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Andrew J. Spano
County Executive

Office of the County Attorney

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County Attorney

March 13, 2006

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 – Proceeding on Motion of the Commission as to
the Rates, Charges, Rules and Regulations of Consolidated Edison
Company of New York, Inc. for Steam Service

Dear Secretary Brilling:

Enclosed please find an original and five copies of the Rebuttal Testimony of Frank W. Radigan on behalf of the County of Westchester in the above captioned proceeding. Copies of the Testimony have been served on the active parties by electronic mail.

Please do not hesitate to contact me if you have any questions or need additional assistance.

Very truly yours,



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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

CASE 05-S-1376

**REBUTTAL TESTIMONY OF
FRANK W. RADIGAN
ON BEHALF OF
COUNTY OF WESTCHESTER**

March 13, 2006

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Frank W. Radigan. I am a principal in the Hudson River Energy
3 Group, a consulting firm providing services regarding the electric utility industry
4 and specializing in the fields of rates, planning and utility economics. My office
5 address is 120 Washington Avenue, Albany, New York 12210.

6 Q. ARE YOU THE SAME FRANK RADIGAN THAT FILED DIRECT
7 TESTIMONY IN THIS CASE?

8 A. Yes.

9

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

11 A. To rebut the proposal of Dr. Alan Rosenberg that the Commission should review
12 whether the electric system should be required to make up any shortfall of the
13 steam system and specifically his proposal that the Commission reverse its decision
14 terminating the subsidy of the 74th and 59th Street Steam plants by the electric
15 system. (Rosenberg Testimony Page 9).

16

17 Q. WHAT IS WESTCHESTER'S VIEW OF DR. ROSENBERG'S POSITION?

18 A. The County begs that some common sense be brought to this process. While Dr.
19 Rosenberg has reason to be worried about a death spiral for the steam system,
20 blatant subsidy payments to the Steam Department from the Electric Department
21 are not the solution. By his testimony, Dr. Rosenberg has abandoned any pretense
22 or reliance on the "incremental" argument. He has clearly laid out a case that the
23 steam system is not economically viable. Instead of addressing the shortcomings of

1 the steam system he just calls for a flat-out subsidy by the electric system of any
2 shortfall by the steam system. Therefore, according to Dr. Rosenberg, it is easy to
3 resolve the issues between Con Edison and the steam customers by shifting all
4 costs to the electric system and its customers.

5
6 It should be noted that the Commission already delayed the termination of this
7 subsidy, at the cost to the electric system, in order to ameliorate rate impacts on
8 steam customers. As noted in my direct testimony, electric power and energy were
9 last produced at 59th Street in January 1995 and at 74th Street in October 1999.
10 Since these plants last produced electricity for general distribution the electric
11 system has been forced to subsidize the steam system in an amount of over \$250
12 million¹. In Opinion No. 00-15, the Commission determined that the subsidy
13 should end on March 31, 2002, the end of the then current electric rate plan (p. 8-9)
14 with the only proviso being the start of ERRP's operation. However, the
15 Commission also provided that "Con Edison agrees that it would not recover the
16 costs *at all (emphasis added)* if the delay (in the start of ERRP's operation) is due
17 to factors within its control". (p. 9). In fact, the City supported the transfer of the
18 costs of the 59th Street and 74th Street stations from the electric to the steam
19 department in Case 03-S-1672 (Order Adopting Joint Proposal, Issued & Effective
20 September 27, 2004, p. 20). Con Edison took the same position as the City (Ibid, p.
21 22).

1 Q. DO WE KNOW HOW MUCH THE ELECTRIC DEPARTMENT HAS
2 ALREADY SUBSIDIZED THE STEAM SYSTEM?

3 A. Yes, as the Commission previously noted, the subsidy for 59th St. and 74th Street is
4 over \$24 million per year and has totaled over \$250 million since 1995. In my
5 direct testimony I noted that the Commission estimated the subsidy of the
6 Waterside plant at \$57 million per year. Thus, since 1995 the Electric Department
7 has subsidized the Steam Department by over \$875 million or approximately
8 \$486,000 for each of the 1,798 steam customers.

9

10 Q. IS STEAM AN ECONOMIC CHOICE FOR HEATING PURPOSES?

11 A. No, the Steam Business Plan shows that on-site generation for heating purposes
12 using natural gas is 16% cheaper than buying steam from Con Edison. Customer's
13 could save another \$1.50 per Mlb or 7% (for a total savings of 23% percent) if the
14 capital costs are not considered.

15

16 Given that annually there are total heating sales of 12 million Mlbs, the \$24.2
17 million subsidy by the electric system equates to a savings for heating only
18 customers of \$2.1 per Mlb. If all of this money was given directly to steam
19 customers as an incentive to convert to their heating systems to natural gas, the cost
20 for heating would be approximately \$15 per Mlb or 27% less than the cost of
21 buying steam from Con Edison.

¹ In Opinion No. 00-15, the Commission, acknowledging that the electric system was at that time subsidizing the steam system in the amount of \$17 million per year for the 74th Street Station and \$1 million per year for the 59th Street Station

1 The \$90 million annual subsidy by the electric system to ERRP equates to an
2 additional \$7.5 per Mlb for heating only. If all of this money was given directly to
3 the customer, the cost for heating would be approximately \$7.5 per Mlb or 63%
4 less than the cost of buying steam from Con Edison.

5
6 These numbers are illustrative and are only presented to show how uneconomic
7 steam is. Steam rates reflect the high loss factor in distributing steam and the fact
8 that steam and electric customers are paying for a system whose capital investment
9 tripled over the last ten years while continuing to lose customers. That said, if
10 common sense were brought to bear on the system, it is obvious the existing levels
11 of subsidies should not continue. Given the large level of savings from converting
12 from steam to natural gas, I believe that innovative methods and sources of finance
13 (e.g. NYSERDA²) could be developed to eliminate all steam heating only sales
14 within five years. This would be beneficial to all customers of the steam, gas³ and
15 electric system.

16

17 **Q. IS STEAM AN ECONOMIC CHOICE FOR AIR CONDITIONING**
18 **PURPOSES?**

19 A. No, as noted by numerous parties in numerous cases, it is cheaper to install and
20 operate an air conditioning system powered by electricity. Since no one wants to
21 add load to the electric system, the economies of converting from steam to natural

² Obviously, the funds (including funds from the electric system) that other parties seek to subsidize steam air conditioning equipment could better be used to convert to natural gas.

³ As the steam system is currently using natural gas to produce steam, the resultant discontinuance of the steam system will result in a sufficient supply of gas to fire on-site boilers.

1 gas should be considered. The Steam Business Plan shows that the monthly cost of
2 operating an air conditioning system using natural gas is 27% less expensive than
3 one operated by steam. And the capital cost for air conditioning equipment fired by
4 natural gas is \$1,400 per ton of air conditioning load as compared to \$1,560 per ton
5 of air conditioning load powered by steam. As such, it is obvious that the steam air
6 conditioning load should eventually be transferred to the Gas Department. While I
7 recognize that, at a capital cost of \$875 million⁴, the cost of the conversion will not
8 be cheap, it should be noted that this is only slightly more than the cost of ERRP.
9 Thus, the carrying cost on the capital investment of transferring the air conditioning
10 load would be approximately equal to the carrying cost that the Electric Department
11 currently pays on ERRP.

12
13 When the \$24.2 million of Transferred Plant Costs from the subsidy of the 59th and
14 74th Street stations are included, it becomes obvious that it would be cheaper for the
15 Electric Department to pay for the direct cost of conversion. Again, while these
16 figures are only illustrative and the County does not advocate a position wherein it
17 exchanges one subsidy for another, I believe the level of savings that could be
18 realized by existing customers by converting their air conditioning systems are such
19 that innovative incentive methods could be developed to induce customers to
20 switch from steam to natural gas for heating and cooling at less cost than the
21 current subsidy. Once the air conditioning load is switched, the "benefits" of the
22 Steam Department can finally be realized.

23

⁴ total cooling load of 625,283 tons at a cost of \$1,400 per ton

1 Q. IF IT WOULD COST THE ELECTRIC DEPARTMENT LESS MONEY TO
2 CLOSE THE STEAM SYSTEM THAN CONTINUE TO SUBSIDIZE IT,
3 WHAT WOULD YOU RECOMMEND HAPPEN TO THE STEAM
4 ASSETS?

5 A. Con Edison projects that the rate year net plant value of the Steam Department will
6 be over \$1.4 billion. Con Edison's stockholders should assume all responsibility
7 for the steam system. After the Steam System is closed Con Edison should be
8 allowed to retain any scrap value of those assets.

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11 A. Yes, it does.

12

13

14