

**STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE
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April 24, 2008

Hon. Jaclyn A. Brillling, Secretary
NYS Public Service Commission
Three Empire State Plaza
Albany, NY 12223

Re: Case 06-E-0894 – Proceeding on Motion of the Commission to Investigate the Electric Power Outages in Consolidated Edison Company of New York, Inc.'s Long Island City Electric Network.

Dear Secretary Brillling:

Under separate cover, we have transmitted for filing a Joint Proposal executed by seven parties in Case 06-E-0894. If approved by the Commission, the Joint Proposal will bring to conclusion the currently pending prudence case concerning Con Edison's actions associated with the July 2006 electric outages in Queens, New York. The Joint Proposal, if adopted by the Commission, will provide a substantial prudence adjustment that ensures that Con Edison's ratepayers will not bear in rates capital costs incurred to repair damage to the Long Island City network. The Joint Proposal also describes certain unique benefits to be made available to the Queens communities affected by these outages. In this letter, we will provide a more complete description of these aspects of the Joint Proposal.

If approved by the Commission, the Joint Proposal will require Con Edison to forego the recovery of \$40 million of capital costs it spent to repair the damage to

the Long Island City (LIC) network. In addition, the Company will not collect \$6 million in deferred carrying charges related to the \$40 million in repair costs.

Staff estimates that the \$40 million capital disallowance and the \$6 million carrying charge disallowance fully recovers the costs of the system damage attributable to the July 2006 outages. In other words, if the prudence case were fully litigated, these amounts would reflect the total adjustment to rates that could have been sought by Staff for the benefit of ratepayers.

Since these costs, if they were allowed in rates, would be shared equally by all Con Edison ratepayers, this portion of the Joint Proposal (the “capital adjustment”), if adopted by the Commission, is also shared by all ratepayers. In addition to this capital adjustment, however, additional terms, by which Con Edison would respond more directly to the Queens community, are included in the Joint Proposal. The direct community provisions in the Joint Proposal are a unique aspect of this settlement. The Commission does not have the authority to award damages for customer losses; therefore, these benefits would not be available through litigation of a prudence claim before the Commission. In the context of settlement negotiations, Con Edison will provide \$17 million in direct community benefits.

The \$17 million in direct community benefits funding, which is in addition to the capital adjustments described above, would be used to benefit the Queens communities in the following ways: First, approximately one half of the \$17 million would be used to provide one-time bill credits to customers and households in Queens who were directly impacted by the 2006 outages. Second, the customer credits and community benefit funding would be accompanied by a statement from Con Edison expressing its regret for the company’s performance during the 2006 outages and for the hardships which this placed on the Queens community. The parties signing the Joint Proposal recognize that these credits and the company’s statement do not and can not fully compensate the recipients for the personal and financial consequences resulting from the 2006 outages. The credits and the company’s statement are, however, an unambiguous demonstration of the

company's regret for the hardships the community experienced during and shortly after the outages.

Third, community representatives sought to create a knowledge base to fully describe the effects on local communities from a wide-ranging and lengthy outage. In response to the community representatives' request, Con Edison agrees to fund a study, to be conducted by a third party, to assess the impacts, including the economic and health impacts, of the outages on the Queens community.

Fourth, and finally, the community representatives sought to direct the funds remaining after the credits and the impact study costs are paid to be used for an urban forestry initiative, which will plant and provide care for thousands of trees in the Queens community and for other environmental initiatives in Queens.

The \$17 million in direct community funding, with the Commission's approval and provided through the Joint Proposal, are benefits that are only available because the prudence investigation has been settled. In a litigated prudence investigation, no specific benefit would go to the customers or residents in the communities that actually bore the brunt of the July 2006 outages. This settlement, therefore, secures a full capital cost and related deferred carrying charge disallowance for the benefit of all of the Company's customers, and, in addition, provides a substantial community fund that would not be otherwise available to the communities directly impacted.

Case 06-E-0894

It is anticipated that parties supporting the Joint Proposal will soon submit their Statements in Support. Staff will provide a more complete description of its evaluation of the Joint Proposal at that time.

Respectfully submitted,



Diane T. Dean
Assistant Counsel



Guy R. Mazza
Assistant Counsel

cc: Hon. Jeffrey Stockholm
Hon. Eleanor Stein
Active Parties (via e-mail)