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March 3, 2005

Hon. Jaclyn Brillling
Secretary
New York State Public
Service Commission
Three Empire State Plaza
Albany, NY 12223

**Re: Case 05-M-0090 -
In the Matter of the System Benefits Charge III**

Dear Secretary Brillling:

Enclosed for filing are an original and 15 copies of the Comments of Consolidated Edison Company of New York, Inc.

If you have any questions, please contact me.

Very truly yours,

MK/md
Enclosures

C: Active Parties

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

Case 05-M-0090 - In the Matter of the System Benefits Charge III

**COMMENTS OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.**

In its Notice Soliciting Comments (“Notice”), issued January 28, 2005, the New York State Public Service Commission (“Commission”) requested responses to fourteen questions addressing issues related to the System Benefits Charge (“SBC”). In addition to collecting from customers the SBC funding required under the various Commission orders,¹ Consolidated Edison Company of New York, Inc. (“Con Edison” or the “Company”) has been involved in various SBC programs administered by the New York State Energy Research and Development Authority (“NYSERDA”) and the various processes used by NYSERDA in administering those programs. The Notice provides the Company with another opportunity to contribute its experience and views on this matter.

At the outset, it should be noted that, pursuant to the Joint Proposal pending before the Commission in Case 04-E-0572, many of the issues raised in the questions posed in the Notice are to be addressed in a collaborative process, which will have the responsibility for the development of an Action Plan for Con Edison. The Action Plan is to identify measures that would stimulate participation in, and increase the effectiveness

¹ Case 94-E-0952, et al, In the Matter of Competitive Opportunities Regarding Electric Service, Opinion 98-3, Opinion and Order Concerning System Benefit Charge Issues, issued January 20, 1998; Order Approving System Benefits Charge Plan With Modifications and Denying Petitions for Rehearing, issued July 2, 1998; Order Continuing and Expanding the System Benefits Charge for Public Benefit Programs, issued January 26, 2001; and Order Addressing Petitions for Clarification and/or Rehearing and Adjusting SBC Budgets, issued July 3, 2001.

of, demand management programs offered by NYSERDA and others, particularly any programs that would be funded if, and when, the SBC is extended beyond June 30, 2006.

Further, as more particularly discussed in the Company's answer in response to question 14, the Company believes that the SBC funding should be used for programs that encourage customers in the Company's service territory to switch to or remain on the steam system, instead of using either electric or gas. Greater use of the steam system will mitigate cost increases to customers for electric and gas services in Con Edison's service territory because the use of steam for heating and cooling helps to reduce to peak demands during winter for gas and summer for electricity.

So as not to interfere with the planned collaborative process or prejudice any issue that is expected to be addressed in that collaborative process, some of the questions posed in the Notice will not be answered but, instead, deferred for further consideration in that process.

1. To what extent have the goals and objectives established by the Commission been achieved?

Comment:

This question was addressed in Sections 1.2 and 1.3 of the Executive Summary of the New York Energy Smart Program Evaluation and Status Report – Report to the System Benefits Charge Advisory Group (May 2004) as submitted to the Commission by NYSERDA.

2. Should the SBC program continue beyond its current expiration date of June 30, 2006? If so, for what duration should the SBC be extended and at what funding level?

Comment:

As it agreed in the Joint Proposal pending Commission approval in Case 04-E-0572, Con Edison supports an extension of the SBC program in its service territory through March 31, 2008 at the current funding level.

3. Have conditions changed since the establishment of the SBC that would necessitate a change in the overall goals and objectives of the SBC? If so, what changes are recommended?

Comment:

Changing conditions include the extent to which the electric wholesale market has become more competitive, the extent to which there are adequate price incentives in the market to encourage the development of new generation and adoption of load management strategies, and the Commission's adoption of a Renewable Portfolio Standard ("RPS"), discussed below.

4. If assuming continuation of the SBC, how should programs be prioritized to meet those goals and objectives?

Comment:

These are all issues that are expected to be addressed in the afore-mentioned Action Plan for Con Edison.

5. How might the SBC programs be adjusted given the Commission's order, issued September 24, 2004, regarding a Renewable Portfolio Standard (Case No. 03-E-0188)?

Comment:

As stated by the Commission in the referenced order (pp. 12-13), steps may be required to ensure the SBC and RPS programs are not duplicating efforts, including diverting any SBC resources currently targeted for renewable initiatives to support efficiency efforts.

6. In what ways might the current SBC fund collection and allocation process be improved?

Comment:

See response to Question 4. We would note, however, that further efforts are necessary to determine whether geographical equity has been fully attained for downstate utilities so that ratepayer funds benefit the ratepayers that provide them to the extent possible. Another potential area for further investigation is whether any changes in the allocation process are necessary to achieve equity between classes of customers.

7. What specific program(s) should be eliminated, expanded or created?

Comment:

See response to Question 4.

8. How can future SBC funded programs be more responsive to the needs of New York's energy consumers?

Comment:

See response to Question 4.

9. How can SBC funded programs be marketed more effectively?

Comment:

See response to Question 4.

10. In what ways can NYSERDA improve its administration of the SBC?

Comment:

See response to Question 4.

11. Is the current NYSERDA program evaluation process adequate? How might it be improved?

Comment:

See response to Question 4.

12. Should SBC funds be extended to programs that encompass research and development into retail and/or wholesale electric market competitiveness issues, or transmission and/or distribution of the State's energy resources?

Comment:

No. In the past, utilities have engaged, and continue to engage, in research and development ("R&D") in support of their core, non-competitive transmission and distribution functions. Accordingly, the SBC program was not deemed to be needed to ensure funding for such research.² In the event the Commission concludes that SBC should also be used for R&D activities related to electric delivery services, such funds should be used to the extent possible to build on and complement work that is in planning or underway by New York utilities in order to achieve the maximum benefit for ratepayers. An example would be the use of SBC funds to advance the timetable of a major T&D technology demonstration project under utility direction. The expertise of the utilities, with intimate working knowledge of their systems and understanding of their needs stemming from day to day operations, places them in the best position to understand the challenges and identify their R&D needs. In addition, utilities taking the lead throughout all stages of an R&D project, from conceptual design through physical demonstration, should also have a more significant role in the overall governance of any T&D research program. Finally, attention should be separately focused on the unique needs of the downstate region of New York (New York City and environs) to a greater extent than other areas in the state. Due to the nature of the downstate area, e.g., its high load density, heavy infrastructure density and the inescapable demand for continuation of

² See, Case 94-E-0952, In the Matter of Competitive Opportunities Regarding Electric Service, Opinion and Order Concerning System Benefits Charge Issues, Opinion No. 98-3, issued January 30, 1998, pp. 3-4; and Order Continuing and Expanding the System Benefits Charge for Public Benefit Programs, January 26, 2001, p. 19.

the current high level of service reliability, the downstate region needs to be at the forefront of cutting edge power delivery improvements.

13. Should the scope of the SBC program be expanded to include programs for natural gas customers? If so:

Comment:

A separate gas SBC is neither justified nor desirable. Gas service is, to a greater extent than electric service, optional; i.e., customers have the choice of substituting electricity or fuel oil for gas. Therefore, any additional charges to gas customers due to a gas SBC to address gas service “public policy initiatives” would harm the competitiveness of gas as a fuel choice. Significantly, some electric SBC funding is already being used for narrowly focused gas programs.³

- a. What kinds of programs would benefit New York’s gas consumers?

Comment:

Electric and steam programs that would reduce gas capital expenditure needs, such as programs that encourage greater use of the steam system for heating, would benefit gas consumers. Gas efficiency programs may also benefit New York’s gas consumers, but, so far, these programs have proven to be cost-prohibitive. In the event that the Commission decides to pursue gas programs with SBC funding, these should be first addressed in specific gas company rate agreements, supplemented and managed by NYSERDA as appropriate.

³ Electric SBC funds should not be used for gas service “public policy initiatives.” Indeed, the Commission has allowed NYSERDA to provide “funding of additional non-electric measures where cost-effective, considering all fuels ... we shall give NYSERDA the authority to include non-electric measures in order to provide more comprehensive and attractive financing packages to customers and to promote fuel switching where doing so can reduce electricity use and lower peak demand.” Case 04-E-0952, In the Matter of Competitive Opportunities Regarding Electric Service, Order Continuing and Expanding the System Benefits Charge for Public Benefit Programs, January 26, 2001, (pp. 8-9).

- b. Which classes of customers would be served most effectively by a natural gas SBC program?

Comment:

Programs that assist customers in using gas efficiently would best serve larger residential and commercial gas customers. Minimum bill, or “cooking-only,” customers, which make up 75% of the Company’s customer base, would not benefit.

- c. How should a natural gas SBC program be funded and what annual level of funding might be considered reasonable? How might a natural gas SBC affect current electric SBC funding levels?

Comment:

As indicated above, adding a gas SBC on top of the electric SBC is not necessary and would result in significantly greater costs to customers.

- d. What should be the initial duration of a natural gas SBC, and should that term coincide with the extension of an electric SBC, if the electric SBC is extended?

Comment:

See responses to Questions 13(a) and 13(c).

- e. How might a natural gas SBC be administered and evaluated and how should it differ from the administration of the electric SBC?

Comments:

See response to Question 13(c).

- 14. Do you have any other suggestions for improving the overall SBC program that are not addressed by the above questions?

Comment:

Yes. Con Edison currently supplants approximately 400 MW of electric demand because some of its customers operate steam air conditioning equipment with Con Edison-provided steam. Steam air conditioning was a valuable part of the Con Edison demand-side management (“DSM”) programs implemented during the 1990s –

approximately one-fourth of the reductions in Con Edison's electric peak load were achieved through steam air conditioning installations. Since then, its use as an effective DSM measure has decreased. Accordingly, NYSERDA should take steps to increase the use of steam air conditioning to reduce electric load. As noted above, greater use of the steam system for heating will also mitigate cost increases to gas customers.

Dated: March 4, 2005
New York, New York

Respectfully submitted,

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