

STATE OF NEW YORK

Public Service Commission

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PSC AUTHORIZES NEW ONE-YEAR RATE PLAN FOR CON EDISON -Commission Substantially Cuts Con Edison Rate Request-

New York, NY—03/19/08—The New York State Public Service Commission today voted on a rate decision that sets new electric service delivery rates for Consolidated Edison Company of New York, Inc. (Con Edison). The revenue requirement increase of \$425 million is estimated to result in bill impacts of about 4.7 percent on a system-wide basis. The decision approves significant increases in infrastructure spending to improve and maintain the reliability of service, enhances safety by increasing inspections to detect stray voltage, facilitates efficient use of energy, implements customer service and reliability performance incentive mechanisms, and includes provisions to moderate rate impacts on low-income customers.

“This decision balances the need to ensure safe and adequate service to customers while incenting needed infrastructure investment,” said Public Service Commission Chairman Garry Brown. “Customer interests were addressed, first and foremost, by minimizing the level of increase in rates over the next year, while at the same time helping to ensure that customers receive a high level of service and reliability. The service quality performance targets and the negative financial consequences the company will be exposed to for failing to achieve them, will help create strong incentives for management to improve the safety and maintain the reliability of operating the system in the future and provide good service for all customers.”

Chairman Brown continued: “The significant infrastructure investments we are approving today are based on the fact that Con Edison’s system is one of the most complicated and reliable in the world. The complexities of the unique grid, coupled with the massive demands put upon it,

require that significant and continuing investments be made. Through its action today, the Commission continues to be forward-looking and proactive in its recognition of the critical need to maintain and improve this world-class system.”

On May 4, 2007, Con Edison proposed to increase electric delivery rates by \$1.2 billion. The Commission’s rate decision authorized by the Commission today reduces the size of the delivery rate increase in comparison with the amounts originally requested by Con Edison.

Based on the Commission’s decision, Con Edison’s annual revenues from electric delivery service rates will increase by \$425 million effective April 1. The revenue requirement increase of \$425 million is estimated to result in bill impacts of about 4.7 percent on a system-wide basis. The individual class increases range from 2.9 percent to 8.2 percent on a total bill basis.

The company’s request included a return on equity of 11.9 percent for the rate year. The Commission established a return on equity of 9.1 percent for the rate year.

Department of Public Service Staff began its review and investigation of the rate filing soon after it was submitted and an initial conference of the active parties was held on June 18, 2007. Evidentiary hearings in this case were held in New York City between October 17 and 31, 2007. A dozen public statement hearings were held during January 2008 for the public throughout New York City and in Westchester County.

Based on the approved rates, the delivery portion of a typical monthly New York City residential electric bill for 300 kilowatt hours of electricity would increase by about \$4.25. The delivery portion of a typical monthly residential bill in Westchester County for 450 kilowatt hours of electricity would increase by about \$5.60. These bill impacts do not include potential changes in commodity costs.

The rate decision contains funding for a \$17 million program to assist low-income electricity customers. Through this program, eligible low-income customers will continue to pay

the current low-income monthly customer charge of \$6.50 which is almost 50 percent lower than the otherwise applicable residential customer charge.

The Commission today also noted that Con Edison had not justified the incentive components of its compensation packages provided to officers and managers and therefore determined those payments should not be funded by ratepayers. The incentive components were not linked to enhancing corporate productivity or improving the safety and reliability of service. The incentive components are separate and apart from base pay and do not warrant recovery in rates.

The rate decision implements customer service and system reliability performance targets. The system performance targets are designed to ensure that customers receive a high level of service with outages minimized to the greatest extent possible. If all the targets are not met, the decision provides for maximum potential exposure for revenue adjustments of up to approximately \$152 million annually.

Modern economies depend on robust and reliable energy infrastructure as evidenced by the growth in population, sharp rise in the use of electronic equipment, and major construction projects in the residential and commercial sectors of Con Edison's service territory over the past decade. According to Con Edison, last year its customers used 62,591 GWh (gigawatt hours) of electricity or 23 percent higher than the 50,850 GWh used in 1997. (A gigawatt is equal to 1,000 megawatts).

To address the growth of electricity demand in Con Edison's service territory, the aging of company's infrastructure, and the cyclical nature of large transmission-level and substation capital projects, the Commission approved a budget of \$1.65 billion for the rate year for transmission and distribution capital spending.

The Commission also determined that Con Edison's accelerated spending for transmission and distribution capital expenditure under the 2005-2008 rate plan will require additional review. Revenues collected by the company through an adjustment clause totaling

\$250 million on an annual basis are subject to refund in the event the Commission concludes that any portion of capital expenditures under the previous rate plan is not recoverable in rates.

Energy efficiency initiatives in concert with system enhancements can also address growth in demand for electricity. In May of 2007, the Commission instituted a proceeding renewing efforts to aggressively promote energy efficiency programs and to move forward with the State's energy policy to reduce energy usage by 15 percent of forecasted levels by 2015.

In order to promote more efficient use of energy in Con Edison's service territory, the rate decision: expands the company's mandatory hourly pricing program; continues the company's targeted demand-side program and statewide programs administered by the New York State Energy Research and Development Authority; and provides for an additional funding of \$2 million for the purpose of staffing and developing cost-effective energy efficiency programs and market research to advance energy efficiency.

Also, as part of a comprehensive program to advance energy efficiency, the Commission in April 2007 directed major electric and gas utilities to file proposals in rate cases for revenue decoupling mechanisms (RDM) to remove disincentives for companies to invest in energy efficiency by severing the relationship between energy sales and utility profits. Under the rate decision approved today for Con Edison, the company is required to implement an RDM.

The Commission will issue a written order reflecting today's vote. That order, when available, can be obtained from the Commission's Web site at <http://www.dps.state.ny.us> by accessing the Commission Documents section of the homepage and referencing Case Number 07-E-0523. Many libraries offer free Internet access. Commission orders can also be obtained from its File Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).