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New York Power Authority

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September 10, 2004

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

RE: Case 04-E-0572 – Consolidated Edison Company of New York, Inc.- Electric Rates

Dear Secretary Brilling:

On behalf of the New York Power Authority, enclosed for filing are fifteen (15) copies of the Direct Testimony and Exhibits of a panel of witnesses consisting of Dr. John Chamberlin, Don Bennett, and Timothy Lyons.

Thank you.

Very truly yours,

Timothy P. Sheehan

Timothy P. Sheehan
Managing Counsel

Enclosures
cc: Active Party List (via email & U.S. Mail)

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 04-E-0572 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service.

Direct Testimony Of A Panel Consisting Of Dr. John Chamberlin, Don Bennett, And Timothy Lyons

On Behalf Of The New York Power Authority

September 2004

NYPA PANEL

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. **Members of the Panel, please state your names and business addresses.**

A. [Dr. John Chamberlin] My name is Dr. John Chamberlin. My business address is Quantec, LLC, 212 E. Main Street, Suite G, Reedsburg, Wisconsin 53959.

[Don Bennett] My name is Don Bennett. My business address is Don Bennett Management Consultant, Ltd., 4617 S. 3rd Street, Arlington, Virginia 22204.

[Timothy S. Lyons] My name is Timothy S. Lyons. My business address is Quantec, LLC, 6 Ridgeland Road, Barrington, Rhode Island 02806.

Q. **Please summarize your professional and educational experience – and whether you have testified before any state or federal regulatory agencies.**

A. [Dr. John Chamberlin] I am Executive Vice President of Strategic Services for Quantec, LLC., where I am responsible for utility rates, cost of service, and financial planning work. Prior to joining Quantec in March 2003, I was with KEMA Management Consulting, formerly XENERGY, Inc. Before that, I was Vice President, Strategy and Planning at PG&E Energy Services, where I led development of market entry and evaluation models, assessed product profitability, and evaluated the economic and financial aspects of regulatory and market rules, among other things.

I joined PG&E Energy Services following the 1997 sale of the consulting company I co-founded: Barakat and Chamberlin, Inc. (BCI). This 150-person firm was a national leader in utility consulting for more than ten years. At BCI, I led the electric utility consulting practice, and personally managed numerous rate, cost of service and related assignments for utilities

throughout North America. I have appeared in numerous regulatory proceedings during the past 20 years, and have testified in several civil proceedings, and before several state legislative bodies. I am the author of four books, numerous published articles and hundreds of presentations on utility rate, cost of service and related issues. I hold a B.A. in Economics from California State University at Chico, as well as an M.A. and a Ph.D. in Economics from Washington State University. My resume is attached as part of Exhibit __ (NYPA-1).

[Don Bennett] I am an independent management consultant, providing financial and strategic management consulting services to the energy utilities industry and other infrastructure businesses. I have served the energy industry for 33 years, first as a financial executive and, for the last 11 years, as a consultant. I was a partner at Arthur Andersen, serving as the head of its National Utility Consulting Group before departing in 1997. Prior to entering consulting, I served in various financial management positions with The Southern Company, the electric holding company in Atlanta, Georgia. I have a Bachelor of Science degree in Industrial Management from the Georgia Institute of Technology (Atlanta, Georgia) and an M.B.A. from the University of North Carolina at Chapel Hill. My resume is attached as part of Exhibit __ (NYPA-1).

[Timothy Lyons] I am Project Director for Quantec, LLC, where I am responsible for utility rates, cost of service, and other regulatory services. Prior to joining Quantec in June 2003, I was with KEMA Management Consulting, formerly XENERGY, Inc. Before that, I was Vice President of Marketing and Regulatory Affairs for Providence Gas Company. I was responsible for the development and implementation of all utility marketing, pricing, and regulatory programs. Previously, I was a Director of Rates and Revenue Analysis at Boston

Gas Company (now part of KeySpan Energy), where I was responsible for the design, regulatory approval, implementation, and administration of rates. I have testified before the Massachusetts Department of Telecommunications and Energy and the Rhode Island Public Utilities Commission. I received a B.A. in Mathematics and Economics from St. Anselm College, an M.A. in Economics from Pennsylvania State University, and an M.B.A. in Finance from Babson College. My resume is attached as part of Exhibit __ (NYPA-1).

We note here that all of the exhibits accompanying our testimony have been prepared by us or under our supervision.

Q. **What is the purpose of your testimony?**

A. On behalf of the New York Power Authority ("NYPA"), the purpose of our testimony is to present the findings of our review and analysis of Con Edison's rate case filing. We address several revenue requirement and rate base issues involved in Con Edison's proposed rate increase and the proposed allocation of that increase based upon the Electric Cost of Service ("ECOS") study presented by its Electric Rate Panel.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Q. **Please summarize the impact of Con Edison's proposed rate changes on NYPA's governmental customers.**

A. We would like to begin by highlighting the magnitude and source of the proposed rate increase. As shown on Exhibit __ (NYPA-2), Page 1, Con Edison proposes to raise delivery rates for NYPA's governmental customers by $107.3 million – or <u>43% from current rates.</u> The proposed NYPA increase represents almost 20% of Con Edison's proposed $567.9

1 million delivery rate increase for the 2006 rate year (i.e., 12-months ending March 31, 2006)
2 despite the fact that NYPA represents less than 10% of Con Edison's current Transmission
3 and Distribution (T&D) revenues and 14% of Con Edison's system peak load. To put this
4 another way, NYPA's 43% increase is more than twice that of Con Edison's other
5 customers, who (assuming the rate request is granted) will see an aggregate increase of
6 19% in their delivery rates. Of course, a 19% increase is sizable by any standard, but
7 nonetheless is dwarfed by the proposed 43% increase for NYPA's governmental customers.

8 This proposal to increase the NYPA tariff costs by 43% has a very substantial and extremely
9 burdensome impact on NYPA's municipal and other public customers that is unjustified
10 during a time of limited government resources and economic and energy marketplace
11 uncertainty.

12 Q. **What are your overall recommendations regarding this increase?**

13 A. We recommend a number of revenue requirement and ECOS adjustments that reduce the
14 size of Con Edison's overall rate increase (by $195.0 million), as well as reduce the size of
15 the increase for NYPA's governmental (by $71.4 million) and Economic Development
16 Delivery Service/ Power for Jobs (EDDS/PFJ) (by $0.5 million) customers.

17 Q. **Have you examined the source of the disproportionate increase in NYPA's rates**
18 **relative to Con Edison's other customers?**

19 A. Yes. The disproportionate increase – whereby NYPA's governmental customers receive an
20 increase that far exceeds that of Con Edison's other customers as a whole – is based on the
21 results of Con Edison's 2002 Electric Cost of Service (ECOS) study and the "two-step"
22 process it uses. The first step utilizes the ECOS study results to align class revenue
23 responsibilities at the current rate levels. The second step allocates the proposed revenue

requirement increase based on the realigned revenues. As a result of this two-step process, the ECOS study results are responsible for approximately half of NYPA's proposed rate increase, as shown on Exhibit __ (NYPA-2), Page 2. Specifically, the exhibit shows that if NYPA did not have a purported revenue deficiency based on the 2002 ECOS, then NYPA's proposed increase would be "only" $54.6 million – based on Con Edison's proposed $567.9 million increase for the 2006 rate year. This is still a very sizable increase, but substantially less than the proposed $107.3 million.

Q. **What approach are you proposing?**

A. For the reasons set forth below, we propose that any rate increase granted to Con Edison should be allocated to the classes on an equal percentage basis (i.e., without reliance on the 2002 ECOS results). Under our proposal, the rate increase would be allocated in the manner shown on Exhibit __ (NYPA-2), Page 2, which reduces NYPA's share of the proposed increase by $52.7 million.

Q. **Please summarize your findings and recommendations regarding Con Edison's proposed rate increase to NYPA's governmental customers.**

A. Our findings and recommendations are as follows:

1. We believe that it would be inappropriate to use Con Edison's 2002 ECOS in this proceeding. The proposed rate increase (or, for that matter, any future increase) should <u>not</u> be based on Con Edison's ECOS study since the results do not follow the most basic cost-causation principles. Further, Con Edison has provided no explanation as to why the results are substantially different than the 1994 Con Edison ECOS (presented in Case 96-E-0897) despite the fact that, according to Con Edison, the "overall theory for these studies did not change [except for] numerous

incalculable minor changes..." See Exhibit __ (NYPA-3), Pages 2-6. Accordingly, we recommend that any rate increase granted to Con Edison should be spread uniformly among the NYPA, EDDS/PFJ and Con Edison customer classes.

2. Alternatively, failing outright dismissal of the ECOS results, we believe that the 2002 ECOS should be modified substantially to correct for several items. First, we propose several adjustments based on the improper allocation of costs to NYPA, such as Research and Development (R&D) expenses. Next, we recommend changes to several key allocations, such as the high tension (D04) and low tension (D08/D09) allocators, that better reflect cost-causation principles for all customers. Finally, we have proposed certain "contemporaneous" adjustments to the ECOS allocators that better reflect cost responsibility during the effective period of the proposed rates. These "contemporaneous" adjustments more closely align costs to the 2006 revenue requirements. At the proposed level of increase in revenue requirements, our suggested changes would reduce NYPA's ECOS revenue deficiency by $41.0 million, as shown on Exhibit __ (NYPA-2), Page 3, thus all but eliminating the ECOS revenue deficiency and the need for the two-step process. Instead, the approved rate increase would be spread uniformly among the NYPA, EDDS/PFJ and Con Edison classes, as shown on Exhibit __ (NYPA-2), Page 2.

3. We also recommend that if the Commission decides to rely on the Con Edison's 2002 ECOS study, then the rate of return tolerance band used in the study should be changed from +/-10% to +/-20%. The use of a tolerance band is a long-standing practice at the Commission, generally within a range of +/-10% to +/-20% based on the Commission's underlying confidence in the ECOS; its methodology, data and

results. Based on the apparent instability of Con Edison's ECOS, its extreme sensitivity to changes in assumptions and data, its lack of stable results from one study to the next, and the substantial uncertainty regarding the ECOS impact of Con Edison's proposed infrastructure investments, we recommend the use of a +/-20% tolerance bandwidth. A +/-20% tolerance bandwidth would reduce NYPA's increase by $18.5 million, as shown on Exhibit __ (NYPA-2), Page 4, based on Con Edison's proposed level of revenue requirement increase.

4. We believe that the business risk that Con Edison incurs in serving NYPA is sufficiently different from its overall business risk to warrant a separate, lower cost of capital applied to the rate base allocated to NYPA. Adjusting for this factor alone would reduce NYPA's 2002 ECOS deficiency by $34.5 million, as shown on Exhibit __ (NYPA-5). Further, the need to reflect a lower cost of capital for Con Edison's service to NYPA is additional justification for not using the 2002 ECOS as a basis for setting rates and, at the very least, supports widening the rate of return tolerance bandwidth used in the 2002 ECOS.

5. We also recommend several revenue requirement and rate base adjustments that will reduce Con Edison's overall proposed increase by $195 million.

III. GENERAL FAILINGS OF THE ELECTRIC COST OF SERVICE (ECOS) STUDY

Q. **Please summarize your primary concern with the 2002 ECOS.**

A. Our primary concern is that the 2002 ECOS does not accurately represent the true cost of service to NYPA's governmental customers. Our conclusion is based on the fact that the

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2002 ECOS allocates a disproportionate share of costs (and thus, a disproportionate share of the rate increase) to NYPA. Our rationale is this: Con Edison states that the proposed rate increase is driven in large part by significant load growth (see, e.g., Infrastructure Investment Panel testimony on page 10, line 16, "Total electric demand in Con Edison's service territory is growing at levels higher than anticipated when electric rates were last set for Con Edison in 2000 and is placing substantial demands on the Company's electric infrastructure."); hence, the need to add new transmission and distribution facilities. However, NYPA is not the source of this substantial load growth. NYPA's load has been growing by less than one percent each year, which falls well short of supporting the magnitude of infrastructure spending proposed by Con Edison. See Exhibit __ (NYPA-3), Page 1. In fact, if the rest of the system grew at the rate of NYPA, we believe there would be a much diminished need for most of the proposed infrastructure investments related to load growth.

Thus, one would expect (based on long-standing ratemaking convention) that those most responsible for the needed investments would receive the largest share of the allocated costs and proposed rate increase – based on the rationale that they are most responsible for the increased cost of service. Instead, in Con Edison's ECOS, NYPA receives the disproportionate share of the allocated costs. Moreover, NYPA receives the highest proposed increase – by a factor of more than two. In the end, this result is simply unfair and inconsistent with generally accepted ratemaking principles.

In this regard, in the 2002 ECOS, Con Edison customer billing demand and associated revenues appear to be growing at a rate faster than the underlying cost drivers, which has resulted in a relatively higher rate of return for service to Con Edison's direct customers and

a lower rate of return for its NYPA service. That Con Edison customer billing demands and revenues are growing at a faster rate than NYPA while the Company's cost allocators in the study are declining undermines the validity of the 2002 ECOS. In other words, since NYPA's demand is growing proportionately less than Con Edison's, as shown on Exhibit __ (NYPA-3), Page 1, one would reasonably expect that NYPA's allocation percentages would be growing less as well. As discussed below, this is not the case. The 2002 ECOS increases the proportionate amount of costs allocated to NYPA.

Thus, while NYPA revenue levels are growing proportionately less than Con Edison, NYPA's allocated cost levels are rising – which in turn has produced the lower rate of return. The bottom line is that the 2002 ECOS makes NYPA, as a result of its relatively "slow" revenue growth, responsible for a higher share of the overall cost of service. This effect is completely artificial and not reflective of the actual underlying cost causation.

Q. **What would you have expected the 2002 ECOS to show?**

A. At most, we would have expected NYPA to receive a proportionate share of the increase since Con Edison and NYPA worked together in the most recent rate case (Case No. 96-E-0897) to eliminate NYPA's then $22 million revenue deficiency. It also is surprising that Con Edison's Rate Panel could not explain how NYPA has gone from equalized rates of return as a result of the 1994 ECOS to a $43.3 million deficiency in the 2002 ECOS. See Exhibit ___(NYPA- 2), Pages 5-7.

Q. **What is the basis for your statement that NYPA should be at equalized rates of return based on the 1994 ECOS?**

A. In Con Edison's most recent rate case proceeding, Case No. 96-E-0897, NYPA, Con Edison, and other parties entered into a settlement agreement that addressed the then $22

1 million revenue deficiency indicated by the 1994 ECOS presented in that case. A $9 million
2 rate increase along with elimination of the Metropolitan Transportation Authority's 25 Cycle
3 Service brought NYPA's revenue contribution to the overall average return for the Con
4 Edison system, consistent with the tolerance bandwidth.

5 Q. **Why do you believe that the 2002 ECOS does not accurately represent the cost of**
6 **serving NYPA customers?**

7 A. The 2002 ECOS does not appear to follow basic ratemaking convention. In a properly
8 conducted cost of service study, costs are allocated to customers in a manner consistent
9 with how the costs are incurred. For example, if load growth is driving the need for new
10 infrastructure investments, then it is appropriate to allocate costs to those classes that are
11 most responsible for the load growth.

12 As stated by Con Edison, a primary driver behind this rate increase is Con Edison's need for
13 new transmission and distribution investments to address the high rate of load growth
14 experienced over the past decade. These investments, Con Edison argues, are necessary
15 to ensure a safe and reliable electric system. Thus, as a matter of ratemaking policy, one
16 would expect that a proportionate share of the increase would fall on those customers who
17 have been most responsible for the load growth. Doing otherwise would violate a generally
18 accepted ratemaking convention that those customers who cause the costs to be incurred
19 should be responsible for paying the costs.

20 Q. **Did you find this to be the case?**

21 A. No. In fact, we found just the opposite. Those customers with the lowest growth rates (i.e.,
22 NYPA's governmental customers) receive proportionately the highest allocation of costs.

This finding alone leads us to conclude that the 2002 ECOS is not suitable for use in setting rates in this proceeding.

Q. **Please explain your findings.**

A. Our findings are summarized in the table below – and provided in more detail on Exhibit __ (NYPA-3), Page 1. In particular, our findings show that Con Edison customer billing demand has increased by approximately 25% since 1994 – in contrast to the NYPA customer billing demand increase of only 5%. Yet, in the ECOS, NYPA's Transmission and Distribution (T&D) revenue requirement has increased by 12% - more than twice the rate of its growth in billing demand. On the other hand, Con Edison customer T&D revenue requirement has increased by only 17% while its billing demand has increased by 25%. As a result, the Con Edison customer incremental revenue requirement is only $9.19 per kW for almost 32,000 MW of new load. This is in contrast to the NYPA customer incremental revenue requirement of $26.68 per kW for only a little more than 1,000 MW of new load.

Table 1

Comparison of ECOS Study Results

	Con Edison Customers			NYPA Customers		
	1994	2002	Change	1994	2002	Change
T&D Revenue Requirement ($000)	$1,726,170	$2,019,786	$293,616 17%	$227,974	$256,107	$28,134 12%
Billing Demand (MW)	130,052	161,998	31,946 25%	20,867	21,921	1,054 5%
Revenue Requirement/ Kw			$9.19			$26.68

There is no plausible explanation for this difference. One of the primary drivers of Con Edison's proposed $567 million rate increase is load growth – and NYPA is responsible for only 5% of the added load since the last rate case. Yet, somehow the 2002 ECOS suggests

that NYPA's customers should pay (for their incremental load) an amount that is almost 3 times that of Con Edison's customers.

Q. **Can the difference between Con Edison's ($9.19 per kW) and NYPA's ($26.68 per kW) incremental revenue requirement be explained by changes in ECOS Study methodology?**

A. No. Con Edison has stated that it has not implemented substantial changes to its ECOS methodology. According to Con Edison, "...the overall theory for [the] studies did not change [except for] numerous incalculable minor changes..." See Exhibit __ (NYPA-3), Page 2-6. According to Con Edison, this was also true for all of the major cost of service study components: functionalization, classification and allocation, and the class demand studies. In fact, when we inquired about specific changes to the three most significant ECOS allocators, D03 (which allocates transmission costs), D04 (which allocates high tension distribution cost), and D08/D09 (which allocates low tension distribution costs), Con Edison stated that the allocation methodology used in the 2002 study was the same as that used in the 1994 study – except for separation of low tension demands into overhead and underground in the 1994 study. See Exhibit __ (NYPA-3), Pages 2-8. This change in allocation methodology, however, does not appear to explain such differences since the relative difference between the D08 and D09 allocators in the 1994 ECOS was minor – less than one-tenth of one percent. See Exhibit __ (NYPA-3), Page 9.

Q. **Has the Con Edison Rate Panel been able to explain these differences?**

A. No. In response to a question from the Administrative Law Judge, a member of the Con Edison Rate Panel could not explain why the claimed revenue deficiency for NYPA has

1 increased in comparison with the results of the prior studies. See Exhibit __ (NYPA-2),
2 Pages 5-7.

3 Q. **Is NYPA's Panel able to explain these differences?**

4 A. Yes. As discussed, since NYPA's billing demands have been growing more slowly relative
5 to Con Edison's, so too must NYPA's revenues have been growing more slowly. Thus, a
6 relative lower level of revenues – assuming for the moment a constant cost of service –
7 would necessarily lead to a lower overall rate of return.

8 Q. **But wouldn't the slow growth in revenues necessarily lead to slow growth in the cost**
9 **of service?**

10 A. That is what we expected. Instead, as Table 1 shows, the slow growth in revenue has been
11 accompanied by a disproportionate growth in allocated costs. For NYPA, as an example,
12 "costs" (as allocated in the ECOS) have grown by 12% while revenues have grown by only
13 5%. As stated earlier, there is no justification or support for this inconsistency – and it is
14 further evidence that the 2002 ECOS should not be relied upon in this proceeding.

15 From a different perspective, since NYPA's demand is growing proportionately less than
16 Con Edison's, one would expect that NYPA's allocation percentages are growing less as
17 well. As shown below, this is not the case. Rather, the 2002 ECOS study results increase
18 the amount of costs allocated to NYPA.

19 Thus, while NYPA revenue levels are growing proportionately less than Con Edison, its
20 allocated cost levels are rising – which in turn has produced the lower rate of return. The
21 point is that the 2002 ECOS makes NYPA, as a result of its relatively "slow" revenue growth,

responsible for a higher share of the overall cost of service. This effect is totally artificial and not reflective of the underlying cost causation.

Q. **Has Con Edison explained why NYPA's revenues are growing proportionately less while its costs are growing proportionately more?**

A. No – and this should represent a major concern since any customer class may be faced with a similar problem in the future if these ECOS results are reversed, causing further instability and volatility in Con Edison's rates.

Q. **Please explain what you mean by saying that NYPA's allocation percentages are growing.**

A. We compared the allocation factors used in the 1994 ECOS to those used in the 2002 ECOS. The results, which are summarized below and shown in more detail on Exhibit __ (NYPA-3), Page 9, show a modest net increase in the allocation percentages (and thus, higher costs) to NYPA. The analysis provides some explanation, though not a rationale, for a small portion of NYPA's ECOS revenue deficiency.

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Table 2

Comparison of ECOS Allocators

Allocator	1994 ECOS Allocation (%)	2002 ECOS Allocation (%)	Percentage Change (%)	Cost Allocation Change ($Million)
D03 (Transmission)	14.55%	14.22%	-2.25%	($1.3) Mil.
D04 (Sub-transmission)	14.92%	14.67%	-1.62%	($1.9) Mil.
D08 (Distribution)	8.49%	9.02%	6.28%	$0.6 Mil.
D09 (Distribution)	8.54%	9.02%	5.57%	$3.1 Mil.
Total Change in Allocated Costs				**$0.5 Mil.**

Q. **Did you examine any other components?**

A. Yes, we also looked at the changing functionalization of Con Edison's investments between 1994 and 2002. Our thinking was that perhaps Con Edison's rate base has increased in those areas where NYPA receives a proportionately higher allocation amount, and decreased in those areas where NYPA receives a proportionately lower allocation amount.

The results of our functionalization analysis are shown on Exhibit __ (NYPA-3), Pages 10-11. The results are somewhat mixed. The rate base analysis, included in Exhibit __ (NYPA-3), Page 10, shows that NYPA's cost of service should actually be going down. Transmission investments (where NYPA receives an allocation of 14%) are declining, while distribution investments (where NYPA receives an allocation of approximately 9%) are rising. However, the O&M analysis, which is included in Exhibit __ (NYPA-3), Page 11, shows just the opposite – i.e., transmission-related operating costs are rising while distribution operating costs are falling. The net impact of the rate base and O&M cost functionalization appears to be a slight increase to NYPA's overall allocated cost of service.

1 Q. **Please summarize your general conclusions about the 2002 ECOS.**

2 A. We conclude that the 2002 ECOS cannot be relied upon for setting rates in this proceeding.
3 In the 2002 ECOS, the relative relationship between NYPA revenues and costs has
4 declined significantly such that NYPA is showing a substantial revenue deficiency. This
5 decline and resulting revenue deficiency has been neither supported nor explained in Con
6 Edison's filing.

7 Further, Con Edison's proposed rate increase purportedly is needed to support substantial
8 infrastructure investments necessary to meet load growth. However, NYPA's governmental
9 customers have not been primarily responsible for such load growth; and thus, should not
10 have to pay a disproportionately higher amount for those investments. The fact that the
11 2002 ECOS has NYPA bearing a disproportionately higher amount for these investments
12 undermines the integrity of the ECOS and also breaks with long-standing ratemaking
13 convention that those customers who cause the costs to be incurred should be responsible
14 for paying the costs.

15 IV. SPECIFIC FAILINGS OF THE ELECTRIC COST OF SERVICE STUDY
16 (ECOS)

17 Q. **Would you please state your specific concerns regarding the 2002 ECOS?**

18 A. We have the following specific concerns regarding the 2002 ECOS.

19 1. NYPA's 2002 ECOS revenue deficiency should not be based on the actual 2002 system
20 rate of return of 9.65%. In determining any such deficiency, it should be based upon the

rate of return authorized for the rates-in-effect period. Otherwise, NYPA will be charged, during 2006, for revenues allegedly owed, but not billed to NYPA during 2002.

2. Con Edison's approach of taking the higher of the summer and winter Non-Coincident Peak (NCP), except for SC-7, SC-12 and SC-12 (TOD) service classes, has no analytical basis, and appears to be inconsistent with Con Edison's planning approach and generally accepted rate design principles.

3. Con Edison's approach of taking the average of the Individual Customer Maximum Demands (ICMD) and NCP and including a diversity adjustment for the residential classes has no analytical basis, and appears to be inconsistent with Con Edison's planning approach and generally accepted rate design principles.

4. Con Edison's 2002 ECOS improperly excludes NYPA's allocation of congestion rents.

5. Con Edison allocates R&D costs to NYPA in the same manner as its other customers, without regard for the fact that NYPA also pays dues to the same R&D organizations, namely, EPRI and NYSERDA.

6. Con Edison does not adjust for the change in functionalization between 2002 and 2006 despite the fact that the infrastructure plans are designed to invest more heavily in distribution plant (for which NYPA receives a smaller allocation) and less heavily in transmission plant (for which NYPA receives a larger allocation).

7. Con Edison does not adjust for changes in customer demand between 2002 and 2006 despite the fact that Con Edison's customers are growing at a faster rate than NYPA's customers – and thus should be allocated proportionately more of the infrastructure investment designed to address future load growth.

To address these concerns, we have recommended changes that would reduce NYPA's ECOS revenue deficiency by $41.0 million – all but eliminating the need for the two-step process used by Con Edison.

Q. **Would you please explain your position regarding the rate of return used in the 2002 ECOS in more detail?**

A. Con Edison calculates NYPA's deficiency based on the actual 2002 rate of return of 9.65%. This approach inappropriately increases NYPA's revenue deficiency by establishing a rate of return target that exceeds even Con Edison's proposed return in this case of 8.98%. We recommend that the revenue deficiency analysis be based on the rate of return authorized during the effective period for the new rates – i.e., the rate of return approved by the Commission. For illustration purposes, we have assumed that the rate of return during the effective period for the new rates is the proposed rate of return (i.e., 8.98%). As shown in Exhibit __ (NYPA-4), Page 1, the impact of our recommended approach would lower NYPA's revenue deficiency by $9.5 million.

There is no basis for using the actual 2002 rate of return. The theoretical problems with this approach are exposed if we assume for the moment that Con Edison's proposed rate of return for the rate year is 5.94% - which is the same as NYPA's in the 2002 ECOS. In these circumstances, NYPA would show a revenue deficiency in the ECOS (because the deficiency would be based on the historic rate of return) while at the same time NYPA would be generating a rate of return equal to Con Edison's proposed rate of return of 5.94% (continuing with our example).

The fact that Con Edison seeks a lower rate of return in this case than that shown in its ECOS strongly suggests that revenue and cost information has changed significantly

between the historic year (2002) and the projected year (2006). Con Edison would like us to believe that the 2002 revenue and cost relationships carry forward to 2006 without providing any support that this is a valid assumption. In fact, without any evidence substantiating the relationship between the 2002 ECOS and a more contemporaneous 2006 ECOS, the use of the 2002 rate of return borders on retroactive ratemaking.

We do not believe that simply relying on 2002 data to support 2006 revenue requirements without any attempt to compare revenue and cost structures is appropriate. Therefore, to address our concerns about overstating the revenue deficiency and possible retroactive ratemaking, we recommend that the NYPA revenue deficiency (if any) be based on the rate of return authorized during the effective period for the new rates – i.e., the rate of return approved by the Commission.

Q. **Would you please explain your position regarding the high tension allocator used in the 2002 ECOS in more detail?**

A. Con Edison's proposal to allocate high tension costs on the basis of the proposed D04 allocator is inappropriate. This allocation factor represents the highest summer or winter established demands for all Con Edison service classes except for the SC-7, SC-12 and SC-12 (TOD) service classes, where summer-only demands are used. We believe the use of the winter demands is inappropriate, as is the special treatment for service class SC-7, SC-12 and SC-12 (TOD). As shown on Exhibit __ (NYPA-4), Page 2-3, the impact of our recommended approach would lower NYPA's ECOS revenue deficiency by $0.5 million.

There are no studies or analyses supporting Con Edison's D04 allocator in this proceeding. Nothing has been presented to support the premise that system planners have substantially integrated winter demands into their design when designing Con Edison's high tension

system. In fact, the evidence is to the contrary. For those classes with substantially higher winter peaks (relative to their summer peaks), Con Edison relies only on the summer peaks. This approach (of using just the summer peaks) is actually consistent with Con Edison's statement that "...the high tension system is generally summer peaking." See Exhibit __ (NYPA-4), Pages 4-5.

Using summer peaks is also consistent with the National Association of Regulatory Utility Commissioners' (NARUC) Electric Utility Cost Allocation Manual, January 1992, page 97, which states, "The load diversity at distribution substations and primary feeders is usually high. For this reason, customer-class peaks are normally used for the allocation of these facilities." Thus, we recommend modifying Con Edison's highest of summer/ winter NCP to use the summer NCP only.

Q. **Would you please explain your position regarding the low tension allocator used in the 2002 ECOS in more detail?**

A. Con Edison's proposal to allocate low tension costs on the basis of the proposed D08/D09 allocator is inappropriate. The allocation factor is based on the average of non-coincident maximum 60 cycle class demands and individual customer billing demands at the point of input to the low tension network line transformers for summer and winter seasons. A special adjustment to this allocator is made for the Con Edison service classes SC-1, SC-1 (WHTG) and SC-7 to allow for the diversity of individual customer loads in multiple dwellings. No adjustments were made for NYPA customers. The D08/D09 allocator was developed using a 75% weighting of the non-coincident demands and 25% of the billing demands for these three classes.

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1 We believe that the averaging of the NCP and ICMD for developing the D08/D09 allocator is
2 inappropriate. We also believe that the special diversity adjustment made for certain rate
3 classes is inappropriate. First, Con Edison has produced no studies or analyses that
4 support the D08/D09 allocator in this proceeding. Specifically, nothing has been presented
5 to support the premise that system planners rely on the NCP demands for designing the low
6 tension system. It is apparent that Con Edison's system planners must rely on the ICMD
7 demands for the low tension system since, as Con Edison states, the closer the grid
8 equipment is to the customer the greater the importance of ICMD. See Exhibit __ (NYPA-
9 4), Page 6. Less apparent is what role, if any, the class NCP should play in designing the
10 low tension system. As Con Edison states, the further the grid equipment is from the
11 customer, the greater the importance of class NCP. We certainly agree with Con Edison in
12 using the NCP for allocating costs related to the high tension system because the NCP is
13 generally used in designing high tension systems. And this approach is typical for use in
14 allocating primary distribution costs (see NARUC's Electric Utility Cost Allocation Manual,
15 January 1992, Page 97). But without supportable studies or analysis on how the NCP is
16 used in the planning of Con Edison's low tension systems, we believe that the NCP should
17 not be used in allocating the costs of the low tension system. Instead, we propose that the
18 D08/D09 allocator be based on the ICMD. This approach is also consistent with NARUC's
19 Electric Utility Cost Allocation Manual, January 1992, which states on page 97, "The
20 facilities nearer the customer, such as secondary feeders and line transformers, have much
21 lower load diversity. They are normally allocated according to the individual customer's
22 maximum demands."

23 As to the special diversity adjustment, while we believe that Con Edison's argument may
24 have some theoretical merit, Con Edison has not provided any data or studies to support the

reasonableness of the adjustment. Nothing has been presented to show that the NCP/ICMD weighting for the SC-1, SC-1 (WHTG) and SC-7 service classes should be 75%/25%, as proposed by Con Edison, or for that matter, 90%/10%, or 100%/0%. Furthermore, we believe that by already incorporating the NCP into the calculation (which reflects a measure of diversity) and then applying a diversity adjustment, Con Edison effectively is double counting. The NCP itself, which calculates maximum class demand, includes diversity for the apartment house example cited by Con Edison in Exhibit __ (NYPA-4), Page 6. (The fact that no diversity adjustment is made for NYPA, which serves apartment buildings with multiple meters, is yet another flaw in this allocator.) Thus, we recommend rejecting both the averaging of the NCP and ICMD for developing the D08/D09 allocator – as well as the proposed diversity adjustment. As shown on Exhibit __ (NYPA-4), Pages 7-8, the impact of our recommended approach would lower NYPA's ECOS revenue deficiency by $12.8 million.

Q. **Please explain your position regarding congestion rents and the 2002 ECOS in more detail.**

A. Con Edison has received congestion rents in excess of payments made to wholesale customers (including NYPA, in accordance with a June 2000 agreement) of $85.9 million in 2003. See Exhibit __ (NYPA-4), Pages 9-12. Since the assets used to receive such rents are paid for, in part, by NYPA, we believe that NYPA is entitled to its allocated share of such excess rents. Specifically, we believe that NYPA is entitled to 14.22% of the excess congestion rents, consistent with the percentage used to allocate transmission-related costs in the 2002 ECOS. Thus, we recommend that NYPA receive its allocated share of the

excess congestion rents. As shown on Exhibit __ (NYPA-4), Page 9, the impact of our recommended approach would lower NYPA's ECOS revenue deficiency by $12.2 million

Q. **Would you please explain your position regarding the R&D costs used in the 2002 ECOS in more detail?**

A. Con Edison's proposal is to allocate R&D costs to all customers, including NYPA, since all customers generally benefit from the research activities of organizations such as the Electric Power Research Institute (EPRI) and the New York State Energy Research & Development Authority (NYSERDA). NYPA's portion of the R&D amount is roughly $1.3 million, as shown on Exhibit __ (NYPA-4), Pages 13-14.

The proposed treatment is unfair to NYPA since NYPA pays dues to many of the same organizations as Con Edison, including EPRI and NYSERDA. Over the last two years, NYPA has spent over $10 million on R&D-related activities, including paying over $6.5 million to EPRI and NYSERDA – the same organizations that make up a significant portion of Con Edison's R&D expenditures. To have NYPA pay these dues again would constitute double counting. Thus, we propose excluding the R&D amount from NYPA's cost of service, which would lower NYPA's ECOS revenue deficiency by $1.3 million.

Q. **Please explain your position regarding the functionalization of costs used in the 2002 ECOS in more detail.**

A. As discussed above, Con Edison's two-step process results in an unreasonably high allocation of the rate increase to NYPA. One of the primary reasons for this is that the ECOS study relies on historic information (i.e., 2002 data) to establish future rates (i.e., 2006 rate year). Perhaps under a business-as-usual approach this method might make sense. But the next five years will be anything but business as usual since Con Edison

proposes to spend roughly $5.2 billion on infrastructure improvements. See Con Edison Exhibit __ (JPR-3), page 1, associated with Mr. John Ricco's testimony. This impacts the 2002 ECOS in general and NYPA in particular in that the proposed investments are not in the same proportions of functional categories as has occurred historically. In fact, the proposed investments are heavily weighted toward distribution as opposed to transmission investments. Since NYPA receives a smaller allocation of distribution vs. transmission costs, this obviously has an impact on the cost of serving NYPA. As a result, we believe that an adjustment should be made to account for this difference. As shown on Exhibit __ (NYPA-4), Pages 15-16, our proposed adjustment would lower NYPA's ECOS revenue deficiency by $1.6 million. As discussed, the ECOS bases percentage cost responsibility on the specific functional weights associated with 2002 plant in service. The huge proposed new investments shift the weighting of the functional categories of rate base. In order to allocate costs fairly, the cost responsibility shares should reflect the functional weights during the rates-in-effect period. Our adjustment is derived by adjusting Con Edison's plant-in-service amounts included in the 2002 ECOS study by the projection of plant additions to calculate a revised revenue deficiency for NYPA.

Q. **Would you please explain your position regarding the 2006 demand forecast in more detail?**

A. Similar to the infrastructure issue discussed above, Con Edison's two-step process results in a higher allocation of the rate increase to NYPA due to the relatively high growth rate for Con Edison customers vs. NYPA customers. Over the next three years, Con Edison load is expected to grow by 6.4%, while NYPA load is expected to grow by only 4.4%, as shown on Exhibit __ (NYPA-4), Pages 17-18. This significant difference means that Con Edison

customers should be receiving a higher proportion of the 2006 rate increase – particularly when one considers that most of the rate increase is tied to infrastructure investments related to load growth. As shown on Exhibit __ (NYPA-4), Pages 17-18, our proposed adjustment would lower NYPA's revenue deficiency by $3.1 million. The adjustment is derived by modifying the ECOS allocators to reflect Con Edison's load growth projections through 2006. This results in Con Edison's allocators growing at a faster rate than NYPA's– which lowers the amount of cost allocated to NYPA.

Q. Would you please summarize the impact of your specific adjustments to the 2002 ECOS?

A. Yes, the impact of our adjustments is to lower the "deficiency" by $41.0 million as shown in Exhibit __ (NYPA-2), Page 3, and thus, all but eliminating the deficiency.

V. RATE OF RETURN TOLERANCE BANDWIDTH USED IN 2002 ECOS

Q. **Please explain your position regarding the rate of return tolerance bandwidth.**

A. Our conclusion is that the 2002 ECOS does not produce a fair and appropriate allocation of costs in this case. Here are the facts:

- The results of the 2002 ECOS vary substantially from those in the last ECOS.
- Con Edison has provided no explanation for the surprising revenue deficiency for NYPA shown in the 2002 ECOS.
- The 2006 revenue and cost structure will vary significantly from the 2002 revenue and cost structure that underlies the 2002 ECOS.

- The ECOS results are extremely sensitive to small changes in demand assumptions – e.g., the D08/D09 allocator is responsible for allocating almost $3.2 billion of plant in service; thus, a 0.1% change in the allocator would result in a change of $3.2 million. And, as discussed above, we believe that several key allocators were inappropriately developed by Con Edison.

Consequently, the 2002 ECOS is not a reliable tool for ratemaking. Nevertheless, if the Commission decides to use the 2002 ECOS, we believe that a wider tolerance band must be employed to recognize the volatile nature of this study, its underlying assumptions and methodology, and its data. And, while NYPA is the "victim" in this case, the volatile nature of the ECOS is likely to result in inappropriate allocations of costs to others in future proceedings. To address this concern, we believe the use of a wider, +/-20% bandwidth is appropriate. This change alone would reduce the NYPA deficiency shown in the 2002 ECOS by $15.2 million, as shown on Exhibit __ (NYPA-6), Page 1. We note that in Rochester Gas and Electric's rate case (Cases 02-E-1098 & 02-G-0199), the Staff proposed, the ALJ adopted and the Commission approved a wider tolerance band of +/-20% to avoid rate changes in that case that might need to be reversed in a future case.

VI. RATE OF RETURN USED IN THE 2002 ECOS FOR CON EDISON'S SERVICE TO NYPA

Q. What is your position on this issue?

A. We believe that the business risk that Con Edison incurs in serving NYPA is sufficiently different from its overall business risk to warrant a separate, lower cost of capital applied to

the rate base allocated to NYPA. Reflecting this lower cost of capital in the 2002 ECOS reduces the NYPA deficiency by $34.5 million. See Exhibit ___ (NYPA-5).

Q. **How does risk impact the cost of service to NYPA?**

A. Con Edison Witnesses Rosenberg and Fetter testified to the risk that the Company bears, and how that risk affects the cost of capital. We discuss here the extraordinary ways in which Con Edison is able to minimize its business risk and attempts to further minimize those risks through this rate proceeding. Then we will discuss how the service to NYPA presents a strikingly different and lower risk profile to Con Edison.

Q. **What does risk have to do with the cost of capital?**

A. The testimony of Con Edison Witness Rosenberg is replete with references to risk, and his "Risk Premium" approach deals with it explicitly. Mr. Rosenberg states (p. 31 of his direct testimony, line 5), "The higher the perceived risk of an investment, the higher will be the return that investors require from that investment. If two investments offer the same expected return but have differing risks, investors will prefer the investment with lesser risk." Mr. Rosenberg then proceeds to use the *Hope* decision [p. 32, line 9 of his testimony, referring to the Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944)] to justify seeking investments of comparable risk. This is all well accepted methodology for determining utility cost of capital and, while we do not agree with all of Mr. Rosenberg's conclusions, we agree with the underlying methodology. We note also that the reverse of this argument is true: the lower the perceived risk of an investment, the lower will be the return that investors require from that investment.

Q. **How would you characterize the riskiness of an investment in Con Ed common stock?**

1 A. By the standard of most common stocks, such as those represented in the S&P 500 index,
2 Con Edison must be considered to be on the low end of the scale of riskiness.
3 Q. **Why do you say that?**
4 A. Most analysts and investors would say that an electric utility is a relatively stable business –
5 it is an infrastructure service that is important to virtually all its customers, its demand seems
6 relatively predictable, and, very importantly, it operates in many ways – especially its T&D
7 business – as a protected and regulated monopoly. There are obviously factors that make
8 Con Edison's earnings less than totally predictable – we've heard a lot about those in the
9 Con Edison testimony - nevertheless, Con Edison represents an equity investment that is of
10 lower risk than most.
11 Q. **Haven't some utilities had serious financial problems recently?**
12 A. Yes, they have, but not from the transmission and distribution portion of the business. Most
13 of the truly serious financial problems have come on the deregulated energy side of the
14 business. The production plants and the trading of energy have produced most of the
15 earnings volatility in recent years for most electric utilities.
16 Q. **How does Con Edison's risk picture compare to that of other utilities?**
17 A. This is not a risk-free business. And the Con Edison witnesses certainly have described
18 some of the difficulties of the business, and especially those of serving a major metropolitan
19 area such as New York City. But, the Company also has presented a rate case that
20 minimizes or mitigates many of the risks – especially as those risks affect the volatility of net
21 income.
22 Q. **What has the Company proposed in this case to mitigate business risks?**
23 A. Con Edison presents us with a rate structure that is full of automatic adjustments and
24 deferred cost recovery mechanisms. In this case, the Company attempts to minimize a

number of risks that other utility companies bear, including new construction over $10 million, inflation over 4%, fuel and purchased energy, and a number of specifics, such as property tax rates and assessments, pension costs, environmental compliance costs, and a number of others. All these factors combine to make Con Edison a utility with a lower risk profile than most.

Q. **Does that make Con Edison a risk-free investment?**

A. Of course not.

Q. **What risks does the Company bear?**

A. Among the first items that would be mentioned by most analysts would be regulatory risk. Our review of the materials provided by Con Edison in this case suggests that the New York regulatory climate is regarded as fairly positive for Con Edison – that the professional investment community regards the regulatory risk that Con Edison faces as relatively low.

Q. **With what other risks must Con Edison cope?**

A. Other than regulatory risk, there are probably four major categories of operational risks that can be identified. These are as follows:

a. Operating risk – the risk inherent in operating a complex electric grid in New York City, including safety risk (both employee and public), outage risk and performance risk;

b. Credit risk – the risk of not being paid by individual customers;

c. Fuel and purchased power risk – the risk of having fuel and purchased energy prices so high that, somehow, regulators do not pass on the full cost of that energy. We include in this category the many issues associated with energy trading, including malfeasance and inadequate risk management practices. Con Edison seems to be particularly concerned about its role as "provider of last resort" (POLR) inasmuch as

it can be the fall-back energy provider for many of its customers – and must do so regardless of the market price at which it buys energy.

d. Volumetric risk – the risk of a drop in volume or a failure to meet load-growth projections, typically in the electric utility business either from a major change in the regional or local economy or in economic growth, or due to weather patterns that keep customers from having to use heating and cooling devices as much as normal.

Q. **Do you believe that NYPA imposes a proportionate share of those risks to Con Edison?**

A. We refer to the four categories of risk above. Three of those have no bearing whatsoever on NYPA. First, there is no credit risk associated with Con Edison's service to NYPA – none whatsoever. NYPA pays Con Edison on time, NYPA passes through its Con Edison costs to a group of customers that represent the heart of the infrastructure of this city, including the city itself, the MTA, the Port Authority, and Westchester County. Con Edison will be paid.

Q. What is the second category?

A. Con Edison has absolutely no energy responsibility to NYPA. NYPA is its own POLR, and Con Edison does no energy trading on behalf of NYPA.

Q. **What is the third category?**

A. The third risk category that NYPA does not impose on Con Edison is that of volume. NYPA's rates are demand-based, not energy. NYPA's demand is highly predictable, not nearly as subject to the vicissitudes of weather or the economy as much of the remainder of Con Edison's load. Under this category of volumetric risk, we would add the point that NYPA presents a very low risk to Con Edison from the perspective of planning to meet future loads. As a vital part of the infrastructure of this area, the NYPA load will continue to

be there, and will grow in a steady and predictable manner. The NYPA load simply is not subject to wide and unexpected changes.

Q. **So what conclusion can you reach with respect to the pricing of Con Edison's service to NYPA?**

A. In a way, it is almost as if Con Edison is leasing to NYPA the use of its grid system, including its operation and maintenance. NYPA pays annually for the use of the system and pays sufficiently for Con Edison to operate and maintain it and, yes, to compensate it for the risk of that operation. But NYPA imposes no other cost or risk to Con Edison. In financial terms, risk is a cost of doing business. If we follow the principle of ratemaking that costs should be attributed to their cause, the cost of the risk of energy prices, of credit and of sales volume must not be attributed to NYPA. The most logical way that we know to offset that risk is to ascribe a lower cost of capital to the pricing of Con Edison's service to NYPA.

Q. **Can you quantify the degree to which Con Edison's service to NYPA imposes less risk than that of other customers?**

A. A reasonable adjustment to the rate of return used to allocate rate base to NYPA would be to use the Con Edison cost of debt, plus a risk premium adjusted for the lower risk that NYPA presents. Using a risk premium over the cost of the Company's debt is consistent with Con Edison Witness Rosenberg's discussion of Risk Premium Analysis, beginning on page 30, line 5 of his direct testimony. While we cannot quantify precisely the risk differences, we are comfortable testifying that NYPA imposes no more than half the risk that Con Edison bears in its overall business.

Q. **So what is your recommendation for the cost of equity attributed to Con Edison's service to NYPA?**

A. Clearly, Con Edison's cost of capital attributed to serving NYPA should be lower. Con Edison Witness Rosenberg testified, on pages 32 through 37 of his direct testimony, to an average risk premium of 4.2 percent, or 420 basis points. Using that 420 basis points for purposes of this testimony, we believe a risk premium in a range of 1/3 to 2/3 of the premium would be reasonable for NYPA. Thus, our recommendation would be for a risk premium of about 210 basis points, resulting in a cost of equity capital for Con Edison's service to NYPA of about 8.40 percent. This is a judgment call, to be sure, but the worst judgment by far would be to ignore this important factor and continue to overcharge NYPA and all of its customers.

Q. **What would be the effect on the 2002 ECOS calculations of a change in the cost of capital with respect to NYPA service?**

A. Reducing the cost of equity for NYPA to 8.40 percent would reduce the cost of capital for NYPA service to 7.22 percent. Applying that cost of capital to Con Edison's recommended rate base, there would be a reduction in the 2002 ECOS deficiency of NYPA of $34.5 million. See Exhibit ___ (NYPA-5).

Further, the fact that the 2002 ECOS does not reflect a lower cost of capital for Con Edison's service to NYPA is additional justification for not using the 2002 ECOS to set rates. At the very least, this fact supports widening the rate of return tolerance band used in the 2002 ECOS so as to accommodate a lower cost of capital for service to NYPA.

VII. REVENUE REQUIREMENT ADJUSTMENTS/DEPRECIATION

Q. **Does the Panel have any adjustments with respect to the changes in depreciation rates requested by Con Edison?**

A. Yes, we do. We recommend that the Commission reject Con Edison's position on increasing the dollar amount of depreciation beyond the level that would be justified by current depreciation rates. In a proposed two-step approach, the Company failed to justify any of the increases sought, in our opinion.

Q. **Please explain the problems you found with the Con Edison analysis.**

A. Con Edison Witness Hutcheson actually testified to two sets of depreciation rates in this case – first a "traditional approach," that he used to justify higher rates than are being used currently, then a so-called "economic approach" that went beyond the normal methods of developing depreciation rates and seemed to be used primarily to justify even higher revenue requirements.

Q. **What are your observations on Con Edison's recommended economic approach?**

A. The economic approach should be rejected in its entirety. In our opinion, based upon a careful review of Witness Hutcheson's direct testimony, this is not an "economic approach" in the sense that an economist might use. We would call it, instead, an "opportunistic approach," and one that can be considered to be "economic" only to Con Edison.

Q. **Please describe your issues with Con Edison's "economic depreciation."**

A. In the first place, it is a complete misuse of the term "economic depreciation." In the economist's sense, "economic depreciation" refers to a concept in which annual depreciation expense is based upon the diminution in *economic value* of an asset or a class of assets. Thus, in determining economic depreciation, we would take into account the enhancement in value from inflation as well as any change in value due to other factors – technological change, economic conditions, etc.

Q. **Is that not the concept that Mr. Hutcheson described?**

A. No, in fact, it has nothing to do with the concept as described by Witness Hutcheson. Mr. Hutcheson's entire argument is based on Con Edison's alleged need to improve cash flow. He cited statistics that show depreciation expense compared to annual construction expenditures and show Con Edison to be lower than the average of the small sample size used. Even if one accepted the Con Edison statistical analysis, that still proves nothing other than the well-known fact, one that Con Edison touts, that the Company has a very large construction program.

Q. **Mr. Hutcheson argued that the higher depreciation rates of his economic depreciation proposal would result in lower revenue requirements to customers. Do you agree with that?**

A Under a very strained set of circumstances, not realistic in its application to the electric utility business, Mr. Hutcheson's argument can be said to be correct. In his response to the PSC Staff Interrogatory #58 (See Exhibit __(NYPA-7), Page 2), Mr. Hutcheson explains that for an individual asset, if it is depreciated over a shorter period of time, and therefore financed over that shorter period of time, the revenue requirement for the life of the asset is lower. This, of course, is likened to buying a car with a three-year loan as opposed to a five-year loan, in that your total payments over the life of the loan are lower with the shorter loan period. We find this to be rather a disingenuous argument in the context of this rate case. For that individual asset in Mr. Hutcheson's example, the lowest revenue requirement is found by simply expensing, or depreciating the asset over one year. Perhaps for one asset the theory works, but it fails any test of reasonableness when applied to an electric utility company.

NYPA PANEL

1 Q. **What if we look on a present value basis?**

2 A. Mr. Hutcheson's theory either ignores the time value of money, as above, or it rests on
3 having a discount rate for the customer that is lower than the Company's cost of capital, so,
4 effectively, it is cheaper for the customer to maintain the investment than the Company.

5 Q. **What do you conclude from Mr. Hutcheson's statement regarding the alleged rate**
6 **benefits of higher depreciation rates?**

7 A. It seems that Mr. Hutcheson is caught in a dilemma between two conflicting theories that he
8 promotes. If the customer has lower rates, then why is it that this is the avenue to better
9 cash flow to the Company? The cash flow comes from only one place – the customer. The
10 short answer is that, for the foreseeable future, and as long as Con Edison is adding
11 considerable amounts of new electric plant, rates to the customers are lower with lower
12 depreciation rates. There is no customer benefit to Mr. Hutcheson's proposal for so-called
13 economic depreciation, and we recommend that his proposal in that regard be rejected.

14 Q. **Do you recommend that the Commission adopt the rates recommended in the**
15 **"traditional approach" to depreciation rates, to which Mr. Hutcheson testified?**

16 A. No, we do not. Reviewing Mr. Hutcheson's testimony and the accompanying exhibits very
17 carefully, it appears that a proper depreciation study was performed initially and that
18 Mr. Hutcheson then changed quite a few of the results according to his judgment, made and
19 commented upon in his Exhibit__CH-4. While we are not prepared to argue with
20 Mr. Hutcheson on every judgment call, we observed 14 cases where the evidence of the
21 study suggested, according to Mr. Hutcheson himself, that the depreciable life should be
22 raised, thereby lowering the depreciation rate, and in each of those cases Mr. Hutcheson
23 used his judgment to maintain the life and, thus, the current depreciation rate. This

consistent bias, along with the knowledge that Mr. Hutcheson desires to increase cash flow from depreciation, suggests to us that the results of this analysis are too flawed to utilize.

Q. **What is your alternative?**

A. We have prepared Exhibit __ (NYPA-7), Page 1, that presents an alternative proposal. In that exhibit, we simply applied the results of Mr. Hutcheson's own study and observations, increasing the depreciable life wherever his study suggested doing so. We did not change any case in which Mr. Hutcheson lowered the depreciable life – in each case, he gave adequate reasons and had an adequate basis for making that interpretation.

Q. **What are the conclusions from your study?**

A. Our study showed total depreciation for Con Edison's electric plant in service (which excludes common plant, to which we have no adjustments) to be $295.8 million for the rate year 2006, compared to Mr. Hutcheson's recommendation of $328.2 million in his Traditional Approach. The current depreciation rates, as calculated by Mr. Hutcheson, produce depreciation expenses of $296.7 million. Therefore, we suggest that the Commission adopt our modification of Mr. Hutcheson's Traditional Approach, which has the advantage of updating depreciation rates per the latest Con Edison study.

VIII. REVENUE REQIREMENT ADJUSTMENTS/PROPERTY TAX RATES

Q. **Have you reviewed the Con Edison position on property tax rates?**

A. Yes, we have.

NYPA PANEL

1 Q. **What is your overall recommendation on the property tax issue?**

2 A. We recommend that the Commission reject Con Edison's assumption of higher property tax
3 rates and approve the inclusion of property taxes based on rates at the current level. There
4 is no assurance whatsoever that rates will rise at all – property tax rates have decreased
5 from one year to the next in the past as well as increased. Especially in light of the
6 magnitude of the rate increase Con Edison is seeking in this proceeding, and in light of the
7 deferred accounting treatment that it already has and seeks to continue, we see no
8 justification for increasing the assumed level of property tax rates. We agree, though, with
9 the Company's request for continued deferred accounting treatment for property tax
10 changes due to rates above or below the assumed level.

11 Q. **Why should the Commission not accept the Con Edison assumptions?**

12 A. We believe that Con Edison has been unjustifiably aggressive in projecting property tax
13 rates, especially as they apply to Class 3 Property in New York City, the Class that
14 comprises the preponderance of Con Edison's utility property in New York City. Property
15 taxes are a substantial issue for Con Edison – we have no argument with that. But, we
16 believe that the Company essentially took one large increase in rates, averaged it together
17 with two smaller increases, a decrease and one year that was essentially flat, and
18 considered that an average upon which to base future rate increases.

19 Q. **What rate did Con Edison assume for Class 3 Property in New York City in the rate**
20 **year?**

21 A. Property tax rates in New York City are effective over the City's fiscal year, which runs from
22 July 1 to June 30 the following year. For the year 2005/2006, which coincides with most of
23 the first rate year, according to Con Edison Witness Hutcheson the assumed rate is

14.217%, up from this year's actual rate of 12.418%. In the two additional years for which Con Edison seeks higher electric rates, the property tax rate for Class 3 Property rises to 15.212% in 2006/2007 and to 16.277% in 2007/2008.

Q. **Are you arguing against the level of property taxes in New York City?**

A. No, we have no basis for arguing against New York City's tax structure. Our argument here is solely that Con Edison has taken a very small amount of data and made some assumptions that have a substantial impact on electric rates.

Q. **Surely Con Edison had additional justification for its assumptions of higher rates?**

A. The only justification cited in Con Edison Witness Hutcheson's testimony was a very simplistic calculation - the average increase over the past five years. There was no evidence presented that the City has any need or intention to raise property tax rates.

Q. **What has been the past history of property tax rates in New York City?**

A. Rates are higher now than they've been in quite a few years – but there have been decreases in the past. In fact, in the last 24 years, as shown in Exhibit __ (NYPA-8), Pages 1-2, which represents all the data available from the City, there have been five instances of rates decreasing from one year to the next for this class of property.

Q. **Will Con Edison not be damaged financially if it fails to recover the cost of increased property taxes?**

A. We do not argue with the premise that Con Edison should be permitted to recover all the property taxes that it pays. And we support the inclusion of the deferred accounting that the Company requests with respect to property taxes. It is reasonable that the Company be able to recover these costs that are imposed on it by a government authority. However, that

lends even more credence to the notion that there is no justifiable reason to increase electric rates in advance of a property tax increase that may or may not occur. Before the third quarter of FY 2002, there had been two years of essentially stable rates, preceded by four years of increases. Before that, the period from 1990 until 1996/1997, rates actually were down fairly sharply.

Q. **So what is your conclusion?**

A. We believe Con Edison should be permitted to collect for property taxes at the current legal rates in its various jurisdictions. It should not be permitted to include an unsupported forecast of increases in property taxes into the revenue requirement. As property tax rates change, the Company is well justified in having deferred accounting treatment in order to ensure that it eventually recovers those lawful rates, and that the benefits of lower rates are passed back to customers.

IX. RATE BASE ADJUSTMENTS/CASH WORKING CAPITAL ALLOWANCE

Q. **Have you reviewed the Con Edison filing with respect to Working Capital?**

A. Yes, we have.

Q. **What are your observations with respect to Con Edison's Working Capital position?**

A. Con Edison has taken a calculation that it calls the "modified FPC formula," (Con Edison Witness Mucillo, page 22, line 19 of his direct testimony) which is 1/8 of certain cash operations and maintenance expenses, as its approximation for cash working capital, in addition to prepayments and materials and supplies.

Q. **What is wrong with that calculation?**

A. The problem with the formula as applied in this case is that it produces a result that is not representative of the real working capital requirements of the Company.

Q. **Please explain.**

A. Working capital is a real business need – the need for cash funds to manage day-to-day operations. The biggest requirement for working capital for almost all businesses, and this certainly includes Con Edison, is to fund accounts receivable. However, the Company is on another side of numerous transactions – it is a payer – to its trade vendors, to its employees, to its taxing authorities, and to its creditors – all these are current liabilities that the Company is effectively borrowing on a monthly basis, just as it is effectively lending to its customers on a monthly basis.

Q. **What guidance does FERC offer on this computation?**

A. FERC has accepted the 1/8 formula as a guideline in the past. However, more recently, FERC appears to regard the 1/8 formula as a maximum, or a guideline if no party objects. In its "Rate Case Filing Manual" for gas companies, dated January, 1997 (no similar document appears to exist for electric companies), FERC states under its instructions for SCHEDULE E-1, COMPUTATION OF CASH WORKING CAPITAL ADJUSTING RATE BASE,

> "Show the computation of cash working capital claimed as an adjustment to the gas company's rate base. Any adjustment to rate base requested must be based on a fully-developed and reliable lead-lag study. The components of the lead-lag study must include... *Cash working capital allowances in the form of additions to rate base*

may not exceed one-eighth of the annual operating expenses, as adjusted, net of non-cash items." (our emphasis added)

There also is a case currently before FERC in which Con Edison has been involved, Docket No. RP04-136-002 involving Iroquois Gas Transmission System, L.P. In its January 30, 2004, order establishing a hearing to examine Iroquois' proposed rates for its Eastchester project, FERC found that, in order for Iroquois to recover what the Commission thought to be a requested cash working capital allowance, Iroquois must perform a "fully-developed and reliable lead-lag study."

Q. **Are there FERC regulations with respect to cash working capital for electric companies?**

A. Yes, in 18 C.F.R. 35.13(h)(12), under "Filing of Rate Schedules and Tariffs", there are the following instructions with respect to the inclusion of Cash Working Capital in the rate base:

> "Cash working capital. The utility shall indicate average monthly working cash requirements that reflect the extent to which day-to-day operational utility service revenues are received later or earlier than cash disbursements necessary to provide the services, with an explanation of how such requirements are derived."

This strongly suggests that the inclusion of Cash Working Capital in the rate base is a function of the timing differences between cash receipts and cash disbursements, which is the reason that a lead-lag study is often the preferred method for this calculation. Public utility commissions in New Jersey and Texas, to cite two of which we are immediately aware, require lead-lag studies to support cash working capital claims.

Q. **Does Con Edison have a lead-lag study available?**

A. Con Edison responded to Interrogatory NYPA-30 that it has not performed lead-lag studies.

Q **Do you have a way to estimate cash working capital requirements in the absence of a lead-lag study?**

A. We did not have access to all the information needed to perform a detailed calculation, but we performed a reasonable estimate based on balance sheet accounts. We believe that our estimate is substantially superior to the simplistic one-eighth formula. Essentially, we used balance sheet numbers for certain current asset and current liability accounts. These suffer the shortcomings of not being specific to either gas or electric, for the most part, and of not being available more frequently than quarterly. Given those limitations, though, we developed estimates based on the Company as a whole, and then reasonably inferred a position for Con Edison's electric business.

Q. **Would you please explain your study?**

A. Yes. Please refer to Exhibit __ (NYPA-9), Page 1. By using quarterly balance sheet numbers from December 31, 2002 through December 31, 2003 for the utility, we can see quickly that the Company's cash working capital needs are close to zero. For the past five quarters, accounts receivable, customer and other, averaged $824 million. In its working capital calculation, the company calculated $67 million of materials and supplies and $161 million of prepayments. To this, we would add Other Current Assets, which averaged $55 million for the five quarters, and cash and other temporary investments, which averaged $47 million. This totals, then, $1,155 million of current assets that must be funded. We find more than adequate funding sources, however, on the other side of the balance sheet. Again using quarterly data from the 10-Q's, we took five accounts as providing the current liabilities that provide a source of capital to pay for current assets. Those accounts are

1 accounts payable, taxes accrued, interest accrued, wages accrued and other current
2 liabilities. For the past five quarters, the average of those five accounts was $1,151 million.
3 That means that current assets exceeded current liabilities only by $4 million for the five
4 quarters analyzed.

5 Q. **So would you recommend that the Commission adjust the working capital allowance**
6 **to $4 million?**

7 A. No, we would not recommend that low of a working capital allowance. We suggest
8 accepting Con Edison's assertion for Prepayments and for Materials and Supplies and
9 assume that the remainder is more than taken care of by the offset of accounts receivable
10 and the various current liabilities. Thus, our recommended total allowance for working
11 capital for the rate year 2006 is the $267 million total of prepayments and materials and
12 supplies, with no additional allowance for cash working capital. This would eliminate the
13 $161 million sought as an allowance for cash working capital, reducing requested rate base
14 by that amount.

15 X. RATE BASE ADJUSTMENTS/EXCESS RATE BASE OVER CAPITALIZATION

16 Q. **Do you have other adjustments to rate base?**

17 A. Yes, we do. We would like to discuss the "Excess Rate Base over Capitalization" (EBCAP),
18 an adjustment that Con Edison has made that increases rate base by $291 million.

19 Q. **What is your issue with EBCAP?**

20 A. This appears to be more or less a historical artifact in Con Edison's rate cases. It appears
21 that the EBCAP adjustment began in 1975 in a Niagara Mohawk case in which rate base
22 exceeded capitalization. The Commission made an adjustment that kept the company from

1 earning returns on a base larger than the company's capitalization itself. Today, that
2 situation appears to be reversed for Con Edison– the claimed rate base is somewhat
3 smaller than capitalization.

4 Q. **Con Edison has made a calculation of EBCAP and come up with a negative number –**
5 **effectively increasing rate base to equal adjusted capitalization. What is wrong with**
6 **that?**

7 A. We believe that effectively makes pointless the entire rate base calculation. The rate theory
8 is that customers should pay for the use of assets dedicated to their service. Con Edison is
9 given ample opportunity to show a rate base that serves its customers – which we believe
10 for the most part it has done, other than with respect to our previously mentioned
11 adjustment to working capital. We see no reason to simply adjust that number upward to an
12 artificial level – to equal the Company's capitalization.

13 Q. **So what is your conclusion with respect to EBCAP?**

14 A. We do not believe that the Company has met the burden of demonstrating that this portion
15 of rate base is required to meet the customers' needs, and recommend that the Commission
16 not accept that adjustment.

17 **Q. Please summarize the impacts of your proposed adjustments to Con Edison's rate**
18 **base.**

19 A. Combining our recommendations of a $161 million reduction with respect to cash working
20 capital and the $291 million reduction of negative EBCAP, we recommend that the
21 requested rate base for the rate year 2006 be reduced by $452 million. This adjustment to

1 requested rate base would reduce Con Edison's rate increase request, based on its
2 requested cost of capital, by approximately $70 million.

3 **Q. Please summarize your recommendations with respect to Con Edison's overall**
4 **revenue requirements.**

5 A. We have recommended reductions to Con Edison's overall revenue requirements in three
6 areas: depreciation, property tax expenses and rate base reductions due to working capital
7 adjustments and the elimination of the EBCAP. The depreciation expense reduction is $57
8 million, the property tax expense reduction is $68 million and the revenue requirement
9 impact of the two adjustments to rate base is $70 million, summing to a total revenue
10 requirement reduction of $195 million.

11 Q. **Does this conclude the Panel's testimony?**

12 A. Yes, it does.

13

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Resume of Dr. John Chamberlin

Dr. Chamberlin is Executive Vice President at Quantec, LLC. He directs several practice areas including IRP strategy, cost-of-service analysis, rate design, retail market strategy, resource procurement strategy, and expert witness and litigation support. He leads the development of tools and procedures to assist utilities and unregulated energy companies in the evaluation and understanding of product and market costs, valuation, profitability and performance. He also leads the evaluation of regulatory and market rules, market pricing and strategy.

Dr. Chamberlin has been a leader in the development and application of innovative electric pricing strategies for almost 3 decades. He authored portions of the federal PURPA pricing guidelines in the early 1980s, wrote many of the EPRI/EEI Rate Design Study "grey books" including the development of marginal cost pricing methods, wrote three innovative pricing guidebooks, developed and taught pricing courses for EPRI, EEI and APPA, and has developed numerous demand response rates over the past decade. He is currently leading a study for a mid-western utility of all US demand response rates.

Prior to joining Quantec, Dr. Chamberlin was Vice President, Strategic Services, at Xenergy, and Vice President, Strategy and Planning at PG&E Energy Services. While at PG&E ES, he led the development of the company's market entry and evaluation models and processes, product profitability analysis, and long range planning and budgeting. He was also responsible for the company's product development, market assessment, customer targeting, market planning, the economic and financial aspects of regulatory strategy, and the financial evaluation of a variety of new initiatives.

Dr. Chamberlin joined PG&E ES through the sale of the consulting company he cofounded: Barakat and Chamberlin (BCI). BCI was a national leader in the utility consulting business, providing services in the areas of valuation, energy efficiency and demand-side management, rates and pricing, forecasting, market planning and assessment, organizational planning, cost of service and revenue requirements, and related areas. As Executive Vice President of BCI, Dr. Chamberlin directed most of the electric utility practice throughout North America.

Dr. Chamberlin has co-authored several books, including Demand-side Management: Concepts and Methods, and Demand-side Management Planning. He is the author of dozens of published articles, numerous monographs and has been invited to present more than a hundred speeches at industry conferences on a variety of energy related topics. He has also taught at numerous workshops on topics including energy efficiency, rates and pricing, planning, forecasting, and competitive policies. He has been widely recognized as a pioneer in the development of methods to plan and evaluate energy efficiency programs, and was an early leader in the development of innovative energy pricing methods. He has testified numerous times before state regulatory commissions and legislatures on matters including rates, pricing policy, resource planning, competitive market policy issues, and energy efficiency.

Prior to cofounding BCI, Dr. Chamberlin was employed by the Electric Power Research Institute, ICF Incorporated, and Westinghouse Hanford. He earned a BA in Economics at California State University (Chico) in 1972, and the MA(1975) and PhD(1976) in Economics at Washington State University. He has been a member of numerous industry organizations, and served as a founding board member of the Association of Energy Service Professionals.

Resume of Mr. Don Bennett

Don Bennett is a senior executive management consultant who provides financial and strategic management consulting services to the energy utilities industry and other infrastructure businesses. He has served the industry for 33 years, first as a financial executive and, for the last 11 years, as a consultant. Mr. Bennett was a partner at Arthur Andersen, serving as the head of its National Utility Consulting Group before departing in 1997. Prior to entering consulting, Mr. Bennett had served in various financial management positions with The Southern Company, the electric holding company in Atlanta, Georgia.

Mr. Bennett's consulting practice focuses primarily on assisting clients with economic decision-making, financial management and rate and regulatory issues. Mr. Bennett has consulted with clients world-wide, including over 40 companies in the United States and Canada. Clients have included major investor-owned companies such as FirstEnergy, Entergy, Northern States Power, Florida Power Corporation, The Southern Company, United Illuminating, Bangor Hydro, PEPCO, Consumers Gas (subsidiary of Enbridge, Inc.) and Central and South West, as well as large public companies, including the Orlando (Florida) Utilities Commission, the Tennessee Valley Authority, Ontario Hydro, BC Hydro, Public Power of Greece and ESKOM (South Africa).

Mr. Bennett is national thought leader in utility performance management and has assisted many companies in implementing improved management reporting, planning and decision-making based upon the use of the Balanced Scorecard and Shareholder Value concepts. He is a financial expert who has worked with numerous financial managers and executives in developing financial analytical processes and performing valuation analyses, with a particular emphasis on the financial planning and resource allocation processes. He has led many projects involving the use of advanced costing tools and techniques in all aspects of utility operations.

Don Bennett has a Bachelor of Science degree in Industrial Management from the Georgia Institute of Technology (Atlanta, Georgia) and an MBA from the University of North Carolina. He resides in Arlington, Virginia.

Resume of Mr. Timothy S. Lyons

Mr. Lyons has 18 years of experience in the energy industry. He specializes in developing and implementing marketing, rate and regulatory initiatives for utilities and energy companies. He has designed and executed various types of programs in the areas of marketing, pricing, regulatory, and supply procurement. Experience highlights include:

- Prepared, testified to and implemented several rate designs for utilities.
- Designed and implemented gas purchasing strategies that helped stabilized prices for gas utility customers.
- Designed and implemented a series of retail programs that enabled customers to choose competitive suppliers.

Prior to joining Quantec, Mr. Lyons was with KEMA Management Consulting, formerly XENERGY, Inc. Before that, he was Vice President of Marketing and Regulatory Affairs for Providence Gas Company. He was responsible for the development and implementation of all utility marketing, pricing, and regulatory programs. Previously, he was a Director of Rates and Revenue Analysis at Boston Gas Company (now, KeySpan Energy), and was responsible for the design, regulatory approval, implementation, and administration of rates. Mr. Lyons has testified before the Massachusetts Department of Telecommunications and Energy and the Rhode Island Public Utilities Commission. He is a member of the American Gas Association.

Mr. Lyons received a B.A. in mathematics and economics from St. Anselm College, an M.A. in economics from Pennsylvania State University, and an M.B.A. in finance from Babson College.

Proposed Increase (per Con Edison: Workpaper RD-88)

Allocation of T&D Revenue Increase Per RD-88 (ConEd workpapers)	Con Edison's Proposal		RY'06 Increase
Proposed Increase			567,871,000
Con Edison customer revenues	2,341,476,000		
Less: Surplus	(42,190,000)		
Con Edison Adjusted Revenues		2,299,286,000	
NYPA Delivery revenues	251,609,000		
Add: Deficiency	43,308,000		
NYPA Adjusted Revenues		294,917,000	
EDDS Revenues	25,539,000		
Add: Surplus	(1,118,000)		
EDDS Adjusted Revenues		24,421,000	
Total Con Edison			2,618,624,000
Allocation to NYPA			
- NYPA Revenue requirement	11.3%		63,955,273
- Add: Deficiency			43,308,000
Proposed annual increase ($)			107,263,273
Proposed Annual Increases - PASNY			**43%**
Allocation to EDDS			
- EDDS Revenue Requirement	0.9%		5,295,903
- Less: Surplus			(1,118,000)
Proposed annual increase ($)			4,177,903
Proposed Annual Increases - EDDS			**16%**
Allocation to Con Edison			
- Con Edison Revenue Requirement	87.8%		498,619,825
- Less: NYPA Deficiency			(43,308,000)
- Add: EDDS Surplus			1,118,000
Proposed annual increase ($)			456,429,825
Proposed Annual Increases - Con Edison			**19%**

Revised Increase (No ECOS Revenue Deficiency)

Allocation of T&D Revenue Increase (Revised for No ECOS Deficiency)	W/ No ECOS Deficiency		Revised RY'06 Increase	Proposed RY'06 Increase	Difference
Current Revenues			587,871,000		
Con Edison customer revenues	2,341,476,000				
Less: Surplus	-				
Con Edison Adjusted Revenues	-	2,341,476,000			
NYPA Delivery revenues	251,609,000				
Add: Deficiency	-				
NYPA Adjusted Revenues		251,609,000			
EDDS Revenues	25,539,000				
Add: Surplus	-				
EDDS Adjusted Revenues		25,539,000			
Total Con Edison			2,618,624,000		
Allocation to NYPA					
- NYPA Revenue requirement	9.6%		54,563,563		
- Add: Deficiency			-		
Proposed annual increase ($)			54,563,563	107,263,273	(52,699,710)
Revised Annual Increases - PASNY			22%		
Allocation to EDDS					
- EDDS Revenue Requirement	1.0%		5,538,350		
- Less: Surplus			-		
Proposed annual increase ($)			5,538,350		
Revised Annual Increases - EDDS			22%		
Allocation to Con Edison					
- Con Edison Revenue Requirement	89.4%		507,769,087		
- Less: NYPA Deficiency			-		
- Add: EDDS Surplus			-		
Proposed annual increase ($)			507,769,087		
Revised Annual Increases - Con Edison			22%		

Change in ECOS Deficiency (with Proposed NYPA ECOS Adjustments)

Issue	Impact on NYPA Deficiency
Rate of return calculation	($9.5)
D04 (Allocation of high tension costs)	($0.5)
D08/D09 (Allocation of low tension costs)	($12.8)
Congestion rents	($12.2)
R&D Costs	($1.3)
Functionalization of 2006 costs	($1.6)
2006 Demand	($3.1)
Total	**($41.0 million)**

Revised Increase (with 20% Bandwidth)

Allocation of T&D Revenue Increase (Revised for 20% Bandwidth)	W/ No ECOS Deficiency		Revised RY'06	Con Edison's Proposal	Difference
Current Revenues			567,871,000		
NYPA Delivery revenues	251,609,000				
Add: Deficiency	28,112,628				
NYPA Adjusted Revenues		279,721,628			
Total Con Edison			2,618,624,000		
Allocation to NYPA					
- NYPA Revenue requirement	10.7%		60,660,026		
- Add: Deficiency			28,112,628		
Proposed annual increase ($)			88,772,654	107,263,273	(18,490,618)
Revised Annual Increases - PASNY			35%		

-----Original Message-----
From: gerald_lynch@dps.state.ny.us [mailto:gerald_lynch@dps.state.ny.us]

Sent: Friday, July 02, 2004 1:26 PM
To: agupta@nrdc.org; aweinberger@hess.com; bwiles@pulp.tc;
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Subject: Case 04-E- 0572, Consolidated Edison Company of New York, Inc.
- Electric Rates- Discovery Dispute # 1-Informal Ruling.

Consistent with a notice given yesterday by Mr. Sheehan, a telephone conference call was held earlier concerning Consolidated Edison's objections to NYPA discovery requests 1, 3-6, and 8. Active parties on the call included Con Ed, NYPA, DPS Staff, NYC, Westchester, CPB, NY Energy Buyers Forum, Owners' Committee, Consumer Power Advocates, and E Cubed.

At the outset, all of the discovery requests in question comply with 16 NYCRR 5.1(a).

With respect to NYPA -1, there are a number of parties that want access to the ECOS model used by the company. However, counsel for the company advises that the model is subject to a licensing agreement and cannot be released by Con Ed to other parties for such use. The outcome is that Consolidated Edison will promptly negotiate the lowest rate it can for use of the model for this case alone by other parties who identify

themselves to Con Edison by not later than next Tuesday morning. It is generally understood that parties with divergent interests on cost allocation issues could enter into such an arrangement together, provided each could privately change inputs to the model for its purposes. Assuming a reasonable rate can be agreed upon and appropriate nondisclosure and licensing agreements can be entered into timely, Consolidated Edison would thereafter promptly provide to eligible parties in electronic format the ECOS model with the company's inputs already in place. Con Edison will report next week on the status of this effort. If the rate negotiated is too high for all those who want to use the model, this outcome might have to be revisited in whole or in part.

One other argument made in connection with NYPA -1 warrants comment. It was suggested that Con Edison never should have entered into an agreement that does not provide for use of the ECOS model by parties to Con Ed rate cases. This is an important point given the Commission's long-standing policy of having open proceeding in which active parties can participate effectively. However, I do not know for a fact that such an alternative arrangement could have been made in this instance. Moreover, even if the argument is correct, that does not afford us the ability to ignore the existing licensing agreement.

As to NYPA-3 through NYPA-6 and NYPA-8, Consolidated Edison's objections were sustained based on the language of 16 NYCRR 5.8 (c). Consolidated Edison stated that it did not prepare ERP-1 and ERP-2 based on prior studies and that the information sought could be gleaned by any party in possession of work papers for the present studies and those submitted in past proceedings. ***In response to a direct question from me, a member of the rate panel also stated he could not give an opinion about why the claimed revenue deficiency for NYPA has increased in comparison with the results of the prior studies.*** In these circumstances, I conclude that Con Edison is being asked to prepare a study in a situation where it does not uniquely possess the needed information and where it does not uniquely have the ability to prepare such a study. Thus, the general rule set forth in the first sentence 16 NYCRR 5.8(c) applies.The outcome here is based heavily on the assumption that Consolidated Edison or NYPA will be able to find and provide to others copies of workpapers for prior ECOS and demand studies. If this assumption turns out to be incorrect, this outcome will be revisited.

One last point is that the results of the company's ECOS and Demand studies are clearly very important to a number of parties. I expect Con Edison and all affected parties to work quickly and cooperatively to implement the results of today's conference call.

Gerald L. Lynch
ALJ

Also, please note that Mr. Joe will soon be removed from the active parties list, as requested by Amerada Hess. Accordingly, he is not copied on this note. ***[Emphasis added.]***

1994 ECOS vs. 2002 ECOS Comparison

ECOS Comparison 2002 vs. 1994	Con Edison Customers 1994 ECOS	Con Edison Customers 2002 ECOS	Difference	NYPA Customers 1994 ECOS	NYPA Customers 2002 ECOS	Difference
Rate Base						
Total Rate Base	7,741,931,980	6,880,717,633		797,761,716	946,525,947	
less: Production	(2,292,880,686)	(49,530,670)		-	-	
less: DSM	(138,158,054)	-		-	-	
less: System Benefits	(7,682,591)	-		(184,392)	-	
less: Revenue Items	(78,277,984)	-		(2,648,018)	-	
T&D Rate Base	5,224,932,665	6,831,186,963		794,929,308	946,525,947	
Overall ECOS Rate of Return	9.18%	9.65%		9.18%	9.65%	
Operating Income	479,848,819	659,209,542		72,974,510	91,339,754	
Operating Costs						
Total Operating Costs [1]	3,809,857,947	1,369,835,949		158,161,386	164,767,819	
less: Production	(2,349,034,513)	(9,259,003)		-	-	
less: DSM	(97,271,329)	-		-	-	
less: System Benefits	(117,030,785)	-		(3,162,036)	-	
less: Revenue Items	-	-		-	-	
T&D Operating Costs	1,246,521,320	1,360,576,946		154,999,350	164,767,819	
Total Revenue Requirements	1,726,170,139	2,019,786,488	293,616,349	227,973,860	256,107,573	28,133,712
			17%			12%
Billing Demand						
Billing Demand (kW)	130,052,022	161,997,951	31,945,929	20,866,616	21,921,100	1,054,484
			25%			5%
Cost per kW	$ 13.27	$ 12.47	$ (9.19)	$ 10.93	$ 11.68	$ (26.68)

Consolidated Edison Company of New York, Inc.
Case 04-E-0572 (Set # 1 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-3 Please describe all methodological changes to the functionalization of costs between the cost of service study filed in this proceeding and those filed in Cases 96-E-0897 and 94-E-0334.

Response: While the overall theory for these studies did not change, numerous, incalculable minor changes were made. To determine each and every one of these minor changes would require a study that has not been performed.

Consolidated Edison Company of New York, Inc.

Case 04-E-0572 (Set # 1 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-4 Please describe all methodological changes to the classification of costs between the cost of service study filed in this proceeding and those filed in Cases 96-E-0897 and 94-E-0334.

Response: See response to NYPA-3

Consolidated Edison Company of New York, Inc.

Case 04-E-0572 (Set # 1 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-5 Please describe all methodological changes to the allocation of costs between the cost of service study filed in this proceeding and those filed in Cases 96-E-0897 and 94-E-0334.

Response: See response to NYPA-3.

Consolidated Edison Company of New York, Inc.

Case 04-E-0572 (Set # 1 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-6 Please describe all methodological changes to the allocators used in the cost of service study filed in this proceeding and those filed in Cases 96-E-0897 and 94-E-0334.

Response: See response to NYPA-3.

Consolidated Edison Company of New York, Inc.

Case 04-E-0572 (Set # 1 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-8 Please list and explain all methodological changes, including sample design and other methodological changes, between the class demand study filed in this proceeding and those filed in Cases 96-E-0897 and 94-E-0334.

Response: See response to NYPA-3.

Consolidated Edison Company of New York, Inc.
Case 04-E-0572 (Set # 4 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-98 Please refer to Exhibit ERP-1, pages 7 and 8.

a. Please explain why the HT 60 Cycle (D04) allocation methodology used in Case 96-E-0897 was not utilized as the appropriate allocation methodology in this ECOS.

b. Please provide the DO4 allocation factors utilizing the D04 allocation methodology used in Case 96-E-0897 updated for the 2002 Class Demand Study data.

Response:

a. The premise of the question is incorrect. The referenced methodology was used in this study.

b. Not applicable. See response to (a) above.

Consolidated Edison Company of New York, Inc.
Case 04-E-0572 (Set # 4 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-106 Please refer to Exhibit ERP-1, pages 7 and 8.

a. Please explain why the D08/D09 allocation methodology used in Case 96-E-0897 was not utilized as the appropriate allocation methodology in this ECOS.

b. Please provide what the allocation factors would have been utilizing the D08/D09 allocation methodology used in Case 96-E-0897 updated for the 2002 Class Demand Study data.

Response:

a. The methodologies used in Case 96-E-0897 and in the current case are essentially the same and follow the principles described in response to NYPA-102. However, the study presented in Case 96-E-0897 separated low tension demands into network and radial loads. This network/radial split is no longer made because it depended upon the overhead system being completely radial and the underground system being completely network. Presently, customers being served on radial systems, for example, may be receiving service through a combination of overhead and underground equipment.

b. Providing this response would require a study that the Company is not required to perform.

2002 vs. 1994 Allocation Analysis

ECOS Allocation Comparison 2002 vs. 1994	1994 ECOS NYPA	1994 ECOS Total Con Edison	1994 ECOS Allocation	2002 ECOS NYPA	2002 ECOS Total Con Edison	2002 ECOS Allocation	Percentage Increase	Change in Revenue Requirements
D03								
D03	1,475,588	10,141,171	14.5504%	1,891,243	11,891,384	14.2224%	-2.2544%	$ (1,351,872)
D04								
D04	1,696,633	11,374,519	14.9161%	1,918,900	13,076,636	14.6743%	-1.6212%	$ (1,868,771)
D08								
D08	154,949	1,824,243	8.4894%	18,875,878	207,018,895	9.0213%	6.2785%	$ 833,003
D09								
D09	829,715	9,709,894	8.5450%	287,583,573	3,187,814,410	9.0213%	5.5749%	$ 3,075,109
Total								$ 489,669

[1] Derived by changing the allocation factors in the ECOS model provided by Con Edison.

Functionalization Analysis (Rate Base)

Functionalization Analysis	(1) 1994 ECOS	(2) Pct (1)	(3) 2002 ECOS	(4) Pct (3)	(5) (2)*TTL(3)	(6) (3)-(5)	(7) '02 NYPA Alloc (See below)	(8) NYPA Impact (6)*(7)
Rate Base								
Transmission	1,128,988,306	19%	1,073,881,057	14%	1,477,515,284	(403,634,227)	14.222%	$ (57,408,569)
High Tension	2,235,776,672	37%	2,834,940,035	38%	2,926,241,719	(91,301,684)	14.674%	(13,397,850)
Low Tension Demand	1,711,092,755	28%	2,699,029,657	34%	2,239,521,983	459,507,674	9.021%	41,453,749
Low Tension Customer	298,731,855	5%	266,365,936	3%	390,987,896	(124,621,960)	4.784%	(5,962,231)
Other [1]	645,374,385	11%	1,004,732,707	13%	844,682,510	160,050,197	12.098%	19,363,294
Total	6,019,861,973	100%	7,878,949,392	100%	7,878,949,392	-		(15,949,607)
NYPA's Allocation								
Transmission			152,731,912	14.222%				
High Tension			416,006,566	14.674%				
Low Tension Demand			243,488,641	9.021%				
Low Tension Customer			12,743,623	4.784%				
Other [1]			121,555,205	12.098%				
Total			948,526,947					

Functionalization Analysis (Total Operating Costs)

Functionalization Analysis	1994 ECOS	Pct (1)	2002 ECOS	Pct (3)	(2)*TTL(3)	(3)-(5)	'02 NYPA Alloc (See below)	NYPA Impact (6)*(7)
Total Operating costs								
Transmission	204,717,741	15%	268,879,609	17%	225,434,898	43,444,911	14.222%	$ 6,178,918
High Tension	428,270,867	31%	434,495,698	28%	471,611,297	(37,115,599)	14.674%	(5,446,441)
Low Tension Demand	305,008,263	22%	455,263,786	29%	335,874,685	119,388,081	9.021%	10,770,495
Low Tension Customer	53,654,233	4%	46,393,755	3%	59,083,968	(12,690,213)	3.783%	(480,088)
Other [1]	409,869,566	29%	338,319,628	22%	451,347,809	(113,028,180)	5.894%	(6,662,203)
Total	**1,401,520,670**		**1,543,352,667**		**1,543,352,667**	-		**4,360,683**
NYPA's Allocation								
Transmission			38,241,225	14.222%				
High Tension			63,759,043	14.674%				
Low Tension Demand			41,070,892	9.021%				
Low Tension Customer			1,755,137	3.783%				
Other			19,941,522	5.894%				
Total			**164,767,819**					

Rate of Return Calculation

Rate of Return Comparison	Total Con Edison	NYPA Deficiency at '02 ROR	Revised ECOS ROR	NYPA Deficiency at Revised ROR	Difference
OPERATING REVENUES					
TOTAL OPERATING REVENUES	2,621,789,348	234,887,519		234,887,519	
OPERATING EXPENSES					
OPERATION & MAINTENANCE	688,049,712	61,001,552		61,001,552	
DEPRECIATION & AMORTIZATION	331,167,178	39,040,254		39,040,254	
PROPERTY TAXES	492,538,792	58,739,898		58,739,898	
PAYROLL & MISC. TAXES	60,518,300	5,954,946		5,954,946	
GAIN ON DISPOSAL OF PLANT	339,680	31,169		31,169	
STATE INCOME TAX	80,931,822	2,947,977		2,947,977	
FEDERAL INCOME TAX	242,969,012	10,985,587		10,985,587	
TOTAL OPERATING EXPENSES	1,856,512,494	178,701,382		178,701,382	
UTILITY OPERATING INCOME	765,276,854	56,186,138		56,186,138	
UTILITY RATE BASE	7,928,480,062	946,525,947		946,525,947	
RATE OF RETURN (%)	9.65%	5.94%	8.98%	5.94%	
INDEX	100%	61%		61%	
DEVIATION	-	(3.72)		(3.72)	
TOLERANCE BAND +10%	10.62%				
TOLERANCE BAND -10%	8.69%		8.08%		
REVENUE DEFICIENCY		(43,307,816)		(33,783,103)	(9,524,713)
- Composite Tax Rate		39.88%		39.88%	

High Tension Allocator

	RATE OF RETURN STATEMENT	TOTAL SYSTEM (1)	TOTAL CON ED (2)	TOTAL NYPA (3)	TOTAL EDDS/PFJ (4)
1	TOTAL OPERATING REVENUES	2,621,789,348	2,352,115,464	234,887,519	34,786,366
2					
3	OPERATING EXPENSES				
4	OPERATION & MAINTENANCE	668,049,712	600,303,312	60,876,709	6,869,691
5	DEPRECIATION & AMORTIZATION	331,167,176	288,148,170	38,958,066	4,060,940
6	PROPERTY TAXES	492,538,792	427,468,142	58,653,096	6,417,555
7	PAYROLL & MISC. TAXES	60,516,300	53,911,719	5,942,397	662,184
8	GAIN ON DISPOSAL OF PLANT	339,680	304,756	31,142	3,782
9	STATE INCOME TAX	60,931,822	56,944,614	2,975,853	1,011,354
10	FEDERAL INCOME TAX	242,969,012	227,662,178	11,110,478	4,196,357
11					
12	TOTAL OPERATING EXPENSES	1,856,512,494	1,654,742,891	178,547,740	23,221,863
13					
14	UTILITY OPERATING INCOME	765,276,854	697,372,573	56,339,779	11,564,502
15					
16	UTILITY RATE BASE	7,928,480,062	6,882,676,008	944,526,727	101,277,326
17					
18	RATE OF RETURN (%)	9.65%	10.13%	5.96%	11.42%
19					
20	INDEX	1.00	1.05	0.62	1.18
21					
22	DEVIATION	0.00	0.48	-3.69	1.77
23					
24	TOLERANCE BAND +10%	10.62%			
25	TOLERANCE BAND -10%	8.69%			
26					
27	REVENUE SURPLUS			0	
28	REVENUE DEFICIENCY			42,763,424	
		==========	==========	==========	==========
	Con Edison's Filed Deficiency			43,307,816	
	Impact of Revised High Tension Allocator			$ (544,392)	

High Tension Allocator (cont.)

D04 - HT 60 CYCLE		High Tension NCP kW's at the Generator Level					
		Report 6 Col. 7 Summer	Report 6 Col. 7 Winter	Higher Measure [1]	Percentage	Summer only	Percentage
Con Edison							
SC No	1	4,103,150	2,300,179	4,103,150	31.378%	4,103,150	31.404%
SC No	1-WH	16,425	12,351	16,425	0.126%	16,425	0.126%
SC No	2	526,836	376,432	526,836	4.029%	526,836	4.032%
SC No	14-I	188	141	188	0.001%	188	0.001%
SC No	4	499,233	319,817	499,233	3.818%	499,233	3.821%
SC No	4TOD	1,064,400	790,873	1,064,400	8.140%	1,064,400	8.147%
SC No	5	1,459	1,086	1,459	0.011%	1,459	0.011%
SC No	5 TOD	16,053	14,754	16,053	0.123%	16,053	0.123%
SC No	6	2,414	2,474	2,474	0.019%	2,414	0.018%
SC No	7	36,691	63,230	36,691	0.281%	36,691	0.281%
SC No	8	459,453	265,257	459,453	3.514%	459,453	3.517%
SC No	8TOD	41,503	24,424	41,503	0.317%	41,503	0.318%
SC No	9	3,350,118	2,429,017	3,350,118	25.619%	3,350,118	25.641%
SC No	9TOD	730,136	522,180	730,136	5.584%	730,136	5.588%
SC No	12	26,429	45,447	26,429	0.202%	26,429	0.202%
SC No	12TOD	37,375	62,209	37,375	0.286%	37,375	0.286%
SC No	13TOD	23,622	23,809	23,809	0.182%	23,622	0.181%
CO Use G&S		-	-	-	0.000%	-	0.000%
TOTAL CON ED		10,935,485	7,253,590	10,935,732	83.6280%	10,935,485	83.697.1%
		83.697%	80.755%				
PASNY Delivery Service							
SC 62	Gen S	4,110	6,055	6,055		4,110	0.031%
SC 64	CR	2,374	1,927	2,374		2,374	0.018%
SC 64TOD	CR	114,334	102,803	114,334		114,334	0.875%
SC 65	Traction	139,305	148,173	148,173		139,305	1.066%
SC 66	St. Ltg.	14,984	15,012	15,012		14,984	0.115%
SC 68	MUDWR	172,361	131,229	172,361		172,361	1.318%
SC 68TOD	MUDWR	58,192	38,246	58,182		58,182	0.445%
SC 69	Gen L	118,981	112,511	118,981		118,981	0.895%
SC 69TOD	Gen L	112,050	79,881	112,050		112,050	0.858%
SC 80	SL NYC	91,096	86,232	91,098		91,098	0.697%
SC 82	MUDWHT	1,175	1,262	1,175		1,175	0.009%
SC 85	TA Sub	360,938	308,350	360,938		360,938	2.763%
SC 85	TA Plt	-	-	-		-	0.000%
SC 88TOD	WTC	-	-	-		-	0.000%
SC 91	NYCPublg	432,155	263,349	432,155		432,155	3.308%
SC 91TOD	NYCPublg	288,004	230,091	288,004		288,004	2.204%
TOTAL PASNY D/S		1,908,059	1,524,921	1,918,800	14.6743%	1,908,059	14.6037%
		14.604%	16.877%				
EDDS/PFJ Delivery Service							
EDDSPFJCON		51,233	47,650	51,233		51,233	0.392%
EDDSPFJTOD		170,771	156,081	170,771		170,771	1.307%
TOTAL EDDS/PFJ		222,004	203,731	222,004	1.6977%	222,004	1.6992%
		1.698%	2.268%				
TOTAL SYSTEM		13,065,548	8,982,232	13,076,636	100.000%	13,065,548	100.000%

Note:

[1] - Based on 'higher of' summer/ winter except for SC-7, SC-12, SC-12(TOD) & SC-82, which are based on summer only.

Consolidated Edison Company of New York, Inc.
Case 04-E-0572 (Set # 4 Data Requests)
NYPA's Discovery

Responder: Electric Rate Panel

NYPA-94 Please refer to Exhibit ERP-1, pages 7 and 8. Please fully explain the rationale for allocating HT 60 Cycle-related costs on the basis of the highest summer or winter NCD demands for all Con Edison service classes except for the SC-7, SC-12 and SC-12TOD service classes (i.e., D04 allocator), which used only the summer demands for the latter group.

Response: Each component of the electrical delivery system is sized to meet peak kW demands imposed on that component. Since it is not possible to measure peak demands at each location on the grid and, further, to associate each location with a particular customer, electrical equipment is grouped in three main categories and customers are grouped into service classes for cost allocation purposes. The equipment categories are: the secondary delivery system (low tension system), which is electrically closest to customers, the primary delivery system (high tension system) which is electrically further removed, and the transmission system, which is electrically furthest from individual customers. Also, as a practical matter, there are three categories of demands that are used for cost allocations: individual customer maximum demand (ICMD), which corresponds to billing demand, class non-coincident peak demand (NCP), which is the total class peak demand, coincident within the class but non-coincident with the system peak, and system peak demand, which is the maximum coincident demand for the entire system.

The principal involved in selecting the appropriate allocation factors is diversity of demand. At the delivery point to the customer, the system is designed to meet the customer's ICMD. However, as one proceeds upstream from the customer, diversity of demand is reflected in system designs, and equipment is designed to meet class NCPs. For example, a substation that serves only residential customers would generally be designed for the residential class NCP. Similarly, a substation that serves only commercial load would be designed for the commercial class NCP. Substations that serve load that is composed of a mixture of various classes would be designed to serve the diversified demand of the customer class mix. In this latter case, the class NCP allocation reflects a reasonable sharing of the benefits of diversity among classes. Finally at the transmission level, only the peak demand of all customers is reflected in system designs.

The referenced classes are 100% low tension and their winter peak loads are much greater than their summer peak loads. Therefore, the demand

responsibility for the low tension system should be based on their winter peak demands. However, their high tension allocation is based on summer peak demands to recognize that these customers are geographically dispersed throughout the service territory and that the *high tension system is generally summer peaking*. [Emphasis added.]

Consolidated Edison Company of New York, Inc.
Case 04-E-0572 (Set # 1 Data Requests)
CITY's Discovery

Responder: Electric Rate Panel

CITY - 35 Provide the complete basis for the specific 75/25 weightings to account for the diversity of individual customer loads in multiple dwellings, including but not limited to any metering samples that measure this diversity.

Response: The low tension system is designed to reflect peak demands occurring on various parts of the low tension grid. *The closer the grid equipment is to the customer, the greater the importance of individual customer maximum demands (ICMDs in the ECOS study) and the further the grid equipment is from the customer, the greater the importance of class diversified peak demand (NCP in the ECOS study).* To reflect this design principle, the low tension allocation factor is equal to the average of the class NCP and the class ICMD. However, underlying the use of the class ICMD is the assumption that the individual customer ICMDs are actually experienced at the customer's connection to the grid. While this is a correct assumption for non-residential customer classes, it is not correct for the residential class because many residential customers, while individually metered, reside in apartment buildings. For apartment buildings, simply adding individual customer peak demands would overstate the demand experienced on the building's connection to the grid because of the diversity of residential load within the building. To account for this diversity, the residential NCP is averaged with the residential ICMD to derive the peak demand at the residential class' connection to the low tension grid. This adjusted demand is then averaged with the NCP to derive the residential class low tension demand allocation factor. The net result is a weighting of 75% and 25% for the residential ICMD and NCP, respectively. (Note as explained above, the weighting for the other classes is 50%/50%.) (Emphasis added.)

Low Tension Allocator

	RATE OF RETURN STATEMENT	TOTAL SYSTEM (1)	TOTAL CON ED (2)	TOTAL NYPA (3)	TOTAL EDDS/PFJ (4)
1	TOTAL OPERATING REVENUES	2,621,789,348	2,352,115,464	234,887,519	34,786,366
2					
3	OPERATING EXPENSES				
4	OPERATION & MAINTENANCE	668,049,712	602,667,868	58,783,180	6,598,664
5	DEPRECIATION & AMORTIZATION	331,167,176	289,796,134	37,498,384	3,872,657
6	PROPERTY TAXES	492,538,792	431,494,996	55,071,928	5,971,868
7	PAYROLL & MISC. TAXES	60,516,300	54,101,671	5,774,535	640,094
8	GAIN ON DISPOSAL OF PLANT	339,680	308,978	27,379	3,323
9	STATE INCOME TAX	60,931,822	56,209,873	3,627,755	1,094,194
10	FEDERAL INCOME TAX	242,969,012	224,231,712	14,154,837	4,582,464
11					
12	TOTAL OPERATING EXPENSES	1,856,512,494	1,658,811,233	174,937,997	22,763,264
13					
14	UTILITY OPERATING INCOME	765,276,854	693,304,231	59,949,522	12,023,102
15					
16	UTILITY RATE BASE	7,928,480,062	6,931,309,640	901,395,781	95,774,641
17					
18	RATE OF RETURN (%)	9.65%	10.00%	6.65%	12.55%
19					
20	INDEX	1.00	1.04	0.69	1.30
21					
22	DEVIATION	0.00	0.35	-3.00	2.90
23					
24	TOLERANCE BAND +10%	10.62%			
25	TOLERANCE BAND -10%	8.69%			
26					
27	REVENUE SURPLUS				
28	REVENUE DEFICIENCY			30,528,015	
		==========	==========	==========	==========
	Con Edison's Filed Deficiency			43,307,816	
	Impact of Revised Low Tension Allocator			**$ (12,779,801)**	

Low Tension Allocator (cont.)

DSM/DSR Allocator		Maximum ICMD kW's - Per Con Edison (1)				Low Tension Class NCP kW's				Con Edison's Proposal Weighted Averages of NCP's and ICMD's				NYPA Proposal Weighted Averages of NCP's and ICMD's			
		Report 64 Col. 7 Summer	Report 64 Col. 7 Winter	Higher Measure	%	Report 8 Col. 8 Summer	Report 8 Col. 8 Winter	Higher Measure	%	ICMD Weight	LT kW Weight	Weighted Average	%	ICMD Weight	LT kW Weight	Weighted Average	%
Con Edison																	
SC No	1	8,182,421	6,923,229	8,182,421	47.351%	3,993,889	2,167,689	3,993,989	33.947%	25%	75%	4,968,022	37.410%	100%	0%	8,182,421	47.351%
SC No	1-WH	45,580	44,089	45,580	0.264%	15,588	11,721	15,588	0.136%	25%	75%	23,088	0.174%	100%	0%	45,580	0.264%
SC No	2	854,378	736,089	854,378	4.944%	499,988	357,733	499,988	4.359%	50%	50%	677,171	5.101%	100%	0%	854,378	4.944%
SC No	14-I	183	185	185	0.001%	178	134	178	0.002%	50%	50%	172	0.001%	100%	0%	185	0.001%
SC No	4	504,504	353,835	504,504	2.920%	489,378	300,785	489,378	4.092%	50%	50%	496,941	3.889%	100%	0%	504,504	2.920%
SC No	4TOD	989,049	753,718	989,049	5.718%	934,923	594,419	934,923	8.150%	50%	50%	961,436	7.243%	100%	0%	989,049	5.718%
SC No	5	268	230	268	0.002%	210	156	210	0.002%	50%	50%	239	0.002%	100%	0%	268	0.002%
SC No	5 TOD	3,718	3,898	3,898	0.022%	2,849	2,818	2,849	0.025%	50%	50%	3,369	0.025%	100%	0%	3,898	0.022%
SC No	8	2,291	2,249	2,249	0.014%	2,291	2,249	2,249	0.020%	50%	50%	2,348	0.018%	100%	0%	2,348	0.014%
SC No	7	101,230	144,237	144,237	0.835%	34,920	80,006	80,006	0.523%	25%	75%	91,084	0.811%	100%	0%	144,237	0.835%
SC No	8	480,532	271,954	480,532	2.885%	430,020	251,729	430,020	3.801%	50%	50%	448,278	3.377%	100%	0%	480,532	2.885%
SC No	9TOD	42,595	24,390	42,595	0.246%	39,306	23,178	39,306	0.343%	50%	50%	40,951	0.309%	100%	0%	42,595	0.246%
SC No	9	3,868,588	2,986,420	3,868,588	22.387%	3,181,148	2,282,008	3,181,148	27.559%	50%	50%	3,514,958	26.478%	100%	0%	3,868,588	22.387%
SC No	9TOD	638,475	497,025	638,475	3.693%	585,034	419,405	585,034	5.100%	50%	50%	610,755	4.601%	100%	0%	638,475	3.693%
SC No	12	27,265	49,035	49,035	0.278%	25,081	43,129	43,129	0.378%	50%	50%	45,582	0.343%	100%	0%	49,035	0.278%
SC No	12TOD	58,348	83,008	83,008	0.365%	35,468	59,636	59,636	0.518%	50%	50%	61,021	0.460%	100%	0%	83,008	0.365%
SC No	13TOD	-	-	-	0.000%	-	-	-	0.000%	50%	50%	-	0.000%	100%	0%	-	0.000%
CO Use O&S		-	-	-	0.000%	-	-	-	0.000%	50%	50%	-	0.000%	100%	0%	-	0.000%
TOTAL CON ED		15,758,394	11,842,834	16,945,047	91.694%	10,136,130	6,899,772	10,202,968	88.950%			11,923,329	89.820%			15,945,047	91.694%
		91.977%	91.405%			88.921%	87.217%										
PASNY Delivery Service																	
SC 82	Gen S	6,293	7,710	7,710		3,900	5,748	5,748		50%	50%	6,729	0.051%	100%	0%	7,710	0.045%
SC 84	CR	2,340	1,905	2,340		2,253	1,829	2,253		50%	50%	2,297	0.017%	100%	0%	2,340	0.014%
SC 84TOD	CR	12,239	10,997	12,239		11,428	10,255	11,428		50%	50%	11,834	0.089%	100%	0%	12,239	0.071%
SC 85	Traction	70,218	73,434	73,434		54,457	67,824	67,824		50%	50%	65,878	0.495%	100%	0%	73,434	0.425%
SC 88	St. Ltg.	14,222	14,249	14,249		14,220	14,248	14,248		50%	50%	14,247	0.107%	100%	0%	14,248	0.082%
SC 88	MUDWR	150,474	125,219	150,474		150,661	121,675	150,661		50%	50%	150,583	1.203%	100%	0%	150,474	0.872%
SC 88TOD	MUDWR	59,484	38,180	59,484		55,234	38,285	55,234		50%	50%	56,944	0.428%	100%	0%	59,484	0.339%
SC 89	Gen L	131,695	112,557	131,695		102,487	98,591	102,487		50%	50%	117,096	0.882%	100%	0%	131,695	0.762%
SC 89TOD	Gen L	54,175	40,371	54,175		48,294	33,003	48,294		50%	50%	50,235	0.378%	100%	0%	54,175	0.314%
SC 90	SL NYC	86,552	61,834	86,552		86,450	61,634	86,450		50%	50%	86,501	0.652%	100%	0%	86,552	0.501%
SC 92	MUDWHT	1,118	1,192	1,192		1,115	1,198	1,198		50%	50%	1,190	0.009%	100%	0%	1,192	0.007%
SC 95	TA Sub	3,113	2,804	3,113		2,852	2,437	2,852		50%	50%	2,983	0.022%	100%	0%	3,113	0.018%
SC 95	TA Pit	-	-	-		-	-	-		50%	50%	-	0.000%	100%	0%	-	0.000%
SC 98TOD	WTC	-	-	-		-	-	-		50%	50%	-	0.000%	100%	0%	-	0.000%
SC 91	NYCPublig	481,354	277,109	481,354		405,119	245,674	405,119		50%	50%	439,237	3.264%	100%	0%	481,354	2.870%
SC 91TOD	NYCPublig	203,991	159,449	203,991		174,212	139,181	174,212		50%	50%	189,102	1.425%	100%	0%	203,991	1.180%
TOTAL PASNY D/S		1,265,345	948,999	1,269,971	7.349%	1,119,712	851,079	1,125,134	8.609%			1,197,533	9.027%			1,269,971	7.349%
		7.982%	7.319%			9.824%	11.079%										
EDOSPFJ Delivery Service																	
EDOSPFJCON		56,725	53,211	56,725		47,724	44,385	47,734		50%	50%	52,225	0.393%	100%	0%	56,725	0.328%
EDOSPFJTOD		108,534	100,676	108,534		94,645	86,505	94,646		50%	50%	101,590	0.765%	100%	0%	108,534	0.628%
TOTAL EDOSPFJ		165,259	153,887	165,259	0.958%	142,370	130,890	142,370	1.241%			153,815	1.159%			165,259	0.956%
		0.982%	1.188%			1.242%	1.704%										
TOTAL SYSTEM		17,188,898	12,943,518	17,280,277	100.000%	11,398,212	7,881,740	11,470,482	100.000%			13,274,696	100.000%			17,280,277	100.000%

(1) - A maximum of either the Summer or Winter ICMD, weighted with the LT kW measure.

Congestion Rents

	RATE OF RETURN STATEMENT	TOTAL SYSTEM (1)	TOTAL CON ED (2)	TOTAL NYPA (3)	TOTAL EDDS/PFJ (4)
1	TOTAL OPERATING REVENUES	2,621,789,348	2,339,904,186	247,098,796	34,786,366
2	**- Operating Revenues Adjusted for Congestion Costs**		**(12,211,278)**	**12,211,278**	
3	OPERATING EXPENSES				
4	OPERATION & MAINTENANCE	668,049,712	600,181,019	61,001,552	6,867,140
5	DEPRECIATION & AMORTIZATION	331,167,176	288,067,661	39,040,254	4,059,261
6	PROPERTY TAXES	492,538,792	427,383,113	58,739,898	6,415,781
7	PAYROLL & MISC. TAXES	60,516,300	53,899,426	5,954,946	661,928
8	GAIN ON DISPOSAL OF PLANT	339,680	304,730	31,169	3,782
9	STATE INCOME TAX	60,931,822	56,056,075	3,863,822	1,011,924
10	FEDERAL INCOME TAX	242,969,012	223,831,116	14,938,988	4,198,908
11					
12	TOTAL OPERATING EXPENSES	1,856,512,494	1,649,723,140	183,570,629	23,218,724
13					
14	UTILITY OPERATING INCOME	765,276,854	690,181,046	63,528,167	11,567,641
15					
16	UTILITY RATE BASE	7,928,480,062	6,880,717,633	946,525,947	101,236,482
17					
18	RATE OF RETURN (%)	9.65%	10.03%	6.71%	11.43%
19					
20	INDEX	1.00	1.04	0.70	1.18
21					
22	DEVIATION	0.00	0.38	-2.94	1.77
23					
24	TOLERANCE BAND +10%	10.62%			
25	TOLERANCE BAND -10%	8.69%			
26					
27	REVENUE SURPLUS	60,839,261	0	0	1,361,965
28	REVENUE DEFICIENCY	38,380,127	0	31,096,538	0
	Con Edison's Filed Deficiency			43,307,816	
	Impact of Congestion Rents			**$ (12,211,278)**	

Congestion Rents (cont.)

Congestion Rents		2003 Congestion Rents
Congestion Rents		
Total Congestion Rents		$ 196,626,759
less: Wholesale	2.37%	(4,660,054)
less: NYPA (per 2000 agreement)		(106,092,742)
Net Congestion Rents		85,873,963
NYPA's Transmission allocation (per 2002 ECOS)	14.22%	
NYPA's portion of net congestion rents		12,211,278

Congestion Rents (cont.)

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
Electric Rates
CASE No. 04-E-0572

Response to New York City's 1st Set of Discovery

Responding Witness: Joseph A. Holtman

City 18:

Provide the total amount of revenues that Con Edison received in congestion rents in 2003 as a result of its ownership of TCC rights.

Response:

In 2003, Con Edison received total congestion rents of $196,626,759, which includes $106,092,742 that was passed through to the New York Power Authority to cover its costs of serving customers in Con Edison's territory, pursuant to a 1989 agreement.

Congestion Rents (cont.)

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
Electric Rates
CASE No. 04-E-0572

Response to New York City's 1st Set of Discovery

Responding Witness: Joseph A. Holtman and the Electric Rate Panel

City 14:

Provide the total amount of TCC auction proceeds that Con Edison received in each of the years 2001, 2002 and 2003. Also, identify the percentage of each year's auction proceeds that was allocated to wholesale customers.

Response:

In 2001, Con Edison received TCC Auction revenues of approximately $19 million from the Spring and Autumn Auctions. In 2002, it received approximately $70 million from the Spring and Autumn Auctions. In 2003, approximately $159 million was received from the Spring and Autumn Auctions.

The percentage allocated to wholesale customers, based on their energy usage, follows:

	2001	2002	2003
January		0.86%	1.42%
February		1.25%	2.57%
March		2.07%	2.76%
April		2.24%	2.76%
May	6.08%	2.38%	1.89%
June	5.67%	2.46%	2.21%
July	6.49%	3.89%	2.95%
August	4.22%	3.18%	2.12%
September	5.80%	2.46%	2.23%
October	1.93%	2.62%	1.27%
November	1.55%	1.62%	2.79%
December	2.72%	1.31%	3.52%

Breakdown of R&D

	RATE OF RETURN STATEMENT	TOTAL SYSTEM (1)	TOTAL CON ED (2)	TOTAL NYPA (3)	TOTAL EDDS/PFJ (4)
1	TOTAL OPERATING REVENUES	2,621,789,348	2,352,115,464	234,887,519	34,786,366
2	**- Cost adjustment to O&M for R&D expenses**		**1,298,071**	**(1,298,071)**	
3	OPERATING EXPENSES				
4	OPERATION & MAINTENANCE	668,049,712	601,479,090	59,703,461	6,867,140
5	DEPRECIATION & AMORTIZATION	331,167,176	288,067,661	39,040,254	4,059,261
6	PROPERTY TAXES	492,538,792	427,383,113	58,739,898	6,415,781
7	PAYROLL & MISC. TAXES	60,516,300	53,899,426	5,954,946	661,928
8	GAIN ON DISPOSAL OF PLANT	339,680	304,730	31,169	3,782
9	STATE INCOME TAX	60,931,822	56,874,566	3,045,332	1,011,924
10	FEDERAL INCOME TAX	242,969,012	227,364,267	11,405,838	4,198,908
11		---	---	---	---
12	TOTAL OPERATING EXPENSES	1,856,512,494	1,655,372,852	177,920,917	23,218,724
13					
14	UTILITY OPERATING INCOME	765,276,854	696,742,612	56,966,601	11,567,641
15					
16	UTILITY RATE BASE	7,928,480,062	6,880,717,633	946,525,947	101,236,482
17					
18	RATE OF RETURN (%)	9.65%	10.13%	6.02%	11.43%
19					
20	INDEX	1.00	1.05	0.62	1.18
21					
22	DEVIATION	0.00	0.47	-3.63	1.77
23					
24	TOLERANCE BAND +10%	10.62%			
25	TOLERANCE BAND -10%	8.69%			
26					
27	REVENUE SURPLUS	60,839,261	0	0	1,361,965
28	REVENUE DEFICIENCY	49,293,333	0	42,009,745	0
		==========	==========	==========	==========
	Con Edison's Filed Deficiency			43,307,816	
	Impact of R&D Costs			**$ (1,298,071)**	

Breakdown of R&D (cont.)

R&D Adjustment	Total R&D	Direct Allocations	Direct Allocations	Indirect Allocations	Indirect Allocations	Total Allocations
Breakdown of R&D						
A&G - PSC 920	1,256,570		-	12.57%	157,910	157,910
A&G - PSC 921	251,264		-	12.57%	31,578	31,578
A&G - PSC 930.2	40,528		-	12.57%	5,093	5,093
A&G - PSC 930.2	948,352		-	12.57%	119,177	119,177
Transmission - PSC 566	2,909,788	14.22%	413,842	0.00%	-	413,842
Distribution - PSC 588	4,922,918	11.59%	570,473	0.00%	-	570,473
Total	10,329,420		984,315		313,755	1,298,071
Indirect Allocator			12.57%			

2002 ECOS; O&M: Table 8, Page 49	Total System	NYPA
Transmission		
Transmission	116,788,877	16,610,209
		14.22%
Distribution		
Total Distribution	377,985,110	43,798,990
		11.59%

NYPA R&D	2002	2003	2-Year Average
EPRI	1,738,855	1,600,000	
NYSERDA	1,600,000	1,600,000	
Other	1,386,155	2,332,190	
Total	4,725,010	5,532,190	5,128,600

2006 Functionalization Analysis

	RATE OF RETURN STATEMENT	TOTAL SYSTEM (1)	TOTAL CON ED (2)	TOTAL NYPA (3)	TOTAL EDDS/PFJ (4)
1	TOTAL OPERATING REVENUES	2,621,789,348	2,352,115,464	234,887,519	34,786,366
2					
3	OPERATING EXPENSES				
4	OPERATION & MAINTENANCE	668,049,712	600,181,019	61,001,552	6,867,140
5	DEPRECIATION & AMORTIZATION	331,167,176	288,067,661	39,040,254	4,059,261
6	PROPERTY TAXES	492,538,792	427,383,113	58,739,898	6,415,781
7	PAYROLL & MISC. TAXES	60,516,300	53,899,426	5,954,946	661,928
8	GAIN ON DISPOSAL OF PLANT	339,680	304,730	31,169	3,782
9	STATE INCOME TAX	60,931,822	56,971,921	2,947,977	1,011,924
10	FEDERAL INCOME TAX	242,969,012	227,784,517	10,985,587	4,198,908
11					
12	TOTAL OPERATING EXPENSES	1,856,512,494	1,654,592,387	178,701,382	23,218,724
13					
14	UTILITY OPERATING INCOME	765,276,854	697,523,077	56,186,136	11,567,641
15	Reflects adjustments to plant in service	[illegible]	[illegible]	[illegible]	[illegible]
16	UTILITY RATE BASE	7,928,460,062	6,894,168,444	935,637,363	98,752,762
17					
18	RATE OF RETURN (%)	9.65%	10.12%	6.01%	11.71%
19					
20	INDEX	1.00	1.05	0.62	1.21
21					
22	DEVIATION	0.00	0.47	-3.65	2.06
23					
24	TOLERANCE BAND +10%	10.62%			
25	TOLERANCE BAND -10%	8.69%			
26					
27	REVENUE SURPLUS	63,638,560	0	0	1,800,565
28	REVENUE DEFICIENCY	53,230,074	0	41,720,155	0
	Con Edison's Filed Deficiency			43,307,816	
	Impact of Functionalization			**$ (1,587,661)**	

2006 Functionalization Analysis (cont.)

Functionalization Analysis ('02 vs. '06)	'02 ECOS Plant	%	'03-'06 Plans	%	'02-'06 Combined	%	'02 ECOS @ %	Difference	Difference
Transmission & Switching Stations	1,603	15.5%	237	7.4%	1,840	13.6%	1,404	(199)	-12%
Substations & Sub-Transmission	3,804	36.8%	1,100	34.2%	4,904	36.2%	3,741	(63)	-2%
Distribution									
New Business									
Burnouts									
Interferences									
Improvements/Reinforcements									
Telecom Applications									
Transformer/Meter Installations									
Subtotal-Distribution									
Transformers/Network Protectors									
Meters/Meter Devices									
Total Distribution	4,937	47.7%	1,878	58.4%	6,815	50.3%	5,199	262	5%
Total Electric T&D	10,344	100.0%	3,215	100.0%	13,559	100.0%	10,344	0	

See Con Edison Exhibit __ (JPR-3), page 1, associated with Mr. John Ricco's testimony, regarding the plant addition figures.

2006 Demand Analysis

	RATE OF RETURN STATEMENT	TOTAL SYSTEM (1)	TOTAL CON ED (2)	TOTAL NYPA (3)	TOTAL EDDS/PFJ (4)
1	TOTAL OPERATING REVENUES	2,621,789,348	2,352,115,464	234,887,519	34,786,366
2					
3	OPERATING EXPENSES				
4	OPERATION & MAINTENANCE	668,049,712	600,865,171	60,317,401	6,867,140
5	DEPRECIATION & AMORTIZATION	331,167,176	288,478,119	38,629,796	4,059,261
6	PROPERTY TAXES	492,538,792	428,039,702	58,083,309	6,415,781
7	PAYROLL & MISC. TAXES	60,516,300	53,964,861	5,889,511	661,928
8	GAIN ON DISPOSAL OF PLANT	339,680	305,134	30,765	3,782
9	STATE INCOME TAX	60,931,822	56,810,457	3,109,440	1,011,924
10	FEDERAL INCOME TAX	242,969,012	227,069,127	11,700,977	4,198,908
11					
12	TOTAL OPERATING EXPENSES	1,856,512,494	1,655,532,570	177,761,199	23,218,724
13					
14	UTILITY OPERATING INCOME	765,276,854	696,582,893	57,126,320	11,567,641
15					
16	UTILITY RATE BASE	7,928,480,062	6,891,070,339	936,173,241	101,236,482
17					
18	RATE OF RETURN (%)	9.65%	10.11%	6.10%	11.43%
19					
20	INDEX	1.00	1.05	0.63	1.18
21					
22	DEVIATION	0.00	0.46	-3.55	1.77
23					
24	TOLERANCE BAND +10%	10.62%			
25	TOLERANCE BAND -10%	8.69%			
26					
27	REVENUE SURPLUS	60,839,261	0	0	1,361,965
28	REVENUE DEFICIENCY	47,531,902	0	40,248,313	0
	Con Edison's Filed Deficiency			43,307,816	
	Impact of Demand Growth			$ (3,059,503)	

2006 Demand Analysis (cont.)

		Con Ed	NYPA	EDDS	
Growth from 2002 to YE 3/06		6.4%	4.4%	-17.6%	
2002 CDS					
Transmission	D03	83.94%	14.22%	1.83%	100.00%
High Tension 60	D04	83.63%	14.67%	1.70%	100.00%
Low Tension	D08-09	89.82%	9.02%	1.16%	100.00%
Expanded for growth					
Transmission	D03	89.29%	14.85%	1.51%	105.64%
High Tension 60	D04	88.95%	15.32%	1.40%	105.67%
Low Tension	D08-09	95.54%	9.42%	0.96%	105.91%
Re-scaled					
Transmission	D03	84.52%	14.05%	1.43%	100.00%
High Tension 60	D04	84.18%	14.50%	1.32%	100.00%
Low Tension	D08-09	90.21%	8.89%	0.90%	100.00%

Growth rates are based on interrogatory responses NYPA-20, NYPA-119, AND Staff-150.

NYPA's ECOS Rate of Return

Rate of Return Comparison	Total Con Edison	NYPA Deficiency at '02 ROR	NYPA's Proposed ROR	NYPA Deficiency at Proposed ROR	Difference
OPERATING REVENUES					
TOTAL OPERATING REVENUES	2,621,789,348	234,887,519		234,887,519	
OPERATING EXPENSES					
OPERATION & MAINTENANCE	668,049,712	61,001,552		61,001,552	
DEPRECIATION & AMORTIZATION	331,187,176	39,040,254		39,040,254	
PROPERTY TAXES	482,538,782	58,739,898		58,739,898	
PAYROLL & MISC. TAXES	60,516,300	5,954,946		5,954,946	
GAIN ON DISPOSAL OF PLANT	339,680	31,169		31,169	
STATE INCOME TAX	60,931,822	2,947,977		2,947,977	
FEDERAL INCOME TAX	242,969,012	10,985,587		10,985,587	
TOTAL OPERATING EXPENSES	1,856,512,494	178,701,382		178,701,382	
UTILITY OPERATING INCOME	765,276,854	56,186,136		56,186,136	
UTILITY RATE BASE	7,928,480,082	946,525,947		946,525,947	
RATE OF RETURN (%)	9.65%	5.94%	7.22%	5.94%	
INDEX	100%	61%		61%	
DEVIATION	-	(3.72)		(3.72)	
TOLERANCE BAND +10%	10.62%				
TOLERANCE BAND -10%	8.69%		6.50%		
REVENUE DEFICIENCY		(43,307,616)		(8,846,769)	(34,461,047)

20% Bandwidth Analysis

Bandwidth Comparison	Total Con Edison	NYPA Deficiency at 10% Band	Total Con Edison	NYPA Deficiency at 20% Band	Difference
OPERATING REVENUES					
TOTAL OPERATING REVENUES	2,621,789,348	234,887,519		234,887,519	
OPERATING EXPENSES					
OPERATION & MAINTENANCE	668,049,712	61,001,552		61,001,552	
DEPRECIATION & AMORTIZATION	331,167,176	39,040,254		39,040,254	
PROPERTY TAXES	492,538,792	58,739,898		58,739,898	
PAYROLL & MISC. TAXES	60,516,300	5,954,946		5,954,946	
GAIN ON DISPOSAL OF PLANT	339,680	31,169		31,169	
STATE INCOME TAX	60,931,822	2,947,977		2,947,977	
FEDERAL INCOME TAX	242,969,012	10,985,587		10,985,587	
TOTAL OPERATING EXPENSES	1,856,512,494	178,701,382		178,701,382	
UTILITY OPERATING INCOME	765,276,854	56,186,136		56,186,136	
UTILITY RATE BASE	7,928,480,062	946,525,947		946,525,947	
RATE OF RETURN (%)	9.66%	5.94%	9.66%	5.94%	
INDEX	100%	61%		61%	
DEVIATION	-	(3.72)		(3.72)	
TOLERANCE BAND	10.62%		11.58%		
TOLERANCE BAND	8.69%		7.72%		
REVENUE DEFICIENCY		(43,307,816)		(28,112,628)	(15,195,188)

Proposed Depreciation Study

			Current				Con Ed Proposal - Traditional				NYPA Alternate to Traditional			
PSC ACCT No.	Co. ACCT no.	Book Cost	avg svc life	net slvg	ann depr rate	ann depr $(000)	avg svc life	net slvg	ann depr rate	ann depr $(000)	avg svc life	net slvg	ann depr rate	ann depr $(000)
PRODUCTION PLANT														
310.00	9,510.00	5,091,561.22												
310.00	9,512.00	2,539,730.01				95.02								
311.00	9,514.00	106,185,530.03	70.00	-35.00	1.93%	2,047,863.79	65.00	-35.00	2.08%	2,205,391.78	65.00	-35.00	2.08%	2,205,391.78
312.00	9,516.00	230,946,598.74	38.00	-30.00	3.42%	7,900,804.69	35.00	-35.00	3.86%	8,907,940.24	35.00	-35.00	3.86%	8,907,940.24
314.00	9,522.00	72,489,684.78	40.00	-20.00	3.00%	2,174,690.54	35.00	-25.00	3.57%	2,588,917.31	35.00	-25.00	3.57%	2,588,917.31
315.00	9,524.00	32,392,534.03	45.00	-15.00	2.56%	827,809.20	35.00	-20.00	3.43%	1,110,601.17	35.00	-20.00	3.43%	1,110,601.17
316.00	9,526.00	7,892,647.37	50.00	-10.00	2.20%	173,638.24	50.00	-10.00	2.20%	173,638.24	50.00	-10.00	2.20%	173,638.24
		457,538,286.18				13,124,901.50				14,986,488.74				14,986,488.74
340.00	9,430.00	308,261.38												
341.00	9,431.00	5,973,010.95	25.00	-5.00	4.20%	250,866.46	25.00	-10.00	4.40%	262,812.48	25.00	-10.00	4.40%	262,812.48
342.00	9,432.00	1,593,593.81	25.00	-5.00	4.20%	66,930.94	25.00	-10.00	4.40%	70,118.13	25.00	-10.00	4.40%	70,118.13
344.00	9,434.00	11,843,141.96	25.00	-5.00	4.20%	497,411.96	25.00	-10.00	4.40%	521,098.25	25.00	-10.00	4.40%	521,098.25
345.00	9,435.00	1,704,334.19	25.00	-5.00	4.20%	71,592.04	25.00	-10.00	4.40%	74,990.70	25.00	-10.00	4.40%	74,990.70
		21,422,342.29				886,791.40				929,019.56				929,019.56
Total Production Plant		478,960,628.47				14,011,692.90				15,915,508.30				15,915,508.30
TRANSMISSION PLANT														
350.00	9,530.00	37,590,881.16												
352.00	9,532.00	69,219,239.64	70.00	-20.00	1.71%	1,186,615.54	70.00	-30.00	1.86%	1,285,500.16	70.00	-30.00	1.86%	1,285,500.16
353.00	9,534.00	918,919,862.58	50.00	-20.00	2.40%	22,054,076.70	45.00	-25.00	2.78%	25,525,551.74	45.00	-25.00	2.78%	25,525,551.74
354.00	9,536.00	140,405,562.37	40.00	-40.00	3.50%	4,914,194.68	40.00	-40.00	3.50%	4,914,194.68	50.00	-40.00	2.80%	3,931,355.75
356.00	9,540.00	81,919,307.19	35.00	-35.00	3.86%	3,159,744.71	35.00	-35.00	3.86%	3,159,744.71	45.00	-35.00	3.00%	2,457,579.22
357.00	9,544.00	214,890,138.38	55.00	-5.00	1.91%	4,102,448.10	55.00	-5.00	1.91%	4,102,448.10	55.00	-5.00	1.91%	4,102,448.10
357.00	9,545.00	108,375,767.95	55.00	-5.00	1.91%	2,068,991.93	55.00	-5.00	1.91%	2,068,991.93	55.00	-5.00	1.91%	2,068,991.93
358.00	9,546.00	251,520,902.72	50.00	-5.00	2.10%	5,281,938.96	50.00	-15.00	2.30%	5,784,980.76	50.00	-15.00	2.30%	5,784,980.76
Total Transmission Plant		1,822,841,661.99				42,768,010.61				46,841,412.08				45,156,407.66
DISTRIBUTION PLANT														
360.00	9,550.00	69,671,270.70												
360.00	9,551.00		50.00	0.00	2.00%	0.00	50.00	0.00	2.00%	0.00	50.00	0.00	2.00%	0.00
361.00	9,552.00	148,332,378.89	50.00	-25.00	2.50%	3,708,309.47	50.00	-30.00	2.60%	3,856,641.85	55.00	-30.00	2.36%	3,506,036.05
362.00	9,554.00	1,074,691,267.36	45.00	-20.00	2.67%	28,658,433.80	45.00	-25.00	2.78%	29,852,535.20	45.00	-25.00	2.78%	29,852,535.20
364.00	9,556.00	253,728,158.66	40.00	-75.00	4.38%	11,100,606.94	40.00	-85.00	4.63%	11,734,927.34	50.00	-85.00	3.70%	9,387,941.87
365.00	9,558.00	425,778,447.17	50.00	-40.00	2.80%	11,921,796.52	50.00	-50.00	3.00%	12,773,353.42	65.00	-50.00	2.31%	9,825,696.47
366.00	9,560.00	828,470,097.29	80.00	-20.00	1.50%	12,427,051.46	80.00	-25.00	1.56%	12,944,845.27	80.00	-25.00	1.56%	12,944,845.27
366.00	9,561.00	878,264,326.49	80.00	-20.00	1.50%	13,173,964.90	80.00	-25.00	1.56%	13,722,880.10	80.00	-25.00	1.56%	13,722,880.10
367.00	9,562.00	2,588,834,520.50	40.00	-30.00	3.25%	84,137,121.92	40.00	-50.00	3.75%	97,081,294.52	50.00	-50.00	3.00%	77,665,035.62
368.00	9,565.00	165,521,346.05	35.00	0.00	2.86%	4,729,181.32	35.00	-5.00	3.00%	4,965,640.38	35.00	-5.00	3.00%	4,965,640.38
		1,361,167,480.33	45.00	0.00	2.22%	30,248,166.23	40.00	-5.00	2.63%	35,730,646.36	40.00	-5.00	2.63%	35,730,646.36
369.00	9,566.00	85,177,256.25	45.00	-140.00	5.33%	4,542,787.00	45.00	-160.00	5.78%	4,921,352.58	60.00	-160.00	5.20%	4,429,217.33
369.00	9,567.00	664,279,696.24	65.00	-115.00	3.31%	21,972,328.41	65.00	-135.00	3.62%	24,016,265.94	75.00	-135.00	3.03%	20,814,097.15
370.00	9,569.00	227,923,902.23	35.00	0.00	2.86%	6,512,111.49	35.00	0.00	2.86%	6,512,111.49	40.00	0.00	2.50%	5,698,097.58
370.00	9,571.00	108,036,070.91	35.00	0.00	2.86%	3,086,744.88	35.00	0.00	2.86%	3,086,744.88	40.00	0.00	2.50%	2,700,901.77
371.00	9,573.00	3,657,545.99	60.00	0.00	1.67%	60,959.10	60.00	0.00	1.67%	60,959.10	65.00	0.00	1.54%	56,289.94
373.00	9,575.00	18,901,845.35	30.00	-75.00	5.83%	1,102,607.65	30.00	-95.00	6.50%	1,228,619.95	40.00	-95.00	4.88%	921,464.96
373.00	9,576.00	103,061,440.73	60.00	-50.00	2.50%	2,576,536.02	60.00	-70.00	2.83%	2,920,074.15	70.00	-70.00	2.43%	2,502,920.70
Total Distribution Plant		9,005,497,051.14				239,958,707.10				265,408,892.54				234,724,169.73
Total Electric Plant in Service		$11,307,299,341.60				$296,738,410.61				$328,165,812.92				$285,796,104.08

Data Sources:
Spreadsheet Columns A-K: Con Edison Exhibit __(CH-3, Schedule 1)

Proposed Depreciation Study (cont.)

58. Mr. Hutcheson states that, "Because increased depreciation expenses means a lower rate base, rates will be lower as a result." (page 27) Please explain how he came to this conclusion and provide an example supporting this statement.

Response:

The attached spreadsheet named "PSC-SET1-Q58.PDF" provides a simple example of the principle. A 10% return is assumed and the revenue requirement is grossed up for federal income taxes.

Since net plant will be lower for each year where higher depreciation is collected, the amount that customers pay for return on investment is lower each year. Depending upon how much is collected as additional depreciation, the absolute dollars in the earlier years will probably be higher since the additional depreciation expense will outweigh the reduction in rate base effect.

However, in total dollars over the 10-year life in the example, customers will pay less. The same amount is collected for depreciation either way, but the return on investment is less because depreciation was recovered over a shorter period.

Property Tax Rates

NYC Fiscal Year	Class 3	Δ prev yr	Class 4	Δ prev yr
03-04	12.418%	decr	11.431%	decr
02-03 (3rd and 4th Qtrs)	12.565%	incr	11.580%	incr
02-03 (1st and 2nd Qtrs)	10.607%		9.776%	flat
01-02	10.541%	flat	9.712%	flat
00-01	10.540%	incr	9.768%	decr
99-00	9.398%	incr	9.989%	decr
98-99	8.800%	incr	10.236%	incr
97-98	8.282%	incr	10.164%	decr
96-97	7.840%	decr	10.252%	decr
95-96	7.922%	incr	10.402%	decr
94-95	7.702%	incr	10.608%	decr
93-94	7.404%	decr	10.724%	incr
92-93	12.794%	decr	10.698%	incr
91-92	13.083%	decr	10.631%	incr
90-91	15.200%	incr	10.004%	incr
89-90	12.903%	incr	9.539%	decr
88-89	11.289%	incr	9.582%	incr
87-88	9.942%	incr	9.460%	flat
86-87	9.172%	incr	9.460%	flat
85-86	9.051%	flat	9.460%	flat
84-85	9.051%	decr	9.460%	incr
83-84	9.237%	incr	9.323%	flat
82-83	9.109%	incr	9.294%	incr
81-82	8.950%		8.950%	

Source: The City of New York, Department of Finance web site

Property Tax Rates (cont.)

Electric Property Tax in NYC:			$649,632
Con Edison estimate of Class %'s:			
	Class 3:		88.55%
	Class 4:		11.45%
Con Edison NYC Property Tax Estimate:			
	Class 3	TxYr 04/05	13.2870%
	Class 3	TxYr 05/06	14.2170%
	Wtd Class 3 for rate yr:		
	(3 mos 04/05, 9 mos 05/06:		13.9845%
	Class 4	TxYr 04/05	11.7170%
	Class 4	TxYr 05/06	12.0100%
	Wtd Class 4 for rate yr:		
	(3 mos 04/05, 9 mos 05/06:		11.9368%
NYPA Assumed Class 3 Rate (Actual 03/04):			12.4180%
NYPA Assumed Class 4 Rate (Actual 03/04):			11.4310%
Revised Property Tax in NYCfor rate yr 06		Class 3	510808
		Class 4	71220
	Total		582028
	Decreased Revenue Requirement:		$67,604

Cash Working Capital

(Millions of Dollars)

	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	5-qtr average
Uses of Working Capital:						
Elements of Working Capital other than Prepayments and Materials and Supplies:						
Accounts Receivable - Customer	$602	$761	$632	$745	$692	$686
Accounts Receivable - Other	84	101	101	296	105	137
Cash and Temp Cash Investment	88	34	47	32	33	47
Other Current Assets	55	51	60	53	58	55
	$829	$947	$840	$1,126	$888	$926
Materials and Supplies	$68	$68	$68	$68	$68	$68
Prepayments	161	161	161	161	161	161
Total Working Capital Uses	$1,058	$1,176	$1,069	$1,355	$1,117	$1,155
Sources of Working Capital:						
Accounts Payable	$743	$828	$721	$712	$713	$743
Taxes Accrued	93	4	95	152	95	88
Interest Accrued	80	92	88	89	88	87
Wages Accrued	76	75	76	79	76	76
Other Current Liabilities	157	162	158	154	150	156
Total Sources of Working Capital	$1,149	$1,161	$1,138	$1,186	$1,122	$1,151
Net Working Capital Requirement	-$91	$15	-$69	$169	-$5	$4

Data Sources:

Materials and Supplies and Prepayments:	Con Edison Exhibit __(RM-1)
All Other	Con Edison 10-Q's, 3/31,03, 6/30/03, 9/30/03
	Con Edison 10-K, 12/31/03