

Electric Service Reliability Performance Mechanism

Overview

The proposed Reliability Performance Mechanism includes eight performance metrics intended to ensure the Company provides reliable service. Six of these metrics are part of the existing Reliability Performance Mechanism. The other two metrics are new and cover restoration and the Remote Monitoring System.

In most instances where the Company fails to meet any of the general or detailed reliability criteria, and where one or more exclusions do not apply, it would be subject to a downward adjustment to revenues that would be deferred for the benefit of the ratepayers. In comparison with the existing Reliability Performance Mechanism, more revenue would be at risk and the number of metrics would be increased. The proposed effective date for the Reliability Performance Mechanism is January 1, 2008 and is applied on a calendar-year basis.

Addendum/Amendment to Mechanism

| | | Existing (millions) | Proposed (millions) |
|----------------------------|--|--------------------------------|--------------------------------|
| Threshold Standards | | | |
| | CAIDI (network) | \$4.0 | \$5.0 |
| | CAIDI (radial) | \$4.0 | \$5.0 |
| | SAIFI (network) | \$5.0 | \$5.0 |
| | SAIFI (radial) | \$5.0 | \$5.0 |
| Major Outages | | | |
| | Network | \$10.0/event | \$10.0/event |
| | Radial | \$10.0/event | \$10.0/event |
| | Maximum Exposure | \$30.0 | \$30.0 |
| Restoration | | | |
| | Network | \$0.0 | \$5.0/event |
| | Radial | \$0.0 | \$5.0/event |
| Program Standards | | | |
| | Pole Repair | \$3.0 | \$3.0 |
| | Shunt Removal | | |
| | Winter | \$1.5 | \$1.5 |
| | Summer | \$1.5 | \$1.5 |
| | No Current Street Lights and Traffic Signals | | |
| | Winter | \$1.0 | \$1.5 |
| | Summer | \$1.0 | \$1.5 |
| | Over-Duty Circuit Breakers | \$3.0 | \$3.0 |
| | Remote Monitoring System Reporting | | |
| | Network | \$0.0 | \$10.0/network |

Operation of Mechanism

This electric service Reliability Performance Mechanism ("reliability mechanism") will go into effect for Con Edison on January 1, 2008 and will remain in effect until electric base delivery rates are reset by the Commission. The measurement periods for the reliability mechanism metrics are stated in the description of each metric below.

This reliability mechanism establishes eight performance metrics:

- (a) threshold standards, consisting of system-wide performance targets;
- (b) a major outage metric;
- (c) a restoration performance metric;
- (d) a program standard for repairs to damaged poles;
- (e) a program standard for the removal of temporary shunts;
- (f) a program standard for the repair of "no current" street lights, and traffic signals;
- (g) a program standard for the replacement of over duty circuit breakers; and
- (h) a program standard for the reporting rate of the Remote Monitoring System.

All revenue adjustments related to this reliability mechanism will come from shareholder funds and will be deferred for the benefit of ratepayers.

Exclusions

The following exclusions will be applicable to operating performance under this reliability mechanism.

- (a) Any outages resulting from a major storm, as defined in 16 NYCRR Part 97 (for at least 10% of the customers interrupted within an operating area or customers out of service for at least 24 hours), except as otherwise noted; this includes secondary network interruptions that occur in an operating area during winter snow/ice events that meet the 16 NYCRR Part 97 definition (10%/24 hour rule).
- (b) Heat-related outages are not a major storm. However, the Company may petition the Commission for an exemption for an outage if the Company can prove that such outage, whether heat-related or not, was beyond the Company's control, taking into account all facts and circumstances.
- (c) Any incident resulting from a strike or a catastrophic event beyond the control of the Company, including but not limited to plane crash, water main break, or natural disasters (e.g., hurricanes, floods, earthquakes).
- (d) Any incident where problems beyond the Company's control involving generation or the bulk transmission system is the key factor in the outage, including, but not limited to, NYISO mandated load shedding. This criterion is not intended to exclude incidents that occur as a

result of unsatisfactory performance by the Company.

Reporting

The Company will prepare an annual report(s) on its performance under this reliability mechanism. The annual report(s) will be filed by March 31st of each Rate Year with the Director of the Office of Electric, Gas, and Water. Copies of the annual report(s) will be simultaneously provided to the New York City Department of Transportation ("NYCDOT") Deputy Commissioner of Traffic Operations, the NYCDOT Director of Street Lighting, the Westchester County First Deputy Commissioner of Public Works, and the President of the Utility Workers Union of America, Local 1-2.

The reports will state the:

- (a) company's annual system-wide performance under the Threshold Standards and identify whether a revenue adjustment is applicable and, if so, the amount of the revenue adjustment;
- (b) company's performance under the Major Outage metric and identify whether a revenue adjustment is applicable and, if so, the amount of the revenue adjustment;
- (c) company's performance under the Restoration Performance metric and identify whether a revenue adjustment is applicable and, if so, the amount of the revenue adjustment;

- (d) company's performance under the Program Standards applicable during the period and identify whether a revenue adjustment is applicable and, if so, the amount of the revenue adjustment; and
- (e) basis and provide adequate support for all exclusions.

Within 45 days of any event that meets the Major Outage criteria, the Company will file an interim report on the event, containing, among other things, information pertinent to determining whether a revenue adjustment for the event is applicable. Any requests for exclusion must be made in the interim report.

Threshold Standards

In Cases 90-E-1119, 95-E-0165, 96-E-0979, and 02-E-1240, the Commission adopted standards establishing minimum performance for frequency and duration of service interruption for network and radial systems. Under these standards, the frequency of service interruptions is measured by the System Average Interruption Frequency Index ("SAIFI"), and the duration of service interruptions is measured by the Customer Average Interruption Duration Index ("CAIDI").

The System-Wide Performance Targets used for purposes of the Threshold Standards metric are as set forth below. The measurement periods for the Threshold Standards are successive 12-month periods ending December 31 of each year. During each annual measurement period, Con Edison's year-end SAIFI, or frequency, index for its entire network

system and its entire radial system will be measured against the respective SAIFI System-Wide Performance Targets. During each annual measurement period, Con Edison's year-end weighted average CAIDI, or duration, index for its entire network system and its entire radial system will be measured against the respective CAIDI System-Wide Performance Targets.

The Company's annual performance in maintaining reliability must meet or be better than the SAIFI and CAIDI System-Wide Performance Targets. A total of \$20 million is at risk for performance not meeting those targets.

(a) System-Wide Performance Target - CAIDI

A total of \$10 million per year is at risk for customer interruption duration performance, as follows:

| | Threshold Target (hours) | Revenue Adjustment (millions) |
|------------------|--------------------------------|-------------------------------------|
| Network duration | 3.74 | \$5 |
| Radial duration | 1.85 | \$5 |

(b) System-Wide Performance Target - SAIFI

A total of \$10 million per year is at risk for customer interruption frequency performance, as follows:

| | Threshold Target | Revenue Adjustment (millions) |
|-------------------|---------------------|----------------------------------|
| Network frequency | 0.015 | \$ 5 |
| Radial frequency | 0.530 | \$ 5 |

Major Outages

The Company will be subject to a revenue adjustment of \$10 million for each network shutdown event or a radial system interruption event (a "Major Outage"). Con Edison will be subject to a revenue adjustment for a Major Outage up to three times in each calendar year. Beyond three Major Outage events, the effect of the Major Outage will be included in the SAIFI and CAIDI measurements. For purposes of this metric, a network shutdown event is defined as a loss of all supply feeders to any of the secondary networks for three hours or more in duration. If the Company creates any new second contingency networks during the Electric Rate Plan, those networks will be covered by this metric. A radial system interruption event is defined as the sustained interruption of service to 70,000 customers in a load area (as defined in the Company's Distribution Manual) for three hours or more.

Any single occurrence that results in multiple network shutdowns or radial system interruption events will result in only one revenue adjustment being assessed. An example is the loss of an area substation that shuts down two or more networks or a combination of network and radial system load.

This single occurrence exception will not apply if each Major Outage that takes place during any single occurrence results from separate and distinct causes. For example, if there are two network shutdowns during a single heat wave, and each network shutdown results from failures on that particular network that were not beyond the Company's control, the single occurrence exception would

not apply and two network shutdowns will be considered to have occurred.

To avoid multiple revenue adjustments for the same operating performance problem or occurrence, interruptions and customer hours of interruption associated with Major Outage revenue adjustments will be excluded from the appropriate year-end SAIFI and CAIDI calculations, except as noted above.

Restoration

Under this metric, the Company will be held liable for restoration times for all outage events affecting their network and radial systems. Failure to meet these times will result in a \$5 million revenue adjustment per event with unlimited exposure. The restoration targets are measured from the end of the storm for overhead events or once the system has stabilized for underground events.

In the Company's emergency plan, Upgraded to Full Scale emergency events have an estimated restoration time for overhead events. This format has been used to set the restoration targets.

| Overhead Events | |
|---|----------------------------|
| Emergency Level | Restoration Targets |
| 1-Upgraded | 1 Day |
| 2-Serious | 2 Days |
| 3A-Serious | 3 Days |
| 3B-Full Scale (Tropical storm) | 4 Days |
| 3B-Full Scale (Hurricane Category 1-2) | 7 Days |
| 3B-Full Scale (Hurricane Category 3-5) | ≤ 3 weeks |

At this point the company does not provide an estimated restoration time for underground events. The company will have 30 days after the beginning of the rate year to provide:

1. an estimated restoration time for underground events to be included in its emergency plan; and
2. justification for how these estimated restoration times were derived.

If this information is not provided in the 30 days allowed, restoration targets for underground events will be set by staff without further input from Con Edison. The Company will not be subject to revenue adjustments for underground restoration performance until targets are put in place.

Program Standards

a. Pole Repair

i) Definitions

1. "Damaged Poles" are poles damaged by storm conditions, vehicle contact, or other circumstances, and that support existing equipment with temporary external bracing while not posing an immediate threat to the safety of the public or the distribution system.
2. "Double Damaged Poles" are poles damaged by storm conditions, vehicle contact, or other circumstances, and that are not capable of

supporting existing equipment. In each of these cases, a new pole is installed next to the damaged pole and is braced to the damaged pole to safely support the damaged pole until the Company transfers equipment to the new pole.

3. "Repair," for purposes of this program standard, means transferring Company facilities to a new pole, and removing or "topping" the "damaged" pole.

ii) Performance Requirements

The Company will strive to repair all "Damaged Poles" and "Double Damaged Poles" in a timely manner. For all "Damaged Poles" and "Double Damaged Poles" that are in existence as of December 31, 2007, Con Edison will make permanent repairs and is subject to the revenue adjustment as required by the prior reliability mechanism. For all "Damaged Poles" and "Double Damaged Poles" that come into existence on or after January 1, 2008, Con Edison will make repairs within 30 days from the date the Company became aware of the "Damaged Pole" or "Double Damaged Pole" for at least 90% of these new "Damaged Poles" and "Double Damaged Poles". In the event the Company does not achieve the 90% within 30 days threshold for "Damaged Poles" and "Double Damaged Poles" that come into existence during of the 2008 calendar year, it will incur a revenue adjustment of \$3 million for such year.

Con Edison will make repairs to all "Damaged Poles" and "Double Damaged Poles" that come into existence on or

after January 1, 2008 within six months of the dates the poles are damaged.

iii) Storm Exclusion

In an effort to permit the Company to utilize labor resources most effectively and facilitate the restoration of customers, the Company may utilize up to 60 days to make repairs on 90% of poles that become "Damaged Poles" and "Double Damaged Poles" during qualifying major storm events as defined in 16 NYCRR Part 97. Where the Company does not immediately make repairs on its poles, the Company shall ensure that each "Damaged Pole" and "Double Damaged Pole" is safe for public and vehicle access.

iv) Extraordinary Circumstances Exception

Where the Company can demonstrate that extraordinary circumstances prevent a repair within the 30-day, 60-day, or six month time frames, as appropriate, that non-repair will not be considered in measuring the Company's compliance with these requirements. The determination of whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented.

v) Reporting

The Company's annual report will: (i) report on "Damaged Poles" and "Double Damaged Poles" that come into existence from January 1 through December 31 of the prior year; (ii) provide the status of "Damaged Poles" and "Double Damaged Poles" that existed before January 1 of the prior year; (iii) identify the "Damaged Poles" and "Double

Damaged Poles" that were not repaired; and (iv) describe the extraordinary circumstances, if any, that prevented the repairs from being made. For (i) and (ii), the report(s) will include, at a minimum, a listing of the damaged pole locations, the date the Company became aware of the problem at that location, and the date of the repair.

b. Shunt Removal

It is not the purpose of this metric to require Con Edison to eliminate the use of temporary shunts; to the contrary, temporary shunts may be needed to restore electric service pending permanent repairs. In cases where temporary shunts are used, the Company will strive to remove them and make permanent repairs in a timely manner. It is Con Edison's responsibility to identify all shunts installed by the Company.

i) Definitions

1. "Temporary Shunts" are cables installed by the Company to temporarily maintain service continuity to a customer pending the permanent repair of a Company facility.
2. "Publicly Accessible Shunts" include street/sidewalk shunts and overhead to underground service shunts, including shunts to street lights, installed by the Company. Shunts installed within individual customer facilities, typically behind the customer's meter (called a "meter pan bridge") or inside the customer's end line box (called a "service

bridge"), that are not accessible to the general public are not covered by this metric.

3. "Permanent Repair" means that the condition necessitating the shunt has been fully remediated and service has been restored by the Company to the customer's facility before the shunt is removed.

ii) Performance Requirements

The Company will not remove any shunt that will have the effect of leaving a streetlight or traffic signal without power, except for exigent safety reasons,¹ until the condition giving rise to the need for the shunt has been completely repaired. Further, it is Con Edison's responsibility to repair the conditions on its system that required the use of the temporary shunts. For all shunts that are in existence as of December 31, 2007, Con Edison will make permanent repairs as required by the prior reliability mechanism. For all shunts that come into existence on or after January 1, 2008, Con Edison will make permanent repairs for at least 90% of these new cases within 90 days during the winter months, which are defined for purposes of this metric as January, February, March, April, November, and December, and at least 90% of these cases within 60 days during the remaining six months, May through October. Failure to reach the 90% threshold will result in the follow revenue adjustments:

¹ In such situations, and as appropriate, the Company either will replace its temporary shunt or effect the permanent repair.

For Calendar Years 2007 and 2008

Winter Months \$1,500,000

May - October \$1,500,000

Con Edison will make permanent repairs in all cases in which temporary shunts are installed on or after January 1, 2008 within six months of the dates the shunts are installed.

The 60-day, 90-day and six month periods for making permanent repairs may be tolled in the event that, and for the period corresponding to, a third party (such as the municipal customer) must perform service at the site prior to, and as a precondition to, Con Edison's completion of work. The Company will be responsible for providing notice to the third party that its work is a precondition to the Company's work and for demonstrating the applicability of the tolling period.

iii) Extraordinary Circumstances Exception

Where the Company can demonstrate that extraordinary circumstances prevented a shunt repair within the 60-day, 90-day, or six month time frames, as appropriate, that non-repair will not be considered in measuring the Company's compliance with the above requirements. The determination of whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented (e.g., documentation demonstrating delays of more than 30 days in receiving street-opening permits from NYCDOT).

iv) Reporting

The Company's annual report will: (i) report on shunts installed from January 1 through December 31 of the prior year; (ii) provide the status of shunts installed before January 1 of the prior year; (iii) identify the shunt locations that were not permanently repaired within the 60-day, 90-day, and six month periods described above; and (iv) describe the extraordinary circumstances, if any, that prevented the permanent repair of the shunts. For (i) and (ii), the report(s) will include, at a minimum, a listing of the shunt locations, the date the Company became aware of the problem at each such location, the date the shunt was installed, the date of the permanent repair, and the date the shunt was removed.

c. No Current Street Lights and Traffic Signals

i) Definitions

1. A "no current" is a location where Con Edison's electric service supplying power to municipal street lights or traffic signals is not working due to a failure of Con Edison's service to the customer facility point, and the date that a "no current" comes into existence is the date of the "stop tag" notifying Con Edison of the "no current" condition.
2. "Permanent repair" means that service has been permanently restored by the Company to the customer's facility point.

ii) Performance Requirements

The Company will strive to make permanent repairs to all no currents (including both street lights and traffic signals) in a timely manner.

For all no currents that are in existence as of December 31, 2007, Con Edison will make permanent repairs as required by the prior reliability mechanism. An exception will be made in situations in which the Company can demonstrate that it could not complete its repair due to work required to be undertaken by third parties. For all no currents that come into existence on or after January 1, 2008, Con Edison will make permanent repairs for at least 90% of these new cases within 90 days during the winter months, which are defined for purposes of this metric as January, February, March, April, November, and December, and at least 80% of these new cases within 45 days during the remaining six months, May through October. The Company's maximum exposure each year under this metric will be \$3 million, as follows:

For Calendar Year 2007

Winter Months \$1,000,000

May - October \$1,000,000

For- Calendar Year 2008

Winter Months \$1,500,000

May - October \$1,500,000

The Company will make permanent repairs to all no currents that come into existence on or after January 1, 2008 within six months of the dates they come into existence.

The 45-day, 90-day, and six month periods for making permanent repairs may be tolled in the event that, and for the period corresponding to, a third party (such as the municipal customer) must perform service at the site prior to, and as a precondition to, Con Edison's completion of work. The Company will be responsible for providing notice to the third party that its work is a precondition to the Company's work and for demonstrating the applicability of the tolling period.

iii) Extraordinary Circumstances Exception

Where the Company can demonstrate that extraordinary circumstances prevented a "no current" from being permanently repaired within the 45-day, 90-day, or six month time frames, as appropriate, that non-repair will not be considered in measuring the Company's compliance with the above requirements. The determination of whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented (e.g., documentation demonstrating delays of more than 30 days in receiving street opening permits from NYCDOT).

iv) Reporting

The Company's annual report will: (i) report on "no currents" that came into existence from January 1 through December 31 of the prior year; (ii) provide the status of "no currents" that existed before January 1 of the prior year; (iii) identify the "no current" locations that were not repaired within the 45-day, 90-day, and six month periods; and (iv) describe the extraordinary circumstances,

if any, that prevented the permanent repair of the "no currents." For (i) and (ii), the report(s) will include, at a minimum, a listing of the "no current" locations, the date the Company became aware of the problem at each location, and the date of the permanent repair at each location.

d. Over-Duty Circuit Breakers

Many of the Company's substations' circuit breakers are at or over their fault current capacity. This situation has precluded the parallel operation of specific types of DG in certain areas of the system, and more specifically, has restricted the installation of primary grid-parallel synchronous on-site generators in areas served by these substations since these types of generators produce additional fault current, thus further straining the substations' circuit breakers. Elimination of over-duty circuit breakers and taking other reasonable steps necessary to enable the installation of synchronous generators is a priority because of the significant interest in the use of DG to address a variety of concerns.

i) Performance Requirements

For 13 kV and 27 kV over-duty circuit breakers, except upon the occurrence of extraordinary system conditions, the Company will replace a target of at least 60 over-duty circuit breakers during the rate year (the "target level").

There will be revenue adjustment applicable for the rate year. Failure by the Company to achieve the target levels for over-duty circuit breaker replacements will result in a revenue adjustment of \$3 million.

ii) Selection and Prioritization of Replacements

The Company will, to the extent practicable, seek to include over-duty circuit breaker replacements in situations where maximum fault currents are between 100 and 103% of the breaker rating. The Company will continue to have at least one meeting of all interested DG parties annually to review implementation of the effort and to address prioritization of where to replace over-duty circuit breakers. This annual meeting should be done in conjunction with efforts to improve communication with the DG community.

The prioritization process will consider such factors as circuit breaker duty ratings, predicted load growth, status of proposed/pending DG, combined heat and power, other similar projects, areas with critical human needs loads, and other reasonable criteria that the parties may identify.

iii) Extraordinary Circumstances Exception

Where the Company can demonstrate that extraordinary circumstances prevented it from achieving the target levels for the rate year, those circumstances will be factored in measuring the Company's compliance with the above requirements. The determination of whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented.

iv) Reporting

The Company's annual report will: (i) report on the number of over-duty breakers in existence from January 1 through December 31 of the prior year; (ii) provide the status the Company's efforts on replacing the over-duty breakers; (iii) identify all over-duty breakers that were replaced over the course of the prior year; and (iv) describe the extraordinary circumstances, if any, that prevented the Company from achieving the target level for replacements.

v) Technology Research and Development and Demonstration Projects

The Company will continue collaborative efforts and, where effective, acceleration of research activities on technologies that reduces the impact of fault current from synchronous generators. In cooperation with NYSERDA, the United States Department of Energy, and others, as appropriate, the Company should pursue research and/or demonstration projects using new fault-mitigation technologies during the Electric Rate Plan. This should be done based on approved funds under the rate case.

e. Remote Monitoring System

The Company has operated its Remote Monitoring System below a 95% reporting rate for individual network transformers in many of its networks. This performance standard is to ensure that the company is held liable.

i) Performance Requirements

For each network, except upon the occurrence of extraordinary system conditions, the Company will have 95%

of its Remote Monitoring System units reporting properly in each network by January 31, 2008. A revenue adjustment of \$5 million per network will be incurred any time the reporting rate for a network falls below 95%. Failure by the Company to achieve the target level for the Remote Monitoring System will result in a revenue adjustment of \$10 million per network with unlimited exposure.

ii) Extraordinary Circumstances Exception

Where the Company can demonstrate that extraordinary circumstances prevented it from achieving the target level, those circumstances will be factored in measuring the Company's compliance with the above requirement. The determination of whether extraordinary circumstances exist will be made on a case-by-case basis and will be based on the particular facts and circumstances presented.

iii) Reporting

The Company's annual report will: (i) report on the number of Remote Monitoring System per network in existence from January 1 through December 31 of the prior year; (ii) provide the Remote Monitoring System reporting rate for each network; (iii) provide the status the Company's efforts on repairing networks with Remote Monitoring System reporting below 95%; (iv) identify all networks that required Remote Monitoring System improvement over the course of the prior year to meet the 95% reporting rate; and (v) describe the extraordinary circumstances, if any, that prevented the Company from achieving the target level.

