

Consolidated Edison of New York Inc. and Orange and Rockland Utilities
Comments on the Draft Scope for the 2009 New York State Energy Plan

July 8, 2008

Con Edison Comments¹

Con Edison appreciates the opportunity to provide comments to the Energy Coordination Working Group (ECWG) on the proposed scope of the New York State Energy Plan being conducted pursuant to the Governor's Executive Order. New York City and its surrounding counties continue to be the economic engine of the State and region. It is critical for New York State's energy plans to rely on appropriate policies and programs that will ensure the continued reliability, efficiency and environmental awareness of all aspects of the energy infrastructure that supports the millions of New Yorkers who live and work in New York City and surrounding region. Con Edison suggests that the next State Energy Plan adopt a vision for how the energy needs of New York will be met. After establishing this vision, the plan can then work through the required analyses and identify proposed policies and recommendations that are consistent with this vision. We propose the following as the vision statement for the next State Energy Plan:

New York's State Energy Plan will adopt policies and recommendations that position New York as the national leader on energy policy by investing in

¹ These comments are provided on behalf of the Consolidated Edison Company of New York, and Orange and Rockland Utilities.

infrastructure and programs to make New York the most reliable, most energy-efficient and most environmentally-conscious energy system in the United States.

The next State Energy Plan will recognize that we are in an investment period that includes significant increases in the cost of commodities, which are resulting in increased material costs and a corresponding escalation of the cost to build any new energy infrastructure. At the same time, businesses, industry and consumers continue to use more energy, both in the aggregate as the New York economy continues to grow, but also individually as a result of the increased use of more electronic equipment, such as computers, air conditioners and large flat panel televisions. The cost of the energy commodities has also escalated as the global demand for energy has increased, especially in some developing countries, such as China and India. Consumers will experience much higher prices to heat their homes this coming winter, as the cost of oil and natural gas have neared or reached all-time high levels.

This “perfect storm” of substantial increases in energy demand, commodity costs and infrastructure needs (and costs) also comes at a time when there is international, national and region focus on the importance of addressing the level of carbon emissions which will add further pressure energy costs for consumers. However, these conditions are unlikely to change significantly in the near term, since they are the result of policies and decisions that occurred long in the past. Con Edison believes that the vision we are proposing above will provide the guidance for the next State Energy Plan to adopt sound long-term policies that will ensure that New York State and New York City will have a reliable, efficient and environmentally responsible supply and delivery of energy.

Con Edison has some specific suggestions for the consideration of the ECWG as they finalize the scope of work for the 2009 State Energy Plan. We are interested in continuing a dialogue with the ECWG as the plan itself is developed. If the working group wants additional information about the energy delivery systems in the Con Edison utility company service territories, or Con Edison's views on a particular topic, we are available to meet with the working group.

Reliability

The need for reliable energy supply and delivery systems is an important element of any energy plan, and Con Edison is aware of the importance that reliable electricity, gas and steam services are to the region we serve. In particular, our New York City customer base, with its population density, high-rise buildings and transportation systems (subways, commuter trains, tunnels and airports) demands a highly reliable electricity delivery system. The metropolitan New York economy remains strong, boosted in part by major construction projects. New York City is a vital center for finance, media, and the arts and continues to attract talented and ambitious people who find rewarding careers and make New York City their home. The city's population has grown by more than 240,000 since the start of the decade, and its housing market continues to be one of the most stable in the nation.

Despite fluctuations in the economy and increasing conservation efforts, we project our customers' peak energy demand will increase by 10 percent over the next decade. We are taking steps to make sure we will be able to meet the demand in the most reliable, efficient and environmentally responsible manner possible. Meeting the

region's evolving energy needs requires continuous improvement. We expect to spend nearly \$8 billion on our energy delivery system over the next three years to meet the area's growing energy needs.

Given their magnitude, the infrastructure investments that Con Edison and others will make in the State's energy systems will require the use of the capital markets for the funding to support these investments. New investment is the key to New York's energy future. We believe that the State Energy Plan should contain policies and objectives that will help to foster a favorable climate for investors. New York is currently viewed very unfavorably by investors and that raises the cost of borrowing money or raising capital to support the needed new investments. New York has lost its standing in the investment community and it is critical to regain that standing given the enormous capital New York needs to achieve its energy vision². Higher financing costs associated with an unfavorable investment climate may discourage private investments in important energy infrastructure, or unnecessarily raise the cost of the investment. The policy revisions needed to change that perception are important but readily achievable. New York can revise its regulatory policies that undermine investor confidence without impairing regulatory effectiveness or burdening consumers. The State Energy Plan should include policies and objectives that address the cost of capital, incentive regulation, cost recovery, tax incentives, utility vertical market power issues and an overall merger policy. The State should continue to emphasize private-sector solutions, with effective government oversight and reliance on competitive principles, as the means to achieve the state's overall energy vision.

² Lehman Brothers Global Equity Research North America "Regulated Utilities - Capital Consequences," June 3, 2008.

Energy Efficiency

New York City is already one of the most energy efficient cities in the United States, if not the world, but it wants to do more³. Con Edison has a responsibility to find ways to balance the area's rising demand for power with the need for energy conservation to protect the environment. We take this responsibility seriously, recommending products and offering programs to both residential and commercial customers to help them reduce energy usage without compromising lighting, heating or cooling preferences. Con Edison has an overall plan to achieve approximately 500 MW of incremental permanent demand reductions by 2015. These programs have been incorporated into our 10 year peak demand forecast and our load relief plan, resulting in a \$1.2 billion deferral of electric transmission and distribution capital investment in our five year capital budget. The proposed energy efficiency programs will also support state and local policy initiatives like New York State's 15 x 15 goal of a 15% reduction in forecasted energy use by 2015 and the city's PlaNYC 2030 goal of a 30% reduction in greenhouse gas emissions by 2030.

In the recent PSC Energy Efficiency Portfolio Standard (EEPS) Order, the Commission has now formally adopted the State's "15 by 15" goal and expects that utilities, along with the New York State Energy Research and Development Authority (NYSERDA), will play a significant role in achieving that goal. This utility contribution will be particularly necessary to overcome the market barriers that impede customer investment in energy efficiency, such as customers' shorter investment horizons. Providing utility shareholders with a meaningful level of incentives for administering and

³ PlaNYC, A Greener, Greater New York, Energy section, p. 100.

promoting energy efficiency programs will encourage utility management to aggressively pursue such programs and seek reasonable resolutions of the technical and legal issues that such programs raise.

As many consumers as possible should have the opportunity to benefit from proceeds from the Regional Greenhouse Gas Initiative (RGGI) auction revenues. To achieve this goal, the funds should be made available to cover utility investments in such programs. If the funding is restricted to a limited subset of those programs (e.g., only those programs offered by a single program administrator, such as NYSERDA), then the benefits will not be equally and fairly available to all EEPS participants.

Environmental

Con Edison believes that defending the natural environment is crucial to the region's quality of life. However, there is no way to deliver energy without some environmental impact. Con Edison is working hard to limit the environmental consequences of our operations by improving our energy efficiency and that of our customers. Improving Con Edison's efficiency has been a decades-long effort that we want to sustain into the future. For our customers, we offer ways to reduce energy consumption and we offer businesses incentives for curbing demand. We also communicate extensively to educate customers about making wise energy choices.

Energy efficiency and conservation programs will have immediate benefits in the form of lower air emissions in our service territories and in the region. By having direct involvement of utilities in designing and implementing these programs, customers will benefit directly from investments they make that will lower their energy usage. In

addition, the City and region benefit from lower energy emissions, and consumers will benefit from the ability of Con Edison to defer expensive investments in new energy infrastructure.

Turning to the supply of energy, New York State and New York City already benefit from prior policies to encourage the use of cleaner fossil fuels for electric generation. However, the State and City now depend on a reliable source of natural gas to meet the needs of electricity consumers. New York has excellent access to natural gas supplies from the Gulf of Mexico and Canada, but recently “basis” price differentials indicate that there is not enough natural gas transmission capacity coming into the Northeast. Making sure needed gas infrastructure is built can reduce or eliminate this basis differential. This is important since natural gas is often the marginal generation fuel in the New York’s electricity markets, meaning that the price of natural gas-fired plant sets the price of power for all generation, so reducing the price of natural gas will reduce the price of electricity.

The transition from high carbon fuels to low- and no-carbon generation will take significant time. In the meantime, the next State Energy Plan should encourage and support the continued operation of a broad range of fuel types for electric generation and encourage the development of newer technologies, like wind and solar. Windpower isn’t a viable option for New York City, but solar power may be. The State Energy Plan should evaluate whether additional incentives are warranted to promote solar power in New York City. Utilities are in a unique position to serve the residential and small commercial market for solar, because these customers may be too small to be of

interest to larger solar providers. Other states are supporting a role for utilities in deploying solar projects directly to customers⁴.

New York can also achieve environmental benefits via better coordination of the operations and planning of wholesale energy markets. The northeast independent system operators, including NYISO, PJM and ISO-NE, all have robust reliability planning processes to ensure the bulk power system will be reliable. Limited planning coordination currently takes place between those ISOs, but enhanced interregional planning – with accompanying modifications to market designs – may provide additional benefits to customers in all three regions. New York’s utilities can support greater coordination by investing in the transmission systems that can better link these separate ISOs together. This would permit the entire region to better utilize the electric generation fleet and potentially lower air emissions throughout the northeast.

Summary

Con Edison hopes that the ECWG finds these suggestions on the proposed scope of work of the 2009 State Energy Plan to be helpful as the scope of work is finalized with the State Energy Planning Board. We intend to be an active participant in this state energy planning process and we are available to meet with the ECWG to discuss specific topics of interest in meeting the vision for the next State Energy Plan.

⁴ For example the New Jersey Board of Public Utilities has shown a willingness to work with utilities on promoting solar power to residential and commercial customers in New Jersey (e.g., Public Service Electric & Gas (PSEG) Solar Initiative) in order to meet the state’s renewable portfolio standards requirements.