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October 17, 2005

Hon. Jaclyn Brilling,
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 Brilling:

On August 30, 2005, Staff of the New York State Department of Public Service ("Staff") issued its *Staff Proposal for the Extension of the System Benefits Charge ("SBC") and the SBC-funded Public Benefits Programs* ("SBC III Report"). On August 31, 2005, the New York State Public Service Commission ("Commission") issued a Notice Requesting Comments on the SBC III Report. Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") has reviewed the SBC III Report and provides the following comments on four areas of the report: the allocation of SBC costs among utilities, funding for steam chiller programs, the use of funding for programs other than those that are demand-reduction related, and funding for Transmission and Distribution Research and Development ("T&D R&D").

On an overall note, consistent with the electric rate plan approved by the Commission in Case 04-E-0572[1], which covers the period April 1, 2005 through March 31, 2008, Con Edison supports an extension of the SBC program at the existing funding level. In addition, the Company also notes that electric rate plan contains a commitment by the New York State Energy Research and Development Authority ("NYSERDA") to achieve through SBC III programs 300 MW of demand reduction in the Con Edison service territory by March 31, 2008, the expiration date of the rate plan (in addition to the Con Edison area only programs that are described in more detail herein).[2] The Commission should recognize this commitment in its consideration of the SBC III Report.

SBC Funding Allocation

The SBC III Report suggests that the funding levels for SBC would remain constant, but proposes that the allocation formula be updated based on 2004 utility electric operating revenues. Updating the allocations based upon this formula would result in an additional 3.46 percent of SBC costs being charged to Con Edison customers. The Commission should decline to implement this unjustified reallocation of SBC cost burdens. Instead, the Company recommends that the Commission adopt the allocation proposal advanced by Staff in 2000, i.e., that SBC costs should be allocated among the State's utilities based upon kilowatt hours consumed.

In 2001, the Commission rejected the Staff proposal to base the SBC allocation on energy consumed because "a large focus of the SBC program will be on load reduction

[1] Case 04-E-0572, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service*, Order Adopting Three-Year Rate Plan, March 24, 2005, Appendix, p. 70.
[2] Id., p. 62.

and capacity-building efforts, [therefore] the allocation of the responsibility to collect SBC funds should roughly correspond to benefits customers are likely to receive from such programs, which are generally proportional to utility costs paid by customers."[3] As a result, a greater share of SBC costs was allocated to customers in Con Edison's service territory.

However, based on changed conditions, the Commission's rationale for opposing allocation based on the kWh consumed is no longer appropriate and, in fact, justifies rejection of a revenue-based allocation for SBC III funding responsibility. Pursuant to its Commission-approved electric rate plan, the Company is in the process of implementing, in conjunction with NYSERDA, a large-scale demand response program intended to reduce the peak electric demand throughout its service territory by 375 MW by the end of the rate plan (i.e., March 31, 2008), in addition to the 300 MW expected to be achieved through SBC III programs. The projected cost for the additional 375 MW of demand reductions, which will be borne solely by Con Edison customers, is more than $225 million over the three-year term of the rate plan. There is, therefore, no justification for further burdening Con Edison's customers with additional SBC-related demand-reduction costs.

Moreover, NYSERDA's reports on SBC II demonstrate that investments and benefits from the NYSERDA activities in Con Edison's service territory have not been proportional to the funds collected from Con Edison customers. According to NYSERDA's most recent evaluation report, although Con Edison's customers have contributed 50.51 percent of SBC program funds, only 45.21 percent of SBC funds have

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[3] Case 94-E-0952 – Order Continuing and Expanding the System Benefits Charge for Public Benefit Programs, Jan. 26, 2001, p. 24.

been committed to Con Edison's service territory.[4] In addition, only 40 percent of SBC incentives (which is an indicator of customer projects) have been committed to Con Edison's service territory. In short, while Con Edison's service territory has been contributing approximately 50 percent of SBC revenues, substantially less than 50 percent of those funds were actually in direct support of peak demand reductions in Con Edison's service territory.

Accordingly, the Company strongly objects to Staff's reallocation proposal and recommends that it should not be adopted. The Commission should employ the allocation method that was initially proposed by Staff in 2000, based upon kWhs consumed or, at the very least, retain the current allocation percentages.

Steam Chiller Programs

In its comments filed on March 4, 2005 in response to the Commission's request for comments, the Company suggested that NYSERDA should take further steps to increase the use of steam air conditioning to reduce electric load. The SBC III Report did not address this suggestion, and Con Edison continues to believe that the encouragement of steam air conditioning is necessary to achieve demand reduction goals for its electric system. Newly installed steam air conditioning will reduce peak electric and gas loads and contribute to achieving this important goal of the SBC program.

The Company accordingly requests that the Commission clarify that incentives for steam chillers should be increased to an appropriate level, as recommended in the Steam Business Development Plan ("SBD Plan") recently filed with the Commission by

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[4] New York Energy SMART Program Evaluation And Status Report, Final Report Volume 1, Executive Summary, May 2005, pp. 3-9 (hereinafter "Status Report").

the Steam Business Development Task Force established by Con Edison's current steam rate plan adopted in Case 03-S-1672.[5] As concluded in the SBD Plan (p. 17):

> NYSERDA electric demand reduction programs are not sufficient to overcome completely the steam chiller cost disadvantage for either new or replacement chillers.
>
> NYSERDA's steam-to-steam chiller replacement incentive levels are not directly tied to the value of electricity peak reduction, and budget totals are relatively modest.
>
> NYSERDA's New Construction Program has limits of $400,000-500,000 per building, which are not enough to sway design decisions for large projects in New York City.
>
> The new Demand Side Management (DSM) funding that emerged from the last electric rate case order is an opportunity to develop effective incentives for steam chillers.

The SBD Plan also acknowledged (pp. 14-15) the importance of the steam system to the New York City metropolitan area and the need to take steps to increase the viability of the system.

<u>Use of Funds</u>

The SBC III Report includes suggestions for SBC funding for programs other than those suggested by Staff in prior SBC phases. These programs include funding for renewable resources and funding for T&D R&D.[6] The Company urges the Commission to order NYSERDA to avoid the expenditure of funds for purposes other than obtaining peak demand reductions in the Company's service territory. As noted above, Con Edison's electric rate plan provides for use of SBC III funding towards achieving a 300 MW peak demand reduction in the Company's service territory by March 31, 2008. Allocating SBC III funds to renewable resources and T&D R&D will divert funding from

[5] Cases 03-G-1671,03-S-1672, <u>Order Adopting the Terms of a Joint Proposal</u> (Sept. 27, 2004).
[6] Staff's T&D R&D proposal is also addressed in the next section of these comments.

the peak load reduction programs that are to be conducted to benefit Con Edison's customers pursuant to the rate plan, which is based on a Joint Proposal to which Staff and NYSERDA were signatories.

T&D R&D

The SBC III Report confirms that the Commission had previously considered T&D R&D to be a utility function and points to Con Edison's research activities as evidence that utilities can and do undertake such research. However, in an attempt to have the Commission reverse its prior ruling, Staff urges the Commission to allow NYSERDA to use "a limited amount of SBC funds"[7] to promote research related to the utilities' T&D systems. In particular, the SBC III Report proposes (pp. 17-18) that the R&D efforts should focus on increasing the efficiency of electric power delivery, especially with respect to reducing power delivery loss. Staff claims that this funding will assist in the transmission of electricity from renewable resources and distributed generation ("DG").

The Company believes that T&D R&D should continue to be conducted by utilities and that these programs should not be funded through the SBC. Con Edison is responsible for transmitting and delivering the electricity from the generator to the customer and, as noted by Staff, the Company has demonstrated its commitment to improving the efficiency of its T&D systems. Small, isolated research projects supported by NYSERDA are unlikely to contribute to the kinds of efficiencies sought by Staff, which should focus on the system as a whole.

Moreover, Con Edison is considered a leader in the T&D R&D area, as is exemplified by the Company's establishment of its Cable and Splice Center for

[7] The Company is unsure as to what is meant by "a limited amount of SBC funds."

Excellence in 2003 (“Cable Center”) and the associated EPRI Cable Test Network (“ECTN”). The Cable Center’s goal is to improve the safety, reliability and performance of electric distribution systems by expanding the industry’s knowledge. The SBC III Report recognizes that this has been a highly successful project and several utilities, notably Detroit Edison, Exelon, Pacific Gas & Electric, Public Service Electric and Gas and TXU, have joined the ECTN to help achieve R&D results that will benefit many in the industry. Accordingly, if the Commission determines to allocate SBC funding to T&D R&D programs, then such funding should be used to either expand existing utility T&D R&D efforts, like the Cable Center and ECTN, or add new programs at these already tested R&D locations.

<u>Conclusion</u>

For all the reasons discussed herein, Con Edison believes that the Commission should adopt an SBC III program modified in accordance with the Company’s comments.

Very truly yours,

/s/ Mary Krayeske

Mary Krayeske

MK/md
Enclosures

C: Active Parties

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