



**Robert N. Hogleund**  
Senior Vice President and  
Chief Financial Officer

May 9, 2008

Honorable Jaclyn A. Brillling  
Secretary  
State of New York  
Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223

Dear Secretary Brillling:

Consolidated Edison Company of New York, Inc. (“Con Edison” or the “Company”) proposes to increase the charges for electricity service and make other changes to its Schedule for Electricity Service, P.S.C. No. 9 – Electricity (“Full Service Schedule”) and its Schedule for Retail Access, P.S.C. No. 2 – Retail Access (“Retail Access Rate Schedule”), applicable to its customers in the City of New York and the County of Westchester. Tariff leaves reflecting the proposed changes to the Full Service Schedule are identified in Appendix A. Tariff leaves reflecting the proposed changes to the Retail Access Rate Schedule are identified in Appendix B.

The Company further proposes to increase the charges for electricity service and make other changes to its Schedule for New York Power Authority (“NYPA” or “PASNY”) Delivery Service - PASNY No. 4 (also referred to as the “PASNY Rate Schedule”),<sup>1</sup> applicable to delivery by the Company of power and associated energy to Authority Public Customers under PASNY No. 4, and to its Schedule for Economic Development Delivery Service (“EDDS”) – EDDS No. 2 (also referred to as the “EDDS Rate Schedule”),<sup>2</sup> applicable to delivery service to NYPA, the New York City Public

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<sup>1</sup> This is the Delivery Service Rate Schedule Implementing and Part of the Service Agreement Between the Power Authority of the State of New York (PASNY) and the Consolidated Edison Company of New York, Inc. (the Company) dated March 10, 1989.

<sup>2</sup> This is the Delivery Service Rate Schedule Implementing and Part of: (1) the “Service Agreement for the

Utility Service and the County of Westchester Public Utility Service Agency. Tariff leaves reflecting the proposed changes to the PASNY Rate Schedule are identified in Appendix C. Tariff leaves reflecting the proposed changes to the EDDS Rate Schedule are identified in Appendix D.

The Company's schedule leaves are issued as of May 9, 2008, to become effective on and as of June 8, 2008. The Company's expectation is that the Public Service Commission (the "Commission") will issue orders suspending the effective dates of the proposed schedule changes, to the end that the proposed rates and other changes may become effective at the earliest practicable date, but not later than April 1, 2009.

Twenty-five copies of the prepared written testimony and exhibits, which comprise the Company's direct case in support of this rate filing, are also submitted herewith.

### **Proposed Rate Changes**

#### **Summary of Proposed Changes**

By this filing, the Company proposes to increase the charges to customers served under its Full Service Schedule, Retail Access Rate Schedule, and PASNY and EDDS Rate Schedules. The Company is proposing a three-year rate plan for its electric operations, which, if adopted, would establish rates for the three-year period ending March 31, 2011. Under the three-year levelized rate proposal advanced by the Company, the requested rate increases to take effect on April 1, 2009, 2010 and 2011, respectively, would be moderated to 4.9 percent annually on a total bill basis. As required by law, however, the tariffs submitted herewith reflect only the Company's proposed rate increase for the Rate Year, *i.e.*, the twelve months ending March 31, 2010, in the event the three-year plan is not adopted. The proposed Rate Year increases are designed to produce a total annual revenue increase of approximately \$654.1 million,<sup>3</sup> or 5.8 percent

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Delivery of Power and Energy" between the Power Authority of the State of New York ("PASNY") and the Consolidated Edison Company of New York, Inc. ("the Company"), dated March 10, 1989, for the delivery by the Company of Power and Associated Energy to Authority Economic Development Customers, (2) the "Agreement for the Delivery of Power and Energy from the James A. FitzPatrick Power Project" between the County of Westchester, acting through the Westchester Public Utility Service Agency ("Agency") and the Company, made April 24, 1987, and (3) the "Agreement between the City of New York and Consolidated Edison Company of New York, Inc., for the Delivery of Power and Energy from the James A. FitzPatrick Nuclear Power Project" between the City of New York, acting through the New York City Public Utility Service ("Agency") and the Company, made October 23, 1987.

<sup>3</sup> The rate increase represents delivery rate increases (exclusive of supply costs) of approximately 14.7 percent to Con Edison classes, approximately 22.4 percent to NYPA delivery service, and approximately 17.5 percent to EDDS delivery service. The total bill impacts, inclusive of estimated supply revenues, are 5.7 percent, 6.9 percent, and 4.4 percent for Con Edison customers, NYPA delivery service customers, and EDDS delivery service customers, respectively.

inclusive of projected supply costs<sup>4</sup> and gross receipts taxes, based on the estimated level of sales for the Rate Year, i.e., the twelve months ending March 31, 2010.

The accompanying testimony and exhibits show that, as provided in the Commission's Order Establishing Rates for Electric Service, issued March 25, 2008, in Case 07-E-0523 ("March 2008 Order"), the Company worked to mitigate the level of the proposed revenue increases. The testimony demonstrates that, had the Company not applied mitigation measures, the rate request would have been substantially in excess of the amounts requested.<sup>5</sup>

The Company's rate proposals will still require customers to pay increased rates for service. The requested increases are, however, essential to provide the Company with the financial resources necessary to maintain a safe and reliable electric system, strengthening the system as necessary to meet growing customer demand for electric service while also continuing to address its aging infrastructure and continuing to modernize the electric system. Recent adverse economic developments and the Company's ongoing targeted energy efficiency program notwithstanding, the Company's service territory continues to experience increasing energy usage by its customers. The continuing increases in customer energy usage necessitates substantial, ongoing electric infrastructure investment to maintain the reliable electric system so vital to New York.

The Commission's March 2008 Order provided for increased revenues of \$425 million effective April 1, 2008. Following issuance of the order, two of the major credit rating agencies lowered the Company's bond rating, and a third major rating agency put the Company on negative watch. The Company's testimony and exhibits show that, in the absence of rate relief for the period ending March 2010, the Company's earnings will fall to inadequate levels, necessitating rate relief.

The Company requires rate relief because it faces higher costs. Carrying costs on new infrastructure investment alone, above the plant levels provided for in the March 2008 Order, increase the revenue requirement by some \$230 million. Property taxes, above the levels provided in the March 2008 order, increase the Rate Year revenue requirement by some \$200 million; increases in other operating expenses account for another \$165 million in the Rate Year; and an increase in the allowed return from 9.1 percent to 10.0 percent equates to a Rate Year impact of about \$115 million. Partially offsetting the Rate Year increase are \$31 million in accounting credits and \$25 million in sales revenue growth.

Escalating property taxes are beyond the Company's ability to control and reflect numerous factors. One factor recently driving these very substantial property tax

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<sup>4</sup> Electric supply costs for retail access customers are assumed to be equivalent to the forecasted electric supply costs applicable to customers taking service under the Company's full-service rates. Electric supply costs for PASNY No. 4 and EDDS customers are based on an estimated supply cost of \$0.08211 per kWhr.

<sup>5</sup> The Company also explains that should the Commission reject all or part of the Company's proposed mitigation measures, the rate request must be increased by a commensurate amount.

increases in world commodity market prices. Under the method used to assess the value of the Company's special franchise property, tax assessors, following the "reproduction new less accumulated depreciation" method of valuation, revalue the Company's electric wires at current commodity prices, which reflect current all-time high copper prices. The Company believes that the escalating property taxes exacerbate an already disproportionate tax burden borne by a utility like Con Edison and intends to seek legislative relief to address these unanticipated and plainly unintended tax impacts.

To address this and other circumstances outside the Company's control, the filing also discusses mechanisms to adjust rates to actual property taxes, as well as actual costs for pension and retiree health benefits, municipal infrastructure support, and environmental remediation, which protect both the Company and its customers from variations from the forecasted levels of these unpredictable costs, up or down, during the period rates are in effect.

The filing demonstrates that the Company is facing numerous other increases in costs that contribute to the need for increased revenues to support the electric system. At the same time, the Company's filing explains that the requested increase in revenues is lower than it would otherwise be due to the Company's extensive efforts to mitigate these costs, through ongoing programs of strict cost controls, cost avoidance, and productivity efforts, which are detailed in the Company's testimony and exhibits.

The filing also reflects the Company's efforts to lower the rate increase request by adopting moderating techniques and approaches, such as continuation of the Commission's approach to addressing the Company's depreciation reserve deficiency and recommending extended cost recovery periods for various costs, where practicable. The Company has also advanced in the filing a proposal, subject to the Commission's approval, to accrue unbilled revenues for rate and accounting purposes, reducing the Company's rate request by some \$45 million in the Rate Year.

The Company's filing also details the effects of the revenue decoupling mechanism prescribed for the Company's electric operations by the March 2008 Order. Under revenue decoupling, the Company's electric revenues are set at targeted levels in order to remove a disincentive the Company may otherwise have to promote energy efficiency objectives that could result in reduced sales and revenues. The revenue decoupling targets are static, meaning that the Company's rate filing makes provision for revisions to the Company's sales targets for the year ending March 2010, to allow the Company to capture the expected increases in revenues associated with increased energy usage by customers, which, in turn, reduces the required rate increase. The Company's filing also notes that after a reasonable period of experience with this new mechanism, the Company may propose modifications to, among other things, appropriately recognize the need to align customer and Company interests in the Company's promoting and sharing in the revenues from economic development in the New York metropolitan area.

As noted, the Company is also proposing a three-year rate plan for its electric operations, which, if adopted, would establish rates for the three-year period ending

March 31, 2011. A three-year plan would, under the Company's preferred approach, levelize required rate adjustments over the three-year period, promoting rate moderation and providing the Company with the flexibility to manage its resources effectively in executing energy efficiency and infrastructure programs. This format would set a strong incentive for the Company to work within the rate plan to maximize efficient operations that will ultimately inure to the benefit of its customers. Such a format takes advantage of the strong economic efficiency incentives associated with regulatory lag, which is a basic and well-established precept of public utility regulation.

Appendix E shows that Con Edison customer rates have been designed to permit recovery in rates of a total increase of \$561.0 million, including gross receipts taxes, for the Rate Year. The change in Con Edison customer rates consists of: (1) an increase in transmission and distribution ("T&D") revenues of \$539.5 million, including gross receipts taxes, (2) an increase of \$20.2 million, including gross receipts taxes, in the fixed generation costs to be recovered through the Monthly Adjustment Clause ("MAC") applicable to customers served under the Full Service Schedule and the Retail Access Schedule; and (3) a \$1.3 million increase in purchased power working capital which is applicable to only customers served under the Full Service Schedule. Appendix F shows that NYPA delivery service rates have been designed to permit recovery in rates of a total increase of \$88.7 million, including gross receipts taxes. Appendix G shows that EDDS rates have been designed to permit recovery in rates of a total increase of \$4.4 million, including gross receipts taxes.

#### Proposed Increased Revenue Allocation

The steps used in the allocation of the proposed delivery revenue increase among the classes are as follows:

- The delivery revenue increase for the Rate Year of \$637.0 million was developed by subtracting gross receipts taxes from the Company's total increased delivery revenue requirement of \$654.1 million. Of this amount, \$616.1 million is associated with T&D-related delivery revenue increases that were allocated among Con Edison customers, NYPA delivery service, and EDDS delivery service. The remaining amount of the delivery revenue increase of \$20.9 million represents increases of \$19.6 million to the MAC revenue requirement and \$1.3 million to purchased power working capital, which were allocated only to Con Edison customers.
- Rate Year T&D-related delivery revenues at the rates in effect April 1, 2008, for Con Edison customers, NYPA delivery service, and EDDS delivery service were realigned to reflect the remaining indications from the Company's 2005 Embedded Cost of Service ("ECOS") Study that were not reflected in the determination of the T&D rates that became effective on April 1, 2008.<sup>6</sup> The

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<sup>6</sup> This approach is consistent with the Commission's March 2008 Order, which recognized the 2005 ECOS Study as an appropriate tool in allocating revenues to customer classes while allowing for gradualism.

requested Rate Year T&D-related delivery revenue increase, excluding gross receipts taxes, of \$616.1 million was then allocated to Con Edison, NYPA and EDDS customers in proportion to their respective realigned rate-year T&D delivery revenues. A final adjustment was then made to the T&D-related delivery revenue increase assigned to each class to reflect the corresponding class ECOS indications from the 2005 ECOS Study.

- Based on the realigned revenues, the proposed Rate Year T&D-related delivery revenue increase, excluding gross receipts taxes, was determined to be \$86.4 million for NYPA delivery service (i.e., an increased revenue requirement of \$71.3 million plus the remaining \$15.1 million ECOS study deficiency).<sup>7</sup> The proposed Rate Year T&D-related delivery revenue increase, excluding gross receipts taxes, was determined to be \$4.3 million for EDDS, including an adjustment for a minor surplus of \$0.1 million shown in the ECOS Study.
- The Con Edison classes' share of the proposed Rate Year T&D-related delivery revenue increase was determined to be \$540.4 million, excluding gross receipts taxes. This amount was reduced by the ECOS Study surplus of \$15.0 million to yield a T&D-related delivery revenue increase to Con Edison customers of \$525.4 million. Con Edison classes were also allocated an additional \$19.6 million MAC revenue requirement, excluding gross receipts taxes, and \$1.3 million associated with purchased power working capital.
- For Con Edison classes, a portion of the Rate Year T&D-related delivery revenue increase was assigned to certain competitive service revenues (i.e., the supply-related component of the Merchant Function Charge ("MFC") excluding purchased power working capital; the credit and collection-related component of the MFC; and competitive metering charges). The portion of the total T&D-related delivery revenue increase associated with these competitive service revenues was determined by multiplying the applicable class competitive service revenues at April 2008 competitive service rates by the corresponding total class Rate Year T&D percentage change. The purchased power working capital component of the MFC's supply-related component was then increased to reflect an increase in the purchased power working capital revenue requirement of \$1.3 million. This increase in working capital was allocated to only full-service Con Edison customers on the basis of their respective sales. The Company is not proposing to change the current level of the BPP Charge, so none of the Rate Year T&D increase was allocated to BPP Charges.<sup>8</sup>

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<sup>7</sup> The Company would be amenable to phasing in the reduction of this revenue deficiency in the context of a multi-year rate plan in order to moderate the increases to NYPA.

<sup>8</sup> The Company proposes no change to the BPP charge that was set in the March 2008 Order, to be consistent with the BPP charge established in the three-year gas rate plan that continues through September 30, 2010.

- For Con Edison classes, the Rate Year T&D-related delivery revenue increase associated with non-competitive services was determined by subtracting the increase to the Rate Year level of competitive service revenues for each class from the Rate Year T&D delivery revenue increase assigned to that class.

### Rate Design for Con Edison Classes

#### A. Con Edison Service Classifications in the Full Service Schedule and Retail Access Rate Schedule

##### 1. Rate Design for Non-Competitive Charges

The proposed delivery rates for non-competitive services were designed for each service class to collect each class's assigned increase as follows:

- The customer charges in Rate I of SC 1 – Residential and Religious, Rate I of SC 2 - General Small, and SC 6 - Public and Private Street Lighting were increased to better reflect the Company's cost to provide service. For SC 7 - Residential and Religious - Heating, the customer charge was set identical to that for Rate I of SC 1. For SC 1 and SC 7 customers taking service under the low-income customer rate program, the customer charge was set to reflect the continuation of the current \$5.92 per month reduction off the otherwise applicable SC 1 and SC 7 customer charge. This low-income customer charge was designed to recognize a proposed annual level of \$17.4 million in rate reductions. To mitigate the effect of the increase in the SC 2 customer charge on low-usage customers, the SC 2 customer charge increase was capped at 1.5 times the SC 2 T&D percentage rate increase.
- The energy charges in Rate I of SC 1, Rate I of SC 2, and SC 6 were increased to recover the balance of the revenue requirement assigned to each respective class after accounting for the increases in the customer charges.
- In SC 7 - Rate I, the summer rates in all usage blocks and the winter rates for usage up to 360 kWhr were set identical to Rate I in SC 1. The remaining revenue requirement for SC 7 - Rate I was allocated to the winter block rate for over-360 kWhr.
- Consistent with past practice, Rate II (voluntary time-of-day ("TOD") rates) of SC 1, SC 2, and SC 7 was designed to recover each class's overall base revenue requirement. The rates were designed to be revenue neutral, *i.e.*, the rates yield the same level of service class revenues that the Company would receive under the proposed conventional rates.
- The demand charges and energy charges in Rate I of SC 4, SC 5, SC 8, SC 9 and the Rate I – energy and demand rate of SC 12 were adjusted by the overall base rate percentage change applicable to each class.

- The SC 9 maximum rate was increased by double the overall base rate percentage increase applicable to SC 9 - Rate I, consistent with past practice and the goal of eventually eliminating this provision.
- For SC 12 customers billed for energy only in Rates I and III, the minimum charge and energy charges were increased by the overall base rate percentage increase applicable to Rate I of SC 12.
- Past practice was followed in designing rates for Rate II (mandatory TOD rates) of SC 4, SC 5, SC 8, SC 9, and SC 12, and SC 13, and Rate III (voluntary TOD rates) for SC 4, SC 8, SC 9, and SC 12 demand and energy. The energy rates were set equal across classes. The energy rates were determined by increasing current energy rates by the ratio of the proposed energy revenue requirement for these classes to the current level of revenue collected from the energy charges in these classes. The demand rates in each of these classes were then adjusted to recover the residual revenue requirement for each of these classes. Voluntary TOD rates in SC 4, SC 8, SC 9, and SC 12 were designed to recover the class revenue requirement of all customers not billed under mandatory TOD rates.
- The rates under Rider I – Experimental Rate Program were updated to recognize the proposed SC 8 standby rates on which Rider I rates are based.
- SC 14-RA rates were developed consistent with the Commission’s Opinion No. 01-04, Opinion and Order Approving Guidelines for the Design of Standby Service Rates, issued and effective October 26, 2001, in Case 99-M-1470. Consistent with the standby rate guidelines, rates were developed for each class within SC 14-RA to be revenue neutral at the proposed revenue level.
- The customer charges and delivery service contract demand charges in SC 11-Buy-Back Service were set equal to the SC 14-RA customer charges and delivery service contract demand charges. In addition, the SC 11 and SC 14-RA reactive power demand charge was increased by the overall T&D percentage rate increase for Con Edison classes.

## 2. Rate Design for Competitive Service Charges

The proposed supply-related component (excluding purchased power working capital) and the credit and collection-related rate components of the MFC were developed by increasing the current supply-related and credit and collection-related rate components of the MFC by the applicable class total T&D percentage rate increase. The proposed purchased power working capital component of the MFC was computed by dividing the proposed increased purchased power working capital revenue requirement of \$6.2 million by Rate Year full-service customer



sales to derive a proposed charge of 0.0255 cents/kWhr.<sup>9</sup> The proposed metering charges for meter ownership, meter services, and meter data services in each class eligible for competitive metering (i.e., SCs 4, 5, 8, 9, 12 and 13 conventional and time-of-day billed accounts), were developed by increasing current charges for each of these competitive metering services by each corresponding class's overall T&D rate increase.

#### B. PASNY No. 4 Rates

Rate I and Rate II charges under the PASNY Rate Schedule were increased by the overall T&D percentage rate increase applicable to NYPA. Consistent with the standby rate guidelines, Rate III and IV rates were developed for each class within the PASNY Rate Schedule to be revenue neutral at the proposed revenue level, i.e., Rates III and IV were developed to produce the same delivery revenues as the equivalent non-standby rates. Competitive metering credits for non-TOD Rates I and III and for TOD Rates II and IV were increased by the overall T&D percentage rate increase applicable to NYPA.

#### C. EDDS No. 2 Rates

The current non-TOD and TOD rates under the EDDS Rate Schedule (Rates I and II, respectively) were increased by the overall T&D percentage rate increase applicable to EDDS. Rate I of SC 15-RA of the Retail Access Rate Schedule was set equal to EDDS Rate I; Rate II of SC 15-RA was set equal to EDDS Rate II.

### **Tariff Changes**

Tariff changes were made to the Full Service, Retail Access, PASNY, and EDDS Rate Schedules to reflect the updated rates, as described above. In addition, the Company extended the deadline for accepting applications under the Rider J - Business Incentive Rate program to March 31, 2010.<sup>10</sup> Further, the Company updated the Uncollectible-bill Expense components of the MFC and MAC to reflect the revised Uncollectible Bill Factors and added a component to the MAC to recover regional greenhouse gas initiative costs not recovered through the Market Supply Charge.

### **The Need for Electric Rate Relief**

The rate filing amply demonstrates the need for rate relief and the desirability of a three-year rate plan. The Company is working very hard to control costs and to meet the needs and expectations of its customers and stakeholders. The Company looks forward to arriving at a solution in this proceeding that serves the interests of all New Yorkers.

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<sup>9</sup> A revised MFC Statement will be filed at the conclusion of this proceeding based on the final revenue requirement level as approved by the Commission.

<sup>10</sup> The Company proposes to extend the deadline to the last day of the Rate Plan if a multi-year plan is adopted at the end of this proceeding.

**Newspaper Publication**

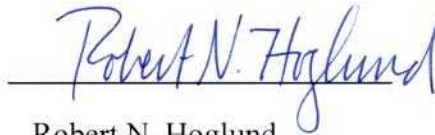
The Company will provide for public notice of the changes proposed in this filing by means of newspaper publication on May 16, 23, and 30 and June 6, 2008.

**Conclusion**

The testimony and exhibits submitted herewith establish the need for the rate relief requested by the Company. The Company will pursue discussions with the Commission Staff and other parties to the proceeding in an effort to reach agreement on the issues presented. The Company respectfully requests that, in the absence of agreement of the parties, the Commission approve the changes to become effective at the earliest practicable date, but no later than April 1, 2009.

Very truly yours,

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.



Robert N. Hoglund  
Senior Vice President and  
Chief Financial Officer

cc: New York State Consumer Protection Board  
(two sets of filing)  
Active Parties to Case 07-E-0523