

ACCOUNTING CONSIDERATIONS FOR LONG-TERM POWER PURCHASE AGREEMENTS

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Accounting Consolidation Models

Traditional Voting Interest Model	FIN 46 “Variable Interest” Model
Consolidation based on equity ownership and voting interests	Consolidation based on economic risks and rewards Ownership NOT a criteria for determining consolidation

Definition of a Variable Interest Entity

Equity holders do not have a controlling financial interest (any one of the following conditions)

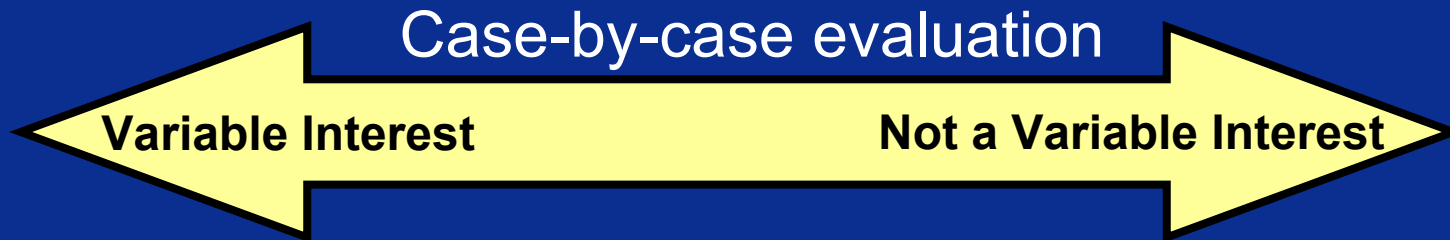
- Entity is thinly capitalized
- Equity holders lack decision-making rights
- Equity holders' rights to return are capped
- Equity holders are protected from losses



PPAs
scoped in

When is a PPA a Variable Interest?

Does the contract create or absorb risk?



Risk absorbers

- Variable price contract tied to fuel
- Fixed price contract for a hydro plant

Risk creators

- Fixed price contract for a gas-fueled plant

Recovery mechanism
not considered

Consolidation Issues

Financial reporting risk if consolidation is required

- Quarterly financial information for SEC reporting
- Sarbanes-Oxley certification of internal controls
- Deficiencies in either of the above could result in a qualified audit opinion

Debt Imputation Issues

- Restricted borrowing capacity
- Higher costs of capital
- Need to rebalance capital structure
- Overall decrease in market value

Other Utility PPA Considerations

- Risk transfer to utility customers/investors
- Retail access
- Strandable costs
- Impact of market mitigation measures

How to Better Encourage New Supply

- Predictability, consistency and transparency in market design
- Forward capacity markets
- Price or credit support from government if needed
- Utility build option - reliability backstop solution if market fails