



*Comments*

05-S-1376

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June 30, 2006

**VIA AIRBORNE EXPRESS**

Hon. Jaclyn Brilling  
Secretary  
New York State Public  
Service Commission  
Three Empire State Plaza  
Albany, NY 12223

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**Re: Case Nos. 05-S-1376  
Con Edison Steam Rate Case**

Dear Secretary Brilling:

Enclosed for filing are an original and fifteen copies of the Reply Statement in Support of Joint Proposal on behalf of Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company").

Very truly yours,

*Mary Krayeske*

MLK/md  
Enclosures

Cc: Hon. Rafael A. Epstein,  
Administrative Law Judge

All Active Parties by  
e-mail and Regular Mail

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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Case No. 05-S-1376	Proceeding on Motion of the	:	
	Commission as to the Rate, Charges,	:	Before
	Rules and Regulations of Consolidated	:	Hon. Rafael Epstein
	Edison Company of New York, Inc.	:	
	For Steam Service	:	

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**REPLY STATEMENT IN SUPPORT OF  
JOINT PROPOSAL**

**Preliminary Statement**

Consolidated Edison Company of New York, Inc. ("Con Edison" or "Company") submits this reply statement in support of the Joint Proposal to respond to the statements in opposition filed the County of Westchester ("County") and TransGas Energy, Inc. ("TransGas").<sup>1</sup> The County's opposition to the Joint Proposal is focused on the allocation between the electric and steam departments of the operating costs of the East River Repowering Project. TransGas would have the Joint Proposal require the Company to negotiate a steam purchase contract with TransGas. The Company's comments below address TransGas's proposal. Westchester's contentions, presented by the testimony of Frank Radigan, are addressed in the rebuttal testimony of Rick Shansky in support of the Joint Proposal, which is attached to these comments as Attachment A.<sup>2</sup>

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<sup>1</sup> The Company received other comments in support of the Joint Proposal from Staff, the City of New York, Pace Energy Project, Consumer Power Advocates, New York Energy Consumers Council and ConsumerPowerline. These comments may reflect a party's view or expectation of a particular provision(s) that may differ from the Company's view or expectation. The Joint Proposal speaks for itself and the Company's silence as to the interpretation of particular provisions by other supporting parties or as to their other statements regarding the Joint Proposal, such as the reason underlying particular provisions or the legal effect of adoption of the Joint Proposal by the Commission, should not be viewed as Con Edison agreeing to each and every view expressed therein.

<sup>2</sup> The Company incorporates by reference its prefiled testimony in this proceeding, copies of which will be provided to the presiding Administrative Law Judge and the Court Reporter at the hearing.

**The Commission Should Reject TransGas's Request to Compel Con Edison To Negotiate with TransGas on the Basis of Con Edison's Full Avoided Costs.**

TransGas, a developer that is seeking, but has yet to receive, approval to construct an electric and steam power plant in Brooklyn, New York, requests that the Joint Proposal be amended to add a requirement that Con Edison negotiate with TransGas and any other potential steam supplier "based upon Con Edison's full avoided steam production and capacity costs." TransGas at 8-9. TransGas further requests that either Staff or an Administrative Law Judge assist in the negotiations should a party request such assistance. TransGas also proposes that any terms resulting from such "negotiation" should be filed with the Commission and should be included as part of the Company's Steam Resource Plan. TransGas fails to provide an adequate justification for the amendment it proposes.<sup>3</sup>

The Joint Proposal's steam production planning provisions require Con Edison to file with the Commission a Steam Resource Plan ("Resource Plan") that will examine and discuss various steam resource options, including "competitively procured capacity," identify the option(s) selected by Con Edison, and fully support and justify that selection.<sup>4</sup> As part of the groundwork for preparing the Resource Plan, Con Edison also agreed to prepare an investment grade evaluation of Hudson Avenue repowering options

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<sup>3</sup> TransGas claims that it is not being properly considered in the steam production study being conducted pursuant to the current Steam Rate Plan. TransGas Comments at 4-5. That claim, however, is irrelevant to a determination of the reasonableness of the provisions relating to the steam production study that are contained in the Joint Proposal before the Commission in this proceeding. TransGas is free to file a separate complaint with the Commission, but such a complaint is likely to be deemed premature since that study is not yet completed.

<sup>4</sup> TransGas erroneously claims that the Commission has determined that the Company's steam production capability must be increased (at 3). The steam business development ("SBD") plan found only that there is a potential winter capacity constraint and that Con Edison should take steps to ameliorate that constraint -- through demand management or increased production -- to the extent of the constraint. Similarly, the Joint Proposal contains a requirement to prepare a Resource Plan -- it does not require a plan to increase steam production.

identified in Phase I of the on-going Steam Production Study. The Company also agreed to consider the results of the investment grade evaluation as part of the Resource Plan. TransGas appears to have erroneously assumed that because Con Edison will perform an investment grade study of repowering its own facilities, as required by the Joint Proposal, Con Edison will not consider merchant steam supplies as an alternative. As noted above and in the Company's Statement in Support (p. 17), the investment grade study is only part of the groundwork for the Resource Plan, and will not comprise the entire Resource Plan itself. Indeed, TransGas concedes (p. 6) that an investment grade analysis need not be conducted for a merchant supplier. The Joint Proposal requires the Company to consider "competitively procured capacity" in the Resource Plan and the Company will do that. However, the Company must have the latitude to decide the nature of such consideration in the context of the Resource Plan.

Furthermore, in support of its proposal, TransGas alleges that a December 1999 Commission order "directed" Con Edison to negotiate with potential suppliers such as TransGas.<sup>5</sup> According to TransGas, the Joint Proposal "would eliminate those obligations while Con Edison developed proposals for its own plants and the TransGas proposal would languish and grow stale." While the Phase II Order cited by TransGas restates Con Edison's obligation to consider offers from steam producers, which Con Edison stands ready to do, it also expresses concern that it may be difficult to overcome the market power that could be exercised by an unregulated producer:

Con Edison should be willing to enter into negotiations with any producer that can offer pricing under terms that are competitive with Con Edison's own avoided steam costs, so long as doing so does not result in the new owner

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<sup>5</sup> Cases 96-S-1065, 96-S-1121, *Order Concerning Phase II Steam Plan Report* (Dec. 2, 1999) ("Phase II Order").

having excessive market power of the type discussed by [the consultant].

Phase II Order at 7.

Without addressing whether TransGas can mitigate the market power concerns discussed in the Phase II Order, Con Edison notes that TransGas cannot point to any language in the Joint Proposal that would “eliminate” Con Edison’s obligation to consider offers from suppliers, as described in the Phase II Order. Indeed, the Proposal explicitly provides that Con Edison will examine “competitively procured capacity” as part of the Resource Plan that it files with the Commission.

Finally, TransGas’s request that the Company be directed to negotiate with TransGas on the basis of expected avoided costs was rejected by the Commission in the Company’s last steam rate case, stating that “until TransGas can offer steam to customers, there is no need for us to consider any such cost calculations, nor any reason for us to specify the terms of any such cost studies here.”<sup>6</sup> TransGas has not presented any changed circumstances since that order was issued that would justify a different result. Moreover, nothing in the prior Commission orders gives TransGas (or any other potential supplier) the right to know, let alone negotiate against, Con Edison’s avoided cost estimates. On the contrary, the current steam rate plan and the pending Joint Proposal both protect such information from disclosure to potential suppliers. The

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<sup>6</sup> Cases 03-G-1671, 03-S-1672, Order Adopting The Terms Of A Joint Proposal, at 30 (Sept. 27, 2004). Moreover, in their decision recommending dismissal of TransGas’s Article X petition, the Examiners stated as follows: “TGE’s suggestion that the PSC has imposed, without qualification, a requirement on Con Edison to negotiate for the purchase of steam from other suppliers is not accurate. The question of whether a competitive steam market could be relied on by Con Edison to meet its system requirements was thoroughly examined in a planning proceeding conducted by the PSC. The PSC cited an economic analysis showing ‘that a competitive steam market in New York City is not workable and that steam generation should remain regulated’. . . . There has been no showing that New York City steam market conditions have changed at all, much less to the extent necessary, so that the PSC would now be inclined to require Con Edison to purchase steam from TGE.” Case 01-F-1276, Recommendation Concerning Further Proceedings, at 52-53 (April 12, 2006).

eventual need for estimated avoided cost information is for the Commission to evaluate the reasonableness of the Company's resource selection(s).

In sum, TransGas' proposed addition to the Joint Proposal is unnecessary and unjustified.

**Conclusion**

For all the reasons set forth above, in the attached rebuttal testimony of Rick Shansky and in the Company's Statement in Support, the Commission should reject the requests of the County and TransGas to modify the Joint Proposal and approve it in its entirety as in the public interest.

Respectfully submitted,



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Dated: June 30, 2006  
New York, New York

# **Attachment A**

RICK SHANSKY – STEAM

1 Q. Please state your name and business address.

2 A. My name is Rick Shansky. My business address is 4 Irving Place, New York, New  
3 York 10003.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Consolidated Edison Company of New York, Inc. (“Con Edison” or  
6 the “Company”) as Senior Engineer, Resource Planning, in the Energy Management  
7 Department.

8 Q. Please describe your educational background.

9 A. I graduated from Rensselaer Polytechnic Institute with a Bachelor’s Degree in  
10 Electrical Engineering in 1981. I also earned a Master of Science Degree in Energy  
11 Management from New York Institute of Technology in 1988.

12 Q. Please describe your work experience.

13 A. From 1981 to 1984, I was employed by the Long Island Lighting Company in the  
14 Planning Department. I joined Con Edison in 1984 and have held various positions in  
15 the Generation Planning, Steam Operations and Energy Management Departments.

16 Q. Do you hold any professional licenses?

17 A. Yes. I am licensed as a Professional Engineer in the State of New York.

18 Q. Have you previously testified before the Public Service Commission (“PSC” or  
19 “Commission”) or in any other proceeding?

20 A. Yes. I testified in PSC Cases 92-E-0814, 93-E-0912, 93-E-1075, 94-E-0334, 99-S-  
21 1621, and 03-S-1672. I also testified before the New York State Board on Electric  
22 Generation Siting and the Environment in the East River Repowering Project (“ERRP”)

1 Article X proceeding (Case 99-F-1314).

2 Q. Have you previously submitted testimony in this case?

3 A. Yes.

4 Q. What is the purpose of your testimony?

5 A. The County of Westchester (“County”), through its witness Frank Radigan, opposes  
6 several provisions of the Joint Proposal. First, the County objects to the Joint  
7 Proposal’s continuance of the allocation of ERRP costs between the steam and electric  
8 departments and requests that the Commission change the allocation method that it  
9 approved two years ago in Case 03-S-1672 (“2004 Rate Order”).<sup>1</sup> Second, the County  
10 objects to the Company’s proposed allocation of the net gains from the sale of  
11 Waterside in Case 01-E-0377.<sup>2</sup> Third, the County objects to the Joint Proposal’s  
12 confidentiality provisions related to the Investment Grade Evaluation and recommends  
13 that Sections I.1 and I.2 of the Joint Proposal reflect a blanket prohibition against  
14 increasing Con Edison’s steam production capabilities, in favor of third-party  
15 purchases, should the Company require any additional steam capacity.

16 **ERRP Allocation**

17 Q. Should the Commission reject the County’s proposal to revisit the ERRP allocation?

18 A. Yes. The County’s request is founded on four assertions, but as I will demonstrate, all  
19 are either erroneous or unreasonable. First, the County claims that the allocation of  
20 ERRP costs to the electric department is unfair to electric customers based on an  
21 analysis of the first year of ERRP operations that purportedly shows that electric

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<sup>1</sup> Case 03-S-1672, Order Adopting the Terms of a Joint Proposal, issued Sept 27, 2004.

<sup>2</sup> Case 01-E-0377, Order Approving Transfer Subject To Conditions, issued May 20, 2004.

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1 customers were worse off with ERRP than they would have been with Waterside,  
2 primarily as a result of “losses” in the electric energy market. The County also claims  
3 that this result is contrary to expectations at the time of the 2004 Rate Order, which  
4 approved the current allocation method. However, as I will explain in detail later in my  
5 testimony, the County’s analysis is flawed and its conclusions are incorrect. In  
6 addition, most of the arguments presented by the County were considered and rejected  
7 by the Commission in the 2004 Rate Order and, in any event, one year’s worth of data  
8 does not provide a reasonable basis for challenging the allocation adopted by the  
9 Commission in that Order.

10 Q. Please address the County’s second assertion.

11 A. The County claims that the Commission premised its approval of the ERRP allocation,  
12 at least in part, on the benefit that electric customers would realize from the net gains  
13 on the sale of Waterside and that the benefit actually realized was “minimal” (Radigan  
14 at 4, 5). Mr. Radigan misquotes the 2004 Rate Order and omits some of the significant  
15 benefits that electric customers received from the sale of Waterside. The 2004 Rate  
16 Order pointed out that electric customers would share in the “net gain *and proceeds*”  
17 from the sale.<sup>3</sup> In fact, the Company recovered from the sale proceeds the \$145 million  
18 in remaining Waterside book costs, more than 93 percent of which would otherwise  
19 have continued to be recovered in electric rates.<sup>4</sup> Mr. Radigan is also incorrect when he  
20 states (p. 5) that “there appears to have been no added value, as promised by Con  
21 Edison, to the other First Avenue properties from including Waterside in the sale.” The

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<sup>3</sup> 2004 Rate Order, p. 27 (emphasis added).

<sup>4</sup> See Con Edison’s July 25, 2005 filing in Case 01-E-0377, Attachment 1.

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1 proceeds received by the Company did reflect the added value to the other properties  
2 from including Waterside in the sale (i.e., an additional 20 percent to the value of 685  
3 First Avenue and 10 percent to the value of 708 First Avenue). As indicated in the  
4 Company's filings in Case 01-E-0377, the contract for sale of the properties specified  
5 price reductions for 685 First Avenue and 708 First Avenue in the event that Waterside  
6 could not be conveyed. Those avoided price reductions, which would have amounted  
7 to some \$16 million, clearly indicate the "added value" to the other properties from  
8 including Waterside in the sale.

9 Q. Please address the County's third assertion.

10 A. The County claims the method used to allocate fuel at ERRP misapplies the  
11 incremental method because it is different from the method used by the Company for  
12 its other steam-electric plants (Radigan at pp. 8-9, citing Exhibit \_\_ FWR-5). Although  
13 Mr. Radigan correctly observes that the mechanics of the computation for ERRP are  
14 different from that used at Waterside or East River 6, the incremental method is  
15 properly applied in all cases. Whether at ERRP or Waterside or East River 6, the  
16 incremental method assigns fuel to electricity generation on the basis of what would  
17 otherwise have occurred had no steam been produced. As fully explained by the  
18 Company in Case 03-S-1672 (Tr. 131, 137-39, 196-97), ERRP differs from the other  
19 steam-electric plants in that it uses a gas turbine ("GT") and a heat recovery steam  
20 generator ("HRSG") instead of a conventional boiler and steam turbine. These  
21 differences in plant design or technology can be taken into account when applying the  
22 incremental cost method, and the current ERRP allocation method, as approved by the

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1 Commission, does just that. Electricity is first generated in the GT and its waste heat is  
2 captured in the HRSG and used to produce steam. Since all of the mechanical energy  
3 produced by the GT is converted to electricity, it is proper under the incremental  
4 method to assign all of its fuel to electricity generation (see Exhibit \_\_ FWR-3, page 5,  
5 lines 18-21). No additional fuel is required to make steam to the extent “waste heat” is  
6 recovered from the GT exhaust (any fuel consumed by the duct burners to produce  
7 steam is properly treated as an incremental steam cost). Plants with conventional boiler  
8 technology (Waterside and East River 6) require an allocation of fuel. In such plants,  
9 high-pressure steam is produced first, but not all of the energy in the steam is used in  
10 the turbine to produce electricity; some of it remains in the steam that is exhausted from  
11 the turbine. Under the incremental method, the allocation was traditionally performed  
12 by assigning to electricity generation the rate of fuel consumption that would have  
13 applied had the generation come from the Company’s conventional electric plants (i.e.,  
14 the “system average electric heat rate”). The remainder of the fuel was then assigned to  
15 steam production. In so doing, the incremental method assigned all of the plants’  
16 cogeneration benefits (i.e., their efficiency advantages over conventional electric  
17 plants) to steam. The incremental method, as Mr. Radigan noted (p. 13), resulted in  
18 steam heat rates of 1110 Btu/lb for Waterside and 1185 Btu/lb for East River 6. These  
19 heat rates represented an allocation to steam of about 62 percent of the fuel at  
20 Waterside and 30 percent of the fuel at East River 6 (see Joint Proposal, p. 7). These  
21 differences in proportion were the result of the different relative amounts of electricity  
22 that was generated at each plant coincident with the production of steam. However,

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1 after divestiture of the Company's electric plants, the electric system heat rate could no  
2 longer be determined. Consequently, the computation was modified to first assign fuel  
3 to steam production using the steam heat rates at each plant that had resulted from the  
4 incremental method. As evidence that the modified method preserved the original  
5 allocations, the allocation of fuel at Waterside in 2005 was 64 percent to steam (see  
6 Joint Proposal, p. 8).<sup>5</sup>

7 Q. Is Mr. Radigan (p. 9) correct that proper use of the incremental method would  
8 reallocate \$120 million in annual fuel costs from electric to steam?

9 A. No. While I have not been able to review Mr. Radigan's calculation, it appears that he  
10 assigned a heat rate of approximately 1200 Btu/lb to ERRP's steam production.<sup>6</sup> As I  
11 explained above, the incremental method does not support such an assumption on  
12 account of the technology employed at ERRP. Furthermore, Mr. Radigan's assumption  
13 would turn the incremental method on its head by assigning virtually all of the plant's  
14 cogeneration benefits to electric.

15 Q. Is it possible to perform the ERRP allocation using the same computational procedure  
16 that was historically used at Waterside and East River 6?

17 A. Although it might be possible to derive an electric system heat rate from market data,  
18 the mix of plants in operation today is not much different from those that operated in  
19 1998. The average electric system heat rate in 1998 was 10,912 Btu/kWh. The heat

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<sup>5</sup> The proportion of steam fuel at East River 6 has been somewhat variable because the relative proportions of steam and electric are affected by the operation of the unit's extraction steam turbine (which Waterside did not have).

<sup>6</sup> \$120 million is 51 percent of the total fuel cost of \$237 million (Exhibit \_\_ FWR-2). The corresponding BTU shift is 21.6 trillion (Exhibit \_\_ FWR-6) x 51 percent = 11 trillion BTU. Dividing by 9 million Mlb of steam production (Exhibit \_\_ FWR-6) yields 1200 Btu/lb.

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1 input to the ERRP combustion turbines averaged 11,012 Btu for each kWh produced.<sup>7</sup>  
2 Applying the average electric heat rate to ERRP's electricity generation, as was done  
3 traditionally under the incremental method, would leave virtually no fuel to be assigned  
4 to steam. Thus, by any measure, the ERRP allocation of fuel continued by the Joint  
5 Proposal is consistent with the incremental method.

6 Q. Please address the County's fourth assertion.

7 A. Mr. Radigan (p. 9) contends that electric sales should never result in market losses and  
8 he proposes that \$37 million in purported above-market costs should be reallocated  
9 from electric to steam. Mr. Radigan's contention is unrealistic and would set a standard  
10 that no cogeneration plant, which must supply steam based on the steam host's  
11 requirements, can ever satisfy. In fact, Mr. Radigan's own analysis (p. 15) shows that  
12 ERRP's fuel costs were below market in some months and above market in others,  
13 precisely as was anticipated in the record before the Commission when it issued the  
14 2004 Rate Order (see Case 03-S-1672, Tr. 239, 253). In staking its request for relief on  
15 avoidance of above-market costs, the County completely disregards the incremental  
16 method and its underlying principles. By assigning the efficiency benefits of ERRP to  
17 steam customers, the Commission continued its goal of achieving reasonable prices for  
18 steam that will help to avoid still higher costs that would be incurred by electric  
19 customers for additional infrastructure if steam service became uneconomical and  
20 customers switched to electric service.<sup>8</sup>

21 Q. Please explain the flaws you found in Mr. Radigan's analysis.

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<sup>7</sup> 21.6 trillion BTU (Exhibit \_\_ FWR-6), divided by 1961 GWh (Exhibit \_\_ FWR-2), yields 11,012 Btu/kWh.

<sup>8</sup> See 2004 Rate Order, p. 28.

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1 A. There are three basic problems with Mr. Radigan's analysis. First, it uses some  
2 incorrect data. Second, it is biased by reflecting certain short-term effects and  
3 neglecting others. Third, it omits several benefits which have and will continue to  
4 accrue to electric customers.

5 Q. Please explain the data errors.

6 A. Mr. Radigan claims (p. 10) that the "rent being charged to the Electric System is \$78.5  
7 million per year." The correct amount is \$72.5 million. Also, Mr. Radigan did not use  
8 the ERRP capacity ratings claimed by Con Edison. The correct ratings were 289.8  
9 MW in the summer and 361 MW in the winter.<sup>9</sup> Use of the correct ratings increases  
10 the capacity market value by \$2.4 million.<sup>10</sup>

11 Q. Please explain the bias in Mr. Radigan's analysis.

12 A. There are two short-term phenomena evident in the analysis that negatively impact the  
13 results. The carrying charge inherent in the "rent" reflects the classic "front-loading"  
14 that is typical for recovery of a new investment. Since many of the benefits accrue over  
15 time, a levelized carrying charge is more correctly used to demonstrate lifetime  
16 economics (See, e.g., Case 03-S-1672, Tr. 290). The difference between the two  
17 carrying charges is significant in the first year. In the case of ERRP, the first-year  
18 carrying charge overstates the long-term levelized charge by 3.5 percent or about \$18  
19 million per year.<sup>11</sup> The other phenomenon relates to fluctuations in the energy market  
20 prices in certain months. Mr. Radigan claims that energy market losses (i.e., market  
21 price less variable fuel costs) amounted to \$37 million. Yet, \$27 million of these losses

<sup>9</sup> As of summer 2006, the ERRP rating is 292 MW.

<sup>10</sup> Using the data in Exhibit \_\_ FWR-2,  $2 \text{ MW} \times \$70.08/\text{kW} + 73 \text{ MW} \times \$30.66/\text{kW} = \$2.4 \text{ million}$ .

<sup>11</sup>  $\$788 \text{ million} \times .67 \times .035 = \$18 \text{ million}$ .

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1 occurred in just two months (November 2005 and January 2006). Examination of the  
2 price data provided by Mr. Radigan (Exhibit \_\_ FWR-2) indicated that market prices  
3 dropped in these months while the Company's fuel prices did not. This may be the  
4 result of time lag between fuel purchasing and market indices, and/or unexpected  
5 divergence between gas and oil prices may also have occurred. For example, the  
6 market energy prices were likely affected by the cost of oil used at in-City generators.  
7 Such plants may switch from gas to oil when oil is cheaper, while ERRP is required to  
8 burn solely gas. Thus, the market losses can very well have been nothing more than the  
9 cost of achieving the significant emissions reductions and air quality improvements,  
10 which were central to ERRP's licensing,<sup>12</sup> and were cited by the Commission in  
11 support of the current ERRP allocation in the 2004 Rate Order.<sup>13</sup>

12 Q. What short-term phenomenon did Mr. Radigan omit?

13 A. Mr. Radigan did not mention or attempt to quantify the effect which ERRP would have  
14 had on energy market prices. By producing an average of 150 MW more than  
15 Waterside would have each hour,<sup>14</sup> ERRP reduced the amount of generation required  
16 from other plants. In Case 03-S-1672 (Tr. 290), New York City witness Chernick  
17 estimated that that ERRP's increased generation would reduce market prices by 0.9  
18 percent. Using Mr. Radigan's price data, the resulting benefit would have been about

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<sup>12</sup> See Case 99-F-1314, Opinion and Order Granting a Certificate of Environmental Compatibility and Public Need, issued August 30, 2001, p. 35.

<sup>13</sup> 2004 Rate Order, p. 27.

<sup>14</sup> 1961 GWh (Exhibit \_\_ FWR-2) – 593 GWh (Case 99-S-1621, Tr. 110) = 1368 GWh. Dividing by 8760 hours = 156 MW.

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1           \$46 million.<sup>15</sup>

2    Q.    Please describe the other benefits to the electric department omitted by Mr. Radigan.

3    A.    Mr. Radigan took no account of the significant future capital investments that would  
4           have been needed to keep Waterside in operation for the long-term. Given that the last  
5           major investments in Waterside occurred in the early 1990's, it is likely that significant  
6           near-term expenditures were avoided as well. In keeping with the historic allocation of  
7           capital costs at Waterside, most, if not all, of these benefits accrue to electric customers.  
8           Mr. Radigan also neglected the costs of environmental and community enhancements  
9           associated with ERRP that were recovered from the Waterside sale proceeds. These  
10          costs, which were otherwise allocable to the electric department, totaled \$12 million.<sup>16</sup>

11   Q.    Are there other, less quantifiable benefits to electric customers that Mr. Radigan  
12          ignores?

13   A.    Yes. Mr. Radigan completely ignores the system reliability, regional air quality, and  
14          economic development benefits that ERRP provides for all consumers. Given the  
15          critical importance of reliable electric service in the metropolitan area in general and to  
16          the Manhattan financial district in particular, it is worth noting that ERRP is one of the  
17          few sources of generation that can provide local power and voltage support in  
18          Manhattan in the event of transmission or generation contingencies. Finally, Mr.  
19          Radigan also ignores the fact that, under its contract for the sale of the First Avenue  
20          properties, the Company may receive additional proceeds that will inure to ratepayers'  
21          benefit depending on the re-zoning ultimately approved for the properties.

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<sup>15</sup> Using Mr. Chernick's formula and Mr. Radigan's prices,  $.009 \times 50 \text{ GWh} \times \$102/\text{MWh}$  (avg. of col. 9 in Exhibit \_\_ FWR-2) = \$46 million.

<sup>16</sup> \$4 million for community enhancements and \$8 million for NOx control costs at East River 6&7.

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1 Q. Mr. Radigan (p. 4) implies that he has presented data which is different than the  
2 information which was in the record before the Commission in 2004. Are the  
3 economic parameters of ERRP substantially different now than when the Commission  
4 approved the current allocation in the 2004 Rate Order?

5 A. No. In terms of both fixed and variable costs, the current ERRP costs are comparable  
6 to the cost projections that were available in 2004. The \$92 million in fixed costs,<sup>17</sup> if  
7 divided by the 289 MW of capacity, yields an annual cost of \$318/kW. This is the  
8 same as the County's own estimate in 2004 (Tr. 566-567). The average heat rate of the  
9 ERRP GTs is 11,012 Btu/kWh. In 2004, it was projected by the Company to be 11,390  
10 Btu/kWh (Tr. 453). Thus, ERRP has actually been 3 percent more efficient than  
11 projected.

12 Q. Please summarize your findings with respect to the County's objection to the current  
13 allocation method continued in the Joint Proposal.

14 A. I conclude that Westchester's claim of harm to ratepayers is without merit. All of the  
15 County's arguments, including its proposal that ERRP's electric production should be  
16 assigned its market value only, are nothing more than a total rejection of the  
17 incremental method and the Commission's approved allocation. Accordingly, the  
18 Commission should find that the County has not provided any justification for  
19 reversing the methodology it adopted in the 2004 Rate Order.

20 **Allocation of Waterside Net Gains**

21 Q. Will you please address the County's objection to the allocation of the net gains from

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<sup>17</sup> \$72.5 million in rent plus \$19.5 million in O&M expenses (Exhibit \_\_ FWR-2).

RICK SHANSKY – STEAM

1 the sale of Waterside.

2 A. The County objects that the revenue requirement set in the Joint Proposal reflects the  
3 Company's proposal in Case 01-E-0377 to use the ERRP allocation of capital costs  
4 (approximately 2/3 electric and 1/3 steam) to allocate the net gains from the sale of  
5 Waterside. The County advocates use of the historic Waterside capital cost allocation  
6 (93.1% electric and 6.9% steam). Notwithstanding the reasonableness of the  
7 Company's proposal, which was detailed in the Company's submissions in Case 01-E-  
8 0377, the County's objection is misplaced. The Commission is considering the  
9 allocation of proceeds in Case 01-E-0377, and I am advised by counsel that any  
10 objection to the Company proposal should have been filed by the County in a timely  
11 manner in that proceeding. The Joint Proposal (App. B, fn 1) expressly provides that if  
12 the Commission ultimately determines an allocation for the Waterside net proceeds that  
13 is different from the allocation reflected in rates, such difference will be "deferred and  
14 recovered from or credited to customers after the expiration of the Steam Rate Plan in a  
15 manner determined by the Commission."

16 **Steam Production (Joint Proposal Section I)**

17 Q. Do you agree with the County's proposal relating to Sections I.1 and I.2 of the Joint  
18 Proposal?

19 A. No. The County proposes that the Commission determine now that any future steam  
20 resource that may be required should be procured from third parties rather than  
21 produced in facilities constructed by Con Edison. The County also objects to the  
22 continuation of the confidentiality provisions approved in the 2004 Rate Order and

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1 suggests that allowing “full input from all interested parties, including Westchester”  
2 would prevent excessive costs and disproportionate allocations to the electric  
3 department.

4 The Joint Proposal requires Con Edison to file with the Commission a Steam Resource  
5 Plan that will examine and discuss various resource options, including “competitively  
6 procured capacity,” identify the option(s) selected by Con Edison, and fully support and  
7 justify that selection. The County’s proposal that the Commission prejudge the results  
8 of this planning process is unjustified. Nor is there any need for the County to review  
9 the cost assumptions that Con Edison will develop in the Investment Grade Evaluation  
10 in order to prevent “disproportionate” allocations to the electric department. In keeping  
11 with past practice in such studies, only total steam and electric costs will be examined  
12 and no assumptions will be made with respect to cost allocation. When the Steam  
13 Resource Plan is completed and filed with the Commission, the County will have  
14 ample opportunity to request any of its underlying analyses, including any proposed  
15 cost allocations, and/or comment to the Commission on the recommendations of that  
16 Plan.

17 Thus, no change to the Joint Proposal is necessary to address the County’s concerns.

18 Q. Does this conclude your testimony?

19 A. Yes.