

Con Edison Hedging and Rate Mechanisms

May 15, 2014

Agenda

- Hedging
- Electric Supply Cost Recovery Mechanisms

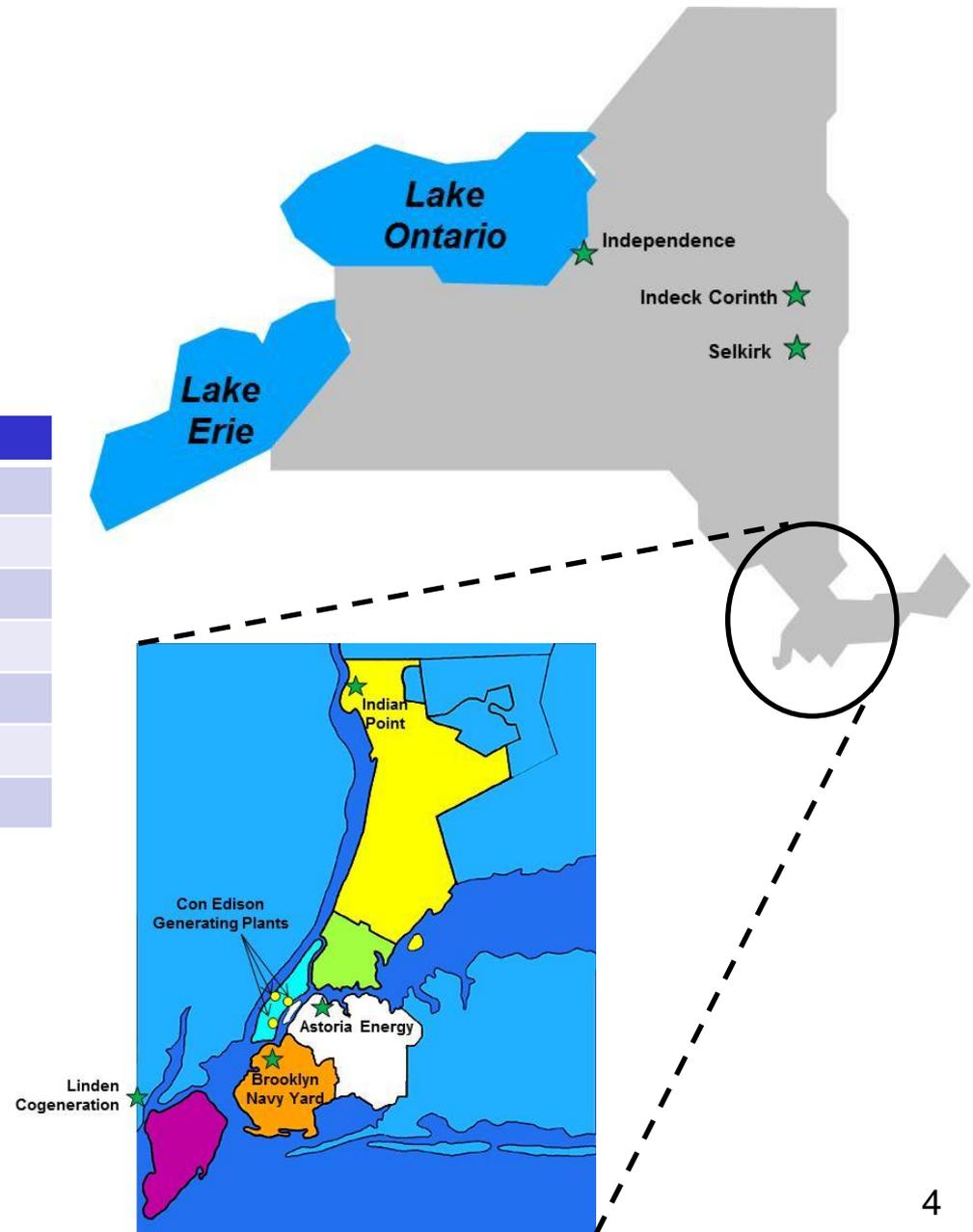
Hedging

Introduction

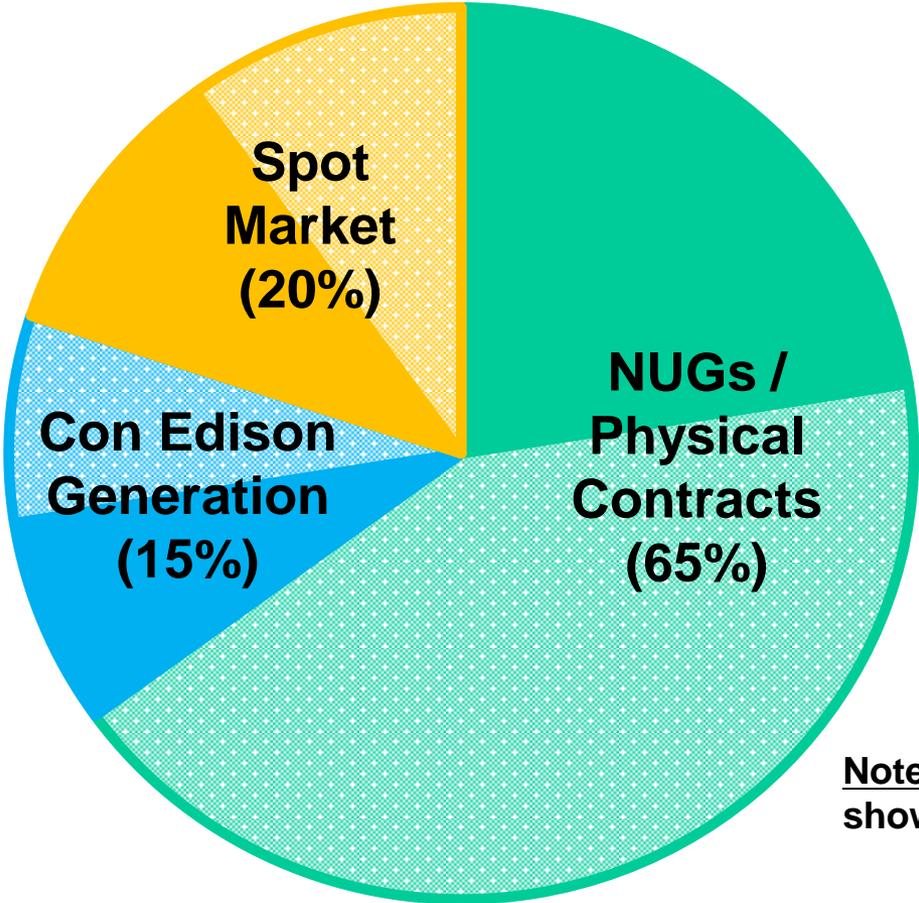
- What is a hedge?
 - An investment made to reduce the risk of significant price movements in an asset
- Mitigate impact of high volatility of short-term market prices on customers
- Allow customer's supply costs to follow the long-term trend in energy prices
- Manage existing physical supplies

Hedging Physical Supply

Generator	Contract Expiration	MW
Selkirk	August 2014	265
Independence	October 2014	689
Indeck Corinth	June 2015	132
Astoria Energy	April 2016	500
Linden Cogeneration	April 2017	546
Indian Point	December 2017	500
Brooklyn Navy Yard	October 2036	217



Hedging Supply Mix



Note: hedged volumes are shown as hashed areas

Total Volume (Jan – Mar 2014) = 5,230 GWh

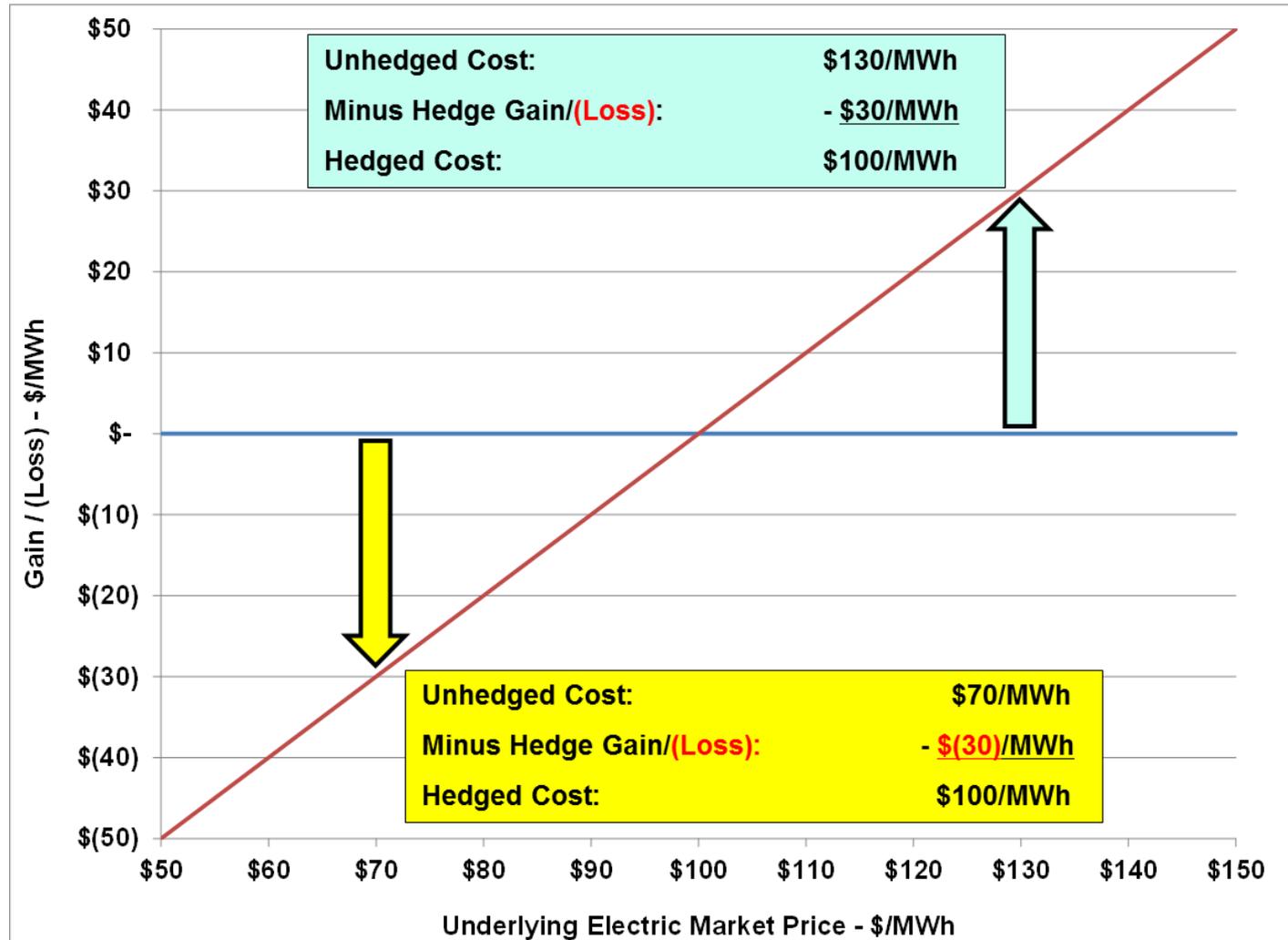
Hedging Financial Instruments

- Product Types
 - There are a number of different instruments that can be used to hedge, however, the products below are most effective to mitigate price volatility while managing cost
 - Swap
 - Collar
 - Option

Example: Purchase of \$100/MWh Swap

Swap:

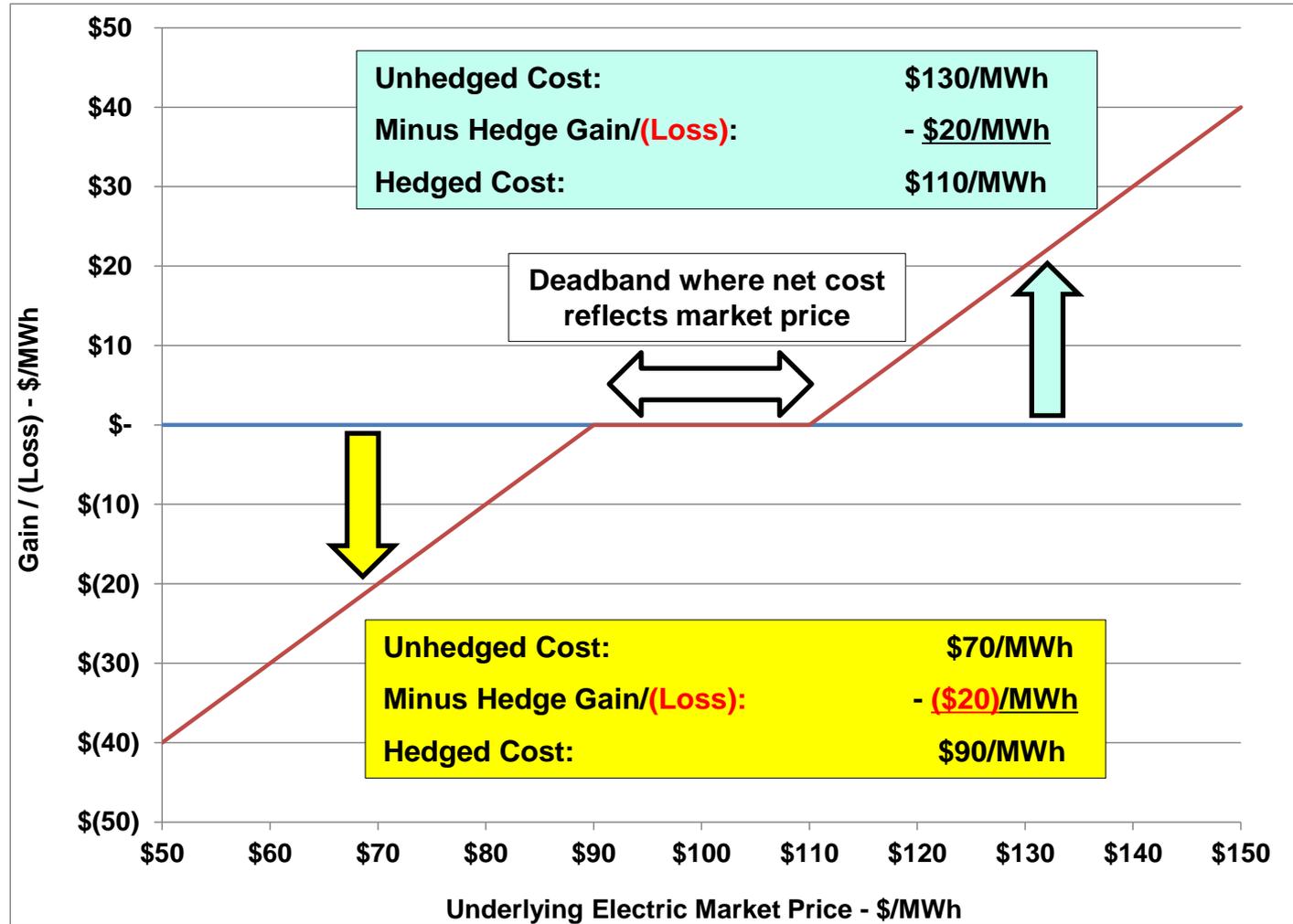
- Locks in a known price
- Is used to avoid or mitigate price risk



Example: Purchase Collar with \$110/MWh Ceiling and \$90/MWh Floor

Collar:

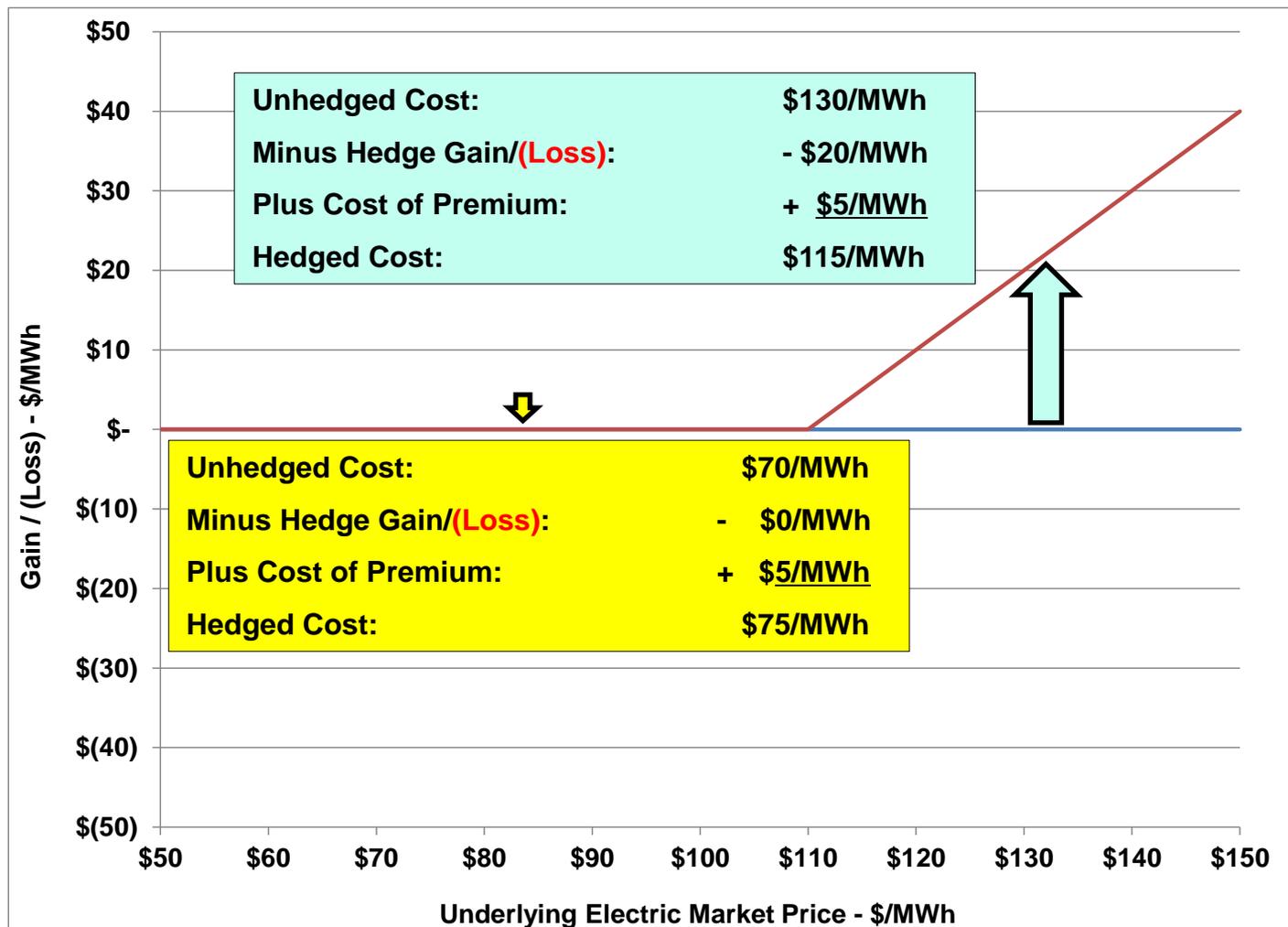
- Has a price ceiling and price floor
- Acts like a swap with a deadband
- Is used to control hedging costs



Example: Purchase of \$110/MWh Call Option with \$5/MWh Premium

Option:

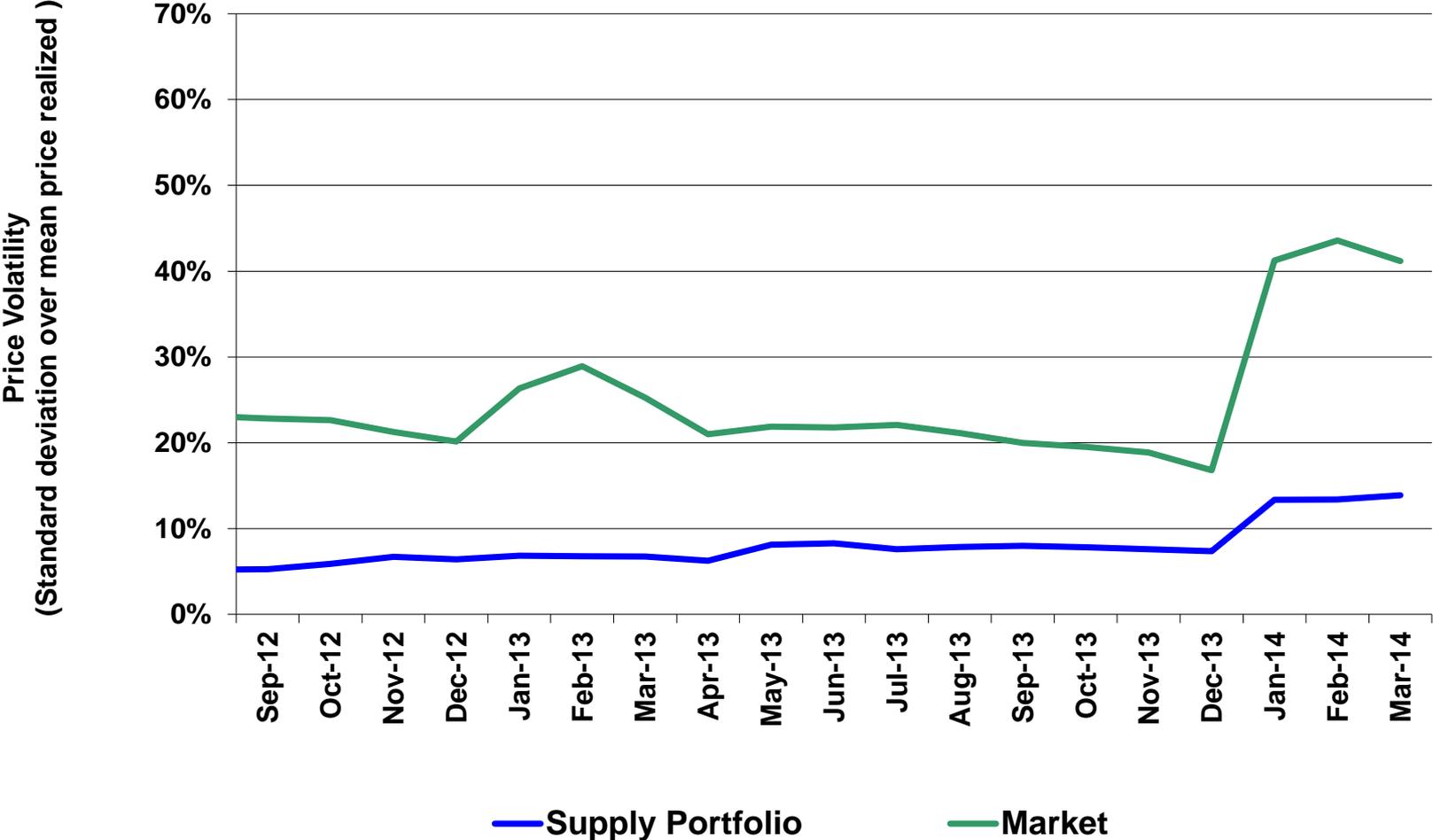
- Is used to cap price risk
- Requires up front premium payment



Hedging Overview

- Multi-year hedge plans
 - Updated annually with latest forecasts, assumptions and analysis
 - With the goal to mitigate price volatility while considering costs
 - Reviewed at least once a year with the PSC Staff
- Hedge electricity, transmission congestion and natural gas
- Transaction types
 - Physical/Financial
 - Exchange/Over-the-counter/NYISO

Hedging Price Volatility



Hedging Performance

- Portfolio achieved desired results
- Customer bill impact of high energy prices this winter was mitigated by hedging gains
 - During 1st Quarter 2014, \$125 million in hedging gains reduced energy costs to customers by more than 20%

Electric Supply Cost Recovery Mechanisms Principles

- Reflect market prices
- Pass through actual supply costs to customers without markup (Con Edison makes no profit on supplying electricity commodity to customers)

Electric Supply Cost Recovery Mechanisms

Rate Components

- Electric supply cost recovery mechanisms flow through the actual cost of supply to the full service customers that consume the electricity procured
- Rate components:
 - Market Supply Charge (“MSC”)
 - Adjustment Factor - MSC I
 - Adjustment Factor - MSC II

Electric Supply Cost Recovery Mechanisms

Market Supply Charge (MSC)

- Based on NYISO market prices in the Con Edison service territory
- Cost components:
 - Cost of energy – NYISO hourly day-ahead market prices for each zone in the Con Edison service territory, load (volume) weighted for the customer's billing cycle
 - Cost of capacity – based on NYISO market prices for capacity as set for each capability period (summer and winter)
 - NYISO ancillary services (e.g., voltage support, operating reserve)
 - NYPA Transmission Adjustment Charge
- Cost components are adjusted for system losses

Electric Supply Cost Recovery Mechanisms

Adjustment Factor – MSC I

- Recovers/refunds difference between MSC revenues and MSC costs
- Assessed in month following the month in which costs are incurred
- Determined separately for:
 - New York City and Westchester
 - Residential and non-residential customers

Electric Supply Cost Recovery Mechanisms Adjustment Factor – MSC II

- Recovers/refunds hedging costs/benefits
 - Above/below market cost of purchased power contracts
 - Costs/benefits associated with financial hedging instruments
 - TCC costs/revenues associated with full service customers
- Recovers/refunds NYISO commodity-related rebills
- Components:
 - Forward market estimate
 - Reconciliation of preceding month's estimated vs actual hedging costs/benefits
- Determined separately for hourly priced customers and all other customers

Electric Supply Cost Recovery Mechanisms

Observations

- Supply prices to our customers:
 - Follow market trend closely
 - Significantly less volatile than the market during periods of high market volatility like this past winter
- Potential improvement:
 - Consider one-month lag in application of differences between estimated and actual hedging costs/benefits on customers' bills

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