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**Sent:** Thursday, August 14, 2008 12:29 PM  
**Attach:** CPB13-107-Question.doc; 2008 Electric Case - Pension OPEB EOE - RY1\_w July Update Pension Change\_Att\_2.xls; ConEdison2008ProjectionsCEI-Updated.pdf  
**Subject:** Con Edison Case 08-E-0539 - Preliminary Update Addendum

The following is an addendum to the Preliminary Update provided by the Company to the parties on July 25, 2008.

### Energy Efficiency

The Company's July 25, 2008 Preliminary Update included the following statement regarding the Energy Efficiency Portfolio Standards ("EEPS") proceeding:

\* Establishing Energy Efficiency Portfolio Standards - The Company is evaluating the impact of the recent Order issued June 23, 2008 in Case 07-M-0548 Establishing Energy Efficiency Portfolio Standards (EEPS) on our filed 500 MW DSM Plan, which included a savings of approximately \$1 billion in deferred Transmission and Distribution costs over the next five years. Furthermore, while the Company has not changed its goal to achieve 500MW of permanent energy efficiency by 2015, the Company is concerned that delaying final decisions about

energy efficiency through 2015 (the date for achievement of the State's 15x15 goal) increases the risk that the Company will need to begin spending for long lead time items for T&D projects that are currently deferred. It is important to note that such delays can affect the flow of MW projected to be achieved by network (though at this time not achievement of the total). The Company is quantifying additional costs and will include those costs in an update to this filing.

The Company has reviewed the initial testimony of the Infrastructure Investment Panel ("IIP") in this proceeding in light of the June 23 EEPS Order, which also directed the Company to file programs to help achieve energy efficiency goals. As a result of that direction, the Company has decided to withdraw from consideration in this case the Company's proposed extension of its Targeted Program and its proposal to submit its non-targeted programs for consideration in this proceeding if they are not reviewed in the EEPS proceeding. The Company will pursue the extension of its Targeted Program in the EEPS proceeding. Accordingly, the IIP will delete the portion of its initial testimony beginning on p. 265, line 7, through p. 272, line 18, up to the word "Order." The IIP will further address this matter, as appropriate, in its September 29 update/rebuttal testimony.

Please note that the Company is continuing to evaluate the costs of the capital infrastructure projects with Fall 2008 trigger dates in order to compare them to DSM solutions; if they pass a preliminary economic test and are otherwise deemed appropriate for a targeted DSM program, the Company plans to use the 30MW of targeted DSM authorized by the March 25, 2008 order in Case 07-E-0523 to defer these projects. As to capital infrastructure projects with 2009 trigger dates, the Company's ability to defer those projects will depend upon timely action and approval of filings in the EEPS proceeding.

Please also note that the Company is not withdrawing its request for funding capital projects regarding the development of an information technology system and enhancements to the Area Profile System, and O&M program changes associated with the Company's administration and implementation of energy efficiency programs. The Company continues to believe these projects and programs are necessary and appropriate, irrespective of the number of energy efficiency programs that the Commission authorizes Con Edison to implement in the EEPS proceeding or any other proceeding.

#### Recovery of Targeted DSM Spending through March 31, 2008

Under the 2005 Rate Plan, a portion of the Company's Targeted DSM expenditures -- those related to the avoided T&D costs resulting from deferral of T&D projects -- were to be recovered in the same manner as the deferred T&D carrying charges (resulting from T&D expenditures above levels reflected in rates). The remainder of the Company's targeted DSM expenditures was to be recovered through the MAC. See 2005 Rate Plan, Sections D.3 and J.7. In accordance with the 2005 Rate Plan, the

Company deferred approximately \$1.8 million of its Targeted DSM expenditures through March 31, 2008. Approximately \$100,000 in carrying charges accrued on those expenditures were included in the Company's "T&D Deferral," which is being recovered through base rates over a ten-year period pursuant to the one-year rate plan adopted by the Commission in March 2008. The recovery of the principal (i.e., the approximately \$1.8 million of targeted DSM spending) was not reflected in the Company's original filing in this case. As a result, the Company's September update will seek to recover the targeted DSM expenditures in base rates over a three-year period.

Limiting this update to approximately \$1.8 million from the prior period assumes that the Company will recover through the MAC targeted DSM expenditures related to avoided T&D costs that it incurs for programs approved pursuant to the 2005 Rate Plan after April 1, 2008 (approximately \$600,000 to date), plus the carrying charges accrued since April 1, 2008, on all of such unrecovered Targeted DSM costs. Recovery of such costs through the MAC is appropriate given that the deferred T&D carrying charge mechanism in effect during the 2005 Rate Plan expired on March 31, 2008. It should be noted that all targeted DSM costs incurred before the 2005 Rate Plan and pursuant to the March 25th rate order are being recovered through the MAC.

#### Employee Welfare Expense

We would note that Company witness Reyes had previously indicated his intention to update for Employee Welfare Expenses. He still plans to do so as part of the September 29 formal update. These expenses were not updated as part of the preliminary update because the actual health care costs through June 30, 2008 were not yet available and the Company is currently working with its health care carriers to determine the impact of this more recent information on projected employee welfare expenses.

#### Law Department Technology Programs

The Company just discovered that three programs approved by the Commission in the prior electric rate proceeding were inadvertently not resubmitted in this case as program changes. As noted in the Company's filing, it attempted to identify as program changes all programs for which there were no costs in the historic year but were approved in Case 07-E-0523. The Company's September 29 filing will correct for this inadvertent omission. The programs are as follows:

- o eDiscovery Program - \$200K
- o Regulatory Rate Case Scanning Project - \$200K
- o Law Library Cataloging System and Memoranda of Law File - \$60K

#### Pension Costs

The July 25th Preliminary Update indicated a projected increase in

Pension and OPEB expenses of approximately \$40 million. The filing should have indicated a projected increase of approximately \$30 million. The details of this correction are set forth in the Company's response to CPB13-107. A copy of that response is attached for your convenience.

#### Property Taxes

The Company will further update estimated property taxes to reflect an ICIP tax benefit on the Parkview substation reducing projected rate year NYC property taxes by approximately \$3.75 million. Also, property taxes included in the rate year applicable to non-operating property will be removed, reducing projected NYC and Westchester taxes by approximately \$700,000.

#### Interest Rates

As is common practice, the Company may update for interest rates as part of its formal update. No preliminary update for interest rates was made because, at that time, market conditions did not necessarily point to higher interest rates, which now may be the case. We would also clarify that we anticipate that the true-up of tax exempt auction rates, provided in the March 25th order, would continue.

#### Steam Pipe Rupture

On August 7, a Joint Proposal resolving prudence-related issues associated with the steam pipe rupture of July 2007 was submitted to the Commission. Should the Commission approve that Joint Proposal before the Company files its update, the Company will reflect the terms of the Joint Proposal in its September 29 update.

By providing this information, the Company reserves its rights to further update these items and update for other items, as permitted by the Commission's update policy, and at such times as permitted by that policy. Please contact the Company should you have any questions regarding these materials.