conEdison
a conEdison, inc. company

Robert N. Hoglund
Senior Vice President and
Chief Financial Officer

November 6, 2009

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

Dear Secretary Brilling:

Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") proposes to increase the charges for steam service and make other changes to its Schedule for Steam Service, P.S.C. No. 4 – Steam, applicable to its customers in the Borough of Manhattan, New York City. The tariff leaves reflecting the proposed changes are identified in Appendix A.

The Company's schedule leaves are issued on November 6, 2009, to become effective on and as of December 6, 2009. The Company's expectation is that the Commission will issue appropriate orders suspending the effective dates of the proposed schedule changes through September 30, 2010, so that the proposed rates and other changes may become effective on October 1, 2010, upon termination of the current Con Edison steam rate plan that was adopted by the Commission's Order Establishing Rate Plan, issued and effective September 22, 2008, in Case No. 07-S-1315 (the "September 2008 Order").

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 under tariff rates in its Schedule for Steam Service, PSC No. 4. The Company is proposing a four-year rate plan for its steam operations, which, if adopted, would establish rates for the four-year period ending September 30, 2014. Under the four-year levelized rate proposal advanced by the Company, the requested rate increases to take effect on October 1, 2010, 2011, 2012 and 2013, respectively, would be moderated to 9.4 percent annually on a total bill basis based on increases of $66.1 million each year. As required, however, the tariffs submitted herewith reflect only the Company's proposed rate increase for the Rate Year, i.e., the twelve months ending September

30, 2011, in the event the four-year plan is not adopted. The proposed Rate Year increases are designed to produce a total annual revenue increase of approximately $128.8 million, or 18.2 percent on a total bill basis, inclusive of projected fuel costs, temporary state assessment surcharge, and gross receipts taxes, based on the estimated level of sales for the Rate Year.[1] As described in more detail below, this increase is necessary to allow the Company to continue to provide steam customers with safe and reliable service and, at the same time, provide revenues to the Company consistent with the need to maintain and upgrade the steam system infrastructure.

Appendix B shows the estimated average increase in customers' bills and Company revenues resulting from the proposed increase in base rates, based on sales and revenues for the historical period, i.e., the 12 months that ended on June 30, 2009.

Proposed Increased Revenue Allocation Among the Customer Classes

The revenue increase was allocated to the Company's service classifications ("SC"s) as follows:

- The Rate Year pure base revenues (i.e., service class base revenues less the base cost of fuel) for SC 2 and SC 3 at the October 1, 2009 rate level were first reallocated amongst SC 2 and 3 Rates I and II, respectively, to recognize the lowering of the threshold for SC 2 and SC 3 customers eligible for steam demand billing from the current level of 22,000 Mlbs to 14,000 Mlbs annually in accordance with the September 2008 Order.

- The total increase in the Company's revenue requirement of approximately $126.0 million, which excludes gross receipts taxes, was then allocated to SCs 1, 2, 3 and corresponding SC 4 based on applying an overall pure base rate percentage increase to each class's Rate Year pure base revenues at the current October 1, 2009 rate level. The overall pure base rate percentage increase was developed by dividing the base rate increase of $126.0 million by the total Rate Year pure base revenues. Each class was assigned the overall pure base rate percentage increase since the results of the Company's 2008 embedded cost of service study showed each service class to be average around the total system rate of return, based on a ten percent tolerance band. For consistency with the ECOS study, which included SC 4 back-up/supplementary ("standby") service revenues in the corresponding SC 2 and SC 3 classes in which the customers would otherwise take service as non-standby customers, the SC 4 Rate I class was combined with the SC 2 Rate I (Non-Demand) class, the SC 4 Rate II class was combined with the SC 3 Rate I (Non-Demand) class, the SC 4 Rate III class was combined with the SC 2 Rate II (Demand) class and the SC 4 Rate IV class was combined with the SC 3 Rate II (Demand) class for revenue allocation purposes.

[1] The rate increase represents approximately a 37.8 percent increase to pure base revenues. Since pure base revenue represents only about 48.3 percent of the total average bill, the 18.2 percent total bill impact is more representative of what customers take into account when considering steam service issues.

- For rate design purposes, each class's assigned rate year increase was restated on the basis of the historical period by dividing the rate year increases by a ratio representing the relationship of rate year pure base revenues to historical period pure base revenues.

Except where the terms of negotiated contracts specifically reference tariff rates, the above base rate increases were not allocated to SC 5 customers, since their charges are fixed by contract. Also, SC 6 was not allocated any of the base rate increase, because there are presently no customers taking service under that SC.

Proposed Rate Design Within the Classes

The first step in the rate design process was to redesign the current SC 2 and 3 Rate II demand rates at the current October 1, 2009 rate level to recognize the lowering of the annual threshold for determining eligibility for SC 2 and 3 demand rates from 22,000 Mlbs annually to 14,000 Mlbs annually. The demand rates were designed to collect the same annual revenues that would be derived from all eligible customers with annual usage over 14,000 Mlbs at current applicable October 2009 rates. Based on each demand class's required revenue level, the SC 2 and 3 Rate II (Demand) rates for all customers with consumption equal to or greater than 14,000 Mlbs in each class were established by setting: (1) the customer charges equal to the SC 2 and 3 Rate II (Demand) customer charges effective October 1, 2009; (2) the summer, winter demand period (December through March, inclusive) and winter shoulder period (November and April) usage charges equal to the corresponding SC 2 and 3 Rate II (Demand) usage charges effective October 1, 2009 for these respective periods; and (3) the on-peak and all time peak demand charges to recover the balance of each class's applicable revenue requirement at the October 2009 rate level.

After the SC 2 and 3 Rate II demand rates were redesigned at the current October 2009 rate level, the SC 1, 2, 3 and 4 rates were designed to collect each class's assigned rate increase as follows:

- The SC 1, SC 2, and SC 3 customer charges were increased to be more reflective of average customer costs while considering mitigation of bill impacts on small usage customers. The energy charges and demand charges, applicable to each class were then proportionally increased to recover the balance of each class's assigned rate increase.

- The SC 4 standby service rates and SC 6 transportation rates were designed consistent with the SC 4 and SC 6 rate designs approved by the Commission's Opinion and Order Adopting Terms of Settlement in Case 99-S-1621, issued and effective December 1, 2000, i.e., SC 4 and SC 6 rates were designed to recover the same revenues that would be recovered if all eligible customers were billed under SC 2 and SC 3 rates. Specifically, SC 4 and 6 Rate I and Rate II Customer Charges were set equal to the proposed SC No. 2 and SC No. 3 Rate I (Non-Demand) Customer Charges, respectively, and the SC 4 and 6 Rate III and IV Customer Charges were set equal to the proposed SC No. 2 and SC No. 3 Rate II (Demand) Customer Charges, respectively. For SC 4, the balance of the required annual class revenues will be collected through Contract Demand Charges and winter Usage Charges. During the summer months, the usage charge applicable to on and off-peak period customers would equal the base fuel cost. For SC 6, the balance of required annual class revenues will be collected through applicable contract demand and usage charges.

Additional Tariff Changes

The Company is amending its tariff to reflect the lowering of the consumption threshold for SC 2 and SC 3 customers eligible for steam demand billing from the current consumption level of 22,000 Mlbs to 14,000 Mlbs annually. This change will become effective starting with the 2010–11 winter demand period, as required by the Commission's September 2008 Order (page 5). In addition, the Company is amending its tariff to lower the threshold for the transfer from demand billing under SC 2 and SC 3 Rate II to Rate I (Non-demand) from the current level of 14,000 Mlbs to 12,000 Mlbs. Corresponding changes will be made to the applicability sections of SC No. 4 Rates III and IV and SC No. 6 Rates III and IV to reflect these changes being made in SC 2 and 3.

The Special Provision sections of SC 2 and SC 3 have been amended to allow the Company to continue accepting applications for the air-conditioning incentive program until September 30, 2011.[2] That program provides eligible customers with a $2.00 per Mlb reduction in base rates during each summer billing cycle month for two years for steam usage in excess of 250 Mlb under SC 2 and in excess of 50 Mlb under SC 3.

The Company has made a change to its tariff regarding special services performed at stipulated rates. The charge for the temporary disconnection and reconnection of service, currently applicable to a request in excess of one disconnection and reconnection performed in a 12-month period, will be applicable to all requests. This will better align customers' responsibility for costs associated with those services.

As explained in testimony, tariff changes will be made if the Commission's final opinion in this proceeding adopts the Company's proposal to move the cost of Company labor associated with fuel oil storage and handling from the monthly steam fuel adjustment clause to base rates and to reflect any changes made to the base cost of fuel. Tariff changes will also be made if the Commission adopts the Company's proposal to recover through the fuel adjustment clause the costs associated with the Hudson Avenue Replacement Project and the costs associated with the accelerated cost recovery of the natural gas firing capability additions at both West 59th Street and East 74th Street Stations. In addition, tariff changes will be made if the Commission approves the Company's proposed steam revenue adjustment mechanism ("SRAM").

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[2] In the context of a multi-year rate plan, the Company proposes a further extension of the deadline through the last day of the rate plan.

The Need for Steam Rate Relief

Recent experience has shown that the current steam rates are inadequate to allow the Company to maintain investments in infrastructure needed to continue safe and reliable steam service and to meet the increasing investment needs of the steam system. For the historic year in this case, i.e., the twelve months that ended June 30, 2009, the actual steam return on equity was 6.78 percent. Thus, the current rate levels are insufficient to enable the Company to recover its increasing costs of providing service and make the necessary investments in steam infrastructure. The Company's presentation demonstrates that the rate relief requested herein is essential to allow the Company to maintain the integrity of the steam system and reliable service to steam customers, while enabling the Company's steam operations to earn a return to investors adequate to support the financial strength needed in the current environment. There are several major factors contributing to the current need for increased steam revenues. Specifically, the proposed rates reflect higher property tax and other tax payments ($21 million), higher pension/OPEBs costs ($15 million), carrying costs for new infrastructure investments ($28 million), lower projected sales revenues than the levels embedded in rates ($22 million), and a higher cost of capital requiring an increase in the allowed return on equity ($18 million). The balance of the requested rate increase ($14 million) is the result of expiring net credits that are currently in effect, increases in operation and maintenance expenses ($8 million) and income taxes ($3 million).

In order to provide customers with relatively stable and predictable rates (exclusive of increases or decreases in fuel costs) over the next several years, the Company's proposal to implement a four-year rate plan would result in levelized, and thus moderated, rate increases and would give the Company a strong incentive to work within the rate plan to maximize efficient operations that will ultimately inure to the benefit of customers. The proposed four-year plan recognizes expected changes in the second, third and fourth years for sales, rate base and a limited number of expenses for such items as property taxes, and provides for reconciliations. The plan would also require the Company to commit to refrain from requesting a further increase in steam rates to become effective before October 1, 2014, except in very limited circumstances.

The Company is also proposing a SRAM. The SRAM is consistent with Commission policy that utilities reconcile forecast and actual delivery service revenues to remove the potential financial disincentive that utilities might otherwise have to promoting energy efficiency.

The Company's presentation also provides an overview of the value of the Con Edison steam system to the New York City metropolitan area; its competitive position and the challenges it faces; and why there should be a concerted effort by all stakeholders, including the Commission itself in setting regulatory policy for the State, to maintain the viability of the steam system over the long term. The presentation also addresses the goals of the August 2009 draft New York State Energy Plan, including the Plan's objectives, such as clean and reliable energy, and the role of the steam business in meeting these important objectives.

The Company will discuss with the Staff and other parties to the rate proceeding its proposal for a multi-year rate plan, with a view toward establishing a rate plan for steam operations covering the four-year period ending September 30, 2014. We believe that such a multi-year plan would benefit both the Company and its customers and balance the objective of rate stability with the need to maintain a strong energy infrastructure and a financially healthy steam system.

Newspaper Publication

The Company will provide for public notice of the changes proposed in this filing by means of newspaper publication on November 13, 20, and 27, and December 4, 2009.

Conclusion

The testimony and exhibits submitted herewith establish the need for the rate changes requested by the Company. The Company realizes that even if economic conditions were stronger, a request for substantial rate relief will be scrutinized to identify alternatives to rate relief, and this filing is the product of substantial efforts by the Company to keep the requested rate increase to the minimum level necessary to maintain safe and reliable service. The Company respectfully requests that, in the absence of the submission of a joint proposal on steam rates among the Company and other parties, the Commission approve the changes proposed herein to become effective on October 1, 2010.

Very truly yours,

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Robert Hoglund

Robert N. Hoglund

cc: New York State Consumer Protection Board (two sets of filing)
Active parties to Case No. 07-S-1315

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PSC No. 4 - Steam

Leaf 39 – Revision 1
Superseding Version 0

Leaf 68 – Revision 3
Superseding Revision 2

Leaf 71 – Revision 2
Superseding Revision 1

Leaf 72 – Revision 1
Superseding Version 0

Leaf 73 – Revision 2
Superseding Revision 1

Leaf 74 – Revision 2
Superseding Revision 1

Leaf 75 – Revision 2
Superseding Revision 1

Leaf 78 – Revision 1
Superseding Version 0

Leaf 79 – Revision 1
Superseding Version 0

Leaf 81 – Revision 2
Superseding Revision 1

Leaf 82 – Revision 1
Superseding Version 0

Leaf 83 – Revision 2
Superseding Revision 1

Leaf 84 – Revision 2
Superseding Revision 1

Leaf 85 – Revision 2
Superseding Revision 1

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Leaf 88 – Revision 1
Superseding Version 0

Leaf 89 – Revision 1
Superseding Version 0

Leaf 91 – Revision 2
Superseding Revision 1

Leaf 92 – Revision 2
Superseding Revision 1

Leaf 93 – Revision 2
Superseding Revision 1

Leaf 94 – Revision 2
Superseding Revision 1

Leaf 102 – Revision 2
Superseding Revision 1

Leaf 103 – Revision 2
Superseding Revision 1

Leaf 104 – Revision 2
Superseding Revision 1

Leaf 105 – Revision 2
Superseding Revision 1

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Appendix B

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

STEAM - Estimated Effect on Customers' Bills and Company Revenues Resulting from
Proposed Steam Rates - Based on Sales and Revenues for the Twelve Months Ended June 30, 2009

				OVERALL ESTIMATED NUMBER OF CUSTOMERS' BILLS		
SERVICE CLASSIFICATION	TOTAL REVENUE AT CURRENT RATES EFFECTIVE 10/01/2009	ESTIMATED CHANGE @ PROPOSED RATES **	PERCENTAGE CHANGE	INCREASED	DECREASED	UNCHANGED
1 - GENERAL SERVICE	$27,952,468	$6,645,849	23.8%	6,108	0	0
2 - ANNUAL POWER SERVICE - RATE I - NON DEMAND	$89,028,958	$19,936,200	22.4%	4,176	0	0
2 - ANNUAL POWER SERVICE - RATE II - DEMAND (Existing)	$365,000,702	$64,954,054	17.8%	2,652	0	0
2 - ANNUAL POWER SERVICE - RATE II - DEMAND (New) *	$51,807,441	$8,630,012	16.7%	995	0	0
2 - ANNUAL POWER SERVICE - RATE II - DEMAND (Total)	$416,808,143	$73,584,066	17.7%	3,647	0	0
3 - APARTMENT HOUSE SERVICE - RATE I - NON DEMAND	$88,709,461	$16,921,124	19.1%	5,508	0	0
3 - APARTMENT HOUSE SERVICE - RATE II - DEMAND (Existing)	$79,082,552	$14,077,173	17.8%	828	0	0
3 - APARTMENT HOUSE SERVICE - RATE II - DEMAND (New) *	$33,050,822	$4,793,087	14.5%	780	0	0
3 - APARTMENT HOUSE SERVICE - RATE II - DEMAND (Total)	$112,133,374	$18,870,260	16.8%	1608	0	0
4 - BACKUP/SUPPLEMENTARY SERVICE	$15,321,622	$2,781,583	18.2%	156	0	0
TOTAL	$749,954,026	$138,739,082	18.5%	21,203	0	0

NOTE: * For SC 2 and 3 Rate II new Demand Customers, the total revenue at current rates is based on the SC2 and 3 Rate I (Non-Demand) rates effective October 1, 2009.

** Based on sales and revenues for the rate year, 12 months ending September 30, 2011, the increase in Con Edison revenues equates to $128.8 million, or a 18.2% increase.

Received: 11/06/2009

STATE OF NEW YORK)
)
COUNTY OF NEW YORK)

ROBERT N. HOGLUND, being duly sworn, says:

I am Senior Vice President and Chief Financial Officer of CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., the applicant above-named, on behalf of which I have subscribed the foregoing application and know the contents thereof and the same is true to the best of my knowledge, information and belief.

Robert Hoglund

Robert N. Hoglund

Subscribed and sworn to
Before me this 6th day of
November 2009.

Mary L Krayeske

Notary Public

MARY L. KRAYESKE
Notary Public, State of New York
No. 02KR5045658
Qualified in New York County
Commission Expires June 26, 20 11