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Timothy P. Cawley, Chairman, President, & CEO
Consolidated Edison, Inc.
4 Irving Place
New York, NY 10003

February 11, 2022

Dear Mr. Cawley,

Over the past several days, Consolidated Edison Company of New York Inc.'s (Con Edison or the Company) full-service electric customers have received significantly higher bills than those from the prior month. As a you may imagine, given the role of the Department of Public Service (Department) to oversee utility rates, numerous complaints from your customers and their representatives in the New York City Council, State Legislature, and Congress have asked the Department to conduct an investigation of the recent bill increases. The Department's Staff have reviewed the complaints and the circumstances that have contributed to the bill increases, and I write today seeking several actions by Con Edison to (1) mitigate the immediate problem, (2) reassess power supply billing practices to reduce the risk of severe price volatility in the future, and (3) improve communications to customers regarding commodity pricing, especially in advance of anticipated bill increases.

The Department's review of this issue reveals that recent commodity prices for New York's utility customers were significantly higher in January compared to December, driven by abnormally colder weather. Temperatures at New York City's Central Park weather station were more than 15% colder than last year cumulatively for the months of November through January. The cold weather resulted in increased demand for natural gas. The increased gas price also drove up electricity prices. For residences and businesses to maintain the same temperature level during a cold spell naturally requires higher gas or electricity usage, depending on the heat source. Thus, our review shows that the cold weather also resulted in higher energy use by consumers. Billed usage data provided by Con Edison shows that Residential Service Classification No. 1 customers overall energy use increased by 8.4 percent from December to January.

In sum, the Department has determined that this combination of higher market prices for natural gas and electricity coupled with higher energy use resulted in significantly higher bills for consumers. This situation is occurring throughout New York State and is also affecting utility customers throughout New England, which experienced even higher natural gas and electricity commodity prices than New York. While the Department recognizes that these weather-related price impacts are outside of the utilities' control, there are several actions that Con Edison should consider taking to address this situation.

1. **<u>Con Edison should mitigate the recent high customer bills by providing the full value of its hedged commodity procurements to customers in the next billing cycle.</u>**

While the Public Service Commission (Commission) does not regulate commodity prices of natural gas and electricity, and New York's utilities do not control market prices of these commodities, utility procurement and billing practices do impact the prices that customers pay and can dampen or exacerbate price swings from month to month. The Commission has repeatedly found that utilities have a responsibility to use strategies that responsibly procure commodity on behalf of their customers at least cost and have hedging strategies that smooth out market price fluctuations.[1]

This recent cold weather spell has exposed weaknesses in Con Edison's billing practices that warrant closer examination. When Con Edison issues bills, it passes through the weighted average supply rate based on the residential customer load shape and New York Independent System Operator (NYISO) market prices in effect in each billing cycle.[2] The company also applies a forecasted hedge value, which is updated mid-month. This value is fixed for one month

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[1] See Case No. 06-M-1017, Order Requiring Development of Utility-Specific Guidelines for Electric Commodity Supply Portfolios and Instituting a Phase II to Address Longer-Term Issues (Issued and Effective April 19, 2007).

[2] Consolidated Edison has approximately 20 billing cycles in each month.

and includes reconciliations to account for underestimated forecasted hedge values and sales variations from prior periods. If the actual electric market prices vary significantly from those assumed in the hedge value forecast for the upcoming month, the mismatch between the value of the hedges and the supply rate billed to customers is exacerbated. This situation occurred in January and is continuing to occur in February. Total bills for full-service mass-market customers billed at the end of January were 49 and 58 percent higher for New York and Westchester customers, respectively, from their previous bill for the typical energy usage. Department Staff estimates that approximately 70 percent of the increase in supply rates between December and January was attributable to Con Edison's forecasting hedge values being underestimated.

Specifically, based on information Con Edison provided to staff, the hedge value forecast for January, while apparently reasonable in the assumptions used at the time of the calculation, led to the actual hedge gains being significantly underestimated. The value of the underestimated hedge benefit should be included in Con Edison's next billing cycle update to ensure that customers receive the full value of Con Edison's hedge. Assuming normal weather for next month, we expect that this adjustment will significantly reduce the commodity price reflected on customer bills next month. The Department has determined that the Company's current hedging strategies combined with a revised supply billing practice may have effectively mitigated the bill volatility seen in January.

2. **<u>Con Edison should reassess its approach of forecasting its hedge value in billing cycle updates to reduce the likelihood of dramatic and sudden price volatility.</u>**

While Con Edison's hedging practices will likely result in substantial cost savings to customers this winter compared to what customers would have paid if Con Edison did not hedge,[3] the underestimated forecast of the hedge benefits, added to the flow through of weighted

[3] High gas prices lead to correspondingly high electric prices. Day-ahead Locational Based Marginal Prices increased from roughly $35/MWh in NYC (Zone J) over a four-week period in January 2021, to over $140/MWh over the same four weeks in January 2022. Securing a portion of supply through longer term contracts can protect customers against these price spikes. Con Edison has estimated its hedging program will save customers more than $100 million through the end of February this winter.

average market prices based on customers' individual billing cycles as noted above increased bill volatility this winter.

Con Edison should immediately reassess its approach to full-service supply billing with a goal to reduce the likelihood of extreme and sudden price volatility, and report to Staff its findings.

3. **Con Edison must improve communications to electric and gas customers to better explain forecasted commodity price changes.**

At our October 7, 2021 session, Department Staff provided its annual winter readiness presentation to the Commission. Based on commodity price forecasts, Staff explained that it expected that utility customers would see significantly higher utility bills this winter. Staff and the Commission worked with utilities to provide information to customers so that they could prepare for the expected higher costs. The Department held workshops throughout the State. Utilities provided bill inserts and provided direct messages to customers. Yet many customers were surprised by the sudden bill increases this winter.

While Con Edison included bill inserts and sent out messages on other platforms that natural gas commodity prices were expected to be higher this winter, it did not inform customers that electric commodity prices were also expected to be higher, or in its billing for last month that there was a spike in electric commodity prices. Con Edison should have foreseen the likely electric commodity price spikes and done more to provide advance notice to their customers and other stakeholders. In addition to preparing customers in advance of expected price increases, it is essential that Con Edison also continue to offer customers deferred payment agreements and provide information regarding other bill assistance programs.

This experience is a painful reminder that the State remains overly reliant on fossil fuels to meet our energy needs. This dependence on fossil fuel is contributing to climate change and air pollution, but, as this experience shows, it is also exposing consumers to global commodity price fluctuations. We must continue working together to advance the State's Climate Leadership and Community Protection Act to both reduce greenhouse gas emissions and reduce our reliance on fossil fuels that are subject to dramatic price swings experienced this winter.

I request a response with recommendations to Department Staff by February 28, 2022. Thank you for your prompt attention to this serious matter.

Sincerely,

Rory M. Christian
Chair