Comments 05-S-1376

COUCH WHITE
Counselors and Attorneys at Law

Couch White, LLP
540 Broadway
P.O. Box 22222
Albany, New York 12201-2222
(518) 426-4600
Telecopier: (518) 426-0376

Robert M. Loughney
Partner

Direct Dial: (518) 320-3404
Direct Telecopier: (518) 320-3495
email: rloughney@couchwhite.com

June 19, 2006

VIA HAND DELIVERY

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

Re: Case 05-S-1376 – Consolidated Edison Company of New York, Inc. – Steam Rates

Dear Secretary Brilling:

Please find enclosed an original and five (5) copies of the City of New York's Statement in Support of the Joint Proposal that was filed in the above-captioned proceeding on June 2, 2006. Copies of the aforementioned statement in support are being served on the active parties list via e-mail and U.S. Mail without the attachments, which represent Dr. Alan Rosenberg's pre-filed Direct and Rebuttal Testimony, and which previously have been served on all parties.

Please have the extra copy of the statement in support 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: Hon. Rafael Epstein (via hand delivery; w/enc.)
Kevin Lang, Esq. (via hand delivery; w/enc.)
Active Parties to Case 05-S-1376 (via e-mail; w/enc)

J:\DATA\Client4\11922\Corres\Brilling4.doc

RECEIVED
2006 JUN 19 PM 4:30
PUBLIC SERVICE
COMMISSION
EXEC-FILES-ALBANY

ORIGINAL

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

Case 05-S-1376

STATEMENT OF NEW YORK CITY IN SUPPORT OF THE JOINT PROPOSAL

Dated: June 19, 2006

COUCH WHITE, LLP
540 BROADWAY
P.O. BOX 22222
ALBANY, NEW YORK 12201
(518) 426-4600

TABLE OF CONTENTS

PRELIMINARY STATEMENT

The City of New York (the "City"), one of the largest customers on the Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") steam system, hereby submits to Administrative Law Judge Rafael A. Epstein its Statement in Support with respect to the Joint Proposal that was filed with the State of New York Public Service Commission ("Commission") on June 2, 2006, in 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. The City is a signatory to the Joint Proposal, and, for the reasons set forth below, urges the Commission to adopt the Joint Proposal, without modification.[1]

STATEMENT OF FACTS

Con Edison currently provides steam service pursuant to a Joint Proposal approved by the Commission on September 27, 2004 ("2004 Joint Proposal").[2] The 2004 Joint Proposal expires on September 30, 2006. On November 2, 2005, Con Edison filed new tariff leaves and supporting testimony seeking authorization to increase its steam revenue requirement by $102.1 million for the rate year October 1, 2006 through September 30, 2007, which included a proposed shift of $34.5 million of East River Repowering Project

---

[1] Citations to the Joint Proposal are preceded by the notation "JP."

[2] Case 03-S-1672, 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, "Order Adopting Terms of a Joint Proposal" (issued September 27, 2004).

("ERRP") carrying charges from the steam fuel adjustment clause ("FAC") to base rates.[3] On November 22, 2005, the Commission issued an Order suspending the effective date of Con Edison's rate filing through March 31, 2006. On February 14, 2006, the Commission issued a second order suspending Con Edison's filing through September 30, 2006.

On or before February 27, 2006, seven parties, including the City, filed testimony in response to the Company's original filing. In its testimony, the City focused on four main areas: (i) the increasingly noncompetitive nature of the Company's steam rates and proposed reductions to the Company's revenue requirement; (ii) correction of two errors in the Company's cost of service study; (iii) adjustment to the proposed revenue allocation based on the corrected cost of service study; and (iv) recommended changes to the Company's S.C. 4 tariff. On or before March 13, 2006, four parties, including the City, filed rebuttal testimony. The City's rebuttal testimony included, *inter alia*, a response to the County of Westchester's proposal to shift costs from the electric department to the steam department.

The parties to the proceeding engaged in extensive settlement discussions during March, April, May and June 2006. The settlement negotiations culminated in the filing of a Joint Proposal on June 2, 2006. The following parties are signatories to the Joint Proposal: Con Edison, New York State Department of Public Service Staff ("Staff"), the City, Pace Energy Project, Consumer Power Advocates, New York Energy Consumers Council, Inc. ("NYECC"), Equity Office Properties, The E-Cubed Company, LLC, ConsumerPowerline and Redwood Power Company. To date, the only parties indicating an

[3] Without the ERRP cost transfer, the net increase to base rates was $67.6 million, or a 9.6 percent increase.

intent to oppose the Joint Proposal are the County of Westchester and TransGas Energy Systems.

If adopted by the Commission, the Joint Proposal would govern Con Edison's steam rates for the two-year period commencing October 1, 2006 and ending on September 30, 2008. (JP at 3.) For purposes herein, the 12-month period starting October 1, 2006 and ending September 30, 2007 is defined as Rate Year 1 ("RY1") and the 12-month period starting October 1, 2007 and ending September 30, 2008 is defined as Rate Year 2 ("RY2"). Pursuant to the Joint Proposal, Con Edison will not implement any change to base rates during the two-year rate plan except for the shift of certain costs between base rates and the FAC. (JP at 3-4.) The Joint Proposal achieves the zero base rate increase by netting a rate decrease of $3.815 million calculated for RY1 with a rate increase of $7.635 million calculated for RY2. (JP at 4.)

ARGUMENT

THE JOINT PROPOSAL IS IN THE PUBLIC INTEREST AND SHOULD BE ADOPTED WITHOUT MODIFICATION

In evaluating proposed multi-year rate settlements, the Commission typically considers the following factors:

> (i) the settlement's consistency with law and with the regulatory, economic, social and environmental policies of the Commission and the State; (ii) whether the result compares favorably with the likely result of full litigation and is within the range of reasonable outcomes; (iii) whether the settlement strikes a fair balance among the interests of ratepayers and investors and the long-term soundness of the utility; (iv) the existence of a rational basis for the decision; (v) the

completeness of the record; and (vi) whether the settlement is contested.[4]

The City asserts that these factors have been satisfied and that the Joint Proposal accordingly should be adopted in its entirety, and without change, in this proceeding.

Initially, the Joint Proposal provides for rate stability by avoiding large rate increases and implementing a series of economic development initiatives that include potential revenue adjustments if Con Edison does not meet established performance metrics. Thus, the Joint Proposal will contribute to the economic viability of Con Edison's steam business and is consistent with the regulatory, economic, social and environmental policies of the Commission. For example, the record clearly establishes that the steam system provides important economic benefits in the form of lower electric prices in NYISO Zone J.[5] In addition, the steam system is environmentally beneficial in that it reduces the need for additional in-City electrical and natural gas infrastructure (Attachment A at 10-11).

In addition, the resolutions embodied in the Joint Proposal compare favorably with the likely results of litigation. The parties in this proceeding contested the need for any

---

[4] Case 90-M-0255, Proceeding on Motion of the Commission Concerning its Procedures for Settlement and Stipulation Agreements, filed in C 11175, and Case 92-M-0138, In the Matter of the Rules and Regulations of the Public Service Commission Contained in 16 NYCRR, Chapter I, Rules of Procedures – Proposed Amendments to Subchapter A, General, Part 2, Hearings and Rehearings by the Addition of a New Section 2.6, Settlement Procedures, filed in C 11175, Opinion No. 92-2, "Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines," p. 30 (issued March 24, 1992).

[5] Dr. Rosenberg Direct Testimony at 10. In order to add contextual background regarding the City's litigated positions, attached hereto is the original prefiled direct and rebuttal testimony and exhibits of Dr. Alan Rosenberg (Attachments A and B, respectively). Inasmuch as the attachments already have been served on the parties in this proceeding, the City is not resending them to the service list.

base rate increase. For example, City witness Dr. Alan Rosenberg testified that depreciation costs were overstated and that the revenue requirement needed to be reduced significantly (Attachment A at 8). Staff's litigated case recommended no change in base rates in RY1. In light of these disparate litigation positions, the Joint Proposal compares favorably with a potential litigated result. The Proposal also strikes a fair balance between customers and utility stakeholders, properly balancing the goal of operating a safe and reliable steam service at the lowest cost with providing a suitable rate of return to utility shareholders.

In addition, there is an extensive record supporting the Joint Proposal and the record provides the basis for concluding that the compromises set forth in the Joint Proposal are justified. As noted earlier, extensive testimony was filed by a number of parties, including many of the parties supporting the Joint Proposal. That testimony advocated diverse positions on a myriad of revenue requirement and rate design issues, all of which either are resolved, or a process is established for resolving them, in the Joint Proposal. Accordingly, the record supports the recommendations set forth in the Joint Proposal.

Finally, it is noteworthy that the Joint Proposal enjoys broad support among diverse stakeholders representing varied interests. The County of Westchester and TransGas Energy Systems are the only parties that oppose the settlement. Neither party represents Con Edison steam customers, nor does either party currently provide steam to Con Edison, or have a contract to do so in the future. On the other hand, the supporters of the Joint Proposal represent a broad spectrum of Con Edison steam customers and environmental and other interests that are dependant on the terms of Con Edison's steam tariffs for their business

interests. A complete review of the record will confirm that the support for the Joint Proposal overwhelms the limited opposition.

For all the reasons set forth herein, the City urges the Commission to adopt the Joint Proposal, without modification.

A. The Joint Proposal Stabilizes the Steam System by Providing for No Base Rate Increase

The Joint Proposal provides that Con Edison will not have any increase in base rates for the period from October 1, 2006 through September 30, 2008. As noted earlier, in its rate filing in this proceeding Con Edison sought a net increase in base rates of $67.6 million for RY1, and also proposed a multi-year approach that would have increased rates another $15.1 million in RY2. Thus, the Joint Proposal allows Con Edison's steam customers to avoid potential increased steam costs of $150.3 million ($67.6 million x 2 plus $15.1 million) over the settlement period.

These savings, embodied in the Joint Proposal, are crucial to the future viability of the steam system. As Dr. Rosenberg testified, Con Edison's requested rate relief in this proceeding followed base rate increases of almost $50 million in October 2004 and $27.4 million in October 2005 (Attachment A at 3). Dr. Rosenberg also testified that, if the requested increases were granted, the steam system would be in peril: "extremely high [steam] rates will ultimately induce customers to use other sources of energy for their heating and cooling. As customers leave the system, Con Edison will be forced to cover its fixed costs from a reduced steam load, driving rates higher, which will lead to even greater

migration from the steam system."[6] Avoiding a base rate increase for the term of the Joint Proposal should help stabilize the Con Edison steam system and attract new customers. Accordingly, because the avoidance of any base rate increase during RY1 and RY2 is essential for the steam system's continued viability and growth, the Joint Proposal is in the public interest and should be approved.

B. Allocation of 59th Street and 74th Street Costs

During the instant proceeding, Con Edison demonstrated that a portion of the 59th Street and 74th Street Stations ("Stations") are used by the electric department to house gas turbines that are used, or have been used, to support local electric networks. Additionally, Con Edison has indicated that it will use space in the 74th Street Station to build a new, large electric substation to support networks in the vicinity of that Station, beginning in RY1. (JP at 4, 5.) Clearly, there is joint use of both the 59th and 74th Street Stations by the electric and steam departments.

Based upon these facts, the Joint Proposal provides that a portion of the common costs of the Stations should be allocated to Con Edison's electric department. (JP at 5.) The allocation methodology between the electric and steam department set forth in the Joint Proposal is based upon the square footage of used and useful steam and electric facilities at the Stations, including the footprint of the new electric substation being examined to support networks in the vicinity of the 74th Street Station. (*Id.*) Pursuant to the methodology, the Joint Proposal provides that $4.4 million of the Stations' annual common

[6] *Id.*

costs should be allocated to the electric department, with the remainder being allocated to steam. (*Id.*) The cost allocation methodology for the Stations is equitable for the term of the Joint Proposal to electric and steam customers and should be approved.[7]

C. East River Repowering Project

The Joint Proposal also proposes a method by which carrying charges (i.e., return on investment, depreciation, and property and other taxes) on the ERRP will be recovered in RY1 and RY2. Pursuant to the Joint Proposal, for RY1 ERRP carrying charges will continue to be allocated and recovered through the FAC in the manner set forth in the 2004 Joint Proposal, except that the total carrying charges on capital costs allocable to steam shall be based on actual total capital costs (including AFUDC) not to exceed $788.3 million. (JP at 9.) For RY2, the steam department's share of the carrying charges will be transferred from the FAC into base rates on a earning neutral basis. (*Id.*)

In RY1 and RY2, the ERRP carrying charges will be allocated to each service class on the basis of that year's forecasted sales volumes. Thus, when the ERRP carrying charges are transferred into base rates at the beginning of RY2, they will be allocated volumetrically in a manner that tracks how they currently are collected through the FAC. This is a critical component of the Joint Proposal to the City because it ensures no significant bill changes will occur during the term of the Joint Proposal. It would be unfair to change the allocation methodology in the middle of the settlement period because such a change

[7] While the City supports the allocation methodology provided for the Stations in the Joint Proposal, it specifically reserves the right to examine the fairness of the allocation methodology, and possibly to propose an alternative methodology, in any future rate case.

would increase base rates for many customers in RY2. The settling parties sought to avoid the confusion and economic distress that would accompany such a change in the methodology allocation by continuing a volumetric allocation for RY1 and RY2. Accordingly, the ERRP carrying charge allocation methodology should be approved.[8]

D. Rate Design Collaborative

The Joint Proposal provides that there will be a rate design collaborative beginning in May, 2007, to determine whether S.C. 1, 2 and 3 rate design changes should be undertaken and whether the S.C. 4 back-up/supplementary rate should be changed intra-class steam rate designs. For example, Dr. Rosenberg raised concerns about whether the S.C. 2 class load factor was properly reflected in rates (Attachment A at 13-16) and the way that Con Edison proposed to allocate the base rate increase to the S.C. 2 rate blocks (Attachment A at 23). Similarly, Dr. Rosenberg testified that the S.C. 4 rate design is not cost-based and overcharges S.C. 4 customers (Attachment A at 25-28). The elimination of any base rate increase during the term of the Joint Proposal provides the parties with time to investigate whether rate design changes are needed, and the collaborative provides the process for that analysis. According, the rate design collaborative should be approved.

---

[8] The Joint Proposal provides that the ERRP costs will be allocated in the cost of service study in the next case based on a demand allocator. (JP at 11.) That is appropriate because the next study also will include a correction to how fixed line losses were handled in the cost study (Id.) and updated information from the rate design collaborative (see below). Until all these corrections can be incorporated into a new cost study, however, the volumetric approach set forth in the Joint Proposal should be approved.

E. Computation and Disposition of Earnings

The Joint Proposal also establishes the formula to be used in computing the disposition of the Con Edison's excess earnings. Pursuant to the Joint Proposal, in general, if in any Rate Year the Con Edison's common equity return exceeds 11.0 percent, the amount above this earnings threshold would be shared between customers and the company. (JP at 15.) For the first 100 basis points, one-half of the revenue equivalent of any such shared earnings will be deferred for the benefit of customers and the remaining one-half will be retained by the Con Edison. (*Id.*) For shared earnings of more than 100 basis points above the earnings sharing threshold, 75 percent of the revenue equivalent will be deferred for the benefit of customer and the remaining 25 percent of the revenue equivalent of any shared earnings will be retained by the Con Edison. (JP at 15, 16.) Because the sharing formula provided in the Joint Proposal is an equitable mechanism to divide excess earnings between customers and the Con Edison's shareholders, it should be approved.

F. Steam Business Development and Retention

The Joint Proposal also addresses the long-term effect of stagnant or dwindling sales and increasing costs on the continued viability of the Company's steam business. The need for a comprehensive approach to ensuring the future economic viability of the steam business was recognized in the Commission's Order in Case 03-S-1672, which yielded Steam Business Development Plan ("SBDP") that was approved by the Commission in

December, 2005.[9] In the Joint Proposal, the settling parties have made a substantial effort to ensure that Con Edison has clear economic development goals that it must achieve.

The pending Joint Proposal seeks to implement a number of initiatives to ensure the steam department's continued viability. Many of the initiatives include specific performance metrics that Con Edison must satisfy in order to avoid identified revenue adjustments. For example, the Joint Proposal requires Con Edison to identify potential customers that may benefit from the use of hybrid chiller systems. (JP at 22, 23.) The SBDP identified hybrid chillers as a primary target for summer sales growth, and the Joint Proposal introduces a series of milestones that have potential revenue adjustments associated with them to ensure that Con Edison aggressively seeks to expand the hybrid chiller market.

Similarly, the Joint Proposal also requires the Con Edison to identify potential customers that may benefit from converting a portion of their electric air conditioning to steam air conditioning (JP at 24) and to perform limited energy audits that will identify how customers can improve the "smart" use of steam. (JP at 25.) Again, both of these economic development initiatives require Con Edison to meet established deadlines or incur revenue requirements.

Another steam business development initiative, critical to the City, is the requirement that Con Edison retain an independent consultant to perform a "district energy study" that will address whether potential growth at Hudson Yards can be met by

---

[9] Case 03-S-1672, 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, "Order on Consolidated Edison Company of New York, Inc.'s Steam Business Development Plan" (issued December 5, 2005).

nonconventional means – for example, a campus-style heating and/or cooling system that is not connected directly to the existing steam system (JP at 27).[10] The initiative includes a performance metric and a potential revenue adjustment if the performance metric is not achieved. Because of the importance of looking for new ways to expand the steam system and ensure its future viability, the district energy study should be approved.

G. Steam Production

Section I of the Joint Proposal, titled Steam Production, requires an investment grade evaluation of two Hudson Avenue repowering options identified from Phase I of the nearly-completed Phase I Steam Production Study ("Investment Grade Evaluation"). (JP at 32.)[11] The Investment Grade Evaluation is a critical component in the development of the Steam Resource Plan (see below), and the Joint Proposal spells out in detail how the Evaluation will be performed and how it will be utilized. The Investment Grade Evaluation of the repowering options is essential to ensuring a comprehensive, fair study of Con Edison's future resource planning and should be approved.

The Joint Proposal also requires the prompt completion of a Steam Resource Plan that will examine various future steam resource options including, but not limited to, the repowering options evaluated as part of the Investment Grade Evaluation. (JP at 34.) The Resource Plan also will identify and fully support Con Edison's choice of future supply

[10] The cost of interconnecting to the existing steam system is prohibitive and limits the geographic scope of the system. Accordingly, the City believes that "outside the box" approaches, such as the campus-style approach, may be necessary to expand its steam sales.

[11] There is an exception if Con Edison identifies and can justify a clear and convincing single preferred option from Phase I.

options. (Id.) Because of the critical nature of the Plan, a $2.0 million revenue adjustment will be imposed if Con Edison does not file the Plan in a timely manner. The Steam Resource Plan initiative is a fundamental building block for a viable steam system and should be approved.

Finally, the Joint Proposal requires that Con Edison develop an implementation plan to reduce steam line losses and/or improve thermal efficiencies. (JP at 34.) Reducing line losses and improving efficiencies will redound directly to the benefit of steam customers by reducing rates. Accordingly, the line loss/thermal efficiency initiative should be approved.

H. Reporting Requirements

The Joint Proposal requires Con Edison to file an annual Steam Strategic Plan that will incorporate the findings of a number of studies, including the SBDP, analyze past and future business development initiatives and, finally, establish short and long-term goals and implementation schedules for business development and production planning. (JP at 36.) The City believes that these Strategic Plans are critical to the future viability of the steam system. The requirement to develop and file the plans will force Con Edison, annually, to use all available strategic information to address shortcomings and identify opportunities that will affect the future of the steam system. Accordingly, the Strategic Plan initiative should be approved.

CONCLUSION

For all the reasons set forth herein, the Commission should approve the Joint Proposal without modification.

Dated: June 19, 2006
Albany, New York

Respectfully submitted,

Couch White, LLP /amg

Robert M. Loughney, Esq.
Moshe H. Bonder, Esq.
COUCH WHITE, LLP
Attorneys for The City of New York
540 Broadway
P.O. Box 22222
Albany, New York 12201-2222
(518) 426-4600

J:\DATA\Client4\11922\mhb06jp support.doc

CERTIFICATION OF SERVICE

I hereby certify that on this day a true copy of the above document was served upon the attorney of record for each party by mail/by hand/overnight delivery.

Date: 6/19/06 Alexa Glendye

ATTACHMENT A

Before the

New York State Public Service Commission

Case No. 05-S-1376

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Direct Testimony of

Dr. Alan Rosenberg

On Behalf of

The City of New York

February 27, 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

Direct Testimony of Dr. Alan Rosenberg

Introduction/Summary

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am a consultant in the field of public utility regulation and a principal with the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants. My qualifications are attached hereto as Appendix A.

Q ON WHOSE BEHALF ARE YOU TESTIFYING?

A I am testifying on behalf of the City of New York ("City") to review Consolidated Edison Company of New York Inc.'s ("Con Edison" or "the Company") filing to raise steam rates that is the subject of this proceeding.

Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?

A In the first section of my testimony I place Con Edison's proposed increase in perspective. I conclude that Con Edison's price of steam is becoming prohibitively expensive, especially in comparison with alternative sources of energy such as gas or electricity. If allowed to proceed in this manner, this competitive price disadvantage would frustrate the objective of "growing the steam business" that was laid out in the Steam Business Development Plan (SBDP) and found to be "meritorious" by the Commission in its recent order.[1] To address the growing competitive problem facing Con Edison's steam business, I recommend several adjustments to the Company's revenue requirement that will moderate the overall increase that steam customers will receive. In addition, I believe that the Commission must reexamine the relationship between the Electric and Steam Departments to ensure that the benefits that the Steam Department brings to electric customers are properly recognized. Finally, I recommend that the Commission ensure that Con Edison file a comprehensive implementation plan that will adopt the recommendations of the SBDP and the forthcoming Steam Production Study in a manner that will reverse the tide of spiraling steam prices.

In the second section of my testimony, I correct two errors in Con Edison's class cost of service study, and show the implications of this correction on the results of the cost study.

In the third section of my testimony, I propose an alternative allocation of the non-ERP revenue increase to base rates based on the corrected class cost of service study. I also explain why the ERP revenues that are now being collected through the FAC should be allocated to classes based on the demand allocator (DO1), rather

[1] Page 13 of Order in Case 03-S-1672 ("SBDP Order"), issued December 5, 2005.

than on annual volume as Con Edison has proposed. I then show the results of this recommendation on the increases faced by each class.

In the fourth section of my testimony, I comment on the Company's proposed rate design for SC 2.

In the final section of my testimony, I recommend several modifications to Con Edison's SC 4 tariff, which is designed to provide steam backup/supplementary service to customers who utilize both Con Edison supplied steam and another energy source for the same purpose at any time during the months of November through April.

Con Edison's Proposed Increase in Rates

Q WHAT IS THE MAGNITUDE OF THE INCREASE THAT CON EDISON IS REQUESTING IN THIS CASE?

A Con Edison is requesting a total base rate increase of $102 million, as noted in the testimony of Mr. Yaegel, page 16. Moreover, the requested rate relief follows a base rate increase of almost $50 million in October 2004 and $27.4 million increase in October 2005. Base rate increases, of course, do not include any increases in the cost of fuel. Because fuel is expected to be much more expensive going forward than it was in the historic rate year (twelve months ended June 30, 2005), the total bill impact on customers will be amplified.

Q WHY DO YOU CHARACTERIZE THE INCREASE AS $102 MILLION WHEN THERE WILL BE AN OFFSETTING DECREASE OF SOME $33 OR $34 MILLION IN THE FAC?

A I characterize it that way because that is only way to view the genuine impact of Con Edison's proposal on its steam customers. While it is true that $33 or $34 million of the $102 million increase represents a roll-in of East River Repowering Project (ERRP) costs from the FAC into base rates, those carrying costs began to be recovered in the FAC effective only nine months ago.[2]

Q DO YOU CONSIDER THIS A LARGE INCREASE?

A There is no other way to consider it. The base revenue for the twelve months ending June 30, 2005, excluding the base cost of fuel (which is more or less an arbitrary number and has no impact whatsoever on Con Edison's total revenue requirement or its total earnings), was $260 million. Thus, the requested increase is close to 40%. That is a large increase by any yardstick. (And remember, the $260 million itself represents a 40% plus increase over the non-fuel base revenues that were in effect less than two years ago.) Moreover, Con Edison is proposing, in addition to this $102 million, an additional base rate increase of more than $27 million in the subsequent two years. In addition, the benefit of the sale of the First Avenue properties will be amortized over three years. At the end of that amortization period, Steam rates will increase by the amount of that annual benefit (approximately $26 million).

[2] According to the response to City Question No. 71, the ERRP costs were first recovered in the steam FAC effective May 12, 2005.

Q WHAT HAS BEEN THE DIRECTION OF CON EDISON'S STEAM RATES IN RECENT HISTORY?

A I have put together a graph of the delivered cost of steam on Con Edison's system from 1999 to the present. This is shown on Schedule 1. The last data point on the graph shows the requested increase for the twelve months ended September 2007. Note that even by Con Edison's own figures, the rate increase sought here would bring the average cost of steam to $27 per Mlbs, more than twice the price of steam in 1999. Again, this does not even reflect the additional increases Con Edison is requesting for 2008 and 2009, nor does it reflect potential increases in the cost of fuel over what Con Edison is forecasting. For example, in January and February of this year, the steam FAC was approximately $13.50 per Mlbs. If the proposed SC 2 rates had been in effect, an SC 2 customer would have paid at least $34.74 per additional 1,000 lbs. of steam. On a heating equivalent, that is equivalent to paying approximately $35.00 per MMBtu of gas, a level that has never been reached even when gas prices exhibited their greatest volatility.

Q DOES THIS MAKE STEAM UNCOMPETITIVE WITH ALTERNATIVE SOURCES OF ENERGY?

A Yes. According to Con Edison, at the proposed rates, operating costs for steam heat for a typical office building in 2007 (750,000 square feet) would be about $136,000 per year, or 42% more than for a package boiler.[3] This cost disadvantage of steam grows more pronounced as the size of the building gets larger. This is shown on Schedule 2, which is a graph reproduced from page 68 of the SBDP.

[3] This information is derived from the response to City Question No. 88.

In the air conditioning market, the requested rate relief would make the cost disadvantage of steam even worse. In fact, Con Edison acknowledges that for a typical office building, steam air conditioning does not compete with an all-electric air conditioning system.[4]. And as the SBDP noted:

> Steam-only cooling is not cost competitive for full requirements applications under current market conditions. Con Edison steam has won only about 10 percent of new cooling business historically and little or none recently.[5]

Q WHAT ARE THE IMPLICATIONS OF THESE PRICE COMPARISONS?

A The implications are that Con Edison's steam system is in imminent danger of entering into a "death spiral". Left unchecked, extremely high rates will ultimately induce customers to use other sources of energy for their heating and cooling. As customers leave the system, Con Edison will be forced to cover its fixed costs from a reduced steam load, driving rates higher, which will lead to even greater migration from the steam system, and so forth.

Q WHAT REVENUE REQUIREMENT ADJUSTMENTS ARE YOU PROPOSING?

A The Commission should reject Con Edison's proposal to increase its depreciation rates. This will reduce the revenue requirement for the rate year by $25.7 million.

Q IS CON EDISON SEEKING AN INCREASE IN ITS DEPRECIATION RATES?

A Yes. Con Edison witness Charles D. Hutcheson is proposing an increase in the depreciation rates and expenses for its steam production investment, distribution investment, and the ERRP investment. Con Edison's proposed changes to the

[4] This information is derived from the response to City Question No. 88.
[5] SBDP, page 16.

depreciation rates increase the test year depreciation expense by approximately $9.4 million. In addition, Con Edison is proposing an adjustment to reflect the amortization of the reserve deficiency produced by revising the depreciation parameters, which are life characteristics and net salvage ratios. The amortization of the reserve deficiency increases the amortization expense by another $16.3 million. As a result, Con Edison is proposing an increase in depreciation and amortization expense of $25.7 million (Exhibit ___ (AP-11), Schedule 3, Page 2 of 2).

Q HAVE YOU REVIEWED CON EDISON'S DEPRECIATION STUDY?

A I have not reviewed Con Edison's depreciation study in detail. I take no position on the results of the depreciation parameter studies, which are life characteristics and net salvage, presented in this case.

Q WHAT IS YOUR RECOMMENDATION REGARDING CON EDISON'S PROPOSED CHANGES IN DEPRECIATION RATES?

A I am recommending the Commission continue to utilize Con Edison's current depreciation rates for purposes of establishing steam rates.

Q WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A The basis for my recommendation is two-fold. First, as elaborated earlier in this testimony, the steam system is in immediate danger of entering into a death spiral. If Con Edison is going to take steps to attract new business and retain existing customers, as set out in the SBDP endorsed by the Commission last December in its SBDP Order, steps should be taken to limit the rate increase as much as possible. Therefore, given the precarious competitive situation that the Company is in, the

Commission should reject Con Edison's proposal to increase its depreciation rates in this proceeding. Second, depreciation rates were just adjusted within the last two years and the impact of the proposed change in depreciation rates is simply not tolerable given current competitive conditions.

Q WHEN WERE CON EDISON'S CURRENT DEPRECIATION RATES APPROVED?

A Con Edison's current depreciation rates were approved as a result of a settlement reached in Con Edison's last rate proceeding, Case No. 03-S-1672. In that case, the Company prepared studies similar to those presented in this case, and the data used for those cases was based on data as of December 31, 2002. Therefore, the depreciation rates that are currently in place were based on a study that is only two years old. The proposed depreciation rates in this case utilize a study period ending December 31, 2004.

Q IS CON EDISON PROPOSING A SIGNIFICANT INCREASE IN ITS DEPRECIATION AND AMORTIZATION EXPENSE?

A Yes. The change in depreciation rates, coupled with the amortization of the depreciation reserve deficiency, produces a 50% increase in its depreciation and amortization expense. Because the current depreciation rates are only a little over two years old, it seems inappropriate at this time to make significant changes in rates, particularly given already noncompetitive steam prices. Therefore, I propose that current depreciation rates continue to be used. As noted earlier, this will reduce the revenue requirement by approximately $25.7 million.

Q DO YOU HAVE ANY FURTHER SUGGESTIONS FOR DEALING WITH THE REVENUE REQUIREMENT?

A Yes. I urge the Commission to reject completely the second and third steps of the requested steam increases -- the increases for 2008 and 2009. Given the potential magnitude of this increase, and the number of studies and suggestions for improvement developed in detail in the SBDP, I believe that it is premature to say the least to grant increases that far in advance.

Q WHAT OTHER ISSUES SHOULD THE COMMISSION BE CONSIDERING TO MITIGATE THESE SEEMINGLY NEVER-ENDING INCREASES?

A In this case, a major impetus for the increase is the fixed costs of electric-steam units that are being transferred to the steam customers. The fixed costs of the ERRP project accounts for $34 million of the $102 million requested. Furthermore, as noted by Con Edison witness Mr. Bozgo, the elimination of the rent paid by the Electric Department for the 74th and 59th Street plants, adds another $24.2 million to the rate request ("Transferred Plant Costs"). Thus, over half of the requested increase, approximately $58 million, is attributable to the manner in which costs are shared between the Electric and Steam Departments. At a minimum, the Commission should review whether the Transferred Plant Costs associated with the 74th and 59th Street plants should be placed into steam base rates without a more thorough analysis of how the benefits, that the Steam Department provides to the Electric Department, are being recognized.

Q WHAT IS THE BASIS FOR YOUR CONCERN?

A As I have stated, steam costs are spiraling out of control, possibly leading to a death spiral. Once customers have made capital investment decisions to use an energy source other than steam for their heating or cooling needs, they will not return to the steam system, at least for the life of the new or refurbished equipment. Thus, Con Edison, and its remaining steam customers, cannot afford to put these increases in place precipitously. Furthermore, the Commission must carefully weigh the potential for the Transferred Plant Costs to exacerbate the death spiral.

More importantly, I do not believe that adequate analysis has been presented to compare the relative and interacting benefits between the Steam and Electric Departments. The Commission should be concerned about transferring the Transferred Plant Costs to the Steam Department before ensuring that there is an equitable sharing.

Q COULD YOU PLEASE EXPAND ON THAT LAST POINT?

A Yes. Electric customers benefit from the steam system in at least two ways. First, they get the benefit of sales of energy, capacity and ancillary services into the New York ISO at Zone J prices. For the 288 MW ERRP plant, these revenues are considerable. Second, as noted in the SBDP:

> In addition to the direct value provided to its customers, the steam system reduces the need for peak summer electricity capacity by about 375 megawatts, benefiting all electric customers in the southeast New York market. The system also avoids the need for additional in-City electricity and natural gas infrastructure and other associate energy costs (e.g. electric energy) and customer expenses that would be incurred were the steam system unavailable.[6]

[6] SBDP, page 14.

Clearly, the continued viability of the steam system provides significant benefits for the electric system, and it is not clear now those benefits will be accounted for going forward.

Q IF THE COMMISSION DECIDED TO FORESTALL THE TRANSFER OF SOME OR ALL OF THE TRANSFERRED PLANT COSTS, WOULD THAT ADVERSELY IMPACT CON EDISON'S FINANCIAL INTEGRITY?

A No. Con Edison could accrue carrying costs on the portion of these costs that is not immediately passed through to the electric customers via the MAC rider. (I am implicitly assuming that these costs are found to be used and useful and prudently incurred. My testimony does not address these questions.)

Q WERE THE TRANSFERRED PLANT COSTS ADDRESSED IN THE JOINT PROPOSAL ADOPTED IN CASE 03-S-1672?

A Yes, and I acknowledge that the Company's proposed handling of these Transferred Plant Costs appears to be consistent with what was expressed in that Joint Proposal.

Q WHY THEN DO YOU BELIEVE THAT IT IS APPROPRIATE FOR THE COMMISSION TO REVISIT THIS ISSUE?

A As I stated above, I do not believe that the benefits of the Steam Department are properly accounted for, and this should be addressed. Also, the dire circumstances of the Steam business warrant an immediate investigation to ensure that all is being done to hold down the price of steam. As reflected in Schedule 2, Con Edison's proposed rates are 38% higher than what they were as late as 2003, the first full year before the JP was signed. I would also note that in the Order approving the JP, the

Commission rejected Westchester's effort to transfer some of the Transferred Plant Costs in the last proceeding, in large part due to the potential rate impact on Steam customers (Order, p. 28). The same customer impact concerns are present here, except they are worse now.

It is highly relevant here that the concerns in 2004 over large-scale steam rate increases summarized by the Commission in the Order in Case 03-S-1672 (Order, p. 20) were, if anything, understated in light of the subsequent exponential rise in steam costs. Accordingly, the underlying rationale for rejecting a transfer of the Transferred Plant Costs in Case 03-S-1672 is, if anything, stronger here, given the likely consequences for the continued viability of the steam system.

Q DO YOU HAVE ANY OTHER RECOMMENDATIONS?

A Yes. As a result of the last proceeding, the Company and interested stakeholders, including the City, have worked on the SBDP and continue to work on a Steam Production Plan. Once the Steam Production Plan is completed, the Company should be required to file a comprehensive implementation plan to adopt the recommendations of those studies in a manner that will make the Steam business more competitive. The work of all the parties will be in vain without a meaningful, immediate effort to implement the results of the studies. In this regard, the Commission may want to consider imposing incentives, such as imputing growth revenues, to ensure that the Company complies.

Corrections to Con Edison's Class Cost of Service Study

Q HAVE YOU REVIEWED THE CLASS EMBEDDED COST OF SERVICE STUDY (ECOS)?

A Yes.

Q WHAT ARE THE RESULTS OF YOUR ANALYSIS?

A Con Edison made two errors that should be corrected to improve the accuracy of the study. The first relates to Con Edison's calculation of the allocation factor for demand related costs, DO1. The second error concerns Con Edison's failure to allocate the fuel expense related to steam losses in an appropriate fashion.

Q PLEASE DESCRIBE THE DEMAND ALLOCATOR, DO1, AND ITS PURPOSE.

A DO1 is used to allocate production demand and distribution demand related costs, i.e., those caused by the need to respond to peak demands on the system, rather than the number of customers on the system or the amount of steam used on an annual basis. The allocator Con Edison used is the average demand, per hour (Mlbs per hour), from 6 AM through 11 AM, on the system peak day.

Q DO YOU OBJECT TO THE CHOICE OF THE FIVE-HOUR AVERAGE DEMAND ON A PEAK DAY AS THE APPROPRIATE ALLOCATOR FOR THE DEMAND RELATED COSTS?

A Conceptually, no. The peak use of steam is highly sensitive to cold weather, and Con Edison must design and build its system to accommodate this peak usage. However, I am skeptical of the accuracy of the DO1 allocator.

Q WHAT IS THE BASIS OF YOUR SKEPTICISM?

A Because peak demand is so sensitive to heating usage, it follows that the classes that are most weather sensitive will have the lowest load factor. Load factor is defined as peak usage (in this case the average use from 6 AM through 11 AM) divided by average hourly usage. Furthermore, the classes that are most weather sensitive will have the highest ratio of peak month usage (when heating usage is highest) to minimum month usage (when heating usage is lowest).

Q WHAT ARE THE RATIOS OF MAXIMUM MONTH USAGE TO MINIMUM MONTH USAGE OF THE VARIOUS CLASSES?

A The ratios of maximum steam usage divided by minimum steam usage are depicted on the following Table:

TABLE 1

Year	SC 1	SC 2	SC 3
2002	17.7	2.3	3.4
2003	23.0	3.1	3.7
2004	22.9	3.0	3.8
2005	26.5	3.1	3.3

As can be seen, in each and every year the SC 1 class has the highest max/min ratio, the SC 3 class has the second highest max/min ratio and the SC 2 class has the smallest max/min ratio. Consequently, we should expect that the SC 1 class should have the lowest load factor and that the SC 2 class should have the highest load factor.

Q IS THERE ANY OTHER REASON WHY THE SC 2 CLASS SHOULD EXHIBIT THE HIGHEST LOAD FACTOR?

A Yes. The SC 2 class is the only class that exhibits a marked and significant cooling usage. The SC 2 class summer usage shows a distinct rise during the months of June, July, August and September compared to the months of May or October. Because this cooling usage increases annual usage, but has no impact on heating usage, this is another reason why the SC 2 class should exhibit the highest load factor.

Q WERE THESE EXPECTATIONS CORROBORATED BY CON EDISON'S PEAK DAY ANALYSIS?

A No. The DO1 allocator used by Con Edison implies the following class load factors:

TABLE 2

Class	Load Factor
SC 1	17.7%
SC 2	30.4%
SC 3	35.4%

As Table 2 shows, Con Edison's calculation of peak usage produces an anomalous result, namely that the SC 2 class has a lower load factor than the SC 3 class, when its load factor should obviously be higher than the SC 3 class. This clearly indicates that Con Edison's calculations are in error.

Q DID YOU DO ANY FURTHER ANALYSIS TO CONFIRM THE PROBLEM WITH THE DO1 ALLOCATOR?

A Yes. By using techniques that are commonly used in gas cost of service studies, I developed a peak day allocator. This analysis involves determining the correlation of usage with Heating Degree Days and Cooling Degree Days. I then compared the share of each class of the peak day with a) the share of the five-hour peak and b) the share of the peak month. The results are summarized in Table 3.

TABLE 3

Allocation Factor	System	SC 1	SC 2	SC 3
DO1 (per Con Edison)	100.00%	4.59%	69.86%	25.54%
Peak Month	100.00%	4.12%	64.54%	31.34%
Peak Day (by Correlation)	100.00%	4.96%	63.39%	31.65%

As can be seen, the DO1 allocator derived by Con Edison is a distinct outlier and should not be utilized.

Q WHAT IS YOUR SUGGESTION TO REMEDY THIS ERROR IN THE DO1 ALLOCATOR?

A The use of either the Peak Month or Peak Day would be a more accurate indicator of demand-related responsibility. While the Peak Day is superior from a conceptual perspective, there is more certainty with the Peak Month allocator. Thus, it is my recommendation that in this case the Peak Month shares be used to derive the D01 allocator. Actually, the Peak Month allocator is an average of the two highest months, thereby conferring another "benefit of the doubt" to the lower load factor classes.

Q **DID YOU DO ANY FURTHER ANALYSIS TO CONFIRM THE PROBLEM WITH THE DO1 ALLOCATOR?**

A Yes. By using techniques that are commonly used in gas cost of service studies, I developed a peak day allocator. This analysis involves determining the correlation of usage with Heating Degree Days and Cooling Degree Days. I then compared the share of each class of the peak day with a) the share of the five-hour peak and b) the share of the peak month. The results are summarized in Table 3.

TABLE 3

Allocation Factor	System	SC 1	SC 2	SC 3
DO1 (per Con Edison)	100.00%	4.59%	69.86%	25.54%
Peak Month	100.00%	4.12%	64.54%	31.34%
Peak Day (by Correlation)	100.00%	4.76%	64.71%	30.53%

As can be seen, the DO1 allocator derived by Con Edison is a distinct outlier and should not be utilized.

Q **WHAT IS YOUR SUGGESTION TO REMEDY THIS ERROR IN THE DO1 ALLOCATOR?**

A The use of either the Peak Month or Peak Day would be a more accurate indicator of demand-related responsibility. While the Peak Day is superior from a conceptual perspective, there is more certainty with the Peak Month allocator. Thus, it is my recommendation that in this case the Peak Month shares be used to derive the D01 allocator. Actually, the Peak Month allocator is an average of the two highest months, thereby conferring another "benefit of the doubt" to the lower load factor classes.

Q WHAT IS THE SECOND ERROR THAT SHOULD BE CORRECTED IN THE CON EDISON STUDY?

A The Company allocated all fuel costs on the basis of annual usage. This is the Company's EO1 allocator in the cost of service study.

Q WHY IS THAT AN ERROR?

A In Con Edison's last steam case, the undisputed evidence was that a significant portion of heat loss was fixed in nature, and attributable to heat escaping from the steam mains. The cost implication of this fact is that the fuel expended to generate this lost heat is not directly related to the volumes of steam consumed by customers, but rather is proportional to the footage of mains needed to serve these customers. Consequently, the segment of fuel related to these fixed losses should not be allocated on a volumetric basis because such an allocation is at direct odds with cost causation principles.

Q IN THAT CASE, WHAT ALLOCATION FACTOR WOULD MORE CLOSELY REFLECT THE ACTUAL COST CAUSATION OF THESE EXPENSES DUE TO LOSSES?

A I suggest using the allocation factor C06, or "Allocation – Footage of Mains". According to the description in the cost study, this factor is based on a customer frontage study using a 100% sample of steam customers. Clearly, this is the most appropriate and logical factor to allocate steam losses that are fixed in nature.

Q IN YOUR CORRECTED STUDY, HOW MUCH FUEL RELATED TO FIXED LOSSES DID YOU ALLOCATE ON THE BASIS OF THE C06 ALLOCATOR?

A I allocated only $4.4 million of costs associated with fixed line losses on the basis of the "Footage of Mains" allocator. The recovery of $4.4 million of fuel costs via a fixed customer charge was established in Case 03-S-1672.

Q IS THAT THE TOTALITY OF STEAM LOSSES?

A No. The Company's experience with steam losses runs between approximately 13% and 15% of sendout. Based on the $340 million of fuel costs included in the study, I estimate that approximately $48 million of fuel costs is related to line losses. Thus, I allocated less than 10% of these costs based on the "Footage of Mains" allocator.

Q WHAT ARE THE RESULTS OF THE CORRECTED STUDY AND HOW DO THEY COMPARE TO THE COMPANY STUDY?

A The results of my corrected cost study are shown on Exhibit AER-1, Schedule 3. I corrected for the DO1 allocator and the steam loss allocation. Note that the flawed Con Edison cost study most seriously over-allocated costs to the SC 2 service class. I believe that the Commission should use my corrected cost study for purposes of allocating revenues and designing rates in this proceeding.

An Alternative Allocation of the Base Rate Increase Predicated on the Corrected Cost of Service Study

Q HOW DID THE COMPANY ALLOCATE THE INCREASE?

A The Company allocated the increase in two stages. The first stage allocated the base rate increase excluding the roll-in of the ERRP. The second stage addressed

the roll-in of the ERRP into base rates. The Rate Panel treated these two components independently of each other.

Q DO YOU AGREE WITH THIS TWO-STAGE PROCESS OF ALLOCATING THE INCREASE?

A Yes, I do. In the first place, the ERRP is not reflected in the cost of service study. Because the cost of service study is a guide for the non-ERRP component of the increase, I would agree that we could do a better job of following cost causation by this two-stage process.

Q HOW DID THE COMPANY PROPOSE TO ALLOCATE THE NON-ERRP INCREASE?

A It appears the Company has proposed to allocate the non-ERRP increase in proportion to pure base revenue, but as adjusted for the ECOS study results. Pure base revenues are service class base revenues less the base cost of fuel.

Q IS THAT A REASONABLE MANNER IN WHICH TO ALLOCATE THIS COMPONENT OF THE INCREASE?

A No. The first problem is that the Panel used an erroneous cost of service study, as I have explained previously. While the Company study did not show any surplus or deficiency (outside of a plus or minus 10% tolerance bandwidth) for the SC 2 or SC 3 classes, and a small (7% of pure base revenues) deficiency for SC 1, the corrected cost of service study shows that current rates are not that closely aligned with cost of service, as shown on Schedule 2. The second problem is that allocating an increase on base revenue does not keep the relative rates of return constant. While pure

base revenue is not totally unreasonable as an allocator, using the rate base in the ECOS is more accurate, assuming of course that one wants to preserve the relative rates of return.

Q HOW DO YOU PROPOSE ALLOCATING THE NON-ERRP COMPONENT OF THE BASE RATE INCREASE IN VIEW OF THE CORRECTED ECOS STUDY RESULTS?

A It only requires a two-step process. In the first step, I would propose eliminating the surplus or deficiency of each class. This requires an increase for the SC 1 and SC 3 classes and a decrease for the SC 2 class, as shown in Column 4 of Schedule 3. This step results in a net increase to the system of $1.9 million. Since the total non-ERRP that the Company is requesting is $66 million, the remaining increase to be allocated after the first step is $66 million less $1.9 million or $64.1 million. I then allocated this increase in proportion to rate base, as explained above. (In actual practice, one would also have to subtract the increase to the SC 4 class from that total as well. The reason for this extra step is that the SC 4 class is not included in the ECOS and should be calculated separately.[7] I have not done this in my illustrative increase for purposes of clarity. This expedient would not have a material impact on the final results.)

[7] The proper manner of calculating the SC 4 rate is discussed in the subsequent section of this testimony.

Q HOW DID THE COMPANY PROPOSE ALLOCATING THE ERRP ROLL-IN TO BASE RATES?

A The Company proposed allocating this increase simply on the basis of annual volumes.

Q WHAT WAS THE STATED REASON FOR THIS TREATMENT OF THIS COMPONENT OF THE RATE?

A The only rationale that I saw for this proposal was that, because the ERRP costs currently are collected through the FAC, which is volumetric, this approach would keep the base rates "revenue neutral" to the customers.

Q DO YOU AGREE WITH THIS EXPLANATION?

A No, I do not. In the first place, there is no requirement, that I am aware of, for a base rate increase to be "revenue neutral". Consequently the Panel's entire objective is questionable.

In the second place, even if one were to accept "revenue neutrality" as a valid objective, which I do not, the Company's method only achieves revenue neutrality vis-à-vis the current method of collecting these costs. These costs first appeared in base rates in May of 2005. Consequently, if we use pre-May 2005 as our benchmark, the only way to keep customers "revenue neutral" would be not to charge this cost at all.

Finally, the Company method gives absolutely no recognition to cost of service. Had the ERRP carrying costs been included in the cost study, they would have been allocated on the basis of the D01 allocator, just as the Company did for all other production plant.

Q HOW WOULD YOU PROPOSE TO ALLOCATE THE INCREASE RELATED TO ANY APPROVED ROLL-IN OF ERRP FIXED COSTS?

A The ERRP costs are fixed plant investment, plain and simple. Cost causation principles mandate that these costs be allocated just as all other production plant investment is allocated, on the basis of the D01 allocator.

Q WHAT IS THE NET RESULT OF YOUR RECOMMENDED TWO STAGE ALLOCATION OF THE INCREASE AS EXPLAINED AND SUPPORTED ABOVE?

A The results are shown in Schedule 4.

Q HOW DOES YOUR RECOMMENDED ALLOCATION OF THE INCREASE COMPARE TO THE COMPANY PROPOSAL?

A This is shown on Schedule 5.

Q HAVE YOU MADE ANY MODIFICATIONS TO YOUR ALLOCATION PROCESS TO ACCOUNT FOR RATE MODERATION, OR PREVENTING ANY ONE CLASS FROM BEARING A DISPROPORTIONATE SHARE OF THE INCREASE?

A I found that it was not necessary. My recommended base rate increases in this case range from 0.83 times the system average to 1.35 times the system average. I believe these relative increases are well within the parameters this Commission has historically approved as proportionate. While those figures may change if the size of the increase is smaller than that requested, I believe that if moderation is duly accounted for with a large increase, it should certainly not pose a problem with a

smaller increase. Note also that all classes would share in any decrease from the Company request.

SC 2 Rate Design

Q HAVE YOU REVIEWED THE COMPANY'S PROPOSED RATE DESIGN FOR SC 2?

A Yes.

Q DO YOU HAVE ANY COMMENTS ON THE SC 2 RATE DESIGN?

A Yes. The Company appears to have increased each block's usage charge by 25.8%. This design is not appropriate. In the first place, I do not believe the declining block rates give enough recognition to economies of scale for serving large users. However, perhaps more importantly, as shown by the SBDP, the steam disadvantage vis-à-vis other energy sources, seems to get even worse as the size of the building increases. Consequently, it is my opinion that concentrating any increase more in the initial blocks, and perhaps even decreasing the tail blocks, could be of material assistance in the Con Edison Steam Department's efforts to penetrate the heating and cooling markets. It would also be cost based.

Q DO YOU HAVE ANY COMMENTS ON THE PROPOSAL TO DEMAND BILL LARGE CUSTOMERS?

A I have not done a cost benefit analysis to weigh the additional costs of instituting this change with the expected benefits of discouraging peak demand. Nevertheless, I agree, in principle, with the move toward demand billing. Moreover, I also concur with the Company proposal to collect only 25% of winter pure base revenue in the demand charge. I do have several caveats, however.

First, a demand ratchet should not be adopted. The problem with a demand ratchet is that after the customer sets an all time peak, it has less of an incentive to reduce its peak going forward because it is still going to be caught by the ratchet.

Second, it is very important that the new rates for the demand metered customers are designed to be revenue neutral with the approved (non-demand) rates so that neither the Company nor the customers are harmed by the move to demand metering. Of course, in this case revenue neutrality is predicated on no changes in consumption patterns by the customers. If customers can lower their demand, they should be allowed to save money because it also lowers Con Edison's costs. In fact, that is precisely the behavior that we are trying to induce with demand billing.

Q DO YOU HAVE ANY COMMENTS REGARDING MR. GERRITSEN'S TESTIMONY?

A Yes. On page 13 of his Testimony, Mr. Gerritsen testifies that Con Edison will recover costs and lost revenues associated with the demand response programs through the FAC. I assume that "lost revenues" means lost margins – Con Edison should not be able to recover costs that might otherwise be included in "lost revenues." Moreover, because Con Edison may also be gaining new business by following the recommendations of the SBDP, in my view any "lost" margins should also be offset by "found" margins.

Backup and Supplementary Service

Q PLEASE BRIEFLY DESCRIBE THE COMPANY'S SC 4 TARIFF FOR BACK-UP/SUPPLEMENTARY SERVICE.

A Unlike any of Con Edison's other rates, the SC 4 rate has a demand reservation charge, based upon the customer's maximum hourly use for steam. There is one charge for customers who may use the steam at any time, and a lesser charge for customers who can only use the steam during the off peak period.[8] These reservation charges would be payable to Con Edison regardless of whether or not the customer actually used steam. In addition, the customer would pay a commodity charge based on actual steam consumption.

Q WHAT ARE YOUR PRIMARY CONCERNS WITH THE SC 4 RATE AS PROPOSED BY CON EDISON?

A My primary concerns are that the rate is not cost-based, is not in accord with the general principles of standby service that have been endorsed by the New York PSC, and as a result, that the rate unnecessarily deters customers from using steam as an alternative source of energy (or overcharges them if they do).

Furthermore, the tariff imposes stiff penalties for customers who exceed their reservation, and unreasonable penalties if the excess is greater than 10% or for off peak customers who utilize steam during the peak period.

In addition, while the Company allocates cost in its filed cost of service study based on *average* hourly (over five yours) usage during the peak day, the SC 4 rate charges customers on the *maximum* hourly usage that could ever be set.

[8] The on-peak period is defined as Monday through Friday, 5:00 AM to 8:00 PM, during the months of November through April. Off-peak hours are defined as all other hours.

Finally, as demonstrated below, the SC 4 rate charges are excessive when compared with a comparable customer on the general service rate.

Q HAVE YOU COMPARED CON EDISON'S PROPOSED SC 4 RATE WITH ITS PROPOSED GENERAL SERVICE RATE?

A Yes. Exhibit AER-1, Schedule 6 compares the annual cost of six different hypothetical low load factor customers taking service year round under the proposed SC 2 general service rate, with the costs that they would face under the proposed SC 4 on peak rate. Exhibit AER-1, Schedule 7 compares the annual cost of six different hypothetical low load factor customers taking steam service only during the six winter months under the proposed SC 2 general service rate, with the costs that they would face under the proposed SC 4 off peak rate. The conclusion is inescapable – the SC 4 rate charges between 51% and 718% more than the otherwise applicable general service rate for customers only using SC 4 for less than 100 hours per month. Moreover, my exhibit most likely understates the disparity between these two tariffs because it ignores the potential for penalties under the SC 4 tariff.

Q HOW MANY OF CON EDISON'S CUSTOMERS UTILIZE BOTH STEAM AND ANOTHER ENERGY SOURCE FOR THE SAME PURPOSE?

A That is difficult to say. In response to a Data Request in a Steam plan case six years ago, there allegedly were approximately 70 such customers as of 1998. However, Con Edison's rate design workpapers identify only four customers on the SC 4 rate.

Q WHY ARE BACK-UP/SUPPLEMENTARY SERVICE RATES NORMALLY OFFERED?

A By far, the most common usage of back-up rates is for electric customers that have on-site generation. Back-up service refers to electricity taken from the utility during times of forced or planned outage of the customer's self-generation. Supplementary service refers to electricity requirements of the customer that are in excess of the capacity of the customer's on-site generation. Because the need for supplementary power is not substantially different from the provision of full requirements service to a customer that does not self-generate, supplementary power is almost always priced at the same rate as is charged for general service.

Q IS A SIMILAR APPROACH WARRANTED FOR STEAM RATES?

A Yes. The principles apply equally well to steam rates.

Q DOES CON EDISON'S PROPOSED SC 4 DISTINGUISH BETWEEN BACK-UP SERVICE AND SUPPLEMENTARY SERVICE?

A No, it does not. This is another indication that the SC 4 rate is not predicated on sound rate design principles.

Q IS BACK-UP SERVICE ALSO NORMALLY CHARGED AT THE SAME RATE AS GENERAL SERVICE?

A No. Not only is back-up service a low load factor service, it is also a sporadic service, occurring only when the customer's own source of power is unavailable. A general service rate would normally overcharge for this type of service.

Q ASSUMING THAT A GENERAL SERVICE RATE IS BASED ON COST OF SERVICE, WHY WOULD THAT RATE OVERCHARGE FOR BACKUP SERVICE?

A The simple answer is that there are two types of demands -- one that drives costs and the other that drives revenues. The demand that drives costs is coincident demand, i.e. demand that coincides with the peaks of the system. The demand that drives revenues, at least under most tariffs, are non-coincident demands, i.e. demands that are specific to that customer, regardless of when they occur. For general service customers there is usually a predictable, empirically derived relationship[9] between these two measures of demand that allow rates based on non-coincident demands to be reflective of costs based on coincident demands. For back-up service, this relationship breaks down. Specifically, the random occurrence of back-up requirements means that back-up demands will have a lower coincidence factor than demands of general service customers.

Q WHAT ARE THE IMPLICATIONS OF THIS FOR BACKUP RATES?

A The implication is that property-designed back-up rates should be less expensive when compared to the rates for a general service customer with a similarly low load

[9] In fact, the ratio of coincident demand to non-coincident demand for a class or customer is referred to as the coincidence factor.

factor as the back-up customer.[10] Note the incongruity here. While normal back-up rates generally provide for a reduction from the general service rate at low load factors, the Con Edison proposed backup rate charges considerably more than the general service rate. The rate, as proposed, is unreasonable and should not be approved.

Q HAS THIS COMMISSION EVER GIVEN GUIDANCE ON THE PROPER DESIGN OF A RATE FOR STANDBY SERVICE?

A Perhaps not for steam standby service, but Opinion No. 01-4, issued and effective October 26, 2001, it did speak to appropriate guidelines for electric standby service, and although the technical aspects may be somewhat different, I believe the general principles are equally relevant to steam standby service.

Q WHAT DID OPINION NO. 01-4 STATE ON THIS ISSUE?

A The Order stated as follows:

> The method for allocating costs between the contract demand and the as-used demand charge should be set forth in each utility's formal standby rate filing. Such allocations should be based on delivery system design and cost causation. Fundamentally, we would expect the utilities to apportion facilities designed on the basis of customer coincident peak loads for recovery via as-used demand charges. Similarly, delivery facilities designed on the basis of aggregate customer non-coincident peak loads should be apportioned for recovery through contract demand charges. The allocation of costs between as-used and contract demand charges for each customer class might be determined for each category of facilities used to provide delivery service to that class, or by a different method of allocation selected by the utility. (Order, Page 15)

[10] There is a feature that many backup rates have, that the general service rates may not, usually called a minimum charge. Consequently, if the general service rate does not have either a ratchet or minimum, it is possible for the backup rate to be more expensive in a month where no service is taken.

Q HOW CAN THOSE GUIDELINES BE ADAPTED TO THE SC 4 STANDBY RATE?

A First, let me address the contract demand charge. In the Con Edison ECOS study, all demand-related facilities are allocated on the basis of *coincident* demand. Consequently, a strict interpretation of Opinion 01-4 would suggest that no costs should be recovered in the contract demand charge. However, I believe that would also be unreasonable. Consequently, it is my suggestion that the on-peak contract demand charge should recover 10% of fixed production costs and 50% of demand-related distribution costs (the customer costs would continue to be recovered in the monthly service charge).

I would also recommend that the off-peak contract demand charge be set at one-half of the on-peak contract demand charge. (The off-peak contract demand charge applies only to customers whose standby service is restricted to off-peak hours.)

Q HAVE YOU ESTIMATED WHAT THE CONTRACT DEMAND CHARGES WOULD BE IF DESIGNED UNDER THOSE GUIDELINES?

A Yes. Assuming full rate relief, I estimate that application of my recommended principles would result in a monthly contract demand charge of approximately $580 per 1,000 lbs. per hour (compared to Con Edison's proposed $1,090) for an on-peak customer and half that, or $290 per 1,000 lbs. per hour for an off-peak standby customer (compared to the Company's proposed $821).

Q HOW WOULD YOU DESIGN THE "AS-USED" DEMAND CHARGE REFERRED TO IN THE ORDER?

A Because so few steam customers currently have demand meters, it is my recommendation that the "as-used" component of the rate be a usage charge based on the standby steam actually taken. (This is the format that Con Edison itself employs in the SC 4 tariff.) I would design these usage charges so that a full service customer on the SC 4 rate pays approximately the same as a full typical service customer would on the otherwise applicable rate, i.e., SC 2 or SC 3. This would also be in accord with my understanding of the general philosophy on standby service rate design that the New York PSC has adopted.

Q PLEASE ADDRESS THE PENALTY PROVISIONS OF THE PROPOSED BACK-UP/STANDBY TARIFF.

A The Company's proposed Back-up/Standby Tariff will impose a demand charge penalty when actual demand exceeds contract demands. The Company is requesting a penalty equal to 12 times the excess demand be charged if the maximum demand within the months of November through April exceeds the contract demand by up to 10%. If the monthly maximum demand exceeds the contract demand by more than 10%, the Company requests that a penalty equal to 24 times the monthly contract demand rate for the excess in demand be applied to the monthly bill. The special provision section also imposes similar penalties.

Q ARE THE COMPANY'S PROPOSED PENALTY PROVISIONS FOR THE BACK-UP/STANDBY RATE REASONABLE?

A No. The Company's rates do not penalize customers under its general service rates if their demands exceed those expected by the Company. The Company also has not shown in its cost of service study that its proposed penalty charges are cost-based. Indeed, to the extent that its General Service demand charges do reflect the Company's cost of service, the proposed penalties would significantly over-recover its cost of service and produce unreasonable profits for shareholders. Further, the imposition of an arbitrary penalty may discourage customers from using economical and environmentally-desirable dual energy processes. In sum, the Company's proposed penalty provisions are unfair and not cost based, and should be rejected.

Q HOW WOULD YOU MODIFY THE SC 4 RATE?

A In addition to the rate design proposals explained and supported above, I would make the following recommendations:

Demand Measurement

First, the tariff should measure peak contract demand based on the average demand use during the peak period rather than the customer's maximum potential demand. This would make the cost foundation more in accord with the full service rates.

Penalties

Second, remove all penalty provisions that are not parallel to similar provisions in the general service tariff. This also places the SC 4 rate on par with the other tariffs and will remove a barrier to a potentially beneficial service. Moreover, Con Edison has not shown that these penalties are necessary.

Availability

Finally, make the rate optional rather than mandatory. Normally, customers are allowed to choose the tariff that provides them service in the most economic fashion. If the rates are based on cost, the SC 4 rate should be no exception. If the rate is not made optional, a minimum usage requirement should be introduced. In other words, a customer would not be forced onto the SC 4 rate unless it uses another energy source for at least 15 % of its heating and cooling requirements with the balance on steam.

Q HOW WOULD YOUR RECOMMENDATIONS AFFECT THE EXPECTED REVENUE FROM SC 4 CUSTOMERS?

A The immediate impact may reduce the expected revenue from the four customers currently on SC 4, although the impact on the other customers would be nearly negligible. In the long run, I am convinced that my proposals, if adopted, would lead to incremental load on SC 4, thereby ultimately lowering the unit steam rate for all customers.

Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A Yes.

Qualifications of Alan Rosenberg

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Alan Rosenberg. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and am a principal with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was awarded a Bachelor of Science Degree from the City College of New York in 1964 and a Doctorate of Philosophy in Mathematics from Brown University in 1969. Subsequently, I held an Assistant Professorship of Mathematics at Wesleyan University in Connecticut. In the summer of 1975, I was a Visiting Fellow at Yale University. From July, 1975 through January, 1981, I was Assistant Controller and Project Manager for a division of National Steel Products Company. My responsibilities there included supervision of management accounting, cost accounting and data processing functions. I was also responsible for internal control, general ledger systems, working capital levels, budget preparation, cash flow forecasts and capital expenditure analysis.

I have published in major academic journals and am a member of the International Association for Energy Economics. I was an invited speaker at the NARUC Introductory Regulatory Training Program and a panelist at a conference on

LDC and Pipeline Ratemaking sponsored by the Institute of Gas Technology. I have presented a paper on stranded costs at the 21st Annual International Conference of the International Association for Energy Economics. I have had two papers on transmission congestion pricing published in The Electricity Journal. I am also a Certified Energy Procurement Professional by the Association of Energy Engineers.

In January, 1982, I joined the firm of Drazen-Brubaker & Associates, Inc., the predecessor of Brubaker & Associates. Since that time, I have presented expert testimony on the subjects of industry restructuring, open access transmission, marginal and embedded class cost of service studies, prudence and used and useful issues, electric and gas rate design, revenue requirements, natural gas transportation issues, demand-side management, and forecasting.

I have previously testified before the Federal Energy Regulatory Commission as well as the public service commissions of Arizona, Connecticut, Delaware, Florida, Idaho, Illinois, Iowa, Massachusetts, Michigan, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, Wyoming and the Provinces of Alberta, British Columbia, New Brunswick, Nova Scotia, and Saskatchewan in Canada. I have also testified before the Michigan Senate Technology and Energy Committee.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Historical & Projected Average Cost of Steam

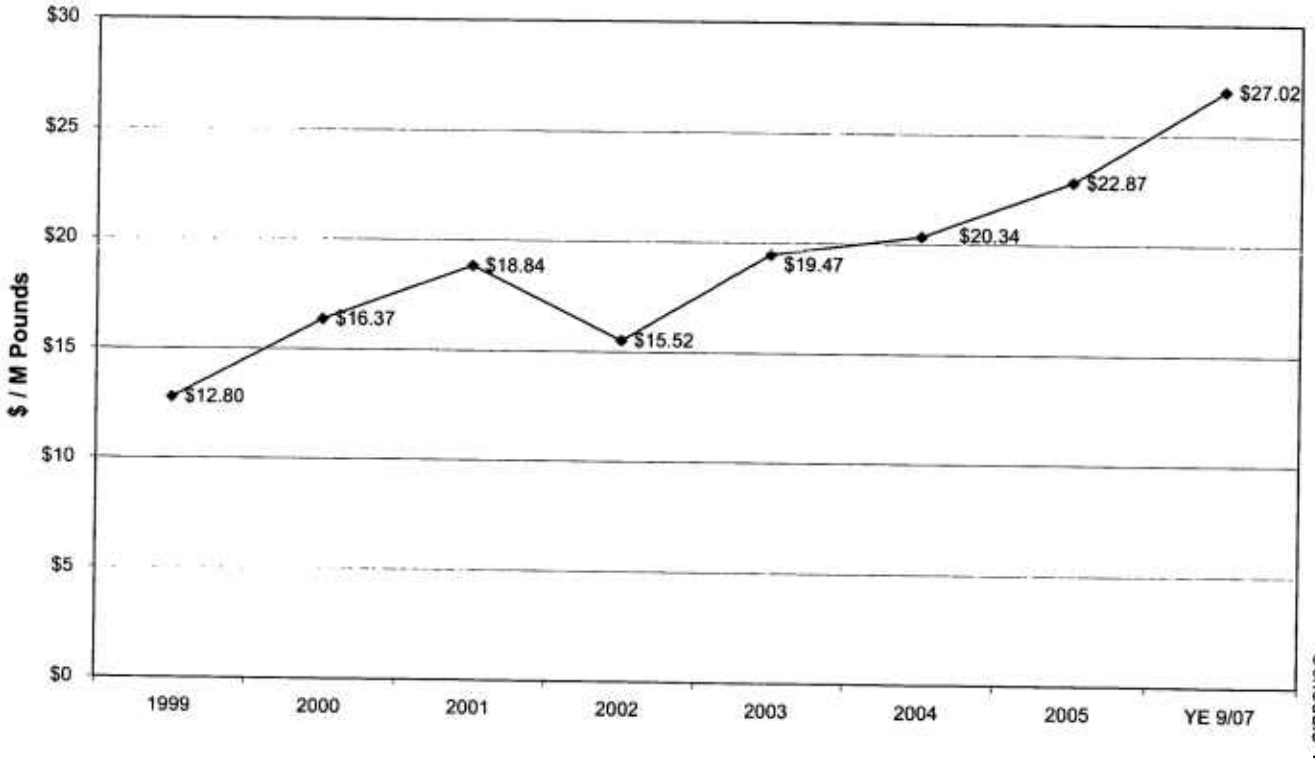
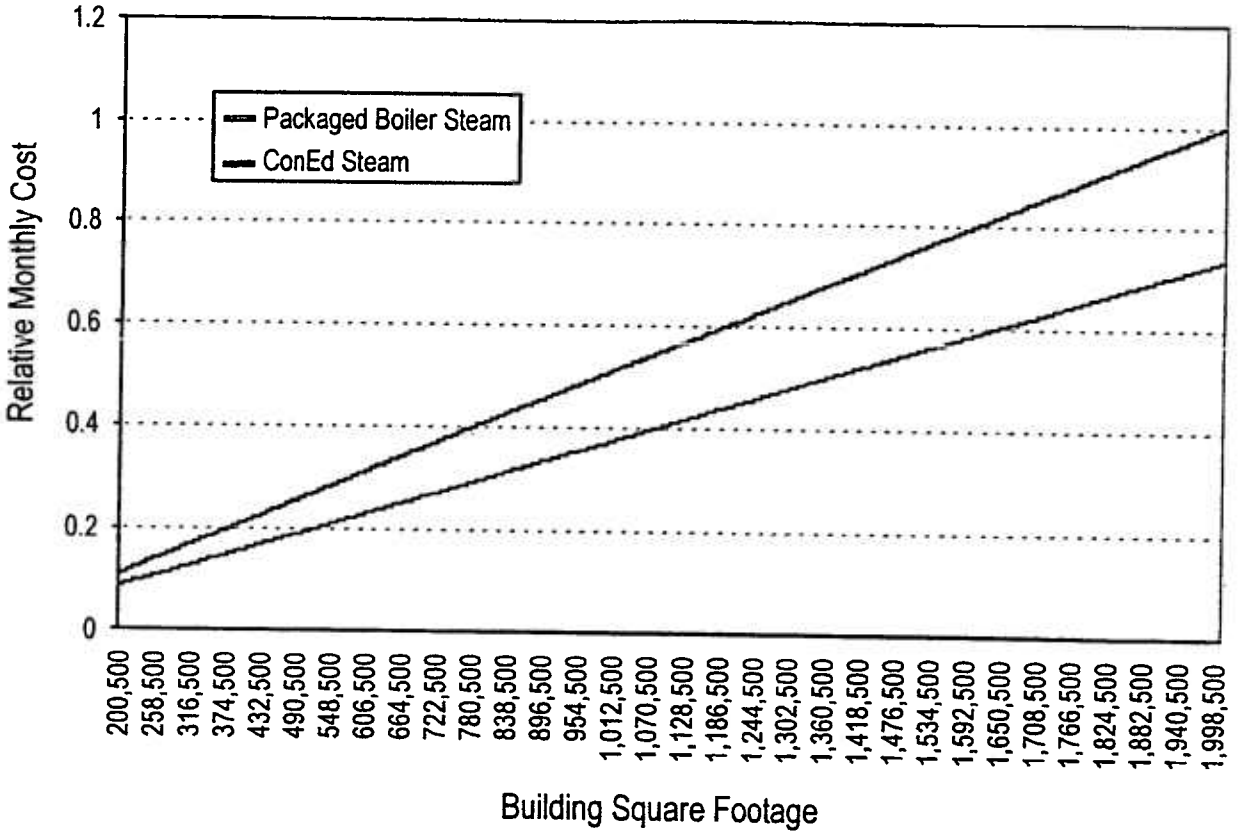


Exhibit AER-1
Schedule 1

Figure 34. Relative Monthly Operating Costs of Steam and Gas Heating



Source: SBDP, Page 68

Exhibit AER-1
Schedule 3

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Comparison of Con Edison Steam
ECOS Studies

Line	Class	As Filed ROR (1)	As Filed Surplus / (Deficit) (2)	Corrected ROR (3)	Corrected Surplus / (Deficit) (4)
1	SC 1	6.94%	$ (903,628)	7.21%	$ (668,893)
2	SC 2	8.97%	0	10.84%	5,322,422
3	SC 3	9.90%	0	5.93%	(6,567,974)
4	Total *	9.06%	$ (903,628)	9.06%	$ (1,914,445)

Note: * Excluding Electric Dept.
Revenue Surplus / (Deficit) is based on a plus and minus 10% tolerance band.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Recommended Allocation of Base Rate Increase
(all dollars in thousands)

Line	Class	Existing Total Revenue (1)	Existing Pure Base Revenue (2)	Non ERRP Increase (3)	ERRP Increase (4)	Total Increase (5)	Percent of Total Revenue (6)	Percent of Base Revenue (7)
1	SC 1	$ 23,464	$ 13,101	$ 5,396	$ 1,386	$ 6,782	28.9%	51.8%
2	SC 2	397,439	174,444	34,152	21,704	55,856	14.1%	32.0%
3	SC 3	165,469	70,612	26,173	10,537	36,710	22.2%	52.0%
4	Total	$ 586,373	$ 258,157	$ 65,720	$ 33,628	$ 99,348	16.9%	38.5%

Note: SC 4 class and GRT are excluded.

Exhibit AER-1
Schedule 5

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Comparison of Con Edison Proposed Allocation of Increase With City Recommended Allocation

(all dollars in thousands)

Line	Class	Existing Pure Base Revenue (1)	Con Edison Proposed Increase Amount (2)	Con Edison Proposed Increase Percent (3)	City Recommended Allocation Amount (4)	City Recommended Allocation Percent (5)
1	SC 1	$ 13,101	$ 5,294	40.4%	$ 6,782	51.8%
2	SC 2	174,444	65,873	37.8%	55,856	32.0%
3	SC 3	70,612	27,769	39.3%	36,710	52.0%
4	Total	$ 258,157	$ 98,936	38.3%	$ 99,348	38.5%

Note: SC 4 class and GRT are excluded.

Exhibit AER-1
Schedule 6

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Comparison of the Annual Cost of Steam
for a SC 2 (Annual Power Service) Customer
with Cost under Proposed Back-Up Rate
Usage for All Twelve Months

Line	Contract Demand Pounds	Hours Use	Annual Cost under SC 2 (1)	Annual Cost under SC 4 (2)	Increase over SC 2 Amount (3)	Increase over SC 2 Percent (4)
1	40,000	10	$89,430	$593,180	$503,750	563%
2	40,000	50	$314,142	$742,729	$428,587	136%
3	40,000	100	$591,990	$929,665	$337,675	57%
4	100,000	10	$175,218	$1,433,780	$1,258,562	718%
5	100,000	50	$724,044	$1,807,652	$1,083,608	150%
6	100,000	100	$1,377,444	$2,274,992	$897,548	65%

Exhibit AER-1
Schedule 7

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Comparison of the Annual Cost of Steam
for a SC 2 (Annual Power Service) Customer
with Cost under Proposed Back-Up Rate
Usage During Six Winter Months Only

Line	Contract Demand Pounds	Hours Use	Annual Cost under SC 2 (1)	Annual Cost under SC 4 (2)	Increase over SC 2 Amount (3)	Increase over SC 2 Percent (4)
1	40,000	10	$75,994	$453,409	$377,415	497%
2	40,000	50	$247,071	$560,142	$313,071	127%
3	40,000	100	$457,875	$693,558	$235,683	51%
4	100,000	10	$141,669	$1,084,352	$942,684	665%
5	100,000	50	$556,407	$1,351,184	$794,778	143%
6	100,000	100	$1,042,197	$1,684,724	$642,528	62%

ATTACHMENT B

Before the

New York State Public Service Commission

Case No. 05-S-1376

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

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

Introduction/Summary

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A Yes.

Q WHAT IS THE SUBJECT MATTER OF YOUR REBUTTAL TESTIMONY?

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

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

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

Response to Mr. Frank Radigan

Q PLEASE SUMMARIZE MR. RADIGAN'S PROPOSALS.

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

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

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

Q WHAT ARE THE IMPLICATIONS OF THESE RECOMMENDATIONS?

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

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

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

---

[1] He filed revised Direct Testimony. Originally, Mr. Radigan had estimated this figure at $70 million.

[2] Originally, Mr. Radigan had estimated this figure at $154.8 million.

[3] Radigan direct testimony at page 11 [original FR Direct pagination].

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

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

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

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

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

> *The Steam Business Plan clearly shows that steam is the most expensive heating or cooling source for customers. Therefore, there is no policy reason to continue the subsidy* (Radigan, page 6, lines 1-3).

> *Moreover, as shown by the Steam Business Plan, the steam air conditioning load that still exists could be served at less expense by units powered by natural gas instead of steam.* (Radigan, page 13, lines 17-19)

> *Finally, the Business Plan also demonstrated that steam heating itself is not cost effective.* (Radigan, page 14, lines 1-2)

> *.... In the long term, the steam system probably will collapse of its own weight. (*Radigan, page 14, line 13*)*

Apparently, Mr. Radigan wishes to expedite the demise of the steam system with his proposals.

Q ARE MR. RADIGAN'S EXPRESSED DESIRES IN ACCORD WITH THE ESTABLISHED POLICY OF THIS COMMISSION?

A No. In fact, Mr. Radigan's position is at distinct odds with the espoused policy of this Commission. Mr. Radigan, in very blunt terms, wishes to overturn the "incremental" method of allocating costs between the electric and steam departments, a policy that has been in effect for almost 28 years. This Commission has time and again reaffirmed that policy. In fact, as recently as September 27, 2004, in its Order in Case 03-S-1672, the New York PSC noted:

> By 1978, after a large electric system blackout with serious and wide-ranging impacts, the Commission arrived at the preferred allocation of steam-electric production costs. To stem an unacceptable exodus of steam customers to electric and gas service, the Commission adopted steam rates, and set cost allocations, **that were purposely designed to retain steam customers and maintain a viable steam system**. It selected the "incremental" method that has remained in use ever since, which requires steam customers to pay only the separate steam production and capital costs. **In recent years, the Commission has affirmed the continued use of the incremental method.**
>
> (Order, page 26, emphasis added)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A No. Mr. Radigan completely ignores that point.

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

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

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

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

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

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

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

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

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

A In a word, no.

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

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

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

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

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

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

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

for example, cites such advantages that flow directly from the availability of Con Edison steam.[4]

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

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

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

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

[4] SBDP, at page14.

Q ON PAGE 4 OF HIS TESTIMONY, MR. RADIGAN STATES THAT THE PRIMARY PURPOSE OF ERRP IS TO GENERATE STEAM. PLEASE RESPOND.

A I am unclear on how Mr. Radigan reached that conclusion. I do know that the SBDP states:

> East River Station produces both steam and electricity **but is controlled by Con Edison Electric, which calls on its electricity output during the summer electricity peak period. Therefore, not all of the steam capability of this unit is available for marketing in the summer.** Waterside, which also produced electricity, was retired when the ERRP came on line in April 2005. (SBDP, page 24, emphasis added)

Q WHAT IS YOUR OPINION OF MR. RADIGAN'S RECOMMENDATIONS?

A I urge the Commission to reject Mr. Radigan's recommendations because they are not well supported and appear to be explicitly designed to fatally weigh down the steam system in return for a highly questionable "benefit" to the electric system. While Westchester County has made clear its general antipathy to the steam system, its self-serving agenda is not a substitute for reasoned policy analysis.

Staff Proposal with Regard to ERRP

Q WHAT IS THE STAFF'S PROPOSAL WITH REGARD TO ERRP?

A The Staff is recommending that the fixed costs of ERRP not be put into base rates, but that it be continued to be recovered through the FAC. Secondly, Staff recommends that in the Company's next ECOS study, ERRP be allocated the same as all other production plant, i.e., based on peak demand.

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

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

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

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

Q DO YOU AGREE WITH THE STAFF'S REASONING?

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

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

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

Q HOW CAN THE PROBLEMS BE RESOLVED IN THIS CASE?

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

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

Q HAVE YOU DEVELOPED SUCH A RIDER?

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

Appropriate Response to a Zero Increase in Base Rates

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

A Yes.

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

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

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

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

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?

A Yes.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Development of ERRP Rider

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

(a) $34,460,000 of ERRP carrying cost times 0.75, allocated on Peak Demand.

(b) 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)

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

(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).