



Consolidated Edison Company
of New York, Inc.
4 Irving Place
New York NY 10003-0987

March 27, 2012

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

**Re: Statements of Smart Grid Surcharge Issued Pursuant to
Case 09-E-0310, Stimulus Projects**

Dear Secretary Brillling:

Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") is filing herewith a revised Statement of Smart Grid Surcharge, applicable to its Schedule for PASNY Delivery Service - P.S.C. No. 12¹ ("PASNY Rate Schedule") and a revised Statement of Smart Grid Surcharge applicable to its Schedule for Economic Development Delivery Service ("EDDS") – P.S.C. No. 11 ("EDDS Rate Schedule").²

These Statements have an effective date of April 1, 2012.

¹ This is the Delivery Service Rate Schedule Implementing and Part of the Service Agreement Between the Power Authority of the State of New York ("PASNY") and the Consolidated Edison Company of New York, Inc. ("the Company") dated March 10, 1989.

² This is the Delivery Service Rate Schedule Implementing and Part of: (1) the "Service Agreement for the Delivery of Power and Energy" between the Power Authority of the State of New York ("PASNY") and the Consolidated Edison Company of New York, Inc. ("the Company"), dated March 10, 1989, for the delivery by the Company of Power and Associated Energy to Authority Economic Development Customers, (2) the "Agreement for the Delivery of Power and Energy from the James A. FitzPatrick Power Project" between the County of Westchester, acting through the Westchester Public Utility Service Agency and the Company, made April 24, 1987, and (3) the "Agreement between the City of New York and Consolidated Edison Company of New York, Inc., for the Delivery of Power and Energy from the James A. FitzPatrick Nuclear Power Project" between the City of New York, acting through the New York City Public Utility Service and the Company, made October 23, 1987.

Background

As directed by the Commission in Case 09-E-0310 and specified in General Rule 26.1.4, Smart Grid Projects, of the Schedule for Electricity Service - P.S.C. No. 10 - Electricity ("Schedule for Electricity Service"), the Additional Delivery Charges and Adjustments section of the PASNY Rate Schedule, and the Additional Delivery Charges and Adjustments section of the EDDS Rate Schedule, the Company recovers through a surcharge mechanism its cost-share of Smart Grid Projects that receive federal funding from the U.S. Department of Energy ("DOE") under the American Recovery and Reinvestment Act of 2009.³ Project cost amounts are recovered through Statements of Smart Grid Surcharge, applicable under the PASNY and EDDS Rate Schedules, and as a component of the Statement of Monthly Adjustment Clause ("MAC"),⁴ applicable under the Schedule for Electricity Service. Except for the initial five-month collection period that commenced November 2010, project costs are being recovered over twelve-month periods commencing April, i.e., the beginning of the Company's electric rate year.

Amounts to be Collected over the 12 Months Commencing April 2012

The \$17.24 million to be collected over the 12-month period commencing April 2012 is intended to collect the incremental revenue requirement associated with units of Smart Grid Investment Grant ("SGIG") Project work that were placed in service prior to the new surcharge period plus the incremental revenue requirement associated with units of SGIG Project work that are expected to be placed in service through March 2013 plus additional portions of the Demonstration Project costs. This total amount is inclusive of a prior period adjustment of \$3.94 million, representing a net over-recovery, plus interest, associated with the difference between (1) the incremental revenue requirement for actual project work that was placed in service through February 2012 and estimated project work placed in service for March 2012, including the applicable portions of Demonstration Project costs, and (2) the estimated incremental revenue requirement reflected in the MAC and the Smart Grid Surcharges in effect through March 2012, including the applicable portions of Demonstration Project costs.

The incremental revenue requirement was designed to reflect customers' share of incremental capital expenditures for Smart Grid Projects, incremental depreciation, taxes and operating expenses (including incremental direct and associated indirect costs and contractor costs) for Smart Grid projects and a return on capital. Customers' share of the project costs excludes costs covered by the funds received from the DOE in connection with both the SGIG and Smart Grid Demonstration Grant ("SGDG") Projects. The incremental revenue requirement, including the SGDG Project cost portion, was then allocated among Con Edison customers, PASNY delivery service and EDDS in proportion to their respective forecasted delivery revenues for the rate year commencing April 1, 2012.

³ DOE is providing funding for Smart Grid Projects under both the "Smart Grid Investment Grant" ("SGIG") Project and the "Smart Grid Demonstration Grant" ("SGDG") Project (also the "Demonstration Project")

⁴ The Company is filing in a separate letter its revised Statement of Monthly Adjustment Clause ("MAC") – MAC Statement No. 3 to P.S.C. No. 10 - Electricity, applicable to its full-service and retail access customers. The Statement has an effective date of April 1, 2012. The MAC amounts on the Statement include the recovery of Smart Grid Project costs.

The Smart Grid Surcharge of \$17.24 million is intended to collect the following amounts over the rate year that commences April 1, 2012: \$15.12 million from customers served under the Schedule for Electricity Service;⁵ \$2.00 million from PASNY under the PASNY Rate Schedule; and \$0.12 million under the EDDS Rate Schedule.

Labor-related Costs Associated with the SGD Project

The Commission's Order Establishing Recovery Mechanisms for Smart Grid Projects, issued and effective October 19, 2010, in Case 09-E-0310 (the "October 2010 Order") established a two-prong demonstration test to be performed at the conclusion of each surcharge period related to the recovery of labor-related costs (i.e., labor and fringe benefits) associated with the SGD Project. First, the Company must demonstrate that any labor-related costs are incremental to the costs provided for in Case 09-E-0428, Order Establishing Three-Year Electric Rate Plan, issued March 26, 2010 ("2010 Electric Rate Order"). Second, the Company must demonstrate that the overall labor expense for any given rate year is at, or above, what was assumed in the revenue requirements in the 2010 Electric Rate Order. In the Commission's Order Granting Reconsideration and Modifying Two-Prong Test, issued and effective April 19, 2011, (p. 8), the Commission indicated that it "will allow the Company recovery of such labor expenses arising from the ARRA projects to the extent it can convincingly quantify and prove to us that labor and labor related expenses are at or above those allowed in rates when taking into account the savings resulting from implementing its austerity measures and the ARRA projects."

With respect to the first prong of the demonstration test, the Company expended \$1,123,000 in labor-related costs in connection with the SGD Project for the rate year ending March 31, 2012, based on experience through February 2012. Included in this amount is \$546,000 for incremental labor-related costs associated with Project Management employees whose positions in the Company were backfilled after the historic year reflected in the last electric rate proceeding and \$2,000 representing 20 hours of overtime labor that was performed by employees whose straight-time costs are reflected in base rates. With respect to the second prong of the demonstration test, overall electric O&M labor expenses for the twelve-months ending March 31, 2012 (\$586,980,000) are estimated to exceed the amount included in rates (\$561,222,000). Since overall labor-related costs are above the amount reflected in current rates, the Company is entitled to recover that portion of actual labor-related costs for the SGD Project that it has identified as incremental for the rate year ending March 31, 2012.⁶ Accordingly, the

⁵ Payments made by NYSEDA pursuant to a settlement agreement among the parties to *Indeck v. Paterson*, Index No. 5280-09, Supreme Court, Albany County, are applied as a separate credit to the monthly MAC to offset a portion of the Company's Smart Grid Project costs applicable to full-service and retail access customers. The settlement agreement contemplates that the NYSEDA funds will be applied initially to offset a portion of the Company's Smart Grid Project costs for the 4 kV Grid Modernization Project and the Demonstration Project.

⁶ As noted in the October 2010 Order (pp. 22-23), "Since some or all of the project costs might normally have been expensed, there is a possibility that some of the estimated costs Con Edison is projecting to be reimbursed for through the surcharge may already have been included in the development of expenses included in current rates under the 2010 Electric Rate Order....A determination on whether labor and fringe benefit reimbursements are incremental to the amounts accounted for in the development of current rates shall be made in the reconciliation of the surcharge, which shall be performed at the conclusion of each surcharge period and shall coincide with Con Edison's electric rate year (April 1st to March 31st)."

annual reconciliation for the prior period surcharge that ended March 2011 reflects actual incremental SGDGLabor-related costs of \$548,000.

Annual Operational Savings or Other Benefits of Smart Grid Projects

Over the course of the year, the Company has made significant progress with the deployment of distribution automation assets in the underground and overhead distribution systems. Initially, the assets are being deployed for manual operation while the wireless infrastructure to enable remote operation is being progressively implemented. The Company expects to gradually realize operational cost savings associated with these assets as we progress through remote operation. At this time, the Company has not quantified and reported any operational cost savings to the Department of Energy.

Current Filing

The Company is filing herewith a Statement of Smart Grid Surcharge, SG PASNY – Statement No. 2 to P.S.C. No. 12, and a Statement of Smart Grid Surcharge, SGRID EDDS – Statement No. 2 to P.S.C. No. 11. NYPA's share of Smart Grid Program costs under the PASNY Rate Schedule will be recovered as a separate surcharge per monthly bill issued to NYPA. Smart Grid Program costs allocated to the EDDS Rate Schedule will be recovered as a separate surcharge per monthly bill issued to NYPA, COWPUSA and NYCPUS, as applicable.

As specified in its tariffs, the Company is filing these Statements on not less than three days' advance notice. The Statements have an effective date of April 1, 2012.

Sincerely,

/s/ Christine Colletti

Christine Colletti

Director

Rate Engineering Department