conEdison
a conEdison, inc. company

Kyle Kimball
Vice President Government Relations

March 3, 2022

To our partners and stakeholders in government,

You are all keenly aware of the recent concerns raised about higher-than-expected electricity bills due to an increase in energy supply costs. While Con Edison does not generate electricity and cannot fully control the cost, we know that energy supply increases like these are concerning and distressing for our customers. We also know that your offices have received numerous calls and inquiries from constituents looking for answers and assistance

While much has been written in the press and elsewhere about the rising costs of energy in general, and in NYC in particular, I want to share with you a detailed explanation, including the drivers of the increases in energy costs on the bill. Furthermore, I want to address the concern about the timing of our recent investment plan we recently filed with the NYS Public Service Commission, as it relates to these rising energy costs.

While we remain available to you and your staffs at any time to discuss these issues in detail, we thought it best to address – as directly and succinctly as possible - how a customer's bill works, the drivers of energy costs, what happened in this instance, what we do to protect customers against price spikes, and importantly the programs that are available to customers to help with their bills.

Lastly, please find two links to two important documents:

1. Please find attached a link to our response to the PSC, addressing their concerns about Con Edison's billing practices, and process improvements that we are implementing; (HERE)
2. A link to yesterday's press release from the Governor about energy costs in the context of current geopolitical events (HERE)

Bill Background:

A customer's bill reflects three categories of costs, each generally represent roughly one-third of a customer's bill:

1. *Supply Charge* - This reflects the amount power generators charge Con Edison to supply electricity to its customers. Most of the electricity consumed in New York City is generated by the burning of natural gas. When the price of natural gas increases in the

winter, the cost to generate power increases, which increases the supply cost on customers' bills. The cost of energy supply on the Con Edison bill reflects the price charged by power generating companies without any markup from Con Edison. Con Edison does not make money on this supply. A customer's Supply Charge is the cost of the electricity (measured as MWh) multiplied by the amount that was used by the customer during the bill period. Customer supply costs are also affected by Con Edison's hedging program, the purpose of which is to mitigate supply price fluctuations.

2. *Taxes* - Con Edison pays nearly $3 billion in property taxes annually to municipal and state entities in its service territory, the vast majority of which goes to the City of New York. We pay these taxes on all of our facilities, including the pipes and wires that deliver gas and electricity to our customers. The costs of taxes are socialized across our customer base.

3. *Delivery Charge* - This is the portion of the bill that reflects the operation of the energy system, investments in energy efficiency, reliability, resiliency, public improvement projects requested by government entities (e.g., NYC or, City of Yonkers). In addition, a major portion of our capital investments now go towards advancing the clean energy transition. It is within this category that Con Edison earns a regulated rate of return that is approved by the NYS Public Service Commission. In January 2022, as a result of the NYPSC approved 2019 investment filing, a 4% increase in the electric delivery portion of the bill (for a typical residential customer) went into effect.

Bill Increases in January 2022: Supply Cost Increases and the Timing of Benefits from Our Hedging Programs

The average energy price charged by the power generators increased from $50 per MWh in December 2021 to $140 per MWh in January of 2022. This is nearly a tripling of the cost of electricity over the span of one month. For reference, the cost was $40 per MWh in January of 2021. This increase, coupled with the 10% increase in customer usage during a cold weather period, and low December bills, resulted in large monthly increases for some customers.

The supply cost increases that electric power generators charged resulted from natural gas increases driven by geopolitical events, cold weather and the market forces of supply constraints and growing demand, all of which are outside of Con Edison's control. This event was not felt only by Con Edison and its customers. A recent Bureau of Labor Statistics report indicated that for New York and New Jersey "household energy prices rose 17.2 percent, with a 28.2-percent jump in electricity prices—the largest over-the-month increase in the history of the series which began in 1971." Nationwide, electricity prices are a major driver of the nearly 7.5% inflation reported recently.

What does Con Edison do to protect against price spikes?

Con Edison hedges (akin to buying insurance) to mitigate price spikes in energy supply and protect customers. For the peak winter months of January and February, Con Edison hedged for approximately 80% of forecasted customer electric usage. In early January, based on available market data, Con Edison forecasted that monthly hedge value. As has been our process for many years, we applied that forecasted hedge value to bills over the next billing cycle along with the actual, market supply prices. When temperatures fell and energy use rose, those market supply prices increased significantly and that, coupled with the fixed hedge value for the month, resulted in the significantly higher costs on customer bills. As has also been our process, the full balance of that hedge value is passed back to customers during the next month, in this case, beginning on February 11, 2022.[1]

As noted above, customers are already seeing the benefits of that hedging program in their current bills in the form of reduced supply costs. As described in more detail below, we plan to take actions to improve our billing processes to reduce the likelihood of extreme volatility for customers.

Programs Available to Customers:

We are committed to affordability for our customers who require assistance. We recognize that many customers have struggled recently with higher-than-expected bills. For those customers, Con Edison offers a range of programs (see https://www.coned.com/en/accounts-billing/payment-plans-assistance) that offer meaningful discounts or more flexible payment terms, including:

- Deferred payment agreements, which more than 100,000 customers currently use to spread payments over time;
- Payment extensions, which provide additional time for customers to make payments;
- Energy Affordability Program discounts for low-income customers, which limit utility costs to 6% of the average low-income customer's income based on a statewide formula that is updated annually. On 3/1, we unveiled a new online enrollment option for this program;
- Working with customers and local and state government agencies to facilitate the receipt of public assistance by customers; and
- Level payment plans that allow customers to pay in equal monthly installments over the year even as their bills change, thereby reducing the impact of billing volatility.

In addition, the best way for customers to manage their bills and minimize environmental impact is to manage their usage. We offer energy-saving tips, energy efficiency programs that help customers save, and assistance for customers. More information about these programs can be found on our website at www.coned.com.

---

[1] For bills issued beginning on February 11, 2022 and continuing until the next adjustments take effect in March, Con Edison has reduced the supply charge for its full-service customers (other than those on hourly pricing) by about 8.8 cents per kilowatt-hour in part to account for the additional value of its January hedges that was not reflected in supply prices in the previous billing cycle. This adjustment will provide full-service customers with significant price reductions that they did not realize in their earlier bills.

Additional Actions:

Regarding actions we will be taking going forward, we are working with the Department of Public Service and are adjusting our billing process to more closely align, on monthly bills, the impacts of power generation supply price volatility with the results of our hedging positions. The adjustment will serve to reduce the likelihood of significant supply cost volatility on customer bills.

Before this winter, Con Edison informed its customers that it expected natural gas prices to rise. Going forward, we will specifically address both gas price volatility and its follow-on impact on electric price volatility in our pre-winter communications. These communications will also continue to provide cost-saving tips and information on payment assistance programs. We will also provide notice to customers in cases where supply price increases could result in significantly higher bills.

Relationship to our Investment Plan Rate Case:

Importantly, the supply increases charged by power generators are completely unrelated to our recently filed investment plan for the energy grid. As mentioned earlier, the increase in electric delivery charges from the 2019 PSC approval is 4%. Con Edison's recently filed investment plan contains groundbreaking programs and innovative proposals to accelerate New York's transition toward a clean, renewable, and resilient future. Furthermore, in recognition of the State's ambitious clean energy goals, we have proposed a plan that is no longer focused on growing the natural gas system and places the financial benefits of renewable energy investments in the hands of our lowest income customers.

We would appreciate the opportunity to share more details on our investment plan with you, and to find common ground to move our energy grid forward toward an affordable, equitable and reliable clean energy future.

Sincerely,

Kyle Kimball
Vice-President
Government, Regional & Community Affairs
Con Edison