BEFORE THE STATE OF NEW YORK PUBLIC SERVICE COMMISSION

In the Matter of

Consolidated Edison Company of New York, Inc.

Case 09-E-0428

August 2009

Prepared Testimony of: Staff Depreciation Panel Paul J. Darmetko, Jr. Utility Engineer 2 Michael J. Rieder Utility Engineer 3 Office of Electric, Gas, & Water State of New York Department of Public Service Three Empire State Plaza Albany, New York 12223-1350

- Q. Please state your names, employer, and business
 address.
- A. Paul J. Darmetko, Jr. and Michael J. Rieder. We
 are employed by the New York State Department of
 Public Service (Department) and are located at
 Three Empire State Plaza, Albany, New York
 12223.
- 8 Q. Mr. Darmetko, what is your position at the9 Department?
- 10 A. I am employed as a Utility Engineer 2 in the
 11 Electric Rates Section of the Office of
 12 Electric, Gas and Water.
- 13 Q. Please provide a summary of your educational and

14 professional experience.

15 A. I graduated from the State University of New
16 York Institute of Technology at Utica/Rome with
17 a Bachelor of Science Degree in Civil

18 Engineering Technology in 2003. My work at the 19 Department involves the engineering analysis of 20 electric utility operations as they relate to

21 the ratemaking process.

Q. Have you previously testified in proceedings
before the New York State Public Service
Commission (Commission)?

1	Α.	Yes, I have testified in numerous proceedings
2		before the Commission regarding cost of service,
3		capital expenditures, rate base, depreciation,
4		rate design, and other revenue requirement
5		issues.
6	Q.	Mr. Rieder, what is your position at the
7		Department?
8	A.	I am employed as a Utility Engineer 3 in the
9		Electric Rates Section of the Office of
10		Electric, Gas and Water.
11	Q.	Please briefly state your educational background
12		and professional experience.
13	A.	I graduated from Clarkson University with a
14		Bachelor of Science degree in Electrical
15		Engineering in 1990. I began my employment with
16		the Department in November 1991 in the Power
17		System Operations Section of the Power Division.
18		My responsibilities included oversight of the
19		operations of the New York Power Pool and of
20		each of the New York State utilities' bulk power
21		systems. In September 1993, the Department
22		reorganized and I joined what is now the
23		Electric Rates Section. While with the
24		Department I have prepared, analyzed, and

1		reviewed reports and studies involving operating
2		revenues, sales forecasts, operation and
3		maintenance (O&M) expenses, capital budgets,
4		marginal and embedded costs, mortality and net
5		salvage, revenue allocation and rate design. My
6		current duties include the review and evaluation
7		of electric utility capital and O&M budgets and
8		the engineering analyses of electric utility
9		rate, pricing, and tariff proposals.
10	Q.	Have you previously provided testimony before
11		the Commission?
12	Α.	Yes. I have testified before the Commission in
13		numerous proceedings regarding issues related to
14		electric utility sales, revenues, expenses,
15		capital construction programs, cost studies,
16		depreciation, revenue allocation and rate
17		design.
18	Q.	What is the purpose of the Panel's testimony in
19		this proceeding?
20	Α.	Our testimony will address Consolidated Edison
21		Company of New York, Inc.'s (Con Edison or the
22		Company) proposals regarding book depreciation
23		rates and the depreciation reserve.
24	Q.	Please briefly summarize your recommendations

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1 regarding depreciation.

2 Α. We are recommending that: the Commission approve the Company's proposed depreciation factors for 3 4 solid-state meters and their associated installation costs; that current depreciation 5 factors employed for all other electric and 6 7 common plant accounts remain unchanged; that the 8 amount of the reserve deficiency that is in 9 excess of the 10% tolerance band be recovered from ratepayers over a 13-year period; and, that 10 11 the Company's proposal to use sale proceeds and 12 property tax refunds to offset the reserve 13 deficiency be rejected. 14 Ο. Please explain the purpose of depreciation with 15 regard to utility plant. 16 According to the National Association of Α. Regulatory Utility Commissioners (NARUC), 17 18 Uniform System of Accounts for Class A and Class B Electric Utilities, 1958, rev., 1962: 19 20 "[d]epreciation, as applied to depreciable utility plant, means the loss in service value 21 22 not restored by current maintenance, incurred in 23 connection with the consumption or prospective retirement of utility plant in the course of 24

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1 service from causes which are known to be in 2 current operation and against which the utility is not protected by insurance. Among the causes 3 4 to be given consideration are wear and tear, 5 decay, action of the elements, inadequacy, 6 obsolescence, changes in the art, changes in 7 demand, and requirements of public authorities." 8 Depreciation accounting is the process of 9 charging this loss of service value to the income over the property's useful life. 10 11 Ο. Please summarize the Company's proposal 12 regarding changes to its depreciation factors 13 for solid-state meters. Currently, the Company uses the same 14 Α. 15 depreciation factors for both its electromechanical and solid-state meters. 16 That. is, all meters are depreciated using a 35-year 17 18 average service life, a 0% net salvage value, 19 and an h 1.00 life table. In this proceeding, 20 the Company proposes to change the average service life applied to solid-state meters. 21 Ιt 22 proposes to use a 20-year average service life 23 but continue to use a 0% net salvage factor and 24 a life table of h 1.00 for solid-state meters.

1		For their associated installation costs, Con
2		Edison proposes to base the life of the
3		associated Meter Installations account on the
4		same 20-year average service life and use a 0%
5		net salvage factor and a life table of h 1.00.
6	Q.	What support did the Company provide for its
7		proposed changes?
8	Α.	On page 17 of his pre-filed testimony, Company
9		witness Hutcheson stated that because of the
10		lack of history associated with solid-state
11		meters, a statistical study similar to those
12		performed for other plant accounts "would not
13		yield reliable results due to the lack of many
14		years of plant transaction history." Mr.
15		Hutcheson explains that he used informed
16		judgment to arrive at his proposed average
17		service life. To do so, Mr. Hutcheson states,
18		on page 17 of his pre-filed testimony, that he
19		reviewed the lives being used by other
20		utilities, spoke with individuals within the
21		Company, meter manufacturers, the Company's
22		Automated Meter Initiative (AMI) consultant and
23		other depreciation professionals.
24	Q.	Do you take issue with the Company's proposal?

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1 Α. In addition to speaking with a Company No. 2 representative who is familiar with the 3 Company's meters and metering systems, we also 4 consulted with the Department's meter expert. 5 Based on these discussions, and on our knowledge of AMI systems, which exclusively use solid-6 7 state meters, we conclude that the Company's 8 proposed 20-year average service life for solid-9 state meters is reasonable. Therefore, we recommend that the Commission accept the 10 11 Company's proposed depreciation factors for 12 solid-state meters and their associated 13 installation costs.

14 Ο. What effect does your recommended acceptance of 15 the depreciation factors for solid-state meters and their associated installation costs have on 16 17 the Company's annual depreciation expense? 18 Α. Use of the proposed depreciation factors would 19 increase the Company's rate year depreciation 20 expense by \$2.3 million.

Q. Have you reviewed and analyzed the factors that determine the annual depreciation expense for the Company's other electric and common plant accounts?

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Yes, we have. We began with Con Edison's 1 Α. 2 summarized property mortality study provided in Exhibit (CH-2). This exhibit is described 3 on page 10 of Company witness Hutcheson's pre-4 5 filed testimony as "computer generated average service lives, equivalent 'h' curves, and other 6 7 statistical data indicated by the rolling and 8 shrinking band analysis of the Company's 9 mortality experience with respect to Electric Plant from 1938, or the earliest available date, 10 through 2007." The data is organized into 11 12 various groupings referred to as rolling or 13 shrinking bands. These retirement bands are 14 periods of years over which the retirement 15 experience is analyzed. Rolling bands used in 16 this study are retirement bands of constant 10year width (i.e., 1996-2005, 1997-2006, 1998-17 18 2007). Shrinking bands are retirement bands 19 that initially aggregate all retirement years 20 and then subtract one year at a time, beginning with the earliest year, until a one-year 21 22 retirement band is developed. Normally, as the 23 width of the shrinking retirement band 24 increases, the pattern exhibited by the observed

1		mortality data becomes more uniform, i.e., the
2		vintage variations are smoothed out.
3	Q.	What factors do you consider when determining
4		the most appropriate average service life?
5	A.	The "degree of best fit" is an important factor
б		to consider when determining the most
7		appropriate average service life for a plant
8		account. Witness Hutcheson's Exhibit (CH-2)
9		contains three columns labeled "Fit Index." The
10		Fit Index is a measure of the test of fit in the
11		least squares fitting process. The degree of
12		best fit is the Fit Index column with the lowest
13		fit index. This degree statistically contains
14		the most mathematically reliable indications of
15		average service lives. We also consider trends
16		within the rolling and shrinking bands, as well
17		as the results of the most recent rolling bands
18		and widest shrinking bands. When the fit
19		indices are not materially different, we compare
20		the results and trends of those degrees to
21		formulate an opinion of the most appropriate
22		average service life.

23 Q. Please continue.

24 A. With regard to net salvage factors, we started

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1 with the Company's Summary of Historical Net 2 Salvage contained in Exhibit (CH-3). This exhibit, as described by Company witness 3 Hutcheson in his pre-filed testimony at pages 4 5 12-13, contains "the historical net salvage in dollar amount and as a percent of the book cost 6 7 of plant retired" for each of Con Edison's 8 depreciable Electric and Common Utility Plant 9 accounts. "The book cost of plant retired, cost of removal, and salvage is shown for the most 10 11 recent 25 years for the actual retirements in 12 the indicated calendar years. The exhibit also 13 provides totals for the full experience band 14 ending in 2008, rolling bands five years in width, and a computation of the net salvage as a 15 16 percent of the book cost retired for the full experience band, each rolling band, and each 17 18 shrinking band." 19 Ο. What factors do you consider in determining the 20 most appropriate net salvage factor? Similar to the mortality study, the data 21 Α. contained in Exhibit ___ (CH-3) is organized 22

24 trends within the bands, range of percentages,

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into rolling and shrinking bands. We considered

- most recent percentages, and the full experience
 percentage.
- 3 Q. Did you consider other factors that would lead 4 you to depart from the study results when 5 required?
- Yes. We also considered the size and scope of 6 Α. 7 Con Edison's proposed construction program, 8 which may have some effect on both the average 9 service lives and the net salvage factors. It is difficult to determine, however, just what 10 11 the associated long-term impact may be on the 12 plant accounts. In addition, we considered the 13 fact that changes to the Company's depreciation 14 factors were recently approved in the 15 Commission's rate order in Case 07-E-0523 (2008 16 Rate Order) and subsequently held constant by 17 the Commission in the rate order in Case 08-E-0539 (2009 Rate Order). 18

19 Q. Why do the deprecation rate changes directed by 20 the Commission in the 2008 Rate Order influence 21 your opinion as to the appropriateness of the 22 Company's depreciation factors?

23 A. Dramatic or continual changes to deprecation24 rates could result in large swings in the amount

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1 of depreciation expense being collected from 2 customers. In order to minimize large temporary rate fluctuations, it is appropriate to move 3 4 slowly toward the depreciation factors indicated 5 by the studies instead of possibly overshooting them by moving too quickly. Therefore, it is 6 7 prudent to take a conservative approach by 8 considering more than just a few years of 9 additional data and by allowing the recently approved changes to take full effect. 10 11 Ο. Are the recently approved changes in the 2008 12 Rate Order fully reflected in the Company's deprecation reserve, shown in Exhibit (CH-1)? 13 14 Α. No. The changes to the Company's depreciation 15 rates, pursuant to the 2008 Rate Order, became 16 effective April 1, 2008. The Company's reserve per books, as shown in Company witness 17 Hutcheson's Exhibit___(CH-1), reflects data up 18 to December 31, 2008, and, therefore, reflects 19 20 only nine months of the changes to Con Edison's depreciation rates directed by the 2008 Rate 21 22 Order.

Q. What have you concluded from your review andanalysis?

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1 We have concluded that, with the exception of Α. 2 the depreciation factors for solid-state meters as discussed above, all existing factors used to 3 calculate annual depreciation expense and the 4 5 computed reserve for depreciation should not be changed at this time. The Commission approved a 6 7 number of changes to depreciation factors in the 8 2008 Rate Order based on retirement and salvage 9 data through December 31, 2006. Since that time, only two years of additional retirement 10 data has become available for reflection in the 11 12 Company's mortality and net salvage studies. Based on our review of those studies, the 13 14 additional two years of data does not materially 15 change the average service lives, life tables, 16 or net salvage factors indicated by those 17 studies.

18 Ο. Have you reviewed the difference between the 19 reserve per books and the computed reserve? 20 Α. Yes. A deficiency continues to exist for the 21 Company's electric plant primarily resulting 22 from the limit of the recovery of the reserve 23 deficiency to amounts outside the 10% tolerance 24 band as required by the 2008 Rate Order. This

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1 deficiency is exacerbated by the fact that the 2 deprecation rate changes approved in the 2008 Rate Order are not fully reflected in the 3 reserve per books, as we previously discussed. 4 5 Are you recommending that the entire reserve Ο. 6 deficiency be recovered from customers? 7 Α. No, not at this time. We acknowledge that a 8 deficiency existed as of December 31, 2008, but 9 we recommend that delivery rates only be adjusted to recover the amount of the reserve 10 deficiency that is in excess of the 10% 11 12 tolerance band, as proposed by the Company. 13 Do you agree with the Company's proposal to Ο. 14 recover the current reserve deficiency over a 15 13-year period? 16 The term for the recovery is subjective. Α. Yes. 17 We typically consider rate impacts and customer 18 equity issues. Recovering the reserve 19 deficiency over a five-year period would result 20 in large customer impacts. Extending the recovery over a 25 or 30 year period would raise 21 22 the issue of intergenerational inequity. In its 23 2008 Rate Order, the Commission allowed for a 24 15-year recovery. A 13-year term in this

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proceeding is reasonable because it will allow both recoveries to conclude at the same time without causing a significant rate impact due to the slightly shorter term.

5 Do you agree with the Company's proposal to use Ο. property sale proceeds and property tax refunds 6 7 to reduce the depreciation reserve deficiency? 8 Α. We believe the best method for reducing the 9 depreciation reserve deficiency is to set appropriate depreciation factors. For this 10 11 reason, we are recommending that the Commission 12 not approve the Company's proposal at this time. On the advice of counsel, however, in the event 13 14 that the Commission determines it appropriate to 15 use sale proceeds or tax refunds to reduce the reserve deficiency, it could do so when it 16 considers a property transfer petition pursuant 17 18 to Public Service Law (PSL) Section 70 or a 19 property tax refund under PSL Section 113(2). 20 We believe that the use of sale proceeds or tax refunds should be evaluated on a case-by-case 21 22 basis, weighing all relevant circumstances. For 23 instance, such ratepayer benefits would likely 24 not be used to offset the reserve deficiency

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- 1 when the reserve is within the 10% tolerance
- 2 band, which should be the case if our
- 3 recommendations are adopted.
- 4 Q. Does this conclude your testimony at this time?
- 5 A. Yes, it does.