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Regulatory
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Commissioners

Rate Setting in New York Case Study: Con Edison Electric Rate Proceeding

□ Company's Rate Case Filing

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New York State Public Service Commission
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Overview

- Rate petition filed May 8, 2009
- Rate request covers the RY April 1, 2010 - March 31, 2011; includes a proposal for a three-year rate plan
 - No material changes in presentation or portrayal from previous filing
 - No innovative ratemaking techniques or alternatives offered
 - Filing appears complete
- Austerity Plan to be submitted within 30 days of filing
 - \$30 million placeholder
- Items to be updated during case
 - 2005-2008 CapEx spending review
 - Mgt. Audit – Construction Planning Process
 - Prudence proceeding – employee misconduct



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Rate Year One Cost Drivers

\$ millions

Rate Base (primarily infrastructure investment)	\$170
Depreciation Expense	<u>36</u>
Carrying Cost of Infrastructure Investment	206
O & M Expense	142
Return on Equity (10.9% vs. 10%)	127
Property Taxes	127
Pension & OPEB Expense	114
Amortization of Regulatory Deferrals (additional recoveries/ fewer refunds)	80
Federal Income Tax (change in flow-through tax deductions)	21
Depreciation Rate Changes & Amortization Of Reserve Deficiency	16
Other (Sales, Unbilled Revenue, & Other Taxes)	<u>19</u>
Rate Increase Requested	<u>\$855</u>
Average Increase in Total Bill	7.4%
Average Increase in Delivery Charge	19.5%



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O & M Expense Increase

\$ millions

Austerity Imputation	\$31
Interference	24
Labor	22
Informational Resources	12
Informational Advertising	9
Insurance	7
All other O & M	<u>37</u>
Total O & M Expense Increase	<u>\$142</u>



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Multi-Year Presentation

- Revenue Requirements – macro approach
 - Identifiable forecasts for Sales, Pension /OPEBs, Property Taxes, Site Investigation & Remediation, & Capital Expenditures
 - O & M - Labor escalated @ 3.3%, Non-Labor O&M escalated @ 2.2%
 - ROE 11.6%; stay-out premium of 70 basis points



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Three-Year Rate proposal

\$ millions

	<u>R</u> <u>Y</u> <u>1</u>	<u>R</u> <u>Y</u> <u>2</u>	<u>R</u> <u>Y</u> <u>3</u>	<u>T</u> <u>O</u> <u>T</u> <u>A</u> <u>L</u>
Base Rate Increase	\$855			
Stay-out Premium (71 basis pts.; ROE 11.6%)	<u>90</u>			
Carrying Cost of New Infrastructure		\$162	\$137	
Book Depreciation		<u>47</u>	<u>46</u>	
Total Carrying Cost of New Infrastructure		209	183	
Property and Other Taxes		124	148	
O&M Labor and Other Escalations		62	42	
Pension & OPEBs		42	23	
Amortization of Regulatory Deferrals		26	3	
Other		<u>(1)</u>	<u>(8)</u>	
Annual Rate Increases	<u>\$945</u>	<u>\$462</u>	<u>\$391</u>	
Levelized Annual Rate Increases	<u>\$695</u>	<u>\$695</u>	<u>\$695</u>	<u>\$4,170</u>
Average Annual Increases in Total Bill				5.6%
Average Annual Increases in Delivery Charge				15.9%



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Rate Plan Conditions / Proposals

- Con Ed does not waive its rights to file for new rates, if it deems rates to be inadequate or the terms under a multi-year plan are unreasonable
- True-up's
 - RDM
 - Energy Efficiency Programs (DSM, RPS & SBC)
 - Property Taxes
 - Interest Rates
 - Pensions & OPEBs
 - SIR
 - Interference (deadband)
 - T & D expenditures (downward only; cumulative)
 - Inflation above 4%
- Update T & D expenditure forecast 60 days prior to RY2 & RY3



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Infrastructure Capital Investment

\$ millions

	2009	2010	2011	2012	2013
Transmission & Switching Stations	220	192	102	87	97
Substations & Sub-Transmission	365	307	264	363	347
Distribution	<u>969</u>	<u>894</u>	<u>882</u>	<u>899</u>	<u>890</u>
Total T&D (millions)	\$1,553	\$1,393	\$1,247	\$1,349	\$1,334
Production	\$40	\$40	\$36	\$39	\$38
Common Plant	\$203	\$221	\$194	\$171	\$156



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Issues brought back by Con Edison for reconsideration which are non-controversial; immaterial from a monetary or policy perspective; or have been previously litigated.

- Variable pay (more customer result driven)
- Other Compensation (Equity Grants)
- Informational Advertising
- Director & Officer insurance
- Wage progressions
- Energy Efficiency Programs Costs



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Schedule

- Company Filing - May 8, 2009
- Preliminary Update – July 10 (formal)
- Parties Direct Testimony - August 21
- Rebuttal/Update - September 4
- *Settlement Discussions September 7-30*
- *Hearings – October 19 – November 2*
- Initial Brief November 23
- Reply Brief December 10
- Commission Order – March 2010