
	$ 80,639	$ (1,828)	$ 78,811

* Excludes amortization of regulatory deferrals charged / credited to other operating revenues

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Steam True Up Targets
$ 000's

	Twelve Months Ending September 30,		
Revenue True-ups	2009	RY2 Change	2010
SO2 Allowances	$ 2,075	$ -	$ 2,075
Expense True-ups			
Municipal Infrastructure Support			
Interference - excl. Company labor (90/10 True up)	6,929	146	7,075
Environmental Remediation (MGP / Superfund)	2,209	700	2,909
Steam Incident Action Plan (see page 2 for details)	3,000	-	3,000
Ravenswood O&M	6,006	126	6,132
Property Tax Expense (90/10 True up)	64,138	3,031	67,169
Employee Pensions	3,912	2,192	6,104
Other Post Employment Benefits	2,299	647	2,946
Pension / OPEB Expense Before Phase In Adjustment	6,212	2,838	9,050
Adjustment to match expense with rate allowance	(9,438)	9,438	-
Net Pension / OPEB Expense Rate Allowance	(3,227)	12,276	9,050
Variable Rate -- Tax Exempt Debt			
Consolidated Interest Expense	42,430	-	42,430
Allocation to Steam (a)	9.0%	-	9.0%
Steam Allocation	3,819		3,819
Income Tax Flow Thru Deductions (True-ups)			
Medicare Part D Accrued Reimbursements	995	-	995
x effective State & Federal Income Tax Rate	39.615%	-	39.615%
Medicare Part D - Tax Savings	394	-	394
Rate Base			
Deferred FIT			
Deferred 263A	(32,578)	5,899	(26,679)
Bonus Depreciation	(8,654)	-	(8,654)
	$ (41,232)	$ 5,899	$ (35,333)

(a) To be updated monthly, based on ratio of Steam rate base to electric and gas rate base.

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Incident Action Plan Cost Estimate
Operations and Maintenance Expenses

			Rate Year Ending September 30,		
			2009	2010	2011
#	**Recommendation**	**Action**	O&M	O&M	O&M
4.1	The company should revise its rain response procedures to supplement vapor patrol surveys with physical inspections of vapor prone locations.	Costs associated with revised procedure, including pulling covers at vapor locations.	1,310	1,235	1,165
4.2	The company should revise its existing procedure to clear the trap assembly sediment pocket more frequently.	Costs associated with increased purging frequency, more inspections, and opening trap caps.	365	345	325
4.3	The company should review its process for utilizing leak sealant and enhance its administrative controls for use of this repair method.	Costs associated with permanent repairs due to not leak sealing.	350	330	315
4.4	The company should develop a temporary repair procedure and modify the existing failure analysis procedure.	Use of outside labs for various failure analyses	235	220	210
5.1.1	The company should replace all steam traps.	Traps replaced annually.	200	190	175
5.2	Evaluate the feasibility of establishing a remote monitoring system suitable for Con Edison’s steam system and conduct prototype testing.	Install optimal system based upon feasibility study. Options include use of RMS or DCX communication system. (1000 locations @30k ea)	210	370	520
6.1	Develop a procedure for identifying, documenting, and tracking to resolution infrastructure conditions that affect the steam system.	Initial efforts will aim at eliminating source of water with DEP. Subsequent actions may include installation of pumps (20 loc @ $225K) and insitu insulation (6 loc@ 500K). O&M includes ground bores, thermography, and infrastructure inspections.	330	310	290
	SUB-TOTAL		**3,000**	**3,000**	**3,000**
4.1	The company should revise its rain response procedures to supplement vapor patrol surveys with physical inspections of vapor prone locations.	Costs associated with revised procedure, including pulling covers at vapor locations.	1,490	1,565	1,635
4.2	The company should revise its existing procedure to clear the trap assembly sediment pocket more frequently.	Costs associated with increased purging frequency, more inspections, and opening trap caps.	415	435	455
4.3	The company should review its process for utilizing leak sealant and enhance its administrative controls for use of this repair method.	Costs associated with permanent repairs due to not leak sealing.	400	420	435
4.4	The company should develop a temporary repair procedure and modify the existing failure analysis procedure.	Use of outside labs for various failure analyses	265	280	290
5.1.1	The company should replace all steam traps.	Traps replaced annually.	225	235	250
5.2	Evaluate the feasibility of establishing a remote monitoring system suitable for Con Edison’s steam system and conduct prototype testing.	Install optimal system based upon feasibility study. Options include use of RMS or DCX communication system. (1000 locations @30k ea)	247	466	731
6.1	Develop a procedure for identifying, documenting, and tracking to resolution infrastructure conditions that affect the steam system.	Initial efforts will aim at eliminating source of water with DEP. Subsequent actions may include installation of pumps (20 loc @ $225K) and insitu insulation (6 loc@ 500K). O&M includes ground bores, thermography, and infrastructure inspections.	370	390	410
	TOTAL		**6,412**	**6,791**	**7,206**

The top portion of this table shows a pro rata portion of the estimated cost of each incident action plan O&M program that total to the placeholder amount for such O&M programs per paragraph E.10 of the Proposal.

Consolidated Edison Company of New York, Inc.
Incident Action Plan Cost Estimate
Capital Expenditures by Priority

				Calendar Year		
				2009	2010	2011
Priority	**#**	**Recommendation**	**Action**	Capital	Capital	Capital
1	4.3	The company should review its process for utilizing leak sealant and enhance its administrative controls for use of this repair method.	Costs associated with permanent repairs due to not leak sealing.	800	800	800
2	5.1.3	The company should test and evaluate various trap assembly designs and the use of strainers with the aim of improving debris removal.	Install improved trap stations at all locations. (827 locations @ 10K ea)	2,800	2,800	2,035
3	6.1	Develop a procedure for identifying, documenting, and tracking to resolution infrastructure conditions that affect the steam system.	Initial efforts will aim at eliminating source of water with DEP. Subsequent actions may include installation of pumps (20 loc @ $225K) and insitu insulation (6 loc@ 500K). O&M includes ground bores, thermography, and infrastructure inspections.	1,500	1,500	1,500
4	5.1.2	Con Edison should evaluate the feasibility of using of high capacity traps, including prototype testing of various combinations of trap arrangements.	Install high capacity trap stations with larger (2") discharge lines at 40 tidal and 40 vapor locations (40k ea).	-	-	640
		SUB-TOTAL (a)		**5,100**	**5,100**	**4,975**
4	5.1.2	Con Edison should evaluate the feasibility of using of high capacity traps, including prototype testing of various combinations of trap arrangements.	Install high capacity trap stations with larger (2") discharge lines at 40 tidal and 40 vapor locations (40k ea).	1,200	1,200	-
5	5.2	Evaluate the feasibility of establishing a remote monitoring system suitable for Con Edison's steam system and conduct prototype testing.	Install optimal system based upon feasibility study. Options include use of RMS or DCX communication system. (1000 locations @30k ea)	10,000	10,000	7,500
		TOTAL		**16,300**	**16,300**	**12,475**

The top portion of this table shows the currently contemplated priority (and estimated expenditure) for each incident action plan capital program that total to the placeholder amount for such capital programs per paragraph E.10 of the Proposal. While it is generally expected that Con Edison will undertake these projects as indicated in the table, Con Edison has the flexibility to substitute, modify and re-prioritize the nature and scope of these projects.

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Capital True-Up Targets
$ 000's

Steam Production Capital Target

Rate Year	Average Plant Balance	Average Depr. Balance	Annual Target
RY1	$487,818	$183,739	$304,079
RY2	$583,212	$184,620	$398,593

Steam Distribution Capital Target (Steam Incident) (a)

Rate Year	Average Plant Balance	Average Depr. Balance	Annual Target
RY1	$5,967	$82	$5,885
RY2	$10,967	$274	$10,693

(a) See page 3 for project detail

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Carrying Charge Rate
$ 000's

	Production Plant	Steam Mains
Pre Tax Overall Rate of Return	10.47%	10.47%
Composite Book Depreciation Rate	2.76%	2.14%
Total Carrying Charge Rate	13.23%	12.61%

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DEPRECIATION RATES FOR STEAM PLANT

PSC ACCT	ACCOUNT TITLE	COMPANY ACCOUNT	LIFE TABLE	AVERAGE SERVICE LIFE	NET SALVAGE	ANNUAL DEPR. RATE
	PRODUCTION PLANT					
	(Excluding ERRP & 74th St (transferred from Electric))					
310	LAND AND LAND RIGHTS	9710	-	-	-	
310	LAND AND LAND RIGHTS - LEASEHOLDS	9712	-	-	-	Amort.
311	STRUCTURES AND IMPROVEMENTS	9714	h 1.00	50	(45)	2.90%
312	BOILER PLANT EQUIPMENT	9716	h 1.00	40	(40)	3.50%
315	ACCESSORY POWER EQUIPMENT	9718	h 1.75	40	(15)	2.88%
316	MISCELLANEOUS STATION EQUIPMENT	9720	h 2.50	50	(5)	2.10%
	PRODUCTION PLANT					
	74th St (transferred from Electric)					
311	STRUCTURES AND IMPROVEMENTS	9714	-	-	-	0.90%
312	BOILER PLANT EQUIPMENT	9716	-	-	-	1.00%
315	ACCESSORY POWER EQUIPMENT	9718	-	-	-	0.38%
316	MISCELLANEOUS STATION EQUIPMENT	9720	-	-	-	0.10%
	PRODUCTION & DISTRIBUTION PLANT - ERRP					
311	STRUCTURES AND IMPROVEMENTS	9714	h 1.00	50	(45)	2.90%
312	BOILER PLANT EQUIPMENT	9716	h 2.50	30	(40)	4.67%
315	ACCESSORY POWER EQUIPMENT	9718	h 1.75	40	(15)	2.88%
316	MISCELLANEOUS STATION EQUIPMENT	9720	h 2.50	50	(5)	2.10%
353	MAINS	9734	h 0.75	70	(50)	2.14%
353	DESUPERHEATING EQUIPMENT	9735	h 1.50	50	(40)	2.80%
	DISTRIBUTION PLANT (Excluding ERRP)					
351	STRUCTURES AND IMPROVEMENTS	9732	h 5.00	50	-	2.00%
353	MAINS	9734	h 0.75	70	(50)	2.14%
353	DESUPERHEATING EQUIPMENT	9735	h 1.50	50	(40)	2.80%
359	SERVICES	9736	h 0.50	50	(65)	3.30%
360	METERS	9738	h 1.75	30	-	3.33%
361	ACCESS. EQUIP. ON CUSTOMERS' PREMISES	9740	h 0.75	50	(10)	2.20%
362	INST. OF METERS AND ACCESSORY EQUIP.	9742	h 0.75	55	(25)	2.27%

Consolidated Edison Company of New York, Inc.

Common Allocation Factors

	Electric	Gas	Steam
Administrative & General Expenses			
A&G - Labor Related	78.70%	16.20%	5.10%
A&G - Other than Labor	81.14%	13.21%	5.65%
Pensions/OPEBs and Health Ins. Capitalized	72.67%	23.63%	3.70%
A&G Transferred - Other	76.55%	17.80%	5.65%
Customer Accounting Expenses			
Uncollectible Accounts	86.00%	14.00%	0.00%
Other Customer Accounts	82.00%	18.00%	0.00%
Energy Services	89.00%	11.00%	0.00%
Other Customer Assistance and Informational & Promotional Advertising	82.00%	18.00%	0.00%
Taxes Other than FIT			
Sales & Use	77.75%	15.50%	6.75%
Vehicle/Gasoline	81.00%	16.50%	2.50%
Payroll Taxes	78.75%	16.25%	5.00%
Payroll Taxes Transferred to Construction	72.50%	23.75%	3.75%
Other	81.25%	13.25%	5.50%
Plant			
Common Plant	83.00%	17.00%	0.00%
Common M&S	77.00%	17.00%	6.00%

Consolidated Edison Company of New York, Inc.
Case 07-S-1315
Steam Earnings Calculation

For purposes of calculating potential colder than normal weather related earnings exclusion, the net revenue effect of steam sales related to colder than normal weather will be calculated as follows:

1. The normal weather period will be defined as the winter billing months of November – April, inclusive.

2. Normal weather for RY1 will be defined as the average conditions over the 30 years ended December 31, 2007 measured in terms of Heating Degree Days (HDDs). Normal weather for RY2 will be defined as the average conditions over the 30 years ended December 31, 2008 as measured in terms of HDDs. HDDs on a daily basis are defined as the number of degrees that the average 24-hour dry-bulb temperature differs from a 56 degrees Fahrenheit reference when the average 24-hour dry-bulb temperature is less than 56 degrees. When the average 24-hour dry-bulb temperature equals or exceeds 56 degrees there will be no HDDs. For example, if the 24-hr average dry bulb temperature for a day during the winter billing period is 40 degrees, there would be 16 HDDs for that day.

3. For each billing cycle in each of the aforementioned billing months, a unit ($/Mlb) weather normalization adjustment charge or credit will be determined separately for each service classification. (i.e., SC 1, SC 2, and SC 3) based upon the formula noted below. A billing cycle refers to the number of days between meter readings.

   The weather normalization adjustment formula is:

$$\frac{(NHDD - AHDD) * MLBHDD * PBR}{(BLMLB * BC) + (MLBHDD * AHDD)}$$

   Where:

NHDD -	Normal Heating Degree Days
AHDD -	Actual Heating Degree Days
MLBHDD -	Thousands of Pounds per Heating Degree Days*
PBR -	Penultimate Base Rate (exclusive of electric, water and chemicals cost)
BLMLB -	Base Load, Thousands of Pounds per Day*
BC -	Number of Days in the Billing Cycle

<u>Consolidated Edison Company of New York, Inc.</u>
Case 07-S-1315
Steam Earnings Calculation

* The MLBHDD and BLMLB factors on a service classification basis will be determined by regression analysis of actual monthly service classification sales divided by the average number of billing days in the month and by the associated number of customer billing in the month vs. the number of heating degree days per average number of billing days in each month over the prior winter season (i.e., the November- April billing months).

4. The determined unit charge/credit for each billing trip will be multiplied by the associated actual sales for that billing cycle. The net revenue effect of the credits and charges for each service classification will be netted at the end of the winter period as defined above. The net revenue impact (i.e., base revenue less base fuel less electric, water and chemical costs) per service classification will be summarized to determine the system net revenue impact.

APPENDIX H

REVENUE ALLOCATION AND RATE DESIGN

A. Allocation of Increased Revenue Requirement:

For the First Rate Year, the revenue allocation will be guided by the following general procedure. First, an overall pure base rate percentage increase will be developed by dividing the Rate Year revenue increase excluding gross receipts taxes by the total system Rate Year pure base revenues. Second, one-half of the embedded cost of service ("ECOS") study revenue deficiencies/surpluses as indicated in Table 1 will be used to realign the rate year pure base revenues for each of the five steam service class groups at the current October 1, 2007 rate level. Third, the overall pure base rate percentage increase will then be applied to the realigned pure base revenues for the SC No. 1, combined SC No. 2 Rate I (Non-Demand) and corresponding SC No. 4, SC No. 2 Rate II (Demand), SC No. 3 Rate I (Non-Demand) and corresponding SC No. 4, and SC No. 3 Rate II (Demand) to determine the Rate Year increase for each of the five class groups. Fourth, the rate year increases assigned to each class will then be decreased or increased to reflect one-half of the ECOS surpluses and deficiencies from Table 1.

The Second Rate Year revenue allocation will follow the same procedures as outlined for the First Rate Year.

B. Rate Design Within Each Service Class Group

During the First Rate Year, revenue ratios will be developed for each of the five class groups by dividing the Rate Year pure base revenues at the current rate level by the corresponding pure base revenues for the historical period (i.e., the twelve months ended June 30, 2007, the period for which detailed billing data was available). The Rate Year increases, assigned to each of the five class groups will then be divided by the applicable revenue ratio for each class group to determine the rate increase applicable to each of the five class groups for the historical period.

During the First Rate Year, the Customer Charge, excluding the component relating to the fuel costs associated with steam fixed line losses, for SC No. 1 and SC No. 3 Rate I (Non-Demand) will be increased by each class's overall pure base percentage increase. The SC No. 2 Rate I (Non-Demand) Customer Charge, excluding the component relating to the fixed fuel costs, will be increased by the percentage increase necessary to raise it to the level of the ECOS study customer charge for this class times the class's overall pure base percentage increase since the current Customer Charge is close to the Company's cost to provide this service. The SC No. 2 Rate II (Demand) Customer Charge, excluding the component relating to the fixed fuel costs, will be increased by the percentage increase necessary to raise the current customer charge to the ECOS study level. The SC No. 3 Rate II (Demand) Customer Charge, excluding the component relating to fixed fuel costs, will be increased by 1.5 times class's overall pure base percentage increase.

For SC No. 1, SC No. 2 Rate I (Non-Demand), SC No. 3 Rate I (Non-Demand) and SC No. 3 Rate II (Demand), the energy and demand charges, as applicable, will then be increased to recover the balance of each class's assigned revenue increase. In Rate Year 1, the SC No. 2 Rate II (Demand) usage rates at the current rate level will be redesigned on a revenue neutral basis to establish the declining block rate structure set forth on Table 2. The summer period (May through October, inclusive) current usage block rates will be adjusted on a Company revenue neutral basis to establish a $ 1.50 per Mlb price differential between the initial and second usage block rates with a subsequent decrease to the terminal usage block rate. Both the winter shoulder period (November and April) and winter peak period (December through March, inclusive) current usage block rates will be adjusted on a Company revenue neutral basis for each individual period to establish a $ 0.50 per Mlb price differential between the initial and second usage block rates with a subsequent decrease to all the block usage rates. The SC No. 2 Rate II (Demand) redesigned energy usage rates along with current demand rates will be increased to recover the balance of that class's assigned rate increase.

Consistent with the SC No. 4 rate design approved by the Commission's Opinion and Order Adopting Terms of Settlement in Case 99-S-1621, issued and effective December 1, 2000 ("1999 Steam Rate Order"), SC No. 4 rates will be designed to recover the same revenues that would be recovered if all eligible customers were billed at the applicable non-standby rate. In order to meet a requirement of class revenue neutrality, the SC No. 4 rates will be split into demand and non-demand components corresponding to the split effectuated in the non-standby classes. New rate categories designated as Rates III and IV will be added to the SC No. 4 service class applicable to customers who would otherwise be served under those demand rates set forth in SC Nos. 2 and 3, respectively. Specifically, SC No. 4 – Rates I and II will be applicable to customers who would otherwise be served under the Rate I (Non-Demand) rates in SC Nos. 2 and 3, respectively. SC No. 4 – Rates III and IV will be applicable to customers who would otherwise be served under the Rate II (Demand) rates in SC Nos. 2 and 3, respectively. SC No. 4 Rate I and Rate II Customer Charges will be set equal to the proposed SC No. 2 and SC No. 3 Rate I (Non-Demand) Customer Charges, respectively, and the SC No. 4 Rate III and IV Customer Charges will be set equal to the proposed SC No. 2 and SC No. 3 Rate II (Demand) Customer Charges, respectively. The balance of each class's required annual revenues will be collected through Contract Demand Charges and winter Usage Charges for each class. During the summer months, the usage charge applicable to on and off-peak period customers will be equal to the base fuel cost.

Like the design of the SC No. 4 rates and tariffs, two new rate categories designated as Rates III and IV will be added to SC No. 6 that would be applicable to customers otherwise being served under the Rate II demand rates in SC Nos. 2 and 3, respectively. SC No. 6 Rates I and II would be applicable to customers who would otherwise be served under the Rate I (Non-Demand) rates in SC No. 2 and SC No. 3, respectively. Consistent with the SC No. 6 rate design approved by the 1999 Steam Rate Order, SC No. 6 rates will be designed to recover the same revenues that would be recovered if all eligible customers were billed at the corresponding SC Nos. 2 and 3 rates. Accordingly, the SC No. 6 Rate I and Rate II Customer Charges will be set equal to the proposed SC No. 2 and SC No. 3 Rate I (Non-Demand) Customer Charges, and the SC No. 6 Rate III and IV Customer Charges will be set equal to the proposed SC No. 2 and SC No. 3 Rate II (Demand) Customer Charges, respectively. The balance of each class's required annual revenues at the proposed rate level will be collected through contract demand and/or usage rates.

The Second Rate Year rate design will follow the same procedures as in the First Rate Year. All charges will be increased to collect each class's required annual revenues and, aside from the Rate Year 2 rate increase, no revisions will be made to the SC No. 2 Rate II (Demand) declining block usage rates structure that was established in Rate Year 1.

Appendix H

TABLE - 1

Consolidated Edison Company of New York, Inc.
Steam Embedded Cost-Of-Service Study Results
For Year 2006

Service Classification	Rate of Return %	Initial Surplus/Deficiency ^3	Initial Deficiency ^3	Percentage of Total System Deficiency ^3	Adjustment Based on Percentage of Total System Deficiency ^3	Adjusted Surplus/Deficiency ^3 Based on Percentage of Total System Deficiency ^3	Rate Year 1 Adjusted Surplus/Deficiency ^3 Based on 50% of Total System Deficiency ^3 to Revenue Allocation	Rate Year 2 Adjusted Surplus/Deficiency ^3 Based on 50% of Total System Deficiency ^3 to Revenue Allocation
SC NO. 1	4.35%	($1,525,813)	($1,525,813)	11.97%	$204,313	($1,321,500)	($660,750)	($660,750)
SC NO. 2D	7.83%	$8,864,455	$0	0.00%	$0	$8,864,455	$4,432,228	$4,432,228
SC NO. 2ND ^1.	3.73%	($9,958,987)	($9,958,987)	78.12%	$1,333,412	($8,625,575)	($4,312,788)	($4,312,788)
SC NO. 3D	7.84%	$2,176,575	$0	0.00%	$0	$2,176,575	$1,088,288	$1,088,288
SC NO. 3ND ^2	5.34%	($1,263,107)	($1,263,107)	9.91%	$169,152	($1,093,955)	($546,978)	($546,978)
Total System		($1,706,877)	($12,747,907)	100.00%	$1,706,877	$0	$0	$0

NOTES: ^1. Includes SC4 Rate I Customers
^2. Includes SC4 Rate II Customers
^3. Deficiencies shown as negative

Consolidated Edison Company of New York, Inc.
Adjustments to Current SC No. 2 Rate II (Demand) Rates

	(1) 10-1-07 Current Rates	(2) Adjustments to Current Rates	(3) Adjusted Current Rates (1)+(2)
SC No. 2 Rate II (Demand)			
Summer			
Customer Charge	$2,455.350		$2,455.350
Usage Block Rates			
0-250	$10.632	$3.773	$14.405
251-1000	$12.902	$0.000	$12.902
>1000	$12.312	($0.263)	$12.049
Winter			
Customer Charge	$2,455.350		$2,455.350
Demand Months (December Through March, Inclusive)			
Demand Rates			
On - Peak	$898.580		$898.580
All Time Peak	$94.940		$94.940
Usage Block Rates			
0-250	$10.723	$9.840	$20.563
251-1500	$20.102	($0.039)	$20.063
1501-5000	$19.013	($0.320)	$18.693
5001-25000	$18.455	($0.765)	$17.690
>25000	$17.637	($1.757)	$15.880
Shoulder Months (November and April)			
Usage Block Rates			
0-250	$11.519	$12.867	$24.386
251-1500	$24.024	($0.139)	$23.885
1501-5000	$22.572	($1.008)	$21.564
5001-25000	$21.828	($1.420)	$20.408
>25000	$20.737	($4.440)	$16.297

Appendix - H
Table 3

Consolidated Edison Company of New York, Inc.
Development of Rate Year 1 Non-Levelized Rate Change

A =	$53,048,000	Proposed Rate Year 1 Base Rate Increase incl. GRT (Case 07-S-1315 Joint Proposal Appendix A Page 5 of 5)
B =	2.4800%	Weighted Average Rate Year GRT
C = A/(1+B) =	$51,764,000	Proposed Base Rate Increase excl. GRT
D =	$280,740,418	Rate Year 1 Pure Base Revenue at 10/1/07 Rate Level
E = C/D =	18.438385%	Proposed Average Pure Base Rate % Increase
F =	25,781,420	Rate Year 1 Sales (Mlbs)

Service Class	JP Rate Year 1 12 Mos 9/30/09 Sales Mlbs	JP Rate Year 1 12 Mos 9/30/09 Pure Base Rev at 10/1/07 Rate Level Excl Base Cost of Fuel & Fixed Cust Chg	Rate Year 50% of Deficiency /(Surplus) from ECOS	Rate Year Realigned Pure Base Rev at 10/1/07 Rate Level	Rate Year Proposed Base Rev Change	Rate Year Net Proposed Base Rev Change	Rate Year Proposed % Pure Base Rate Change	Percent Variation of Total Bill
	(1)	(2)	(3)	(3a)=(2)+(3)	(4)=(3a)*E	(5)=(3)+(4)	(6)=(5) / (2)	(7)
1 Annual	632,000	$13,100,683	$660,750	$13,761,433	$2,537,386	$3,198,136	24.41%	13.57%
2 Non-Dmnd Ann & 4 Rate I Ann	4,264,018	$57,513,379	$4,312,788	$61,826,167	$11,399,747	$15,712,535	27.32%	13.35%
2 Demand Annual	13,292,000	$131,994,945	($4,432,228)	$127,562,718	$23,520,505	$19,088,278	14.46%	5.81%
3 Non-Dmnd Ann & 4 Rate II Ann	4,204,252	$47,297,473	$546,978	$47,844,451	$8,821,744	$9,368,722	19.81%	8.40%
3 Demand Annual	3,389,150	$30,833,938	($1,088,288)	$29,745,651	$5,484,618	$4,396,331	14.26%	5.48%
Total ^ 1.	25,781,420	$280,740,418	$0	$280,740,418	$51,764,000	$51,764,000	18.44%	7.85%
				C =	$51,764,000			

NOTE: ^ 1. Excludes A/C and SC 5 discounts and SC 5 contract revenues.

Consolidated Edison Company of New York, Inc.
Development of Rate Year 1 Levelized Rate Change

A =	$43,714,000	Proposed Rate Year 1 Levelized W Interest Base Rate Increase incl. GRT (Case 07-S-1315 Joint Proposal Appendix A Page 5 of 5)
B =	2.4800%	Weighted Average Rate Year GRT
C = A/(1+B) =	$42,656,000	Proposed Base Rate Increase excl. GRT
D =	$280,740,418	Rate Year 1 Pure Base Revenue at 10/1/07 Rate Level
E = C/D =	15.194107%	Proposed Average Pure Base Rate % Increase
F =	25,781,420	Rate Year 1 Sales (Mlbs)

Service Class	JP Rate Year 1 12 Mos 9/30/09 Sales Mlbs	JP Rate Year 1 12 Mos 9/30/09 Pure Base Rev at 10/1/07 Rate Level Excl Base Cost of Fuel & Fixed Cust Chg	Rate Year 50% of Deficiency /(Surplus) from ECOS	Rate Year Realigned Pure Base Rev at 10/1/07 Rate Level	Rate Year Proposed Base Rev Change	Rate Year Net Proposed Base Rev Change	Rate Year Proposed % Pure Base Rate Change	Percent Variation of Total Bill
	(1)	(2)	(3)	(3a)=(2)+(3)	(4)=(3a)*E	(5)=(3)+(4)	(6)=(5) / (2)	(7)
1 Annual	632,000	$13,100,683	$660,750	$13,761,433	$2,090,927	$2,751,677	21.00%	11.68%
2 Non-Dmnd Ann & 4 Rate I Ann	4,264,018	$57,513,379	$4,312,788	$61,826,167	$9,393,934	$13,706,722	23.83%	11.66%
2 Demand Annual	13,292,000	$131,994,945	($4,432,228)	$127,562,718	$19,382,016	$14,949,789	11.33%	4.54%
3 Non-Dmnd Ann & 4 Rate II Ann	4,204,252	$47,297,473	$546,978	$47,844,451	$7,269,537	$7,816,515	16.53%	6.99%
3 Demand Annual	3,389,150	$30,833,938	($1,088,288)	$29,745,651	$4,519,586	$3,431,299	11.13%	4.27%
Total ^ 1.	25,781,420	$280,740,418	$0	$280,740,418	$42,656,000	$42,656,000	15.19%	6.47%
				C =	$42,656,000			

NOTE: ^ 1. Excludes A/C and SC 5 discounts and SC 5 contract revenues.

Appendix - H

Table 5

Consolidated Edison Company of New York, Inc.
Development of Rate Year 2 Non-Levelized Rate Change

A =	$77,781,000	Proposed (Rate Year 1 Plus Rate Year 2) Base Rate Increase incl. GRT (Case 07-S-1315 Joint Proposal Appendix A Page 5 of 5)
B =	2.4800%	Weighted Average Rate Year GRT
C = A/(1+B) =	$75,899,000	Proposed Base Rate Increase excl. GRT
D =	$279,751,253	Rate Year 2 Pure Base Revenue at 10/1/07 Rate Level
E = C/D =	27.130888%	Proposed Average Pure Base Rate % Increase
F =	25,667,595	Rate Year 2 Sales (Mlbs)

Service Class	JP Rate Year 2 12 Mos 9/30/10 Sales Mlbs	JP Rate Year 2 12 Mos 9/30/10 Pure Base Rev at 10/1/07 Rate Level Excl Base Cost of Fuel & Fixed Cust Chg	Rate Year 1 50% of Deficiency /(Surplus) from ECOS Plus Rate Year 2 50% of Deficiency /(Surplus) from ECOS	Rate Year Realigned Pure Base Rev at 10/1/07 Rate Level	Rate Year 1 Plus Rate Year 2 Proposed Base Revenue Change	Rate Year 1 Plus Rate Year 2 Net Proposed Base Revenue Change	Rate Year 1 Net Proposed Base Revenue Change From Table - 3	Rate Year 2 Net Proposed Base Revenue Change	Rate Year 2 Estimated Pure Base Revenue Excl Base Cost of Fuel & Fixed Cust Chg @ Rate Year 1 Rates	Estimated Rate Year 2 Net Proposed % Pure Base Revenue Change	Percent Variation of Total Bill
	(1)	(2)	(3)	(3a)=(2)+(3)	(4)=(3a)*E	(5)=(3)+(4)	(6)=(Table -3 Column 5)	(7)=(5)-(6)	(8)=(2)+(6)	(9)=(7)/(8)	(10)
1 Annual	618,000	$12,880,283	$1,321,500	$14,201,783	$3,853,070	$5,174,570	$3,198,136	$1,976,434	$16,078,419	12.29%	7.33%
2 Non-Dmnd Ann & 4 Rate I Ann	4,337,018	$58,728,351	$8,625,575	$67,353,926	$18,273,718	$26,899,293	$15,712,535	$11,186,759	$74,440,886	15.03%	7.90%
2 Demand Annual	13,157,425	$130,347,073	($8,864,455)	$121,482,618	$32,959,313	$24,094,858	$19,088,278	$5,006,581	$149,435,351	3.35%	1.44%
3 Non-Dmnd Ann & 4 Rate II Ann	4,206,152	$47,350,120	$1,093,955	$48,444,075	$13,143,308	$14,237,263	$9,368,722	$4,868,541	$56,718,842	8.58%	4.00%
3 Demand Annual	3,349,000	$30,445,426	($2,176,575)	$28,268,851	$7,669,590	$5,493,015	$4,396,331	$1,096,685	$34,841,757	3.15%	1.28%
Total ^ 1.	25,667,595	$279,751,253	$0	$279,751,253	$75,899,000	$75,899,000	$51,764,000	$24,135,000	$331,515,253	7.28%	3.33%

NOTE: ^ 1. Excludes A/C and SC 5 discounts and SC 5 contract revenues.

conEdison
a conEdison, inc. company

Law Department

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4 Irving Place
New York, NY 10003-0987

September 8, 2008

Hon. Jaclyn Brilling
Secretary
New York State Department of
Public Service
Three Empire State Plaza
Albany, NY 12223

Hon. Michelle Phillips
Administrative Law Judge
New York State Department of
Public Service
Three Empire State Plaza
Albany, NY 12223

RE: Case 07-S-1315
Con Edison Steam Rates

Dear Secretary Brilling and Judge Phillips:

As you are aware, on June 16, 2008, a Joint Proposal in the referenced proceeding was submitted to the Commission for its consideration. Section J(a) of the Joint Proposal contains a discussion of the changes to the "Steam Repair Section" of the Steam Tariff, which is section III-A.1 (d). That section should have noted that the Company is also updating rates for various steam repair services to reflect current labor, materials and other costs, which Company witness Wheeler presented during the update stage of this proceeding. The applicable updated rates are set forth below:

- To replace 300 # flange (1" to 4") during business hours goes from $1,338 to $1,400
- To replace 300 # flange (1" to 4") after hours goes from $1,441 to $1,504
- To repair/replace trap and associated equipment during business hours goes from $532 to $554
- To repair/replace trap and associated equipment after hours goes from $570 to $593
- To remove asbestos gasket during business hours goes from $146 to $148
- To remove asbestos gasket after hours goes from $150 to $153

- To pick up material from a Company storeroom during business hours goes from $291 to $318
- To pick up material from a Company storeroom after hours goes from $336 to $364
- The hourly rate for employees for customer-requested services, other than the listed services, during business hours, goes from $121 to $132
- The hourly rate for employees for customer-requested services, other than the listed services, after hours, goes from $140 to $152
- The charge for temporary disconnection/reconnection during business hours goes from $291 to $315
- The charge for temporary disconnection/reconnection after hours goes from $331 to $356
- The charge for an investigation at a premises during business hours goes from $291 to $318
- The charge for an investigation at a premises after hours goes from $336 to $364

The Company has discussed this inadvertent omission with Staff, who agrees that the tariff leaves to become effective October 1, 2008 should reflect these updated charges. On Thursday, September 4, 2008, the Company also emailed all the parties to this proceeding, both signatory and non-signatory parties, of this proposed clarification. At the time of this mailing, approximately 3 pm on Monday, September 8, 2008, the Company has not received any opposition to this clarification.

Accordingly, the Company requests that the Commission consider and approve as part of the Joint Proposal in this proceeding, these updated steam repair charges.

Thank you in advance for your consideration in this matter. If you have any questions, please contact me at (212) 460-1340.

Respectfully submitted,

May Uleagle

C: Active parties to case 07-S-1315 (via email)

CASE 07-S-1315 ATTACHMENT 2

SUBJECT: Filing by CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Amendments to Schedule P.S.C. No. 3 – Steam

Original Leaves Nos. 23-A, 23-B, 23-C, 30-A
First Revised Leaves Nos. 4-A, 7-H, 8, 9, 10, 14-D, 19, 21-C, 21-D, 21-E, 22-C, 22-D, 22-E
Second Revised Leaves Nos. 13-A, 14-C, 17-A, 19-B, 24, 25, 27
Third Revised Leaves Nos. 16, 26, 29, 31
Fourth Revised Leaves Nos. 7-G, 17-B
Sixth Revised Leaves Nos. 4, 6-C, 7-E, 30
Eighth Revised Leaves Nos. 2-A, 14-B, 21-B, 22-B, 23
Fifteenth Revised Leaves Nos. 2
Sixteenth Revised Leaf No. 3
Seventeenth Revised Leaf No. 22-A
Eighteenth Revised Leaf No. 15
Twenty-Fourth Revised Leaf No. 21-A
Thirty-Fifth Revised Leaf No. 20
Thirty-Sixth Revised Leaves Nos. 21, 22

Supplement Nos. 78, 79