

05-S-1376

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March 13, 2006

**VIA HAND DELIVERY**

Hon. Jaclyn Brilling  
Secretary  
State of New York Public  
Service Commission  
Three Empire State Plaza, 14<sup>th</sup> Floor  
Albany, New York 12223-1350

2006 MAR 13 PM 4:17

STATE OF NEW YORK  
PUBLIC SERVICE  
COMMISSION  
ALBANY

Re: Case 05-S-1376 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Steam Service

Dear Secretary Brilling:

Please find enclosed an original and five (5) copies of the Rebuttal Testimony and Exhibits of Dr. Alan Rosenberg filed on behalf of the City of New York in the above-captioned proceeding. Also please find attached a Summary of Dr. Rosenberg's Rebuttal Testimony. Copies of the aforementioned Rebuttal Testimony, Exhibits and Summary are being served on the active parties list via e-mail and U.S. Mail.

Please have the extra copies of the testimony time-stamped and returned to our messenger. Please call me if you have any questions.

Very truly yours,

COUCH WHITE, LLP  
*Robert M. Loughney*  
Robert M. Loughney

RML/MHB/slg  
Enclosures

cc: ALJ Robert R. Garlin (via Hand Delivery; w/enc.)  
Kevin Lang, Esq. (via Hand Delivery; w/enc.)  
Active Party List (via e-mail and U.S. Mail; w/enc.)

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## Summary of Dr. Rosenberg's Rebuttal Testimony

Dr. Rosenberg's testimony covers three parts: (i) response to the County of Westchester witness Frank Radigan's proposal to shift costs from the electric department to the steam department; (ii) response to Staff's suggested treatment of the fixed cost recovery of ERRP; and (iii) an explanation of how Staff's proposal to have a zero increase in base rates, impacts my proposal to charge current base rates. As part of his testimony, Dr. Rosenberg urges that the County of Westchester's recommendations for transferring the ERRP to the steam department be rejected because, inter alia, they would exacerbate the steam department's difficult competitive position.

**Before the  
New York State Public Service Commission**

**Case No. 05-S-1376**

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**CONSOLIDATED EDISON COMPANY  
OF NEW YORK, INC.**

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Rebuttal Testimony of  
**Dr. Alan Rosenberg**

On Behalf of  
**The City of New York**

March 13, 2006  
Project 8493



**BRUBAKER & ASSOCIATES, INC.**  
ST. LOUIS, MO 63141-2000

Before the  
New York State Public Service Commission

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case No. 05-S-1376

Rebuttal Testimony of Dr. Alan Rosenberg

1 Introduction/Summary

2 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A My name is Dr. Alan Rosenberg. My business address is 1215 Fern Ridge Parkway,  
4 Suite 208, St. Louis, Missouri 63141-2000.

5 Q ARE YOU THE SAME DR. ROSENBERG WHO FILED DIRECT TESTIMONY ON  
6 BEHALF OF THE CITY OF NEW YORK ("CITY") IN THIS PROCEEDING?

7 A Yes.

8 Q WHAT IS THE SUBJECT MATTER OF YOUR REBUTTAL TESTIMONY?

9 A In the first section of my rebuttal testimony, I respond to County of Westchester  
10 ("COW") witness Frank Radigan's proposal to shift more costs from the electric  
11 department to the steam department.

12 In the second section of my rebuttal testimony, I respond to Staff's suggested  
13 treatment of the fixed cost recovery of ERRP.

1           In the third section of my testimony, I explain how the Staff proposal, to have  
2           a zero increase in base rates, impacts my proposal to change current base rates.

3    **Response to Mr. Frank Radigan**

4    **Q     PLEASE SUMMARIZE MR. RADIGAN'S PROPOSALS.**

5    A     As I understand Mr. Radigan's testimony, he suggests

6           1.     Transferring the entire ERRP to the steam department, and thus severing all  
7           connection between the ERRP and the electric department.

8           2.     Allocating 90% of the proceeds from the sale of Waterside to the electric  
9           department.

10   **Q     WHAT ARE THE IMPLICATIONS OF THESE RECOMMENDATIONS?**

11   A     That is not entirely clear from Mr. Radigan's testimony, which is one reason why his  
12           recommendations should not be accepted. For example, on page 7 of his testimony  
13           he states that his proposed reallocation of revenues from the electric department to  
14           the steam department results in an annual increase in steam *fuel* costs of  
15           \$80 million.<sup>1</sup> However, further on in his testimony, at page 12, he states "the Steam  
16           Department is underpaying by approximately \$176 million."<sup>2</sup>

17   **Q     IS THERE ANY VALIDITY TO MR. RADIGAN'S CLAIMS ABOUT THE STEAM  
18           DEPARTMENT UNDERPAYING FOR THE OPERATING COSTS OF ERRP?**

19   A     No. For example, the \$176 million is based on Mr. Radigan's assertion that the  
20           "actual cost of steam production at ERRP" is \$25.26 per Mlbs.<sup>3</sup> I find this figure to be

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<sup>1</sup> He filed revised Direct Testimony. Originally, Mr. Radigan had estimated this figure at \$70 million.

<sup>2</sup> Originally, Mr. Radigan had estimated this figure at \$154.8 million.

1       dubious. Con Edison is estimating its total fuel and purchased steam for the rate  
2       year at approximately \$383 million (Testimony of Ms. Irina Northup, page 3), which  
3       when divided by total steam sendout of 30,500 million pounds (from Exhibit IN-1)  
4       yields an average production cost of steam of \$12.56 per Mlbs, or less than half of  
5       Mr. Radigan's figure. To suggest that ERRP, which should have a very high  
6       efficiency, has a cost which is over twice the average cost of steam seems far-  
7       fetched. In fact, my review of Mr. Radigan's workpapers indicates that his "steam  
8       cost" is merely the quotient of total gas cost for *electricity* divided by the *steam*  
9       produced, and so mixes totally disparate factors.

10   **Q     IF THE COMMISSION WERE, HYPOTHETICALLY, TO REALLOCATE \$80**  
11   **MILLION OF FUEL COSTS FROM THE ELECTRIC SYSTEM TO THE STEAM**  
12   **SYSTEM, WHAT WOULD BE THE IMPACT ON EACH SYSTEM?**

13   **A     An \$80 million reallocation from the electric system to the steam system, would**  
14   **represent about a 1.3% decrease in the electric revenues (based on the twelve**  
15   **months ended June 30, 2005), but it would represent more than a 13% increase**  
16   **to the steam revenues, all other things held equal.**

17   **Q     WHAT WOULD A 13% INCREASE, OVER AND ABOVE ANY OTHER INCREASE**  
18   **THAT MIGHT RESULT FROM THIS PROCEEDING OR THE JP, LIKELY DO TO**  
19   **THE COMPETITIVE POSITION OF STEAM?**

20   **A     As I noted in my direct testimony, the steam department is already in a very**  
21   **precarious position. Even Mr. Radigan acknowledges the difficulty steam presently**  
22   **has competing with other energy sources. For example:**

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<sup>3</sup> Radigan direct testimony at page 11 [original FR Direct pagination].



1 Further, the Joint Proposal that resolved Case 03-S-1672, the Signatory Parties,  
2 which did not include Westchester, agreed "that the allocation of fuel, O&M and  
3 capital costs set forth in Appendix F fairly distributes the cost of ERRP based on  
4 principles of cost causation and should continue beyond the term of the Steam Rate  
5 Plan (Joint Proposal, p. 16)."

6 **Q DID THE COMMISSION RECENTLY REAFFIRM THE VALUE OF THE STEAM**  
7 **SYSTEM TO THE CITY'S ENERGY INFRASTRUCTURE?**

8 A Yes. As recently as December 5 of last year, the Commission issued an Order on  
9 the SBDP. In that Order, the Commission explicitly reaffirmed that the steam system  
10 is important to New York City's infrastructure (Order, page 10) and endorsed the  
11 Task Force's recommendations in the following terms:

12 Regardless, the Task Force's recommendations are meritorious and  
13 should allow Con Edison, in combination with implementing the other  
14 action items, to grow the steam business and reduce reliance on its  
15 electric system, especially during peak periods. These  
16 recommendations also provide benefits to existing customers by  
17 reducing their utility costs. (page 13)

18 **Q DOES THE SBDP SHARE MR. RADIGAN'S DIM VIEW OF STEAM?**

19 A No. While Mr. Radigan liberally quotes from the SBDP, he conveniently ignores the  
20 following observation:

21 Hybrid steam air conditioning is a promising product that offers the  
22 prospect of increasing summer [steam] sales while not adding to  
23 winter peak load. (page 71)

24 Of course, that technology is only promising if Con Edison and the Commission are  
25 successful in holding down steam costs. Mr. Radigan's recommendations would  
26 undercut most of the goals of the SBDP.

1 Q DOES MR. RADIGAN DENY THE BENEFITS OF THE STEAM SYSTEM TO THE  
2 ELECTRIC CUSTOMERS?

3 A Mr. Radigan does not deny at all that the steam air conditioning load displaces 375  
4 MW of peak summer load. However, he then notes that in 1997 it represented 497  
5 MW load. Mr. Radigan then concludes, in a highly questionable leap of logic, that  
6 simply because the steam air conditioning displaces less electric load than in the  
7 past, there are no savings from avoiding new transmission and distribution facilities.  
8 Apparently Mr. Radigan believes that displacing 375 MW of electric peak load  
9 provides zero benefits to Con Edison's electric planning. Needless to say, I disagree.  
10 While the steam system clearly will not avoid the need for all new transmission and  
11 distribution facilities, its elimination, whether gradual or more immediate, would place  
12 a considerable burden on Con Edison's electric system.

13 Q MR. RADIGAN STATES THAT THE EAST SIDE IS NOT A LOAD POCKET.  
14 PLEASE COMMENT.

15 A Mr. Radigan relies solely on a 10-year old letter for this conclusion. Without  
16 corroboration from the NYISO, I cannot give much credence to his conclusion. The  
17 burgeoning load growth in the City clearly makes a decade-old view of East Side  
18 system constraints of little or no value. Clearly, in the last case the Commission did  
19 not agree with Mr. Radigan's conclusion:

20 Westchester is incorrect to assert that the facility's primary or  
21 exclusive benefits only extend to the steam system. **The electric**  
22 **system will receive substantial benefits from this in-City**  
23 **electric plan because it will serve load pockets on**  
24 **Manhattan's East Side and elsewhere in the borough.**  
25 Consequently, we find that upon its completion and  
26 commencement of operations, the ERRP will become an essential  
27 component of both the electric and steam systems.

28 (Order, page 27; emphasis added.)

1 Q DOES MR. RADIGAN SPEAK TO THE IMPACT THAT AVOIDING 375 MW OF  
2 INCREMENTAL LOAD HAS ON ZONE J PRICING?

3 A No. Mr. Radigan completely ignores that point.

4 Q DOES MR. RADIGAN ADDRESS THE POSSIBLE IMPACT THAT THE ERRP WILL  
5 HAVE ON ZONE J LBMP PRICES?

6 A No. Mr. Radigan ignores that aspect as well. While I have not done any analysis of  
7 my own, it seems reasonable to me that any new supply in the City should help in  
8 some measure to hold prices down from what they would be otherwise. Nor am I  
9 alone in this opinion. The March 2006 "Energy Update" from ConEdison Solutions,  
10 makes the following observation:

11 The addition of 1000 MWs of combined cycle generation [in New York  
12 City] should suppress congestion costs and the energy component in  
13 Zone J should move closer to the relatively lower energy costs  
14 experienced upstate.

15 Q MR. RADIGAN CLAIMS THAT THE EFFECTIVE COST OF STEAM FROM ERRP IS  
16 LESS THAN THAT OF ANY OTHER PLANT. PLEASE COMMENT.

17 A That may be correct, but it is of little relevance. Mr. Radigan never tells us what the  
18 effective cost of electricity would be from ERRP if his proposals for transferring costs  
19 from the electric to the steam department were approved. If Mr. Radigan believes  
20 that the comparative price of electricity is irrelevant to cost sharing, then the price of  
21 steam should also be irrelevant to the question. Moreover, it is not clear to me why  
22 the cost of steam from ERRP should have any connection whatsoever to the average  
23 cost of steam on the system. ERRP has different capital costs, equipment vintage

1 and technology from Con Edison's other sources of steam, so it is quite unsurprising  
2 that its fuel costs should be different as well.

3 **Q WHAT IS MR. RADIGAN'S RECOMMENDATION RELATIVE TO THE**  
4 **ALLOCATION OF COSTS FOR ERRP BETWEEN THE ELECTRIC SYSTEM AND**  
5 **THE STEAM SYSTEM?**

6 A After arguing for a change to the long-standing incremental cost sharing  
7 methodology, Mr. Radigan proposes an alternative solution. He recommends that  
8 the ERRP should be transferred entirely to the steam department, with no connection  
9 whatever to the electric department.

10 **Q IS THIS CONSISTENT WITH WHAT THE COMMISSION ORDERED IN CASE 03-S-**  
11 **1672?**

12 A In a word, no.

13 **Q WHY DOES MR. RADIGAN BELIEVE THE COMMISSION SHOULD REVISIT THIS**  
14 **ISSUE?**

15 A From what I can tell, Mr. Radigan's testimony is predicated on one change – and one  
16 change alone – the economics of ERRP are not as favorable as they appeared when  
17 the Commission approved the Joint Proposal in the last steam rate case. Mr.  
18 Radigan observes that while the Commission Order approving the sharing of this  
19 facility noted that for the (then) upcoming rate year, the net cost to the electric  
20 department (the electric department's share of the ERRP-related cost less the market  
21 value of the ERRP-produced electricity) was projected to be \$60 million. In contrast,  
22 Mr. Radigan calculates this net cost to be \$90 million.

1 Q SHOULD THIS CHANGE WARRANT ACCEPTANCE OF MR. RADIGAN'S LOCK,  
2 STOCK AND BARREL "SOLUTION"?

3 A No. In the first place, Mr. Radigan's testimony regarding the economics of the ERRP  
4 is strikingly devoid of detailed analysis and sources for his claims. Thus, his  
5 conclusions are, to say the least, open to question. For example, I note that in  
6 calculating the value of capacity from ERRP, Mr. Radigan did not use the total  
7 capacity of that plant, but only its excess over that of Waterside.

8 In the second place, figures from one year (actually, 10 months), hardly  
9 constitute a valid basis for a rigorous analysis – particularly an analysis on which he  
10 proposes to entirely abrogate a Commission decision. For example, in one of those  
11 10 months, April, the first month of operation, the ERRP had a capacity factor of only  
12 29%, and the next month, May, only 53%. I would hope and expect that those  
13 figures are atypical of the ERRP operation going forward. Finally, given that the  
14 effects of hurricanes Katrina and Rita weighed heavily in causing a sharp spike in gas  
15 prices during that time period, I do not believe that his figures are representative of  
16 more normal gas prices.

17 In the third place, Mr. Radigan's analysis is one-sided, that is he only looked  
18 at the electric side of the equation. Undoubtedly, the higher electric net cost has  
19 something to do with the ERRP cost over-runs. However, absent a prudence  
20 disallowance, those cost overruns will negatively impact steam customers also. In  
21 any event, just because the ERRP is more expensive than was contemplated does  
22 not justify Mr. Radigan's proposal to toss what ostensibly could be a white elephant  
23 onto the steam side of the equation.

24 Fourth, as I noted before, Mr. Radigan never considers what other benefits  
25 the steam system is providing the electric system and the public at large. The SBDP,

1 for example, cites such advantages that flow directly from the availability of Con  
2 Edison steam.<sup>4</sup>

3 Fifth, under Mr. Radigan's paradigm of regulation, the price of a monopoly  
4 service, steam, would be determined by the unregulated price of electricity. That can  
5 hardly be said to constitute sound regulatory policy.

6 Finally, Mr. Radigan's testimony gives no clue as to the potential impacts of  
7 his "lock, stock and barrel" recommendation on the net costs of the electric  
8 department and the steam department.

9 **Q IS MR. RADIGAN'S PROPOSAL TO TRANSFER ALL THE ERRP COSTS TO THE**  
10 **STEAM DEPARTMENT REASONABLE ON ITS FACE?**

11 **A** No. To put his proposal in perspective, based on Mr. Radigan's figures (which I have  
12 not had an opportunity to independently verify, and so accept at face value solely for  
13 the purposes of this testimony), the ERRP would produce approximately 24% of the  
14 steam department sendout (7,325 million pounds, according to Mr. Radigan, out of a  
15 total of 30,500 million pounds). However, its cost would be over 5 times the net book  
16 cost of the remaining production plant (\$800 million versus \$155 million). Clearly,  
17 this is totally out of proportion and it should be obvious that the ERRP would never  
18 have been built if Con Edison was not also in the electric business.

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<sup>4</sup> SBDP, at page14.

1 Q WHY IS THE STAFF RECOMMENDING THAT ERRP NOT BE PUT INTO BASE  
2 RATES?

3 A The Staff Rate Panel explains that this recommendation is predicated on two facts:

4 1. The cost of ERRP has increased significantly since the last rate proceeding  
5 and a thorough review is necessary before these costs can be allowed in  
6 base rates and:

7 2. The ERRP was not properly allocated in the ECOS study. (In point of fact, it  
8 was not in the ECOS at all.)

9 Q DO YOU AGREE WITH THE STAFF'S REASONING?

10 A I totally agree with the Staff's concerns (indeed, I pointed out the second problem in  
11 my direct testimony in this proceeding). However, I cannot totally agree with the  
12 Staff's proposed response to those concerns.

13 Q IF YOU AGREE WITH THE STAFF'S CONCERNS, WHY CAN YOU NOT AGREE  
14 WITH THE PROPOSED SOLUTION?

15 A I cannot agree because the proposed solution, recovering the costs through the FAC,  
16 does not solve either of the two problems noted by Staff. If the costs of ERRP are  
17 excessive, but the costs are still being allowed through the FAC, then customers will  
18 still be paying 100% of those costs. Moreover, they will be paying them in a  
19 volumetric fashion, which is contrary to what the Staff is recommending, namely that  
20 they be allocated on peak demand. Thus, while the Staff proposal may resolve the  
21 issues in Con Edison's next base rate case, the Staff proposal does nothing to solve  
22 the problem in the interim.

1 Q HOW CAN THE PROBLEMS BE RESOLVED IN THIS CASE?

2 A In this case, the first problem can best be resolved by only recovering a fraction of  
3 the ERRP costs. That fraction should logically be the cost estimate made in the last  
4 proceeding divided by the claimed cost in this proceeding. The balance of the costs  
5 can be held in a deferral account that can be dealt with at the time of the next base  
6 rate steam proceeding, after a thorough prudence review of the ERRP project.

7 Moreover, if the Staff does not want any of the costs in base rates at this time,  
8 then the easiest way to solve the second problem is to have a temporary ERRP rider,  
9 where the costs are allocated to the classes in proportion to peak demand (as Staff  
10 recommends), and then collected in some volumetric fashion for ease of  
11 administration.

12 Q HAVE YOU DEVELOPED SUCH A RIDER?

13 A Yes. Exhibit AER-2, Schedule 1 shows the development of the charge for each class  
14 under such a Rider, using as an illustration, 75% of the ERRP costs.

15 **Appropriate Response to a Zero Increase in Base Rates**

16 Q ARE YOU AWARE OF THE STAFF RECOMMENDATION FOR A ZERO INCREASE  
17 IN BASE RATES?

18 A Yes.

1 Q IF THE COMMISSION CONCURS WITH THAT PROPOSAL, SHOULD THE BASE  
2 RATES REMAIN UNCHANGED?

3 A No. As a corrected ECOS study shows, there are still deviations from cost of service  
4 beyond the plus or minus 10% tolerance band typically used by the New York PSC.  
5 Specifically, the SC 2 Class, under current rates, is paying approximately \$6.5 million  
6 above that 10% tolerance band. Actually, cost inequities are best redressed at times  
7 of a zero or small increase to base rates because the impact on the classes that are  
8 not covering their cost of service is ameliorated.

9 Q HOW CAN THE COST INEQUITIES BE ELIMINATED WITH A ZERO INCREASE?

10 A They can be eliminated by following exactly the same simple algorithm for spreading  
11 the increase that I proffered in my direct testimony, i.e. eliminate the surpluses and  
12 deficiencies and then allocate whatever needs to be allocated, in order to hit the  
13 system revenue target, in proportion to rate base. I have prepared Exhibit AER-2,  
14 Schedule 2 to show the necessary changes to base revenue under the scenario of a  
15 zero increase.

16 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?

17 A Yes.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Development of ERRP Rider

<u>Line</u>	<u>Description</u>	<u>Total Steam System (1)</u>	<u>General Service SC No. 1 (2)</u>	<u>Annual Power Service SC No. 2 (3)</u>	<u>Apartment Hse. Srvce. SC No. 3 (4)</u>
1	Fixed Cost to be Recovered <sup>(a)</sup>	\$ 25,845,000	\$ 1,065,292	\$ 16,680,984	\$ 8,098,724
2	Steam Sales (Mlbs)	<u>26,066,000</u>	<u>655,000</u>	<u>17,624,000</u>	<u>7,787,000</u>
3	Change in Rider \$/Mlbs <sup>(b)</sup>		\$ 1.63	\$ 0.95	\$ 1.04

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<sup>(a)</sup> \$34,460,000 of ERRP carrying cost times 0.75, allocated on Peak Demand.

<sup>(b)</sup> Line (1) / Line (2).

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Recommended Change in Base Rates  
Under a Net Zero Change  
(Dollar amounts in thousands)

<u>Line</u>	<u>Description</u>	<u>Total Steam System (1)</u>	<u>General Service SC No. 1 (2)</u>	<u>Annual Power Service SC No. 2 (3)</u>	<u>Apartment Hse. Srvc. SC No. 3 (4)</u>
1	Elimination of Surplus / Deficiency <sup>(a)</sup>	\$ 1,914	\$ 669	\$ (5,322)	\$ 6,568
2	Reallocation <sup>(b)</sup>	<u>(1,914)</u>	<u>(142)</u>	<u>(1,184)</u>	<u>(588)</u>
3	Net Change to Current Base Rates <sup>(c)</sup>	\$ -	\$ 527	\$ (6,507)	\$ 5,980

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(a) Using corrected Cost of Service Study and +/- 10% tolerance band.

(b) Allocated on Rate Base to preserve relative rates of return.

(c) Line (1) + Line (2).