

05-S-1376
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Testimony

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350

Internet Address: <http://www.dps.state.ny.us>

PUBLIC SERVICE COMMISSION

WILLIAM M. FLYNN
Chairman
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NEAL N. GALVIN
PATRICIA L. ACAMPORA



DAWN JABLONSKI RYMAN
General Counsel

JACLYN A. BRILLING
Secretary

February 24, 2006

VIA HAND DELIVERY

Hon. Jaclyn A. Brillling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

2006 FEB 24 PM 4:13
PUBLIC SERVICE
COMMISSION
350 STATE ST ALBANY
NY 12223-1350

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

Dear Secretary Brillling:

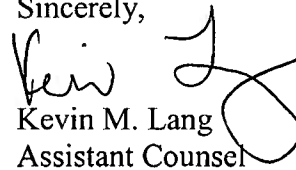
Enclosed please find an original and five copies of the Department of Public Service Staff's pre-filed direct testimony in the above-entitled proceeding. Department Staff is filing the following testimony:

<u>Witness</u>	<u>Topic(s)</u>
Accounting Panel	accounting matters, pensions and OPEBs, O&M adjustments, tax issues, other operating revenue adjustments
Barney	sales forecast
Hogan	capital structure, cost of capital
Padula	business development issues
Rate Panel	ECOS Study, revenue allocation, rate design, treatment of ERRP costs, price-out of sales forecast
Rieder	depreciation
Roberts	capital and O&M expenditures

Hon. Jaclyn A. Brillling
February 24, 2006
Page 2

Copies of this testimony are being delivered to Administrative Law Judge Garlin and sent via overnight courier to all of the active parties in the proceeding, today.

Sincerely,



Kevin M. Lang
Assistant Counsel

Enclosures

cc: Administrative Law Judge Robert Garlin (w/ enc.)
Active Parties to Case 05-S-1376 (w/ enc.)

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2006 FEB 24 PM 4: 13
PUBLIC SERVICE
COMMISSION
SECRET FILES - ALBANY

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

Dear Judge Garlin:

Pursuant to 16 NYCRR §4.3(d), the following persons are designated as trial staff in the above-entitled proceeding:

Edith Allen
Fred Barney
Christopher Corbett
Claude Daniel
Victoria Galsterer
Jeffrey Hogan
Rachel Jenkins
Brian Kilduff
Wayne Lee

Marco Padula
John Quinn
Patrick Raichel
Lilyia Randt
Michael Rieder
John Roberts
John Scherer
Jane Wang

Sincerely,

Kevin M. Lang
Assistant Counsel

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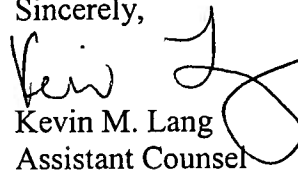
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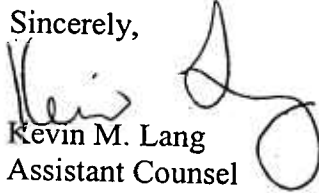
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Sincerely,


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BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

Staff Accounting Panel

Claude Daniel
Public Utilities Auditor II

Jeffrey Hogan
Principal Utility Financial
Analyst

John Scherer
Supervisor

Jane Wang
Public Utilities Auditor
Trainee II

Office of Accounting and
Finance
New York State
Department of Public Service
Three Empire State Plaza
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Case 05-S-1376 Accounting Panel

- 1 Q. Please state your names, employer, and business
2 addresses.
- 3 A. Claude Daniel, Jeffrey Hogan, John Scherer and Jane
4 Wang. We are employed by the New York State
5 Department of Public Service (Department). Our
6 business address is Three Empire State Plaza,
7 Albany, NY 12223.
- 8 Q. Mr. Daniel, what is your position at the Department?
- 9 A. I am employed as a Public Utilities Auditor II in ,
10 the Office of Accounting and Finance.
- 11 Q. Please describe your educational background and
12 professional experience.
- 13 A. I graduated from Hunter College of the City
14 University of New York with a Bachelor degree in
15 Accounting and joined the Department of Public
16 Service in 1986.
- 17 Q. What are your responsibilities with the Department?
- 18 A. I routinely examine accounts, records,
19 documentation, policies, and procedures of regulated
20 utilities.
- 21 Q. Have you previously testified before the New York

1 State Public Service Commission (Commission)?

2 A. Yes, I have prepared cost of service exhibits and
3 offered testimony on various operation and
4 maintenance expense adjustments in previous
5 Consolidated Edison Company of New York, Inc. (Con
6 Edison) electric, gas and steam rate cases. I also
7 testified in a New York Telephone Company rate case
8 on earning base capitalization (EBCAP).

9 Q. Mr. Hogan have you already discussed your
10 educational background, professional and testimonial
11 experience, and responsibilities?

12 A. Yes, that information is included in my individual
13 testimony in this proceeding.

14 Q. Mr. Scherer, what is your position at the
15 Department?

16 A. I am employed as a Supervisor in the Office of
17 Accounting and Finance.

18 Q. Please describe your educational background and
19 professional experience.

20 A. I graduated from Siena College, Loudonville, New
21 York in 1988 and have a B.B.A. degree with an

1 Accounting major. I have been employed by the
2 Department since 1988.

3 Q. Please briefly describe your responsibilities with
4 the Department.

5 A. My responsibilities include examination of accounts,
6 records, documentation, policies and procedures of
7 regulated utilities. I have been involved in
8 numerous rate and accounting examinations including
9 Con Edison's last three electric rate proceedings,
10 the company's electric and gas rate unbundling
11 proceeding and the company's last gas and steam rate
12 cases. I have general responsibility for accounting
13 and ratemaking matters related to Con Edison.

14 Q. Mr. Scherer, have you previously testified before
15 the Commission?

16 A. Yes, I have testified in numerous Commission
17 proceedings on a variety of accounting and
18 regulatory issues including property taxes, pensions
19 and other post employment benefits (OPEBs), EBCAP
20 adjustments, operations and maintenance (O&M)
21 expense forecasts, federal income taxes, various

Case 05-S-1376 Accounting Panel

1 rate base components, and tax refunds. With
2 specific reference to Con Edison, I submitted
3 testimony in the company's last electric, gas, and
4 steam rate cases, the Unbundling Track of the
5 Competitive Markets Proceeding and in two income tax
6 proceedings.

7 Q. Ms. Wang, what is your position at the Department?

8 A. I am employed as a Public Utilities Auditor Trainee
9 II in the Office of Accounting and Finance.

10 Q. Please describe your educational background and
11 professional experience.

12 A. I graduated from Tsinghua University, Beijing, China
13 in 1985 with a BS degree in Electric Power
14 Engineering. I also received a Master degree in
15 Electric Power Engineering from Tsinghua University
16 in 1988. I received a Master in Business
17 Administration from Union College, Schenectady, New
18 York in 1997. I have experience working as a cost
19 engineer with General Electric and a Staff
20 Accountant with Time Warner Cable. I have been
21 employed by the Department of Public Service since

1 April 2005. I have worked on municipal rate
2 proceedings and general accounting examinations.

3 Q. Have you previously testified in any Commission
4 proceedings?

5 A. No.

6 Q. Panel, what is the purpose of your testimony?

7 A. Our testimony addresses accounting aspects of Con
8 Edison's electric rate filing. We will discuss and
9 recommend adjustments in the following areas:

- 10 - Other Operating Revenues
- 11 - Interest on Deferred Debits and Credits
- 12 - Pension and OPEB expenses
- 13 - World Trade Center costs
- 14 - Manufactured gas plant/Superfund
- 15 - Property Tax Expense
- 16 - ADR Deferred Taxes
- 17 - Deferred accounting
- 18 - Revenue requirement moderation

19 We also summarize Staff's overall revenue
20 requirement position.

21 Q. Please summarize your recommendations.

1 A. Staff is recommending no change in base rates for
2 the rate year.

3 This panel is proposing six adjustments to rate
4 year other operating revenues as follows; (1)
5 Increase late payment charge revenues by \$590,726 to
6 reflect late payment charges as a percentage of
7 steam sales revenue, (2) Increase revenues by
8 \$114,480 for lease payment from Cablevision
9 Lightpath for access to Hudson Avenue tunnel, (3)
10 Increase amortization of property tax reconciliation
11 over-collection by \$693,300 to reflect
12 capitalization of ERRP pre-operation property taxes,
13 (4) Increase amortization of interest on deferred
14 reconciliation balances by \$39,367 as a result of an
15 adjustment to the property tax reconciliation
16 discussed in (3) and the interest rate update
17 discussed in (6) below, (5) Decrease amortization of
18 the capital expenditure reconciliation by \$369,000
19 to correct an error in the company's filing, and (6)
20 Adjust the interest rate on other customer capital

1 to reflect the Commission-approved 2006 interest
2 rates.

3 We propose the elimination of the company's
4 prepaid pension expense, OPEB liability and related
5 deferred taxes from rate base to conform to the
6 provisions of the Commission's Pension Policy
7 Statement.

8 We recommend a \$5.2 million reduction to the
9 company's request for recovery of WTC related costs
10 as an interim measure given the uncertainty of the
11 ultimate costs and reimbursements.

12 We propose a \$1.5 million reduction to
13 MGP/Superfund expense to provide recovery of the
14 company's forecasted expenditures through the rate
15 year within a five year period.

16 We recommend an adjustment to the growth rate
17 for property tax that reduces rate year expense by
18 \$1.822 million and increases the forecasted property
19 tax reconciliation balance by \$1.065 million. We
20 also recommend that any property tax savings the
21 company achieves due to economic obsolescence

1 assessment changes be deferred for the benefit of
2 ratepayers.

3 We are providing the Commission with advanced
4 notice of an accounting error that impacts the
5 deferred tax balances in rate base. The correction
6 of this error is expected to result in benefits that
7 could be returned to customers in this case.

8 We recommend that the Commission deny the
9 company's deferred accounting requests for property
10 tax reconciliation, interest expense and a minimum
11 return on equity. We do not believe that
12 reconciliation of these elements is appropriate
13 in the context of a one-year rate case.

14 Q. Will the Panel refer to, or otherwise rely upon, any
15 information produced during the discovery phase of
16 this proceeding in its testimony?

17 A. Yes. We will refer to, and have relied upon,
18 several responses to Staff Information Requests.
19 They are attached as Exhibit___ (AP-1).

20 Q. Is the Panel sponsoring any other Exhibits?

1 A. Yes, we are sponsoring Exhibit___(AP-2), which is
2 Staff's cost of service presentation,
3 Exhibits___(AP-3) and ___(AP-4), which consist of
4 company correspondence that we refer to in our
5 testimony, and Exhibit___(AP-5), which summarizes
6 property tax rate changes over the previous three
7 years.

8 Q. Please describe Exhibit___(AP-2).

9 A. Exhibit___(AP-2) contains eight schedules. Schedule
10 1 is Staff's projection of steam operating income,
11 rate base and rate of return for the twelve months
12 ending September 30, 2007, and includes Staff's
13 proposed revenue requirement. Schedule 1 is
14 supported by Schedules 2 through 8.

15 Q. Please describe the format of Schedule 1.

16 A. Column 1 of Schedule 1 contains income statement,
17 rate base and rate of return figures as filed by the
18 company for the rate year, without a revenue
19 increase. Column 2 contains the company's updates
20 to its original filing. Column 3 reflects the
21 income statement, rate base and rate of return

1 figures as updated by the company. Column 4
2 contains references to the supporting schedules that
3 present the Staff adjustments set forth in Column 5.
4 Column 6 presents Staff's projected rate year
5 figures unadjusted for a revenue increase. Column 7
6 contains Staff's proposed changes in revenues, and
7 Column 8 is the projected rate year income, rate
8 base and rate of return after this revenue increase.

9 Q. What information is shown on Schedules 2 and 3?

10 A. Schedule 2 projects operation and maintenance
11 expense cost elements for the rate year other than
12 fuel, other fuel charges and depreciation expenses,
13 which appear on Schedule 1. Schedule 3 projects
14 taxes other than income taxes.

15 Q. What information is shown on the remaining
16 schedules?

17 A. Schedules 4 and 5 project New York State and federal
18 income tax expenses, respectively. The adjustments
19 in these schedules correspond primarily to
20 adjustments set forth in other schedules. Schedule
21 6 projects rate base for the rate year ending

1 September 30, 2007. Schedule 7 projects an
2 allowance for working capital, which is a component
3 of rate base. Schedule 8 lists Staff's adjustments
4 with their supporting witnesses.

5 Q. What is Staff's overall recommendation?

6 A. Staff proposes a revenue requirement of \$699.1
7 million, which equates to no change in base rates
8 for the rate year. In calculating this increase, we
9 employed the cost of capital developed by Staff
10 witness Hogan and compiled the recommendations of
11 other Staff personnel, calculating their total
12 effect. We note that the base rate revenue
13 requirement excludes ERRP-related costs, as proposed
14 by the Staff Rate Panel.

15 **Other Operating Revenues**

16 Q. Please explain your proposed adjustments to Other
17 Operating Revenues.

18 A. Our first adjustment is to late payment charges. To
19 forecast late payment charge revenues, we applied
20 the historic year ended June 30, 2005 ratio of late
21 payment charges to total steam sales revenue, or

1 0.2164%, to Staff's forecasted rate year steam sales
2 revenue. This approach produced a rate year
3 estimate of \$1,488,429. Therefore, we propose to
4 adjust the company's rate year late payment charges
5 forecast of \$898,000 by \$590,429.

6 Q. What is the basis for Staff's approach?

7 A. Con Edison charges late payment fees at a rate of
8 1.5% of the total outstanding bill amount. The
9 company's normalized historical data from the period
10 2002 through 2005 show a consistent increase of both
11 the late payment charges and the ratio of late
12 payment charges to steam sales revenues. We noted a
13 strong correlation with steam rate increases over
14 the same period. Given this trend of late payment
15 charges increasing as a percentage of steam sales
16 revenues, applying the test year ratio of late
17 payment charges over test year total steam sales
18 revenue to the forecasted rate year sales revenue is
19 a conservative approach.

20 Q. How did Con Edison forecast the rate year late
21 payment charges in its previous rate cases?

- 1 A. In Cases 96-S-1065 and 99-S-1621, Con Edison applied
2 the ratios of historical period late payment fees
3 over historical period total steam revenues to the
4 rate year total steam revenues to calculate rate
5 year late payment fees. This method is the same
6 method we are proposing. In Case 03-S-1672, the
7 company's rate year forecast relied on actual data
8 from 1999 through September 2003 (Staff Information
9 Request 35), with normalizing adjustments to exclude
10 certain months' late payment fees related to
11 reversal of previous period charges.
- 12 Q. Did the company's method in Case 03-S-1672 result in
13 a material variance between forecast and actual late
14 payment fees?
- 15 A. Yes. The company forecasted late payment charges of
16 \$735,700 for the 12-month period ended September 30,
17 2005. Actual late payment charges for the period
18 were \$1,156,630.
- 19 Q. What method did Con Edison use to forecast rate year
20 late payment fees in this case?
- 21 A. The company used a three-year average from July 2002

1 through June 2005 without any normalizing adjustment
2 to exclude the amounts related to reversal of
3 previous period charges. As we've discussed, given
4 the trend of late payment charges increasing as a
5 percentage of steam sales revenues, this method
6 understates late payment charges by forecasting a
7 rate year amount that is actually decreasing from
8 the historic year amount.

9 Q. What is your next adjustment to Other Operating
10 Revenues?

11 A. Our second adjustment increases Other Operating
12 Revenues related to the lease payments from
13 Cablevision Lightpath, Inc., for access to the
14 company's Hudson Avenue tunnel. Con Edison's
15 existing agreement with Cablevision Lightpath
16 expires on May 29, 2006. At the time of the filing,
17 the company did not forecast any revenue associated
18 with the lease for the rate year. During discovery,
19 the company indicated that Cablevision Lightpath has
20 elected to take service pursuant to Rider X, an
21 Electric Tariff (Staff Information Request 4). The

1 company further acknowledged that it planned to
2 allocate the revenues from the Cablevision Lightpath
3 lease payments on the same basis as such revenues
4 are currently allocated (Staff Information Request
5 390). In the rate year, revenues from Cablevision
6 Lightpath are estimated to be \$225,000, with 50.88%
7 of the revenues allocated to steam operations (Staff
8 Information Request 421). Therefore, we propose to
9 correspondingly increase Other Operating Revenues in
10 the rate year by \$114,480.

11 Q. Do you have any more adjustments to Other Operating
12 Revenues?

13 A. Yes. The following adjustments to Other Operating
14 Revenues relate to reconciliations and true-ups from
15 prior steam rate plans. First we will address the
16 treatment of ERRP property taxes before ERRP started
17 operation in April 2005, which affects a number of
18 adjustments to Other Operating Revenues. According
19 to the Uniform System of Accounts (USOA), pre-
20 operational property taxes should be included in
21 construction cost and capitalized. However, the

1 company charged 100% of the ERRP property taxes it
2 paid for the period July 2004 through September 2004
3 to steam operations in the amount of \$2,418,887.

4 All of this amount should be removed from the steam
5 operating expenses and capitalized as part of the
6 ERRP plant.

7 Q. What are the impacts of capitalizing pre-operational
8 ERRP property taxes?

9 A. Capitalization of the ERRP property taxes prior to
10 its in-service date will change the rate year total
11 steam plant and depreciation expenses. Since Staff
12 is recommending the removal of ERRP from base rates,
13 the change in ERRP plant in service costs and
14 depreciation expense will impact rents charged to
15 electric operations and the steam department's fuel
16 adjustment clause (FAC) recoveries of ERRP costs.

17 Here we discuss the impact to Other Operating
18 Revenues, which include (1) the refund over a three-
19 year period of the over-collection of NYC property
20 taxes deferred as a result of the 2000 rate plan and
21 (2) the refund over a three-year period of interest

1 on the deferred reconciliation balance.

2 Q. What is your adjustment to the refund of the over-
3 collection of NYC property taxes as a result of the
4 2000 rate plan?

5 A. Reflecting the adjustment to capitalize pre-
6 operational ERRP property taxes for the period of
7 July to September 2004, the adjusted balance of the
8 over-collection for the period ended September 30,
9 2004 is \$3,156,901, which is a \$2,080,242 increase
10 when compared to the \$1,077,000 balance filed by the
11 company. If the Commission approves the three-year
12 amortization proposed by the company, our adjustment
13 will increase the other operating revenues by
14 \$693,300 per year. We also adjusted the unamortized
15 balance included in rate base to reflect the
16 corrected over-collection balance.

17 Q. Did you adjust the interest computations on the
18 revised property tax reconciliation balance?

19 A. Yes. The 2004 steam rate plan allows the company to
20 accrue interest on deferred balances to be collected
21 from or refunded to customers. We adjusted the

1 interest computation to reflect the change in the
2 balance of over-collected property taxes. Our
3 adjustment to interest on reconciliation balances
4 also includes an update to the interest rate on
5 other customer capital to reflect the Commission's
6 recently approved rate for 2006. Our adjustments
7 result in an increase of \$118,101 to the deferred
8 interest balance at the beginning of the rate year.
9 If the Commission approves the three-year
10 amortization proposed by the company, Other
11 Operating Revenues will increase by \$39,367.

12 Q. Do you have any concerns with your proposed
13 adjustments related to pre-operation ERRP property
14 taxes?

15 A. Yes. We are concerned that there may be a
16 misunderstanding of the \$2,418,887 of ERRP- related
17 property taxes referenced above. Our testimony is
18 based on the company-provided work papers. Our
19 interpretation of those work papers was based on
20 conversations with company personnel. Recently, the
21 company provided a response to Staff Information

1 Request 461 that appears to be inconsistent with our
2 understanding. We will work with the company to
3 gain a better understanding of the facts and will
4 update our testimony as necessary.

5 Q. Do you have other adjustments to Other Operating
6 Revenues related to rate case amortizations?

7 A. Yes. We also propose an adjustment to the three-
8 year amortization of deferred carrying costs on
9 capital expenditures. Con Edison reconciles actual
10 monthly capital expenditures with the levels allowed
11 in Case 03-S-1672, subject to a 2.5% deadband, to
12 arrive at the variance on capital expenditures for
13 the first rate year of the 2004 rate plan, which
14 ended September 30, 2005. Then the company used the
15 estimated variance for September 2005 to forecast
16 the over/under spending for the second rate year,
17 ending September 2006. However, the company used
18 the wrong rate allowance for September 2005 in its
19 calculation. Correction of the error reduces both
20 the actual variance for the first rate year and the
21 estimated variance for the second rate year. The

1 correction reduces the forecasted balance of over-
2 collected carrying costs on capital expenditures by
3 \$1,107,000. The company proposes to amortize the
4 over-collection over three years. If the Commission
5 approves the amortization period, our adjustment
6 reduces rate year Other Operating Revenues by
7 \$369,000 and increases the rate base relative to the
8 company's position by \$555,000.

9 **Interest on Deferred Debits and Credits**

10 Q. Please explain your proposed adjustment to interest
11 on deferred debits and credits.

12 A. Pursuant to the terms of the 2004 steam rate plan,
13 Con Edison is required to record on its books and
14 records of account various credits and debits that
15 will ultimately be reflected in the rates to be
16 charged to customers. Unless otherwise specified by
17 the Commission, the company is to accrue interest on
18 these book amounts net of federal and state income
19 taxes at the Commission determined unadjusted
20 customer deposit rate. The Commission-determined
21 rate effective January 1, 2006 is 4.75%. The

1 company used the 2005 rate, 4.35%, in its filings.
2 The update for the current interest rate is
3 reflected in various Other Operating Revenues and
4 O&M expenses where deferred debits and credits,
5 which are subject to interest accrual through
6 September 30, 2006, are amortized in the steam
7 revenue requirement.

8 **Pension/OPEB Expense**

9 Q. Are you proposing to adjust Con Edison's rate year
10 forecast of net pension and OPEB expense?

11 A. Yes. Based on the latest known actuarial
12 information, we recommend the Commission accept the
13 company's updated rate year forecast of net pension
14 and OPEB expense of \$5,121,100. Therefore, we
15 recommend adjusting the company's original rate year
16 estimate of \$6,403,400 down by \$1,282,300.

17 Q. Does the latest known actuarial information have any
18 other impact on the company's rate case filing?

19 A. Yes. Con Edison is seeking recovery of estimated
20 under-recovered pension/OPEB costs being deferred
21 pursuant to the Commission's Pension Policy

1 Statement. The under-recovered costs represent the
2 difference between company's rate allowances in the
3 2004 rate plan and the company's actual and expected
4 costs. Con Edison is seeking recovery of these
5 costs over a three year period. The company has
6 revised its forecasted under-recovery from
7 \$8,480,393 to \$7,678,412 based on latest known
8 actuarial information. Therefore, we recommend that
9 the amortization of these deferred cost be reduced
10 from \$2,827,000 to \$2,559,000 to reflect this
11 change.

12 Q. Has the Pension Policy Statement always applied to
13 Con Edison's steam operations?

14 A. No. Con Edison's steam operations returned to the
15 provisions of the Pension Policy Statement effective
16 October 1, 2004. The company had gone off the
17 Pension Policy Statement, effective April 1, 1997,
18 consistent with the terms of the rate plan adopted
19 in Case 96-E-0897.

20 Q. Why is the company's return to the provisions of the
21 Pension Policy Statement a significant event?

1 A. The Pension Policy Statement permits the
2 reconciliation of the difference between the rate
3 allowance for pensions and OPEBs and the actual
4 pension and OPEB expense. The utility then defers
5 this difference. The Pension Policy Statements
6 contains numerous other technical provisions. This
7 case is Staff's first opportunity to test the
8 quality of Con Edison's compliance with the Pension
9 Policy Statement.

10 Q. Is Con Edison in full compliance with the Pension
11 Policy Statement?

12 A. No. We identified a number of issues with respect
13 to the company's current and proposed treatment of
14 its internal reserves for OPEBs, also known as OPEB
15 liability and for pensions, also known as prepaid
16 pensions.

17 Q. Please explain the concern with Con Edison's
18 treatment of its OPEB liability.

19 A. The company's Accounting Panel at pages 57 through
20 58 of their testimony states that "the Commission's
21 Policy Statement on pension and OPEBs requires

1 companies following the Statement to accrue interest
2 on the unfunded obligation at the Company's pre-tax
3 overall rate of return". We agree that the Policy
4 Statement requires monthly accrual of interest on
5 credit balances. However, Con Edison has not
6 recorded any interest on its OPEB liability since
7 its return to the Policy Statement on October 1,
8 2004.

9 Q. Did Con Edison provide any information regarding the
10 amount of interest at issue?

11 A. Yes. In response to Staff Information Request 317,
12 the company provided a calculation of interest on
13 deferred pension costs and an average pre-tax OPEB
14 liability of \$4.8 million for the period October
15 2004 through November 2005. The cumulative total of
16 interest on the OPEB liability from this calculation
17 is \$20,317..

18 Q. Do you agree with the company's calculation?

19 A. No. We do not believe the company's calculation is
20 proper. It erroneously included interest on pension
21 costs, which is a completely different issue and for

1 which the company has no authority to accrue
2 interest. Second, the company's interest
3 calculation is limited to the changes in the monthly
4 balance in the reserve and inappropriately excludes
5 interest on the starting balance. Third, the
6 company's calculation is a simple interest
7 calculation and does not compound the interest as
8 required by the Pension Policy Statement.

9 Q. Do you have a proper interest calculation to offer?

10 A. Yes. We calculate that for the period October 1,
11 2004 through December 31, 2005, Con Edison should
12 have accrued \$429,375 of interest on its unfunded
13 OPEB liability related to steam operations.

14 Q. What do you recommend?

15 A. To rectify the non-compliance with the provisions of
16 the Pension Policy Statement, the Commission should
17 require Con Edison to record the interest that
18 should have been accrued on the company's unfunded
19 OPEB liability through the date of the Commission's
20 Order in this case. Prospective application of such
21 interest, in compliance with the Policy Statement,

1 should also be required. Otherwise customers will
2 be denied this benefit and as a result will likely
3 bear higher OPEB costs. Further, we recommend that
4 the company's proposal to include the OPEB liability
5 as an offset to rate base in lieu of an interest
6 accrual be rejected.

7 Q. Why do you recommend rejection of the company's
8 proposal?

9 A. The Pension Policy Statement explicitly states that
10 the OPEB liability shall not be used to reduce rate
11 base unless otherwise directed by the Commission.
12 Instead, the Pension Policy Statement requires the
13 monthly accrual of interest on credit balances at
14 the company's authorized pre-tax rate of return.
15 This approach was designed to isolate all the
16 elements that go into the determination of the rate
17 allowance for OPEBs. Failure to accrue interest on
18 the unfunded OPEB liability would result in
19 customers paying higher future OPEB costs.

20 Q. What are your concerns with respect to the prepaid
21 pension expense?

1 A. Con Edison has included its prepaid pension expense
2 in its rate base compilation as part of its working
3 capital requirements.

4 Q. Is this treatment consistent with the Pension Policy
5 Statement?

6 A. No it is not.

7 Q. Please explain.

8 A. The Pension Policy Statement does not permit the
9 inclusion of a prepaid pension expense in a
10 utility's rate base unless so directed by the
11 Commission. In the same fashion discussed above for
12 the OPEB liability, interest is to be accrued on the
13 pension internal reserve so long as the balance is a
14 credit. Once the balance becomes a debit, as is the
15 case for Con Edison, no accrual of interest is to be
16 made. The Pension Policy Statement does, however,
17 permit utilities to seek prospective interest
18 accruals or rate base treatment for debit balances
19 in a rate case proceeding.

20 Q. Did Con Edison make such a request in this case?

21 A. No. Con Edison simply accorded rate base treatment

1 for the balance with no justification or rationale.
2 There is no basis in the record for the inclusion of
3 the prepaid pension expense in the company's rate
4 base. Staff raised this concern at the December 6,
5 2005 pre-hearing conference. However, the company
6 provided no additional testimony to support its
7 position.

8 Q. Does Staff have any concerns with Con Edison's
9 treatment, notwithstanding the procedural problems
10 just discussed?

11 A. Yes. Staff has concerns regarding the appropriate
12 ratemaking treatment of the prepaid pension expense
13 since the majority of the balance was amassed while
14 the company was off the Policy Statement.

15 Q. What do you recommend?

16 A. Since Con Edison does not have and has not requested
17 authorization to include this prepaid pension
18 expense in rate base, and because there is no
19 justification in the record otherwise supporting
20 this treatment, the Commission should reject the
21 company's proposed treatment and exclude the prepaid

1 pension expense from rate base.

2 **World Trade Center Costs**

3 Q. What does the company propose with respect to its
4 World Trade Center (WTC) related costs?

5 A. Con Edison proposes to recover \$23.3 million of
6 expenditures and accrued interest that relate to the
7 WTC incident over a three-year period, or \$9.2
8 million per year. The company believes it is
9 unlikely that it will be reimbursed for these costs
10 from insurance and/or federal funds.

11 Q. Can you provide any information on the potential for
12 Con Edison to obtain such recovery?

13 A. Yes. The federal government has appropriated \$750
14 million to reimburse utility providers for their
15 losses. A process has been established for the
16 review of utility claims and is underway. Con
17 Edison's WTC-related costs fall into three
18 categories: restoration and emergency response,
19 rebuilding of facilities, and interference. Review
20 of Con Edison's claim for restoration and emergency
21 response costs is complete. The company was

1 reimbursed for 100% of its qualifying costs in this
2 category. Con Edison appealed the disallowance of
3 accrued interest as an eligible expense and recently
4 Empire State Development Corporation determined that
5 the company should be reimbursed for accrued
6 interest. On February 7, 2006, Con Edison filed its
7 claim for interest on restoration and emergency
8 response costs consistent with Empire State
9 Development Corporation's guidelines.

10 The costs that Con Edison seeks recovery of in
11 this case fall into all three categories plus
12 accrued interest as well as other related costs.
13 The company seeks recovery of 25% of rebuilding
14 costs incurred since federal reimbursement will be
15 limited to 75% of expenditures. The company seeks
16 recovery of interference costs incurred to date on
17 the basis that the federal appropriation will be
18 inadequate to cover all of its interference costs.
19 The administrative agencies disbursing the federal
20 funds have commenced review of the company's
21 permanent restoration costs. The application for

1 interference costs is not yet available to the
2 company.

3 Q. What concerns do you have with Con Edison's proposed
4 recovery of these costs?

5 A. A large portion of the costs Con Edison seeks
6 recovery of in this rate case are capital in nature
7 and as such warrant amortization periods far beyond
8 the company's proposed three-year recovery.
9 Additionally, the company seeks recovery of interest
10 costs when we now know that at least a portion of
11 those costs are reimbursable. Finally, the company
12 is seeking recovery of interference costs for
13 customer in advance of seeking federal
14 reimbursements.

15 Q. How is this issue being addressed by the Commission?

16 A. In 2001, Con Edison filed a petition with the
17 Commission in which it seeks authority to defer and
18 recover its WTC-related costs, Case 01-M-1958. The
19 Commission held that it was premature to consider
20 the petition because other avenues of recovery of
21 these costs have not yet been exhausted. We expect

1 that once those reimbursement options are settled,
2 the Commission will address the appropriate
3 treatment of these costs in that proceeding.

4 Q. Does the Panel have any interim recommendations on
5 this issue?

6 A. Yes. We recognize the extraordinary nature of these
7 expenditures and that they could have cash flow
8 consequences for the company in the short-term.
9 While we have not audited the WTC-related
10 expenditures in any detail, Staff has monitored the
11 company's restoration and rebuilding activities and
12 Empire State Development Corporation's review of the
13 company's reimbursement claims. We believe that the
14 majority of the costs can be considered prudent
15 expenditures. Therefore, as an interim measure,
16 until all of the costs are known and all of the
17 reimbursement issues are settled, we recommend that
18 the Commission allow the company to amortize \$4
19 million per year. This should be subject to full
20 reconciliation based upon actual expenditures net of
21 federal and insurance recoveries, the establishment

1 of appropriate amortization periods for the various
2 categories of both capital and O&M expenditures, or
3 other treatment as the Commission may prescribe in
4 Case 01-M-1958.

5 **MGP/Superfund**

6 Q. What accounting and ratemaking treatment of
7 environmental costs has been approved for Con
8 Edison?

9 A. As of June 2005, Con Edison recognized a \$188.6
10 million corporate liability on its books to reflect
11 its estimated expenditures for all future expected
12 environmental cleanup costs. The company's
13 electric, gas and steam revenue requirements contain
14 rate allowances intended to help cover these costs.
15 As actual remediation costs are paid the accrued
16 liability is reduced. In total, Con Edison's
17 customers have already paid \$26.5 million against
18 this accrued liability. Thus, of the future
19 liability, customers only owe \$162.1 million. Put
20 another way, the company has recovered more from
21 customers than it has paid toward the MGP/Superfund

1 site cleanup.

2 Q. What is the rate allowance for environmental cleanup
3 costs now in effect for Con Edison's steam
4 operations?

5 A. The company's 2004 steam rate plan sets the steam
6 allowance at \$255,000, which is 5.1% of the \$5.0
7 million company-wide rate allowance. Under the
8 company's accounting/ratemaking practices, the first
9 \$5 million of incurred costs are expensed to match
10 the \$5 million rate allowance. If the company
11 incurs costs greater than the rate allowance, those
12 costs are deferred.

13 Q. You stated that Con Edison's ratepayers have paid
14 \$26.5 million against the accrued MGP/Superfund
15 liability. Do you know what portion of the
16 ratepayer prepayment is related to steam operations?

17 A. No. We discovered that the company's accounting for
18 MGP/Superfund costs needs to be corrected. The
19 company's accounting for these costs as described
20 above assumed a total company rate recovery of \$5
21 million per year. Historically, electric, gas, and

1 steam departments rates reflected an allowance of
2 their respective share of a total company expense of
3 \$5 million per year. However, effective April 1,
4 2005, the electric department's rate allowance was
5 increased to the equivalent of a total company
6 expense of approximately \$10 million per year. The
7 company's accounting for MGP/Superfund costs did not
8 properly reflect that change in rate recoveries.
9 Therefore, the balances reflected per book do not
10 reflect a proper allocation between electric, gas,
11 and steam operations. The company indicated that it
12 plans to restate the book balances. A copy of the
13 company's correspondence discussing this matter can
14 be found in Exhibit___ (AP-3).

15 Q. Do you expect the customer prepayment status to
16 continue into the future?

17 A. The company is forecasting annual expenditures that
18 range from \$37 million to \$62 million per year for
19 the next several years. If the company incurs
20 expenditures at the forecasted levels, expenditures
21 will exceed rate recoveries and the prepaid amount.

1 Q. Please explain the company's proposal for the
2 treatment of MGP/Superfund program costs for the
3 rate year.

4 A. Based on the company's revised update dated February
5 7, 2006, the company proposes to increase the level
6 of environmental costs reflected in rates to \$2.5
7 million. The proposed allowance is based on a
8 projected three-year average of annual cash
9 expenditures; that is, cash expenditures for the
10 twelve months ending September 30, 2007, September
11 30, 2008 and September 30, 2009, less actual
12 recoveries in excess of payments as of December 31,
13 2005, as set forth in undated company
14 Exhibit___(RSP-3). The average of steam net annual
15 cash expenditures of \$2.4 million was increased by
16 the company's general inflation rate.

17 Q. Do you agree with the company's request?

18 A. No. The company's request is not reasonable. As
19 noted above, there are specific aspects of Con
20 Edison's calculation that are based on erroneous
21 information. Moreover, the calculations are based

1 on data that is inconsistent with Commission Orders.
2 As a result, we recommend that the Commission reject
3 the company's proposal in this area.

4 Q. Why is this request unreasonable?

5 A. The \$2.5 million environmental cleanup rate
6 allowance sought by the company represents a nearly
7 900% increase over the amount in steam rates, now,
8 and is based on a three-year amortization of costs
9 that the company expects to incur two years after
10 the rate year. We are testifying to the company's
11 revenue requirement for the rate year, which does
12 not and should not include recovery of costs to be
13 incurred after the rate year.

14 Q. How is the company's calculation of the \$2.5 million
15 inconsistent with past Commission Orders?

16 A. Con Edison's 2004 steam rate plan explicitly
17 provides for an interest accrual on the net cash
18 over/under recoveries. Moreover, Con Edison's past
19 rate plans have typically provided for interest on
20 net tax reconciliation balances. Nevertheless, the
21 company has never, to our knowledge, recorded

1 interest on MGP/Superfund reconciliations. Thus,
2 ratepayers have never received the benefit of
3 carrying charges on their prepayments related to
4 environmental cleanup costs and the prepaid balance
5 reflected on the company's books is understated.

6 Q. Are there future ratemaking ramifications related to
7 the company's failure to follow the terms of its own
8 rate plans?

9 A. Very likely. Con Edison has spent less on
10 environmental cleanup costs than customers have
11 provided for many years. This has resulted in a
12 prepayment balance. It now appears that Con Edison
13 will soon spend more than it collects in rates,
14 thereby eliminating the prepayment and creating a
15 ratepayer IOU to the company. We fully expect that
16 Con Edison will seek carrying charges on this
17 balance. While we would support such a request,
18 fairness dictates that we would do so only if the
19 company first reflected the carrying charges that
20 should have accrued to ratepayer prepayments in the
21 past. We recommend therefore that the Commission

1 impute the interest owed to ratepayers pursuant to
2 its prior rate Orders.

3 Q. What rate allowance do you propose to cover
4 environmental cleanup costs for Con Edison's steam
5 operations?

6 A. We propose a \$1 million rate allowance for the steam
7 department's share of MGP and superfund costs. This
8 represents an increase of about 300% over the
9 current steam allowance. This level of funding is
10 equivalent to a total company allowance of \$19.6
11 million per year.

12 Q. Will your recommendation provide the steam
13 department current recovery of its share of expected
14 MGP/Superfund costs?

15 A. Our recommended level of rate recovery will provide
16 the steam department recovery its share of the
17 company's estimated expenditures from January 2006
18 through the end of the rate year within five years.
19 Taking into consideration the prepaid status and the
20 very significant forecasted increase in costs, we
21 believe that our proposal constitutes a reasonable

1 balance between ratepayer and shareholder interests.

2 Q. Do you have any other recommendations?

3 A. We also recommend that deferral accounting for any
4 over/under expense of the MGP/Superfund rate level
5 be authorized net of any state and federal tax
6 credits, subject to our earlier recommendation on
7 the accrual of interest, and that any insurance
8 proceeds and/or grants or other credits received by
9 the company related to the MGP/Superfund program be
10 included in the reconciliation process.

11 **Property Tax Expense**

12 Q. How did the company determine its rate year estimate
13 for property tax expense?

14 A. The company developed its rate year estimate based
15 on an estimate of assessed values of steam
16 properties, including forecasted construction
17 expenditures, and an estimated tax rate for
18 properties that are classified as class 3 and class
19 4. The estimated tax rate was based on a tax rate
20 escalation factor, which was developed using a five-
21 year average historic growth rate for the period

1 2000/2001 to 2005/2006.

2 Q. Did the company calculate the property tax
3 escalation rate in Case 03-S-1672 in the same
4 manner?

5 A. Yes, it did.

6 Q. Did the methodology accurately forecast the property
7 tax rates?

8 A. No, it did not. In that case, the company's
9 methodology forecasted a 7.5% annual increase in the
10 class 3 property tax rate and a 2.5% annual increase
11 in the class 4 property tax rate. A 7.0% class 3
12 escalation rate was requested and granted. Most of
13 the company's steam plant is class 3 property. In
14 response to Staff Information Request 24, the
15 company conceded that property tax rates are
16 actually lower today than when the forecast was
17 prepared in the fall of 2003.

18 Q. Did this incorrect forecast result in a material
19 variance between forecast and actual property tax
20 expenses?

21 A. Yes. For the first rate year of the 2004 rate plan,

1 changes from the rate in effect at the end of the
2 2002-2003 tax year to the 2005-2006 tax year
3 produces escalation rates of -0.68% and -0.79% for
4 class 3 and class 4 properties, respectively, as
5 opposed to the 3% developed by the company. This
6 can be seen in Exhibit___(AP-5). We propose to use
7 the same tax rates currently in effect for the
8 2005/2006 tax year as our forecasted rates for the
9 2006/2007 tax year and the 2007/2008 tax year. In
10 other words, a zero percent escalation factor.

11 Q. What is the impact on the rate year property tax
12 expense forecast when your escalation rates are used
13 rather than the company's?

14 A. For the rate year, the application of these
15 escalation rates resulted in a decrease in the level
16 of property taxes of \$1.822 million, from \$57.642
17 million to \$55.820 million. This amount does not
18 take into account the ERRP real estate taxes that
19 are expected to be offset by a tax abatement related
20 to the Industrial & Commercial Incentive Program
21 (ICIP) of which the company is awaiting approval.

1 Q. Do your proposed escalation rates have an impact on
2 any other aspect of the rate year revenue
3 requirement?

4 A. Yes. The Commission authorized Con Edison to defer
5 the difference between its actual property tax
6 expenses and the levels specified in its 2004 rate
7 plan above or below a 2.5% deadband. The company
8 proposes to refund the net deferral to the customers
9 over a three-year period. By using our escalation
10 rates to estimate future property taxes, we have
11 estimated lower property tax expenses through the
12 end of that rate plan. Therefore, the net deferral
13 to be refunded to customers is slightly higher. We
14 estimate that the amount subject to refund should be
15 increased by \$1.065 million to \$11.354 million,
16 resulting in an increase of \$355,000 per year in the
17 amount refunded to customers based upon the
18 company's proposed three-year amortization period.
19 In addition, the company's rate base should be
20 decreased by \$533,000.

21 Q. Do you propose that the property tax expense

1 forecast be updated during this proceeding?

2 A. Yes. The tax rates for the July 2006-June 2007 tax
3 year should be known by July 2006. That means that
4 the actual property tax expense for the first nine
5 months of the rate year will be known before the
6 Commission acts on this case. We propose that the
7 actual property tax rates be used to forecast
8 property tax expenses for the first nine months of
9 the rate year, and that the four-year average of the
10 tax rate changes from the end of the 2002-2003 tax
11 year to the 2006-2007 tax year be used as the
12 escalation rate to determine the 2007/2008 tax rate,
13 which will impact the final three months of the rate
14 year.

15 Actual property tax expense for the second rate
16 year of the 2004 rate plan will also be known before
17 the Commission acts. Therefore, we recommend that
18 the forecast of second rate year property expense
19 reconciliation be updated as well.

20 Q. Are there any other concerns related to the
21 company's property tax estimates?

1 A. Yes. Company witness Hutcheson testified to the
2 company's efforts to minimize property taxes. Mr.
3 Hutcheson points out that the 2005/2006 property tax
4 bill was reduced by \$8.2 million due to a reduction
5 in assessments over a one-year period because of the
6 company's successful argument to the State Board of
7 Real Property Services (Board) that a portion of the
8 steam business was economically obsolete. In
9 response to Staff Information Request 398, Mr.
10 Hutcheson states that such economic obsolescence
11 arguments have been made by the company to the Board
12 since the 2002/2003 fiscal tax year. However, no
13 assumption of a decrease in property taxes due to
14 economic obsolescence has been made in this case
15 because of uncertainty over how much, if any, of a
16 decrease in property taxes might be achieved with
17 such an argument. To account for the possibility
18 that the Board will again grant the company a
19 reduction in its assessed values, we propose that
20 any property tax reduction attributable to a
21 reduction in assessed values due to economic

1 obsolescence be deferred by the company for the
2 future benefit to ratepayers.

3 Q. Why is such a true-up necessary?

4 A. The company has an obligation to continue to try and
5 minimize its property taxes. To the extent it is
6 successful, the reduction in costs could be
7 considerable. As we have discussed, this was the
8 case for the 2005/2006 tax year and was a factor in
9 the company having to refund property tax savings to
10 customers. The company should not be allowed to
11 retain all of the savings of those reductions just
12 because the uncertainty of any property tax relief
13 the Board might grant cannot be quantified at this
14 time.

15 Q. Why can't an estimate of the economic obsolescence
16 reduction be made now and factored into Staff's
17 revenue requirement recommendation?

18 A. Economic obsolescence is tied, in part, to the
19 financial health of a company. Because of the level
20 of the company's steam earnings last year, we cannot
21 predict what adjustment, if any, the Board will make

1 to Con Edison's steam assessments for economic
2 obsolescence. Therefore, any estimate we provide
3 would be speculative.

4 Q. Does the Panel have any comment on other true-ups
5 associated with property taxes?

6 A. Yes. We will discuss the company's proposed
7 property tax true-up mechanism later in our
8 testimony.

9 **ADR Deferred Taxes**

10 Q. Are you aware of any new issues that may impact the
11 deferred federal income taxes reflected in the
12 company's rate base in this case?

13 A. Yes. Con Edison, via email dated January 25, 2006,
14 notified the Director of Accounting and Finance of a
15 recently discovered error in the company's deferred
16 tax accounting system. A copy of this email is
17 attached hereto as Exhibit___(AP-4). This error
18 produced an over-statement of the per book deferred
19 tax balances. The company indicated that correction
20 of the error would produce tax benefits dating back
21 to the year 2000 of approximately \$48 million. As a

1 result, it planned to book a regulatory liability
2 for the revenue requirement impact of this amount -
3 \$81 million, which includes tax effects - to
4 neutralize the effect of this item on income and to
5 preserve it until the Commission determines an
6 appropriate disposition. Con Edison informed Staff
7 that it plans to file a petition with its proposed
8 treatment of the regulatory liability in the near
9 future.

10 Q. Do you know what portion of the \$81 million
11 regulatory liability is assignable to Con Edison's
12 steam assets?

13 A. Based on preliminary information provided by the
14 company, it appears that \$5.1 million of the \$81
15 million is related to steam assets.

16 Q. Do you have any concerns regarding this issue?

17 A. Yes. The company's email does not mention the
18 implication of this error on 2005 financial results.
19 While it is true that the company's proposed
20 accounting treatment will have no impact on the
21 company's income statements for the period 2000-

1 2004, Con Edison has already flowed added income
2 associated with the 2005 portion of this tax benefit
3 to shareholders. Generally, shareholders should not
4 receive any portion of a tax benefit that arises
5 solely from a company error. However, since we do
6 not know all of the details surrounding this matter
7 at this time, we will reserve making any conclusions
8 until we see the company's proposed treatment of the
9 2005 and future tax benefits, and its justification
10 for that proposed treatment. We expect that those
11 issues will be addressed in its petition to the
12 Commission.

13 Q. Do you know the value of the 2005 tax benefit?

14 A. No. The year to year tax benefit has been similar.
15 We estimate the value to be between \$10 million and
16 \$11 million, or \$17 million to \$18 million in
17 revenue requirement terms for the total company.

18 Q. What is the significance of this issue?

19 A. The company's rate base includes a forecast of
20 deferred federal income taxes. The forecast is
21 based on the test year level and includes

1 projections of bridge period and rate year changes.
2 The company's correspondence with the Director of
3 Accounting and Finance indicates that the test year
4 balances are wrong, and we have reason believe the
5 bridge period and rate year projections are
6 erroneous as well since the error was not known a
7 the time the company filed its rate case.

8 Therefore, the correction of this error will likely
9 have an impact on the company's rate base.

10 Q. How will the correction of the error impact steam
11 rate base?

12 A. The correction of the error will reduce the forecast
13 of deferred federal income taxes and in turn
14 increase the company's rate base. The regulatory
15 liability should have an offsetting effect and
16 reduce the company's rate base. However, we are
17 concerned that the regulatory liability will not
18 fully offset the reduction in the deferred tax
19 balance. This is due to the fact that the company
20 flowed the 2005 effect through income to the benefit
21 of its shareholders. Moreover, we understand that

1 the company plans to flow through the bridge period
2 benefits to income as well. Therefore, the
3 regulatory liability will be smaller than the
4 reduction to the value of the deferred tax balance
5 equal to the value of the tax benefit for the period
6 January 2005 through September 2006.

7 Q. Can you provide the corrected information?

8 A. No. We only recently became aware of this error and
9 the company has not provided us the information
10 necessary to analyze this issue or revise the test
11 year balance or the bridge or rate year forecasts.
12 The company should provide this information in its
13 update filing in accordance with the Commission's
14 Policy Statement on Test Years, inasmuch as it is a
15 revision for a change in the estimate of its
16 deferred income taxes and rate base.

17 Q. Do you have a recommendation on this matter?

18 A. Yes. The corrected deferred tax balances should be
19 reflected in steam rate base. Correspondingly, if
20 the Commission determines that a regulatory
21 liability should be created, that liability should

1 be either included in the company's rate base or
2 deferred for ratepayers benefit with interest at the
3 company's authorized pre-tax rate of return.

4 Q. Why is it appropriate to discuss this matter here
5 rather than in the context of the company's expected
6 petition?

7 A. The primary issues to be addressed by the company's
8 expected petition include the quantification of the
9 tax benefits and whether shareholders should be
10 allowed to retain a share of those benefits. Since
11 the electric and gas businesses are in the midst of
12 multi-year rate plans, the benefits attributable to
13 those businesses will presumably be deferred, with
14 interest, for disposition in their next rate cases.
15 In contrast, since we are now setting new rates for
16 the steam business and this may be a source of
17 ratepayer credits, it is appropriate to consider
18 their treatment, even if the amount of the credit is
19 not yet known. Additionally, we do not know when
20 the company will file its petition. The Commission
21 should be aware of this issue when it adopts new

1 steam rates.

2 **Deferred Accounting**

3 Q. The company's Accounting Panel seeks to employ the
4 use of deferred accounting to true-up a number of
5 items, including pension and OPEB expenses,
6 environmental remediation, WTC costs, interference
7 expenses, property taxes, interest expense, and a
8 minimum return on equity (ROE). Do you support the
9 company's request for reconciliation accounting for
10 these items?

11 A. Our recommendations on deferred accounting for
12 pension and OPEB expenses, environmental
13 remediation, and WTC costs have already been
14 addressed in our testimony. Of the remaining true-
15 ups the company has requested, the only one we agree
16 should be in place is for interference expenses.

17 Q. Why do you support the reconciliation for
18 interference expenses?

19 A. Interference expenses are largely outside of the
20 company's control and have grown substantially in
21 recent years. Given these facts, we find it

1 acceptable to allow a true-up of such costs as
2 outlined by the company for the rate year ending
3 September 30, 2007.

4 Q. Why do you disagree with allowing deferred
5 accounting for the other expenses?

6 A. We are testifying to a one-year rate case, and costs
7 such as interest expense and return on equity are
8 traditionally not trued up in a one-year rate case.

9 Q. Con Edison proposes to true-up property taxes
10 subject to a 2.5% deadband. Do you agree with this
11 proposal?

12 A. No. With the exception of the economic obsolescence
13 reduction we already discussed, the costs for
14 property taxes can be reasonably forecast for the
15 rate year and it is very unlikely they will
16 significant vary from their expected levels within
17 one year. Given the shortened forecast period and
18 the opportunity, in this case, to submit updates for
19 known changes up to the Brief on Exceptions, such a
20 deferral is unnecessary.

21 Q. You mentioned that interest expense is traditionally

1 not trued-up in a one-year rate case. Why else do
2 you reject the company's proposal to true-up
3 embedded interest expense?

4 A. First, the company's embedded cost of debt is based
5 on the capital structure of Con Edison as a whole
6 and reflects over \$6 billion of debt. Since the
7 vast majority of this debt is at a fixed rate, it is
8 very unlikely debt costs would vary by the amount
9 needed to trigger such a provision in the rate year
10 ending September 30, 2007.

11 Further, such a provision would decrease the
12 incentive the company has to get the best possible
13 terms for its debt in the unlikely event such
14 interest rate changes materialize.

15 Q. Why do you reject the company's proposed re-opener
16 if its ROE is below 8.5%?

17 A. Such a true-up is not appropriate in a one-year rate
18 case and we know of no instance when a company has
19 been allowed to make up a shortfall in its earnings
20 in a one-year case. Staff proposes an earnings
21 level that gives the company an opportunity to earn

1 a reasonable rate of return. If such a re-opener
2 were to be allowed and the ROE falls below the
3 threshold, the company's incentive to control its
4 costs and/or increase its revenues would be
5 eliminated.

6 Q. Are there any other reasons to reject the ROE re-
7 opener?

8 A. Yes. While the company wants to be allowed to
9 recoup any shortfall below an ROE that is just
10 slightly below what Staff witness Hogan testifies is
11 a reasonable return for the steam business, the
12 company has offered no sharing of earnings should
13 their returns be significantly higher than the
14 allowed ROE. Such an asymmetrical approach does not
15 provide a fair or reasonable balance between
16 ratepayer and shareholder interests.

17 Q. The company's Accounting Panel has cited the risk of
18 unanticipated circumstances, such as the terrorist
19 acts which destroyed the WTC, as a reason to
20 establish a minimum ROE (page 94). Is this an
21 acceptable justification for such a proposal?

1 A. No. As we have testified, the company has deferred
2 its WTC-related costs and is in the process of
3 seeking recovery for them. Such a mechanism for
4 recovery of large unanticipated costs could
5 logically be expected in the future as well.

6 **Revenue Requirement Moderation**

7 Q. Please describe your position on revenue requirement
8 moderation.

9 A. The company's testimony, as well as our testimony,
10 refers to a number of credits deferred or to be
11 deferred for the benefit of ratepayers. Both the
12 company and Staff propose to use these credits to
13 provide rate relief, or rate moderation. In most
14 instances, the company proposes to return these
15 credits to ratepayers over three years.
16 Conceptually, we agree with that approach since
17 spreading the credits over multiple years will avoid
18 the much higher future rate increases that would be
19 necessitated by using most or all of them in the
20 rate year.

21 Q. Are there any specific credits, or moderators, you

1 would like to address in additional detail?

2 A. Yes. The company's Accounting Panel has testified
3 to a net-after-tax gain of \$46,146,000 on the sale
4 of its First Avenue Properties. The company is
5 proposing to refund to customers over a three-year
6 period the revenue requirement effect of this,
7 \$76,750,000. Staff supports this approach, but it
8 notes that the Commission has not yet ruled on the
9 amount of such gains. To the extent such gains are
10 determined by the Commission to exceed the company's
11 filed amount, Staff recommends that the excess gains
12 be returned to customers in the same manner as the
13 gains previously described. In the event the
14 Commission does not rule on the level of gains until
15 after this rate case has been decided, Staff
16 recommends that the company be required to set aside
17 such additional gains for return to customers in a
18 subsequent rate case.

19 Q. Aside from the credits previously discussed, are you
20 proposing any other changes to the company's
21 proposed amortization periods?

Case 05-S-1376 Accounting Panel

1 A. Yes. We propose to accelerate the pass back of the
2 property tax over-collection from the 2000 rate plan
3 by \$525,000 in order to achieve no base rate change.

4 Q. Does this conclude your testimony?

5 A. Yes.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Exhibits of:

Staff Accounting Panel

Claude Daniel
Public Utilities Auditor II

Jeffrey Hogan
Principal Utility Financial
Analyst

John Scherer
Supervisor

Jane Wang
Public Utilities Auditor
Trainee II

Office of Accounting and
Finance
New York State
Department of Public Service
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STAFF ACCOUNTING PANEL

List of Staff Information Requests

Staff Request

Exhibit page

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Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set 1

Date of Response: 12/02/2005

Responding Witness: Accounting Panel

Question No. :4

(a) Please provide the status of the negotiations with Cablevision for access to Con Edison's Hudson Avenue tunnel. (b) Has the agreement with Cablevision, since its inception, ever been interrupted for any significant period of time? (c) Is there any reason known to Con Edison that leads it to believe that there will be no agreement reached with Cablevision for a renewal agreement? (d) If the response to (c) is yes, please provide details. (e) Please provide any additional information on this item as it becomes available.

Response:

a) The existing agreement with Cablevision Lightpath, Inc. expires on May 29, 2006. The Company has met with representatives of Cablevision and informed them that Con Edison now provides access to its tunnels pursuant to its electric tariff (Rider X). Cablevision was informed that any new agreements for access to the Hudson Avenue Tunnel must be made pursuant to Rider X. Cablevision was provided a copy of Rider X and all contract documents associated therewith.

b) No.

c) At the current time, it is anticipated that Cablevision will elect to take service pursuant to Rider X.

d) Not applicable.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set 1
Date of Response: 12/05/2005
Responding Witness: Charles Hutcheson

Question No. :24

Please identify and explain the reason(s) that led to Con Edison overcollecting property taxes during the period October 1, 2004 through September 30, 2006.

Response:

In the forecast prepared in the fall of 2003, the forecasted property tax rates were escalated using an escalation factor of 7% for class 3 property and 2.5% for class 4 property. Most of the Company's steam plant falls under class 3. The actual increases in property tax rates for the five-year period preceding the development of the forecasted tax rates justified that rate of escalation, which was agreed to in the Joint Proposal in Case 03-S-1672.

Since that time, actual tax rates have varied both up and down from the projection. The final rates for the current 2005/2006 fiscal year have decreased from the prior year. On an overall basis since the 2003 forecast, rates have actually slightly declined due to the decrease this year. The over-collection is attributable to the actual property tax rates coming in lower than the forecast.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set 1
Date of Response: 12/05/2005
Responding Witness: Accounting Panel

Question No. :35

(a) Did Con Edison use a historic three-year average or another method to forecast late payment fees in Case 03-S-1672? (b) If Con Edison used a different method, please describe it. (c) What method did Con Edison use to forecast late payment fees in Case 99-S-1621? (d) What method did Con Edison use to forecast late payment fees in Case 96-S-1065?

Response:

a) A different method.

b) The Company's forecast relied on actual data from January 1999 through September 2003 (the most recent data available at the time of the previous filing), a period of 4 years and 9 months.

c) In Case 99-S-1621 the Company applied the ratio of historical period late payment fees over historical period total steam revenues to the rate year total steam revenues to calculate rate year late payment fees.

d) In Case 96-S-1065 the Company also developed and applied the ratio of historical period late payment fees over historical period total steam revenues to the rate year total steam revenues to calculate rate year late payment fees.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff6

Date of Response: 01/11/2006

Responding Witness: Accounting Panel

Question No. :317

Pages 57-58 of the testimony state that "[t]he Commission's Policy Statement on pension and OPEBs requires companies following the Statement to accrue interest on the unfunded obligation at the Company's pre-tax overall rate of return." (a) Please provide the page and line number reference to where the accrued interest and its rate treatment can be found in the rate filing and in the supporting work papers. (b) Please provide a reference to where in Con Edison's books and records the accrued interest on the unfunded OPEB obligation can be found. (c) Please provide the balance in this account as of November 31, 2005.

Response:

(a) The rate filing and workpapers submitted by the Company did not include an adjustment for interest on the change in net unfunded Pension/OPEB balance. No adjustment was included in the workpapers for several reasons: the resulting interest accrual for the Test Year (the twelve months ended June 30, 2005) was relatively small (i.e., \$15,094 - \$2,396 for Pensions and \$12,698 for OPEBs); the Company normally funds its pension/OPEB obligations in the Fall of each year and see the response to Staff 326. Funding payments made by the Company are generally greater than the amounts accrued during the year and would negate any interest accrued, and the change in the balance then becomes negative.

(b) Attached is a workpaper showing the monthly calculation of the interest since October 1, 2004. This amount has been tracked but not been recorded since it has gone from a positive to a negative (debit) amount. As shown on the attached workpaper, the interest associated with the Steam Pension/OPEB obligation as of November 30, 2005, would be a negative accrual of \$26,210 (negative \$46,527 for pensions and a positive \$20,318 for OPEBs).

Consolidated Edison Company of New York, Inc.
Steam Pensions and OPEBs
Calculation of Interest on Deferred & Accrued Cost

Exhibit __ (AP-1)

Page 5 of 11

Deferred Pension Costs

Month / Year	Cumulative Pension Deferral	Tax Rate	Net of Tax Bal. Subj. To Interest	Allowed Rate of Return	Interest on Balance	Cumulative Interest
Oct-04	(235,218)	60.125%	(141,424.62)	0.95%	(1,343.53)	(1,343.53)
Nov-04	(476,027)	60.125%	(286,211.12)	0.95%	(2,719.01)	(4,062.54)
Dec-04	(710,288)	60.125%	(427,060.74)	0.95%	(4,057.08)	(8,119.62)
Jan-05	(511,364)	60.125%	(307,457.55)	0.95%	(2,920.85)	(11,040.46)
Feb-05	(312,676)	60.125%	(187,996.16)	0.95%	(1,785.96)	(12,826.43)
Mar-05	(113,319)	60.125%	(68,132.93)	0.95%	(647.26)	(13,473.69)
Apr-05	373,494	60.125%	224,563.20	0.95%	2,133.35	(11,340.34)
May-05	643,682	60.125%	387,013.51	0.95%	3,676.63	(7,663.71)
Jun-05	922,200	60.125%	554,472.91	0.95%	5,267.49	(2,396.22)
Jul-05	1,194,712	60.125%	718,320.67	0.95%	6,824.05	4,427.83
Aug-05	1,440,283	60.125%	865,970.19	0.95%	8,226.72	12,654.54
Sep-05	1,708,787	60.125%	1,027,408.00	0.95%	9,760.38	22,414.92
Oct-05	1,977,281	60.125%	1,188,840.17	0.95%	11,293.98	33,708.90
Nov-05	2,244,097	60.125%	1,349,263.36	0.95%	12,818.00	46,526.90

Accrued & Deferred OPEB Costs

Month / Year	Acct. 22830 OPEB Health Liab.	Acct. 22830 OPEB Life Ins. Liab.	Change in Balance Total OPEB Liab.	Cumulative OPEB Deferral	Net OPEB Balance	Tax Rate	Net of Tax Bal. Subj. To Interest	Allowed Rate of Return	Interest on Balance	Cumulative Interest
Sep-04	(2,827,899.20)	(1,564,880.30)	(4,392,779.50)							
Oct-04	(2,861,108.20)	(1,607,184.30)	(75,513.00)	42,304	(33,208.66)	60.125%	(19,966.71)	0.95%	(189.68)	(189.68)
Nov-04	(2,641,573.20)	(1,479,233.30)	347,486.00	86,350	433,836.17	60.125%	260,844.00	0.95%	2,478.02	2,288.33
Dec-04	(2,564,642.20)	(1,436,410.30)	119,754.00	128,863	248,617.07	60.125%	149,481.01	0.95%	1,420.07	3,708.40
Jan-05	(2,680,034.20)	(1,494,108.30)	(173,090.00)	115,889	(57,200.75)	60.125%	(34,391.95)	0.95%	(326.72)	3,381.68
Feb-05	(2,795,426.20)	(1,551,806.30)	(173,090.00)	103,400	(69,690.14)	60.125%	(41,901.20)	0.95%	(398.06)	2,983.62
Mar-05	(2,910,818.20)	(1,609,504.30)	(173,090.00)	91,493	(81,596.99)	60.125%	(49,060.19)	0.95%	(466.07)	2,517.55
Apr-05	(3,424,097.20)	(1,642,131.30)	(545,906.00)	(213,992)	(759,898.14)	60.125%	(456,888.76)	0.95%	(4,340.44)	(1,822.90)
May-05	(3,638,961.20)	(1,693,561.30)	(266,294.00)	(295,837)	(562,131.10)	60.125%	(337,981.32)	0.95%	(3,210.82)	(5,033.72)
Jun-05	(3,853,825.20)	(1,744,991.30)	(266,294.00)	(363,544)	(629,838.22)	60.125%	(378,690.23)	0.95%	(3,597.56)	(8,631.28)
Jul-05	(4,068,689.20)	(1,796,421.30)	(266,294.00)	(445,612)	(711,905.98)	60.125%	(428,033.47)	0.95%	(4,066.32)	(12,697.59)
Aug-05	(3,767,871.20)	(1,775,949.30)	321,290.00	(530,717)	(209,427.29)	60.125%	(125,918.16)	0.95%	(1,196.22)	(13,893.82)
Sep-05	(3,467,064.20)	(1,755,477.30)	321,279.00	(613,423)	(292,144.43)	60.125%	(175,651.84)	0.95%	(1,668.69)	(15,562.51)
Oct-05	(3,166,257.20)	(1,735,005.30)	321,279.00	(696,129)	(374,849.58)	60.125%	(225,378.31)	0.95%	(2,141.09)	(17,703.60)
Nov-05	(2,865,450.20)	(1,714,532.30)	321,280.00	(778,833)	(457,552.73)	60.125%	(275,103.58)	0.95%	(2,613.48)	(20,317.09)

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff10

Date of Response: 01/17/2006

Responding Witness: Accounting Panel

Question No. :390

In response to Staff Information Request 4, Con Edison stated that Cablevision is anticipated to take service pursuant to Rider X. (a) Does this mean that all revenues received from Cablevision once it commences taking service under Rider X will flow to the electric business since Rider X is an electric tariff? (b) If the response to (a) is yes, please explain why the steam business will no longer receive or share in the revenues from Cablevision.

Response:

The Company currently allocates the lease payments from Cablevision between electric and steam operations. While it is anticipated that Cablevision will take service pursuant to Rider X, which is an electric tariff, the Company views the sharing of the Hudson Avenue tunnel that Cablevision uses as an interdepartmental activity and on its books, it plans to allocate a portion of the revenues to steam operations on the same basis as such revenues are currently allocated.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff11

Date of Response: 01/20/2006

Responding Witness: Hutcheson, Charles

Question No. :398

In response to Staff Information Request 76, Con Edison explained its rationale for excluding a reduction to property tax expense for economic obsolescence. Inasmuch as Con Edison has received this reduction in prior years, please describe the changed circumstances that led to the referenced "uncertainty" that caused the company to entirely eliminate the reduction from its forecast for the rate year.

Response:

Since the 2002/2003 fiscal year, the Company has annually filed with the Office of Real Property Services ("ORPS") for an "allowance" for economic obsolescence that, if granted, reduces our special franchise assessed value for property tax purposes. ORPS' rules define economic obsolescence as the loss of value of property caused by impairment in desirability or useful life resulting from factors external to the property.

ORPS annually determines economic obsolescence based upon certain financial information submitted to them by the Company.

The "uncertainty" regarding inclusion of this property tax benefit in new base rates is due to the unknown effect of the rate increases under the current rate plan and what effect the requested increase will have on ORPS' determination.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff14
Date of Response: 01/30/2006
Responding Witness: Accounting Panel

Question No. :421

In response to Staff Information Request 4, Con Edison stated that Cablevision is anticipated to take service pursuant to Rider X. In response to Staff information Request 390, Con Edison stated that it plans to allocate a portion of the revenues to steam operations on the same basis as such revenues are currently allocated. (a) How much does Con Edison expect to receive from Cablevision during the rate year for access to Hudson River tunnel (b) How much of lease payment will be allocated to steam operations? (c) What is the basis of the allocation?

Response:

a) If Cablevision elects to continue service, the Company estimates that the revenues under Rider X during the rate year would be approximately \$225,000.

b) The current allocation of the lease payment from Cablevision to steam operations is 50.88%.

c) The basis for this allocation is the actual space in the tunnel allocated to electric and steam operations.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff18

Date of Response: 02/15/2006

Responding Witness: Charles Hutcheson

Question No. :461

Con Edison provided workpapers to support the rate year adjustments to Other Operating Revenues, refund over three-year period of overcollection of NYC property taxes deferred as a result of the 2000 Rate Plan (Exhibit__ (AP-11), Schedule 3, Page 1, Other Operating Revenues, line 1). The workpapers show a \$2,080,000 final adjustment related to reallocation of 100% ERRP property taxes to steam operations for the period July through December 2004. The total reallocation to steam from electric and gas shows \$4,837,773.08 for the period July to December 2004. (a) What is the nature of this \$4,837,773.08 reallocation? (b) How much was steam's share of the cost related to the \$4,837,773.08 under the mixed allocation?

Response:

a) The \$4,837,773.08 reallocation was an adjustment to correct a clerical error for property taxes charged during the period July - December 2004. An explanation of the cause of the adjustment follows.

The Company allocates property taxes based on the use of the property. For instance, if a property's sole use is for the production, transmission, or distribution of steam, the property taxes are allocated 100% to steam. There are certain properties that are used for more than one use. The Company refers to these properties as "mixed-use" properties and the property taxes on these mixed-use properties are allocated to Electric, Gas, or Steam based on the percentage of book cost for the facility or complex (as explained below) at each year-end period.

In addition, the Company may be billed for property taxes on certain properties that are adjacent to each other, referred to as a "complex." The East River properties are billed as a complex. Even before the ERRP was constructed, the East River complex was a mixed-use property because the tax bills for East River included the

at-that-time electric generating station, the East 13th Street and East 15th Street electric substations, the East River South Steam Station, the 14th Street Desuperheating (Steam) building and the East 16th Street Service Center (Common plant). Therefore, the tax accrual was based on the book cost percentages of the entire complex made up of Electric, Steam, and Common facilities. Expenses associated with Common plant are re-allocated to the operating areas of Electric, Gas, and Steam.

The Company started paying property taxes on the ERRP, which is part of the East River Complex, even before the plant was placed into service. The tax accrual was developed by taking the total tax payment made to the City for all Company property, subtracting 100% of the ERRP payment, and applying the remaining balance based on the 100% usage or the applicable mixed-use percentages described earlier. However, the percentages from the mixed-use report were applied to an assessment that included the ERRP. Therefore, the allocation to Electric and Gas was too high and the allocation to Steam was too low. The error was discovered, and an adjustment was made to correct it three months later.

b) The attached workpaper identifies the adjustment for the six month period July-December 2004 totaling \$4,837,773.00 and includes the amounts by month. In October 2004, a retroactive adjustment for the period July 2004 through September 2004 in the amount of \$2,418,886.54 was allocated to steam increasing the steam tax accrual while corresponding decreases of \$2,365,583.02 and \$53,303.52 were made to electric and gas respectively. Since the total tax accrual was developed by excluding the taxes on the ERRP, none of the adjustment made in October 2004 was applicable to the ERRP specifically.

XY

Back up for

ERRP Mixed

Loc Adj

NYC Property Tax Accrual Adj 2004
 ERRP
 manhattan accrual jul-dec 2004 under mixed loc & 100% errp steam scenarios

	elec	gas	steam
mixed loc	48,332,586.00	603,041.00	9,694,000.00
errp 100% steam	43,601,420.00	496,434.00	14,531,773.00
	<u>4,731,166.00</u>	<u>106,607.00</u>	<u>(4,837,773.00)</u>

period	CREDIT	CREDIT	DEBIT	Total	
	H6040	A6080	F6120		
	Elec	Gas	Steam	Total	
Total Adj	(4,731,166.04)	(106,607.04)	4,837,773.08	0.00	
Jul-Sep	(2,365,583.02)	(53,303.52)	2,418,886.54	0.00	supplemental entry
October	(788,527.67)	(17,767.84)	806,295.51	0.00	supplemental entry
November	(788,527.67)	(17,767.84)	806,295.51	0.00	incl in normal accrual
December	(788,527.68)	(17,767.84)	806,295.52	0.00	incl in normal accrual
	<u>(4,731,166.04)</u>	<u>(106,607.04)</u>	<u>4,837,773.08</u>	<u>0.00</u>	

Rate Change	DEBIT					CREDIT	TOTAL
	C6040	H6040	A6080	6301	06300	F6120	
	ELECTRIC	ELECTRIC	GAS	NON-UTIL	NON-OP	STEAM	TAX ACCRUED
Tax at 04/05 Rates	545,000.00	273,410,068.54	30,228,144.28	843,236.53	26,911.76	26,465,408.93	331,518,770.04
Tax at 03/04 Rates	539,000.00	270,381,571.34	29,900,274.51	834,168.03	26,724.80	26,179,455.58	327,861,194.26
Tax Increase	6,000.00	3,028,497.20	327,869.77	9,068.50	186.96	285,953.35	3,657,575.78
Jul-Sep	3,000.00	1,514,248.60	163,934.89	4,534.25	93.48	142,976.68	1,828,787.90
October	1,000.00	504,749.53	54,644.96	1,511.42	31.16	47,658.89	609,595.96
July-Oct 2004	4,000.00	2,018,998.13	218,579.85	6,045.67	124.64	190,635.57	2,438,383.86
November	1,000.00	504,749.53	54,644.96	1,511.42	31.16	47,658.89	609,595.96
December	1,000.00	504,749.54	54,644.96	1,511.41	31.16	47,658.89	609,595.96
Total	6,000.00	3,028,497.20	327,869.77	9,068.50	186.96	285,953.35	3,657,575.78

supplemental entry
 supplemental entry
 incl in normal accrual
 incl in normal accrual

Consolidated Edison Company of New York, Inc.
Steam Service
Operating Income, Rate Base & Rate of Return
For the Twelve Months Ending September 30, 2007
(000's)

	<u>Original Filing</u> <u>Per company</u> <u>AP-11</u>	<u>Company</u> <u>Update</u> <u>02/07/06</u>	<u>Updated</u> <u>Company</u>	<u>Sch.</u> <u>Ref</u>	<u>Staff</u> <u>Adjustments</u>	<u>As</u> <u>Adjusted</u> <u>By Staff</u>	<u>Revenue</u> <u>Increase</u>	<u>Per Staff</u> <u>After Increase</u>
<u>Operating Revenues</u>								
Sales Revenues	\$661,939		\$661,939	8	\$25,875	\$687,814	(\$1)	\$687,813
Other Operating Revenues	85,975	\$1,890	87,865	8	(76,581)	11,284		11,284
Total Operating Revenues	747,914	1,890	749,804		(50,706)	699,098	(1)	699,097
<u>Operating Expense</u>								
Fuel	381,097		381,097	8	16,732	397,829		397,829
Other fuel charges	2,657	1,229	3,886			3,886		3,886
Operation & maintenance expense	175,080	(1,450)	173,630	2	(6,979)	166,651		166,651
Depreciation expense	76,408		76,408	8	(40,667)	35,741		35,741
Taxes other than income taxes	77,453	12	77,465	3	(5,977)	71,488		71,488
Gains from Disposition of Utility Plant	(25,583)		(25,583)			(25,583)		(25,583)
Total Operating Expense	687,112	(209)	686,903		(36,891)	650,012		650,012
Operating income before income taxes	60,802	2,099	62,901		(13,815)	49,086	(1)	49,085
New York State income tax	1,363	(14)	1,349	4	446	1,795	(0)	1,795
Federal income tax	7,380	(855)	6,525	5	(3,894)	2,632	(0)	2,631
Utility operating Income	\$52,059	\$2,968	\$55,027		(\$10,367)	\$44,659	(\$1)	\$44,659
Rate Base	\$1,339,436	(\$21,568)	\$1,317,868	6	(\$697,603)	\$620,265		\$620,265
Rate of Return	3.89%		4.18%			7.20%		7.20%

Consolidated Edison Company of New York, Inc.
Steam Service
Operation & Maintenance Expense
For the Twelve Months Ending September 30, 2007
(000's)

	Original Filing Per company <u>Exh AP-7&11</u>	Company Update <u>02/07/06</u>	Updated Company	Sch. 8 Ref	Staff Adjustment	As Adjusted By Staff
A&G Expense Capitalized	(\$697)		(\$697)			(\$697)
Asbestos removal and abatement	920		920	2c	(358)	562
Betterment program	248		248			248
Boiler cleaning	1,428		1,428			1,428
Building service	821		821			821
Collection agency	2		2			2
Communication - telephone	814		814			814
Company labor	57,942		57,942			57,942
Consultants	619		619			619
Contract labor	141		141			141
Disposal of obsolete M&S	75		75			75
East River Repowering Project (ERRP)	7,902		7,902			7,902
EDP equipment rentals and maintenance	332		332			332
Electricity and gas used	9,559	253	9,812	2b	474	10,286
Employee pensions/OPEB's - net	6,403	(1,282)	5,121			5,121
Employee welfare expense - net	6,355	(82)	6,273			6,273
Environment, Health and Safety	1,415		1,415			1,415
Environmental programs	762		762			762
Financial services	471		471			471
Information resources	721		721			721
Injuries and damages	2,752	(32)	2,720			2,720
Institutional dues and subscriptions	51		51			51
Insurance premiums	2,932		2,932			2,932
Interference	4,001	(1,422)	2,579			2,579
Major maintenance projects	1,255		1,255	2d	(565)	690
Manhole program	3,609		3,609			3,609
Manhour expense	2,497		2,497			2,497
Materials and supplies	1,134		1,134			1,134
MGP/Superfund	1,900	642	2,542	2j	(1,542)	1,000
Other - fossil	5,746		5,746			5,746
Outside legal	61		61			61
Plant component upgrade	270		270	2e	(14)	256
Plant inspection and repair	280		280	2f	(15)	265
Postage	16		16			16
Preventive maintenance	903		903	2g	(47)	856
Real estate expenses	130		130			130
Regulatory commission expenses	2,052		2,052			2,052
Rents	177		177			177
Rents - interdepartmental	10,779		10,779			10,779
Research & development	1,049		1,049			1,049
Routine maintenance	3,920		3,920	2h	(204)	3,716
Scheduled overhauls	1,589		1,589	2i	(83)	1,506
Security	889		889			889
Sewer Charges	488		488			488
Shared services	(502)	(7)	(509)			(509)
Steam leaks	3,216		3,216			3,216
Steam transfer credit	(27)		(27)			(27)
Trenching	6		6			6
Uncollectible reserve	89		89			89
Water	10,430	(484)	9,946	2k	565	10,511
Water chemicals	2,053	(95)	1,958	2l	103	2,061
Deferred interference expenses - 2000 agreement	624		624			624
Deferred interference expenses	144		144			144
Deferred WTC expenses	7,966	1,327	9,293	2m	(5,293)	4,000
Deferred Pension/OPEB expenses	2,827	(268)	2,559			2,559
Deferred Business Development plan expenses	122		122			122
Deferred Production Study expenses	4		4			4
Other	3,415		3,415			3,415
Total O & M Expense	\$175,080	(\$1,450)	\$173,630	Sch1	(\$6,979)	\$166,651

Consolidated Edison Company of New York, Inc.
Steam Service
Taxes other than income taxes
For the Twelve Months Ending September 30, 2007
(000's)

	<u>Original Filing</u> <u>Per company</u> <u>Exh AP-7 sch1</u>	<u>Company</u> <u>Update</u> <u>02/07/06</u>	<u>Updated</u> <u>Company</u>	<u>Sch. 8</u> <u>Ref</u>	<u>Staff</u> <u>Adjustment</u>	<u>As Adjusted</u> <u>By Staff</u>	<u>Effect of</u> <u>Revenue</u> <u>Increase</u>	<u>Per Staff</u> <u>After Increase</u>
Property taxes	\$57,642		\$57,642	4a, 4b	(\$6,603)	\$51,039		\$51,039
Revenue taxes	16,060	\$12	16,072	4c	626	16,698		16,698
Payroll Taxes	3,429		3,429			3,429		3,429
Subsidiary Capital Tax	242		242			242		242
Other	80		80			80		80
Total Taxes Other Than Income Taxes	\$77,453	\$12	\$77,465		(\$5,977)	\$71,488		\$71,488

Consolidated Edison Company of New York, Inc.
Steam Service
New York State Income Tax
For the Twelve Months Ending September 30, 2007
(000's)

	Original Filing Per company AP-11	Company Update 02/07/06	Updated Company	Ref	Staff Adjustments	As filed by Staff	Revenue Increase	Per Staff After Increase
Operating Income before income taxes	\$60,802	\$2,099	\$62,901	Sch. 1	(\$13,815)	\$49,086	(\$1)	\$49,085
<u>Adjustments that increase(decrease) book income</u>								
<u>View Through Items:</u>								
Interest expense	(38,894)	627	(38,267)		19,764	(18,503)		(18,503)
Medicare Rx Legislation Savings	(663)		(663)			(663)		(663)
Dividends on preferred stock	(115)		(115)			(115)		(115)
Manufacturing Deduction		(2,906)	(2,906)			(2,906)		
<u>Normalized Items:</u>								
Book depreciation	76,408		76,408	Sch.8:3a,b	(40,667)	35,741		35,741
Capitalized interest	46		46			46		46
Deferred fuel cost	12,663		12,663			12,663		12,663
Contributions in aid of construction	739		739			739		739
Pension and OPEB Expenses	6,403		6,403			6,403		6,403
Reference Expenses - 2000 Settlement	624		624			624		624
Reference Expenses	144		144			144		144
TC Expenses	7,966	1,327	9,293			9,293		9,293
Pension and OPEB Expenses Previously Deferred	2,827	(268)	2,559			2,559		2,559
Business Development Plan	122		122			122		122
Production Study	4		4			4		4
<u>Product:</u>								
New York State depreciation	(89,950)		(89,950)	sch.8: 5c	31,620	(58,330)		(58,330)
Removal costs	(7,765)		(7,765)			(7,765)		(7,765)
Amortization of capitalized interest	(4,978)		(4,978)			(4,978)		(4,978)
Deferred fuel costs	(9,027)		(9,027)			(9,027)		(9,027)
Loss on MACRS retirements	(1,030)		(1,030)			(1,030)		(1,030)
Pension and OPEB Funding	(7,166)	3,433	(3,733)			(3,733)		(3,733)
NYC Property Taxes - 2000 Settlement	(359)		(359)	sch.8: 1d	(1,218)	(1,577)		(1,577)
NYC Property Taxes	(3,430)		(3,430)	sch.8: 1f	(355)	(3,785)		(3,785)
FD2 Allowance	(2,207)	(1,397)	(3,604)			(3,604)		(3,604)
Medicare Rx Legislation Savings	(515)		(515)			(515)		(515)
Interest on Capital Expenditures	(1,604)		(1,604)	sch.8: 1h	369	(1,235)		(1,235)
East Avenue Properties - Interest	681		681			681		681
East Avenue Properties - Gain	(25,583)		(25,583)			(25,583)		(25,583)
Interest on Reconciliations	(102)		(102)	sch.8: 1q	(40)	(142)		(142)
Total adjustments to book income	<u>(84,761)</u>	<u>816</u>	<u>(83,945)</u>		<u>9,473</u>	<u>(74,472)</u>		<u>(74,472)</u>
taxable Income	<u>(\$23,959)</u>	<u>\$2,915</u>	<u>(\$21,044)</u>		<u>(\$4,342)</u>	<u>(\$25,386)</u>	<u>(\$1)</u>	<u>(\$25,387)</u>
Current NYS Income Tax Payable @ 7.5%	(1,797)	219	(\$1,578)		(326)	(1,904)	(0)	(1,904)
Deferred NYS Income tax	3,382	(232)	3,150		772	3,921		3,921
Subtotal	\$1,585	(\$14)	\$1,571		\$446	\$2,017	(\$0)	\$2,017
Amortization of Previously Deferred Excess SIT	(222)		(222)			(222)		(222)
Total NYS Income Tax expense	<u>\$1,363</u>	<u>(\$14)</u>	<u>\$1,349</u>	Sch. 1	<u>\$446</u>	<u>\$1,795</u>	<u>(\$0)</u>	<u>\$1,795</u>

Consolidated Edison Company of New York, Inc.
Steam Service
Federal Income Tax
For the Twelve Months Ending September 30, 2007
(000's)

	Original Filing Per company AP-11	Company Update 2/7/2006	Updated Company	Ref	Staff Adjustments	As filed by Staff	Revenue Increase	Per Staff After Increase
Operating Income before income taxes	\$60,802	\$2,099	\$62,901	Sch. 1	(\$13,815)	\$49,086	(\$1)	\$49,085
Federal income tax expense, excluding amortization	1,585	(14)	1,571	Sch. 4	446	2,017		2,017
<u>Adjustments that increase(decrease)</u> <u>book income</u>								
<u>Allow Through Items:</u>								
Book depreciation	76,408		76,408	Sch.8: 3a,b	(40,667)	35,741		35,741
Capitalized interest	46		46			46		46
Interest expense	(38,894)	627	(38,267)	workpaper	19,764	(18,503)		(18,503)
Statutory depreciation	(48,898)		(48,898)	sch.8: 5a	22,591	(26,307)		(26,307)
Removal costs	(7,765)		(7,765)			(7,765)		(7,765)
Amortization of capitalized interest	(4,978)		(4,978)			(4,978)		(4,978)
Medicare Rx Legislation Savings	(663)		(663)			(663)		(663)
Dividends on preferred stock	(115)		(115)			(115)		(115)
Manufacturing Deduction		(2,906)	(2,906)			(2,906)		(2,906)
<u>Normalized Items:</u>								
Deferred fuel costs	12,663		12,663			12,663		12,663
Contributions in aid of Construction	739		739			739		739
Pension and OPEB Expense - Rate Year	6,403		6,403			6,403		
Reference expense - 2000	624		624			624		624
Reference Expenses	144		144			144		144
Deferred WTC expense	7,966	1,327	9,293	sch.8: 2m	(5,293)	4,000		4,000
Pension and OPEB Expenses Previously Deferred	2,827	(268)	2,559			2,559		2,559
Business Development Plan	122		122			122		122
Production Study	4		4			4		4
Deferred NYS income tax	3,382	(232)	3,150	Sch. 4	772	3,921		3,921
DR/ACRS/MACRS depreciation	(11,950)		(11,950)	sch.8: 5b	9,324	(2,626)		(2,626)
Loss on ACRS/MACRS retirements	(1,030)		(1,030)			(1,030)		(1,030)
Deferred fuel costs	(9,027)		(9,027)			(9,027)		(9,027)
Pension and OPEB Funding	(7,166)	3,433	(3,733)			(3,733)		(3,733)
NYC Property Taxes - 2000 Settlement	(359)		(359)	sch.8: 1d	(1,218)	(1,577)		(1,577)
NYC Property Taxes	(3,430)		(3,430)	sch.8: 1f	(355)	(3,785)		(3,785)
CO2 Allowance	(2,207)	(1,397)	(3,604)			(3,604)		(3,604)
Medicare Rx Legislation Savings	(515)		(515)			(515)		(515)
Interest on Capital Expenditures	(1,604)		(1,604)	sch.8: 1h	369	(1,235)		(1,235)
First Avenue Properties - Interest	681		681			681		681
First Avenue Properties - Gain	(25,583)		(25,583)			(25,583)		(25,583)
Interest on reconciliation balances	(102)		(102)	sch.8: 1g	(40)	(142)		(142)
Total adjustments to book income	(\$52,277)	\$584	(\$51,693)		\$5,247	(\$46,447)		(\$46,447)
Federal taxable income	\$6,940	\$2,696	\$9,636		(\$9,014)	\$622	(\$1)	\$621
Current Federal income tax expense (35%)	\$2,429	\$944	\$3,373		(\$3,155)	\$218	(\$0)	\$217
Deferred Federal income tax expense	9,596	(1,002)	8,594		(1,246)	7,349		7,349
<u>Amortization of previously deferred FIT</u>								
Depreciation - ADR/ACRS/MACRS								
Advanced refunding - long-term debt								
Capitalized overheads								
Depreciation/Loss on Retirement/Capitalized Overhead	(4,386)	(797)	(5,183)		507	(4,676)		(4,676)
Deferred Excess State Income Tax	78		78			78		78
T Refund - Investment tax credit	(74)		(74)			(74)		(74)
Investment tax credit	(263)		(263)			(263)		(263)
Total Federal income tax expense	\$7,380	(\$855)	\$6,525	sch. 1	(\$3,894)	\$2,632	(\$0)	\$2,631

Consolidated Edison Company of New York, Inc.
Steam Service
Rate Base
For the Twelve Months Ending September 30, 2007
(000's)

	Original Filing Per company <u>AP-10</u>	Company Update <u>02/07/06</u>	Updated Company	Ref	Staff Adjustments	As Adjusted Staff
Utility Plant						
Average Book Cost of Plant	\$1,736,330		\$1,736,330	Sch. 8: 6a,b	(\$800,749)	\$935,581
Average Accumulated Depreciation	(304,091)		(304,091)	Sch. 8: 6c-e	64,318	(239,773)
Net Utility Property	<u>\$1,432,239</u>		<u>\$1,432,239</u>		<u>(\$736,431)</u>	<u>\$695,808</u>
Non Interest Bearing CWIP	14,771		14,771			14,771
Preferred stock expense	313		313			313
Unamortized debt discount, premium, expense	17,306	(146)	17,160			17,160
Deferred fuel - net of Federal income tax	12,664		12,664			12,664
Customer advances for construction	(2,511)		(2,511)			(2,511)
MTA surtax - net of FIT	459	(403)	56			56
Cash Working capital	28,828		28,828	Sch. 7	(908)	27,920
Materials & supplies	18,501		18,501			18,501
Prepayments	95,216	(3,305)	91,911	Sch. 7	(77,720)	14,191
Excess rate base over capitalization	(10,790)	(21,340)	(32,130)			(32,130)
Rate case amortizations - 03-S-1672	5,420		5,420			5,420
Accrued OPEB Liability	(4,576)	(1,027)	(5,603)	Sch.8: 6h	5,603	
Rate case reconciliations - net of FIT						
NYC Property Taxes - 2000 Settlement	(539)		(539)	Sch.8: 6m	(1,200)	(1,739)
NYC Property Taxes - 2004 Settlement	(5,156)		(5,156)	Sch.8: 6n	(534)	(5,690)
SO2 Allowance Proceeds & Interest	(3,317)	(2,100)	(5,417)			(5,417)
Medicare Rx Legislation Savings	(774)		(774)			(774)
Interest on Capital Expenditures	(2,411)		(2,411)	Sch.8: 6p	555	(1,856)
Interest on Reconciliation Balances	(153)		(153)	Sch.8: 6o	(60)	(213)
Interest on Sales of 1st Ave Properties	(1,023)	2,046	1,023			1,023
Gains from Sale of 1st Ave Properties	(38,455)		(38,455)			(38,455)
Interference Expense	216		216			216
Interference Exp - 2000 Settlement	938		938			938
WTC Costs	11,974	1,995	13,969	Sch.8: 6q	1,591	15,560
Pension/OPEB Expenses	4,249	(402)	3,847			3,847
Business Development Plan Expenses	183		183			183
Production Study Expenses	6		6			6
Accumulated deferred FIT						
ADR/ACRS/MACRS deductions	(165,236)	399	(164,837)	Sch.8: 6i	68,609	(96,228)
Additional Pension Deduction	(16,600)	(1,096)	(17,696)	Sch.8: 6l	17,696	
Excess Deferred SIT (2000/2001)	(361)		(361)			(361)
Vested vacation	739		739			739
Unbilled revenues	9,334		9,334			9,334
Contributions in aid of construction	765		765			765
Capitalized overheads	7,998		7,998			7,998
Advanced refunding of mortgage bonds	(13)		(13)			(13)
Change of accounting - section 263A	(41,691)		(41,691)	Sch.8: 6j	16,194	(25,497)
Call premium	(588)		(588)			(588)
Deferred NYSIT	(28,489)	3,811	(24,678)	Sch.8: 6k	9,002	(15,676)
Deferred FIT on Deferred NYSIT						
Total Rate Base	<u>\$1,339,436</u>	<u>(\$21,568)</u>	<u>\$1,317,868</u>	Sch. 1	<u>(\$697,603)</u>	<u>\$620,265</u>

Consolidated Edison Company of New York, Inc.
Steam Service
Working Capital Allowance
For the Twelve Months Ending September 30, 2007
(000's)

	Original Filing Per company <u>Exh. AP-10</u>	Company Update <u>02/07/06</u>	Updated Company	Ref	Staff Adjustments	As filed by Staff
Cash Working Capital						
Operations & Maintenance Expense	\$558,834	(\$221)	\$558,613	Sch. 2	(\$6,979)	\$551,634
Less:						
Purchased power expense	95,155		95,155			95,155
Gas portion of fuel	120,317		120,317			120,317
Recoverable fuel costs	251,348		251,348	Sch. 8: 2a	16,732	268,080
Interdepartmental rents	10,779		10,779			10,779
Uncollectibles	89		89			89
Rate Case amortizations	11,687	1,059	12,746	Sch. 8: 2m	(5,293)	7,453
Pensions	6,403	(1,282)	5,121			5,121
	<u>\$495,778</u>	<u>(\$223)</u>	<u>\$495,555</u>		<u>\$11,439</u>	<u>\$506,994</u>
Net	<u>\$63,056</u>	<u>\$2</u>	<u>\$63,058</u>		<u>(\$18,418)</u>	<u>\$44,640</u>
Cash Working Capital @ 1/8	\$7,882		\$7,882		(\$2,302)	\$5,580
Recoverable fuel @ 1/12	20,946		20,946		1,394	22,340
Total cash working capital	<u>\$28,828</u>		<u>\$28,828</u>	Sch. 6	<u>(\$908)</u>	<u>\$27,920</u>
Materials & Supplies						
Average Balance of Liquid Fuel	\$8,164		\$8,164			\$8,164
Materials & Supplies excluding Liquid Fuel	10,337		10,337			10,337
Total Materials & Supplies	<u>\$18,501</u>		<u>\$18,501</u>			<u>\$18,501</u>
Prepayments						
Insurance	\$1,466		\$1,466			\$1,466
Property Taxes	12,147		12,147			12,147
PSC Assessment	287	214	501			501
Pension	81,239	(3,519)	77,720	Sch. 8: 6d	(77,720)	
Other	77		77			77
Total Prepayments	<u>\$95,216</u>	<u>(\$3,305)</u>	<u>\$91,911</u>	Sch. 6	<u>(77,720)</u>	<u>14,191</u>

Consolidated Edison Company of New York, Inc.
Steam Service
Explanation of Adjustments
For the Twelve Months Ending September 30, 2007
(000's)

<u>Adj.</u> <u>No.</u>	<u>Explanation</u>	<u>Amount</u>
<u>Operating revenues - Schedule 1</u>		
1a	To reflect Staff's sales forecast (Padula)	\$25,875
1b	To eliminate interdepartmental rents - East River Repowering Project (AP Panel)	(\$78,529)
1c	To reflect revenues from Cablevision Lease (AP Panel)	114
1d	To increase amortization of deferred property taxes - 2000 agreement (AP Panel)	1,218
1e	To increase late payment charge on staff adjusted steam sales revenue (AP Panel)	590
1f	To increase amortization of deferred property taxes - 2004 agreement (AP Panel)	355
1g	To increase amortization of interest accrued on balances of reconciled items (AP Panel)	40
1h	To decrease interest on capital expenditures (AP Panel)	(369)
	Total adjustment to other operating revenues	<u>(76,581)</u>
	Total Adjustments to Revenues	<u>(\$50,706)</u>
<u>Fuel expense - Schedule 1</u>		
2a	To reflect fuel cost associated with sales forecast (Padula)	<u>\$16,732</u>
<u>Operation and maintenance expense - Schedule 2</u>		
2b	To reflect electricity usage in connection with sales forecast (Padula)	\$474
2c	Staff adjustment to Asbestos removal and abatement expenses (Roberts)	(\$358)
2d	Staff adjustment to major maintenance projects (Roberts)	(565)
2e	Staff adjustment to plant component upgrade (Roberts)	(14)
2f	Staff adjustment to plant inspection and repair (Roberts)	(15)
2g	Staff adjustment to preventive maintenance (Roberts)	(47)
2h	Staff adjustment to routine maintenance (Roberts)	(204)
2i	Staff adjustment to scheduled overhaul (Roberts)	(83)
	Total adjustment to maintenance expenses	<u>(1,286)</u>
2j	To reflect Staff's estimate of MGP/Superfund level (AP Panel)	(1,542)
2k	To increase water expenses related to staff increase to sales revenue (Padula)	\$565
2l	To increase water chemical expenses related to staff increase to sales revenue (Padula)	103
	Total adjustment to water and chemicals expense	668
2m	To reflect Staff estimate of deferred WTC expenses (AP Panel)	<u>(5,293)</u>
	Total adjustments to operation and maintenance expense	<u>(\$6,979)</u>
<u>Depreciation expense - Schedule 1</u>		
3a	To remove depreciation of East River Repowering Project (AP Panel)	(\$32,562)
3b	To reflect staff adjustment to amortization of reserve deficiency (Rieder)	(4,332)
3c	To reflect staff adjustment to proposed depreciation expenses (Rieder)	(3,773)
	Total adjustments to depreciation expense	<u>(\$40,667)</u>

Consolidated Edison Company of New York, Inc.
Steam Service
Explanation of Adjustments
For the Twelve Months Ending September 30, 2007
(000's)

<u>Adj.</u> <u>No.</u>	<u>Explanation</u>	<u>Amount</u>
<u>Taxes other than income taxes - Schedule 3</u>		
4a	To remove property taxes related to East River Repowering Project (AP Panel)	(\$4,963)
4b	To reflect Staff's level of property taxes (AP Panel)	(1,640)
	Subtotal - adjustments to property taxes	(\$6,603)
4c	To reflect revenue taxes related to Staff adjustments (Tracking Adjustment)	626
	Total adjustments to taxes other than income taxes	(\$5,977)
<u>State and Federal income tax - Schedule 5</u>		
5a	To reduce flow through federal tax depreciation on ERRP plant (AP Panel)	\$22,591
5b	To reduce deferred federal tax depreciation on ERRP plant (AP Panel)	9,324
5c	To reduce State tax depreciation on ERRP plant (AP Panel)	31,620
<u>Rate Base - Schedule 6</u>		
6a	To remove book cost of plant for East River Repowering Project (AP Panel)	(\$791,958)
6b	To reflect staff adjustment to production plant addition (Rieder)	(8,791)
	Total adjustments to book cost of plant	(\$800,749)
6c	To remove accumulated depreciation for East River Repowering Project (AP Panel)	\$60,265
6d	To reflect staff adjusted reserve deficiency (Rieder)	2,166
6e	To reflect accumulated depreciation related to staff reduction to production plant (Rieder)	1,887
	Total adjustment to accumulated depreciation	64,318
6f	To adjust cash working capital for operating expense adjustments - computed	(\$908)
6g	To adjust prepaid pension&OPEBs (AP Panel)	(77,720)
	Total Adjustment to working capitals	(78,628)
6h	To eliminate accrued OPEB liability (AP Panel)	5,603
6i	To eliminate accumulated Deferred FIT on ERRP (AP Panel)	68,609
6j	To eliminate ERRP accumulated deferred FIT related to 263A (AP Panel)	16,194
6k	To eliminate ERRP accumulated deferred SIT (AP Panel)	9,002
6l	To eliminate additional pension deduction (AP Panel)	17,696
6m	To adjust deferred property taxes net of FIT & SIT - 2000 agreement (AP Panel)	(\$1,200)
6n	To adjust deferred property taxes net of FIT & SIT - 2004 agreement (AP Panel)	(534)
	Total adjustment to deferred property taxes	(1,734)
6o	To adjust deferred interest on reconciliation balances AP Panel)	(60)
6p	To adjust deferred interest on capital expenditures (AP Panel)	555
6q	To reflect staff adjustment to deferred WTC Expenses (AP Panel)	1,591
	Total Adjustments to Rate Base	(\$697,603)



"Kane, Richard A" <KaneR@coned.com>

To "John Scherer \ (E-mail)" <John_Scherer@dps.state.ny.us>

02/03/2006 11:51 AM

cc

bcc

Subject FW:

This document IS flagged as a record

John,

Attached are the MGP workpapers. We will look at the allocation, we will most likely need to split the electric, gas & steam balances.

Rich

> -----Original Message-----

> From: Prager, Stephen

> Sent: Friday, February 03, 2006 11:16 AM

> To: Kane, Richard A

> Subject:

>

>

> > <<MGP Exhibit for update stage.xls>> > > <<MGP Exhibit.xls>>

>

> Stephen Prager

> Senior Accountant

> Regulatory Filings

>



MGP Exhibit for update stage.xls MGP Exhibit.xls



"Rasmussen, Edward J." <RASMUSSENE@coned.com>

01/25/2006 03:26 PM

To "Charles M. Dickson \ (E-mail)" <cmd@dps.sta
cc "John_Scherer \ (E-mail)" <john_scherer@dps.
"Edward Rasmussen" <RASMUSSENE@cone
bcc

Subject Tax Issue

This document IS flagged as a record

History:

✉ This message has been replied to.

> During our year-end closing process, we discovered an error in the way some of our deferred tax balances were being amortized. This relates to older deferred taxes that were created under the Asset Depreciation Range (ADR) System for assets first placed in service after 1970 and before 1981. In the year 2000 we installed a new computer application to, among other things, determine our deferred tax amortizations. The initial application was not properly programmed and therefore was not recording the amortization of the ADR deferred tax benefit properly. As a result, the cumulative out-of-period adjustment dating back to 2000 amounts to approximately \$48 million of tax benefit.

>

> For financial reporting purposes, we must reflect the proper balance of deferred taxes by effectively reducing the PSC Account 282 balance by \$48 million. We are requesting your approval to also record a regulatory liability of \$81 million (PSC Account 254) and a related deferred tax asset of \$33 million for the "gross-up" factor (PSC Account 190), with no impact on our income statement.

>

> Within the next several weeks we will file a petition with the Commission with our recommended treatment of the regulatory liability. The regulatory liability will remain on our financial records until the Commission determines the proper treatment.

>

> Currently, we are only requesting for your concurrence with our year-end accounting treatment that will properly state our deferred tax balance and preserve the credit in a manner to be determined by the Commission.

>

> Thank you for your consideration, and if you have any questions, please call (212 460-4202).

Summary of Property Tax Rate Changes, June 2002 - July 2005

<u>Tax Rate Effective On</u>	<u>Property Tax Rate (%)</u>	
	<u>Class 3</u>	<u>Class 4</u>
June 30, 2002	12.565	11.580
July 1, 2003	12.418	11.431
Percent Change:	-1.17%	-1.29%
<hr/>		
July 1, 2004	12.553	11.558
Percent Change:	1.09%	1.11%
<hr/>		
July 1, 2005	12.309	11.306
Percent Change:	-1.94%	-2.18%
<hr/>		
Average Change Over Last Three Years:	-0.68%	-0.79%

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

Frederick W. Barney
Econometrician 1
Office of Regulatory
Economics
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

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Frederick W. Barney
Econometrician 1
Office of Regulatory
Economics
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name, employer, and business
2 address.

3 A. My name is Frederick William Barney. I am employed
4 by the New York State Department of Public Service
5 (Department). My business address is Three Empire
6 Plaza, Albany, New York 12223-1350.

7 Q. Mr. Barney, what is your position in the department?

8 A. I am employed as an Econometrician I in the Office
9 of Regulatory Economics.

10 Q. Please describe your educational background and
11 professional experience.

12 A. I received a Bachelor of Science degree in Economics
13 from the College of Education of Wayne State
14 University in Detroit, Michigan in 1967. I earned a
15 Master of Science degree in Economics from Wayne
16 State in 1971. I also earned a Masters of Science
17 degree in Statistics from Virginia Tech in
18 Blacksburg in 1983. I have completed 30 semester
19 hours in Ph.D level statistics at the University of
20 Michigan in Ann Arbor.

21 Before I joined the Department in 1992 I held

1 various jobs teaching economics and statistics. I
2 was also economics department head at Walsh College
3 in Michigan.

4 Q. Please briefly describe your current
5 responsibilities with the Department.

6 A. My responsibilities include forecasting sales for
7 electric rate cases, survey sampling, and
8 statistical evaluation of retail and wholesale
9 service quality.

10 Q. Have you previously testified before the New York
11 Public Service Commission (Commission)?

12 A. Yes. I have testified before the Commission on sales
13 forecasting issues.

14 Q. What is the purpose of your testimony?

15 A. To provide an adjustment to Consolidated Edison
16 Company of New York, Inc.'s (Con Edison) forecast of
17 steam sales.

18 Q. What is the nature of your proposed adjustment?

19 A. I recommend that the Commission reject Con Edison's
20 proposed negative adjustment to its steam sales
21 forecast of 332 MMLbs for SC2, which is shown on

1 Exhibit__ (FCY-1) at line 12.

2 Q. Please summarize your testimony.

3 A. The company chose a forecasting procedure that takes
4 the immediate past as given and makes adjustments
5 for individual factors thought to prevail in the
6 rate year but not in the test year.

7 Q. Which factors does the company indicate are the
8 basis for its negative adjustment of 332 MMLbs in
9 making its SC2 sales forecast?

10 A. The company indicates that the level of test year
11 steam sales does not reflect any customer response
12 to the most recent and proposed steam sales rate
13 increases, or the change in employment from current
14 levels. The company develops its adjustment of
15 332 MMLbs based upon what it considers to be an
16 "extraordinary level of sales" during the test year.

17 Q. Is it appropriate to make such adjustments to the
18 rate year forecast?

19 A. Generally no. Every year has factors that combine
20 to affect the level and trend of steam sales. Since
21 each year has unique factors that interact, there is

1 no basis for making corrections to the test year for
2 any one of factors peculiar to that year.

3 Q. How would you as an economist prefer to consider
4 such factors?

5 A. In any market there are factors that systematically
6 affect sales and random factors that crop up at
7 various times to produce disturbances in the trend
8 of sales. This latter group of factors net-out to
9 what economists refer to as the error term in their
10 econometric models.

11 Q. Is it ever reasonable to remove the effects of one
12 year's conditions on future sales projections?

13 A. In some cases yes. The World Trade Center incident
14 is a clear example where a single event changed
15 future steam sales. But this example, which did not
16 occur in the test year, does not have a test year
17 counterpart. In general, markets evolve over time
18 based on many factors, some of which are in the
19 forecasting model and others which are not.

20 Q. How did the company make its adjustment?

21 A. When reaching the adjustment referred to as

- 1 "extraordinary" sales, Con Edison attributed these
2 additional sales, in part, to a delay in the
3 reaction to increased prices. Con Edison removed
4 the estimated additional effect using an equation
5 relating weather to steam sales. The company used
6 the estimated relationship to identify the effect
7 that the company removed from the forecast.
- 8 Q. What is your view of the company's contention that
9 an adjustment in SC2 is warranted as a result of
10 trying to capture the effect of a delayed reaction
11 to rising prices?
- 12 A. There has been a general trend over the past few
13 years of increasing steam and fuel prices. If the
14 cost to customers has been rising then, given this
15 trend, it is reasonable to conclude that customers
16 will continue to expect their costs to increase.
- 17 Q. Is there another reason why Con Edison's explanation
18 for its adjustment of 332 MMLbs is not convincing?
- 19 A. Yes. Company witness Yaegel's testimony refers to a
20 growth rate with respect to the sales forecast that
21 was used to set current rates. If this forecast was

1 correct it follows that the 2005 sales were
2 correctly modeled or compensating errors resulted in
3 a sound forecast. In either case, the assertion of
4 extraordinary sales lacks support. Also, the
5 proposed negative adjustment to the sales forecast
6 is conceptually unsound in that it assumes that one
7 of the many factors that interact to affect steam
8 sales can be readily identified by use of an
9 equation that only has a weather variable (heating
10 degree days).

11 Q. Why is this method problematic?

12 A. Pages 16-19 of the company's backup work papers
13 indicate that the company's negative adjustment of
14 332 MMBtu to SC2 appears to be related to usage per
15 degree day, not usage per customer as indicated in
16 company witness Yaegel's testimony. Copies of these
17 company work papers are attached as Exhibit__ (FWB-
18 1). Since employment has been increasing, usage per
19 degree day should rise.

20 Q. What is the result of rejecting the company's
21 adjustment on the forecast sales for SC2?

1 A. The company's forecast of normalized sales for SC2
2 is 17,624 MMLbs. The forecast becomes 17,957 MMLbs
3 with the removal of the disputed adjustment.

4 Q. You accept the company's forecast for SC1 and SC3?

5 A. Yes, subject to the sales adjustment discussed by
6 Staff witness Padula.

7 Q. Does this conclude your testimony at this time?

8 A. Yes.

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PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Exhibit of:

Frederick W. Barney
Econometrician 1
Office of Regulatory
Economics
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Backup (line 12)

Average Usage Adjustment

<u>Winter</u>	<u>Mlb/Hdd</u>	<u>Base Load Mlb/Day</u>
2004/2005	2.58	18.1 Backup Page 17
4 yr average (winter 1/2 - 4/5)	2.39	19.2 Backup Page 18
Delta	-0.19	1.10

<u>Month</u>	<u>Billing Days</u>	<u>Normal Hdd</u>	<u>Mlb/Hdd</u>	<u>Base Load Mlb/Day</u>	<u>Delta</u>
November	29.64	200.9	(38)	33	(6)
December	32.07	478.9	(91)	35	(56)
January	32.00	739.4	(140)	35	(105)
February	29.00	659.9	(125)	32	(93)
March	30.86	492.8	(94)	34	(60)
April	29.64	<u>235.8</u>	<u>(45)</u>	<u>33</u>	<u>(12)</u>
		2807.7	(533)	202	(332)

Line 12

Backup (line 12)
Steam 2004/2005 Winter Regression Analysis

SUMMARY OUTPUT SC2: Nov - Apr

<i>Regression Statistics</i>	
Multiple R	0.9942
R Square	0.9884
Adjusted R Square	0.9855
Standard Error	2.3187
Observations	6

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	18.0874	2.2885	7.9037	0.0014	11.7335	24.4412	11.73354834	24.44121163
SC2 Slope	2.5847	0.1398	18.4844	0.0001	2.1965	2.9730	2.196499232	2.972979965

RESIDUAL OUTPUT

<i>Observation</i>	<i>redicted SC</i>	<i>Residuals</i>	<i>Standard Residuals</i>
Nov-04	34.6297	-1.0297	-0.4965
Dec-04	50.1382	-3.2382	-1.5614
Jan-05	72.1084	0.3916	0.1888
Feb-05	77.0194	0.6806	0.3282
Mar-05	70.5576	0.1424	0.0687
Apr-05	35.1467	3.0533	1.4723

Data Input

	<u>Sales (MMlbs)</u>	<u>Billing Days</u>	Actual
	SC2	HDD	
Nov-04	996	29.64	190.1
Dec-04	1,504	32.07	397.1
Jan-05	2,319	32.00	668.4
Feb-05	2,253	29.00	660.1
Mar-05	2,182	30.86	626.2
Apr-05	1,133	29.64	196.5

Regression data: (X - Range hdd/day) (Y-Range Sales/Bill Days)

	<u>Sales/Billing Days</u>	<u>HDD/Day</u>
	SC2	
Nov-04	33.6	6.4
Dec-04	46.9	12.4
Jan-05	72.5	20.9
Feb-05	77.7	22.8
Mar-05	70.7	20.3
Apr-05	38.2	6.6

Backup (line 12)

Data Input Backup Page 19

Service Class 2

	<u>Sales (Mlbs)</u>	<u>Billing Days</u>	<u>HDD</u>
	<u>SC2</u>		
Nov-01	975,644	31.14	138.7
Dec-01	1,066,447	30.93	233.2
Jan-02	1,992,080	32.07	601.4
Feb-02	1,546,052	28.43	429.9
Mar-02	1,467,476	30.14	390.9
Apr-02	1,191,667	30.64	226.0
Nov-02	1,074,410	28.36	242.0
Dec-02	1,963,333	32.57	590.2
Jan-03	2,324,117	32.57	767.6
Feb-03	2,477,493	28.29	800.5
Mar-03	2,028,143	30.50	599.3
Apr-03	1,235,160	30.36	289.4
Nov-03	986060	28.79	159.6
Dec-03	1726257	32.43	497.3
Jan-04	2451202	32.43	802
Feb-04	2628604	29.64	842.4
Mar-04	1727284	31.29	465.6
Apr-04	1271874	30.43	272.6
Nov-04	996,114	29.64	190.1
Dec-04	1,503,852	32.07	397.1
Jan-05	2,318,718	32.00	668.4
Feb-05	2,253,086	29.00	660.1
Mar-05	2,182,161	30.86	626.2
Apr-05	1,133,010	29.64	196.5

Regression data: (X - Range hdd/day) (Y-Range Sales/Billing Days)

Sales/Billing Days

	<u>SC2</u>	<u>HDD/Day</u>
Nov-01	31.3	4.5
Dec-01	34.5	7.5
Jan-02	62.1	18.8
Feb-02	54.4	15.1
Mar-02	48.7	13.0
Apr-02	38.9	7.4
Nov-02	37.9	8.5
Dec-02	60.3	18.1
Jan-03	71.4	23.6
Feb-03	87.6	28.3
Mar-03	66.5	19.6
Apr-03	40.7	9.5
Nov-03	34.3	5.5
Dec-03	53.2	15.3
Jan-04	75.6	24.7
Feb-04	88.7	28.4
Mar-04	55.2	14.9
Apr-04	41.8	9.0
Nov-04	33.6	6.4
Dec-04	46.9	12.4
Jan-05	72.5	20.9
Feb-05	77.7	22.8
Mar-05	70.7	20.3
Apr-05	38.2	6.6

HDD/Day =HDD/Billing Days

Sales/Day/Bill Formula =Sales/Billing Days

Backup (line 12)

Steam Winter Regression Analysis

SUMMARY OUTPUT SC2 - 4year average

<i>Regression Statistics</i>	
Multiple R	0.9918
R Square	0.9837
Adjusted R Sq	0.9830
Standard Error	2.3348
Observations	24.0000

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	19.2165	1.0943	17.5605	0.0000	16.9471	21.4859	16.9471	21.4859
SC 2 Slope	2.3852	0.0655	36.4323	0.0000	2.2495	2.5210	2.2495	2.5210

RESIDUAL OUTPUT

<i>Observation</i>	<i>Predicted SC2</i>	<i>Residuals</i>	<i>andard Residuals</i>
Nov-01	29.9501	1.3808	0.6047
Dec-01	37.1059	-2.6265	-1.1502
Jan-02	64.0592	-1.9426	-0.8507
Feb-02	55.2337	-0.8527	-0.3734
Mar-02	50.2247	-1.5360	-0.6727
Apr-02	36.8673	2.0252	0.8869
Nov-02	39.4911	-1.6064	-0.7035
Dec-02	62.3895	-2.1091	-0.9236
Jan-03	75.5083	-4.1507	-1.8177
Feb-03	86.7190	0.8559	0.3748
Mar-03	65.9673	0.5292	0.2317
Apr-03	41.8763	-1.1885	-0.5205
Nov-03	32.3354	1.9147	0.8385
Dec-03	55.7108	-2.4806	-1.0863
Jan-04	78.1321	-2.5477	-1.1157
Feb-04	86.9575	1.7268	0.7562
Mar-04	54.7567	0.4457	0.1952
Apr-04	40.6837	1.1130	0.4874
Nov-04	34.4821	-0.8750	-0.3832
Dec-04	48.7936	-1.9008	-0.8324
Jan-05	69.0682	3.3917	1.4853
Feb-05	73.6001	4.0925	1.7922
Mar-05	67.6370	3.0746	1.3464
Apr-05	34.9591	3.2666	1.4305

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

Jeffrey S. Hogan
Principal Utility Financial
Analyst
Office of Accounting and
Finance
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

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STATE OF NEW YORK
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FEBRUARY 2006

Prepared Testimony of:

Jeffrey S. Hogan
Principal Utility Financial
Analyst
Office of Accounting and
Finance
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name, employer, and business
2 address.

3 A. Jeffrey S. Hogan. I am employed by the New York
4 State Department of Public Service (Department). My
5 business address is Three Empire State Plaza,
6 Albany, New York 12223.

7 Q. What is your position at the Department?

8 A. I am employed as a Principal Utility Financial
9 Analyst in the Office of Accounting and Finance.

10 Q. Please describe your educational background and
11 professional experience.

12 A. I received a Bachelor of Arts Degree in Economics
13 and Political Science from Syracuse University in
14 1991. In 1993 I received a Masters Degree in
15 Business Administration with a concentration in
16 Finance from the State University of New York at
17 Albany. I joined the Department in February 1994
18 and subsequently took additional college courses in
19 Accounting.

20 Q. Please briefly describe your current
21 responsibilities with the Department.

1 A. My areas of responsibility include analyzing rate of
2 return and operation and maintenance (O&M) expense
3 levels. I also work on financing requests from
4 utilities and regulatory review of the formation of
5 utility holding corporations. In addition, I assist
6 in analyzing legislative proposals affecting the
7 utility industry.

8 Q. In what previous rate cases have you analyzed the
9 appropriate capital structure and/or cost of equity
10 for a utility?

11 A. In Case 04-E-0572, Consolidated Edison Company of
12 New York, Inc. (Electric Rates) and Cases 03-G-1671
13 and 03-S-1672, Consolidated Edison Company of New
14 York, Inc. (Gas and Steam Rates), I offered
15 testimony on the appropriate capital structure and
16 cost of capital. In Case 02-W-1564, Sea Cliff Water
17 Company, I testified on the capital structure and
18 cost of capital, as well as on certain O&M expenses.
19 In Case 01-M-0075, Niagara Mohawk/National Grid
20 Merger, I analyzed the capital structure and cost of
21 equity. In Case 94-W-0157, New Rochelle Water

1 Company, I assisted in the development of Staff's
2 recommended capital structure and cost rates. In
3 Case 94-G-0885, National Fuel Gas Distribution
4 Corporation, I analyzed the capital structure and
5 assisted in the calculation of Staff's recommended
6 return on common equity. In Case 95-G-0761,
7 Brooklyn Union Gas, I assisted in the formation of
8 the capital structure as it formed a holding
9 company, as well as assisted in the calculation of
10 Staff's recommended return on equity.

11

12 PURPOSE OF TESTIMONY

13 Q. What is the purpose of your testimony in this
14 proceeding?

15 A. My testimony consists of three main parts. First, I
16 develop the fair rate of return that is used in the
17 determination of the revenue requirement for
18 Consolidated Edison Company of New York, Inc. (Con
19 Edison) for the rate year ending September 30, 2007.
20 Second, I respond to the testimony of company
21 witness Rosenberg. Third, I address the likely

1 impact of my recommendations on Con Edison's ability
2 to access capital at reasonable terms.

3 SUMMARY

4 Q. Please summarize your testimony.

5 A. I recommend a rate of return of 7.20%, as opposed to
6 the company's request of 8.36%. The difference is
7 primarily due to my using a 47.60% equity ratio and
8 an 8.7% return on equity (ROE), as opposed to the
9 company's 48.9% equity ratio and 11.0% ROE. My
10 capital structure adjustment attempts to impute a
11 reasonable level of equity investment to the
12 company's non-utility assets while my ROE
13 recommendation is based upon the basic framework of
14 the Generic Financing Case (GFC). I also explain
15 why my recommended rate of return leaves the company
16 in a strong financial position, thus ensuring access
17 to capital.

18 RATE OF RETURN RECOMMENDATION

19 CAPITAL STRUCTURE

20 Q. What is the after-tax rate of return you recommend
21 be allowed for the rate year?

1 A. I recommend an after-tax rate of return of 7.20%,
2 compared to the company's originally filed 8.36%.
3 My proposed pro forma cost of capital can be seen in
4 Exhibit___ (JSH-1).

5 Q. What is a fair rate of return for a regulated
6 utility?

7 A. A fair rate of return for a regulated utility is one
8 that enables the utility to provide safe and
9 adequate service to its customers while assuring
10 continuous support in the capital markets for the
11 utility's stocks and bonds at reasonable terms.
12 Investors in debt enter into a contractual
13 obligation with the utility and receive a relatively
14 fixed income stream. Common equity investment, on
15 the other hand, is non-contractual. Investors may
16 share in, but are not guaranteed, a portion of the
17 utility's residual earnings. The fair rate of
18 return allows the utility to recover its prudently
19 incurred cost of debt, as well as providing common
20 equity investors the opportunity to earn a return
21 commensurate with the risk of their investment.

1 Q. How is a fair rate of return calculated?

2 A. Generally, a fair rate of return can be calculated
3 through a weighted average of the individual cost
4 components of a company's capital structure. Cost
5 rates on long-term debt are generally fixed on a
6 historical basis and are readily quantified.

7 Additionally, the cost of customer deposits is
8 prescribed by the Commission. The cost of common
9 equity, however, depends upon investor expectations
10 and, therefore, it requires the application of one
11 or more methodologies such as the Discounted Cash
12 Flow (DCF) methodology or the Capital Asset Pricing
13 Model (CAPM) to estimate the return required by
14 equity investors.

15 Q. Please describe how your capital structure and cost
16 rate recommendations differ from those of company
17 witness Fitzmartin.

18 A. The main differences are that I have lowered the
19 common equity ratio to 47.60% (from the company's
20 48.90%) while increasing the long-term debt ratio
21 from 48.12% to 49.42%. In addition, I am using a

1 cost of equity rate of 8.7%, as opposed to the 11.0%
2 rate recommended by company witness Rosenberg, which
3 company witness Fitzmartin reflects in his
4 schedules.

5 Q. What was Con Edison's projected rate year capital
6 structure for its steam operations?

7 A. In Exhibit___(KF-1), Mr. Fitzmartin used a long-term
8 debt ratio of 48.12%, a common equity ratio of
9 48.90%, a preferred stock ratio of 1.46% and a
10 customer deposit ratio of 1.52%.

11 Q. Did Con Edison update the capitalization to reflect
12 its latest financial forecasts?

13 A. No it did not. Mr. Fitzmartin stated on page 11 of
14 his testimony that he would update his testimony and
15 exhibits to reflect any changes to the company's
16 capital budget that the Board of Directors approves
17 in November 2005. No updated testimony was
18 provided. Instead, on February 10, 2006 Staff
19 received a document marked "draft" that appears to
20 be an update of Mr. Fitzmartin's exhibits, but with
21 no supporting testimony or even a statement that the

1 draft document constitutes the update mentioned in
2 his initial testimony or sought in Staff Information
3 Request 43. I cannot discern whether this document
4 represents the final version of Mr. Fitzmartin's
5 updated testimony. Therefore, I do not believe it
6 is appropriate to update my forecast based on this
7 unsupported and apparently unfinished information.

8 Q. How did the company develop this capitalization?

9 A. The rate year capitalization was developed based
10 upon an approach that began with Con Edison's as-
11 reported "stand-alone" capital structure for the
12 test period. This "stand-alone" capitalization was
13 then projected through the end of the rate year
14 based upon the company's assumptions about
15 construction expenditures, refunding needs and
16 internal cash flows. This projection was then used
17 to develop the average capitalization for the rate
18 year.

19 Q. Please describe what you mean by the term "stand-
20 alone" capital structure.

21 A. A utility holding company reports its overall

1 capital structure as part of its consolidated
2 balance sheet in various reports to the Securities
3 and Exchange Commission (SEC) as well as in its
4 Annual and Quarterly Reports to Shareholders. The
5 consolidated balance sheet reflects the financial
6 position of all of the holding company's operations.
7 A holding company with utility subsidiaries also
8 presents individual financial statements for major
9 subsidiaries. The stand-alone capital structure is
10 the capitalization reported for each individual
11 subsidiary.

12 Con Edison is a subsidiary of a holding company
13 parent, Consolidated Edison Inc. (CEI). CEI owns
14 Con Edison and Orange and Rockland Utilities, Inc.
15 (O&R), and has investments in a number of
16 competitive ventures. CEI reports its consolidated
17 financial position in its annual 10-K report and
18 quarterly 10-Q reports to the SEC; it also issues
19 stand-alone financial statements for Con Edison and
20 O&R.

21 Q. Do you agree with the use of the reported stand-

1 alone capital structures for utilities that are
2 subsidiaries of larger holding companies?

3 A. Not necessarily. Stand-alone capital structures for
4 utility subsidiaries of holding companies do not
5 necessarily reflect rational capitalization policies
6 or actual common equity employed and therefore may
7 not produce reasonable results.

8 Q. Explain why the use of a stand-alone capital
9 structure does not necessarily produce a reasonable
10 result?

11 A. The stand-alone common equity balance reported by
12 any utility subsidiary of a holding company may, in
13 fact, not be financed by common equity at the
14 holding company level. Rather, some of the utility
15 equity balance may instead be proceeds from debt
16 issues at the holding company level that were
17 classified on the utility subsidiary's books as
18 common equity at the time they were invested in the
19 utility subsidiary. This is referred to as double
20 leverage.

21 In addition, the use of a stand-alone

1 subsidiary structure may obscure the fact that a
2 holding company parent has financed riskier
3 competitive non-utility operations with less equity
4 and more debt than the utility subsidiaries. It is
5 not possible to address this issue by merely
6 accepting, in isolation, the stand-alone capital
7 structure for the purpose of setting utility rates.

8 Q. Does it appear that CEI has double leveraged Con
9 Edison's common equity?

10 A. No, I do not believe so.

11 Q. Does it appear that CEI has used the strength of its
12 utility operations to fund unregulated non-utility
13 investments with less equity than would be required
14 for the unregulated investments to achieve the same
15 credit rating as the utility?

16 A. Yes, while CEI's non-utility investments face
17 greater business risks than regulated utility
18 investments, CEI's non-utility investments are
19 funded with much less equity than CEI's utility
20 investments. This is not only unreasonable given
21 the relative risks of these operations but also

1 inconsistent with Standard & Poor's (S&P) views of
2 the risks faced by various types of energy
3 utilities.

4 Q. Define the term business risk as you use it in this
5 testimony.

6 A. Business risk is the risk inherent in a company's
7 operation and reflects the risk that the company
8 will fail to achieve its expected financial
9 performance. It is affected by items such as a
10 company's sensitivity to the overall economy and a
11 company's reliance on a large customer or supplier.
12 It is also affected by the industry a company is in.

13 Q. Do non-utility operations typically have more or
14 less business risks than utility operations?

15 A. In general, non-utility activities have greater
16 business risk than utility operations. This is
17 because non-utility investments are unregulated,
18 face competition from other entities, and are not
19 subject to "cost-plus" recovery of their expenses.
20 In addition, the products or services of an
21 unregulated company may have alternatives that

1 customers may switch to should their prices change
2 dramatically.

3 Q. What are the financial profiles of CEI's utility and
4 non-utility subsidiaries?

5 A. Exhibit ___ (JSH-2), Page 1, presents a condensed
6 balance sheet for CEI, Con Edison and O&R based on
7 CEI's 10-Q report for the period ending September
8 30, 2005 and its O&R-specific financials. Column 1
9 presents CEI's consolidated balance sheet results
10 for all of its operations. Column 2 shows balance
11 sheet information for Con Edison. Column 3 shows
12 balance sheet information for O&R. Column 4 is the
13 sum of columns 2 and 3 and thus reflects the
14 combined balance sheet of CEI's two utility
15 subsidiaries. Column 5 is the difference between
16 columns 1 and 4. This column reflects CEI's balance
17 sheet after removing the stand-alone balance sheets
18 of CEI's two utility subsidiaries. Thus, the
19 information in Column 5 reflects the financial
20 profile of CEI's non-utility operations and assets,
21 as reported by CEI.

1 Q. What does this information indicate?

2 A. This information indicates that as of September 30,
3 2005, CEI's unregulated assets are financed with
4 less equity and more debt than CEI's regulated
5 assets. As can be seen at the bottom of Column 5 on
6 Page 1 of Exhibit___ (JSH-2), CEI's accounting equity
7 ratio supporting CEI's non-utility assets is
8 approximately 36% while its accounting equity ratio
9 for utility assets is 51%. By contrast, the utility
10 debt ratio (including long-term debt and customer
11 deposits) is about 46% while the non-utility debt
12 ratio is about 64%.

13 Q. What types of assets does the non-utility capital
14 structure support?

15 A. CEI's September 2005 10-Q states at page 38 that it
16 has three active unregulated subsidiaries: Con
17 Edison Solutions, Inc - a retail energy services
18 company, Consolidated Edison Energy, Inc. - a
19 wholesale supply company, and Consolidated Edison
20 Development, Inc. - owner and operator of generation
21 and infrastructure investments. None of these

1 companies are subject to rate regulation by the
2 Commission and they all operate in competitive
3 markets. The non-utility capitalization also
4 supports all or a portion of the non-earning
5 goodwill booked by CEI as a result of its
6 acquisition of O&R.

7 Q. Is it reasonable to expect utility companies to
8 finance assets devoted to the provision of T&D
9 service with more equity than assets used to finance
10 non-utility investments?

11 A. No it is not. Assets that are exposed to greater
12 business risks generally require higher equity
13 ratios than assets that are exposed to less business
14 risks. In this case, CEI's non-utility operations
15 face the risks of competition while its T&D assets
16 are primarily subject to rate of return regulation.
17 Thus, CEI should be financing its non-utility assets
18 with more equity than its T&D assets.

19 Q. Is there evidence from the financial community that
20 supports this viewpoint?

21 A. Yes. This can be seen in the S&P publication "New

1 Business Profile Scores Assigned for U.S. Utility
2 and Power Companies; Financial Guidelines Revised",
3 included as Exhibit___(JSH-3). This report lists
4 target financial ratios for various utility bond
5 rating levels and "business profile" ratings. This
6 report classifies utilities according to their
7 business profile, with a business profile of 1 being
8 the strongest and a position of 10 being the
9 weakest. A review of the various ratios analyzed by
10 S&P in the report indicates that lower-risk
11 companies (for instance, water operations, gas
12 distribution and electric transmission) at a given
13 bond rating can take on more debt and have less
14 common equity than can higher-risk companies (for
15 instance, merchant power generation, oil and gas
16 explorations and production, and energy trading and
17 marketing) that wish to maintain the same bond
18 rating.

19 Q. Please summarize the results of your analysis thus
20 far.

21 A. I have reviewed the reported capitalization ratios

1 for Con Edison, O&R, CEI and CEI's non-utility
2 operations. My review indicates that Con Edison, as
3 of September 30, 2005, has an equity ratio of 51.2%
4 while CEI's non-utility operations have an equity
5 ratio of 35.8%. Given the higher risks of CEI's
6 non-utility operations, it is unreasonable for them
7 to employ less equity than Con Edison's regulated
8 T&D assets. As a result, it is necessary to adjust
9 Con Edison's, and CEI's non-utility subsidiaries,
10 rate year capitalization to reflect a more
11 appropriate allocation of capital between utility
12 and non-utility operations.

13 Q. How did you allocate capital between utility and
14 non-utility operations?

15 A. I reviewed S&P's debt ratio requirements for an "A"
16 bond rating in its latest financial guidelines
17 (Exhibit___(JSH-3)), based on a business profile
18 consistent with the risks of CEI's non-utility
19 operations (which I estimate to be an "8", since
20 most of the investment is in non-utility power
21 generation). I used this information to develop

- 1 appropriate capitalization ratios for CEI's non-
2 utility operations. This is seen in Column 6 of
3 Exhibit___ (JSH-2), Page 1. I then subtracted the
4 adjusted non-utility capitalization amounts from
5 CEI's consolidated capital structure (Column 1) to
6 arrive at a residual capital structure that reflects
7 an appropriate debt/equity mix for CEI's regulated
8 operations, including Con Edison. This result can
9 be seen in Column 7 of Exhibit___ (JSH-2), Page 1.
- 10 Q. Your calculations are based on balances as of
11 September 30, 2005. Do you expect similar levels
12 throughout the rate year?
- 13 A. No. As seen in Exhibit___ (KF-2), Con Edison is
14 expects to issue approximately \$640 million of
15 additional debt and \$275 million of equity over the
16 course of the rate year to meet capital needs.
17 Also, both Con Edison and O&R are expecting to issue
18 debt and equity in the period between the end of the
19 test year and the start of the rate year. Further,
20 according to Exhibit___ (G-4) Schedule 9 of the rate
21 filing in Case 05-G-1494, O&R is expecting to issue

1 \$50 million of debt prior to November 1, 2006, as
2 well as \$6.3 million of debt on September 1, 2007.
3 Also, a decrease in the debt level of one of O&R's
4 subsidiaries by \$14.2 million is expected.

5 Q. How did you adjust your capital structure to account
6 for this information?

7 A. On Page 2 of Exhibit___ (JSH-2) I have calculated
8 estimated average rate year balances for debt and
9 equity using information available in Mr.
10 Fitzmartin's workpapers and O&R's rate filing in
11 Case 05-G-1494. For Con Edison's equity, I have
12 used the monthly changes expected by the company per
13 Mr. Fitzmartin's workpapers. For O&R, I have
14 assumed a steady increase in equity such that the 12
15 months ending October 31, 2007 averages
16 approximately \$381 million. This is the expected
17 average equity balance per O&R for that period.

18 Once I determined the average rate year
19 balances for each type of capital, I used that in
20 Column 9 of Exhibit___ (JSH-2), Page 1, to determine
21 the capitalization ratios used in Exhibit___ (JSH-1).

- 1 Q. Given your adjustments, what rate year
2 capitalization do you recommend the Commission apply
3 to Con Edison?
- 4 A. I recommend that the Commission employ a long-term
5 debt ratio of 49.42%, a common equity ratio of
6 47.60%, a preferred stock ratio of 1.41% and a
7 customer deposit ratio of 1.57% as the rate year
8 capitalization for Con Edison. This can be seen in
9 Column 9 of Exhibit___ (JSH-2), Page 1.
- 10 Q. Can you substantiate that your recommended
11 capitalization ratios are reasonable for a company
12 with Con Edison's level of business risk?
- 13 A. Yes. S&P's financial guidelines for an A-rated
14 utility, which Con Edison is, with a business
15 profile of "2", which Con Edison has, are for total
16 debt to be in the range of 52% to 58% of total
17 capital. My recommendation is for long-term debt to
18 be 49.42%. Even when short-term debt and off-
19 balance sheet debt is included in the debt ratio
20 (which S&P does), this total debt-to-capital ratio
21 will be less than the 55% recommended as a mid-point

1 for a utility with Con Edison's credit rating and
2 business profile score.

3 Q. Are your recommended capitalization ratios in line
4 with those of other utilities?

5 A. Yes. I am recommending an equity ratio of 47.6% for
6 Con Edison, which has a business profile of "2". As
7 can be seen in Exhibit___(JSH-4), my proxy group
8 companies have an estimated average common equity
9 ratio 50.8%. The proxy group companies have, on
10 average, an S&P business profile of nearly "4".

11 Q. How do S&P's capitalization ratio guidelines differ
12 between a company with a business profile of "2",
13 such as Con Edison, and companies with the proxy
14 group's average business profile of "4"?

15 A. Higher business profile numbers suggest greater
16 risk. Thus, the debt ratios of the proxy group
17 should, on average, be lower than Con Edison's in
18 order to achieve an A-rating. Exhibit___(JSH-3)
19 shows that the required debt ratio range for a
20 utility with an A-rating and a business profile of
21 "2" is 52%-58%. By contrast, S&P's debt ratio range

1 for the average company in the proxy group (A-rating
2 and a business profile of "4") is 45%-52%. The mid-
3 points of the recommended ranges allow a 6.5% higher
4 debt-to-capital ratio for a company with a business
5 profile of "2" than they do for the average company
6 in the proxy group. Con Edison's debt and equity
7 ratios that I recommend are well within this 6.5%
8 range.

9 Q. Is there any other factor supporting your
10 recommended equity ratio as reasonable?

11 A. Yes. The companies in my proxy group derive, on
12 average, over 14% of their revenue from non-utility
13 businesses. Holding companies that have such
14 investments would be expected to have higher levels
15 of common equity relative to investments in just
16 regulated utilities. My capital structure
17 recommendation is for a utility business. Even so,
18 it is in-line with the actual capital structure of
19 many of the proxy group companies that are holding
20 companies that also have riskier non-utility
21 businesses.

1 COST RATES

2 Q. Please explain how the cost rates shown in
3 Exhibit___(JSH-1) were derived.

4 A. There are four cost rates I use in formulating my
5 recommended cost of capital. I am using the same
6 cost rates for long-term debt and preferred stock
7 proposed by Mr. Fitzmartin in Exhibit___(KF-1). The
8 third rate is the cost of customer deposits. For
9 the customer deposit rate, I am recommending the
10 rate of 3.0%, which was approved by the Commission
11 on October 27, 2005 for use beginning January 1,
12 2006. The fourth rate is the rate of return on
13 common equity. The company's proposed cost rate for
14 common equity (11.0%, which includes a stayout
15 premium) is excessive. I have developed a cost of
16 equity of 8.7% for the rate year ending September
17 30, 2007.

18 Q. Regarding the cost of long-term debt, the company's
19 Accounting Panel recommends (pp. 84-85) that the
20 Commission adopt a mechanism to true-up the embedded
21 cost of debt to reflect the actual debt costs

1 incurred during the company's proposed three-year
2 rate plan. Do you support the use of this mechanism
3 for the rate year?

4 A. No. It removes any incentive the company has to get
5 the best possible terms for its debt. Moreover, the
6 Commission has not adopted this type of mechanism in
7 one-year rate cases in the past and I see no reason
8 to adopt such an approach here.

9 Q. Turning to the cost rate for common equity, what
10 methodology did you use to determine your
11 recommended ROE of 8.7%?

12 A. My methodology uses the basic framework recommended
13 by the Administrative Law Judges (ALJs) in the
14 Recommended Decision (RD) issued on July 19, 1994 in
15 the GFC, to estimate the cost of equity for an
16 electric utility proxy group. I then adjusted this
17 result to account for equity issuance expenses.

18 Q. Please describe the GFC.

19 A. The purpose of the GFC was to limit the controversy
20 over how to calculate ROE by developing a
21 methodology that addressed the issues of many

1 parties and achieved a consensus as to a fair way to
2 set the ROE for a utility. The ALJs determined in
3 the GFC RD that a generic ROE should be calculated
4 based on the results of a proxy group DCF model
5 analysis and the average result of two proxy group
6 CAPM analyses (the traditional CAPM and the Zero
7 Beta CAPM). The RD concluded that the generic ROE
8 should be the sum of two-thirds of the DCF result
9 and one-third of the average CAPM result.

10 Q. Please explain how you applied the GFC methodology
11 to Con Edison.

12 A. I used the versions of the CAPM and DCF models
13 contained in the RD, applied them to a proxy group
14 and gave them the same weighting assigned in the RD.
15 While the specific DCF inputs I employ are generally
16 consistent with the RD, my CAPM inputs vary from
17 those reflected in the RD due to changes in market
18 conditions and publicly available information. I
19 discuss these changes in detail later in this
20 testimony.

21 Q. What were the results of your analysis?

1 A. My DCF and CAPM analyses, applied to a proxy group
2 of electric and gas utility holding companies using
3 financial information for the six months ended
4 January 31, 2006, results in an 8.59% cost of equity
5 (see Pages 1-3 of Exhibit___(JSH-5)). This result
6 is for a proxy group of companies that face risks
7 from utility and non-utility investments.

8 Q. Is there precedent for relying on the GFC when
9 determining a utility's cost of equity?

10 A. Yes, the GFC case methodology of weighting a DCF
11 result as two-thirds and a CAPM result as one-third
12 of the total equity cost has been approved by the
13 Commission in multiple cases.

14 For example, in Case 95-G-1034, Central Hudson
15 Gas & Electric Corporation, the Commission set the
16 cost of equity based on a two-thirds DCF, one-third
17 CAPM methodology, specifically rejecting any use of
18 a risk premium analysis or a comparable earnings
19 approach.

20 In Cases 02-E-0198 and 02-G-0199, Rochester Gas
21 and Electric Corporation, the Commission again set

1 the cost of equity based on a two-thirds DCF, one-
2 third CAPM methodology.

3 USE OF PROXY GROUP

4 Q. Why are you using a proxy group to estimate the cost
5 of equity?

6 A. By using a group of proxy companies, the impact of
7 any irregularities in any one company's data is
8 diminished. The Co-Facilitators in the GFC
9 recommended this approach, and such a methodology
10 was applied in Case 95-G-1034 and Cases 02-E-0198
11 and 02-G-0199.

12 Q. What companies are included in your proxy group?

13 A. I have 10 companies, seven of which Mr. Rosenberg
14 used in his proxy group. The list of companies I
15 used, including their parent company credit ratings,
16 S&P business profile, percentage of utility
17 revenues, and their equity ratios, is shown in
18 Exhibit___ (JSH-4).

19 Q. How did you develop your proxy group?

20 A. I began with the dividend paying electric companies
21 included in Value Line and who are covered by AUS

1 Utility Reports. Then, rather than allowing a
2 company into the proxy group based on its regulated
3 subsidiary credit ratings (as Mr. Rosenberg did), I
4 instead focused on the parent companies' senior
5 secured credit ratings. I believe that these are
6 more appropriate to use when deciding on inclusion
7 in the proxy group. Second, I analyzed the
8 circumstances of any potential merger activity to
9 determine if the company involved in the activity
10 should remain in the proxy group. Lastly, the
11 utility had to derive 70% or more of its revenue
12 from utility operations.

13 Q. Why was coverage by AUS Utility Reports relevant?

14 A. I used that information as a starting point for
15 determining the percentage of each company's revenue
16 that is derived from utility operations.

17 Q. Were any of the companies in your proxy group
18 involved in any merger activity during the period
19 when the ROE was calculated?

20 A. Yes, one company was involved in merger activity.

21 FPL Group, Inc. announced on December 19, 2005, that

1 it had agreed to merge with Constellation Energy
2 Group, Inc. Given the potential for such activity
3 to distort the stock's price in the short-term, I
4 have not included the company in my proxy group.

5 Q. Why is the parent company credit rating more
6 appropriate than the subsidiary rating?

7 A. The methods I use for estimating the cost of equity
8 are based upon the stock prices of, dividends paid
9 by, and financial ratios reported by the parent.
10 Equity investors do not purchase ownership of the
11 individual utility subsidiaries; they purchase
12 ownership of the entire holding company, which
13 includes the utility subsidiaries, the holding
14 company parent and any non-utility operations.
15 Equity investors will logically base their return
16 requirements on the risk level of the entire
17 company, rather than its strongest individual
18 components.

19 The price investors are willing to pay for a
20 share of stock is based on expectations concerning
21 the future of the entire company and its associated

1 risks. While an individual utility subsidiary may
2 be judged by rating agencies to be worthy of
3 approximately an "A" rating, higher risks of non-
4 utility operations may make the risk level of the
5 entire enterprise closer to that of a "BBB" rating,
6 several notches lower.

7 Q. How might using only the subsidiary credit ratings
8 affect the estimate of the rate of return required
9 for an A-rated utility company?

10 A. It could overstate the cost of equity for utility
11 operations. If the proxy group focused only on the
12 credit rating of the regulated subsidiaries, a
13 company with an overall credit rating of BBB or
14 lower may wind up in the proxy group. The proxy
15 group would then include the return estimates that
16 investors require of riskier companies (since the
17 cost of equity estimates are based on the entire
18 company). This will usually lead to overall
19 estimates of return requirements that do not reflect
20 the lower risk (and thus lower cost of equity) of
21 the utility business whose cost of equity we are

1 trying to determine.

2 Q. What criteria did you use to select your proxy
3 group?

4 A. Con Edison is currently rated A1 by Moody's and A by
5 S&P. This is a split rating, as Moody's A1 is
6 equivalent to S&P's A+. I retained any company
7 which had a Moody's senior secured bond rating
8 falling in the range of Aa2 to Baa1 and an S&P
9 senior secured bond rating in the range of AA to
10 BBB+. In the one instance where there was no
11 Moody's rating, I relied solely on the S&P rating.
12 If no parent company rating was available, I used
13 the utility subsidiary rating.

14 Q. How did you devise this range of credit ratings?

15 A. I devised the selection criteria to try and achieve
16 two goals: 1) To develop a proxy group with
17 utilities whose risk is similar to that of Con
18 Edison and 2) To maintain a reasonable number of
19 utilities in the proxy group. As can be seen in
20 Exhibit___ (JSH-6), this range allows parent company
21 ratings up to two notches higher than Con Edison's

1 higher senior bond rating and up to two notches
2 lower than Con Edison's lower senior bond rating.
3 Exhibit___ (JSH-6) also shows the frequency of each
4 rating in my proxy group. As can be seen, overall
5 the proxy group has a slightly lower credit rating
6 on average than Con Edison. The proxy group
7 averages between A2 and A3 for Moody's and A and A-
8 for S&P. This is approximately one rating lower
9 than Con Edison's split rating of A1/A. However,
10 tightening the range by a notch on each side would
11 result in one-third of the proxy group companies
12 being discarded, leaving only seven. A balance must
13 be struck between selection criteria designed to
14 achieve a proxy group that perfectly reflects the
15 risk of the utility we are determining the
16 appropriate ROE for and the size of the proxy group.
17 Ten companies, rather than seven, allow for a better
18 representation of a fair regulated return as
19 individual companies' vagaries are smoothed out
20 more. This is achieved while maintaining stringent
21 enough proxy group criteria.

1 Q. Is your proxy group a perfect match for Con Edison
2 in relation to the level of business risk investors
3 face?

4 A. No, it is not. As I mentioned earlier, the proxy
5 group derives over 14% of its revenues from
6 unregulated investments. And, as I mentioned, the
7 average credit rating of the proxy group is a notch
8 lower than that of Con Edison. By definition, this
9 implies that the proxy group is slightly riskier
10 than Con Edison. In addition, several of the proxy
11 group companies have investments in regulated
12 activities with higher levels of business risk than
13 the activities Con Edison is engaged in. For
14 instance, some of them own nuclear power plants.

15 Q. Why is the fact that the proxy group companies are,
16 on average, riskier than Con Edison important?

17 A. Con Edison's cost of equity should compensate
18 investors for the specific business and financial
19 risks of the company's regulated operations. By
20 contrast, Con Edison's cost of equity should not
21 compensate investors for the risks faced by CEI's

1 regulated and unregulated operations. In a perfect
2 world, the risks of a proxy group would perfectly
3 match Con Edison's risk, rather than CEI's risks.
4 This desirable result is currently unattainable
5 given the relatively small number of utility
6 companies with A-ratings.

7 Q. Do you propose an adjustment to your recommended
8 cost of equity to account for the fact that the
9 proxy group companies are riskier than Con Edison
10 and that some of the proxy group companies have
11 nuclear generation assets?

12 A. No I do not. While there is a definite difference
13 between Con Edison and the companies in my proxy
14 group, I have not attempted to quantify the impact
15 of such differences. I am only pointing out that
16 the return on equity proposed is based on the
17 average return expected by investors for holding
18 companies which are riskier than Con Edison, and
19 thus should be considered a conservative estimate of
20 what investors are requiring at this time.

21 Q. Had you used Mr. Rosenberg's proxy group in your ROE

1 methodology, what would the result have been?

2 A. One basis point lower, 8.58%. Mr. Rosenberg's group
3 would produce a DCF result that is slightly higher
4 than my group, but his group's slightly lower
5 average beta would result in a lower CAPM result
6 (see Exhibit___ (JSH-7)).

7 DISCOUNTED CASH FLOW METHODOLOGY

8 Q. Please describe your discounted cash flow
9 methodology and its result.

10 A. The calculation of the DCF for the proxy group is
11 shown on pages 1-2 of Exhibit___ (JSH-5). For each
12 company in the proxy group, there is a six-month
13 average stock price, calculated by averaging the
14 high and low price for each month, as seen in
15 Exhibit___ (JSH-8). I have used the six-month period
16 ending January 2006. The model also contains Value
17 Line data for the beta, earnings per share,
18 dividends per share, book value per share and the
19 forecasted amount of common stock shares for each
20 company.

21 This data is used to estimate the dividends

1 that can be expected for each company in the future.

2 The price investors are paying for the stock, the
3 average stock price over a six-month period, is seen
4 as the present value of that dividend stream. By
5 calculating the discount rate required to turn the
6 string of expected dividend payments into the
7 current stock price, one can determine the rate of
8 return investors are expecting for each company.

9 The median result, which I calculate to be an 8.10%
10 return, is used as the DCF methodology result.

11 Q. How are dividends projected to change over time?

12 A. I used the two-stage DCF method recommended in the
13 GFC. In the near-term, the estimates of *Value Line*
14 are used. For the second stage, 2010 and beyond, a
15 "sustainable growth" rate is calculated for each
16 company in the proxy group based on its projected
17 retention of earnings and growth in common stock
18 balances.

19 Q. What average sustainable growth figure was used in
20 your model?

21 A. 4.36%.

1 Q. Mr. Rosenberg advocates using his calculation of
2 projected Gross Domestic Product (GDP) growth as a
3 measure of the sustainable growth of utility
4 dividends. Is this appropriate?

5 A. No. I am aware of no time when the Commission has
6 used a GDP estimate as the sustainable growth rate
7 for utility dividends. There is no reason to
8 believe that such a rate is in any way an indication
9 of the expected long-term growth of utility-industry
10 dividends, and Mr. Rosenberg has offered no evidence
11 explaining why this new methodology would be
12 appropriate. Moreover, there is no valid financial
13 theory that would suggest GDP has any substantial
14 influence on utility-specific calculations such as
15 sustainable earnings or dividend growth levels.

16 Q. Do the individual company results within the proxy
17 group appear reasonable?

18 A. Yes they do. The average and the median are
19 similar, and all but one high-return result fall
20 within 150 basis points of the average.

21 Q. Do you agree with Mr. Rosenberg's contention that

1 some results have to be excluded from his analysis
2 due to what he considers their low estimates?

3 A. No, I do not. Mr. Rosenberg argued for removing
4 Ameren, CH Energy, CEI, and NSTAR's cost of equity
5 results because they are too low (Rosenberg
6 testimony, footnote, page 13). His proposal to
7 throw out half of the results from his sustainable
8 growth DCF methodology, and leave only those that
9 were 9.6% or higher, has no basis. All of the
10 results were within 120 basis points of his median.
11 The lowest (or highest) returns for a group of
12 companies in a proxy group should not be thrown out
13 just because it does not meet an analyst's
14 preconceived and unsupported notion of the proper
15 cost of equity.

16 CAPITAL ASSET PRICING MODEL METHODOLOGY

17 Q. Please describe the methodology used to determine
18 your CAPM results.

19 A. The idea behind the CAPM theory is that the level of
20 systematic risk for an asset determines the level of
21 return that investors will require to invest in that

1 asset. I have used the methodology outlined in the
2 GFC to determine my CAPM result. This methodology
3 uses two different CAPM methods (the traditional and
4 "zero beta") to estimate the cost of equity. The
5 CAPM result is the average of the two estimates.

6 Q. Please describe how a CAPM result is calculated
7 using the "traditional" CAPM method.

8 A. The traditional CAPM method calculates a required
9 return based on three inputs: The rate of return on
10 a risk-free investment (R_f), the level of systematic
11 risk for an investment (B , known as the "beta"), and
12 the expected risk premium of the market. (R_p). The
13 calculation can be represented as:

14 Required Return = $R_f + (B * R_p)$

15 Q. How did you determine the risk-free investment rate
16 and what was your result?

17 A. The GFC called for using a risk-free rate determined
18 by averaging the 10-year and 30-year Treasury bond
19 yields for a recent six-month period. The Federal
20 government discontinued the issuance of 30-year
21 Treasury bonds in 2001 and only re-introduced it

- 1 this month. Currently the longest maturity for
2 which appropriate historical data are available is
3 for 20-year bonds. Therefore, I have averaged the
4 10-year bond yields with the 20-year bond yields.
5 Given the "flat" yield curve for long-term Treasury
6 bonds (with relatively few basis points separating
7 the yield of bonds with intermediate maturities and
8 those with long-term maturities), this method is a
9 reasonable replacement for that called for in the
10 GFC. The average of the 10-year and 20-year
11 Treasury bonds for the six-month period ending
12 January 2006 is 4.53%.
- 13 Q. Is this how Mr. Rosenberg calculated the risk-free
14 rate?
- 15 A. No it is not. Mr. Rosenberg did not specify his
16 exact methodology for determining the risk-free
17 rate. He stated the average yield for 10-year
18 Treasury bonds, 20-year Treasury bonds, "Long-Term"
19 Treasury bonds, and long-term Treasury bond futures
20 (4.2%, 4.6%, 4.5% and approximately 5.0%,
21 respectively). He then chose 4.60%, which was equal

1 to the average yield on 20-year Treasury bonds and
2 30 basis points higher than the average yield on 10-
3 year Treasury bonds. By using a risk-free rate that
4 is closer to the longest-term bond yield, as Mr.
5 Rosenberg did, all of the CAPM ROEs will be higher
6 than if an average between the two maturities were
7 to be used.

8 Q. How did you determine the beta for the CAPM?

9 A. I used the methodology set forth in the GFC, which
10 is to use the average beta of the proxy group, as
11 reported by *Value Line*. The average beta of my
12 proxy group is 0.74.

13 Q. How did you determine what risk premium to use and
14 what was your result?

15 A. The risk premium is the difference between what the
16 expected return on common stock is and the rate on a
17 risk-free investment. In order to determine the
18 expected market return, I have utilized Merrill
19 Lynch's *Quantitative Profiles* (Exhibit___ (JSH-5)).
20 That publication currently estimates the required
21 return for the market to be 11.1% (using an average

1 of Merrill Lynch's "Implied Return" and "Required
2 Return" methods). Given my risk-free rate of 4.53%,
3 a risk-premium of 6.57% is calculated.

4 Q. Do you agree with Mr. Rosenberg that the expected
5 market return could be calculated based on spreads
6 between stocks and treasury securities for a period
7 commencing in 1926?

8 A. No. Mr. Rosenberg's use of a 7.2% historical risk
9 premium (based on Ibbotson Associates financial data
10 that goes back to 1926, using the arithmetic mean)
11 does not reflect the current investing climate. It
12 is an average of return differentials between bonds
13 and the stock market over periods much different
14 than today. Many in the financial community believe
15 that the equity risk premium has been decreasing
16 over time and is currently very low (e.g. "*The*
17 *Shrinking Equity Premium*", Jeremy Siegel, *The*
18 *Journal of Portfolio Management*, Fall 1999). As a
19 result, there is a debate concerning the relevance
20 of the Ibbotson data in today's markets.

21 In fact, Roger Ibbotson of Ibbotson Associates

1 and Peng Chen have authored a study which "pegs the
2 equity risk premium at just under 4 percent" going
3 forward for the S&P 500 Index, which CEI is part of,
4 per an article from last year by Gail Buckner of Fox
5 News. A copy of this article, along with an
6 abstract of Ibbotson's study, can be found in
7 Exhibit___(JSH-9). Even Ibbotson is acknowledging
8 that the average risk premium of the past is not
9 reflective of today's expectations.

10 Merrill Lynch's *Quantitative Profiles* provides
11 a more accurate and up-to-date assessment of what
12 today's investors require because it is based upon
13 current expected market return, which takes into
14 account only the current business climate.

15 Q. Has the Commission ever discussed the use of Merrill
16 Lynch data versus Ibbotson data for calculating risk
17 premiums?

18 A. Yes, in Case 95-G-1034, Central Hudson Gas &
19 Electric Corporation, the Commission approved use of
20 the Merrill Lynch estimate. In an Order dated
21 October 3, 1996, the Commission said, "...the Judge's

1 market return calculation based on Merrill Lynch
2 data is a reasonable method of deriving a risk
3 premium; and it avoids the problems of stale data in
4 the Ibbotson estimate, or the circularity of the
5 implied risk premium approach in relying on other
6 commissions' return allowances." (page 14)

7 Q. Do you agree with Mr. Rosenberg that the expected
8 market return could be calculated based upon an
9 analysis that applies a single-stage DCF model to
10 the S&P 500?

11 A. No. The 13.3% dividend growth estimate used by Mr.
12 Rosenberg in his single-stage DCF estimate for the
13 S&P 500 is not only unreasonable on its face, but
14 also totally unrealistic on a long-term basis. In
15 fact, Mr. Rosenberg offered no support for or
16 justification that his single-stage model is
17 appropriate, and he has not demonstrated that his
18 13.3% growth rate is sustainable over the long run.

19 Q. Please explain your concerns regarding the
20 sustainability of dividend growth at a 13.3% rate
21 over the long run.

- 1 A. It is not believable that such rapid dividend growth
2 could be sustained indefinitely by the 500 largest
3 companies in the country. More specifically, the
4 13.3% growth rate far exceeds the growth rate (2.1%
5 above inflation) of S&P 500 dividends for the period
6 1946-1999 (Siegel, "The Shrinking Equity Premium,
7 Page 14).
- 8 Q. Using your stated inputs, what was your
9 "traditional" CAPM result?
- 10 A. 9.36%, calculated as follows:
11 $4.53\% + [0.74 * (11.1\% - 4.53\%)] = 9.36\%$
- 12 Q. Please describe how you calculated a rate of return
13 using the "zero beta" CAPM method.
- 14 A. Using the same inputs I described for the
15 traditional CAPM methodology, I used the same
16 methodology used in the GFC. Instead of multiplying
17 beta by the risk premium as shown in the calculation
18 of the traditional CAPM methodology, I determined
19 the risk premium for the proxy group by multiplying
20 .75 times beta times the risk premium and adding .25
21 times the risk premium. This can be shown as

1 follows: Required return = $R_f + (.75*B*Rp) +$
2 $(.25*Rp)$

3 Q. What is the result of your zero-beta CAPM
4 methodology?

5 A. 9.79%, calculated as follows:

6 $4.53\% + [.75*.74*(11.1\%-4.53\%)] + [.25*(11.1\%-$
7 $4.53\%)] = 9.79\%$

8 Q. What CAPM result did you use in your calculation of
9 the required ROE for the proxy group?

10 A. Per the GFC methodology, I averaged the results of
11 my two CAPM methods to arrive at a result of 9.58%.

12 Q. Mr. Rosenberg added a 50 basis point "size premium"
13 to his CAPM results for certain companies. He does
14 this to account for the fact that Ibbotson
15 characterizes some of the proxy group companies as
16 "low-capitalization" or "mid-capitalization" and
17 thus require, per Ibbotson, higher returns than the
18 CAPM results predict. Do you agree with this?

19 A. No I do not. Mr. Rosenberg's approach should be
20 rejected because it would have customers support a
21 return for Con Edison based, in part, on market

1 return premiums which reflect the supposedly higher
2 risks and return requirements of "small" companies.
3 Con Edison is not a small company, thus its
4 ratepayers should not have to pay for a return
5 premium for risks Con Edison does not face.

6 More specifically, before Mr. Rosenberg added
7 his "size premium", his CAPM result implicitly
8 assumed (due to the market premium employed) that
9 all of the companies in the proxy group are large.
10 Because Con Edison is a large company and investors
11 do not require a "premium" for large companies,
12 there is no need to increase the basic proxy group
13 cost of equity to account for the fact that some of
14 the companies happen to be smaller than Con Edison.
15 These companies' CAPM results are already comparable
16 to Con Edison's, since they are "correct" for large
17 companies.

18 Q. Why don't you accept Mr. Rosenberg's assumption that
19 smaller capitalization utilities must have a higher
20 cost of equity than larger capitalization utilities?

21 A. The Commission has not adopted that position in the

1 past for its major utilities and I see no reason to
2 do so now. Further, Mr. Rosenberg has not explained
3 why a proxy group composed of utilities with similar
4 bond ratings would not also have similar costs of
5 debt and equity or why the betas of the proxy group
6 companies do not adequately capture the pertinent
7 business and financial risks of the company.

8 RETURN ON EQUITY METHODOLOGY RESULT

9 Q. Please explain how you arrived at your overall ROE
10 for the proxy group.

11 A. Using the GFC methodology, I weighted the DCF model
12 (8.10%) as two-thirds of the total and the CAPM
13 average (9.58%) as one-third of the total to develop
14 a return of 8.59%.

15 Q. Do you agree Mr. Rosenberg's use of an issuance
16 adjustment to cover the costs of issuing equity?

17 A. In this situation, I do. We are setting rates for
18 the rate year ending September 30, 2007. Per
19 Exhibit___ (KF-2), \$275 million of common stock
20 issuances are planned during the rate year.

21 Q. Are you aware of any Commission rulings on this

1 issue?

2 A. Yes. In an Order issued March 7, 2003 in Cases 02-
3 E-0198 and 02-G-0199, the Commission stated, "...our
4 policy has been to allow recovery of such expenses
5 when they are incurred." (page 71) Since the
6 expenses are reasonably expected to incur, I would
7 allow recovery of such costs.

8 Q. Do you agree with Mr. Rosenberg's methodology for
9 calculating the issuance cost?

10 A. No, I do not.

11 Q. What adjustment do you propose?

12 A. The amount of equity the company anticipates it will
13 issue is \$275 million. Mr. Rosenberg has testified
14 that issuance costs for the company's most recent
15 stock offering were approximately 3.0 percent. This
16 is in-line with such costs approved in previous Con
17 Edison financings. Therefore, issuance costs of
18 \$8.25 million could be expected. \$8.25 million is
19 0.11% of the common equity amount of \$7.178 billion
20 I believe supports CEI's utility operations (see
21 Exhibit___ (JSH-2), Page 1, Column 9). Therefore, I

1 propose to increase my cost of equity cost rate by
2 11 basis points.

3 Q. Given this equity issuance cost adjustment, what is
4 your recommended cost rate for equity?

5 A. 8.70%. This is the result of my GFC methodology of
6 8.59% plus the 11 basis point issuance cost
7 adjustment.

8 Q. Do you recommend that your ROE results be updated?

9 A. Yes I do. My results should be updated at the time
10 of the Commission decision in this proceeding based
11 on then-available data.

12 STAYOUT PREMIUM

13 Q. Mr. Rosenberg recommended an undefined stayout
14 premium in his recommended ROE. Do you propose that
15 a stayout premium be applied to your results?

16 A. No I do not. I am testifying to the rate of return
17 appropriate for a one-year rate case, for the rate
18 year ending September 30, 2007.

19 FINANCIAL INTEGRITY

20 Q. Given your recommended overall after-tax rate of
21 return of 7.20%, will the company be able to

1 maintain its financial integrity?

2 A. Yes it will. As I explain in further detail later,
3 this recommendation results in financial ratios
4 appropriate for an A-rated utility per S&P's
5 guidelines.

6 RISK PREMIUM APPROACH

7 Q. One of Mr. Rosenberg's cost of equity models is a
8 risk premium approach. Do you agree with the use of
9 such a methodology in this case?

10 A. No I do not. The Commission has specifically
11 rejected the use of a risk premium approach in the
12 past. In Opinion No. 96-28, the Commission stated:
13 "...we have avoided reliance on the risk premium
14 approach because it reflects allowed returns which
15 are an inferior alternative to a direct estimate of
16 a company's own cost of equity." (page 13) In
17 addition, the ALJs in the GFC did not agree that it
18 should be used in setting a return. Finally,
19 because the CAPM relies on the market risk premium,
20 it would be redundant to rely on another risk
21 premium approach.

1 Q. Do you have any other comments regarding Mr.
2 Rosenberg's risk premium approach?

3 A. Yes I do. Mr. Rosenberg offered no studies or
4 analyses to determine the extent to which Con Edison
5 is more or less risky than the average electric
6 utility contained in Moody's electric utility common
7 stock index for the period 1932 to 2004.

8 He has provided no studies or analyses to
9 determine the extent to which the risks of bonds
10 used to calculate the yield for Moody's composite
11 bond index have remained at the same level relative
12 to the risks of the electric utility stocks
13 contained in Moody's electric utility common stock
14 index for the period 1932 to 2004.

15 Further, Mr. Rosenberg provided no study or
16 analysis to determine the extent to which the risks
17 of utility bonds have remained at the same level
18 relative to Treasury securities over the 1932 to
19 2004 period.

20 Also, Mr. Rosenberg's use of Regulatory
21 Research Associates *Regulatory Focus* to determine an

1 average allowed return is flawed on many levels.
2 There is no attempt to factor in the average risk
3 level of each utility, such as looking at companies
4 with similar credit ratings to Con Edison. Many of
5 the returns listed (including Con Edison's) are for
6 multi-year cases, not the allowed return in a one-
7 year case. These multi-year cases no doubt contain
8 stayout premiums, similar to the one advocated by
9 Mr. Rosenberg in his testimony. In addition, there
10 are numerous variables that can lead to a company
11 getting a higher return in a negotiated settlement,
12 such as the level of expense reconciliations allowed
13 or the sales forecast that is agreed to.

14 In summary, Mr. Rosenberg has offered no
15 support for the theory that the risk premium
16 approach he advocates is applicable to Con Edison
17 and that the risk premium hasn't changed over time.
18 I recommend that the Commission reject the use of
19 such a risk premium approach to calculate the
20 appropriate cost of equity for Con Edison.

21 COMPARABLE EARNINGS APPROACH

1 Q. Mr. Rosenberg has proposed to use a comparable
2 earnings analysis as part of his ROE calculation.
3 Do you agree with such a methodology in this case?

4 A. No, the Commission has specifically rejected the use
5 of a comparable earning methodology in the past. In
6 Opinion No. 96-28, the Commission stated: "...we have
7 consistently found the comparable earnings approach
8 unreliable because it does not adequately reflect
9 the cost of equity of the companies in the proxy
10 group." (page 13) In addition, the ALJs in the GFC
11 recommended decision rejected using this approach in
12 setting a return. On page 47 they stated

13 "...that approach, for a number of reasons, has
14 almost nothing to do with determining the cost
15 of equity, even for competitive firms.
16 Observations of reported book earnings have
17 only a tenuous link to the cost of equity in
18 any given year, and the inclusion of six
19 observations—one forecast, one current, and
20 four historical—does not cure that defect.
21 Investors in the companies in the "comparable"

1 group do not earn the returns included in the
2 analysis; they earn returns based on the prices
3 they paid for their investments."

4 As the end of that quote points out, the 16.0% to
5 18.0% returns calculated by Mr. Rosenberg are not
6 the returns expected by investors on their
7 investment, it is the return on book value. Actual
8 returns to investors would be much lower.

9 Q. Do you have any other concerns regarding the use of
10 a comparable earnings approach?

11 A. Yes. Mr. Rosenberg used the return of companies
12 with a *Value Line* safety ranking of "1". Most of
13 the companies are not even subject to cost-based
14 regulation. Thus, Mr. Rosenberg's comparable
15 earnings approach would require further refinement
16 to reasonably reflect Con Edison's risks.

17 Finally, the result of Mr. Rosenberg's
18 comparable earnings methodology (16.0% to 18.0%) is
19 unreasonable on its face. It is significantly
20 higher than the expected market return Mr. Rosenberg
21 uses in his CAPM calculation (11.8%), which implies

1 that comparable companies to Con Edison have much
2 greater risk than the average stock. Mr. Rosenberg
3 failed to explain or justify how a return in excess
4 of the market as a whole is "comparable" to what a
5 regulated utility with a *Value Line* safety rating of
6 "1" and an S&P business profile position of "2"
7 should earn.

8 Q. Do you agree with Mr. Rosenberg's weighting of his
9 various methodologies in determining his ROE
10 recommendation?

11 A. It is not possible to answer this question because
12 Mr. Rosenberg does not state how he weights the
13 results of his various approaches. He states only
14 that the approaches, including an "issuance
15 adjustment" of 16 basis points (Rosenberg testimony,
16 page 44) and a stayout premium total 11.0%.
17 Therefore, there is no way for myself or anyone else
18 to know how he weighted the methodologies he used.

19 CREDIT QUALITY ISSUES

20 Q. Company witness Perkins has stressed the need for
21 Con Edison to have a strong credit rating. Do you

1 agree with Mr. Perkins' position?

2 A. I agree that it is important for Con Edison to have
3 access to the financial markets and that the company
4 should have a bond rating that affords it such
5 access. My capital structure and cost rate
6 recommendations, along with other staff
7 recommendations, are consistent with this objective
8 because they produce financial parameters consistent
9 with an "A" bond rating.

10 Q. Why are you focusing on benchmarks for an "A" bond
11 rating?

12 A. The Commission has generally accepted the concept
13 that an "A" bond rating adequately balances the
14 interests of ratepayers and investors.

15 Q. Mr. Perkins cites that S&P feels Con Edison's "near-
16 term ratios are weak" (page 6) and quotes the
17 expected ratios for 2006 and 2007. Does this
18 statement agree with S&P's published targets for
19 these ratios?

20 A. No, it does not. Mr. Perkins is pointing out that
21 the Funds From Operations (FFO)/Interest Coverage

1 ratio is expected to be 3.4x in 2006 and 3.7x in
2 2007, a higher number indicates a more credit-worthy
3 company, all else equal. As seen in Exhibit___ (JSH-
4 3), S&P's "New Business Profile Scores Assigned for
5 U.S. Utility and Power Companies: Financial
6 Guidelines Revised", the target financial guidelines
7 for this ratio, for a company with a business
8 profile of "2", is 2x to 3x for an A-rated company.
9 It is 3x-4x for a company with a higher AA-rating.
10 Con Edison's ratio is in the range of an AA-rated
11 company.

12 For FFO-to-Total-Debt, S&P is forecasting 15%
13 in 2006 and 17% in 2007. The guidelines for an A-
14 rated company are 12%-20% (with the higher the
15 number being considered more desirable). During the
16 course of the rate year, S&P is predicting the
17 company will be at the exact mid-point of its
18 recommended A-range. I fail to see how these ratios
19 are "weak".

20 As I discussed earlier, my capital structure
21 recommendation leaves the company right in the

1 middle of the A-range for the third critical
2 financial ratio S&P considers, Total Debt to Total
3 Capital.

4 Q. The S&P quote provided by Mr. Perkins explains that
5 ratios are lower in 2005 and 2006 due to the
6 company's capital program, and the fact that
7 internal funding only covers approximately 40% of
8 expenditures. Mr. Perkins states that increasing
9 the company's rate of return would improve its
10 ratios. Do you agree with Mr. Perkins' conclusion?

11 A. While it is true that letting the company earn more
12 money would lead to higher ratios due to the
13 calculation method of the ratios, the company's
14 ratios already support an A-rating (as do the non-
15 quantitative things S&P considers when setting a
16 rating). The company's need for external funds is
17 in part caused by its relatively high dividend
18 payout ratio. Per *Value Line*, in 2005 Con Edison
19 was expected to pay 80% of its earnings out as
20 dividends, retaining only 20% of their earnings for
21 operations. The company's actual payout ratio for

1 2005 would have been even higher had it not been for
2 warmer-than-normal weather conditions. The nine
3 other companies in my proxy group retain 36% of
4 their earnings, 80% more than Con Edison. The
5 company's dividend policy, as set by CEI's Board of
6 Directors, directly affects the company's need for
7 external financing and thus S&P's concern over cash
8 flow ratios. There is a cost to ratepayers to boost
9 rates of return, and to do so to improve financial
10 ratios that are already in the A and AA range is
11 unnecessary.

12 Q. Does S&P consider just the credit quality of Con
13 Edison when assigning the company a bond rating?

14 A. No, S&P generally considers the consolidated
15 financial parameters of CEI when determining the
16 appropriate bond rating for CEI, Con Edison and
17 other CEI subsidiaries.

18 Q. Is this an important consideration when assessing
19 Con Edison's bond rating?

20 A. Yes, if the financial parameters of CEI's other
21 regulated and unregulated operations are not as

1 strong as Con Edison's, then it is possible that Con
2 Edison's actual bond rating will not be consistent
3 with its actual stand alone financial parameters.

4 Q. Does this conclude your testimony?

5 A. Yes it does.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Exhibits of:

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
 RATE OF RETURN REQUIRED FOR THE RATE YEAR
TWELVE MONTHS ENDING SEPTEMBER 30, 2007

	<u>Average Capital Structure</u>	<u>Cost Rate</u>	<u>Cost of Capital</u>
	<u>Percent</u>		
Long Term Debt	49.42%	5.94%	2.94%
Preferred Stock	1.41%	5.43%	0.08%
Customer Deposits	<u>1.57%</u>	3.00%	<u>0.05%</u>
Subtotal	52.40%		3.06%
Common Equity	<u>47.60%</u>	8.70%	<u>4.14%</u>
Total	<u><u>100.00%</u></u>		<u><u>7.20%</u></u>

Adjusted CECONY Capital Structure
As of September 30, 2005
(\$ millions)

	Column 1	Column 2	Column 3	Column 4 (Col. 2 + Col. 3)	Column 5 (Col. 1 - Col. 4)	Column 6	Column 7 (Col. 1 - Col. 6)	Column 8	Column 9 (Col. 7 - Col. 8)
	<u>CEI</u>	<u>CECONY</u>	<u>ORU</u>	<u>Utility</u>	<u>As Reported Non-Utility Operations</u>	<u>Staff Adjusted Non-Utility Operations</u>	<u>Staff Adjusted Utility (9/30/05)</u>	<u>Adjustments to Reflect Changes in Rate year</u> <small>(See Exhibit (JSH-3))</small>	<u>Staff Adjusted Utility (Rate Year)</u>
Assets									
Utility Plant (Original Cost)									
Electric	\$13,319	\$12,486	\$833	\$13,319	\$0	\$0	\$13,319		
Gas	2,977	2,631	346	2,977	0	0	2,977		
Steam	1,591	1,591	0	1,591	0	0	1,591		
General	1,523	1,399	124	1,523	0	0	1,523		
Total Utility Plant	19,410	18,107	1,303	19,410	0	0	19,410		
Less: Accumulated Depreciation	4,303	3,908	395	4,303	0	0	4,303		
Net Plant	15,107	14,199	908	15,107	0	0	15,107		
Construction Work in Progress	629	594	35	629	0	0	629		
Net Utility Plant	15,736	14,793	943	15,736	0	0	15,736		
Non-Utility Plant	927	18	0	18	909	909	18		
Net Plant	16,663	14,811	943	15,754	909	909	15,754		
Total Current Assets	3,451	2,706	349	3,055	396	396	3,055		
Investments	263	3	0	3	260	260	3		
Total Deferred Charges, Reg. Assets and Noncurrent Assets	4,391	3,550	312	3,862	529	529	3,862		
Total Assets	\$24,768	\$21,070	\$1,604	\$22,674	2,094	\$2,094	\$22,674		
Capitalization and Liabilities									
Capitalization									
Common Shareholders' Equity	\$7,336	\$6,425	\$369	\$6,794	\$542	\$923	\$6,413	\$765	\$7,178
Preferred Stock	213	213	0	213	0	0	213	0	213
Long-term Debt	7,061	5,706	384	6,090	971	590	6,471	982	7,453
Total Capitalization	14,610	12,344	753	13,097	1,513	1,513	13,097		14,844
Total Noncurrent Liabilities	753	549	177	726	27	27	726		
Total Current Liabilities	3,548	2,926	336	3,262	286	286	3,262		
Total Deferred Credits and Regulatory Liabilities	5,816	5,251	338	5,589	227	227	5,589		
Total Capitalization and Liabilities	\$24,768	\$21,070	\$1,604	\$22,674	\$2,094	\$2,094	\$22,674		
Customer Deposit Total: (Included in Current Liabilities)	228	214	14	228	0	0	228	9	237
Long-Term Debt:	47.6%	45.4%	50.1%	45.7%	64.2%	39.0%	48.56%		49.42%
Preferred Stock:	1.4%	1.7%	0.0%	1.6%	0.0%	0.0%	1.60%		1.41%
Customer Deposit:	1.5%	1.7%	1.8%	1.7%	0.0%	0.0%	1.71%		1.57%
Common Equity:	49.4%	51.2%	48.1%	51.0%	35.8%	61.0%	48.13%		47.60%

	CECONY Equity			O&R Equity		O&R Equity			Staff "Utility" Estimate
	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Net Change</u>	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Net Change</u>	<u>Net Change</u>		
9/05:	6,436,072	6,399,689	(36,383)	-	369,000	-			6,413,000
10/05:	6,399,689	6,444,033	44,344	369,000	369,647	647	647		6,457,991
11/05:	6,444,033	6,475,458	31,425	369,647	370,294	647	647		6,490,063
12/05:	6,475,458	6,423,265	(52,193)	370,294	370,941	647	647		6,438,517
1/06:	6,423,265	6,507,024	83,759	370,941	371,588	647	647		6,522,923
2/06:	6,507,024	6,582,022	74,998	371,588	372,235	647	647		6,598,568
3/06:	6,582,022	6,537,398	(44,624)	372,235	372,882	647	647		6,554,591
4/06:	6,537,398	6,575,229	37,831	372,882	373,529	647	647		6,593,069
5/06:	6,575,229	6,593,232	18,003	373,529	374,176	647	647		6,611,719
6/06:	6,593,232	6,538,722	(54,510)	374,176	374,823	647	647		6,557,856
7/06:	6,538,722	6,631,478	92,756	374,823	375,470	647	647		6,651,259
8/06:	6,631,478	6,712,684	81,206	375,470	376,117	647	647		6,733,112
9/06:	6,712,684	6,930,869	218,185	376,117	376,764	647	647		6,951,944
10/06:	6,930,869	6,976,932	46,063	376,764	377,411	647	647		6,998,654
11/06:	6,976,932	7,011,242	34,310	377,411	378,058	647	647		7,033,611
12/06:	7,011,242	6,960,729	(50,513)	378,058	378,705	647	647		6,983,745
1/07:	6,960,729	7,043,382	82,653	378,705	379,352	647	647		7,067,045
2/07:	7,043,382	7,125,704	82,322	379,352	379,999	647	647		7,150,014
3/07:	7,125,704	7,077,312	(48,392)	379,999	380,646	647	647		7,102,269
4/07:	7,077,312	7,117,646	40,334	380,646	381,293	647	647		7,143,250
5/07:	7,117,646	7,141,325	23,679	381,293	381,940	647	647		7,167,576
6/07:	7,141,325	7,088,437	(52,888)	381,940	382,587	647	647		7,115,335
7/07:	7,088,437	7,452,678	364,241	382,587	383,234	647	647		7,480,223
8/07:	7,452,678	7,545,280	92,602	383,234	383,881	647	647		7,573,472
9/07:	7,545,280	7,511,595	(33,685)	383,881	384,528	647	647		7,540,434
10/07:				384,528	385,175	647			7,541,081
									7,177,506 13-Point Average

	CECONY LT Debt			O&R LT Debt		O&R LT Debt			Staff "Utility" Estimate
	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Net Change</u>	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Net Change</u>	<u>Net Change</u>		
9/05:	6,075,900	6,075,900	0	341,110	341,110	0	0		6,471,000
10/05:	6,075,900	6,075,900	0	341,110	341,110	0	0		6,471,000
11/05:	6,075,900	6,075,900	0	341,110	341,110	0	0		6,471,000
12/05:	6,075,900	6,250,900	175,000	341,110	341,110	0	0		6,646,000
1/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
2/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
3/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
4/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
5/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
6/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
7/06:	6,250,900	6,250,900	0	341,110	341,110	0	0		6,646,000
8/06:	6,550,900	6,550,900	0	341,110	341,110	0	0		6,946,000
9/06:	6,550,900	6,550,900	0	341,110	391,110	50,000	50,000		6,996,000
10/06:	6,550,900	6,550,900	0	391,110	391,110	0	0		6,996,000
11/06:	6,550,900	6,550,900	0	391,110	391,110	0	0		6,996,000
12/06:	6,550,900	6,890,900	340,000	391,110	391,110	0	0		7,336,000
1/07:	6,890,900	7,190,900	300,000	391,110	391,110	0	0		7,636,000
2/07:	7,190,900	7,190,900	0	391,110	371,110	(20,000)	(20,000)		7,616,000
3/07:	7,190,900	7,190,900	0	371,110	371,110	0	0		7,616,000
4/07:	7,190,900	7,190,900	0	371,110	371,110	0	0		7,616,000
5/07:	7,190,900	7,190,900	0	371,110	371,110	0	0		7,616,000
6/07:	7,190,900	7,190,900	0	371,110	371,110	0	0		7,616,000
7/07:	7,190,900	7,190,900	0	371,110	371,110	0	0		7,616,000
8/07:	7,190,900	7,190,900	0	371,110	371,110	0	0		7,616,000
9/07:	7,190,900	7,190,900	0	371,110	377,360	6,250	6,250		7,622,250
									7,453,404 13-Point Average

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Research:

New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

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Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector. Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines.

■ New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business profile scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent.

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest coverage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment. Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A simultaneous revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

■ Results

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk—particularly regarding management, strategy, and degree of competitive market exposure—has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business profile scores, as of the date of this publication, are shown in Chart 1. The overall median business profile score is now '5'.

Chart 1

Distribution of Business Profile Scores

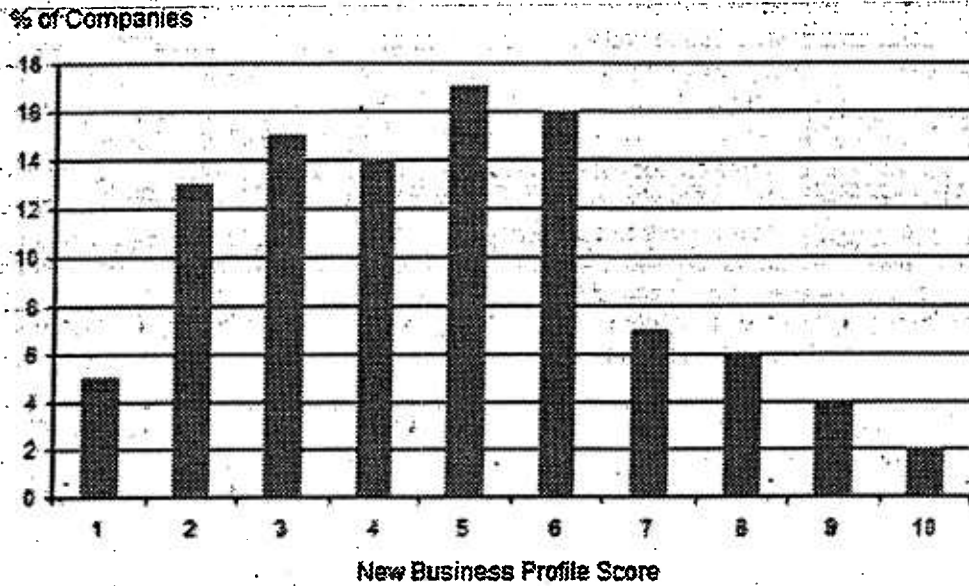


Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Table 1 Revised Financial Guidelines									
<i>Funds from operations/interest coverage (x)</i>									
Business Profile	AA		A		BBB		BB		
1	3	2.5	2.5	1.5	1.5	1			
2	4	3	3	2	2	1			
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1	
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5	
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8	
6	6	5.2	5.2	4.2	4.2	3	3	2	
7	6	6.5	6.5	4.5	4.5	3.2	3.2	2.2	
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5	
9			10	7	7	4	4	2.8	
10			11	8	8	5	5	3	
<i>Funds from operation/total debt (%)</i>									
Business Profile	AA		A		BBB		BB		

1	20	15	15	10	10	5		
2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25
Total debt/total capital (%)								
Business Profile	AA	A	BBB	BB				
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	55	55	60
8	25	35	35	42	42	52	52	58
9			32	40	40	50	50	55
10			25	35	35	48	48	52

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- Effectiveness of liability and liquidity management;
- Analysis of internal funding sources;
- Return on invested capital;
- The record of execution of stated business strategies;
- Accuracy of projected performance versus actual results, as well as the trend;
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices.

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are:

- Transmission and distribution—Water, gas, and electric;
- Transmission only—Electric, gas, and other;
- Integrated electric, gas, and combination utilities;
- Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies.

Chart 2

Transmission and Distribution--Water, Gas, and Electric

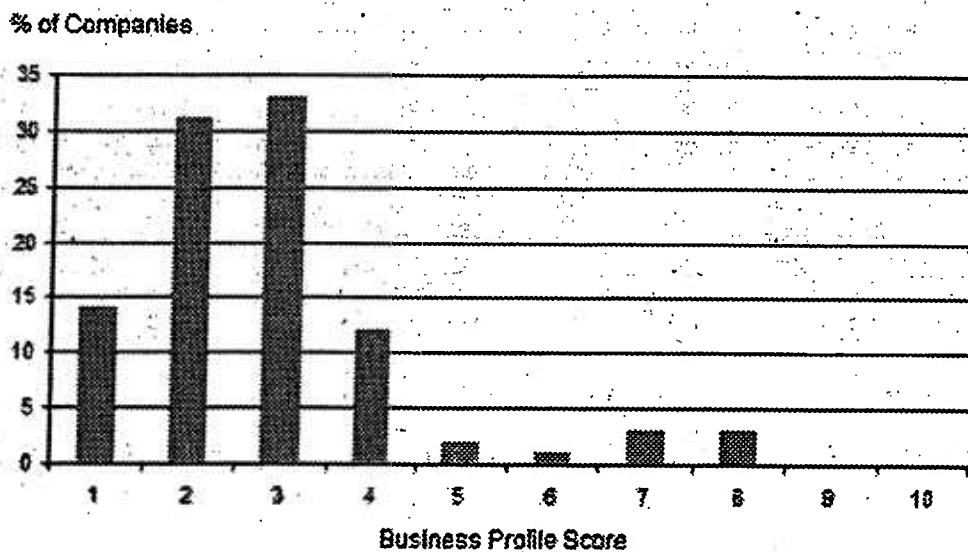


Chart 3

Transmission Only--Electric, Gas, and Other

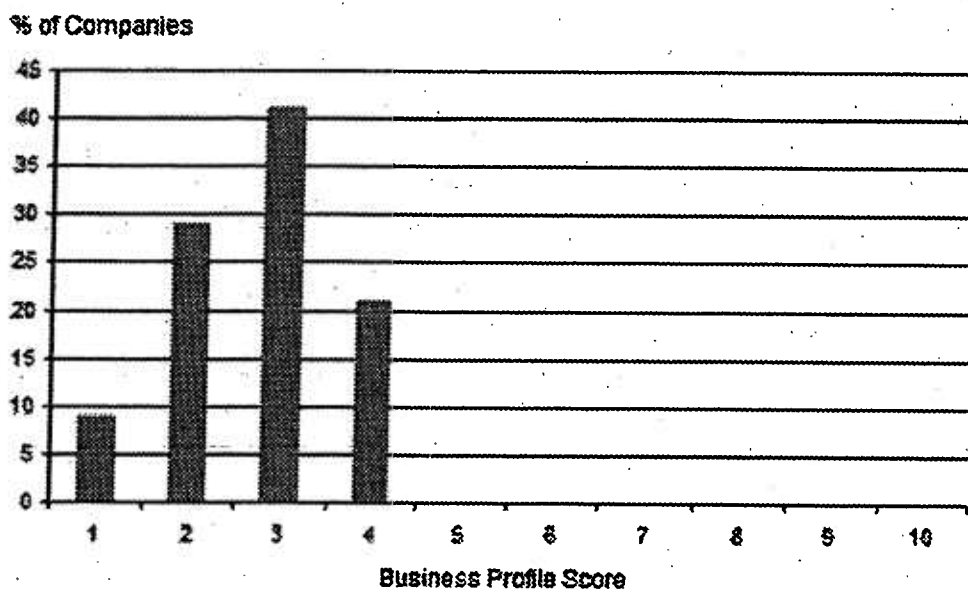


Chart 4

Integrated Electric, Gas, and Combination Utilities

% of Companies

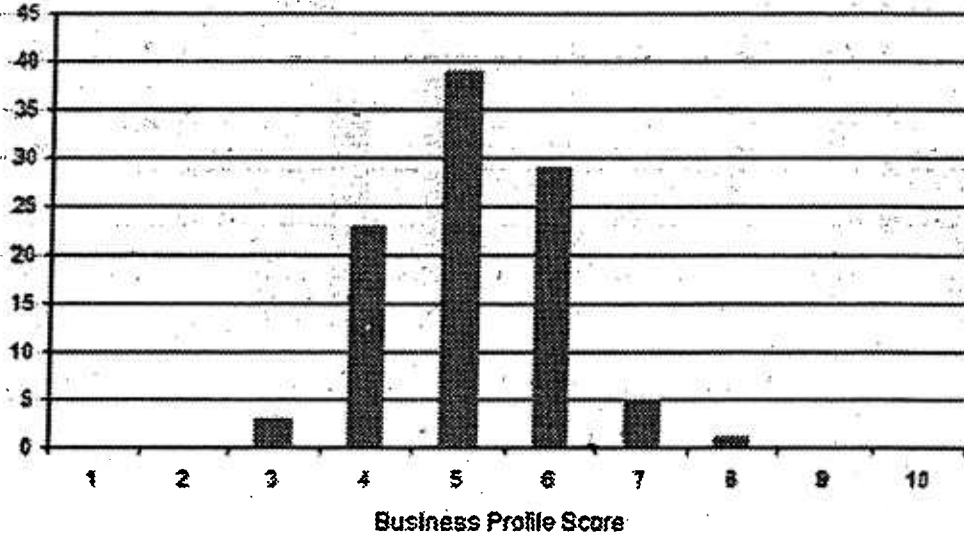


Chart 5

Diversified Energy and Diversified Non-Energy

% of Companies

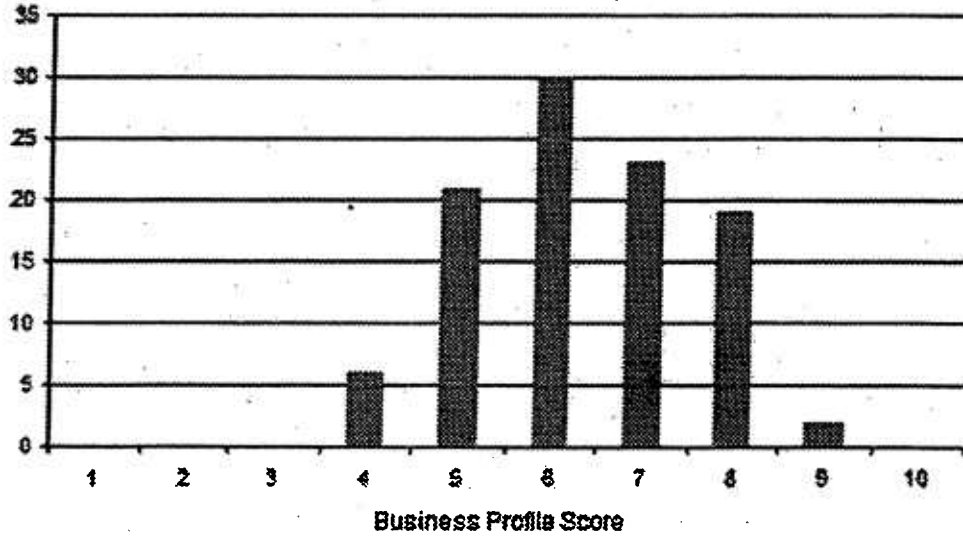
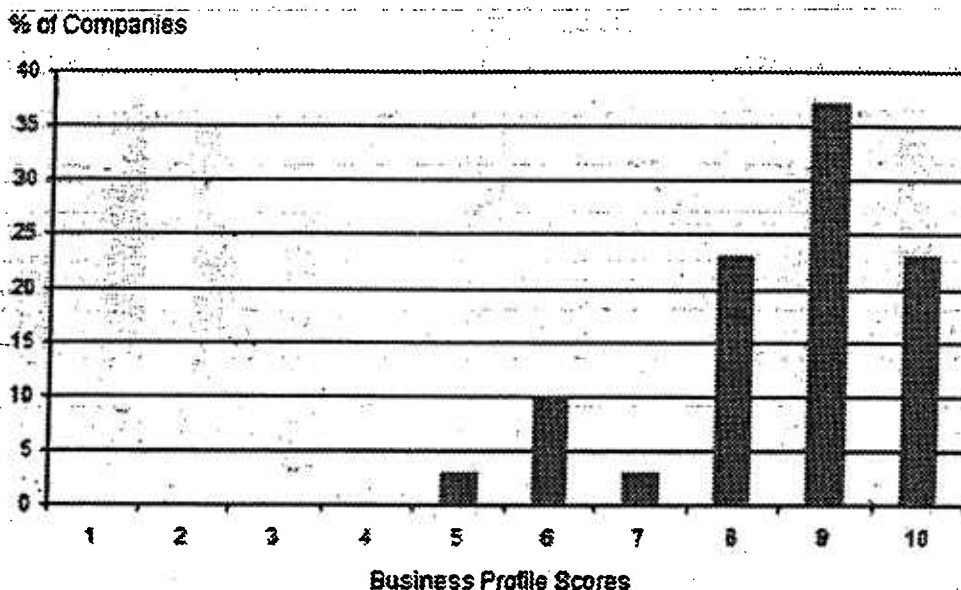


Chart 6

Energy Merchant/Developers/Trading and Marketing



The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher.

The Appendix provides the company list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength.

■ Business Profile Score Methodology

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business profile scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the single-most important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration

and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for determining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case.

Appendix: U.S. Utility and Power Company Ranking List

U.S. Utility and Power Company Ranking List		
Company	Corporate Credit Rating	Business Profile
<i>1. Regulated Transmission and Distribution - Electric, Gas, and Water</i>		
Baton Rouge Water Works Co. (The)	AA/Stable/--	1
Nicor Gas Co.	AA/Stable/A-1+	2
Nicor Inc.	AA/Stable/A-1+	3
Washington Gas Light Co.	AA-/Stable/A-1+	2
WGL Holdings Inc.	AA-/Stable/A-1+	3
New Jersey Natural Gas Co.	A+/Stable/A-1	1
Aqua Pennsylvania	A+/Stable/--	2
KeySpan Energy Delivery Long Island	A+/Negative/--	1
KeySpan Energy Delivery New York	A+/Negative/--	1
Elizabethtown Water Co.	A+/Negative/--	2
California Water Service Co.	A+/Negative/--	3
Questar Gas Co.	A+/Negative/--	3
Southern California Gas Co.	A/Stable/A-1	1
Boston Edison Co.	A/Stable/A-1	1
Commonwealth Electric Co.	A/Stable/--	1
Cambridge Electric Light Co.	A/Stable/--	1
NSTAR	A/Stable/A-1	1
Massachusetts Electric Co.	A/Stable/A-1	1
Narragansett Electric Co.	A/Stable/A-1	1
Northwest Natural Gas Co.	A/Stable/A-1	1
Connecticut Water Service Inc.	A/Stable/--	2
Connecticut Water Co. (The)	A/Stable/--	2
Aquarion Co.	A/Stable/--	2
Aquarion Water Co. of Connecticut	A/Stable/--	2
NSTAR Gas Co.	A/Stable/--	2
Piedmont Natural Gas Co. Inc.	A/Stable/A-1	2
National Grid USA	A/Stable/A-1	2
Consolidated Edison Co. of New York Inc.	A/Stable/A-1	2
Orange and Rockland Utilities Inc.	A/Stable/A-1	2

Rockland Electric Co.	A/Stable/-	2	29
Consolidated Edison Inc.	A/Stable/A-1	2	30
Laclede Gas Co.	A/Stable/A-1	3	
Laclede Group Inc.	A/Stable/-	3	
Atlantic City Sewerage Co.	A/Stable/-	3	
Niagara Mohawk Power Corp.	A/Stable/-	3	
Central Hudson Gas & Electric Co.	A/Stable/-	3	
American Water Capital Corp.	A/Negative/-	2	
Boston Gas Co.	A/Negative/-	2	
Colonial Gas Co.	A/Negative/-	2	
Middlesex Water Co.	A/Negative/-	3	
York Water Co. (The)	A/Stable/-	2	40
Alabama Gas Corp.	A/Stable/-	2	
Atlanta Gas Light Co.	A/Stable/-	2	
Public Service Co. of North Carolina Inc.	A/Stable/A-2	2	
Wisconsin Gas Co.	A/Stable/A-2	2	
North Shore Gas Co.	A/Stable/A-2	2	
Peoples Gas Light & Coke Co.	A/Stable/A-2	2	
ONEOK Inc.	A/Stable/A-2	6	
Indiana Gas Co. Inc.	A/Negative/-	1	
Southern California Water Co.	A/Negative/-	3	
American States Water Co.	A/Negative/-	3	5
United Water New Jersey	A/Negative/-	4	
United Waterworks	A/Negative/-	4	
PPL Electric Utilities Corp.	A/Negative/-	4	
Commonwealth Edison Co.	A/Negative/A-2	4	
PECO Energy Co.	A/Negative/A-2	4	
Central Illinois Public Service Co.	A/CW-Neg/-	3	
Western Massachusetts Electric Co.	BBB+/Stable/-	1	
Cascade Natural Gas Corp.	BBB+/Stable/-	2	
South Jersey Gas Co.	BBB+/Stable/-	2	6
Baltimore Gas & Electric Co.	BBB+/Stable/A-2	3	
Connecticut Natural Gas Corp.	BBB+/Negative/-	3	
Southern Connecticut Gas Co.	BBB+/Negative/-	3	
Central Maine Power Co.	BBB+/Negative/-	3	
Atlantic City Electric Co.	BBB+/Negative/A-2	3	
Potomac Electric Power Co.	BBB+/Negative/A-2	3	
Delmarva Power & Light Co.	BBB+/Negative/A-2	3	
Yankee Gas Services Co.	BBB+/Negative/-	3	
Connecticut Light & Power Co.	BBB+/Negative/-	3	
UGI Utilities Inc.	BBB+/Negative/-	4	70
Bay State Gas Co.	BBB/Stable/-	2	
AEP Texas Central Co.	BBB/Stable/-	2	
AEP Texas North Co.	BBB/Stable/-	2	73

Southwest Gas Corp.	BBB-/Stable/--	3
Columbus Southern Power Co.	BBB-/Stable/--	3
Ohio Power Co.	BBB-/Stable/--	3
Public Service Electric & Gas Co.	BBB-/Stable/A-2	3
Oncor Electric Delivery Co.	BBB-/Negative/--	2
Southern Union Co.	BBB-/Negative/--	3
Centerpoint Energy Houston Electric LLC	BBB-/Negative/--	3
CenterPoint Energy Resources Corp.	BBB-/Negative/--	3
Duquesne Light Co.	BBB-/Negative/	4
Duquesne Light Holdings Inc.	BBB-/Negative/ --	5
TXU Gas Co.	BBB-/CW-Dev/--	3
Jersey Central Power & Light Co.	BBB-/Stable/--	4
Metropolitan Edison Co.	BBB-/Stable/--	4
Pennsylvania Electric Co.	BBB-/Stable/--	4
Texas-New Mexico Power Co.	BB+/Stable/--	4
AmeriGas Partners L.P.	BB+/Stable/--	7
NUI Utilities Inc.	BB-/CW-Dev/--	4
Suburban Propane Partners L.P.	BB-/Stable/--	8
Star Gas Partners L.P.	BB-/Stable/--	8
SEMCO Energy Inc.	BB-/Negative/--	5
Ferrellgas Partners L.P.	BB-/Negative/--	8
Potomac Edison Co.	B-/Stable/--	3
West Penn Power Co.	B-/Stable/--	3
Illinova Corp.	B-/Negative/--	7
NorthWestern Corp.	D/NM/--	7
2. Transmission Only - Electric, Gas, and Other		
Questar Pipeline Co.	A+/Negative/--	3
Mid-West Independent Transmission System Operator Inc.	A-/Stable/--	1
American Transmission Co.	A-/Stable/A-1	1
New England Power Co.	A-/Stable/A-1	1
Colonial Pipeline Co.	A-/Stable/A-1	3
Dixie Pipeline Co.	--/A-1	3
Plantation Pipeline Co.	--/A-1	3
Explorer Pipeline Co.	A-/Stable/A-1	4
Northern Natural Gas Co.	A-/Positive/--	2
Buckeye Partners L.P.	A-/Stable/--	4
Kern River Gas Transmission Co.	A-/Negative/--	3
Northern Border Pipeline Co.	A-/CW-Neg/--	2
Texas Gas Transmission LLC	BBB+/Stable/--	3
Iroquois Gas Transmission System L.P.	BBB+/Stable/--	3
Florida Gas Transmission Co.	BBB-/Stable/--	2
International Transmission Co.	BBB-/Stable	2
ITC Holding Corp.	BBB-/Stable	2

Texas Eastern Transmission L.P.	BBB/Stable/-	3
PanEnergy Corp.	BBB/Stable/-	3
TE Products Pipeline Co. L.P.	BBB/Stable/-	4
TEPPCO Partners L.P.	BBB/Stable/-	4
Panhandle Eastern Pipeline LLC	BBB/Negative/-	3
Noark Pipeline Finance LLC	BBB/Negative/-	4
Southern Star Central Gas Pipeline Inc.	BB/Stable/-	3
Transwestern Pipeline Co.	BB/CW-Dev/-	4
Transcontinental Gas Pipe Line Corp.	B+/Negative/-	2
Northwest Pipeline Corp.	B+/Negative/-	2
Colorado Interstate Gas Co.	B-/Negative/-	2
Southern Natural Gas Co.	B-/Negative/-	2
ANR Pipeline Co.	B-/Negative/-	3
Tennessee Gas Pipeline Co.	B-/Negative/-	3
El Paso Tennessee Pipeline Co.	B-/Negative/-	3
El Paso Natural Gas Co.	B-/Negative/-	4
Gas Transmission-Northwest Corp.	CC/CW-Pos/-	2
3. Integrated Electric, Gas, and Combination Utilities		
Wisconsin Public Service Corp.	AA-/Stable/A-1+	4
Madison Gas & Electric Co.	AA/Negative/A-1+	4
Southern Co.	A/Stable/A-1	4
Georgia Power Co.	A/Stable/A-1	4
Alabama Power Co.	A/Stable/A-1	4
Mississippi Power Co.	A/Stable/A-1	4
Gulf Power Co.	A/Stable/-	4
Savannah Electric & Power Co.	A/Stable/-	4
San Diego Gas & Electric Co.	A/Stable/A-1	5
MidAmerican Energy Co.	A/Stable/A-1	5
Questar Corp.	-/-/A-1	6
Equitable Resources Inc.	A/Stable/A-1	6
Florida Power & Light Co.	A/Negative/A-1	4
South Carolina Electric & Gas Co.	A-/Stable/A-2	4
SCANA Corp.	A-/Stable/-	4
Wisconsin Electric Power Co.	A-/Stable/A-2	4
AGL Resources Inc.	A-/Stable/A-2	4
Virginia Electric & Power Co. (Dominion Virginia)	A-/Stable/A-2	5
Idaho Power Co.	A-/Stable/A-2	5
IDACORP Inc.	A-/Stable/A-2	5
Energen Corp.	A-/Stable/-	6
Vectren Utility Holdings Inc.	A-/Negative/A-2	3
Wisconsin Power & Light Co.	A-/Negative/A-2	4
Atmos Energy Corp.	A-/Negative/A-2	4
Southern Indiana Gas & Electric Co.	A-/Negative/-	5

Montana-Dakota Utilities Co.	A-/Negative/--	5
PacifiCorp	A-/Negative/A-2	5
Northern Border Partners L.P.	A-/CW-Neg/--	4
Central Illinois Light Co.	A-/CW-Neg/--	5
CILCORP	A-/CW-Neg/--	5
Union Electric Co.	A-/CW-Neg/A-2	5
Ameren Corp.	A-/CW-Neg/A-2	5
Cincinnati Gas & Electric Co.	BBB+/Stable/A2-	4
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	4
Northern States Power Wisconsin	BBB+/Stable/A-2	5
Kentucky Utilities Co.	BBB+/Stable/A-2	5
Louisville Gas & Electric Co.	BBB+/Stable/A-2	5
Alete Inc.	BBB+/Stable/A-2	5
Wisconsin Energy Corp.	BBB+/Stable/A-2	5
PSI Energy Inc.	BBB+/Stable/A-2	5
Union Light Heat & Power Co.	BBB+/Stable/--	5
Hawaiian Electric Co. Inc.	BBB+/Stable/A-2	6
Enogex Inc.	BBB+/Stable/--	6
National Fuel Gas Co.	BBB+/Stable/A-2	7
Energy East Corp.	BBB+/Negative/--A2	3
RGS Energy Group Inc.	BBB+/Negative/--	4
Rochester Gas & Electric Corp.	BBB+/Negative/--	4
Michigan Consolidated Gas Co.	BBB+/Negative/A-2	4
Interstate Power & Light Co.	BBB+/Negative/A-2	5
Public Service Co. of New Hampshire	BBB+/Negative/--	5
Kaneb Pipe Line Operating Partnership L.P.	BBB+/Negative/--	5
Consolidated Natural Gas Co.	BBB+/Negative/A-2	6
Detroit Edison Co.	BBB+/Negative/A-2	6
Questar Market Resources Inc.	BBB+/Negative/--	8
Portland General Electric Co.	BBB+/CW-Neg/A-2	5
Columbia Energy Group	BBB/Stable/--	3
NISource Inc.	BBB/Stable/--	4
Xcel Energy Inc.	BBB/Stable/A-2	5
Public Service Co. of Colorado	BBB/Stable/A-2	5
Northern States Power Co.	BBB/Stable/A-2	5
Southwestern Public Service Co.	BBB/Stable/A-2	5
Appalachian Power Co.	BBB/Stable/--	5
Kentucky Power Co.	BBB/Stable/--	5
Public Service Co. of Oklahoma	BBB/Stable/--	5
Southwestern Electric Power Co.	BBB/Stable/--	5
Northern Indiana Public Service Co.	BBB/Stable/--	5
Entergy Arkansas Inc.	BBB/Stable/--	5
Entergy Louisiana Inc.	BBB/Stable/--	5
Progress Energy Florida	BBB/Stable/--	5

Progress Energy Carolinas Inc.	BBB/Stable/A-2	5
Kansas City Power & Light Co.	BBB/Stable/A-2	6
PNM Resources Inc.	BBB/Stable/-	6
Southern California Edison Co.	BBB/Stable/A-2	6
Empire District Electric Co.	BBB/Stable/A-2	6
Entergy Mississippi Inc.	BBB/Stable/-	6
Entergy New Orleans Inc.	BBB/Stable/-	6
Duke Energy Field Services LLC	BBB/Stable/A-2	6
Arizona Public Service Co.	BBB/Negative/A-2	5
TXU U.S. Holdings Co.	BBB/Negative/-	5
Pinnacle West Capital Corp.	BBB/Negative/A-2	6
Cleco Power LLC	BBB/Negative/A-3	6
Puget Sound Energy Inc.	BBB/Positive/A-3	5
Puget Energy Inc.	BBB/Positive/-	5
Green Mountain Power Corp.	BBB/Stable/-	5
Public Service Co. of New Mexico	BBB/Stable/A-2	6
Pacific Gas & Electric Co.	BBB/Stable/-	6
Cleveland Electric Illuminating Co.	BBB/Stable/-	6
Ohio Edison Co.	BBB/Stable/-	6
Toledo Edison Co.	BBB/Stable/-	6
Pennsylvania Power Co.	BBB/Stable/-	6
El Paso Electric Co.	BBB/Stable/-	6
Central Vermont Public Service Corp.	BBB/Stable/-	6
Entergy Gulf States Inc.	BBB/Stable/-	6
System Energy Resources Inc.	BBB/Stable/-	7
Tampa Electric Co.	BBB/Negative/A-3	4
Black Hills Power Inc.	BBB/Negative/-	6
Westar Energy Inc.	BB+/Positive/-	5
Kansas Gas & Electric Co.	BB+/Positive/-	6
Indianapolis Power & Light Co.	BB+/Stable/-	4
IPALCO Enterprises Inc.	BB+/Stable/-	4
Enterprise Products Operating L.P.	BB+/Stable/-	6
Enterprise Products Partners L.P.	BB+/Stable/-	6
GulfTerra Energy Partners L.P.	BB+/CW-Neg/-	6
Consumers Energy Co.	BB/Negative/-	6
Tucson Electric Power Co.	BB/CW-Neg/-	6
Dayton Power & Light Co.	BB-/CW-Neg/-	7
Monongahela Power Co.	B/Stable/-	5
Nevada Power Co.	B+/Negative/-	7
Sierra Pacific Power Co.	B+/Negative/-	7
Sierra Pacific Resources	B+/Negative/-	7
4. Diversified Energy and Diversified Non-Energy		
WPS Resources Corp.	A/Stable/A-1	5

KeySpan Corp.	A/Negative/A-1	4
FPL Group Inc.	A/Negative/--	6
Peoples Energy Corp.	A-/Stable/A-2	5
Vectren Corp.	A-/Negative/--	4
PacifiCorp Holdings Inc.	A-/Negative/--	5
Exelon Corp.	A-/Negative/A-2	7
MDU Resources Group Inc.	A-/Negative/A-2	7
Centennial Energy Holdings Inc.	A-/Negative/A-2	8
Otter Tail Corp.	A-/Negative/--	8
Kinder Morgan Energy Partners L.P.	BBB+/Stable/A-2	4
Northeast Utilities	BBB+/Stable/--	5
OGE Energy Corp.	BBB+/Stable/A-2	6
LG&E Energy Corp.	BBB+/Stable/--	6
Cinergy Corp.	BBB+/Stable/A-2	6
Constellation Energy Group Inc.	BBB+/Stable/A-2	7
Sempra Energy	BBB+/Stable/A-2	7
Pepco Holdings Inc.	BBB+/Negative/A-2	5
Conectiv	BBB+/Negative/--	5
Alliant Energy Corp.	BBB+/Negative/A-2	6
DTE Energy Co.	BBB+/Negative/A-2	6
Dominion Resources Inc.	BBB+/Negative/A-2	7
Kinder Morgan Inc.	BBB/Stable/A-2	5
American Electric Power Co. Inc.	BBB/Stable/A-2	6
Entergy Corp.	BBB/Stable/--	6
Hawaiian Electric Industries Inc.	BBB/Stable/A-2	6
Progress Energy Inc.	BBB/Stable/A-2	6
PPL Corp.	BBB/Stable/--	7
Public Service Enterprise Group Inc.	BBB/Stable/A-2	7
Great Plains Energy Inc.	BBB/Stable/--	7
Duke Energy Corp.	BBB/Stable/A-2	7
Duke Capital Corp.	BBB/Stable/A-2	8
TXU Corp.	BBB/Negative/--	5
Centerpoint Energy Inc.	BBB/Negative/--	5
Cleco Corp.	BBB/Negative/A-3	6
Potomac Capital Investment Corp.	BBB/Negative/--	8
MidAmerican Energy Holdings Co.	BBB-/Positive/--	5
FirstEnergy Corp.	BBB-/Stable/--	6
TECO Energy Inc.	BBB-/Negative/A-3	5
Black Hills Corp.	BBB-/Negative/--	8
Avista Corp.	BB+/Stable/--	6
Edison International	BB+/Stable/--	6
TNP Enterprises	BB+/Stable/--	6
New York Water Service Corp.	BB/Stable	7
CMS Energy Corp.	BB/Negative/--	7

DPL Inc.	BB-/CW-Neg/--	8
Williams Companies Inc. (The)	B+/Negative/--	8
Allegheny Energy Inc.	B/Stable/--	7
Dynegy Inc.	B/Negative/--	8
Dynegy Holdings Inc.	B/Negative/--	9
El Paso CGP Corp.	B-/Negative/--	6
Aguila Inc.	B-/Negative/--	8
El Paso Corp.	B-/Negative/--	8
5. Energy Merchants/Power Developers/Trading and Marketing		
Entergy-Koch L.P.	A/Stable/--	9
KeySpan Generation LLC	A/Negative/--	5
FPL Group Capital	A/Negative/A-1	8
Exelon Generation Co.	A-/Negative/A-2	8
AmerenEnergy Generating Co.	A-/CW-Neg/--	8
Southern Power Co.	BBB+/Stable/--	6
LG&E Capital Corp.	BBB+/Stable/A-2	9
Alliant Energy Resources Inc.	BBB+/Negative/--	9
American Ref-Fuel Co. LLC	BBB/Stable/--	6
PSEG Power LLC	BBB/Stable/--	8
PPL Energy Supply LLC	BBB/Stable/--	8
TXU Energy Co. LLC	BBB/Negative/--	7
Duke Energy Trading and Marketing LLC	BBB-/Negative/--	10
Northeast Generation Company	BB+/Negative/--	9
Cogentrix Energy	BB-/Stable/--	6
PSEG Energy Holdings Inc.	BB-/Stable/--	9
AES Corp.	B+/Stable/--	9
NRG Energy Inc.	B+/Stable	9
Allegheny Energy Supply Co. LLC	B/Stable/--	8
Reliant Resources Inc.	B/Negative/--	8
Calpine Corp	B/Negative/--	9
Edison Mission Energy	B/Negative/--	9
Orion Power Holdings Inc	B/Negative/--	9
Reliant Energy Mid-Atlantic Power Holdings LLC	B/Negative/--	9
Mirant Americas Generation Inc.	D/--	10
Mirant Americas Energy Marketing L.P.	D/--	10
Mirant Corp.	D/--	10
NEGT Energy Trading Holdings Corp	D/--	10
PG&E National Energy Group	D/--	10
USGen New England Inc.	D/--	10

Staff Proxy Group Characteristics

Company	Parent Company Rating		S&P's Business Position	Percent Utility Revenues	Equity Ratio (1)
	Moody's	S&P's			
Alliant	Baa1	BBB+	6	74%	53.5%
Ameren	Baa1	BBB+	6	81%	54.0%
CH Energy Group	A2	A	3	70%	58.0%
Consolidated Edison, Inc.	A2	A	2	89%	50.0%
MGE Energy	Aa3	AA-	4	99%	63.0%
NSTAR	A2	A	1	80%	41.5%
SCANA	A3	A-	4	71%	46.0%
Southern Company	A3	A	4	96%	44.0%
Vectren Corporation	-	A-	4	100%	48.5%
Wisconsin Energy	A1	BBB+	5	99%	49.0%
Staff Proxy Group Average:			3.9	85.9%	50.8%

(1) December 2005 estimate, per Value Line Investment Survey's December 2005 Publications.

Calculation of Staff Proxy Group ROE
(Parent Companies must be similarly-rated to CECONY)

(B) <u>Company</u>	(N) <u>DPS</u> <u>Growth</u> <u>2008-10</u>	(O) <u>Retention</u> <u>Rate</u> <u>2009</u>	(P) <u>Return on</u> <u>Equity</u> <u>2009</u>	(Q) <u>B x R</u>	(R) <u>Increase in</u> <u>Shares</u>	(S) <u>MBR</u> <u>2005</u>	(T) <u>S Factor</u>	(U) <u>V Factor</u>	(V) <u>S x V</u>	(W) <u>Sustainable</u> <u>Growth</u>	(X) <u>Long-Form</u> <u>ROE</u>
Alliant Energy Corporation	2.43	0.49	8.34	4.08	0.85	1.23	1.04	0.19	0.19	4.27	7.88%
Ameren Corporation	0.00	0.24	9.65	2.33	1.15	1.68	1.93	0.40	0.78	3.12	7.53%
CH Energy Group, Inc.	0.61	0.32	9.52	3.07	-1.23	1.47	-1.81	0.32	-0.58	2.49	6.87%
Consolidated Edison, Inc.	0.86	0.21	9.30	1.98	1.01	1.57	1.58	0.36	0.57	2.56	7.29%
MGE Energy, Inc.	1.43	0.41	13.27	5.47	0.00	2.08	0.00	0.52	0.00	5.47	9.01%
NSTAR	3.23	0.34	11.68	3.97	0.00	1.97	0.00	0.49	0.00	3.97	8.15%
SCANA Corporation	4.60	0.42	11.43	4.75	1.33	1.75	2.34	0.43	1.01	5.75	9.81%
Southern Company	3.78	0.32	14.19	4.48	1.15	2.43	2.80	0.59	1.65	6.13	10.34%
Vectren Corporation	3.15	0.31	11.38	3.50	0.07	1.83	0.12	0.45	0.05	3.56	8.05%
Wisconsin Energy Corporation	4.17	0.62	10.15	6.31	0.00	1.72	0.00	0.42	0.00	6.31	8.55%
Average	2.43	0.37	10.89	4.00	0.43	1.77	0.80	0.42	0.37	4.36 Median	8.35% Average 8.10%

Calculation of GFC Cost of Equity - Staff Proxy Group

Merril Lynch Cost of Market: 11.10% (January 2006)

Treasury Rates

	<u>10 year</u>	<u>20 year</u>	(FRB Statistical Release) (http://www.federalreserve.gov/releases/h15/data.htm)
Aug-05	4.26%	4.53%	
Sep-05	4.20%	4.51%	
Oct-05	4.46%	4.74%	
Nov-05	4.54%	4.83%	
Dec-05	4.47%	4.73%	
Jan-06	4.42%	4.65%	
Risk Free Rate (8/05 - 1/06)	4.53%		
Proxy Group Beta	0.74		
Proxy Group DCF ROE	8.10%		
Traditional CAPM ROE	9.36%		
Zero Beta CAPM ROE	9.79%		
Generic CAPM ROE	9.58%		
2/3 DCF 1/3 CAPM Weighting			
ROE	<u>8.59%</u>		

Staff Proxy Group Selection Criteria - Parent Bond Ratings

<u>Moody's</u>	<u>Number of Ratings</u>	<u>S&P's</u>	<u>Number of Ratings</u>	
Aaa1		AAA+		
Aaa2		AAA		
Aaa3		AAA-		
Aa1		AA+		
<hr/>				
Aa2		AA		
Aa3	1	AA-	1	Companies With Relevant Ratings In This Range Allowed In Staff Proxy Group (CECONY Rating Highlighted)
A1	1	A+		
A2	3	A	4	
A3	2	A-	2	
Baa1	2	BBB+	3	
<hr/>				
Baa2		BBB		
Baa3		BBB-		
Ba1		BB+		
Ba2		BB		
Ba3		BB-		

Calculation of Rosenberg Proxy Group ROE
(Utility subsidiaries must be A/AA rated)

(B)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)	(V)	(W)	(X)
Company	DPS	Retention	Return on		Increase in	MBR				Sustainabl.ong-Form	
	<u>Growth</u> <u>2008-10</u>	<u>Rate</u> <u>2009</u>	<u>Equity</u> <u>2009</u>	<u>B x R</u>	<u>Shares</u>	<u>2005</u>	<u>S Factor</u>	<u>V Factor</u>	<u>S x V</u>	<u>Growth</u>	<u>ROE</u>
Ameren Corporation	0.00	0.24	9.65	2.33	1.15	1.68	1.93	0.40	0.78	3.12	7.53%
CH Energy Group, Inc.	0.61	0.32	9.52	3.07	-1.23	1.47	-1.81	0.32	-0.58	2.49	6.87%
Consolidated Edison, Inc.	0.86	0.21	9.30	1.98	1.01	1.57	1.58	0.36	0.57	2.56	7.29%
MGE Energy, Inc.	1.43	0.41	13.27	5.47	0.00	2.08	0.00	0.52	0.00	5.47	9.01%
NSTAR	3.23	0.34	11.68	3.97	0.00	1.97	0.00	0.49	0.00	3.97	8.15%
SCANA Corporation	4.60	0.42	11.43	4.75	1.33	1.75	2.34	0.43	1.01	5.75	9.81%
Southern Company	3.78	0.32	14.19	4.48	1.15	2.43	2.80	0.59	1.65	6.13	10.34%
Average	2.07	0.32	11.29	3.72	0.49	1.85	0.98	0.45	0.49	4.21 Median	8.43% Average 8.15%

Calculation of GFC Cost of Equity - Staff Proxy Group

Merril Lynch Cost of Market: 11.10% (January 2006)

Treasury Rates

	<u>10 year</u>	<u>20 year</u>	(FRB Statistical Release) (http://www.federalreserve.gov/releases/h15/data.htm)
Aug-05	4.26%	4.53%	
Sep-05	4.20%	4.51%	
Oct-05	4.46%	4.74%	
Nov-05	4.54%	4.83%	
Dec-05	4.47%	4.73%	
Jan-06	4.42%	4.65%	
Risk Free Rate (8/05 - 1/06)	4.53%		
Proxy Group Beta	0.71		
Proxy Group DCF ROE	8.15%		
Traditional CAPM ROE	9.22%		
Zero Beta CAPM ROE	9.69%		
Generic CAPM ROE	9.46%		
2/3 DCF 1/3 CAPM Weighting ROE	<u>8.58%</u>		

Staff Proxy Group
6 Month Average Price Data

<u>Company</u>	<u>Six-month Price</u>	<u>Aug-05</u>		<u>Sep-05</u>		<u>Oct-05</u>		<u>Nov-05</u>		<u>Dec-05</u>		<u>Jan-06</u>	
		<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
Alliant Energy Corporation	\$28.52	30.18	28.22	30.58	28.73	30.38	25.79	28.39	25.88	28.98	27.20	30.10	27.79
Ameren Corporation	\$52.84	56.77	53.18	56.47	52.05	54.46	49.61	53.61	50.67	53.00	50.93	52.75	50.55
CH Energy Group Inc.	\$46.97	50.23	45.21	49.18	46.31	48.70	43.03	48.01	45.87	47.76	45.70	48.10	45.54
Consolidated Edison Inc.	\$46.64	49.23	45.60	49.29	46.60	49.10	43.70	46.41	44.54	47.25	44.41	47.52	46.06
MGE Energy Inc.	\$35.13	37.92	33.34	38.12	34.87	37.25	32.20	36.24	33.60	35.98	33.71	35.18	33.15
NSTAR	\$28.62	30.49	28.65	30.45	28.55	29.65	24.90	28.32	26.43	30.02	27.51	30.16	28.27
Scana Corporation	\$40.61	42.40	39.90	43.49	40.71	43.37	37.79	40.42	38.53	40.87	39.16	41.18	39.55
Southern Company	\$34.81	35.31	33.24	36.47	34.05	36.33	32.76	35.20	33.86	35.70	34.45	35.89	34.45
Vectren Corporation	\$27.50	29.30	26.50	28.61	27.46	28.75	25.00	27.66	26.65	28.21	26.82	28.00	27.03
Wisconsin Energy Corporation	\$39.02	40.48	37.32	40.38	38.81	40.83	36.81	38.74	36.49	39.85	37.91	41.67	38.92



Lowering Expectations for Stock Returns

Monday, May 09, 2005

By Gail Buckner, CFP

FOX NEWS

This week, Gail explains why stock returns are expected to be lower in the years ahead.

Dear Friends,

Forgive me if I get a bit technical this week; I need to do so in order to explain an important concept that affects anyone who invests in stocks. It's called the "equity risk premium."

As most investors understand, a stock is inherently risky. Not because its price fluctuates, the value of all investments — bonds, gold, real estate, etc. — fluctuates. In fact, in some years bond prices have been more volatile than equities.

The reason stocks are riskier than bonds is that they have a lower priority in the event a company fails. In a bankruptcy, creditors get first dibs on any assets. This includes suppliers, banks, the phone company, and investors who loaned the company money by purchasing its bonds. Next on the list are investors who own "preferred" stock (now you know where the name comes from).

"Common" stockholders divvy up the remaining assets, assuming any are left. In exchange for accepting this risk, common stockholders expect to be compensated in the form of higher expected returns. Thus the term "risk premium."

The "premium" is the additional return you expect compared to taking no risk at all. Where can you find a "risk-free" investment? The United States Treasury. It's never defaulted on its debt. Ever.

Three-month treasury bills are commonly considered a riskless investment. Why? Because they're issued by the U.S. Treasury Department and you get your money back in 90 days. The downside, of course, is that because they are such a safe investment, they don't have to pay much. Right now, 3-month T-bills have a yield of 2.8 percent.

Trouble is, 2.8 percent probably isn't going to help you accumulate the kind of money you're going to need in order to retire.

Other treasury debt is also considered "risk free," provided you hold it until it matures. Take 20-year government bonds. Although the Treasury isn't issuing new long-term bonds, there are plenty still on the market.

Provided you hold a treasury bond until it matures, you will receive interest payments twice a year and you will eventually get back the face value of the bond itself. (Note to bond aficionados: Please don't e-mail me about "premium" and "discount" prices! Going into that would confuse the issue.)

Of course, if you are a long-term investor, you face an additional risk: inflation. As Joseph McAlinden, chief investment officer of Morgan Stanley, likes to say, "Inflation is theft." When the cost of living goes up, your dollar buys less. Inflation steals purchasing power.

One of the reasons long-term bonds pay more than short-term debt is to compensate the bond investor for the impact of inflation.

Long-term equity investors also expect a little extra in their return to make up for inflation. One way to estimate the expected return on stocks is:

$$\text{Inflation Rate} + \text{Risk-free Rate} + \text{Equity Risk Premium}$$

Ibbotson and Associates, a major provider of financial market data and consulting, estimates that over the 20th century (1926 through 1999, to be exact), the equity risk premium — the extra return stock investors expected — averaged about 5.25 percent.

Over this same period, long-term government bonds, which incorporate both the risk-free rate of return *and* an inflation factor, produced an average annual total return of 5.1 percent last century. When you add the equity risk premium to this, you come up with should expect stocks to return:

$$5.1 + 5.25 \text{ percent} = 10.35 \text{ percent.}$$

Voila! Darn close to the actual annualized return on equities over the 20th century.

OK. Here's the point of all this: Ibbotson and others do not think the equity risk premium is going to be as high this century as it was in the 20th century. Translation: don't expect the kind of equity returns we saw (especially in the latter part of the last century) to continue.

Peng Chen, Ph.D., one of the authors of the Ibbotson study, said a major reason for the double-digit returns the stock market produced last century was "a big P/E increase."

The Price/Earnings ratio tells an investor what you have to pay for each dollar in earnings the company reports. If a stock is selling for \$30/share and the company earns \$2/share, the stock is said to have a P/E of "15."

According to Chen, the average price/earnings ratio back in 1926 was 10. By the end of century, the P/E ratio had *doubled*, as investor optimism about the potential future earnings of companies soared. (Think "tech stocks" in the late 1990s. Some of them had ridiculously high P/Es!)

According to Chen, the average P/E was roughly "25" at the end of 2001. It has since come down to around "20."

The research Chen co-authored with Robert Ibbotson pegs the equity risk premium at just under 4 percent for this century — down from the 5.25 percent we saw last century. Why? Well, as they like to say on Wall Street, "Trees don't grow to the sky." Or, in Chen's words, "P/Es cannot increase forever. That's not reasonable." So Ibbotson and Chen took this out of the equity risk premium amount.

This means that going forward, we should expect smaller returns from stocks. *Single-digit* returns. Let's plug some values into the above equation. (To mirror the approach Ibbotson used, we'll use the current yield on 20-year treasury bonds as the risk-free return + inflation). Thus, the expected long-term annual return on stocks is:

$$\text{20-year Treasury yield} + \text{Equity Risk Premium}$$

$$4.68\% + 4\%$$

$$8.68\%$$

Chen emphasizes that this is the average annual return over, say, 20 years. In some years the return will be higher; in others it will be less. In addition, this is the expected return on the broadly diversified S&P 500 Index. Smaller companies have greater risk, so their stocks would have a slightly higher risk premium than the big, established firms that make up the S&P 500.

Which means you might want to rethink just how much you expect your retirement nest egg to be worth when you retire. If your equity investments earn, on average, 1.5 percent less each year, this adds up over time.

Let's say \$50,000 in your 401(k) is invested in large company stocks. If your investment averages 10 percent per

year, after 20 years you'll end up with \$336,374. But if it generates an annual return of 8.5 percent, you'll be looking at \$255,602 — \$80,000 (24 percent) less.

What can/should you do? There are only about three choices, if you exclude robbing a bank after you retire: 1) reduce the standard of living you were planning on; 2) increase the amount of money you're socking away; 3) expect to continue working in a reduced capacity.

I know this isn't exactly happy news. But knowing this in advance hopefully gives you time to do some planning. Look at it this way: if the market does better than expected, you'll be sittin' pretty.

Hope this helps,

Gail

*Federal Reserve Bank of Minneapolis

If you have a question for Gail Buckner and the Your \$ Matters column, send them to moneymatters@foxnews.com, along with your name and phone number.

Gail Buckner and Foxnews.com regret that all letters cannot be addressed and that some might be combined in order to more completely address a topic.

To access Gail's past columns, simply use our new "Search" function: type in "Buckner" and you'll be able to get all Your \$ Matters columns since April 2001.

The views expressed in this article are those of Ms. Buckner or the individual commentator. You should consult your own financial adviser for advice regarding your particular financial circumstances. This article is for information only and is not an offer of the sale of any mutual fund or other investment.

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All market data delayed 20 minutes.

The logo for Ibbotson Associates, featuring the word "ibbotson" in a lowercase, bold, sans-serif font. The letters are white and set against a solid black rectangular background.[Products](#)[Cost of Capital Center](#)[Knowledge Center](#)[Support](#)[Contact Us](#)

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Published Research

Predictions of the Past and Forecasts for the Future: 1976-2025

Roger G. Ibbotson, Ph.D.

Roger G. Ibbotson

Chairman, Ibbotson Associates

Professor in the Practice of Finance, Yale School of Management

April 1999

Glimmer of Hope for Stock Investors

In early 1973, Professor Roger Ibbotson and Rex Sinquefeld partnered to research historical returns for common stocks, U.S. government and corporate bonds, U.S. Treasury bills, and inflation. At the time, Professor Ibbotson taught at the University of Chicago Graduate School of Business. Through their research, Ibbotson and Sinquefeld hoped to provide an update to the historical performance study done years earlier by Lawrence Fisher and James Lorie, as well as present convincing evidence that common stocks were still appropriate for long-term investors. During the 21-month period between January 1973 and September 1974, investors suffered a 42% drop in the stock market. In order to win over skeptics, Professor Ibbotson believed there needed to be a forecast set in historical terms to convey his prediction that stocks would outperform bonds over long time periods.

By May 1974, Professor Ibbotson had collected and analyzed enough data with Sinquefeld to present their unpublished conclusions in a speech to the Center for Research in Security Prices (CRSP) at the University of Chicago. During the speech, Professor Ibbotson estimated the future median total return for large company stocks would be 14.8% per year, based on historical data through year-end 1973. The forecast was derived using the unique methodology Ibbotson and Sinquefeld had created. Although the 14.8% forecast would fluctuate in the future as the researchers updated the data, the methodology they used to estimate future returns remained the same. In fact, the same forecasting methodology is used today in Ibbotson Associates' Stocks, Bonds, Bills and Inflation Yearbook, an annual update of Ibbotson and Sinquefeld's original research.

To derive the median return forecast for stocks, Professor Ibbotson used a "building block" methodology. The current market estimate of the risk-free rate is derived from the yield curve. Added on top of this is the historical equity risk premium. Together, these two "blocks" provide the expected future return for stocks.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

Staff Rate Panel

Marco L. Padula
Utility Engineer 3

Liliya A. Randt
Junior Engineer

Michael J. Rieder
Utility Engineer 3

Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

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New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Case 05-S-1376 Staff Rate Panel

1 Q. Please state your names, titles and business
2 addresses.

3 A. Marco L. Padula, Utility Engineer 3, Liliya A.
4 Randt, Junior Engineer, and Michael J. Rieder,
5 Utility Engineer 3, Department of Public Service,
6 Three Empire State Plaza, Albany, New York 12223-
7 1350.

8 Q. Mr. Padula have you already discussed your
9 educational background, professional and testimonial
10 experience, and responsibilities?

11 A. Yes, that information is included in my individual
12 testimony in this proceeding.

13 Q. Mr. Rieder have you already discussed your
14 educational background, professional and testimonial
15 experience, and responsibilities?

16 A. Yes, that information is included in my individual
17 testimony in this proceeding.

18 Q. Ms. Randt, please briefly state your educational
19 background and professional experience.

20 A. I graduated magna cum laude from the State
21 University of New York Institute of Technology at

1 Utica with a Bachelor of Science degree in
2 Mechanical Engineering in May 2004. I also received
3 a Master degree in Civil Engineering from Poltava
4 Technical University, Ukraine in 1997. I have been
5 employed by the Department of Public Service since
6 April 2005 as a Junior Engineer.

7 Q. Ms. Randt, please generally describe your
8 responsibilities with the Department.

9 A. My duties include analyzing utility rate petitions
10 and other filings.

11 Q. Have you previously provided testimony before this
12 Commission?

13 A. No.

14 Q. What is the purpose of the Panel's testimony?

15 A. The purpose of our testimony is to address
16 Consolidated Edison Company on New York, Inc.'s (Con
17 Edison) proposed recovery of East River Repowering
18 Project (ERRP) carrying costs, the embedded cost of
19 service (ECOS) study, the proposed timing of
20 implementation of the demand charge rate structure,
21 and provide the revenue adjustment associated with

1 Staff's sales forecast adjustments.

2 Q. Please provide a summary of your recommendations.

3 A. We propose that ERRP cost recovery continue via the
4 steam fuel adjustment clause (FAC); ERRP be
5 allocated in the same manner as other steam
6 production plant by using the peak demand method in
7 the company's next ECOS study to be included in its
8 next rate filing; the implementation of demand
9 charges commence only after all affected customers
10 are sample billed for at least one winter period;
11 and the revenue requirement be reduced by \$7.4
12 million based on Staff's sales forecast adjustments.

13 Q. In your testimony, will you refer to, or otherwise
14 rely upon, any information produced during the
15 discovery phase of this proceeding?

16 A. Yes. We will refer to, and have relied upon,
17 several responses to Staff Information Requests.
18 They are attached as Exhibit___(SRP-1)

19 Q. Are you sponsoring any other exhibits?

20 A. Yes, we are sponsoring Exhibit___(SRP-2) and
21 Exhibit___(SRP-3) which provide the details of the

1 revenue resulting from the sales forecast
2 adjustments provided by Staff witnesses Barney and
3 Padula.

4 ERRP Cost Recovery

5 Q. Does the Panel recommend that ERRP be put into base
6 rates at this time?

7 A. No, for two reasons. 1) the cost of ERRP has
8 increased significantly since the last rate
9 proceeding and a thorough review of these costs is
10 necessary before they can be allowed to go into rate
11 base and 2) ERRP was not properly allocated in the
12 ECOS study.

13 Q. Was this thorough review completed?

14 A. No. Although the company proposed in its rate
15 filing to place all of the cost of ERRP in base
16 rates, it provided no details regarding this
17 proposal, nor did it offer any justification of the
18 reasonableness of the costs, even though the total
19 cost had significantly increased from the level
20 presented in the last steam rate case. The company
21 did not provide additional data related to ERRP

1 until the first week of January, more than two
2 months after the company's initial rate filing.

3 Given the relatively short amount of time between
4 the date the information was provided and the date
5 this testimony was due, Staff was unable to complete
6 a thorough review.

7 Q. When will this review be completed?

8 A. Staff intends to complete this review before the
9 company files its next rate case. At that time, the
10 company will have at least one complete year of cost
11 data on ERRP and the costs can be allocated properly
12 in the ECOS study. Also, the costs can be put into
13 base rates, subject to any adjustments identified by
14 Staff's review.

15 Q. What does the Panel propose for the rate year?

16 A. The company should continue to be allowed full
17 recovery of ERRP costs through the FAC, subject to
18 refund of any amounts identified by a Staff audit
19 and determined by the Commission to have been
20 improperly recovered.

1 ECOS Study

2 Q. Did the Panel examine the ECOS Study submitted by
3 the company?

4 A. Yes.

5 Q. Please briefly describe the purpose of an ECOS
6 study.

7 A. An ECOS study reflects the cost of providing utility
8 services to each customer class. It is based on an
9 analysis of the rate base and operating expenses for
10 a prior calendar year period. There are three major
11 steps in an ECOS study: functionalization,
12 classification and allocation of costs to each of
13 the service classes. Functionalization entails
14 assigning costs either to production, transmission,
15 distribution, or customer service.
16 After functionalization, all costs are classified as
17 demand, energy, or customer related. The third step
18 is allocation of classified costs to customer
19 classes based on selected characteristics such as
20 class contribution to peak demand, steam sales, or
21 the number of customers in a particular service

1 class. The final output of the ECOS study is a
2 summary of the individual class rates of return.
3 This indicates the level to which each class
4 contributes to the total system rate of return.

5 Q. On what data was Con Edison's ECOS study based?

6 A. Calendar year 2004.

7 Q. Please explain the "tolerance band" that the company
8 applies to the results of the ECOS study.

9 A. The class revenue responsibilities have been
10 measured with a +/-10% tolerance band around the
11 total system average rate of return. Classes would
12 be considered deficient or surplus if the class
13 return falls outside of the tolerance band.

14 Q. What are the results of the company's ECOS study in
15 this case?

16 A. The ECOS study indicates that SC1 is deficient by
17 \$903,629. The class rate of return for SC2 and SC3
18 each fall within the tolerance band. The total
19 system rate of return is 9.05%. The company
20 proposes to adjust the revenue requirement of SC1 to
21 bring the class rate of return to within the +/- 10%

1 tolerance band.

2 Q. Does the Panel take issue with the company's ECOS
3 study assumptions and methodologies?

4 A. Yes. We take issue with how the costs related to
5 ERRP are allocated in the ECOS.

6 Q. Please explain how the company allocated ERRP's
7 costs.

8 A. The company takes the annual ERRP carrying charges
9 and allocates them on a volumetric basis. It
10 attempts to justify this approach by explaining that
11 this method is consistent with the current cost
12 recovery through the Steam FAC.

13 Q. Do you agree with the company's proposed approach?

14 A. No. ERRP costs should be allocated like all other
15 steam production plant; that is, based on class
16 contribution to peak load. According to the NARUC
17 Electric Utility Cost Allocation Manual (Manual),
18 production plant is traditionally allocated based on
19 the "cost impact that the class loads impose on the
20 utility system." (Page 39) There are two major
21 methods: peak demand and energy weighting.

Case 05-S-1376 Staff Rate Panel

1 Q. Do the principles espoused in the Manual apply to
2 steam production plant?

3 A. Yes. Steam production plant is built to meet the
4 peak demand of the system similar to electric
5 production plant.

6 Q. Could the company have allocated ERRP according to
7 traditional methods in this case?

8 A. No. According to the company response to Staff
9 Information Request 422, ERRP costs were not
10 reflected on the company's books for 2004, the cost
11 year on which the ECOS study is based, since ERRP
12 went into service in April 2005.

13 Q. What does the Panel recommend?

14 A. We recommend that the peak demand method be applied
15 to allocate ERRP when the company performs its next
16 ECOS study to be submitted with its next rate
17 filing.

18 Q. What is your recommendation in this proceeding?

19 A. Because we recommend ERRP costs to continue to flow
20 through the FAC, the proposed allocation of ERRP
21 costs in the ECOS study has no affect on base rates

1 in this proceeding.

2 Demand Billing Implementation

3 Q. Please briefly describe the manner in which Con
4 Edison proposes to implement demand billing.

5 A. The company is in the process of installing demand
6 meters for all customers with annual consumption in
7 excess of 22,000 Mlbs in preparation of billing
8 these customers based on their demands beginning
9 November 1, 2007. It has installed demand meters
10 for customers with annual consumption between 14,000
11 Mlbs and 22,000 Mlbs even though it does not intend
12 to implement demand billing for those customers at
13 this time. Prior to the commencement of "live"
14 billing on November 1, 2007, the company proposes to
15 issue sample bills to those customers with demand
16 meters. The sample bills will inform customers of
17 the amount they would have been billed had demand
18 rates been in effect.

19 Q. Will all customers who will be subject to the
20 proposed demand charges have at least one full
21 winter season of sample demand-based billing?

1 A. No, according to the company, approximately 37
2 customers will not have received sample bills prior
3 to the proposed (November 1, 2007) date demand
4 charges go into effect.

5 Q. Why is this?

6 A. The company states that demand meters for these
7 customers will not be in place in time to provide
8 data necessary for the calculation of the sample
9 bills.

10 Q. Do you have any concerns with this?

11 A. Yes, we believe that all customers subject to demand
12 billing should be afforded the opportunity to be
13 sample billed. Not providing this information to
14 certain customers is unfair and, upon advice of
15 counsel, potentially discriminatory under the Public
16 Service Law. As such, we propose that the company
17 not be allowed to implement demand billing for its
18 customers with annual consumption in excess of
19 22,000 Mlbs until all such customers have had at
20 least one winter season of sample demand-based
21 billing. This will allow all customers subject to

1 the new demand billing to anticipate any resulting
2 bill impacts and potentially mitigate any extreme
3 impacts that might otherwise result from the new
4 demand charge rate structure. In addition, delaying
5 implementation of "live" billing until all necessary
6 demand meters are installed and historic usage data
7 is available will negate the need for the demand
8 charge reconciliation proposed by the company.

9 Q. Will this recommendation cause slippage in the
10 proposed November 1, 2007 commencement date?

11 A. Not necessarily. As we noted above, the company has
12 not focused its efforts on installing demand meters
13 for those customers which will be subjected to
14 demand-based billing. While we acknowledge that the
15 Commission's last rate order referenced customers
16 with usage over 14,000 Mlbs, the company could have
17 sought modification of this threshold once it
18 decided to limit demand billing to customers with
19 usage over 22,000 Mlbs. However, it did not do so.
20 Had the company focused its efforts on the larger
21 customers in 2005, it is possible that the 37

1 customers of concern would have demand meters
2 installed in time to allow for one year of sample
3 billing prior to November 1, 2007.

4 Q. Are there impediments to installing demand meters
5 for the 37 remaining customers?

6 A. Con Edison provided Staff with some examples of
7 problems it has encountered but did not provide
8 details as to whether the examples pertain to any or
9 all of these 37 customers. Regardless, the problems
10 do not appear to be insurmountable since the company
11 expects to have all of the demand meters installed
12 by April 30, 2007. Thus, it appears to us that the
13 issue is more one of focus and of the company
14 placing sufficient attention and resources on this
15 matter.

16 Revenue Forecast

17 Q. Have you reviewed the company's proposed rate year
18 revenues at current rate levels?

19 A. Yes. As reflected in the company's Exhibit ____
20 (FCY-2), the company forecasts \$667,456,000
21 (excluding \$34,460,000 of ERRP carrying costs) in

Case 05-S-1376 Staff Rate Panel

1 revenues during the rate year based on its sales
2 forecast of 26,066 MMLbs.

3 Q. Does Staff propose a different level of sales for
4 the rate year?

5 A. Yes. Staff witness Barney proposes adjustments that
6 will increase the level of sales reflected in the
7 company's sales forecast by 332 MMLbs. In addition,
8 Staff witness Padula proposes a steam business
9 development related sales growth target of 880
10 MMLbs. The combination of the increased sales
11 forecast and the steam business development related
12 sales growth target will increase the overall level
13 of revenues that the company would collect at
14 current rates and all else being equal reduce the
15 level or rate relief sought by the company in this
16 case.

17 Q. Have you developed an adjustment to the rate year
18 revenue requirement based on Staff's forecast of
19 increased sales?

20 A. Yes. We propose that the rate year revenue
21 requirement requested by the company be reduced by

1 \$7.4 million.

2 Q. Please explain how you arrived at your adjustment.

3 A. In response to Staff Information Request 412, the
4 company provided a model that priced out the rate
5 year revenues at current rates based on its
6 forecasted customer and sales levels. We used this
7 model to calculate the level of rate year revenues
8 that would be collected based on Staff's increased
9 sales levels. The results of that calculation are
10 shown in our Exhibit___(SRP-2)..

11 Q. How did you then arrive at the rate year revenue
12 requirement reduction associated with the increase
13 in sales?

14 A. We calculated the corresponding increase in fuel,
15 water, chemicals and station electric costs
16 associated with the increase in sales based on
17 backup data provided with the company's Operations
18 Panel testimony. This increase in costs was then
19 subtracted from the increase in sales revenues to
20 arrive at the net adjustment. The results of these
21 calculations are shown in our Exhibit___(SRP-3).

Case 05-S-1376 Staff Rate Panel

- 1 Both exhibits have been provided to the Staff
- 2 Accounting Panel.
- 3 Q. Does this conclude your testimony?
- 4 A. Yes.

BEFORE THE
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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Exhibits of:

Staff Rate Panel

Marco L. Padula
Utility Engineer 3

Liliya A. Randt
Junior Engineer

Michael J. Rieder
Utility Engineer 3

Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff14
Date of Response: 01/30/2006
Responding Witness: Rate Panel

Question No. :422

ERRP costs have been allocated based on volume for reasons related to bill impact concerns. (a) Would it have been possible to allocate ERRP based on traditional production plant allocation methods (i.e., contribution to peak demand) at the time Con Edison completed the ECOS study filed in this case? (b) If the response to (a) is no, please explain why not?

Response:

(a) & (b) It would not have been possible to allocate ERRP costs currently recovered through the FAC using traditional ECOS methodology at the time the ECOS study was run because these costs were not reflected on the Company's books for 2004.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff12
Date of Response: 01/27/2006
Responding Witness: Yaegel, Frank C.

Question No. :412

Please provide, in electronic spreadsheet format, the corrected 52 page backup work papers supporting witness Yaegel's testimony and exhibits.

Response:

See attached 51 pages of first line backup. To the Company's knowledge only page 4 required correction. The bottom half of the page erroneously labeled the data as being related to the winter 2003/2004 when the data was in fact winter 2004/2005 related.

STAFF FORECASTED STEAM REVENUES - 12 MONTHS ENDING SEPTEMBER 30, 2007
AT CURRENT RATES

R E V E N U E I N \$ 1 0 0 0 ' s						
Line No.	Service Classification	Base Column (1)	Increase in Rates & Charges Column (2)	Statement of Fuel Adjustment Column (3)	Increase in Rates and Charges Column (4)	Total Revenue @ Current Rates Column (5) a
1	SC 1 - General Service	18,008	446	7,000	173	25,627
2	SC 2 - Annual Power Service	280,984	6,974	176,880	4,390	469,229
3	SC 3 - Apartment House Service	115,594	2,867	78,078	1,936	198,475
Total		414,586	10,288	261,958	6,499	693,331

a : Excludes \$34,460,000 of East River Re-Powering Project carrying costs and associated increase in rate charges

Net Revenue Adjustment Calculation Based on Staff Sales Forecast Adjustments

Staff Sales Forecast Adjustment: 1,212,420 Mlbs

Base Revenue (1)	Base Cost Of Fuel 5.049 \$/Mlb (2)	Water Costs 0.405 \$/Mlb (3)	Chemical Costs 0.074 \$/Mlb (4)	Station Electric Costs 0.34 \$/Mlb (5)	Net Revenue (6=1-2-3-4-5)
\$14,637,000	\$6,121,509	\$564,685	\$103,177	\$474,056	\$7,373,574

BEFORE THE
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PUBLIC SERVICE COMMISSION

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Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

Marco L. Padula
Utility Engineer 3
Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
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FEBRUARY 2006

Prepared Testimony of:

Marco L. Padula
Utility Engineer 3
Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name, employer, and business
2 address.

3 A. Marco L. Padula. I am employed by the New York
4 State Department of Public Service (Department).
5 My business address is Three Empire State Plaza,
6 Albany, New York 12223-1350.

7 Q. Mr. Padula, what is your position in the
8 Department?

9 A. I am employed as a Utility Engineer 3 in the
10 Rates and Tariffs Section of the Office of
11 Electricity and Environment.

12 Q. Please describe your educational background and
13 professional experience.

14 A. I received a Bachelor of Science Degree in
15 Electrical Engineering from Northeastern
16 University in 1990 and Master of Business
17 Administration from Rensselaer Polytechnic
18 Institute in 1998. From 1990 to 1994 I was
19 employed by IBM as an Electrical Engineer
20 responsible for the design and development of
21 high performance power/thermal control systems

1 for mainframe computers. In 1994 I joined the
2 Department.

3 Q. Please briefly describe your current
4 responsibilities with the Department.

5 A. My current responsibilities include electric
6 utility revenue allocation and rate design,
7 computer simulation of electricity production,
8 transmission and pricing, and wholesale electric
9 market issues. In addition, I am one of the two
10 representatives of the Department on the Con
11 Edison Steam Business Development Task Force core
12 team.

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

15 A. Yes. I have testified on operating and
16 maintenance expenses in Cases 94-G-0885 and 03-S-
17 1672, on rate design issues in the Standby
18 Service proceedings, and on embedded cost of
19 service studies in Case 04-E-0572.

20 Q. What is the scope of your testimony in this
21 proceeding?

1 A. My testimony will address the following:

2 Consolidated Edison Company of New York, Inc.'s
3 (Con Edison) steam business development (SBD)
4 efforts, a proposed SBD steam sales growth
5 target, the proposed steam demand reduction pilot
6 program, recovery of costs related to SBD
7 efforts.

8 Q. Please provide a summary of your specific
9 recommendations.

- 10 • Due to the lack of a SBD sales growth target
11 proposal by the company, I propose a SBD related
12 sales growth target of 880 MMLbs based on sales
13 growth opportunities identified in the recent SBD
14 Plan. These sales are in addition to any sales
15 growth included in the sales forecast provided by
16 company witness Yaegel as adjusted by Staff
17 witness Barney.
- 18 • I recommend that the company not be allowed to
19 recover costs related to its proposed steam
20 demand reduction pilot program prior to
21 demonstrating its cost effectiveness and

1 including it in its work plan on ameliorating the
2 steam production capacity constraint.

3 • I recommend that the Commission reject the
4 company's request for lost revenue recovery
5 associated with the proposed steam demand
6 reduction pilot program based on the fact that
7 the intent of this sort of program was to reduce
8 existing winter peak demand so that the company
9 could then obtain new combined heating and
10 cooling customers, thereby increasing overall
11 sales and revenue.

12 • I propose that the recovery of SBD related costs
13 incurred under the 2004 rate plan be subject to a
14 future compliance filing demonstrating that the
15 company has not obtained any additional sales
16 margin related to SBD activities to offset the
17 costs against.

18 • Lastly, I recommend that SBD related costs
19 included in the company's proposed O&M budget be
20 subject to a cap and downward reconciliation due
21 to the uncertainty of the estimates provided.

1 Q. Will you refer to, or otherwise rely upon, any
2 information produced during the discovery phase
3 of this proceeding in your testimony?

4 A. Yes. I will refer to, and have relied upon,
5 several responses to Staff Information Requests.
6 They are attached as Exhibit___(MLP-1).

7 Q. Are you sponsoring any other Exhibits?

8 A. Yes, I am sponsoring Exhibit___(MLP-2) which
9 provides the details on my proposed sales growth
10 target and Exhibit___(MLP-3) which summarizes the
11 costs related to the company's steam business
12 development efforts.

13 **Con Edison's Steam Business Development Efforts**

14 Q. What is your understanding of the Commission's
15 view on Con Edison's steam business development
16 efforts?

17 A. When the Commission adopted a rate plan for Con
18 Edison's steam business in September of 2004, it
19 established a Steam Business Development Task
20 Force (Task Force). The limited steam load
21 growth and declining steam market share was a

1 deep concern among many parties to the last rate
2 case, and the formation of the Task Force was in
3 direct response to these concerns. In forming
4 this Task Force, the Commission sought to bring
5 divergent, interested parties together to develop
6 a steam business development plan for the Con
7 Edison steam business.

8 Q. Has the Task Force completed its Steam Business
9 Development Plan (SBD Plan) and submitted the SBD
10 Plan to the Commission?

11 A. Yes. The SBD Plan was filed with the Commission
12 on August 29, 2005. It was the subject of a
13 Commission Order issued on December 5, 2005 (SBD
14 Plan Order).

15 Q. Did the SBD Plan make recommendations for Con
16 Edison's steam business?

17 A. Yes. The SBD Plan laid out nineteen action items
18 along with target completion dates.

19 Q. Did the Commission make any observations about
20 the steam business in considering the SBD Plan?

1 A. Yes, the Commission stated that the analysis
2 provided in the SBD Plan reveals significant
3 deficiencies in the way Con Edison steam has run
4 its business. The SBD Plan Order at page 13,
5 states:

6 (The SBD Plan) explains that Con Edison has
7 failed to adequately expand its steam
8 business and is instead losing market share
9 in steam cooling...From the discussion in the
10 Plan, it appears that the situation has
11 become worse over the past few years and
12 that Con Edison has increasingly turned its
13 attention away from the steam business. It
14 is also apparent, from the Plan's analysis,
15 that the company has not committed the
16 resources necessary to regain and improve
17 its market share.

18
19 Q. What action did the Commission take on the SBD
20 Plan?

21 A. The Commission expressed concern that Con Edison
22 might not fully implement the nineteen action
23 items set forth in the SBD Plan. Therefore, the
24 Commission explicitly directed Con Edison to
25 incorporate three of the action items - Develop a
26 Mapping and Locational Market Analysis System,
27 Propose a Steam Demand Charge and Other Rate-

1 Related Initiatives to promote customers'
2 efficient use of steam, and Develop an Enhanced
3 Steam Price Risk Management Product - into this
4 rate proceeding, file a supplement, and file
5 updates on the progress of its efforts. In
6 addition, Con Edison was ordered to file
7 quarterly reports on its efforts to implement and
8 the results of implementing the remaining action
9 items.

10 Q. Based on the Commission's statements and
11 observations in the Rate Order in Case 03-S-1672
12 and the subsequent SBD Plan Order, do you feel
13 that Con Edison has appropriately addressed steam
14 business development?

15 A. No. It has been over two years since Con Edison
16 filed its last steam rate case with the
17 Commission, and during that time, Con Edison has
18 continued to take little or no initiative in
19 steam business development other than what has
20 been required of it in Commission orders. During
21 those two years, Con Edison participated in the

1 Task Force efforts, as ordered, but failed to
2 develop any of its own new steam business
3 development programs. In addition, during that
4 time Con Edison was well aware of the SBD Plan's
5 emerging recommendations, yet not one of the
6 resulting nineteen action items were acted upon
7 prior to the Commission ordering Con Edison to do
8 so.

9 Q. Is there evidence demonstrating the company's
10 lack of attention to steam business development?
11 A. Yes, although the company claims it has initiated
12 many of the SBD Plan ideas and implementation
13 items prior to development of the SBD Plan in its
14 response to Staff Information Request 391, its
15 responses to Staff Information Requests 444
16 through 460 indicate that this was not the case.
17 In those responses, the company was asked to
18 provide details on how it had considered or acted
19 upon the action items prior to the SBD Plan. Of
20 the seventeen actions items that Staff requested
21 details on, only about five were considered by

1 the company prior to the development of the SBD
2 Plan. Furthermore, the company did not have a
3 formal work plan for any of the items, and
4 several responses lacked the details requested in
5 the discovery requests.

6 Q. Can you provide a few examples from these
7 responses that substantiate your conclusion?

8 A. Yes. Staff Information Request 444 asked for
9 activities related to the development and
10 implementation of an account management system.
11 The response stated that a need was recognized
12 but no formal work plan existed prior to the SBD
13 Plan.

14 Staff Information Request 454 asked for
15 activities related to the development of a hybrid
16 chiller option. The company claims that it has
17 actively promoted hybrid chillers. Unfortunately,
18 that promotion was in the form of presentations
19 to Staff and SBD Plan consultants. There was no
20 mention of promotions to potential customers and

1 the company had no formal work plan prior to the
2 SBD Plan.

3 Staff Information Request 457 asked for
4 activities related to the development of
5 alternatives for obtaining cost-effective and
6 economic capacity. The company states that it
7 has been examining these issues since 1995.
8 Unfortunately, over this ten year period it has
9 not had a formal work plan for this effort prior
10 to the SBD Plan, nor has it implemented, to my
11 knowledge, any such activities.

12 In general, these responses demonstrate the
13 company's lack of attention to steam business
14 development.

15 Q. Do you have comments regarding Con Edison's
16 supplemental filing?

17 A. Yes. Con Edison's January 4, 2006 supplemental
18 filing provided no new information and very
19 little detail. In particular, on the Mapping and
20 Locational Market Analysis action item, the
21 company simply reiterated what was stated in its

1 testimony, which was that Con Edison will spend
2 \$1.5 million on an upgrade to its mapping system,
3 known as SOMIS, which could be integrated with
4 steam business development. When asked whether
5 this was consistent with the SBD Plan in Staff
6 Information Request 267, the company responded
7 "yes" but conceded in the supplemental filing
8 that:

9 The Company has not yet determined the need
10 for a mapping system for business
11 development purposes and/or whether this
12 mapping system would satisfy those needs...
13

14 Shortly thereafter, the company filed its work
15 plan for this action item, in which it proposed
16 first to review the mapping technologies used by
17 other utilities and compare them to SOMIS and to
18 its proposal in the initial testimony, then to
19 examine available databases that could be applied
20 to SBD efforts and determine whether they could
21 be incorporated into SOMIS and into its proposed
22 mapping technologies, and finally to ascertain
23 whether SOMIS could be used for SBD purposes.

1 Then, in response to Staff Information Request
2 446, the company explained that it had not
3 initiated development and implementation of a
4 mapping and locational market analysis system
5 prior to the development of the steam business
6 development plan because it considered SOMIS to
7 be adequate for SBD purposes, and that it was the
8 SBD Task Force's consultant who suggested it may
9 not be.

10 In other words, although it does not know whether
11 it needs mapping technology for SBD purposes, it
12 considered SOMIS to be satisfactory for this
13 purpose, but going forward, it will first look to
14 other options before determining whether SOMIS
15 is, in fact, sufficient. These conflicting
16 responses suggest that the company does not have
17 a clear idea of what it needs or how it intends
18 to address this issue.

19 Q. What can you conclude from the quality of the
20 company's supplemental filing and discovery
21 responses?

1 A. Both lead me to believe that the company did not
2 provide the necessary attention to the
3 supplemental filing and is not providing enough
4 attention to steam business development,
5 generally.

6 The work plans submitted are a good start as long
7 as the company commits to the further development
8 and refinement of them. For example, it would be
9 useful for the work plans to include details on
10 how each objective is going to be met and the
11 current status of the company's efforts. The
12 company must consider business development to be
13 an integral part of the business. It should be
14 an ongoing business process and not one in which
15 the company performs actions only to satisfy
16 Commission orders.

17 Q. Does the testimony provided by company witness
18 Gerritsen demonstrate a lack of attention to
19 steam business development?

20 A. Yes, as the Interim Manager of Con Edison's Steam
21 Business Development Group, Mr. Gerritsen is,

1 among other things, in charge of customer
2 acquisition and retention, marketing and sales.
3 In his testimony, he offers no new steam business
4 development efforts. In addition, his thoughts
5 on business development conflict with those of
6 others within the company. For example, Mr.
7 Gerritsen states in his response to Staff
8 Information Request 81, which asked the company
9 to identify and describe the steps it is taking
10 to increase steam sales:

11 The Steam Business Development Unit
12 continuously seeks out new business
13 opportunities (through, for example, Dodge
14 Construction Reports, news releases,
15 contacts with developers, owners, consulting
16 engineers, etc.) and Mr. Yaegel's forecast
17 of new business in the rate year reflects
18 the results of those efforts.

19 It is important to note that not one of these
20 development efforts is new. Further, his claim
21 that Mr. Yaegel's forecast for new business

1 reflects these efforts is not supported in Mr.
2 Yaegel's testimony. Mr. Yaegel states on page 11
3 of his testimony:

4 "The New Business forecast reflects the
5 projected realized sales in the rate year
6 associated with known service applications
7 that have been filed with the Company"

8 In addition, Mr. Yaegel attributes past and
9 future sales growth to variables such as an
10 improved economy and higher employment, not steam
11 business development efforts.

12 Given what transpired in the last rate case and
13 in the discussions leading to the SBD Plan, the
14 company could have provided far more information
15 about its SBD efforts and plans in its rate
16 filing to show that it is being proactive. For
17 example, it could have proposed to complete any
18 of the nineteen action items before the outside
19 dates set forth in the SBD Plan and SBD Plan
20 Order. Instead, its filing contained virtually
21 no discussion of its SBD efforts. This leads me

1 to believe that the company is not interested in
2 doing any more than the absolute minimum
3 expressly required by the Commission.

4 **SBD Sales Growth Targets**

5 Q. Did the Commission envision that the company
6 would develop SBD sales growth targets?

7 A. Yes, in its Rate Order in Case 03-S-1672, the
8 Commission stated that the company's steam
9 business development plan should among other
10 things set development-related sales growth
11 targets.

12 Q. Does the SBD Plan address sales growth targets?

13 A. Yes, Chapter 5, titled Market Potential
14 Estimates, identifies principles of customer
15 account value management and presents a detailed
16 framework or model that could be used to identify
17 opportunities and set sales growth targets. It
18 identifies three areas that the company could
19 focus on to increase sales: 1) acquiring new
20 profitable accounts, 2) developing the value of

1 existing accounts and 3) defending or retaining
2 valuable accounts against rivals.

3 Q. Did the company present such a model in its
4 testimony in this case?

5 A. No, in fact no SBD related sales growth target
6 was proposed.

7 Q. Do you propose that the Commission adopt a SBD
8 sales growth target?

9 A. Yes, I propose that the Commission adopt a
10 heating SBD sales growth target of 67 MMLbs and a
11 cooling SBD sales growth target of 813 MMLbs for
12 the rate year.

13 Q. What is the basis of your proposed sales growth
14 targets?

15 A. My SBD sales growth targets are based on three
16 areas of potential sales growth identified in the
17 SBD Plan. The first growth opportunity is in new
18 steam cooling load from existing steam heating
19 customers that convert electric chillers to steam
20 chillers at the end of their useful life. The
21 SBD Plan identified a potential of 25,000 cooling

1 tons per year in this area. This equates to a
2 total of 272 MMLbs of steam use per year. The
3 second growth opportunity is in new steam cooling
4 load from the new construction steam heating
5 customers. The SBD Plan identified a potential
6 of 40,000 cooling tons per year in this area.
7 This equates to a total of 435 MMLbs of steam use
8 per year. The third growth opportunity is in the
9 heating and cooling of currently un-served
10 existing buildings that are located at or near
11 the steam system. For these customers, the
12 growth opportunity is in the conversion of gas
13 heating systems to steam heating along with the
14 conversion of electric chillers to steam
15 chillers. The SBD Plan identified a potential of
16 3,360,000 square feet of convertible building
17 space per year that is located at or near the
18 steam system. This number was calculated
19 assuming a 20 year life of existing equipment and
20 that the company is able to capture 20% of the
21 replacements. This equates to a total of 106

1 MMLbs of steam use per year for cooling and 67
2 MMLbs per year of steam use for heating in this
3 area. The specific details of these SBD sales
4 growth opportunity calculations are found in my
5 Exhibit___(MLP-2).

6 Q. Do your proposed SBD sales growth targets
7 comprise the entire SBD sales growth potential of
8 the company's steam business?

9 A. No, not at all. These are only a portion of the
10 total potential outlined in Chapter 5 of the SBD
11 Plan.

12 Q. Have you provided the Staff Rate Panel with your
13 proposed SBD sales growth target to be included
14 in the revenue priceout?

15 A. Yes, I asked the Staff Rate Panel to allocate the
16 SBD sales growth target associated with cooling
17 MMLbs to both the SC2 and SC3 classes during the
18 summer months of May through October. I also
19 asked the Panel to allocate the SBD sales growth
20 target associated with heating MMLbs to both the
21 SC2 and SC3 classes during the winter months of

1 November through April. I have excluded applying
2 the sales growth targets to the SC1 class since
3 it is unlikely that the small commercial and
4 individual residential customers of SC1 would
5 contribute to these growth targets to same extent
6 as the large commercial and large residential
7 apartment houses included in SC2 and SC3
8 respectively. For each seasonal period, the
9 MMBs were applied to each class based on the
10 percent of that class's monthly usage compared to
11 the total usage for both classes during the
12 summer or winter period.

13 Q. Are there governmental and Commission policy
14 factors that could help Con Edison meet these SBD
15 sales growth targets?

16 A. Yes, a recent Commission order on the company's
17 electric peak demand reduction program
18 specifically mentions the need for incentives for
19 steam cooling projects. The Commission
20 specifically recognized that the targeted and
21 service territory-wide programs should include

1 incentives to encourage the replacement of or
2 conversion to steam or hybrid chiller systems.
3 In addition, the Commission determined that
4 demand management incentives for installing
5 electric chillers under either program shall not
6 be available to customers served by or otherwise
7 located on Con Edison's steam system. It clearly
8 supports the promotion and use of the steam
9 system to reduce both electric peak load growth
10 and the need for transmission and distribution
11 reinforcements or expansions.

12 **Ameliorating Capacity Constraints**

13 Q. What does the SBD Plan say in regard to
14 ameliorating the company's steam production
15 capacity constraint?

16 A. The SBD Plan states that in order for the company
17 to achieve increased steam sales in the summer,
18 spring and fall by adding new combined steam
19 heating and cooling customers, the company should
20 explore obtaining cost-effective and economic
21 production capacity and/or demand side actions to

1 alleviate its winter production capacity
2 constraint.

3 Q. Did the company address this issue in testimony?

4 A. Not exactly. Company witness Gerritsen proposes
5 a "steam demand reduction pilot program" that he
6 states "is the result of the company exploring
7 methods for reducing system peak demand in order
8 to be able to increase the number of new
9 customers" but the testimony did not address how
10 the company intends to market the freed-up
11 capacity. No such business development plan has
12 been proposed in conjunction with the demand
13 reduction program, thus limiting its usefulness
14 and further supporting the need for the
15 Commission to impose a SBD sales growth target as
16 recommended earlier. In fact, the testimony does
17 not even describe the purpose of the program as
18 being focused on business development efforts.
19 Instead, it compares the program to electric
20 demand management programs. Further, the company
21 could not provide an estimate of how much

1 capacity will be freed up by this program that
2 could then be available to obtain new heating and
3 cooling customers. In response to Staff
4 Information Requests 274 and 275 the company
5 responded that "it has no reasonable basis for
6 estimating the consumption decline."

7 Q. Is this program comparable to electric demand
8 management programs?

9 A. No. Electric demand management programs are
10 designed to reduce, among other things, peak
11 demand and peak energy loads in order to reduce
12 electricity prices and the need for new electric
13 generation and/or transmission. In contrast, the
14 purpose of the steam program should be to reduce
15 the "needle" steam peak demand to free-up steam
16 capacity and allow Con Edison to sign up new
17 steam customers. Absent this purpose, there is
18 no need to reduce the steam peak demand and
19 therefore no need for this program.

- 1 Q. Has the company looked at the cost effectiveness
2 of the proposed steam demand reduction pilot
3 program?
- 4 A. The company states that it has, but the responses
5 to Staff Information Requests 274 and 275
6 described earlier lead me to question the
7 validity of Mr. Gerritsen's statement in
8 testimony on page 3 line 18, that the pilot
9 program was the result of the company "first
10 identifying potentially cost effective measures
11 that customers could implement to reduce their
12 peak demand" and the "cost effectiveness was
13 evaluated based upon customers' cost to implement
14 DSM as an alternative to increasing steam
15 production capacity." In order to measure the
16 cost effectiveness of the program, the cost of
17 increasing steam capacity would have had to be
18 calculated using the expected amount of
19 consumption decline, which the company stated it
20 could not calculate.

1 Q. Do you agree with the company's proposal to
2 recover lost revenues that occur as a result of
3 reduced consumption related to the proposed steam
4 demand reduction pilot program?

5 A. No, the company's rationale, that lost revenue
6 recovery for demand side management programs is
7 standard for the company's electric business and
8 should therefore be applied to these programs for
9 the steam business, is ill-conceived. As I
10 explained previously, the reasoning behind the
11 need to ameliorate the steam production winter
12 capacity constraint is completely different from
13 the electric demand side management program.
14 Company witness Bozgo, the Vice President of
15 Steam Operations, clearly demonstrates his
16 understanding of the programs' intent in his
17 testimony. He states at page 8:

18 The Company has been exploring various
19 methods for reducing the system peak demand
20 in order to be able to increase the number
21 of new customers without necessarily

1 creating the need for new steam production
2 capacity. Accordingly, the Company is
3 proposing to implement demand charges and
4 two pilot voluntary demand reduction
5 programs.

6 Since the intent of the proposed steam demand
7 reduction pilot program should be to allow the
8 company to further enhance the steam business by
9 adding new customers, it should not experience
10 any lost revenues. The company's request to
11 recover lost revenue associated with the proposed
12 steam demand reduction pilot program should
13 therefore be denied.

14 **Costs Related to Current and Future SBD Efforts**

15 Q. Does the 2004 steam rate plan address recovery of
16 SBD-related costs?

17 A. Yes, the 2004 steam rate plan allows for the
18 recovery of SBD-related costs not otherwise
19 offset by the margins from steam sales growth
20 realized during the term of the rate plan. Those

1 sales must have been directly attributable to the
2 SBD efforts.

3 Q. Has the company realized any sales since October
4 1, 2004 that are directly attributable to the SBD
5 Plan?

6 A. According to company witness Gerritsen, it has
7 not realized any incremental sales attributable
8 to SBD activities to date and is not forecasting
9 any during the rate year. He therefore concludes
10 that all of the SBD-related costs described in
11 his testimony should be recoverable.

12 Q. Do you agree with his conclusion?

13 A. No. I believe the cost recovery provision in the
14 2004 rate plan pertains only to those SBD related
15 costs that are incurred during the term of the
16 rate plan. SBD-related costs incurred beyond the
17 term of that rate plan would not be subject to
18 that provision. I have summarized the SBD
19 related costs, presented by Mr. Gerritsen, in
20 Exhibit___ (MLP-3) grouping the costs into those

1 related to current SBD efforts and those related
2 to future SBD efforts.

3 Q. Please discuss recovery of the costs related to
4 current SBD efforts.

5 A. As per the 2004 rate plan, those costs are
6 recoverable subject to the netting of any SBD
7 related sales growth as described earlier. The
8 company claims that no incremental sales have
9 been achieved as a result of the company's SBD
10 efforts as of the date of filing testimony, which
11 was almost a year before the end of the rate
12 period. Since the term of the rate plan has not
13 yet expired, these costs should not be approved
14 for recovery at this time. The company should
15 instead be directed to make a filing at the
16 conclusion of the 2004 rate plan, fully
17 justifying that amount for which recovery is
18 sought. As for the recovery mechanism, recovery
19 through the Steam FAC is reasonable. I would
20 further recommend, however, that such cost
21 recovery be spread over several months as opposed

1 to any one month, in order to mitigate potential
2 customer bill impacts.

3 Q. Please discuss your proposal for the recovery of
4 costs related to future SBD efforts.

5 A. I refer you again to Exhibit___ (MLP-3), wherein
6 costs have been divided into two categories,
7 costs related to the proposed steam demand
8 reduction pilot program which the company
9 proposes to recover through the FAC, and costs
10 related specifically to SBD activities
11 anticipated during the future rate year, which
12 the company includes in its O&M budget.

13 Q. What is your recommendation for recovery of the
14 costs related to the proposed steam demand
15 reduction pilot program?

16 A. The company should be required to make a
17 compliance filing once the pilot program is up
18 and running before any costs are recovered. That
19 filing should detail the actual costs incurred on
20 the pilot program, exactly how the program is
21 being administered, and a demonstration of the

1 cost effectiveness of the program. This filing
2 should tie into and become part of the company's
3 work plan No. SBDP-15 Ameliorating Capacity
4 Constraints, as included in the company's revised
5 response to Staff Information Request 101. That
6 work plan includes, among several other tasks,
7 quantifying the capacity constraint, reviewing
8 various supply side/demand side options and
9 ultimately determining the cost effectiveness of
10 each. To approve and provide cost recovery at
11 this time for a pilot program for which there are
12 several unknown factors would be unreasonable.
13 As I also recommended earlier on other cost
14 recovery through the FAC, depending upon the
15 magnitude of the costs, the recovery should be
16 spread over several months to mitigate customer
17 bill impacts.

18 Q. What is your recommendation for recovery of the
19 costs related to steam business development
20 activities anticipated during the rate year?

- 1 A. The costs that are included in the O&M budget
2 should be capped at the proposed level and
3 subject to a downward reconciliation if the
4 amounts are not spent. In addition, the
5 company's proposal to reconcile actual costs for
6 steam business development implementation to the
7 estimate provided in its O&M budget through the
8 FAC should be rejected.
- 9 Q. Why do you recommend that these costs be capped?
- 10 A. Based on the company's cost estimates provided in
11 its SBD first quarterly status report, and the
12 work plans included in the revised response to
13 Staff Information Request 101, it is clear that
14 several of the estimates are to be determined and
15 others have wide ranges. In addition, as stated
16 in the response to Staff Information Request 278,
17 the company determined cost estimates prior to
18 the development of work plans and the estimates
19 were submitted in testimony as a "minimum amount
20 necessary". The company simply provided
21 placeholders and essentially asked for a blank

1 check to recover whatever it spends. Such an
2 approach is not consistent with proceeding in a
3 well-planned and focused manner. I support the
4 company pursuing steam business development but
5 with so much uncertainty in these cost estimates,
6 a cap is necessary to protect ratepayers from
7 extraordinary increases in costs being flowed
8 through the monthly FAC.

9 Q. Why do you recommend that these costs be subject
10 to a downward reconciliation?

11 A. The downward reconciliation will protect
12 ratepayers from the possibility that the company
13 chooses not to undertake the SBD activities set
14 forth in its testimony. That is, the downward
15 reconciliation ensures that Con Edison will spend
16 the funds as it proposes and not use them for any
17 other purpose.

18 Q. What would you recommend in the event the
19 Commission does not adopt your sales growth
20 targets?

1 A. In that situation, recovery of the costs related
2 to future SBD efforts should be offset by any
3 steam sales growth margin realized during the
4 rate year that is attributable to the identified
5 SBD efforts. Any remaining costs should be
6 subject to the conditions that I proposed above.

7 Q. Does this conclude your testimony?

8 A. Yes.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Exhibits of:

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Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005
Responding Witness: Gerritsen, George

Question No. :81

Please identify and describe the steps Con Edison is taking to increase steam sales, and provide the estimated increase during the rate year for each action taken or to be taken.

Response:

The Steam Business Development Unit continuously seeks out new business opportunities (through, for example, Dodge Construction Reports, news releases, contacts with developers, owners, consulting engineers, etc.) and Mr. Yaegel's forecast of new business in the rate year reflects the results of those efforts. Among other things, the Company is also working with NYSERDA to increase incentives for steam chillers, has submitted comments in the SBC case regarding the use of SBC funding for steam chillers and is also working with New York City to develop economic incentives for steam chillers. However, the Company did not perform any studies to associate components of the aggregate amount of new business with any particular action taken or to be taken to increase these sales. The Company also notes that while it will be implementing the steam business development action items designed to increase sales, it does not expect that those actions will increase sales in the rate year because of the typical timeline for acquiring new customers, i.e., 1.5 to 3 years.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005

Question No. :101

For each action item set forth in the Steam Business Development Plan, please specify: (i) how Con Edison is implementing it; (ii) the schedule for implementing it; (iii) the number of employees assigned to implement it; and (iv) the source of any funding needed to implement it.

Response:

- i. The Company has assigned a project manager for each action item and has assigned that project manager the task of developing and implementing a work plan to meet the schedule established by the Commission's Order. The Company will provide such work plans as they are completed.
- ii. Con Edison will follow the Plan's schedule as required by the Commission's order, including the submission of quarterly reports beginning on January 1, 2006 detailing the Company's progress.
- iii. The number of employees and the estimated amount of funding required will be established in the completed work plan for each action item.
- iv. The source of funding is described in my testimony, i.e., to the extent that there are incremental costs, we propose to recover them through the steam fuel adjustment clause.
- iv. The source of funding is described in my testimony, i.e., to the extent that there are incremental costs, we propose to recover them through the steam fuel adjustment clause.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005
Responding Witness: Gerritsen, George

Question No. :158

Please quantify the lost revenues during the rate year for each of the SDLP and GVDRP and provide all calculations and assumptions supporting these quantifications.

Response:

Because these are proposed pilot programs and the Company has not previously implemented any similar programs in steam, there is no historical basis upon which to make an estimate. We also do not know how customers are going to implement the GVDRP.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005
Responding Witness: Gerritsen, George

Question No. :164

(a) What studies on acquiring new customers does Con Edison intend to perform? (b) Why does Con Edison need to retain consultants to perform these studies?

Response:

See response to Staff 163.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005
Responding Witness: Gerritsen, George

Question No. :165

(a) Why does Con Edison need to retain consultants to research market and technical subjects? (b) What market and technical subjects will Con Edison have the consultants research?

Response:

The Company plans to conduct market assessments of commercial heating and cooling and market sector analyses such as hospitals and hotels. In addition, the Company plans to study technical issues such as determining the impact of micro turbines and micro cogeneration upon steam sales. For these short term studies, it will be cost beneficial to use consultants to augment staff or provide additional technical expertise.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005
Responding Witness: Gerritsen, George

Question No. :166

(a) Please describe the activities Con Edison intends to hire consultants to perform related to implementing the Steam Business Development Plan. (b) Why must Con Edison retain consultants for this work?

Response:

As noted in response to Staff 101, the Company is developing workplans for each of the recommendations in the SBD and the Company will provide these workplans, which will include estimates for consultants, where applicable, as they are completed.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/16/2005
Responding Witness: Gerritsen, George

Question No. :167

For every project or activity for which Con Edison intends to retain one or more consultants, please provide an analysis that demonstrates that it is more economic to retain consultants than to hire new steam employees.

Response:

At the present time, we contemplate contracting with consultants to perform studies only. In general, we plan to contract with consultants to perform studies in order to retain or attract customers by offering an SC-5 contract. In particular, these studies help the Company to evaluate the customer's cost of installing equipment, such as internal gas or electric distribution, if it doesn't use steam. The Company expects the need for these studies to increase as a result of increased business development activities (approximately 10 per year), but not enough to justify the hiring of a full-time employee. Because it generally requires one person for one month to conduct such a study, and the number of studies that would be required is uncertain, at this time, it is preferable to employ a consultant rather than making a permanent addition to staff.

The response to Staff 164 explains why we believe consultants will be necessary to research market and technical subjects.

As explained in response to Staff 101, we may also retain consultants to conduct studies related to steam business development plan implementation items.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff3
Date of Response: 12/22/2005
Responding Witness: Operations Panel

Question No. :267

(a) Is the proposed steam mapping system consistent with the discussion of mapping and locational market analysis discussed in the Steam Business Development Plan? (b) If the response to (a) is no, please explain why not and how Con Edison intends to implement the recommendation in the Plan.

Response:

Yes, the proposed Steam mapping system is consistent with the discussion of locational market analysis discussed in the Steam Business Development Plan.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff3
Date of Response: 12/16/2005
Responding Witness: Gerritsen, George

Question No. :270

How will customers be notified of demand reduction requests?

Response:

The Company will notify the customer by phone call with a followup FAX or E-mail per agreement with the customer.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff3
Date of Response: 12/16/2005
Responding Witness: Gerritsen, George

Question No. :274

(a) By what amount does Con Edison expect consumption to decline for customers participating in the SLDP? (b) Please provide the basis for and workpapers supporting the response to (a).

Response:

Because this is a pilot program, there is no basis upon which Con Edison can reasonably predict how much consumption will decline as a result of this program.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff3
Date of Response: 12/16/2005
Responding Witness: Gerritsen, George

Question No. :275

(a) By what amount does Con Edison expect consumption to decline for customers participating in the GVDRP? (b) Please provide the basis for and workpapers supporting the response to (a).

Response:

Con Edison has no reasonable basis for estimating consumption decline as the measures to be implemented are unknown.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff3
Date of Response: 12/16/2005
Responding Witness: Gerritsen, George

Question No. :278

Please detail what specific business development activities that the consultants budgeted for \$50,000 will be working on in connection with the implementation of the Steam Business Development Plan?

Response:

The Company has assigned project managers to develop work plans for each action item. As these are developed, the use of consultants and associated costs will be determined. The Company included \$50,000 in this filing based on its expectation that this would be the minimum amount necessary to fund these activities. See response to Staff 101.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff 1
Date of Response: 01/20/2006
Responding Witness: Gerritsen, George

Question No. :391

(a) Since Con Edison's November 21, 2003 steam rate case filing, has Con Edison initiated or developed any steam business development programs other than those related to the Steam Business Development Task Force? (b) If the response to (a) is yes, please describe those steam business development programs.

Response:

Many of the ideas and implementation items contained in the report had been initiated by Con Edison prior to development of the steam business development plan. For example, before the steam business development process had begun, Con Edison had initiated programs in the development and analysis of hybrid chillers and the market analysis of technology changes in high rise residential buildings. The Company also formed a working group which included owners, vendors and engineering firms to persuade NYSERDA to reinstate and increase steam chiller retention incentives that had been terminated (the Company continues to work with NYSERDA to increase electric to steam chiller incentives).

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :444

a. Did Con Edison initiate development and implementation of an account management system prior to the development of the steam business development plan? b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. Yes.

b. Con Edison's Business Development Group recognized the need for an account management system and initiated communications with a vendor to develop a system in November 2004.

c. The responsibility for researching available systems and eventual implementation was assigned in November 2004.

d&e. On December 7, 2005, Con Edison did not have a formal work plan for this activity. Notwithstanding, on December 7, 2005, Con Edison was proceeding to complete the review of available systems by the second quarter of 2006.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :445

a. Did Con Edison initiate development and implementation of a pipeline asset management system prior to the development of the steam business development plan?
b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

Not as set forth in the Steam Business Development Plan. However, Con Edison has evaluated the performance of its distribution system.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18

Date of Response: 02/15/2006

Responding Witness: Gerritsen, George

Question No. :446

a. Did Con Edison initiate development and implementation of a mapping and locational market analysis system prior to the development of the steam business development plan?
b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. No. Con Edison had a mapping system (SOMIS) that was satisfactory for the performance of sales-related tasks, which it showed to the SBD Task Force's consultant, who suggested a refinement.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :447

a. Did Con Edison initiate development and implementation of a resource plan for its steam business development group prior to the development of the steam business development plan? b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. No. Con Edison did not initiate the development of a formal resource plan as contemplated by the SBD Plan. However, the Section manager of Con Edison's Business Development Group is responsible for analyzing and evaluating, at least annually, the resources necessary to operate the group on a regular and continuing basis.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff 18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :448

a. Did Con Edison initiate efforts to strengthen relationships with advisors and vendors prior to the development of the steam business development plan? b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. Yes.

b. Con Edison has held presentations and discussions with a number of building management firms, engineering firms and vendors. This includes presentations, among others at BOMA, real estate firms and air conditioning manufacturers. In addition, significant efforts were made with outside consultants and vendors to reinstitute NYSERDA steam to steam chiller incentives.

c. The responsibility for these efforts resides within the Business Development Group and it is an ongoing effort.

d-e. On December 7, 2005, Con Edison did not have a formal work plan for this ongoing effort.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :449

a. Did Con Edison initiate development and implementation of a targeted marketing plan prior to the development of the steam business development plan? b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

Not as set forth in the Steam Business Development Plan. The Company had conducted an internal assessment of the market trend to use water-loop heat pumps in residential properties, and continues to focus on commercial office buildings for both heating and cooling.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :450

a. Did Con Edison initiate development and implementation of mechanisms for ongoing customer involvement prior to the development of the steam business development plan?
b. If the response to (a) is yes, when did Con Edison do so? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

Not as set forth in the Steam Business Development Plan. Members of the Business Development Group have maintained contact with customers to inquire about their concerns and issues with the steam system. The SBU also conducts regularly scheduled customer seminars for operational and safety issues.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18

Date of Response: 02/15/2006

Responding Witness: Gerritsen, George

Question No. :451

a. Did Con Edison decide to conduct a marginal cost of service study prior to the development of the steam business development plan? b. If the response to (a) is yes, when did Con Edison make this decision? c. If the response to (a) is yes, when did Con Edison assign a project manager to this project? d. If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? e. If the response to (a) is yes, why did Con Edison decide not to include it in its November 2005 rate case filing?

Response:

a. No.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :452

(a) Did Con Edison initiate development and implementation of pricing and other initiatives to improve efficient steam usage by customers prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. Yes.

b. Con Edison requested an access charge in its last steam rate case (03-S-1672) to provide customers with pricing signals to improve their efficiency and use of steam. Since 2000, Con Edison has also had an ongoing seminar for customers that provides instructions on how to use steam more efficiently.

c. Prior to the 2003 rate case filing.

d-e. Con Edison proposed a demand charge and two steam demand reduction programs in its rate filing for this case. On December 7, 2005, Con Edison was in the process of developing a work plan for performing a marginal cost study and proposing other rate initiatives. As noted in the Steam Business Development Plan, a marginal cost study would need to be completed before Con Edison could propose other cost based rate initiatives.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :453

(a) Did Con Edison initiate consideration of certifying steam as a clean energy source eligible for LEED points prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. Yes.

b. Con Edison's Business Development Group began contacting representatives of the United States Green Building Council in August 2004.

c. The responsibility for this ongoing effort was assigned in August 2004.

d-e. On December 7, 2005, Con Edison did not have a formal work plan for this ongoing effort.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :454

(a) Did Con Edison initiate development of a hybrid steam chiller product prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

a. Yes

b. Con Edison has been actively promoting hybrid steam chiller plants since 2003. In early May 2004, the Business Development Group acquired optimization software that conducted project analysis and had presentation and reporting capabilities. The use of hybrid chillers was presented by the Group's section manager as part of a PSC technical session as part of the 2003 Steam Rate Case (03-S-1672). The capability of the modeling software and its application were demonstrated to the Steam Business Development Plan consultants during the development of the plan and the use of steam chillers to control demand was carefully explained to them.

c. The responsibility for conducting analysis and presentation to customers is the responsibility of the Group's technical analysts.

d-e. On December 7, 2005, the Company did not have a formal work plan for this on-going effort.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :455

(a) Did Con Edison initiate development of a condensate re-use product prior to the development of the steam business development plan? (b) the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

Not as set forth in the Steam Business Development Plan. Con Edison had contracted for a condensate reuse study in October 2004 and that study concluded that condensate reuse was uneconomic for customers, except for the use of condensate for hot (potable) water preheat and for make-up water for cooling towers during the summer; these measures had reasonable payback for non-commercial installations and are already used by some steam customers.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :456

(a) Did Con Edison initiate development and implementation of an enhanced steam price risk management product, other than Rider E, prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

No. The first phase of the Rider E program was not completed until after the Steam Business Development Plan process had begun. Since that time, Con Edison has been considering changes and/or enhancements both as part of and separate from the SBD plan process.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :457

(a) Did Con Edison initiate consideration of alternatives for obtaining cost-effective and economic production capacity from Con Edison-owned or merchant facilities and/or demand side measures prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, why has Con Edison stated in a number of responses that it has no information on alternatives or options for addressing its steam production needs into the future?

Response:

a. Yes.

b. Con Edison continually evaluates alternative steam production options in order to have economic and competitive steam production capacity. Con Edison has also examined demand side measures since November 1995, when it first contracted with consulting firms to develop demand side options and their cost effectiveness.

c. The responsibility for these activities is shared between Steam Resource Planning and the Business Development Group.

d-e. On December 7, 2005, the Company did not have a formal work plan for this activity.

This question does not point to a specific response but the Company notes that it has stated that it has not adopted a specific plan to revitalize steam capacity pending the outcome of the steam production cost study.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :458

(a) Did Con Edison initiate consideration of alternative business model options prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

Not as set forth in the Steam Business Development plan. The Company jointly sponsored, with NYSERDA, a study of district cooling.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :459

(a) Did Con Edison initiate discussions with government entities to develop new steam-to-steam incentives prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison commence those discussions? (c) If the response to (a) is yes, who from Con Edison participated in those discussions and with whom did the Con Edison personnel speak? (d) If the response to (a) is yes, what was the outcome of those discussions and what subsequent actions has Con Edison undertaken to further this initiative? (e) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005?

Response:

Not as set forth in the Steam Business Development Plan. Prior to the development of the Steam Business Development Plan, Con Edison concentrated its efforts on restoring steam-to-steam incentives terminated by NYSERDA in June 2003. Con Edison formed a working group to meet with NYSERDA and press for restoration of this incentive. Those efforts were successful, i.e., NYSERDA restored a steam-to-steam chiller incentive. Con Edison has continued to meet regularly with NYSERDA to maintain and expand the level of incentives both for steam-to-steam and electric-to-steam incentives.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff18
Date of Response: 02/15/2006
Responding Witness: Gerritsen, George

Question No. :460

(a) Did Con Edison initiate consideration of a framework for long-term contractual relationships prior to the development of the steam business development plan? (b) If the response to (a) is yes, when did Con Edison do so? (c) If the response to (a) is yes, when did Con Edison assign a project manager to this project? (d) If the response to (a) is yes, why was Con Edison unable to provide a work plan for the project as part of its initial response to Staff Information Request 101 on December 7, 2005? (e) If the response to (a) is yes, what was Con Edison's implementation schedule for this project and why was the implementation schedule changed as noted in the initial response to Staff Information Request 101?

Response:

Not as set forth in the Steam Business Development Plan. Con Edison has used the SC-5 tariff as the basis for entering into contracts up to 10 years in term. Certain of these contracts were concluded in 2004 and prior years.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 01/09/2006
Responding Witness: George Gerritsen

Question No. :101R

For each action item set forth in the Steam Business Development Plan, please specify: (i) how Con Edison is implementing it; (ii) the schedule for implementing it; (iii) the number of employees assigned to implement it; and (iv) the source of any funding needed to implement it.

Response:

Attached is one additional work plan that was completed on January 9, 2006. As stated in the January 3, 2006 quarterly report, the Company has committed to have all work plans completed by January 30, 2006.

***Work Plan No. SBDP-3
Mapping & Locational Market Analysis***

Objective: Evaluate and, if appropriate, implement mapping technologies to improve marketing opportunities and techniques.

Priority: Medium

End Product: Map based system integrated or tied to external map based databases.

Completion Date: Review of systems: July 1, 2006.
Implement system: January 1, 2007 if review indicates.

Implementation Cost: None to perform the review; there may be costs associated with implementation depending upon the outcome of the review.

***Work Plan No. SBDP-3
Explore Alternative Business Model Options***

Objective: Evaluate and, if appropriate, implement mapping technologies to improve marketing opportunities and techniques.

Implementation: the following steps are proposed for the completion of this work plan:

Step 1

Conduct review of mapping technologies and their use by other steam/gas and water companies. Compare to Company existing mapping technologies and to proposed Company wide mapping technology migration under consideration in Steam Rate Case 05-S-1376.

Deliverables: Summary of technologies and uses. Comparison of external utility mapping systems and of Company's existing and proposed mapping technologies.

Completion Date: May 1, 2006

Projected Costs: \$0

Step 2

Explore external databases that could provide marketing information and their potential application to steam marketing efforts will be evaluated. Evaluate cost and feasibility of manual tie to Steam Operations Mapping System ("SOMIS") and to new Company system wide mapping technology proposed for consideration in Steam Rate Case 05-S-1376.

Deliverables: Summary report.

Completion Date: May 15, 2006

Projected Costs: \$0

Step 3

Explore SOMIS feasibility. The Company's Information Resources Department has determined that SOMIS is incompatible with GIS mapping systems. A cost and feasibility analysis will be conducted to determine whether there are manual techniques that can be used to tie the NYC block & lot data and associated costs.

Deliverables: Summary report.

Completion Date: June 1, 2006

Projected Costs: \$0

Step 4 – Description

Preparation of report and evaluation of benefits and costs of implementing mapping technologies for use in marketing of steam.

Deliverables: Summary report.

Completion Date: July 1, 2006

Projected Costs: \$0

Continuing Activities after Implementation of Work Plan

By Con Edison:

By Others:

Appendix A

Action Item Description from Steam Business Development Report

Mapping & Locational Market Analysis

Many utilities have found that mapping enables them to visualize better their customers' and prospects' topography, link effectively to other mapping-enabled databases (such as building demographics), promote better communication with contractors and engineers, and stimulate innovative ways of looking at the system opportunities.

Con Edison Steam should continue to leverage the advances in digital and GIS mapping to gain a crisper, more dynamic picture of its customer and prospect characteristics and distribution. Improved mapping will give the company a better understanding of its customers and prospects, make it easier to link to and integrate with the increasing numbers of marketing- and sales-related geographical databases, and help to align better marketing, operating, and investment decisions.

Con Edison Steam should, at a minimum, review:

- What other large steam and gas companies are doing with mapping technology but not restrict the review to steam companies.
- Mapping activities performed by at least two large steam and gas companies and at least two gas and water companies, given the likelihood that gas/water companies are likely more advanced with implementing and using mapping technology.
- The use of outside expertise to develop a system to meld customer and line data with the locational databases available.
- The feasibility of integrating the Steam Operations Mapping Information System (SOMIS) system data into an interactive customer and distribution mapping platform.
- The appropriate parameters of the system.

The industry and peer practices part of this review should be built around a major upcoming IDEA distribution technology conference planned for later in 2005, at which many practitioners will be available for discussion.

Using the results from this review, the company should define how the information provided by the mapping system will be used in its steam business development efforts. It should then solicit bids from its Information Services department and from external vendors of mapping packages for a comprehensive mapping program.

Time due: Complete the review by end of 2Q 2006 and implement (if the review so indicates) by end of 4Q 2006

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 01/31/2006
Responding Witness: George Gerristen

Question No. :101R2

For each action item set forth in the Steam Business Development Plan, please specify:
(i) how Con Edison is implementing it; (ii) the schedule for implementing it; (iii) the
number of employees assigned to implement it; and (iv) the source of any funding needed
to implement it.

Response:

Attached are the balance of the work plans for the Steam Business Development Plan.

***Work Plan No. SBDP-2
Pipeline Asset Management System***

Objective: Develop a pipeline asset management profitability / value analysis program.

Priority: Medium / Low

End Product: An asset management program based on the perspective of de-averaging costs, revenues, and opportunities to be used in the SBU's development and operations planning for customer retention and system growth.

It is noted that certain materials to be developed within this work plan are considered to be confidential in content and will be retained as such by Con Edison.

Completion Date: September 1, 2007

Implementation Cost: None anticipated at this time

Work Plan No. SBDP-2
Work Plan for a Pipeline Asset Management System

Objective: Develop a pipeline asset management profitability / value analysis program.

Implementation: The following steps are proposed for the completion of this work plan:

Step 1 – Research Current Status

1. Evaluate recent in-house studies regarding radial (dead-ended) main profitability and means of assessment.

Deliverables:

1. Identify unit costs (individual and system-wide) using, Annual Report (FERC Form 1), as the basis for:
 - Production Elements –
 - Production Plant
 - Production Operation - fuel, water
 - Distribution Elements –
 - Distribution Plant
 - Maintenance on: mains, services, traps, slip joint, and pumps
 - Carrying Charges – taxes, rate-of-return, depreciation, and maintenance

Completion Date: April 1, 2006

Services provided by Other Resources: None

Projected Costs: None

Step 2 – Establish Ranking Metric(s) for Line Profitability

1. Evaluate de-averaging customer account profitability costs for:
 - Production Costs
 - Distribution Costs
 - Carrying Chargessuch that, segment-specific (de-averaged) pipeline evaluations may be discerned.

Deliverables:

1. Create a pipeline profitability assessment metric for internal use.

Completion Date: October 1, 2006

Services provided by Other Resources: None
Projected Costs: None

Step 3 – Identify Pipelines with Low Load and Yield Factors

1. Examine radial mains based on current sales (revenue and/or mlbs).
2. Rank known radial mains based on current sales revenues, net of Production, Distribution, and Carrying Charge elements, using ranking metrics for Step 2, above.
3. Examine peak demand (pounds per hour) for each radial main.

Deliverables:

1. Create an asset management value spreadsheet, for internal reference only, indicating detail of radial mains on the steam distribution system ranked by annual sales, peak loads, net of production, distribution and carrying charges.

Completion Date: February 1, 2007

Services provided by Other Resources: None
Projected Costs: None

Step 4 – Expand Asset Management Value Analysis

1. Once radial mains are ranked for profitability using the newly established metric described above (Step 3); examine further upstream pipeline segments in the “parent-child” (primary-secondary) pipeline branches until main trunk lines (backbone distribution mains), are approached.
2. Define and rank primary, secondary and radial main distribution system profitability.
3. Map the findings in item 2, above.

Deliverables:

1. A spreadsheet of primary, secondary, and radial mains assessed for profitability based on the asset management perspective.
2. A corresponding map to accompany the spreadsheet described in item 1.
3. Determine, consistent with Public Service Law obligations, how the information provided by items 1 and 2 can be used.

Completion Date: September 1, 2007

Services provided by Other Resources: None
Projected Costs: None

Appendix A

Action Item Description from Steam Business Development Report

Pipeline Asset Management System

Con Edison Steam should continue its efforts to conduct line-by-line profitability or value analysis. The company provides two steam products—the steam commodity and the delivery of that commodity.

The value of Con Edison's Steam delivery assets and hence the price and quality of its steam delivery product depends on the utilization of the system (customers and load per line) and the efficiency and reliability of the delivery system.

Whenever customers use a common facility or resource, there may be a divergence between calculated account values and the yield on the common resource – in this case, a pipeline. Customer relationships may be profitable if viewed solely in terms of average margin per pound of steam, yet the cost of delivering that commodity may erode or totally erase that margin. This may be analogous to a very valuable high mileage frequent flier flying on a very low load factor airline route. Con Edison Steam should do the following:

- Determine those pipelines that have very low load factors and low yield.
- Explore ways of attracting customers to low yield lines.
- Based on the insights from this analysis and other factors, develop an asset or yield management plan for in-ground product delivery assets, consistent with company obligations under the Public Service Law and Transportation Corporation Law.
- Refine the definition of pipeline profitability or value.
- Identify the out-of-pocket costs associated with particular lines or line groups.

The foremost benefit of an asset management perspective and asset risk and profitability measurement system is to stimulate a change in orientation of the planning and business development function from an average cost, uniform view of assets to a de-averaged perspective. Other benefits include the identification of high leverage opportunities to improve service quality by, for example, focusing upgrades or leak repairs on high yielding lines. The costs of implementing the delivery asset management plan are relatively minor. Most of the initial costs involve collecting and mapping customer and operating data on a line-specific basis.

Time due: 18-24 months after the filing the Business Development Plan with the PSC.

Priority: Medium / Low.

Work Plan No. SBDP-7
Create Mechanisms for Ongoing Customer Involvement

Objective: Identify means of involving customers in guiding ongoing development of the steam business.

Priority: Medium/Low

End Product:

1. Conduct Steam Energy Forums
2. Monthly Customer Seminars
3. Steam Business Development Tradeshows & Corporate Sponsorships

Completion Date: August 2007

Implementation Cost: \$20,000 - \$30,000 per year; as an incremental cost to our customary customer support and marketing services.

Work Plan No. SBDP- 7
Create Mechanisms for Ongoing Customer Involvement

Objective: Identify means of involving customers in guiding ongoing development of the steam business.

Implementation: The following steps are proposed for the completion of this work plan:

Step 1 – Program Development

1. Research and identify the resources available from organizations such as DOE's Office of Energy Efficiency and Renewable Energy (EERE) that would be of interest and relevance to our customers.
2. Develop a document to assimilate these programs into a common resource (at least for information purposes) for distribution at various venues to Customers and their agents (such as engineers and professional associations). Specific proposed venues are noted in the remaining Steps below.

Deliverables:

1. Program information documentation.

Completion Date: July 2006

Services provided by Other Resources: none

Step 2 - Steam Energy Forum

1. Develop structure of Energy Forum, such as agenda, topics to be covered.
2. Research and identify those Energy Committees and Support Organizations that influence the various Market Sectors.
3. Steam Energy Forums will be presented to address the concerns of all the Market Sectors.
 - These Forums will be designed to include the various Energy Committees and Support Organizations that the Market Sectors depend upon when making their energy decision.

Deliverables:

1. A list of Owners by Market Sector and the Architects and Consulting Engineers that support them in their decision making.
2. A list of Energy Committees and Support Organizations that influences the Market Sectors decisions.
3. Create customer questionnaire to survey areas of concerns and interests that would integrate into Steam Energy Forum topics.

Completion Date: ongoing, to be commenced no later than 1st Quarter 2007

Services provided by Other Resources: Executive Officers of Energy Associations and Organizations

Projected Costs: none anticipated

Step 3 – Customer Seminars

The Steam Business Unit offers its customers, both operations and maintenance personnel, a free introductory half-day seminar, "How to Maintain Your Steam System More Efficiently." Topics include a steam system overview, and information about metering equipment, regulating valves, steam mains, traps, discussions about safety and environmental issues, and the opportunity to ask questions and discuss their individual concerns. The customers also visit a simulated meter station in one of our classrooms. Seminars are open to building managers, engineers, and maintenance staff.

Deliverables:

The seminars are held monthly and mailings to all our customers and/or various customer segments are done quarterly to encourage their attendance. The seminars are held at The Learning Center, Con Edison's state-of-the-art training facility in Long Island City.

Completion Date: Ongoing

Services provided by Other Resources:

The seminars are presented by subject matter experts/trainers from Steam Distribution, The Learning Center, and Business Development.

Projected Costs: none

Step 4 –Tradeshows & Corporate Sponsorship

The Steam Business Development Group will seek opportunities for corporate sponsorships at trade shows to serve as platforms to attract customers in a more effective way than as an exhibitor and to take full advantage of the marketing potential inherent to this unique event environment. Participating in a corporate sponsorship will provide a higher level of brand visibility and offer the Steam Business Unit recognition as an industry leader to tradeshow attendees.

Deliverables:

1. Participation in trade shows on a corporate sponsorship level
 - The Cooperator Annual Co-op & Condo Exposition
 - Jacob Javits Center - Buildings NY
2. Targeted presentations and literature for distribution at these functions.

Completion Date: Ongoing

Services provided by Other Resources: none

Projected Costs: \$20,000 - \$30,000 per year; as an incremental cost to our customary customer support and marketing services.

Step 5 – Monthly Meetings with Major Customers

The Steam Business Development Group will establish a program to meet one-on-one with its major customers, with initially 1-2 meetings per month. We will conduct a pre-meeting interview to identify the steam-related issues of greatest interest (or concern) to the Customer, facilitate the internal resources to prepare for the meeting, prepare minutes summarizing the meeting's discussions and follow-up action requirements, and conduct a post-meeting follow-up with the Customer. This forum will also be used to discuss the programs and initiatives that are of greatest interest to the customer.

Deliverables:

1. Post-meeting summary report

Completion Date: Ongoing, to be initiated 1st Quarter 2006

Services provided by Other Resources: none

Projected Costs: none anticipated

Appendix A

Action Items Description from Steam Business Development Report

Create Mechanisms for Ongoing Customer Involvement

Identify means of involving customers in guiding the ongoing development of the steam business. Customer involvement in product co-development, service standards, etc., should be encouraged.

Some activities may include a Con Edison Steam-sponsored Steam User Group forum, "lunch box lessons" for end-users, or leveraged DOE Steam Best Practices training to stimulate deeper engagement with leading steam customers and produce positive references and referrals from customers while also strengthening customer retention efforts.

Time due: 12-18 months after filing the Steam Business Development Plan with the PSC.

Priority: Medium/Low.

***Work Plan No. SBDP-11
Position Steam as a Clean Energy Source***

Objective: Evaluate and promote the energy efficiency and environmental benefits of Con Edison Steam as a clean energy source in the emerging “green” building market.

Priority: Medium / Low

End Product: Summary of any results regarding the effort to obtain green energy credits or status.

Completion Date: March 1, 2007

Implementation Cost: \$15,000 – to be further reviewed once actual background detail of LEED status review is confirmed

Work Plan No. SBDP-11
Position Steam as a Clean Energy Source

Objective: Evaluate and promote the energy efficiency and environmental benefits of Con Edison Steam as a clean energy source in the emerging “green” building market sector.

Implementation: the following steps are proposed for the completion of this work plan:

Step 1 – Research Energy / Environmental Industry Organizations

1. Investigate programs under the sponsorship of the United States Green Building Council (“USGBC”); Leadership in Energy and Environmental Design (“LEED”) program.
2. Use industry and trade alliances to assist in promoting and developing “green” programs for district steam systems within USGBC.

Deliverables:

1. Monitor any on-going progress of updates to current LEED programs.
2. Consider a corporate membership with the USGBC.
3. Communicate with industry leaders and trade organizations influential in USGBC program development.

Completion Date: Spring 2006

Services provided by Other Resources: Trade alliances and industry organizations

Projected Costs: None

Step 2 – Study Viability of Steam as a LEED “Green” Element

1. If modification to any current LEED program(s) recognizes off-site combined heat and power (“CHP”), perform a screening analysis to determine if Steam would be eligible to qualify for LEED points.

Deliverables:

1. Develop White Paper demonstrating steam’s qualifying / not qualifying for LEED credit.
2. If LEED approved, communicate with the real estate, architectural and engineering industries using various means of media coverage.

Completion Date: Summer / Fall 2006

Services provided by Other Resources: Consultant for LEED "qualification" analysis

Projected Costs: \$15,000, to be further reviewed once actual background detail of LEED status review is confirmed

Step 3 – Expand on East River Repowering ("ERRP") Article X Submission

1. Once 12 months of ERRP operating results are compiled, advertise positive aspects of ERRP throughout the real estate, architectural and engineering industries using various means of media coverage.

Deliverables:

1. Local / regional advertising in trade publications.
2. Post information on the SBU website.

Completion Date: Summer / Fall 2006 and ongoing

Services provided by Other Resources: None

Projected Costs: None

Step 4 – Research Energy / Environmental Governmental Programs

1. Evaluate programs offered by:
 - Environmental Protection Agency ("EPA")
 - United States Department of Energy ("DOE")
2. Examine Federal programs for market sector value and potential applicability value to our customer base. If deemed acceptable, consider participation in EPA / DOE programs.

Deliverables (potential):

1. EPA and DOE Combined Heat and Power Partnership Program ("CHPP") Membership
2. CHPP Certification
3. Submission for EPA CHP Energy Star® Award, once 12 months of ERRP operating results are compiled.
3. Promotional materials
4. Internal summary report regarding program opportunities

Completion Date: Fall / Winter 2006 - 7

Services provided by Other Resources: EPA / DOE – certification process

Projected Costs: None

Appendix A

Action Item Description from Steam Business Development Report

Position Steam as a Clean Energy Source

Con Edison Steam should continue to explore the possibility of being certified as a clean energy source eligible for LEED points to remain an attractive option in the emerging green building market. Increased cogeneration also has the potential to enhance the perception of steam as a green energy source and to reduce the net cost of steam.

Con Edison Steam should explore such actions as:

- Leveraging local resources with broader industry initiatives to capture current progress on national level with the USGBC.
- Developing a case study or white paper on emissions reductions potential resulting from combined heat and power operation at ERRP. Build on the work done in the Article X submission and circulate it widely in the building and engineering community.
- Joining the EPA CHP Partnership Program and submitting ERRP for CHP Partnership Certification and for EPA CHP Energy Star Award once 12 months of operating results are compiled.

Time Due: 12-18 months after filing the Steam Business Development Plan with the PSC.

Priority: Medium / Low

***Work Plan No. SBDP-17
Strengthen the Current Steam-to-Steam and
Electric-to-Steam Chiller Incentives***

Objective: working with the appropriate government agency(s), develop improved incentives to stimulate the installation or retention of steam-based chillers in the new construction, electric-to-steam conversion, and steam-to-steam replacement markets

Priority: High

End Product:

1. Issuance of modified or new agency programs
2. Announcement of programs by sponsoring agency and by Con Edison - via email, publication, and at conferences and meetings

It is noted that certain materials to be developed within this work plan are considered to be confidential in content and will be retained as such by Con Edison.

Completion Date: ongoing

Implementation Cost: None.

Work Plan No. SBDP-17
Strengthen the Current Steam-to-Steam and
Electric-to-Steam Chiller Incentives

Objective: working with the appropriate government agency(s), develop improved incentives to stimulate the installation or retention of steam-based chillers in the new construction, electric-to-steam conversion, and steam-to-steam replacement markets

Implementation: the following steps are proposed for the completion of this work plan:

Step 1 – Develop Proposed Incentive Template

1. Prepare a comparative matrix of the existing incentive program under the management of the New York State Research and Development Authority (NYSERDA). Develop a proposed incentive template that would be expected to stimulate the installation or retention of steam-based chillers in the various market sectors.

Deliverables: matrix – existing vs. proposed incentives

Completion Date: December 1, 2005

Services provided by Other Resources: none

Projected Costs: none

Step 2 - Meet with Government Agencies

1. Meet with the NYSERDA to review the existing incentive programs and discuss the potential opportunities to adapt programs.
2. Verify the primary factor(s) that most influence the selection of steam vs. non-steam cooling equipment. Include participation by other stakeholders (such as equipment vendors or property managers) if required to assure proper identification of factors. Identify the modification(s) deemed necessary to achieve a competitive position for steam cooling in these markets, and the roles and the various agencies to affect the modifications.

Deliverables: Internal Report

Completion Date: February 15, 2006

Services provided by Other Resources: none

Projected Costs: none

Step 3 – Interagency Coordination

1. Hold meetings or conference calls on a regular basis (at least once per month) to assure critical program elements are understood and communicated to policy makers.
2. Support the definition of incentives under the various agency programs (SBC II, Con Edison Electric Rate Case DSM, and SBC III) during the development and finalization of each program.

Completion Date: Ongoing?

Services provided by Other Resources: none

Projected Costs: none

Step 4 – Program Announcements

1. Strategic Announcement: Con Edison will seek to participate in a public policy announcement with the sponsoring agency to maximize the impact of the announcement. Afterward, Con Edison will integrate the dissemination of this program within its targeting market program and marketing initiatives.

Deliverables: Program announcement document (to be prepared by Con Edison and endorsed by sponsoring agency)

Completion Date: 4 weeks after program approval

Services provided by Other Resources: none

Projected Costs: none

Appendix A

Action Item Description from Steam Business Development Report

Strengthen the Current Steam-to-Steam and Electric-to-Steam Chiller Incentives

The DSM program approved by the Commission in Case 04-E-0572 may present an opportunity to offer incentives for steam or hybrid chillers. Con Edison Steam should create a DSM proposal incorporating the following objectives:

- Stimulating new cooling customers.
- Considering the potential to increase steam-chilling penetration without increasing winter peak demand by providing significant incentives for existing heating-only customers to adopt steam chillers.
- Increasing the steam-to-steam program incentive levels and the overall budget to recognize the increased number of projects expected.

Time due: Begin work immediately.

Priority: High.

Work Plan No. SBDP-19
Develop a Framework for Long-term Contractual Relationships

Objective: Evaluate the potential to use long-term contracts to leverage the installation and operation of steam-based equipment.

Priority: Medium

End Product: Summary Report describing business cases and associated terms for opportunities, consistent with the Company's obligations under the Public Service Law.

It is noted that certain materials to be developed within this work plan are considered to be confidential in content and will be retained as such by Con Edison.

Completion Date: by March 2007

Implementation Cost: None are anticipated at this time.

Work Plan No. SBDP-19
Develop a Framework for Long-term Contractual Relationships

Objective: Evaluate the potential to use long-term contracts to leverage the installation and operation of steam-based equipment

Implementation: the following steps are proposed for the completion of this work plan:

Step 1 – Assessment of Market Interest

Contact customers, vendors and influencers to discuss business opportunities not currently offered by Con Edison.

Deliverables: Preliminary non-prioritized list of opportunities for subsequent evaluation and development.

Completion Date: May 1, 2006

Projected Costs: \$0

Step 2 – Screening Analysis

Screen list of potential business opportunities prepared in Step 1 that require contractual commitments between the customer and Con Edison in order to enable a Con Edison investment commitment. These opportunities may be steam sales oriented, service related or partnering. Opportunities may or may not be customer specific.

Deliverables: Opportunity list

Completion Date: October 1, 2006

Projected Costs: \$0

Step 3 – Define Implementation Requirements

Identify contractual terms necessary to implement the opportunity. The business economics underlying the opportunity will serve as the basis for evaluating terms. Establish the financial contribution from Con Edison associated with an SC-5 agreement, identify a potential source(s) to provide the balance of required financial contribution, and identify the projected value of the contractual agreement (seasonal sales and associated revenue).

Deliverables: Summary Report describing business cases and associated terms for opportunities, consistent with the Company's obligations under the Public Service Law.

Completion Date: February 1, 2007

Projected Costs: \$0

Appendix A

Action Item Description from Steam Business Development Report

Develop a Framework for Long-Term Contractual Relationships

Con Edison Steam has indicated that it is willing to consider different forms of SC5 contracts, such as those with longer terms. In furtherance of this effort, Con Edison Steam should:

- Prepare a list of potential actions it might undertake or cause to be undertaken to increase the attractiveness of steam. Examples of such actions include supporting customers' investments in hybrid chiller sets, turbine maintenance, and consumption management services. For each item listed, the company should identify whether the action would require intermediate or long-term agreements with the customer to make it feasible
- Identify ways in which it could partner with OEM vendors to develop CHP or district cooling facilities designed for service to specific anchor customers or service districts, and assess whether and to what extent the use of long-term customer service contracts would be appropriate to foster customer investments in such facilities

Time due: File a progress report 18 months after filing the Business Development Plan with the PSC.

Priority: Medium.

Work Plan No. SBDP-13
Develop a Condensate Re-Use Product

Objective: Assess effectiveness of pre-selected condensate re-use products, and seek recognition and integration of its benefit into appropriate energy efficiency programs (such as the USGBC LEED program).

Priority: Medium/Low

End Product:

1. Technology informational bulletin for each beneficial product, including outline product specifications, projected savings, and system schematic drawing
2. Data quantifying water, chemical and heat savings in selected customer locations.
3. Summary of any results regarding the effort to obtain NYCDEP discount on water and/or sewage rates.
4. Summary of any results regarding the effort to obtain green credit for condensate re-use.

Completion Date: implementation of the elements defined in this work plan shall be completed by September 1, 2007; schedules for activities provided by others are outlined herein.

Implementation Cost: the total anticipated costs for recommended consulting services or other expenses associated with implementation of this work plan are projected to be \$20,000.

Work Plan No. SBDP-13
Develop a Condensate Re-Use Product

Objective: Assess effectiveness of pre-selected condensate re-use products, and seek recognition and integration of its benefit into appropriate energy efficiency programs (such as the USGBC LEED program).

Implementation: the following steps are proposed for the completion of this work plan:

Step 1 – Research

1. Review the analyses and conclusions of the Condensate Re-Use study prepared by Goldman Copeland.
2. Identify condensate re-use measures for studying in the pilot program.
3. Identify several customers who already have condensate re-use measures installed.

Deliverables:

1. List of condensate re-use measures for studying in the pilot program.
2. List of several customers who already have condensate re-use measures installed.

Completion Date: April 1, 2006

Services provided by Other Resources: None

Projected Costs: \$0

Step 2 – Development of Pilot Program Structure

1. Establish a data logging process to measure and quantify water and heat savings.
2. Develop a set of representative product specifications for selected applications and post them on the Company website.
3. Seek partnership opportunities with NYSERDA and the City of New York to support installation of pilot or demonstration systems. .

Deliverables:

1. Representative product specifications for selected applications.
2. Description of the pilot program.

Completion Date: July 1, 2006

Services provided by Other Resources:

Consulting Engineer:

1. Development of data logging process to measure and quantify water and heat savings at specific customer locations.

2. Development of a set of representative product specifications and sketches for selected applications.

Projected Costs: Consulting Engineer: \$20,000

Step 3 –

1. Contact customers and assess interest in participation in a pilot program.
2. Explore with NYCDEP a discount on sewage rates for condensate re-users.
3. Seek support from USGBC and other green certification groups for credit for condensate re-use (coordinate with general Green Building efforts).
4. Prepare Technology informational bulletins for those technologies judged to be of interest and potential benefit to Con Edison Steam customers.

Deliverables:

1. Internal summary report addressing:
 - a. Summary of results regarding the effort to obtain NYCDEP/ NYC discount on water and sewage rates.
 - b. Summary of any results regarding the effort to obtain green credit for condensate re-use.
2. Technology informational bulletins.
3. Post on the company website the technology informational bulletins for customer information and use.

Completion Date: September 1, 2007

Services provided by Other Resources: None

Projected Costs: \$0

Appendix A

Action Item Description from Steam Business Development Report

Develop a Condensate Re-Use Product

Con Edison Steam should evaluate the development of a condensate re-use product, based on the Goldman Copeland analyses of the potential applications. This program should, if practical, be integrated or coordinated with the LEED or other green building credit program for new and renovated buildings. The tasks involved should include but are not limited to:

- Refining market estimates based on the engineering studies.
- Identifying potential applications of condensate recovery and re-use.
- Establishing a data logging process to measure and quantifying water, chemical, and heat savings.
- Identifying potential candidates for condensate re-use systems and testing their interest in pilot or demonstration programs.
- Seeking partnership opportunities with NYSERDA and the City of New York to support installation of pilot or demonstration systems.
- Exploring with the NYCDEP a discount or credit for water and sewage rates of condensate re-users, recognizing the higher quality (i.e., lower temperature) of the final discharge in some applications.
- Developing a set of product specifications for representative applications so potential customers and their advisors can make preliminary assessments of interest.
- Seeking support from the USGBC and other green certification groups for credit for condensate re-use.

Time due: 24 months after filing the Business Development Plan with the PSC.

Priority: Medium/Low.

Work Plan No. SBDP-08
Conduct a Marginal Cost-of-Service Study

Objective: To prepare and submit a new marginal cost-of-service study that includes:

- Incremental costs of new steam capacity to meet peak demand.
- Marginal production costs at different load levels, times of day, day of week, month, and season.
- Incremental line extension costs.
- Incremental costs of connecting additional customers on existing lines.
- Incremental costs to connect new customers off of the existing lines.

Priority: Medium

End Product: A new marginal cost-of-service study

Completion Date: June 1, 2007 (*Assuming that the next rate case would be filed October 2007*)

Implementation Cost: None are anticipated at this time.

Work Plan No. SBDP-08
Conduct a Marginal Cost-of-Service Study

Objective: To prepare and submit a new marginal cost-of-service study.

Implementation: the following steps are proposed for the completion of this work plan:

Assuming that the next rate case would be filed October 2007:

Step 1 – Kick-off

Kick-off meeting to discuss the schedule and information required from team members to be provided to conduct the marginal cost study.

Deliverables: Schedule and scope of study

Completion Date: September 30, 2006

Services provided by Other Resources: none

Projected Costs: none

Step 2 – Marginal COS Analysis

Develop a marginal cost-of-service study for year 2006, reflecting rates effective October 1, 2006.

Deliverables: New marginal cost-of-service study

Completion Date: June 1, 2007

Services provided by Other Resources: none expected; although it is possible that external resources (consultant) may be required when scope of work is determined. Also, this needs to be coordinated with the Pipeline Asset Management System

Projected Costs: none anticipated at this time.

Step 3 – Other Rate Based Initiatives

Determine whether any modifications to rates are necessary following consideration of findings of marginal cost-of-service study

Deliverables: Other proposed rate design changes.

Completion Date: For rate case filing following the current rate case.

Projected Costs: None anticipated at this time.

Appendix A

Action Item Description from Steam Business Development Report

Conduct a Marginal Cost-of-Service (COS) Study

Con Edison should prepare and submit a new marginal COS study incorporating:

- Incremental costs of new steam capacity to meet peak demand.
- Marginal production costs at different load levels, times of day, day of week, month, and season.
- Incremental line extension costs.
- Incremental costs for connecting and serving additional customers on existing lines.
- Incremental costs to connect new customers off of the existing lines.

Time due: Rate Case following that being prepared for autumn 2005.

Priority: Medium.

Work Plan No. SBDP-16
Explore Alternative Business Model Options

Objective: Examine potential for technologies not currently utilized by Con Edison to serve customer loads. These may include cooling or thermal loads served on the existing system or detached from the system.

Priority: Low

End Product: Business cases by technology.

It is noted that certain materials to be developed within this work plan are considered to be confidential in content and will be retained as such by Con Edison.

Completion Date: September 1, 2007.

Implementation Cost: \$75,000 - \$125,000

Work Plan No. SBDP-16
Explore Alternative Business Model Options

Objective: Examine potential for technologies not currently utilized by Con Edison to serve customer loads. These may include cooling or thermal loads served on the existing system or detached from the system.

Implementation: the following steps are proposed for the completion of this work plan:

Step 1 – Project Scoping and Award

Prepare a Request for Proposal (RFP) for development of a District Plant Conceptual Study. Important elements of this step will include:

- Consultant pre-qualification
- Scope-of-study definition
- RFP preparation and issuance
- Proposal review, consultant interviews
- Contract award

Deliverables: RFP; summary of proposal rankings and consultant selection.

Completion Date: August 1, 2006

Projected Costs: \$0

Step 2 – Conceptual Study – District Plant Options

This effort should be performed by the selected consultant/developer. The consultant must have strong capabilities in conceptual engineering, estimating and financial analysis to assure a properly developed study. The study would look at the Hudson Yards area as an example of where such a project could be developed. The elements of this study are expected to include the following:

- **Develop Plant Configurations:** Develop one or two "optimized" configurations for plant types using technologies such as closed-loop medium- or high-temperature hot water (HTHW), combined heat and power (CHP), and district heating and cooling. The selected configurations would emphasize the overall annual efficiency of the plant, but shall also be "scalable" via installation of added capacity to meet added connected customer loads
- **Define "Customer" Requirements:** Identify a range of connected Customer building size requirements that would need to be served in order to best utilize the plant energy output (assuming a market-typical mix of commercial and residential occupancies).
- **Develop Capital Requirements:** For each technology examined, establish the required capital investment required for the plant and the distribution system (would require an assumption for the distance required to connect the buildings determined in step 2). Establish the projected capital investment

savings that the buildings would recognize if they were to connect to the district energy plant.

- **Develop Operating Costs:** Establish the annual cost savings that the buildings would recognize - factors including rental revenue for smaller mechanical equipment rooms (MERs), O&M costs, taxes, etc. Establish the comparative costs required for operation of the district plant vs. that if the buildings were to self-generate.
- **Establish Financial Viability and Implementation Method:** establish the perceived viability of the various district plant concepts, and define an outline implementation plan.

Deliverables: The results of this study will be thoroughly documented in a technical study report, including representative equipment data sheets, general arrangements, calculations and supporting analyses.

Completion Date: May 1, 2007

Projected Costs: The projected cost of the study is between \$75,000 - \$125,000, depending on the number of plant types that are to be studied. The final cost will be determined upon issuance of an RFP and receipt of study proposals from qualified consultants.

Step 3 – Business Model

Assess the results and conclusions of the study report, and determine an appropriate business model for implementation, i.e., is this business activity appropriate for a regulated utility?

Deliverables: Summary report.

Completion Date: September 1, 2007

Projected Costs: \$0

Appendix A

Action Item Description from Steam Business Development Report

Explore Alternative Business Model Options

Con Edison Steam should examine economic and engineering analyses of the potential for technologies that could be deployed either on or beyond the existing steam network to meet load demands competitively. Such technologies may include but not be limited to centralized chilling or cold water, CHP, or campus style district energy.

Time due: 24 months after filing the Business Development Plan with the PSC.

Priority: Low.

Work Plan No. SBDP-15
Ameliorating Capacity Constraints

Objective: Explore obtaining cost-effective and economic supply- and demand-side capacity to alleviate potential steam capacity constraints in the winter.

Priority: Medium

End Product: Report on the potential for a capacity constraint and the assessment of specific options considered for resolving the constraint.

It is noted that certain materials to be developed within this work plan are considered to be confidential in content and will be retained as such by Con Edison.

Completion Date: implementation of the elements defined in this work plan shall be completed 6 months after filing the Steam Production Cost Study (SPCS) with the PSC.

Implementation Cost: None are anticipated at this time.

Work Plan No. SBDP-15
Ameliorating Capacity Constraints

Objective: Explore cost-effective options to alleviate steam capacity constraints.

Implementation: the following steps are proposed for the completion of this work plan:

1. Quantify the extent, if any, of the capacity constraint based on current forecasted new load and lost business over the period 2006-2011.
2. Review various supply side options evaluated in the SPCS.
3. Identify and develop cost estimates for relevant supply and/or demand side management options not included in the SPCS.
4. Estimate T&D costs, if any, associated with supply side options, to the extent not already included in the SPCS.
5. Determine cost effectiveness of the various production and demand side options by comparing the estimated costs to various measures of associated potential new business revenue (e.g., current or proposed tariff rates, cost of customer on-site boiler, etc.)
6. Identify potential capacity procurement options (e.g., steam capacity auctions, long-term contracts, and joint venture cogeneration projects) and assess the risks (including stranded investment risk) and/or benefits of each option.

Deliverables:

Report which will address:

1. Extent of potential capacity constraint
2. Timing requirement for options to alleviate the constraint
3. Short and long term options
4. Determination of the cost effectiveness of each option

Completion Date: Six (6) months after completion of SPCS.

Services provided by Other Resources: None.

Projected Costs: None are anticipated at this time.

Appendix A

Action Item Description from Steam Business Development Report

Ameliorating Capacity Constraints

To achieve certain business development goals discussed in the Plan, e.g., increased steam sales, Con Edison should explore obtaining cost-effective and economic (including accounting for stranded investment risk) production capacity from Con Edison-owned or merchant central cogeneration facilities and/or demand side actions, such as peak load reduction and increased efficiency, consistent with the findings in the Production Cost Study and any subsequent PSC action related to that Study.

Options such as long-term contracts, steam capacity auctions, joint venture arrangements in utility or developer cogeneration projects, and demand side measures, should also be explored by Con Edison, subject to the findings of the Production Study and any subsequent PSC action related to that Study.

Time due: Progress Report to be filed 6 months after filing the Production Cost Study with the PSC.

Priority: Medium.

Work Plan No. SBDP-18
Develop New Steam-to-Steam and Electric-to-Steam Chiller Incentives

Objective: working with the appropriate government agency(s), develop new steam-use incentives to complement existing government programs. Develop means to inform existing and potential new customers about these incentive programs.

Priority: Medium/Low

End Product:

3. Issuance of modified or new agency programs
4. Announcement of programs by sponsoring agency and by Con Edison - via email, publication, and at conferences and meetings

It is noted that certain materials to be developed within this work plan are considered to be confidential in content and will be retained as such by Con Edison.

Completion Date: ongoing

Implementation Cost: None.

Work Plan No. SBDP-18
Develop New Steam-to-Steam and Electric-to-Steam Chiller Incentives

Objective: working with the appropriate government agency(s), develop new steam-use incentives to complement existing government programs. Develop means to inform existing and potential new customers about these incentive programs.

Implementation: the following steps are proposed for the completion of this work plan:

Step 1 – Meet with Government Agencies

1. Meet with the New York City Economic Development Corporation to review the existing energy discount programs and discuss potential opportunities to adapt programs to provide an equivalent incentive for steam cooling. The energy programs to be discussed will include the electric Business Incentive Rate (BIR), the Lower Manhattan Energy Program (LMEP), and the Energy Cost Savings Program (ECSP).
2. Seek to meet with NYPA to discuss the economic benefits (energy savings) associated with steam based cooling and discuss a proposed incentive structure that monetizes this economic benefit into an equivalent first-cost incentive.

Deliverables: none

Completion Date: March 1, 2006

Services provided by Other Resources: none

Projected Costs: none

Step 2 – Financial Analysis

1. Using an economic model that “mimics” the structure of the existing NYC programs, conduct a screening analysis that defines the required financial contributions from Con Edison, NYSERDA, and NYC to achieve viable, beneficial incentive programs. Using construction/renovation forecasts, establish annual budget projections to define the potential program cost.
2. Using market values for demand and consumption, develop an analysis that defines the equivalent value required financial contributions from Con Edison and NYPA to achieve a viable, beneficial incentive program.

Deliverables: Final report that outlines structure and scope of existing incentive rate (or intent of the proposed equivalent incentive), analysis parameters and conclusions, and proposed terms for the incentive. Interim reports will be prepared as necessary to support specific proposals.

Completion Date: April 1, 2006

Services provided by Other Resources: none
Projected Costs: none

Step 3 – Proposal Review and Agreement

Meeting(s) with the appropriate agencies to review the content of the Con Edison analysis and establish an agreed-upon proposal.

Deliverables: Proposals for legislature or other governmental entities.

Completion Date: June 1, 2006 for all proposals. Interim proposals will be produced as necessary to comply with legislative or regulatory deadlines.

Services provided by Other Resources: none

Projected Costs: none

Step 4 – Program Announcement

1. **Strategic Announcement:** Con Edison will seek to participate in a public policy announcement with the sponsoring agency to maximize the impact of the announcement. Afterward, Con Edison will integrate the dissemination of this program within its targeting market program and marketing initiatives.

Deliverables: Program announcement document (to be prepared by Con Edison and endorsed by sponsoring agency)

Completion Date: 4 weeks after program approval

Services provided by Other Resources: none

Projected Costs: none

Appendix A

Action Item Description from Steam Business Development Report

Work to Develop New Steam-to-Steam Incentives and Electric-to-Steam Chiller Incentives

Con Edison Steam should work with government entities to level the playing field for incentives and alert steam customers when such incentives are available. This could be through the following means:

- Work with NYCEDC on developing a steam chiller incentive comparable to the Con Edison Electric BIR and the ECSP programs.
- Develop a way to inform major customers about steam-related incentive programs.

Time due: Ongoing process, beginning immediately.

Priority: Medium/Low.

Annual Steam Sales Growth Opportunities

I. New Steam Cooling Load from Existing Steam Heating Customers Electric Chiller to Steam Chiller Replacement

Tons / Year 25,000	mbs / Ton 10.88	Cooling mbs 272,000
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II. New Steam Cooling Load from New Building Market Steam Heating Customers

Tons / Year 40,000	mbs / Ton 10.88	Cooling mbs 435,200
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III. Heating and Cooling of Unserved Existing Buildings at or Near Steam System Conversion of Gas Heating to Steam Heating and Electric Chillers to Steam Chillers

Potential Square Feet 336,000,000	Replacement per Year 5%	Assumed Capture 20%	Assumed Square Feet 3,360,000
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Heating mbs / sq ft 0.02	Heating mbs 67,200
------------------------------------	------------------------------

Chiller tons / sq ft 0.0029	mbs / ton 10.88	Cooling mbs 106,015
---------------------------------------	---------------------------	-------------------------------

Heating Steam Business Development Sales Growth Target (MMlbs): 67

Cooling Steam Business Development Sales Growth Target (MMlbs): 813

Costs Related to Steam Business Development Efforts

Current Steam Business Development Efforts			
Costs Incurred for Steam Business Development During the Current Rate Plan		Company Proposed Recovery	Staff Proposed Recovery
Consultant Fees for Steam Business Development Plan	\$ 366,000	FAC	FAC with compliance
Additional Costs Associated with Task Force	UNKNOWN	FAC	FAC with compliance
Consultant Fees for Steam Production Study	\$ 400,000	FAC	FAC with compliance
Consultant Fee to Develop Scope of Production Study	\$ 12,000	FAC	FAC with compliance
Future Steam Business Development Efforts			
Costs Related to the Demand Reduction Program		Company Proposed Recovery	Staff Proposed Recovery
Equipment Installation Costs	\$ 1,238,828	FAC	FAC with Compliance
Customer Operating Costs to be Reimbursed by the Company	\$ 68,060	FAC	FAC with Compliance
Incremental Operating Costs to be Incurred by the Company	\$ 113,433	FAC	FAC with Compliance
Consultant Fees to Develop Test Plan, Manage Data, etc	\$ 200,000	FAC	FAC with Compliance
Lost Revenues Associated with Demand Reduction	UNKNOWN	FAC	DISALLOW
Projected O&M Costs for Steam Business Development During the 2006 - 2007 Rate Year		Company Proposed Recovery	Staff Proposed Recovery
Customer Retention and Attraction	\$ 189,000	O&M Budget	O&M Budget with Downward True-Up
Consultant Fees - Analysis of Customer Studies	\$ 125,000	O&M Budget	O&M Budget with Downward True-Up
Consultant Fees - SBD Implementation	\$ 50,000	O&M Budget with True-Up through FAC	O&M Budget with Downward True-Up

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

Michael J. Rieder
Utility Engineer 3
Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

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Prepared Testimony of:

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Utility Engineer 3
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New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name and business address.

2 A. Michael J. Rieder. Three Empire State Plaza,
3 Albany, New York 12223.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by the New York State Department
6 of Public Service (Department) as a Utility
7 Engineer 3 in the Rates and Tariffs Section of
8 the Office of Electricity and Environment.

9 Q. Please briefly state your educational background
10 and professional experience.

11 A. I graduated from Clarkson University with a
12 Bachelor of Science degree in Electrical
13 Engineering in 1990. I began my employment with
14 the Department in November 1991. While with the
15 Department, I have prepared, analyzed, and
16 reviewed reports and studies involving operating
17 revenues, sales forecasts, operation and
18 maintenance expenses, marginal and embedded
19 costs, mortality and net salvage, revenue
20 allocation, and rate design. My duties include
21 engineering analyses of utility rate, pricing,
22 and tariff proposals.

23 Q. Have you previously provided testimony before
24 the New York State Public Service Commission

1 (Commission)?

2 A. Yes. I have testified before this Commission in
3 numerous proceedings on issues related to
4 utility sales, revenues, expenses, cost studies,
5 depreciation, revenue allocation, and rate
6 design.

7 Q. In your testimony, will you refer to, or
8 otherwise rely upon, any information produced
9 during the discovery phase of this proceeding?

10 A. Yes. I will refer to, and have relied upon,
11 several responses to Staff Information Requests.
12 They are attached as Exhibit ___ (MJR-1).

13 Q. What is the purpose of your testimony in this
14 proceeding?

15 A. My testimony will address Consolidated Edison
16 Company of New York, Inc.'s (Con Edison)
17 selection of average service lives and net
18 salvage factors for purposes of calculating
19 annual depreciation expense and computing the
20 theoretical reserve for depreciation. Based on
21 my recommended depreciation factors and the
22 recommended reduction in steam production
23 capital expenditures, as discussed by Staff
24 Witness Roberts, I recommend that the company's

1 proposed annual depreciation expense for the rate
2 year be decreased by \$4.5 million. Using my
3 depreciation factors, the theoretical reserve
4 for depreciation will be deficient by \$35.9
5 million, or minus 13.41%, rather than the
6 company's proposed \$55.3 million or minus
7 19.26%. I recommend the deficiency be amortized
8 and recovered over three years, as proposed by
9 the company. The cumulative effect of my
10 recommendations results in a rate year
11 depreciation and amortization expense of \$67.6
12 million, a decrease of approximately \$8.8
13 million from that proposed by the company.

14 Q. Have you prepared an exhibit for this proceeding
15 that summarizes the cumulative rate year effect
16 of your proposed changes to the company's
17 depreciation factors?

18 A. Yes. I have prepared the attached exhibit
19 titled "New York State Department of Public
20 Service, Depreciation and Amortization
21 Adjustments, Rate Year Ending September 30,
22 2007" Exhibit ___ (MJR-2).

23 Q. Please summarize the company's proposed changes
24 to its depreciation factors.

1 A. The company proposes to shorten the average
2 service lives of four of the company's steam
3 plant accounts and lengthen the average service
4 lives of three plant accounts. It also proposes
5 to change the majority of the company's primary
6 plant accounts or sub-accounts toward higher
7 negative net salvage factors. Shortening
8 service lives and increasing negative net
9 salvage factors increases the annual
10 depreciation expense. The cumulative effect of
11 the company's proposed changes will increase the
12 company's depreciation expense in the rate year
13 by approximately \$9.4 million.

14 Q. Have you prepared an exhibit for this proceeding
15 that summarizes your proposed changes to the
16 company's depreciation factors?

17 A. Yes. I have prepared the attached exhibit
18 titled "New York State Department of Public
19 Service, Proposed Depreciation Rate and h-curve
20 Changes for Steam Plant, Case 05-S-1376" Exhibit
21 ____ (MJR-3). This exhibit summarizes the average
22 service lives, net salvage factors, resulting
23 depreciation rates, and h-curves for each steam
24 plant account employed by the company, proposed

1 by the company, and proposed by me.

2 Q. What effect do your proposed changes to the
3 average service lives and net salvage factors
4 have on the company's propose rate year
5 depreciation expense?

6 A. My proposed changes will reduce the company's
7 proposed rate year depreciation expense increase
8 of \$9.4 million by approximately \$4.5 million.

9 Average Service Lives

10 Q. Do you agree with the company's proposed changes
11 to the existing average service lives?

12 A. I disagree with the selection of average service
13 lives for three steam plant accounts. Of the
14 four steam plant accounts that the company
15 proposes a decrease to the average service
16 lives, I agree that those accounts should have
17 shorter lives. However, I believe two of those
18 accounts should be shortened by only 5 years
19 instead of 10 years as proposed. Of the three
20 steam plant accounts that the company proposes
21 an increase to the average service lives, I
22 agree with the proposed increase of 5 years
23 each. However, I recommend that the average
24 service life for another steam plant account

1 also be increased by 5 years.

2 Q. Please describe how you arrived at your
3 conclusions.

4 A. I utilized the company's summarized property
5 mortality study provided as Exhibit ____ (CH-2).
6 This exhibit "includes computer generated
7 average service lives, equivalent h-curves, and
8 other statistical data indicated by the rolling
9 and shrinking band analysis of the company's
10 mortality experience with respect to Steam Plant
11 from 1943, or the earliest available date,
12 through 2004" (Hutcheson testimony, page 8).
13 The data is organized into various groupings
14 referred to as rolling or shrinking bands.
15 These retirement bands are periods of years over
16 which the retirement experience is analyzed.
17 Rolling bands used in this study are retirement
18 bands of constant 10-year width (for example,
19 1993-2002, 1994-2003, 1995-2004). Shrinking
20 bands are retirement bands which aggregate all
21 retirement years initially, and then subtract
22 one year at a time, beginning with the earliest
23 year, until a one-year retirement band is
24 developed. Normally, as the width of the

1 retirement band increases, the pattern exhibited
2 by the observed mortality data becomes more
3 uniform, i.e., the vintage variations are
4 smoothed out.

5 Q. What factors do you consider when determining
6 the most appropriate average service life?

7 A. The "degree of best fit" is an important factor
8 to consider when determining the most
9 appropriate average service life for a plant
10 account. Exhibit ____ (CH-2) contains a column
11 labeled "Fit Index." The Fit Index is a measure
12 of the test of fit in the least squares' fitting
13 process. The degree of best fit is the column
14 with the lowest fit index. This degree
15 statistically contains the most mathematically
16 reliable indications of average service lives.
17 I also consider trends within the rolling and
18 shrinking bands, as well as the results of the
19 most recent rolling bands and widest shrinking
20 bands. When the fit indices are not materially
21 different, I compare the results and trends of
22 those degrees to formulate an opinion of the
23 most appropriate average service life.

24 Q. Did you rely on any other documents or studies

1 to formulate your opinions regarding average
2 service lives?

3 A. Yes. I also relied on the workpapers provided
4 by Company Witness Hutcheson and attached hereto
5 as Exhibit___(MJR-4). Exhibit___(MJR-4)
6 contains Mr. Hutcheson's analysis, observations,
7 and conclusions with respect to the average
8 service lives for the plant accounts based on
9 the 2004 Steam Plant Mortality Studies.

10 Q. Did you compare the results of the mortality
11 studies with those of previous studies?

12 A. Yes. I compared the results of the 2004 study
13 with the results of the company's 2002 Steam
14 Plant Mortality Study provided in Case 03-S-
15 1672. I also considered Mr. Hutcheson's
16 observations, as contained in Exhibit___(MJR-4),
17 with regard to comparisons to the previous
18 mortality study. In addition, I also compared
19 the two sets of studies provided in Exhibit
20 ___(CH-2), that is, I compared study numbers
21 047141, 047161, 047181, and 047201 with study
22 numbers 047142, 047162, 047182, and 047202,
23 respectively. The latter studies (the number 2
24 studies) treat the large amount of production

1 plant investment transferred from electric plant
2 differently than in the past.

3 Q. Has the company ever proposed or used the
4 methodology employed in the number 2 studies?

5 A. No, as indicated by the company's response to
6 Staff Information Request 408, which is
7 contained in Exhibit ____ (MJR-1).

8 Q. Do you believe that the number 2 studies should
9 be exclusively relied upon to determine the
10 appropriate service lives or h-curves?

11 A. No. However, I do believe that the number 2
12 studies provide a certain level of useful
13 information and should be used as another tool
14 in determining appropriate lives and h-curves.
15 In performing these studies, the company input
16 "retirement history that took place in the
17 electric accounts since 1980 up until the date
18 the station was transferred to the Steam Plant."
19 (Hutcheson testimony, page 14) However, it
20 would be best if all retirement history, from
21 the date the plant originally went into service,
22 was included in the studies.

23 Q. What retirement history was included in the
24 number 2 studies?

- 1 A. As indicated in response to Staff Information
2 Request 409, contained in Exhibit ___ (MJR-1),
3 the number 2 studies include retirement history
4 back only to 1978.
- 5 Q. What is the significance of this?
- 6 A. The plants are significantly older than the
7 retirement history would indicate. It is likely
8 that there were a significant level of
9 investments and retirements prior to 1978 that
10 could impact the depreciation factors for the
11 plant accounts. Since the data is incomplete,
12 it would be inappropriate to rely exclusively on
13 the studies performed using this data.
- 14 Q. You stated that you agree that the average
15 service lives for four steam plant accounts
16 should be shortened. However, for two of those
17 accounts, you propose that the average service
18 lives be shortened by only 5 years. Please
19 explain.
- 20 A. Con Edison proposes that the average service
21 life for Account 9714 - Structures &
22 Improvements be shortened from 55 years to 45
23 years. This move is too aggressive. I propose
24 that the average service life be shortened only.

1 5 years, to 50 years, at this time. For study
2 number 047141, the rolling bands indicate a wide
3 range of lives, between 30 and 653 years, with
4 about half the bands fitting in each degree.
5 The second degree has most of the recent bands
6 fitting with lives over 145 years. The
7 shrinking bands have the first degree as best
8 fit with most bands fitting. The range of lives
9 is between 95 and 813 years, with the widest
10 bands at 101 years. There is a trend toward
11 longer lives. Based on this data alone, an
12 increase in the average service life for this
13 account could be considered appropriate.

14 Q. Then why didn't you increase the average service
15 life for this account?

16 A. I also considered the results of study number
17 047142. The rolling bands show that the first
18 degree is best fit with a range of average
19 service lives between 16 and 69 years for the
20 most recent bands. The last 12 bands are
21 relatively flat with a range from 16 to 36
22 years. The second degree has a similar fit and
23 similar range. The shrinking bands indicate the
24 second degree to be best fit with the widest

1 band at 47 years and steadily trending toward
2 shorter lives. The first degree fit index is
3 not materially different and the data shows
4 similar results, with the exception of the most
5 recent bands. Based on this study, a decrease
6 in the average service life for this account
7 could be considered appropriate.

8 Q. Did you compare the results of the previous
9 study with the results of study number 047142?

10 A. No. I did not make that comparison because the
11 treatment of the production plant transfer is
12 different in those two studies. However, I did
13 compare the previous study with study number
14 047141, in which the treatment of the transfers
15 is consistent. The results indicate a trend
16 toward a shorter average service life for this
17 account. Based on the results of the three
18 studies, I recommend that the average service
19 life be decreased to 50 years, rather than 45 as
20 proposed Con Edison.

21 Q. Please explain your reasons for decreasing the
22 average service life by 5 years for the other
23 account.

24 A. The company proposes to lower the average

1 service life for account 9716 - Boiler Plant
2 Equipment by 10 years, from 45 to 35 years. I
3 believe this move is also too aggressive. While
4 study 047162 does support a lower life, I also
5 consider the results of study 047161 and
6 compared that study to the study performed in
7 2002. In study 047162, the rolling bands
8 indicate the second degree as best fit with the
9 recent bands ranging from 21 to 46 years with a
10 slight increasing trend in the most recent
11 bands. The shrinking bands show the second
12 degree as best fit with all but the seven most
13 recent bands fitting. The range of lives is
14 from 25 to 36 years, with 36 years at the widest
15 bands and a slight trend toward shorter lives.
16 The first degree has a similar fit with all but
17 seven bands fitting and a range of lives from 30
18 to 75 years. The widest band is at 37 years
19 with a slight trend toward shorter lives, except
20 for the seven most recent bands. In study
21 047161, the rolling bands show the first degree
22 as best fit with most bands fitting and a range
23 of lives from 21 to 403 years. The shrinking
24 bands indicate the first degree as best fit with

1 all bands fitting. The range of lives is from
2 40 to 75 years with a slight increasing trend.
3 The widest band is a 44 years and all but two of
4 the most recent 36 bands are 45 years or more.
5 When comparing the previous study with study
6 number 047161, in which the treatment of the
7 transfers is consistent, the results indicate a
8 trend toward a shorter average service life for
9 this account. Based on the results of the three
10 studies, I recommend that the average service
11 life be decreased to 40 years, rather than 35
12 years as proposed Con Edison.

13 Q. Please explain your reasons for increasing the
14 average service life on the account that the
15 company proposes to remain unchanged.

16 A. Con Edison proposes to maintain the 45 year
17 average service life for Account 9735 -
18 Desuperheating Equipment. I propose that the
19 average service life for this account be
20 increased by 5 years to 50 years. The rolling
21 bands indicate the third degree as best fit with
22 only about half the bands fitting. The most
23 recent bands range from 34 to 56 years with a
24 trend toward longer lives. The first degree has

1 a similar fit with a similar number of bands
2 fitting. The most recent bands range from 34
3 years to 59 years with an increasing trend. The
4 shrinking bands indicate the first degree as
5 best fit will all but two bands fitting. The
6 widest band is at 53 years will all but seven
7 fitting bands at 50 years or more. The range is
8 from 46 to 53 years, with the exception of the
9 most recent eight bands, which are over 100
10 years. The third degree has a similar fit with
11 all but the eight most recent bands fitting.
12 The range of lives is from 46 to 58 years with
13 all but three fitting bands at 50 years or more.
14 When compared to the previous study, the results
15 indicate a trend toward longer service lives.
16 Based on these results, I recommend that the
17 average service life be increased to 50 years,
18 rather than remaining at 45 years as proposed by
19 the company.

20 Net Salvage Factors

- 21 Q. Do you propose any changes to the company's
22 existing net salvage factors?
- 23 A. Yes. Of the nine plant accounts that Con Edison
24 proposes increases to the negative net salvage

1 factors, I agree with the selection of net
2 salvage factors for four of those accounts. The
3 remaining five accounts should have higher
4 negative net salvage factors than currently in
5 place, though less negative than that proposed
6 by the company.

7 Q. Before you explain your proposed net salvage
8 factors for each of the five accounts or sub-
9 accounts that are in disagreement, please
10 describe how you arrived at your conclusions.

11 A. I utilized the company's Summary of Historical
12 Net Salvage in Exhibit ___ (CH-3). This
13 exhibit, as described by Company Witness
14 Hutcheson, "contains the historical net salvage
15 for each of the Company's depreciable Steam
16 Plant accounts in dollar amount and as a percent
17 of the book cost of plant retired. The book
18 cost of plant retired, cost of removal, and
19 salvage is shown for the most recent 25 years
20 for the actual retirements in the indicated
21 calendar years. The exhibit also provides
22 totals for the full experience band ending in
23 year 2004, rolling bands five years in width,
24 and a computation of the net salvage as a

1 percent of the book cost retired for the full
2 experience band, each rolling band, and each
3 shrinking band" (Hutcheson testimony, page 11).

4 Q. What factors do you consider when determining
5 the most appropriate net salvage factor?

6 A. Similar to the mortality study, the data
7 contained in Exhibit ____ (CH-3) is organized
8 into rolling and shrinking bands. I consider
9 trends within the bands, range of percentages,
10 most recent percentages, and the full experience
11 percentage.

12 Q. Did you rely on any other documents or studies
13 to formulate your opinions regarding net salvage
14 factors?

15 A. Yes. I also relied on the document provided as
16 workpapers by Company Witness Hutcheson and
17 contained in Exhibit ____ (MJR-4). This document
18 contains Mr. Hutcheson's analysis, observations,
19 and conclusions with respect to the net salvage
20 factors for the company's depreciable steam
21 plant accounts.

22 Q. Did you limit the increase of your proposed net
23 salvage factors?

24 A. Yes, I limited the increase to any net salvage

1 factor at 20%. Changing net salvage factors
2 directly impacts the amount of depreciation
3 expense collected from customers, though to a
4 lesser degree than changing average service
5 lives. Therefore, when warranted, I have
6 increased the negative net salvage factors by no
7 more than 20% to better reflect the study
8 results and attempt to minimize the extent of
9 any resulting temporary rate fluctuations.

10 Q. Please explain the accounts in which you
11 disagree as to the extent to which the net
12 salvage factors should be increased but are not
13 limited to a 20% increase.

14 A. For Account 9716 - Boiler Plant Equipment, Con
15 Edison proposes to increase the net salvage
16 factor from 30% negative to 50% negative. The
17 full experience band is at 77.10% negative. The
18 shrinking bands range from 43% negative to 137%
19 negative in the current year. The bands
20 indicate a trend toward decreasing negatives
21 until the 1997 to 2004 band and then flatten out
22 around 50% negative until the current year. The
23 full experience bands range from 45% negative to
24 261% negative, excluding the 1980 to 1980 band,

1 with a recent trend toward decreasing negatives
2 but still at percentages above the current 30%
3 negative. The 5-year rolling bands range from
4 26% negative to 406% negative. However, of the
5 seven most recent bands, only three are greater
6 than 40% negative and only one is greater than
7 50% negative. Both shrinking and full
8 experience bands are above the current net
9 salvage factor, which suggests an increase is
10 warranted. However, both bands trend toward
11 decreasing negatives and the most recent 5-year
12 bands are around 40% negative, which causes me
13 to recommend increasing the factor by only 10%
14 at this time.

15 Q. Please explain the next account.

16 A. For Account 9720 - Miscellaneous Station
17 Equipment, Con Edison proposes to increase the
18 net salvage factor from 0% to 10% negative.
19 There is limited retirement experience in this
20 account with only five of the twenty-five years
21 having plant retirements. Four instances show
22 removal with no retirements, which skews the
23 percentages. Of the plant retired, however,
24 there were removal costs and no salvage amounts

1 recorded. It seems appropriate that some level
2 of net salvage be experienced. The company
3 proposes to use the full experience percentage
4 of 10% negative, which will overstate the level
5 of net salvage. No other account, with the
6 exception of meters (0%), uses the full
7 experience band. I propose moving from 0% to 5%
8 negative to reflect no salvage value of the
9 plant retired, at this time.

10 Q. Please explain the accounts in which you limit
11 to 20% the increase to the negative net salvage
12 factor.

13 A. For Account 9714 - Structures and Improvements,
14 Account 9734 - Mains, and Account 9736 -
15 Services, I recommend that the net salvage
16 factors be increased by 20% each instead of 30%,
17 30%, and 45%, respectively, as proposed by the
18 company. The study data does suggest that
19 higher negative salvage values than those that
20 are currently in place are appropriate. I,
21 therefore, recommend that the factors be
22 increased at this time but limit the increase to
23 20%. Increasing the net salvage factors for
24 these accounts by 20% cause the annual

1 depreciation expense for these accounts to
2 increase by approximately \$1.4 million. It is
3 appropriate to limit the increase to these
4 factors by 20% in light of the potential rate
5 impact caused by such an increase and recommend
6 that the net salvage factors for these accounts
7 be reviewed again in the company's next rate
8 proceeding.

9 Q. Please explain the study results for these three
10 accounts.

11 A. For Account 9714 - Structures and Improvements,
12 the full experience band is at 584% negative.
13 The shrinking bands range from 325% negative to
14 651% negative with a trend toward increasing
15 negatives. The full experience bands range from
16 14% negative to 651% negative with an increasing
17 trend and have most bands in excess of 100%
18 negative. The 5-year rolling bands range from
19 10% negative to 1250% negative, also with an
20 increasing trend, and recent bands in excess of
21 80% negative. For Account 9734 - Mains, the
22 full experience band is 120% negative. The
23 shrinking bands range from 120% negative to 363%
24 negative with a trend toward increasing negative

1 percentages. The full experience bands range
2 from 14% negative (1980 to 1980 band) to 120%
3 negative (1980 to 2004 band) with a trend toward
4 increasing negatives and the most recent five
5 bands in excess of 100% negative. The 5-year
6 rolling bands range from 15% negative to 240%
7 negative, again with a trend toward increasing
8 negative percentages and percentages in excess
9 of 100% for the most recent 5-year bands.
10 Account 9736 - Services has a full experience
11 band at 130% negative. The shrinking bands
12 range from 130% negative to 318% negative with a
13 trend toward higher negative percentages than
14 the current 45% negative. The full experience
15 bands range from 34% negative to 130% negative
16 with a trend toward higher negative percentages
17 and the last twelve bands in excess of 65%
18 negative. The 5-year rolling bands range from
19 33% negative to 318% negative, again with an
20 increasing trend and recent bands in excess of
21 85% negative.

22 H-curves and Reserve for Depreciation

23 Q. Are you proposing any changes to the h-curve
24 selections proposed by Con Edison?

- 1 A. No, I am not.
- 2 Q. Please describe the cumulative effect your
3 proposed changes have on the computed
4 accumulated reserve for depreciation?
- 5 A. My proposed changes reduce the company's
6 proposed computed reserve deficiency by \$19.4
7 million. The resulting deficiency is \$35.9
8 million and the reserve variation percentage is
9 minus 13.41%. Because the reserve variation is
10 outside a plus or minus 10% bandwidth, I propose
11 that the deficiency be recovered from customers
12 as proposed by the company. My adjustments,
13 however, will result in a reduction to the
14 company's proposed rate year amortization
15 expense by approximately \$4.3 million. Because
16 the sales proceeds for First Avenue Properties
17 are in excess of the amount needed to eliminate
18 the reserve deficiency, the unused proceeds
19 should be treated as discussed by the Staff
20 Accounting Panel.
- 21 Q. Does this conclude your testimony?
- 22 A. Yes.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Exhibits of:

Michael J. Rieder
Utility Engineer 3
Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

MICHAEL J. RIEDER

List of Staff Information Requests

Staff Request

Exhibit page

408

2

409

3

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff12
Date of Response: 01/26/2006
Responding Witness: Hutcheson, Charles

Question No. :408

Con Edison is proposing to transfer the retirement histories for the Hudson Avenue and 59th Street Stations from electric to steam, rather than using a "terminated exposures" adjustment. (a) Con Edison ever proposed and/or used this method before? (b) If the response to (a) is yes, please provide: (i) the circumstances in which the method was proposed/used; (ii) the case(s) in which the proposal was made/approved; and (iii) any testimony and exhibits supporting the proposal.

Response:

- a) No
- b) N/A

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories - Set Staff12
Date of Response: 01/26/2006
Responding Witness: Hutcheson, Charles

Question No. :409

Does the proposed method of adjusting the study reflect the full cost of all retirements that have already taken place at the Hudson Avenue and 59th Street Stations?

Response:

No. The study includes retirement history back only to 1978.

**New York State Department of Public Service
Depreciation and Amortization Adjustments
Rate Year Ending September 30, 2007**

	Twelve Months Ending September 30, 2007 As Reflected in Exhibit (AP-7) (1)	Company Proposed Rate Case Adjustments (2=3-1)	Company Proposed Rate Year As Adjusted (3)	Staff Adjustments to Company Proposed Rate Year As Adjusted (4=3-5)	Staff Rate Year As Adjusted (5)
DEPRECIATION AND AMORTIZATION					
ERRP	30,799	1,756	32,555	721	31,834
Non-ERRP	19,912	7,641	27,553	3,773	23,780
Amortization of Deficiency	-	16,300	16,300	4,332	11,968
Total	50,711	25,697	76,408	8,826	67,582

**New York State Department of Public Service
Proposed Depreciation Rate and h-curve Changes for
Case 05-S-1376**

<u>Company Account</u>	<u>Average Service Lives</u>			<u>Net Salvage</u>			<u>Depreciation Rate</u>			<u>h-curves</u>		
	<u>Current</u>	<u>Company</u>	<u>Staff</u>	<u>Current</u>	<u>Company</u>	<u>Staff</u>	<u>Current</u>	<u>Company</u>	<u>Staff</u>	<u>Current</u>	<u>Company</u>	<u>Staff</u>
9714 - Structures & Improvements	55	45	50	(25)	(50)	(45)	2.27%	3.33%	2.90%	h 2.00	h 1.00	h 1.00
9716 - Boiler Plant Equipment	45	35	40	(30)	(50)	(40)	2.89%	4.29%	3.50%	h 1.75	h 1.00	h 1.00
9718 - Access. Power Equip.	50	40	40	(10)	(15)	(15)	2.20%	2.88%	2.88%	h 1.75	h 1.75	h 1.75
9720 - Misc. Station Equip.	50	50	50	0	(10)	(5)	2.00%	2.20%	2.10%	h 2.00	h 2.50	h 2.50
9732 - Structures & Improvements	50	50	50	0	0	0	2.00%	2.00%	2.00%	h 5.00	h 5.00	h 5.00
9734 - Mains	70	70	70	(30)	(60)	(50)	1.86%	2.29%	2.14%	h 0.50	h 0.75	h 0.75
9735 - Desuperheating Equip.	45	45	50	(20)	(40)	(40)	2.67%	3.11%	2.80%	h 1.50	h 1.50	h 1.50
9736 - Services	45	50	50	(45)	(90)	(65)	3.22%	3.80%	3.30%	h 0.25	h 0.50	h 0.50
9738 - Meters	40	30	30	0	0	0	2.50%	3.33%	3.33%	h 1.50	h 1.75	h 1.75
9740 - Access. Equip. Cust. Prem.	45	50	50	0	(10)	(10)	2.22%	2.20%	2.20%	h 0.75	h 0.75	h 0.75
9742 - Inst. Meters & Acc. Equip.	50	55	55	(5)	(25)	(25)	2.10%	2.27%	2.27%	h 0.25	h 0.75	h 0.75

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 55 years

Proposed: 45 years

Account 9714 -- Structures & Improvements (all other portion)

Study No. 047142

Rolling Bands (recent bands):

Degree 1

Range from 16 to 23 years

All bands were fit

Trend: relatively flat

Degree 2

Range from 15 to 22 years

All bands were fit

Trend: relatively flat

Degree 3

Range from 0 to 0 years

No bands were fit

Trend: n/a

Other Indications for rolling bands (all degrees): n/a

Shrinking Bands:

Degree 1

Range from 19 to 814 years

All bands were fit

Trend: Decreasing, however the most recent bands yield very high lives

Other degree 1 observations: Widest bands are at 49 years

Degree 2

Range from 18 to 47 years

All bands with the exception of 7 most recent bands were fit

Trend: toward lower lives

Other degree 2 observations: Widest bands at 47 years

Degree 3

Range from 162 to 494 years

Only 3 bands were fit

Trend: n/a

Other degree 3 observations: n/a

Other Indications for all degrees:

Degree of Best Fit: Degree 2 (similar to degree 1)

Comparison to Last Study:

Sharp decrease in lives due to inclusion of retirement history from electric plant.

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 45 years

Proposed: 35 years

Account 9716 -- Boiler Plant Equipment (all other portion)

Study No. 047162

Rolling Bands (recent bands):

Degree 1

Range from 22 to 23 years

Only 3 bands were fit

Trend: n/a

Degree 2

Range from 21 to 28 years

All bands were fit

Trend: Slightly higher, but ASL indications are under 30 years

Degree 3

Range from 0 to 0 years

No bands were fit

Trend: n/a

Other Indications for rolling bands (all degrees): The more recent rolling bands indicate lower lives than the older rolling bands.

Shrinking Bands:

Degree 1

Range from 30 to 75 (most bands between 30 & 37) years

Most bands were fit

Trend: Decreasing lives although recent bands show higher lives.

Other degree 1 observations: Widest bands yield a 37 year ASL

Degree 2

Range from 25 to 36 years

Most of the wider (but not the 7 most recent) bands were fit

Trend: Decreasing trend indicated

Other degree 2 observations: Wider bands at 36 years

Degree 3

Range from n/a to n/a years

No bands were fit

Trend: n/a

Other degree 3 observations: n/a

Other Indications for all degrees:

Degree of Best Fit: Degree 2

Comparison to Last Study:

General shift of about 5 years toward lower ASL in the most recent shrinking bands

Trend indications are similar (toward lower lives) from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 50 years

Proposed: 40 years

Account 9718 -- Access Power Equip (all other portion)

Study No. 047182

Rolling Bands (recent bands):

Degree 1

Range from 32 to 46 years
All bands were fit
Trend: Fairly flat near 40 years

Degree 2

Range from 32 to 43 years
All bands were fit
Trend: Relatively flat trended

Degree 3

Range from 32 to 32 years
Only 1 of the bands were fit
Trend: n/a

Other Indications for rolling bands (all degrees): The more recent bands show lower lives than the previous study

Shrinking Bands:

Degree 1

Range from 34 to 48 years
All except the 6 most recent bands were fit
Trend: Decreasing trend indicated
Other degree 1 observations: n/a

Degree 2

Range from 19 to 46 (other than the two most recent bands which are over 100) years
Most bands were fit
Trend: Toward lower lives, except for the two recent bands already noted.
Other degree 2 observations: Widest bands at 46 years

Degree 3

Range from n/a to n/a years
Only a few of the more recent bands were fit
Trend: n/a
Other degree 3 observations: None of the wider bands were fit

Other Indications for all degrees:

Degree of Best Fit: Degree 2

Comparison to Last Study:

General shift of a few years toward higher ASL in the wider shrinking bands
Trend indications are about the same as those (trends toward lower lives) from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 50 years

Proposed: 50 years

Account 9720 -- Misc. Equipment (all other portion)

Study No. 047202

Rolling Bands (recent bands):

Degree 1

Range from 45 to 47 years

All bands were fit

Trend: Flat

Degree 2

Range from 55 to 57 years

All bands were fit

Trend: Flat

Degree 3

Range from 52 to 58 years

Five of 8 (three most recent not fit) bands were fit

Trend: Flat

Other Indications for rolling bands (all degrees): Indication similar to last study

Shrinking Bands:

Degree 1

Range from 46 to 62 years, excluding the two most recent bands

Most (with the exception of 7 most recent) bands were fit

Trend: Decreasing, except for an increase shown for the two most recent bands fit

Other degree 1 observations: Widest bands at 62 years

Degree 2

Range from 54 to 62 years

Most (with the exception of 9 most recent) bands were fit

Trend: Slight decreasing trend in wider bands

Other degree 2 observations: Widest bands at 62 years

Degree 3

Range from 56 to 62 years

All of the wider (most recent bands were not fit) bands were fit

Trend: Flat (slight decreases)

Other degree 3 observations: Widest bands at 62 Years

Other Indications for all degrees:

Degree of Best Fit: Degree 2 (very close to other degrees)

Comparison to Last Study:

General shift of about 9 (degree 1) and 4 (degrees 2 & 3) years toward higher ASL in the most recent shrinking bands

Trend indications are virtually unchanged from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 50 years

Proposed: 50 years

Account 9732 -- Structures & Improvements

Study No. n/a

Rolling Bands (recent bands):

Degree 1

Range from n/a to n/a years

N/a bands were fit

Trend: n/a

Degree 2

Range from n/a to n/a years

N/a bands were fit

Trend: n/a

Degree 3

Range from n/a to n/a years

N/a bands were fit

Trend: n/a

Other Indications for rolling bands (all degrees): N/a

Shrinking Bands:

Degree 1

Range from n/a to n/a years

N/a bands were fit

Trend: n/a

Other degree 1 observations: n/a

Degree 2

Range from n/a to n/a years

N/a bands were fit

Trend: n/a

Other degree 2 observations:

Degree 3

Range from n/a to n/a years

N/a bands were fit

Trend: n/a

Other degree 3 observations:

Other Indications for all degrees:

Degree of Best Fit: Degree n/a

Comparison to Last Study:

General shift of about n/a years toward n/a

Trend indications are n/a from those in last study

Other Indications:

No statistical study performed for this account. Continue with 50 year life.

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 70 years

Proposed: 70 years

Account 9734 -- Mains

Study No. 047340

Rolling Bands (recent bands):

Degree 1

Range from 53 to 77 years
All bands were fit
Trend: toward higher lives

Degree 2

Range from 0 to 0 years
No bands were fit
Trend: n/a

Degree 3

Range from 48 to 65 years
All bands were fit
Trend: toward higher lives

Other Indications for rolling bands (all degrees): Degree 3 has best fit for these bands

Shrinking Bands:

Degree 1

Range from 68 to 154 (most bands under 76) years
Almost all bands were fit
Trend: Decreasing, however most recent bands have reversed that trend
Other degree 1 observations: Widest bands at 75 years

Degree 2

Range from n/a to n/a years
Only 2 bands were fit
Trend: n/a
Other degree 2 observations:

Degree 3

Range from 59 to 108 (most bands under 67) years
All except most recent bands were fit
Trend: Decreasing in the wider bands and reversing with recent bands
Other degree 3 observations: Widest bands at 67 years

Other Indications for all degrees:

Degree of Best Fit: Degree 3

Comparison to Last Study:

General shift of about 3 to 4 years toward higher ASL in the most recent shrinking bands
Trend indications are similar from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 45 years

Proposed: 45 years

Account 9735 - Desuperheating Equipment

Study No. 047350

Rolling Bands (recent bands):

Degree 1

Range from 34 to 51 years

All bands were fit

Trend: Increasing

Degree 2

Range from 0 to 0 years

No bands were fit

Trend: n/a

Degree 3

Range from 34 to 55 years

All bands were fit

Trend: Increasing

Other Indications for rolling bands (all degrees):

Shrinking Bands:

Degree 1

Range from 46 to 53 (excluding some very high recent bands) years

All (except one) bands were fit

Trend: Decreasing for the most part, but recent bands show higher lives

Other degree 1 observations: Widest bands at 53 years

Degree 2

Range from 132 to 149 years

Only 2 bands were fit

Trend: n/a

Other degree 2 observations:

Degree 3

Range from 46 to 58 years

All except the most recent 8 bands were fit

Trend: Relatively flat - some downward then upward fluctuations

Other degree 3 observations:

Other Indications for all degrees:

Degree of Best Fit: Degree 1 (close to degree 3)

Comparison to Last Study:

General shift of about 4 to 5 years toward higher ASL in the most recent shrinking bands

Trend indications are relatively unchanged from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 45 years

Proposed: 50 years

Account 9736 - Services

Study No. 047360

Rolling Bands (recent bands):

Degree 1

Range from 56 to 84 years

All bands were fit

Trend: Increasing

Degree 2

Range from 0 to 0 years

No bands were fit

Trend: n/a

Degree 3

Range from 52 to 68 years

All bands were fit

Trend: Increasing

Other Indications for rolling bands (all degrees): Recent rolling bands show much higher lives than the older rolling bands. That trend is continuing with data from current study

Shrinking Bands:

Degree 1

Range from 50 to 109 years

All (except 6 most recent) bands were fit

Trend: Higher lives indicated

Other degree 1 observations:

Degree 2

Range from n/a to n/a years

n/a bands were fit

Trend: n/a

Other degree 2 observations: Only 7 most recent bands were fit

Degree 3

Range from 51 to 88 years

All bands were fit

Trend: Increasing Lives

Other degree 3 observations:

Other Indications for all degrees:

Degree of Best Fit: Degree 3

Comparison to Last Study:

General shift of about 2 to 3 years toward higher ASL in the most recent shrinking bands

Trend indications are similar from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 40 years

Proposed: 30 years

Account 9738 - Meters

Study No. 047380

Rolling Bands (recent bands):

Degree 1

Range from 32 to 79 years

All bands were fit

Trend: Downward

Degree 2

Range from 51 to 57 years

Only 2 bands were fit

Trend: n/a

Degree 3

Range from 45 to 49 years

All (except most recent) bands were fit

Trend: Flat

Other Indications for rolling bands (all degrees):

Shrinking Bands:

Degree 1

Range from 37 to 14 years

All bands were fit

Trend: Wider bands are relatively flat then show decreasing values in recent years

Other degree 1 observations:

Degree 2

Range from 0 to 0 years

No bands were fit

Trend: n/a

Other degree 2 observations:

Degree 3

Range from 0 to 0 years

No bands were fit

Trend: n/a

Other degree 3 observations:

Other Indications for all degrees:

Degree of Best Fit: Degree 1 (by default)

Comparison to Last Study:

General shift of about 8 years toward lower ASL in the most recent shrinking bands

Trend indications are sharply toward lower ASL from those in last study

Other Indications:

Current study has no degree 3 shrinking bands that were apparent in last study. Sharply lower ASL because of meter retirement programs.

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 45 years

Proposed: 50 years

Account 9740 -- Access. Equip on Customer Premises

Study No. 047400

Rolling Bands (recent bands):

Degree 1

Range from 90 to 122 years

All bands were fit

Trend: Increasing

Degree 2

Range from n/a to n/a years

Only a few bands were fit

Trend: n/a

Degree 3

Range from n/a to n/a years

Only a few bands were fit

Trend: n/a

Other Indications for rolling bands (all degrees):

Shrinking Bands:

Degree 1

Range from 51 to 145 years

Most bands were fit

Trend: Increasing

Other degree 1 observations: A few of the more recent bands were not fit

Degree 2

Range from n/a to n/a years

No bands were fit

Trend: n/a

Other degree 2 observations:

Degree 3

Range from 54 to 290 years

Only widest bands and some of the more recent bands were fit

Trend: Increasing

Other degree 3 observations:

Other Indications for all degrees:

Degree of Best Fit: Degree 1 (by default)

Comparison to Last Study:

General shift of about 2 to 3 years toward higher ASL in the most recent shrinking bands

Trend indications are similar from those in last study

Other Indications:

Mortality Write-Ups -- Average Service Life - 2004 Steam

Current: 50 years

Proposed: 55 years

Account 9742 -- Inst. Of Meters & Access. Equip.

Study No. 047420

Rolling Bands (recent bands):

Degree 1

Range from 72 to 111 years

All bands were fit

Trend: Increasing

Degree 2

Range from n/a to n/a years

No bands were fit

Trend: n/a

Degree 3

Range from 83 to 380 years

All bands were fit

Trend: n/a

Other Indications for rolling bands (all degrees):

Shrinking Bands:

Degree 1

Range from 58 to 110 (excluding the more recent bands which are quite high) years

All (except some of the more recent) bands were fit

Trend: Increasing

Other degree 1 observations: More recent indications yield very high lives

Degree 2

Range from n/a to n/a years

No bands were fit

Trend: n/a

Other degree 2 observations:

Degree 3

Range from 56 to 98 years

All (except most recent) bands were fit

Trend: Increasing

Other degree 3 observations:

Other Indications for all degrees:

Degree of Best Fit: Degree 3

Comparison to Last Study:

General shift of about 1 year (degree 3 best fit degree) and 4 years (for degree 1) toward higher ASL in the most recent shrinking bands

Trend indications are similar from those in last study

Other Indications:

Mortality Write-Ups – Summary of Historical Net Salvage - 2004 Steam

Account 9714 – Structures & Improvements

Current Net Salvage Factor: 25% neg

Proposed Net Salvage Factor: 50% neg (as a minimum at this time)

Full Experience Percentage: 584.21% neg

Shrinking Bands:

Overall range from 325% neg to 1,398% neg

Indicated trend toward much higher negatives, however, the current year's percentage lowers that to a "more reasonable" level of only 325% neg

Full Experience Bands:

Overall range from 14% neg (in the earlier years) to 651% neg

Indicated trend toward much higher negative percentages

5-Year Rolling Bands:

Overall range from 10% neg (in the earlier years) to very high negative percentages

Indicated trend toward very high negative percentages

The last two bands are over 1,000% negative

Other Observations:

The data in the exhibit has been adjusted to remove removal costs associated with ERRP that were charged to this account during 2002 & 2003 since those charges were transferred to the electric accounts on the basis that the removals for ERRP were removals of electric facilities.

Account 9716 – Boiler Plant Equipment

Current Net Salvage Factor: 30% neg

Proposed Net Salvage Factor: 50% neg

Full Experience Percentage: 77.10% neg

Shrinking Bands:

Overall range from 43% neg to 137% neg (current year)

Indicated trend toward decreasing negatives until the 1996-2004 band, which results in a relatively flat trend thereafter near 50% negative. Only the most recent band causes a jump toward higher negative percentages after that.

Full Experience Bands:

Overall range from 45% neg to 261% neg (excluding the 1980-1980 band which is extremely high)

Indicated trend toward lower negative percentages, but those percentages are still much higher negative than the current net salvage factor for account.

5-Year Rolling Bands:

Overall range from 26% neg to 97% neg excluding the first half of the percentages developed, which are well over 100% negative for the most part

Indicated trend toward higher negatives for the second half (most recent bands) of all the 5-year bands developed

Other Observations:

Account 9718 – Accessory Power Equipment

Current Net Salvage Factor: 10% neg

Proposed Net Salvage Factor: 15% neg

Full Experience Percentage: 18.93% neg

Shrinking Bands:

Overall range from 16% neg to 469% neg The two most recent bands are over 328% neg

Indicated trend toward lower negatives in the mid-band years and then toward higher negatives in the more recent bands

Of the 5 most recent bands, two are over 328% negative as noted, the other three range from 26% neg to 27% neg.

Full Experience Bands:

Overall range from 0% to 39% negative. The most recent band is at 19% neg. All bands except one since 1980-1991 band are more highly negative than the current 10% rate.

Indicated trend toward higher negatives for the most current bands, but on an overall basis the trend has varied up and down.

5-Year Rolling Bands:

Overall range from 19% pos to 66% neg

Indicated trend has varied on an overall basis with a recent trend heading toward higher negative percentages.

Other Observations:

Mortality Write-Ups – Summary of Historical Net Salvage - 2004 Steam

Account 9720 – Misc. Station Equipment

Current Net Salvage Factor: 0%

Proposed Net Salvage Factor: 10% neg

Full Experience Percentage: 9.67% neg

Shrinking Bands:

Overall range from 0% to 76% neg

Indicated trend has varied, based on limited experience

Full Experience Bands:

Overall range from 0% to 32% neg

Indicated trend has varied based on limited experience

5-Year Rolling Bands:

Overall range from 0% to 67% neg in the most recent two bands developed

Indicated trend has varied based on limited experience

Other Observations:

Due to the limited experience in the account, selection based on statistics is limited. However, there have been 4 instances which show removal cost being generated without book cost retired in that year (most likely because of timing) which skew the statistics toward lower negatives. Therefore, it seems appropriate that some level of net removal is being experienced, and the proposed rate will reflect the full experience percentage of 10% negative.

Mortality Write-Ups – Summary of Historical Net Salvage - 2004 Steam

Account 9732 – Structures & Improvements

Current Net Salvage Factor: 0%

Proposed Net Salvage Factor: 0%

Full Experience Percentage: 153.53% neg

Shrinking Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

Full Experience Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

5-Year Rolling Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

Other Observations:

Only one year of retirement and one year of removal cost in last 25 years. Use 0% until further information is available.

Account 9734 – Mains

Current Net Salvage Factor: 30% neg

Proposed Net Salvage Factor: 60% neg as a minimum at this time.

Full Experience Percentage: 120.42% neg

Shrinking Bands:

Overall range from 120% neg (earliest band) to 363% negative

Indicated trend toward constantly increasing negative percentages

Most recent 7 bands developed are in excess of 176% negative

Full Experience Bands:

Overall range from 14% neg (oldest band) to 120% negative (most recent band)

Indicated trend toward constantly increasing negative percentages

Most recent 5 bands are in excess of 100% negative. All bands since the 1989-2004 band are in excess of 140% negative

5-Year Rolling Bands:

Overall range from 15% neg (oldest band) to 240% neg (most recent band)

Indicated trend toward constantly increasing negative percentages

The 12 most recent bands are in excess of 100% neg.

Other Observations:

The one-year bands for the last 12 years are in excess of 106% negative and range as high as 186% neg during that period.

Over the last 10-year period, the account has experienced approximately \$44.5 million of removal cost. The net salvage statistics used for this account exclude the retirements and net removal costs associated with the 10-year Steam Enhancement Program on the basis they will not recur in the future.

Account 9735 – Desuperheating Equipment

Current Net Salvage Factor: 20% neg

Proposed Net Salvage Factor: 40% neg

Full Experience Percentage: 51.23% neg

Shrinking Bands:

Overall range from 46% neg to 2,037% neg. (403% neg excluding that very high percentage)

Indicated trend toward higher negative percentages. The percentages were relatively stable until the 1997-2004 band, and have increased dramatically since then.

All percentages are much higher than the current net salvage factor

Full Experience Bands:

Overall range from 22% neg to 73% neg

Indicated trend toward increasing negative percentages in the more recent bands. Prior to that, the trend had varied but all percentages in excess of the current rate.

5-Year Rolling Bands:

Overall range from 2% neg to 297% neg. The 4 most recent bands developed are in excess of 217% neg.

Indicated trend toward very high negatives for the more recent experience. Prior to that, the trend had varied, although all bands (excluding three) are in excess of the current rate.

Other Observations:

Account 9736 – Services

Current Net Salvage Factor: 45% neg

Proposed Net Salvage Factor: 90% neg

Full Experience Percentage: 129.51% neg

Shrinking Bands:

Overall range from 130% neg to 318% neg

Indicated trend toward higher negative percentages on an overall basis. The trend is increasing, but not constant. For instance, the 4 most recent bands indicate a trend toward lower negative percentages, but the range of these 4 bands is very high - from 150% neg to 311% neg.

Full Experience Bands:

Overall range from 34% neg to 130% neg (most recent band).

Indicated trend toward higher negative percentages.

The 5 most recent bands are in excess of 102% negative and demonstrate a trend toward higher percentages.

5-Year Rolling Bands:

Overall range from 33% neg to 318% neg (most recent band). The 12 most recent bands are in excess of 112% negative.

Indicated trend toward higher negative percentages.

Other Observations:

The 13 most recent one-year bands are in excess of 113% negative. Most of them are quite higher than that and range up to 638% negative.

Account 9738 – Meters

Current Net Salvage Factor: 0%

Proposed Net Salvage Factor: 0%

Full Experience Percentage:

Shrinking Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

Full Experience Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

5-Year Rolling Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

Other Observations:

Very limited net salvage experience for this account so 0% will be proposed until a need for a change is demonstrated.

Account 9740 – Accessory Equipment on Customers' Premises

Current Net Salvage Factor: 0%

Proposed Net Salvage Factor: 10% neg

Full Experience Percentage: 108.88% neg (see other observations below)

Shrinking Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

Full Experience Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

5-Year Rolling Bands:

Overall range from n/a to n/a

Indicated trend toward n/a

Other Observations:

Although the full experience band is in excess of 100% negative, the overall experience in the account is not significant in terms of dollar value. However, it appears that the current rate of 0% is no longer appropriate. The proposed rate is therefore based on the recognition that the account has experienced net salvage dollars charged greater than the original cost of plant retired. It appears reasonable that some level of net removal cost should be recovered through depreciation expense.

Mortality Write-Ups – Summary of Historical Net Salvage - 2004 Steam

Account 9742 – Installation of Meters & Accessory Equipment

Current Net Salvage Factor: 5% neg

Proposed Net Salvage Factor: 25% neg

Full Experience Percentage: 57.27% neg

Shrinking Bands:

Overall range from 57% neg to 308% neg

Indicated trend toward higher negative percentages. The most recent bands are trending toward lower negatives, but still result in very high percentages.

All bands developed since the 1989-2004 band are in excess of 101% negative

Full Experience Bands:

Overall range from 7% negative to 57% negative (most current band)

Indicated trend toward increasing negative percentages.

5-Year Rolling Bands:

Overall range from 6% neg to 308% neg (most recent band)

Indicated trend toward significantly increasing negative percentages

The 4 most recent bands range from 103% neg to 586% neg.

Other Observations:

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Case 05-S-1376

FEBRUARY 2006

Prepared Testimony of:

John G. Roberts
Utility Supervisor
Office of Electricity and
Environment
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

BEFORE THE
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Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name, employer, and business
2 address.

3 A. My name is John G. Roberts and I am employed by
4 the New York State Department of Public Service
5 (Department). My business address is Three
6 Empire State Plaza, Albany, NY 12223.

7 Q. Mr. Roberts, what is your position in the
8 Department?

9 A. I am employed as a Utility Supervisor in the
10 Office of Electricity and Environment,
11 Distribution Systems and Generation Section.

12 Q. Mr. Roberts, please describe your educational
13 background and professional experience.

14 A. I have worked in the field of power systems and
15 electric-generating facilities for over 30 years.
16 I received a bachelor's degree in Engineering
17 from SUNY Maritime College in 1973. Upon
18 graduation, I worked for Westinghouse Electric
19 Corporation as a nuclear plant engineer at the
20 Naval Reactors S1W Prototype. In 1976, I joined
21 General Physics Corporation where I served in

1 several generation, engineering and training
2 assignments. I joined the Department in 1979.

3 Q. Please briefly describe your responsibilities
4 with the Department.

5 A. I have been assigned a variety of work related to
6 nuclear, fossil, and hydro generation. These
7 assignments include audits of corporate
8 management, assessing the reasonableness of plant
9 operations and maintenance practices, and rate
10 cases.

11 Q. Have you previously testified before the New York
12 State Public Service Commission?

13 A. Yes. I have testified in proceedings associated
14 with power plant operations, maintenance, and
15 performance.

16 Q. What is the purpose of your testimony?

17 A. The purpose of my testimony is to address the
18 company's steam production capital budget and
19 operating and maintenance expense budget.

1 Q. Please provide a summary of your specific
2 recommendations.

3 A. 1) I propose that the company's revenue
4 requirement be based on \$29.4 million for steam
5 production capital expense for the rate year. My
6 recommended spending level permits the company to
7 continue to operate and maintain its existing
8 steam production facilities at a level similar to
9 what it achieved in recent years. At the same
10 time, it limits a dramatic expansion in steam
11 production capital spending until the company
12 develops a comprehensive plan for addressing its
13 future steam production needs. This approach
14 should reduce or avoid the possibility of
15 unnecessarily spending money on capital
16 improvements to production facilities that may be
17 substantially modified or retired in the near
18 future. 2) I recommend a downward adjustment of
19 \$1,286,000 to the company's proposed operation
20 and maintenance (O&M) expenses. This adjustment
21 reflects the fact that the company significantly

1 underspent its O&M budget in recent years.

2 Q. Will you refer to, or otherwise rely upon, any
3 information produced during the discovery phase
4 of this proceeding in your testimony?

5 A. Yes. I will refer to, and have relied upon,
6 several responses to Staff Information Requests.
7 They are attached as Exhibit __ (JGR-1).

8 Q. Are you sponsoring any other exhibits?

9 A. Yes, I am sponsoring Exhibit __ (JGR-2), which
10 provides trends in capital spending over the
11 period 2002-2005, Exhibit __ (JGR-3), which
12 provides a summary of steam O&M expenses, and
13 Exhibit __ (JGR-4), which is a copy of field notes
14 from my tour of the Hudson Avenue Station on
15 December 15, 2005.

16 Steam Production Capital Expenditures

17 Q. What level of capital spending does Con Edison
18 project for its production facilities?

19 A. According to the company's Exhibit __ (OP-1),
20 Con Edison requests approval of a steam plant
21 construction program spending level of

1 \$46.1 million in 2006 and \$47.3 million in 2007.

2 Q. Have you looked at the company's recent capital
3 expenditure levels?

4 A. Yes. Exhibit __ (JGR-2) shows that capital
5 expenditures have increased in recent years, but
6 not to the levels projected by the company for
7 2006 and 2007.

8 Q. Did you ask the company to explain its on-going
9 planning initiatives and how it is evaluating
10 various alternatives for providing future steam
11 capacity?

12 A. Yes, the responses to Staff Information Requests
13 115, 242, 366, and 370 show that, with the
14 exception of the Commission-required Steam
15 Production Study, company on-going planning
16 initiatives have produced little, if anything, in
17 the way of results that allow it, or any other
18 stakeholder, to evaluate various alternatives for
19 providing future steam capacity. Indeed, the
20 company's response to Staff Information Request
21 370 indicates that the Steam Plant Construction

1 Program discussed in the company's Operations
2 Panel testimony serves as nothing more than a
3 "placeholder" to reserve and secure funding for
4 programs that are not yet determined.

5 Q. Do you have any comment on the company's actions?

6 A. Yes. I have toured one of the production
7 facilities and have first-hand knowledge of the
8 significant levels of deterioration at that
9 facility. For example, the company was required
10 to erect scaffolding through the interior of the
11 Hudson Avenue Station to prevent its workers and
12 contractors from being injured by concrete that
13 is falling from the ceilings. The underside
14 surface of overhead floors is severely degraded.
15 Also, I experienced significant vibration in the
16 floor area of one of the duct fans, which
17 indicates structural instability. A copy of my
18 field notes from this site visit are attached as
19 Exhibit __ (JGR-4). Additionally, based on my
20 discussions with company engineers and review of
21 testimony provided by company witness Burke in

1 Case 03-S-1672 (Burke Direct Testimony, page 6,
2 line 20 to page 7, line 6), it appears that many
3 of the production units are very old and
4 inefficient. Based on this information, I
5 conclude that the revitalization program is
6 overdue, and the company should not have waited
7 for the Commission to require it to study options
8 for addressing its future needs.

9 Q. How has the company proceeded to date regarding
10 investments for major improvements?

11 A. The company has made a significant investment in
12 the East River Repowering Project (ERRP). At the
13 same time, Con Edison does not appear to have
14 addressed the imminent needs of its aging steam
15 production plant. The response to Staff
16 Information Request 441 shows that in 2002, 2003,
17 and 2004, the company budgeted \$2.5 million, \$9.2
18 million, and \$10.1 million, respectively, for
19 what it termed "Steam Production - Major
20 Projects." According to that response, though,
21 the company did not undertake any project within

1 that category, with possibly one exception.
2 Further, in 2005 and in this case, the company
3 has altogether eliminated the category of "Major
4 Projects." While the company now includes its
5 proposed "placeholder" expenditures for new
6 boilers in the category of "Capacity", it appears
7 to have changed the scope of that category in
8 this case from how it was described in previous
9 cases. Thus, it does not appear that the company
10 has historically invested sufficient capital in
11 any of its aged production units.

12 Q. How did the scope of the "Capacity" category
13 change?

14 A. In Case 03-S-1672, company witness Bozgo defined
15 "Capacity" as ". . . projects. . . that are
16 needed to maintain generating capacity . . ."
17 (Bozgo Direct Testimony, page 6, lines 11 to 12).
18 Indeed, projects cited in the next sentence of
19 that testimony emphasize the act of "maintaining"
20 existing steam production plant. There is no
21 reference to planning considerations or

1 meaningful analysis of viable alternatives.

2 In this case, "Capacity" is defined as
3 ". . . those projects that are needed to
4 maintain, restore and/or replace, the generation
5 capacity of the company's aging boilers to meet
6 our customer demands and service requirements."
7 (Operations Panel Direct Testimony, page 13,
8 lines 1 to 4).

9 Q. How was that term defined in prior rate cases?

10 A. I have reviewed the testimony in Cases 99-S-1621
11 and 96-S-1065 and find no definition of that
12 term. In fact, the company's pre-filed testimony
13 in those cases barely mentions capital
14 expenditures for production facilities.

15 Q. What does this mean to you?

16 A. The change in the definition of the term
17 "Capacity" indicates that prior to this rate
18 case, expenditures in that category did not
19 include investments in new production facilities.
20 That change, combined with the absence of any
21 discussion of the need for investments in the

1 production facilities, suggests that the company
2 was neither assessing the need for new production
3 facilities nor forecasting in its five-year
4 capital budgets the expenditures associated with
5 new production facilities, even though many of
6 the facilities are, as the Operations Panel
7 concedes, "aging."

8 Q. Do you have any other comments on the nature of
9 the company's capital expenditures?

10 A. The lists of the company's proposed and actual
11 projects over the past few years, as shown in the
12 responses to Staff Information Requests 347, 348,
13 and 441, suggest to me that the company is
14 proceeding more on an ad hoc basis than according
15 to any specific program. For example, there does
16 not appear to be any significant correlation
17 between the proposed and actual projects. In
18 fact, many projects completed each year were not
19 included in the initial budget for that year. In
20 addition, there are conflicting responses from
21 the company regarding its actual spending levels.

1 This behavior is indicative of "breakdown
2 maintenance," where equipment is fixed after it
3 degrades to the point of failure. Additionally,
4 in Staff Information Request 337, I asked for
5 "copies of the corporate performance goals and
6 objectives for the areas of responsibility of
7 each of the members of the panel." In response,
8 the company stated:

9 ". . . the Company hereby states that it
10 does not presently have corporate
11 performance goals or objectives for 2006
12 that would be responsive to this information
13 request."

14 This response is disappointing, but telling. The
15 company limited its response to one year when the
16 request had no such limitation. More
17 importantly, the response demonstrates that the
18 steam business has no planning direction or
19 focus. Unfortunately, its approach to capital
20 spending is consistent with the lack of
21 performance targets and corporate focus. This

1 pattern cannot continue.

2 Q. Are you saying that the company should stop all
3 capital spending in its steam production
4 facilities?

5 A. No. There is no question that some capital
6 expenditures are needed each year. However, the
7 company should not be expanding the size of its
8 expenditures without first determining how they
9 fit in with a comprehensive plan for addressing
10 its future steam production needs. Since the
11 company has no such plans of its own, we must
12 wait until the Steam Production Study undertaken
13 at the Commission's direction is completed.

14 Q. Do you recommend the company be allowed funding
15 to support the capital expenditure levels it has
16 proposed of \$46.1 million in 2006 and
17 \$47.3 million in 2007?

18 A. No, for the reasons I just explained.

19 Q. What do you recommend?

20 A. I have examined the company's capital
21 expenditures from 2002 through 2005. While the

1 capital expenditures have increased in the past
2 two years as compared to 2002 and 2003, this
3 increase does not appear to be based on meeting
4 any performance targets or in accordance with any
5 particular plan or program for addressing the
6 company's continuing steam production needs. I
7 recommend that spending in the rate year be
8 capped at a level comparable to what it has
9 recently spent. This level should provide
10 sufficient funding to undertake projects needed
11 to maintain safe, reliable operations. At the
12 same time, it limits capital expenditures for the
13 revitalization program until the Steam Production
14 Study is completed and the company develops a
15 comprehensive plan. Once those planning
16 activities are completed and reasonable estimates
17 of the associated costs are known, the Commission
18 should have enough information before it to
19 consider whether and to what extent the capital
20 expenditure allowance should be changed in future
21 rate cases.

1 Q. How did you calculate the \$29.4 million level of
2 capital expenditures you testified to earlier?

3 A. I averaged the company's 2004 and 2005 capital
4 expenditure levels.

5 Operating and Maintenance Expenses

6 Q. Do you have adjustments to any steam O&M expense
7 categories?

8 A. Yes. There are seven expense categories where
9 the company has been spending much less than
10 allowed in rates and is now asking for increases
11 in allowed expenses above the test year levels.
12 I propose adjustments for each of these expenses
13 categories.

14 Q. Which expense categories are you addressing?

15 A. Asbestos Removal and Abatement, Major Maintenance
16 Projects, Plant Component Upgrade, Plant
17 Inspection and Repair, Preventative Maintenance,
18 Routine Maintenance, and Scheduled Overhauls.

19 Q. How much has the company spent on these items in
20 recent years?

1 A. As seen in Column B of Rows 5 and 8 of
2 Exhibit ____ (JGR-3), the company spent slightly
3 less than \$8 million for these expenses in the
4 test year and slightly over \$8 million during the
5 preceding 12-month period.

6 Q. During this time period, did the company's rate
7 allowances for these expenses match their actual
8 costs?

9 A. No. Due to the differing 12-month periods
10 covered by the test year, rate year, and calendar
11 year, the data provided by the company could not
12 be exactly correlated between rate year forecasts
13 and actual yearly expenditures. The company
14 provided yearly data as of December 31 and June
15 30, but not September 30. As I will discuss,
16 however, the data provided nevertheless supports
17 my conclusion that the company has been
18 significantly over-recovering for these expenses
19 for the past two years.

- 1 Q. What evidence is there that the company has been
2 significantly over-recovering these expenses for
3 the past two years?
- 4 A. As can be seen in Column B Exhibit ____ (JGR-3),
5 during the period October 1, 2003 through
6 September 30, 2005, the company collected
7 \$31.5 million in rates for these seven categories
8 of expenses. During the period July 1, 2003
9 through June 30, 2005, the company spent only
10 \$15.9 million. Although we do not have a
11 breakdown of the expenditures for July through
12 September 2005, it is doubtful, given this
13 historic spending level, that the company spent
14 the remaining \$16 million. Of course, the
15 variance is even greater than these numbers
16 indicate since the period July 1, 2003 through
17 September 30, 2003 relates to a prior rate year,
18 for which there were additional collections in
19 rates.

1 Q. Why were the rate allowances for these
2 expenditures increased in the rate plan that
3 commenced on October 1, 2004?

4 A. The amount allowed under the 2004 rate plan was
5 based on the company's spending from July 2002
6 through June 2003. At that time, the company
7 spent over \$14.4 million on these items. This
8 expenditure level was increased due to escalation
9 for inflation and program changes for the Plant
10 Component Upgrade and Plant Inspection and Repair
11 categories.

12 Q. Did the company increase its expenditures in
13 these areas?

14 A. No. As can be seen in Columns E and F of Exhibit
15 ____ (JGR-3), the company spent much less than it
16 had secured in rates for these categories.

17 Q. What is your concern regarding the company's
18 historical spending levels and expense requests
19 in this case?

20 A. After two years of receiving funds to perform O&M
21 projects and using only approximately half of

1 that money for such expenditures, the company is
2 now requesting an increase in rates for the same
3 type of expenses. It cites program changes and
4 inflation escalation as a reason for the
5 increase.

6 Q. What is your recommendation for each expense
7 category?

8 A. For all seven expense categories, I recommend
9 that the company be allowed no more than it has
10 spent in the test year, as seen in
11 Exhibit ___ (JGR-3), Row 8, with no escalation for
12 inflation or program changes. This
13 recommendation allows the company the same level
14 of expenditures as it has actually made over the
15 past two years.

16 Q. Are there any specific projects that you are
17 disallowing?

18 A. No. My recommendation is based on the fact that
19 the company has been spending significantly less
20 on these items than allowed over the past two

1 years and has not demonstrated why an increase in
2 these expenses is necessary.

3 Q. Please summarize your adjustments.

4 A. I recommend that the company receive \$562,000 for
5 Asbestos Removal and Abatement expenses, a
6 reduction of \$358,000.

7 For Major Maintenance Projects, I recommend
8 a rate year level of \$690,000, a reduction of
9 \$565,000.

10 For Plant Component Upgrade expenses, I
11 recommend a rate year level of \$256,000, a
12 reduction of \$14,000.

13 For Plant Inspection and Repair expenses, I
14 recommend a rate year level of \$265,000, a
15 reduction of \$15,000.

16 For Preventative Maintenance expenses, I
17 recommend a rate year level of \$856,000, a
18 reduction of \$47,000.

19 For Routine Maintenance expenses, I
20 recommend a rate year level of \$3,716,000, a
21 reduction of \$204,000.

- 1 For Scheduled Overhauls, I recommend a rate
2 year level of \$1,506,000, a reduction of \$83,000.
- 3 Q. What is the total of your proposed adjustments to
4 these O&M expense categories?
- 5 A. \$1,286,000.
- 6 Q. Does this conclude your testimony?
- 7 A. Yes.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
Case 05-S-1376
FEBRUARY 2006

Prepared Exhibits of:

John G. Roberts
Utility Supervisor
Office of Electricity and
Environment
New York State
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Three Empire State Plaza
Albany, New York 12223-1350

JOHN G. ROBERTS
List of Staff Information Requests

<u>Staff Request</u>	<u>Exhibit Page</u>
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Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/12/2005

Question No. :115

(a) Please provide Con Edison's master or comprehensive plan for revitalizing its steam generating capacity. (b) If no such plan exists, on what basis has Con Edison decided to proceed with replacing or refurbishing its steam generating units? (c) Please provide copies of all evaluations, assessments, and other analyses provided to CEI's Board of Trustees associated with the capital expenditures for its proposed replacement and refurbishment program. (d) Has the Board of Trustees approved and committed to fund this program?

Response:

a. As discussed at pages 13-14 of Mr. Bozgo's testimony, a long-term plan for refurbishing of steam generating capacity will be finalized after completion of the Steam Production Cost Study. Accordingly, there is no master or comprehensive plan for revitalization at this time. The Company's submitted five-year plan reflects the current status of its planning efforts.

b. As further noted in Mr. Bozgo's testimony and in the testimony of the Operations Panel (pp. 13-14), in addition to the capital expenditures that are necessary for the continued reliability of the existing steam production facilities, the 2006-2010 Steam Plant Construction Program includes projected expenditures for refurbishing of steam generating capacity, with preliminary engineering beginning in 2007. These projections are based upon the assumed refurbishment of Hudson Avenue. More precise projections will be available after the Steam Production Cost Study is completed and the plan for refurbishment is finalized.

c. CEI's Board of Directors has not been furnished with such analysis, evaluations or assessments.

d. CEI's Board of Directors has approved the 2006 capital budget. The 2007 capital budget will be submitted in the fall of 2006.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set 1
Date of Response: 12/07/2005
Responding Witness: Operations Panel

Question No. :122

The Panel's testimony discusses proposed capital expenditures for the calendar year 2007. Please provide an itemized list of capital expenditures for the rate year.

Response:

A list of capital expenses for the rate year is attached.

Response to Interrogatories - Set 1 Question 122
 ESTIMATED CAPITAL PROJECT EXPENSES FOR RATE YEAR 1006 - 907

Project Title	Estimate
60th Street, Modernize Package Boiler Controls	375
Upgrade Controls Rav	750
Feedwater Piping Upgrade ERSSS	285
Feedwater System Upgrade (Deaerator, BFPs, Piping) HA	1,114
Blr 114 (superheater) 59th	300
FP Standpipe System Relocation HA	1,000
Demin Plant 74th	7,487
Public Address System for Units 1 & 2 ER12	125
Upgrade LP Igniters (Kerosene 24 guns, BMS) - HA	400
Upgrade Annex Boiler Controls FSSS/BMS - 59th	375
Replace 13.8 kV GE Magnablast Breakers Due to D-222 Fire - 74th	313
Demin Plant - 59th	2,253
Install FD Fan Sisters - HA	250
74th Street, Modernize Package Boiler Controls - 74th	375
#4 Deaerator replacement - 59th	250
Structural Repairs in the ERSSS	1,038
Replace Federal Pacific Breakers A3-3, and A5-3 - 74th	50
Install closed cooling system for Air compressors and ID - HA	562
Close Loop cooling piping replacement - 59th	75
New LPBH Controls - HA	500
74th Street, Replace PB Air Compressors - 74th	163
Sequence of Event Recorder - 59th	75
MSSO = M1 - M4 Mains A/B valves, MOV's - HA	150
EH&S Risk Assessment Emergent Work - VAR	656
OSHA recommended 22" staircases for Boiler house - HA	150
60th St Install new EDG for critical loads (ESR-141)	225
Small Capital Blanket VAR	1,457
Structural steel and Concrete - 59th	728
Emergent Work - Var	1,000
HP ID Fans 121 - 74th	900
HP 125 VDC - 74th	600
Replace LPBH roof - HA	1,312
ID Fan Upgrades - Pole Changes and Bearing Monitoring System - HA	350
Replace 200# Steam header relief lines - 60th	75
60th Street, PB Fan Replacements	188
Chemical System Monitoring (Estimate Assumes Equipment Purchased in 2005) - HA	51
Chemical System Monitoring (Estimate Assumes Equipment Purchased in 2005) - 60th	38
Chemical System Monitoring (Estimate Assumes Equipment Purchased in 2005) - 74th	100
Chemical System Monitoring (Estimate Assumes Equipment Purchased in 2005) - 59th	50
Replace Annex Feedwater line (BFP to Drums) - 59th	225
Burner Throat Upgrades two boilers - HA	193
Surge Tank 3 replacement - 59th	487
Add New Desuperheater Water Pump - 59th	300
Replace batteries and rectifiers 1 and 2 - 59th	112
74th Street PB Air Preheater Upgrade Program - 74th	600
HP Boiler Raw Water System Reconfiguration - 74th	210
Refurbish Dock and Bulkhead as per inspection report - 59th	1,874
60th Street PB Air Preheater Improvement Program - 60th	600
Concrete Steel Upgrade for LPBH (21310-04) PHASE III - HA	1,999
Master Plan Office Relocation / OSHA Evacuation East Side Phase 1 - 59th	375
Blowdown Slip West Retaining Wall - HA	562
Boiler Sectionalized Maintenance - HA	2,624
Oil/Water Separator Replacement - Rav	525
ERSSS - CCR Upgrade	150

ESTIMATED CAPITAL PROJECT EXPENSES FOR RATE YEAR 10/06 - 8/07

60th Street PB Ductwork Isolation Dampers	225
74th Street Station, Replace PB Raw Water Tank (ROOF)	225
Replace 2300V substations (A) - 74th	450
74th st PB Cooling Water Line Replacement - 74th	375
74th Street PB Ductwork Isolation Dampers - 74th	450
Replace And Repair Various Roofs - 74th	525
Repair/ Replace Station Roofs - 59th	750
Replace L&P Electrical Equipment for LPBH - HA	1,125
Station Upgrades - ER	2,249
Station Lighting Improvements - 74th	150
Structural Steel and Concrete RAV	375
Hudson ave Dock - HA	675
Central Services Projects	2,493
Individual CO Meters	371
BFP & Turbine Replacement	200
Elevator #4 Refurbishment	75
Secondary Containment	234
Upgrade obsolete 2.4 Switchgear	166
Roof Replacement	158
Removal Of Stack No's 1, 2 & 3.	100
Provide Diesel Supply to MOV and Control	105
Rebuild Boiler 120 ID Fan	238
HP Feed Pump Flow Monitoring	81
Main Pier 98 Cathodic Protection	190
Install Emergency Lighting	50
Relocate 82 & 83 Fans	200
Upgrade 13.8 KV Feeder 24M02	100
PB 1 Retube	45
74th St PB Fan Replacement	50
60th Street Water Softening Controls Upgrade	75

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff3
Date of Response: 01/09/2006
Responding Witness: Operations Panel

Question No. :242

Please provide details, with corresponding costs, on Con Edison's proposal to revitalize its steam generating capacity.

Response:

The Company has not prepared a proposal to revitalize its steam generating capacity. We are awaiting the outcome of the Steam Production Cost Study, which may recommend new boiler only installations, new co-generation or other options such as revitalizing existing equipment.

As noted in response to Staff 115, in order to budget for the recommended alternative, we have included in our current 5-year capital budget a project for new boiler installation at the Hudson Avenue Station. The current 5-year plan includes the replacement of the Hudson Avenue Station 1600 mlb/hr capacity with 5 new package boilers rated at 320 mlb/hr each. The new boilers would be housed in a new facility to be constructed on-site in the location of the existing maintenance building. In addition to oil, a new gas main would be installed for fuel supply. Approximately \$147 million is included in the 5-year plan for this program.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff8
Date of Response: 01/26/2006

Question No. :337

Please provide copies of the corporate performance goals and objectives for the areas of responsibility of each of the members of the panel.

Response:

Without waiving any objections as to this information request, the Company hereby states that it does not presently have corporate performance goals or objectives for 2006 that would be responsive to this information request.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff8
Date of Response: 01/20/2006
Responding Witness: Operations Panel

Question No. :347

For each steam generating facility, please list the individual steam production construction items planned or scheduled for completion in each of 2000, 2001, 2002, 2003, 2004 and 2005.

Response:

Con Edison objects to the time period for the data requested. Attached is a list of steam production construction items included in the approved capital budget for the years 2002-2005.

<u>STEAM PRODUCTION</u>
2000 CAPITAL BUDGET
<u>Projects</u>
<u>E60th & E74th STREET STATIONS</u>
E74TH - CO2 SYSTEM
E74TH - BRINE SYSTEM
E74TH ST. - BLOWDOWN MODIFICATIONS
<u>EAST RIVER SOUTH STEAM</u>
ERSS - PRESSURE PART REPLACEMENT
ERSS - CONTROL VALVE PB1 & PB2
<u>HUDSON AVENUE</u>
HA - DOCK REHABILITATION
HA - STANDPIPE SYSTEM - ROOF TANK
<u>VARIOUS</u>
VAR - BATTERY PROGRAM
<u>W59TH STREET</u>
W59TH - INSTALL DEAERATOR NO.4

<u>STEAM PRODUCTION</u>	
2002 CAPITAL BUDGET	
<u>PROJECTS</u>	
<u>E60th & E74th STREET STATIONS</u>	
E74TH - PACKAGE BOILERS (SENDOUT REGUL -REPLACE)	
<u>EAST RIVER</u>	
ER-SSS PNUEMAS VALVE UPGRADE	
ER-SSS BURNER MANAGEMENT SYSTEM	
<u>HUDSON AVENUE</u>	
HA - YORK STEAM LINE UPGRADE	
<u>VARIOUS</u>	
VAR - EHS RISK ASSESSEMENTS - MANDATED PROGRAM	
VAR - ROOF REPLACEMENT	
VAR - REPAIR STACKS - E60TH STREET	
<i>var - Small Projects</i>	
<u>W59TH STREET</u>	
W59TH - PNUEMAS VALVES REPLACEMENT	

<u>STEAM PRODUCTION</u>
2003 CAPITAL BUDGET
<u>PROJECTS</u>
<u>E60th & E74th STREET STATIONS</u>
E74TH - PCKGE BLR RETUBING (total of 1 or 2 per year)
E74TH - ECONOMIZER (BOILER 120)
E74TH - DOCK REHABILITATION
E74TH - PLANT RELIABILITY IMPROVEMENT
<u>EAST RIVER</u>
ER- HEAD HOUSE DOCK FIRE PROTECTION
<u>VARIOUS</u>
VAR - EHS RISK ASSESSEMENTS - MANDATED PROGRAM
VAR - ROOF REPLACEMENT
VAR - REPAIR STACKS - E60TH STREET
VAR - FAÇADE REPAIRS
VAR - STEEL/ CONCRETE AND FAÇADE - 59th street
VAR - FACILITY IMPROVEMENTS - 59th street
VAR - SMALL PROJETS

STEAM PRODUCTION
2004 CAPITAL BUDGET

PROJECTS

E60th & E74th STREET STATIONS

E74TH - MODERNIZE PACKAGE BOILER CONTROLS AT 60TH ST.
E74TH - PCKGE BLR RETUBING (BOILER 1 PARTIAL)
E74TH - STACK UPGRADES
E74TH - REPLACE PACKAGE BOILER CONTROLS
E74TH - FAÇADE REPAIRS
E74TH - RELOCATE STACK OPACITY
E74TH - ROOF REPLACEMENT
E74TH - DESUPERHEATER
E74TH - 13.8 KV BREAKER
E74TH - CLOSE LOOP COOLING
E74TH - REPLACE A-3 SUBSTATION
E74TH - HP DIGITAL CONTROL ROOM
E74TH - REPAIR OUTFALL TUNNEL

EAST RIVER

ER-SSS RESURFACING FLOOR

HUDSON AVENUE

HA - EMERGENCY LIGHTING - SW HOUSE & ANNEX
HA - NEW LOW PRESSURE BOILER HOUSE CONTROLS (NEW CONTROL ROOM)
HA - YORK STEAM LINE UPGRADES
HA - NEW CEMS
HA - REPAIR STEEL
HA - REPLACE SOUTH DEAERATOR
HA - INSTALL LP BOILER CO2
HA - ROOF REPLACEMENT - LPBH
HA - POTENTIAL WATER HAMMER
HA - REPLACE FEEDWATER RISER
HA-INSTALL STACK LIGHTING
HA-LP UPGRADES

RAV STEAM - REPLACE 4 BOILER FEED PUMPS & TURBINE SETS
RAV STEAM - REPLACE DEAERATOR & PLATFORM
RAV STEAM - BOILER RETUBING
RAV STEAM - INSTALL WATER SOFTENING PLANT
RAV STEAM - ID & FD FAN TURBINE/REDUCTION GEAR SETS
RAV STEAM - BENTLY-NEVADA RPM RACK
RAV STEAM - OIL-WATER SEPARATOR REPLACEMENT
RAV STEAM - DIESEL GEN UPGRADES
RAV STEAM - MOBILE STEAM SOURCE
RAV STEAM - ID FAN DAMPERS/DUCT WORK/CASINGS
RAV STEAM - UPDATE CHEMICAL SYSTEMS

VARIOUS

VAR - EHS RISK ASSESSEMENTS - MANDATED PROGRAM

**STEAM PRODUCTION
2004 CAPITAL BUDGET**

PROJECTS

**VAR - REPLACE OIL FILLED
VAR - SMALL PROJETS**

W59TH STREET

**W59TH - REPLACE BOILER 115 FLOOR TUBES
W59TH - EMERGENCY LIGHTING
W59TH - ROOF REPLACEMENTS/REPAIRS
W59TH - CEILING BEAMS
W59TH - REPLACE #5 DEAERATOR
W59TH - REPLACE ID/FD FANS
W59TH - REPLACE WATER PIPE
W59TH - REPLACE PB 2300
W59TH-INSTALL SEQUENCE OF EVENTS RECORDER
W59TH-FACILITY REFURBISHMENT
W59TH-MAIN PIER REPAIRS
W59TH-REPLACE ANNEX SUPERHEATERS**

STEAM PRODUCTION
2005 CAPITAL BUDGET

PROJECTS

E60th & E74th STREET STATIONS

- 74th PB 1 Partial Retubing
- 74th Provide Diesel Supply to MOV and Controls
- 74th PB Fan Replacements, Phase 1 - 60th St
- 74th Fire Suppression for Oil Storage - 60th St
- 74th PB Fan Replacements, Phase 2 - 74th St
- 74th Sprinkler System for Parking
- 74th PRS 2/3 Low Flow Bypass
- 74th Replace A-3, A-3A, and A-5 Substations
- 74th 13KV Breakers
- 74th Modernize Package Boiler Controls - 60th St
- 74th Replacement of 3 Oil Transformers
- 74th Modernize PB Controls - 74th St

EAST RIVER

- ER Facility Refurbishment - HP and SSS

HUDSON AVENUE

- HA Upgrade/replace Fire Pump (Isolate Equipment)
- HA Low Pressure Boiler House Standpipe System Repair/Replace
- HA Burner Throat Upgrades 73 & 81
- HA Upgrade TA-7 and TA-8
- HA Steam Trap Upgrade
- HA Oil Water Separator Replacement
- HA Removal Of Stack No's 1, 2 & 3.
- HA Winterize LPBH - Windows
- HA Mobile Boiler (Black Start)
- HA B Board Light & Power Distribution Panels (Isolate Equipment)

STEAM PRODUCTION
2005 CAPITAL BUDGET

PROJECTS

- HA Dock Rehabilitation
- HA Install Emergency Lighting
- HA Repair Deteriorating Steel and Concrete - Phase I
- HA Relocate 82 and 83 Fans
- HA Feedwater System Upgrades

RAVENSWOOD

- RAV Roof Replacement
- RAV Replace Deaerator and Platform
- RAV Steam BFP Turbines & Pump Set (4)

VARIOUS

- VAR EHS Risk Assessments - Various Locations
- VAR Small Capital - Various Locations

Company Name: Con Edison
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Response to DPS Interrogatories – Set Staff8
Date of Response: 01/20/2006
Responding Witness: Operations Panel

Question No. :348

For each steam generating facility, please list the individual steam production construction items actually completed in each of 2000, 2001, 2002, 2003, 2004 and 2005.

Response:

Con Edison objects to the time frame for which the data is requested.

A list of the projects that were completed each year is not available. However, a list of projects that incurred expenses (indicative of work performed) for 2002-2005 is attached.

Steam Production Capital Expenditures - 2000

STA	Description
E74	Install New 4 Mmbtu Igniters - Boiler 121.
E74	Sso Valves Helb
E74	Desuperheater Station
E74	Install Co2 Waste Neutralization System For Boiler BI
ERSSS	Install New Equipment To Upgrade Steam Sendout Contro
ERSSS	Pressure Part Replacement
HA	Install Oil Skimmer And Holding Tank With Piping For The Ann
HA	Fartial Dock Removal At Hudson Avenue
HA	Removal Of Equipment Previously Retired In Place And Install
HA	New Operations Workout Location
HA	Dock Rehabilitation
HA	Hudson Avenue Station
HA	Replace 6" Feedwater Regulator
HA	Replace The Level Control Valve On The
HA	Replace 2500 Square Feet Of Exterior Wa LI On The Annex
HA	Replace Failed # 18 Boiler Feed Pump
RAV	Ravenswood Steam Generating Station Install New City Wat
RAV	Centralize Boiler Controls At Steam Plant.
VAR	Continuous Emissions Monitoring System Various Stations
VAR	Reroute Low Pressure Boiler Electrical Load, Retire 13kv Bu
VAR	Install New Brine Regeneration System For Water Tre
W59	Replace All Deteriorated Structural Members At 59th Street.
W59	Facilities Improvement Project Provide Stack Ladder Fall Pro
W59	Failed Equipment Replacement Program Install New Forced Dra
W59	Ladies Toilet/locker Room Renovation
W59	Installation Of Unloading Manifold For A Mobile Deminer
W59	No. 6 Fuel Oil & Kerosene Secondary Containment.
W59	Upgrade Desuperheater Controls.
W59	Install Brine Regeneration System For Water Treatment
W59	New Chemical Laboratory
W59	Install Deaerator No 4

Steam Production Capital Expenditures - 2001

STA	Description
E60	Install Automatic Valves In Kerosene Storage Tank Piping
E60	Relocation Of Station Batteries At E. 60th Street Steam
E60	Public Announcement(pa), Evacuation, And Fire Alarm Syste
E60	Remove And Replace Lower Roof At E. 60th Street Steam
E60	Install All Stainless Steel Oil Water
E60	Replace Water Service Main At
E60	Refurbishment Of The Boiler Tubing At E. 60th St
E74	Install Co2 Waste Neutralization System For Boiler BI
E74	Desuperheater Station
E74	Install New Hoist Beam And Hoist Assembly Wire Rope A
E74	Public Announcement (pa) And Evacuation Alarm Sys
E74	Install Two Boiler Feed Pump Motors
E74	Install Bird Deterrent Systems
E74	Sidewalk Replacement At 74th Street
E74	Desup Water Pump No2
E74	Install Package Boiler Non- Return Valves At 74th Stree
E74	Refurbishment Of The Boiler Tubing At 74th Street Packa
E74	Refurbishment Of Boiler #3 Tubing.
ER	Install New Steam Send Out Valve In Piping That Conne
ERSSS	Remove Existing Roofing And 3' Of
ERSSS	Install New Fuel Oil Recirculation Valve On East River
ERSSS	Pneumas Valve Upgrade
ERSSS	Install New 5 Tom Hvac System For
ERSSS	Stuyvesant Town Pump House Refurbishment At Eas
ERSSS	Remove Old And Install New Steam
ERSSS	Install Calibrated Micromotion F.o.
ERSSS	Install 3 Low Pressure Desuperheating Water Control Valves
ERSSS	Install Opacity Monitors On Package
ERSSS	Atomizing Steam And Condensate System, Redisgn Boil
ERSSS	Facade Replacement And Repair At
ERSSS	Replacement Of Water Softening Equipment
ERSSS	Pressure Part Replacement

Steam Production Capital Expenditures - 2001

STA	Description
HA	Partial Dock Removal At Hudson Avenue
HA	Remove And Replace Economizer Outlet Flue
HA	Install A Moat Around Transformer For Gt's 3,4 & 5 At
HA	Replace 6" Feedwater Regulator
HA	Replace The Level Control Valve On The
HA	Hudson Avenue Station
HA	York Tie Line Relocation And Enhancement
HA	Boiler 71 Economizer Outlet Duct Replacement.
HA	Replace Failed # 18 Boiler Feed Pump
HA	Replace 2500 Square Feet Of Exterior Wa LI On The Annex
HA	York Steam Line Upgrade
HA	Dock Rehabilitation
RAV	Ravenswood Steam Generating Station Install New City Wat
RAV	Centralize Boiler Controls At Steam Plant.
RAV	Installation Of Ventilation Fans
RAV	Replacement Of The Multiport
RAV	Installation Of New Automatic Valves
VAR	Installation Of Nox Flow Monitoring Equipment
VAR	Reroute Low Pressure Boiler Electrical Load, Retire 13kv Bu
VAR	Install New Brine Regeneration System For Water Tre
W59	Failed Equipment Replacement Program Install New Forced Dra
W59	New Chemical Laboratory
W59	No. 6 Fuel Oil & Kerosene Secondary Containment.
W59	Install New Motor Operated Dampers For Annex Boilers # 114
W59	Install Deaerator No 4

Steam Production Capital Expenditures - 2002

STA	Description
E60	Public Announcement(pa), Evacuation, And Fire Alarm Syste
E60	Install Resin Traps In Cation Backwash Piping At E. 60th St
E60	Install Automatic Valves In Kerosene Storage Tank Piping
E60	Relocation Of Station Batteries At E. 60th Street Steam
E60	Install All Stainless Steel Oil Water
E60	Refurbishment Of The Boiler Tubing At E. 60th St
E60	Remove And Replace Lower Roof At E. 60th Street Steam
E60	Refurbishment Of The Boiler Tubing.
E60	Refurbishment Of The Boiler Tubing-package Boile
E74	Replacement Of Gt#2 And Boiler's Ups
E74	Public Announcement (pa) And Evacuation Alarm Sys
E74	Build Reinforced Concrete Moat Wall
E74	Install New Hoist Beam And Hoist Assembly Wire Rope A
E74	Installation Of Feed Water Start Up Regulator For Boiler
E74	Install Package Boiler Non- Return Valves At 74th Stree
E74	Installation Of Start-up Strainers For Package Boilers
E74	Replace Switchgear A1-1
E74	Treated Water Pumps And Motors
E74	Desup Water Pump No2
E74	Refurbishment Of The Boiler Tubing At 74th Street Packa
ER	Install New Steam Send Out Valve In Piping That Conne
ER	Install 3 Low Pressure Desuperheating Water Control Valves
ERSSS	Install New Fuel Oil Recirculation Valve On East River
ERSSS	Installation Of Oxygen Indication On Boilers 115-119.
ERSSS	Replace Fire Detection System In
ERSSS	Replace 125v Bank "b" Battery At East River South Ste
ERSSS	Installation Of Gas Turbo Meters And Related Equipmen
ERSSS	Atomizing Steam And Condensate System, Redisgn Boil
ERSSS	Install Opt022 Input Modules And
ERSSS	Facade Replacement And Repair At
ERSSS	Install New Suspension System Over Vent Ducts On Varioy
ERSSS	Install Calibrated Micromotion F.o.

Steam Production Capital Expenditures - 2002

STA	Description
ERSSS	Modify 14th Street Steam Main Piping.
ERSSS	Pressure Part Replacement
ERSSS	Stuyvesant Town Pump House Refurbishment At Eas
ERSSS	Pneumas Valve Upgrade
ERSSS	Remove Old And Install New Id Fan Outlet Dampers At Ea
ERSSS	Replacement Of Feedwater Heater 77e At East River St
ERSSS	Replacement Of Station Air Compressors
ERSSS	Replacement Of Water Softening Equipment
ERSSS	Head House Renovation And Addition Of Second F
ERSSS	Remove Existing Roofing And 3' Of
ERSSS	Burner Management System
ERSSS	Resurface The Floors In The H.p. Boiler House, Units
HA	Replace 2500 Square Feet Of Exterior Wa LI On The Annex
HA	Install A Co2 Neutralization System To Treat Boiler Blow
HA	Provide Electrical & Sprinkler Service, Office & Outdoor Wor
HA	York Steam Line Upgrade
HA	Install A Moat Around Transformer For Gt's 3,4 & 5 At
HA	Boiler 71 Economizer Outlet Duct Replacement.
HA	Dock Rehabilitation
RAV	Installation Of Sewer Line From Oil/water Separator
VAR	Install New Brine Regeneration System For Water Tre
W59	Install Brine Regeneration System For Water Treatment
W59	Install Deaerator No 4
W59	Install New Motor Operated Dampers For Annex Boilers # 114
W59	Replace And Modify Catskill City Water Meter #5.
W59	Install A New Steel Platform At El.17'-9" For Access
W59	Replacement Of Dock Nos. 1 & 2 Batteries
W59	Surge Tank Modifications
W59	Replace Steam Sendout Valves S0-7
W59	Replacement Of Cable Tray 114c.
W59	Install Conduit Associated With Station Fiber Optic Backbone
W59	Replacement Of Cable Tray 115c Due To Fire.

Steam Production Capital Expenditures - 2002

STA	Description
W59	No. 6 Fuel Oil & Kerosene Secondary Containment.
WA	Upgrade Controls And Instrumentation For Treated Water Si

Steam Production Capital Expenditures - 2003

STA	Description
E60	Install Automatic Valves In Kerosene Storage Tank Piping
E60	Install Resin Traps In Cation Backwash Piping At E. 60th St
E60	Install Gunite Liner
E60	Replace Lower Two Sections Of Stairway B At The E.
E60	Relocation Of Station Batteries At E. 60th Street Steam
E60	Remove And Replace Lower Roof At E. 60th Street Steam
E60	Refurbishment Of The Boiler Tubing.
E60	Refurbishment Of The Boiler Tubing At E. 60th St
E60	Complete Retubing Of Bolier No.1 At E.60th St Station
E60	Refurbishment Of The Boiler Tubing.
E60	Package Boiler Pressure Part Replacement-package
E74	Public Announcement (pa) And Evacuation Alarm Sys
E74	Install Bird Deterrent Systems
E74	Reconnect Gas Turbines 1 And 2.
E74	Replace Portion Of Existing Glazed Roof At Old Turbine
E74	Desup Water Pump No2
E74	Desuperheater Station
E74	Replace Switchgear A1-1
E74	Sso Valves Helb
E74	Replacement Of Gt#2 And Boiler's Ups
E74	Modernize Package Boiler Controls.
E74	Install Gas Cylinder Storage Enclosure At 74th St
E74	Re-route And Cool Condensate From Package Boiler F.o.
E74	Replace And Repair Various Roofs
E74	Replace No. 4 Fuel Oil Heater
E74	Installation Of Start-up Strainers For Package Boilers
E74	Install Noise Attenuating Louvers In The H.p. Boiler B
E74	Upgrade The Package Boler Main Supply And Recircula
E74	Replace Boiler Feed Pump Automatic Recirculat
E74	Installation Of Feed Water Start Up Regulator For Boiler
E74	Install New Forced Draft Fan For Package Boiler #3.
E74	Boiler 122 New 4 Mmbtu Igniters
E74	Install New 4 Mmbtu Igniters - Boiler 121.
E74	Install New 4 Mmbtu Igniters - Boiler 120.

Steam Production Capital Expenditures - 2003

STA	Description
E74	Install New Hp Feedwater Heater 9-4.5
E74	Unit 120 Economizer Replacement.
ER	Install New Steam Send Out Valve In Piping That Conne
ERSSS	Atomizing Steam And Condensate System, Redisgn Boil
ERSSS	Installation Of Oxygen Indication On Boilers 115-119.
ERSSS	Resurface The Floors In The H.p. Boiler House, Units
ERSSS	Install Calibrated Micromotion F.o.
ERSSS	Replacement Of Water Softening Equipment
ERSSS	Replacement Of Station Air Compressors
ERSSS	Remove Existing Roofing And 3' Of
ERSSS	Stuyvesant Town Pump House Refurbishment At Eas
ERSSS	Supply And Install A New Blower System For The Steam
ERSSS	Fd Fan Pedestal Replacement
ERSSS	Installation Of Gas Turbo Meters And Related Equipmen
ERSSS	Install Opt022 Input Modules And
ERSSS	Installation Of Tertiary Dampers And Cylindrical Burner T
ERSSS	Installation Of New Concrete Pedestals At South Steam Stati
ERSSS	Burner Management System
ERSSS	Modify 14th Street Steam Main Piping.
ERSSS	Install New Suspension System Over Vent Ducts On Varioy
ERSSS	Head House Renovation And Addition Of Second F
ERSSS	Install Two (2) 4000 Amp Circuit Breakers For 70 Id A
ERSSS	Replacement Of Feedwater Heater 77e At East River St
ERSSS	Install Resin Traps For Cation Tanks
ERSSS	Install New East River Re-powering Simulator.
HA	Replace 2500 Square Feet Of Exterior Wa LI On The Annex
HA	Close Exterior Wall Openings And Provide Adequate Win
HA	Install Motor Operated Roll-up Door.
HA	Install New Lighting Fixtures
HA	Msoo 12 In. Butterfly Valve At Hudson Ave.
HA	Suspended Ceiling System At Hudson Ave.
HA	Install New Steam Traps, Piping, Valve And Fitting To The H
HA	Low Pressure Boiler House Oxygen Monitoring System At
HA	Upgrade Tank Farm Control Air System

Steam Production Capital Expenditures - 2003

STA	Description
HA	Tool Room Extension
HA	Provide Electrical & Sprinkler Service, Office & Outdoor Wor
HA	Install A Co2 Neutralization System To Treat Boiler Blow
HA	Switch House Roof Replacement
HA	Low Pressure Boiler House Deaerator Steam Pres
HA	York Steam Line Upgrade
RAV	Install New Blowdown System
RAV	Installation Of Sewer Line From Oil/water Separator
VAR	Install New Brine Regeneration System For Water Tre
VAR	Plant Reliability
W59	Install Deaerator No 4
W59	Replace Steam Sendout Valves S0-7
W59	Surge Tank Modifications
W59	Install A New Steel Platform At El.17'-9" For Access
W59	Replace Steam Turbine Drive With Motor For Heater Inp
W59	Replacement Of Cable Tray 114c.
W59	Install A Ups For Package Boiler Gas And Fuel Oil Val
W59	Kerosene Storage Tank Overfill Protection.
W59	Install New 24" Steam Send Out Valves So-8 And So-1
W59	Install Conduit Associated With Station Fiber Optic Backbone
W59	Install New Boiler Floor Tubes Of #114 Annex Boiler
W59	Safety Netting Installation
W59	Install New Air Preheater Baskets And Air Duct For Pac
WA	Upgrade Controls And Instrumentation For Treated Water Si

Steam Production Capital Expenditures - 2004

STA	Description
59th	Install New Self Contained Automatic Water-mist Fire Supp
59th	Battery Room Upgrade At 59th Street Station.
59th	Replace Catskill And Croton Regulating Valves.
59th	Unitize Feed To F.o. Pumps With Diverse Electric Sup
59th	Roof Drain Piping Project At 59th Street Station.
59th	Replace 5th And 6th Floor Hvac Units At 59th Street
59th	Continuous Emissions Monitoring (cems) Upgrade At 59th Stre
59th	Containment Moats Around The Silicone Transformer
59th	Install A Permanent Ph Monitoring System In Each Of Th
59th	Replace Deteriorated Transite Ducts At 59th Street Stati
59th	Install Steam Piping For Annex Black Start Capabili
59th	Boiler Feed Pump Motors At 59th St.
59th	Install A Package Boiler 2300v Motor Control Center
59th	Replace City Water Piping, Phase Ii At 59th Street Stati
59th	Replace Water Piping Beneath Water Treatment Pump Platf
74th	Domestic Water Tank Instrumentation
74th	Install New Spill Boxes On 75th Street At 74th Street Stati
74th	Installation Of New Vent Fans
74th	Flood And Sump Pump Replacement
74th	Install A Permanent Ph Monitoring System In Each Of Th
74th	Water Softening Controls Upgrade At E. 60th Street Steam
74th	Install A Permanent Ph Monitoring System In Each Of Th
74th	Continuous Emission Monitoring (cems) Ate. 60th Street Steam
74th	Replace Blowdown Heat Exchanger For Package Boilers.
74th	Replace Blowdown Heat Exchanger For Package Boilers
74th	Continuous Emissions Monitoring (cems) Upgrade At 74th Stre
74th	Install New Air Compressors, dryers, Control Valves, air S
74th	Replace Fuel Oil Heaters (3) At 74th Street Station.
74th	Replace Three Oil Filled Transformers With Dry Type At 74t
74th	Partial Retubing Of Boiler #3
74th	Complete The Retubing Of Boiler #1
74th	Replace 24" Desuperheater On 75th Street At 74th Stree

Steam Production Capital Expenditures - 2004

STA	Description
74th	Cross Loop Cooling System Piping.
74th	Complete Retubing Of Boiler #5.
74th	Retubing Of Package Boiler #4 .
74th	Pb Retubing
E60	Refurbishment Of The Boiler Tubing-package Boile
E60	Relocation Of Station Batteries At E. 60th Street Steam
E60	Complete Retubing Of Boiler No.1 At E.60th St Station
E60	Package Boiler Pressure Part Replacement-package
E60	Refurbishment Of The Boiler Tubing.
E60	Install Gunite Liner
E74	Install Noise Attenuating Louvers In The H.p. Boiler B
E74	Sso Valves Helb
E74	Install Package Boiler Non- Return Valves At 74th Stree
E74	Installation Of Start-up Strainers For Package Boilers
E74	installation Of Feed Water Start Up Regulator For Boiler
E74	Upgrade The Package Boler Main Supply And Recircula
E74	Replace Portion Of Existing Glazed Roof At Old Turbine
E74	Replace No. 4 Fuel Oil Heater
E74	Replace Treated Water Pump Suction Piping.
E74	Modernize Package Boiler Controls.
E74	Install New Hp Feedwater Heater 9-4.5
E74	Install Co2 Waste Neutralization System For Boiler BI
E74	Replace Boiler Feed Pump Automatic Recirculat
E74	Replace Main Isolation Valve At 74th Street Station.
E74	Install New 4 Mmbtu Igniters - Boiler 121.
E74	Boiler 122 New 4 Mmbtu Igniters
E74	Replace And Repair Various Roofs
E74	Install New Forced Draft Fan For Package Boiler #3.
E74	Install Gas Cylinder Storage Enclosure At 74th St
E74	Desuperheater Station
ER	Access Enhancements East River Repowerin
ER	Continuous Emission Monitoring (cems) Program At Ea

Steam Production Capital Expenditures - 2004

STA	Description
ER	Install A Permanent Ph Monitoring System In Each Of T
ER	Install Unti Space Heaters East River Repowerin
ER	Front Wall Replacement - Units 115, 116, 118 & 119.
ER	Install 1,200 Ft. Of 20" Water Main To Provide Water Supply
ERSSS	Installation Of Oxygen Indication On Boilers 115-119.
ERSSS	Install Calibrated Micromotion F.o.
ERSSS	Replacement Of Station Air Compressors
ERSSS	Stuyvesant Town Pump House Refurbishment At Eas
ERSSS	Supply And Install A New Blower System For The Steam
ERSSS	Resurface The Floors In The H.p. Boiler House, Units
ERSSS	Install New Suspension System Over Vent Ducts On Varioy
ERSSS	Treated Water Back Pressure Regulator
ERSSS	Simplify 27kv Bus Feeders And Light And Power Arra
ERSSS	Replacement Of Water Softening Equipment
ERSSS	Head House Renovation And Addition Of Second F
ERSSS	Fd Fan Pedestal Replacement
ERSSS	Install New East River Re-powering Simulator.
FOS	Roof Replacement Program
FOS	System Emission Monitoring And Recording Code (sema
HA	Provide Electrical & Sprinkler Service, Office & Outdoor Wor
HA	Low Pressure Boiler House Oxygen Monitoring System At
HA	Gt Co2 Safety Monitoring At Hudson Avenue Statio
HA	York Steam Line Upgrade
HA	Air Condition Electronic Communication Room At Hudson Avenu
HA	Battery Room Upgrade At Hudson Avenue Statio
HA	Winterize Lpbh - Window Covers
HA	Install A Permanent Ph Monitoring System In Each Of Th
HA	Install New Steam Traps, Piping, Valve And Fitting To The H
HA	Upgrade Ta-7 And Ta-8
HA	Upgrade Existing Msso Software And Operator Consoles At
HA	Install A Floating Wall Anchoring System.
HA	Upgrde Standpipe System

Steam Production Capital Expenditures - 2004

STA	Description
HA	Installation Of Contingency Feed To Annex Ups At Huds
HA	Continuous Emissions Monitoring (cems) Upgrade At Hudson Av
HA	Replace The Flash Tank Safety Valves
HA	Upgrade Tank Farm Control Air System
HA	Removal Of Stack No's 1, 2 & 3.
HA	Replace Air Compressor No. 1 At Hudson Avnue Station
HA	Install Emergency Lighting
HA	Upgrade Hudson Avenue Sanitary Lift Station.
HA	Replace Gas Turbine Batteries & Battery Chargers.
HA	Switch House Roof Replacement
HA	Tank Farm Oil Water Separator Upgrade At Hudson Av
HA	Replace Upstream Isolation Valves For Deaerator Steam Regu
HA	Replace Fuel Oil Heaters (3) At Hudson Avenue Statio
HA	8 Row Steam Header
HA	Boiler 71 Overhaul
HA	Winterization Of Boiler House Enclosure.
HA	Refurbishment Of South Deaerator
HA	Dock Rehabilitation
HA	Rehab.steel/concrete
RAV	Install A Permanent Ph Monitoring System In Each Of Th
RAV	Boiler Feedpump Replacement
RAV	Install Id Fan Dampers
RAV	Installation Of Sewer Line From Oil/water Separator
RAV	Install Co2 Waste Neutralization System At Ravenswood
VAR	Plant Reliability
W59	No. 6 Fuel Oil & Kerosene Secondary Containment.
W59	Kerosene Storage Tank Overfill Protection.
W59	Install A Ups For Package Boiler Gas And Fuel Oil Val
W59	Install Conduit Associated With Station Fiber Optic Backbone
W59	Replace Steam Turbine Drive With Motor For Heater Inp
W59	Replace City Water Piping
W59	Safety Netting Installation

Steam Production Capital Expenditures - 2004

STA	Description
W59	Install New Steel Grating Walkway Along The Existing Stairs
W59	Install New Boiler Floor Tubes Of #114 Annex Boiler
WA	Upgrade Controls And Instrumentation For Treated Water Si
#N/A	Fartial Dock Removal At Hudson Avenue
#N/A	Installation Of New Automatic Valves

Steam Production Capital Expenditures - 2005

STA	Description
59th	Unitize Feed To F.o. Pumps With Diverse Electric Sup
59th	Safety Netting Installation
59th	Install A Ups For Package Boiler Gas And Fuel Oil Val
59th	Facility Refurbishment Install New Steel Be
59th	Replace City Water Piping, Phase Ii At 59th Street Stati
59th	Replace And Relocate 125v Dc Distribution Panel 1
59th	Install New Jib Crane And Hoist On The Third Floor Of The F
59th	Install Conduit Associated With Station Fiber Optic Backbone
59th	Boiler Feed Pump Motors At 59th St.
59th	Install Steam Piping For Annex Black Start Capabili
59th	Containment Moats Around The Silicone Transformer
59th	Replace 125vdc Distribution Panel D-1
59th	Replace Catskill And Croton Regulating Valves.
59th	Install Antifoam Dispensing System At 59th Street Stati
59th	Roof Drain Piping Project At 59th Street Station.
59th	Replacement Of Deaerator 59th Street Generati
59th	Install New Fire Supression System On North Side Of Pier
59th	Battery Room Upgrade At 59th Street Station.
59th	Install An Escape Hatch And Stairwell Needed For A Safe An
59th	Plant Information System Connection Upgrade At 59 St Sta
59th	Install A Package Boiler 2300v Motor Control Center
59th	Replace Steam Turbine Drive With Motor For Heater Inp
59th	Refurbish Dock And Bulkhead
59th	Replace Electric Actuator For 6 Inch Emergency Shut Off V
59th	Replace Raw Water Pumps
59th	Replace Boiler 114 Superheater.
59th	Replace Deteriorated Piping From #4 Deaerator To The
59th	Install Six Fire Safe Self-closing Valves.
59th	Low Pressure Pumps 59th Street
59th	Replace 5th And 6th Floor Hvac Units At 59th Street
59th	Replace Water Piping Beneath Water Treatment Pump Platf
59th	Install Emergency Lighting
59th	Replace Deteriorated Piping From Hip Discharge At Col
59th	Install New Self Contained Automatic Water-mist Fire Supp

Steam Production Capital Expenditures - 2005

STA	Description
59th	Replace Ecolochem With Reverse Osmosis
59th	Annex Boiler Drum Level Instrumentation Modification At 59th
59th	Replace Feedwater Heater #6
59th	Install Water Treatment Trailers 59th Street Station
59th	Install Two (2) New Motor Control Centers.
59th	Annex Control Feedwater Regs- 59th
59th	Install New Boiler Floor Tubes Of #115 Annex Boiler.
59th	Replace Boiler 115 Superheater Tubes
74th	Public Announcement (pa) And Evacuation Alarm Sys
74th	Remove And Replace Lower Roof At E. 60th Street Steam
74th	Relocation Of Station Batteries At E. 60th Street Steam
74th	Install New 4 Mmbtu Igniters - Boiler 120.
74th	Upgrade The Package Boler Main Supply And Recircula
74th	Complete Retubing Of Bolier No.1 At E.60th St Station
74th	Replace Fuel Oil Heaters (3) At 74th Street Station.
74th	Install New Brine Regeneration System For Water Tre.
74th	Spill Containment 74 Street
74th	Install New Hp Feedwater Heater 9-4.5
74th	Refurbishment Of The Boiler Tubing-package Boile
74th	13kv Breakers
74th	Replace Boiler Feed Pump Automatic Recirculat
74th	Install A Permanent Ph Monitoring System In Each Of Th
74th	Replace Portion Of Existing Glazed Roof At Old Turbine
74th	Replace Blowdown Heat Exchanger For Package Boilers
74th	Pb Retubing
74th	Domestic Water Tank Instrumentation
74th	Install New Forced Draft Fan For Package Boiler #3.
74th	Install New Steam Trap Assemblies At Each Burner Corne
74th	Hp Boiler Raw Water System Reconfiguration.
74th	Install Gas Turbo Meter As A Spare To Allow For The Gas
74th	Install A Permanent Ph Monitoring System In Each Of Th
74th	Replace Water Strainer 74th Street Station
74th	Installation Of Emergency Lighting 74th Street Station
74th	Replace Blowdown Heat Exchanger For Package Boilers.

Steam Production Capital Expenditures - 2005

STA	Description
74th	Replace 24" Desuperheater On 75th Street At 74th Stree
74th	Partial Retubing Of Boiler #3
74th	Installation Of New Vent Fans
74th	Flood And Sump Pump Replacement
74th	Cross Loop Cooling System Piping.
74th	Fire Sprinkler System For Basement Parking Areas.
74th	Retubing Of Package Boiler #4 .
74th	Install A 10 Ton Air Conditioning Unit At E. 60th Street St
74th	74 Th Street - Hp Feedpump
74th	Purchase And Install (2) 35kw Emergency Diesel Gen
74th	Install New Spill Boxes On 75th Street At 74th Street Stati
74th	74th - Package Boiler Ignition System
74th	Refurbish Air Heaters 74th Street Station
74th	Upgrade The Existing Emergency Notification System
74th	Treated Water Pumps And Motors
74th	Replace Treated Water Pump Suction Piping At East 74th
74th	Water Softening Controls Upgrade At E. 60th Street Steam
74th	Install New Air Compressors,dryers, Control Valves,air S
74th	Install Gas Cylinder Storage Enclosure At 74th St
74th	Provide Deisel Supply To Mov & Controls
74th	Replace And Repair Various Roofs
74th	Replace Three Oil Filled Transformers With Dry Type At 74t
74th	Replace A3/a5 Substation
74th	Rebuild Pb Fans - Phase li
74th	Rebuild Boiler 74th Street
74th	Complete The Retubing Of Boiler #1
74th	Modernize Package Boiler Controls.
74th	Modernize Package Boiler Controls.
74th	Pb Fan Replacements-phase I
ER	Resurface The Floors In The H.p. Boiler House, Units
ER	Front Wall Replacement - Units 115, 116, 118 & 119.
ER	Structural Rehab.
ER	Install 1,200 Ft. Of 20" Water Main To Provide Water Supply
ER	Install A Perमानent Ph Monitoring System In Each Of T

Steam Production Capital Expenditures - 2005

STA	Description
ER	Replacement Of Air Compressors East River South Ste
ER	Resurfacing Floors
ER	Install New East River Re-powering Simulator.
FOS	Supply And Install A New Blower System For The Steam
FOS	Purchase And Develop Hardware & Software For The Man
FOS	System Emission Monitoring And Recording Code (sema
FOS	Roof Replacement Program (59th St Project)
HA	Provide Electrical & Sprinkler Service, Office & Outdoor Wor
HA	Low Pressure Boiler House Deaerator Steam Pres
HA	Replace Upstream Isolation Valves For Deaerator Steam Regu
HA	Install New Steam Traps, Piping, Valve And Fitting To The H
HA	Continuous Emissions Monitoring (cems) Upgrade At Hudson Av
HA	Fire Hydrant Replacement Hudson Avenue Statio
HA	Install A Floating Wall Anchoring System.
HA	Hot Water Heaters Hudson Avenue Heater
HA	Paving Hudson Avenue
HA	York Steam Line Upgrade
HA	Upgrade Hudson Avenue Sanitary Lift Station.
HA	Upgrde Standpipe System
HA	Gt Co2 Safety Monitoring At Hudson Avenue Statio
HA	Refurbishment Of South Deaerator
HA	Install A Permanent Ph Monitoring System In Each Of Th
HA	Replace Gas Turbine Batteries & Battery Chargers.
HA	Water Supply Piping And Pump Hudson Avenue
HA	Furnish And Install Desiccant Dehumidifier For Ann
HA	Upgrade Existing Mss0 Software And Operator Consoles At
HA	Battery Room Upgrade At Hudson Avenue Statio
HA	Boiler Blowdown System Hudson Avenue
HA	Winterization Of Boiler House Enclosure.
HA	Install New Ph Monitoring System At The Hudson Avenue Stati
HA	Boiler 71 Overhaul
HA	Install A New 8" Stea Line From The York Steam Line Tie
HA	Traps Upgrades
HA	Upgrade Ta-7 And Ta-8

Steam Production Capital Expenditures - 2005

STA	Description	
HA	Burner Throat Upgrades	
HA	Tank Farm Oil Water Separator	Upgrade At Hudson Av
HA	Relocation/replacement Of Forced	Draft Fans 82 And 83
HA	Winterize Lpbh - Window Covers	
HA	B Board L&p Distribution Panels	
HA	Install Emergency Lighting	
HA	Steel & Concrete Upgrades	Hudson Avenue Statio
HA	Rehab.steel/concrete	
HA	Install New Transformer 70n-1	At Hudson Avenue Sta
HA	Dock Rehabilitation	
HA	Replacement Of Ignitor Systems For	Boiler 71, 72, And 8
HA	Lpb Upgrades	
RAV	Install A Permanent Ph Monitoring	System In Each Of Th
RAV	Install Co2 Waste Neutralization	System At Ravenswood
RAV	Install Black Start Equipment	
RAV	Boiler Feedpump Replacement	
RAV	Replace Deaerator	

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff8
Date of Response: 01/19/2006
Responding Witness: Operations Panel

Question No. :349

According to Con Edison's Operating and Financial Reports, page 34, steam production plant expenditures were \$10.4 million and \$16.5 million for the years 2003 and 2004, respectively. (a) Please explain the basis for the significant increase in steam production spending (\$46.1 million) in calendar year 2006. (b) Please explain the basis for the proposed steam production construction spending of \$60 million in years 2007 to 2010 as shown in Exhibit __ (OP-1).

Response:

The referenced information contained in Con Edison's Operating and Financial Reports represents transfers from construction work in progress and do not necessarily equal yearly expenditures. The actual steam production expenditures for 2003 - 2005 were \$14.9 million, \$23.6 million, and \$35.1 million, respectively.

Please refer to the Operations Panel testimony, exhibits and workpapers for the responses to a-b.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff8
Date of Response: 01/11/2006
Responding Witness: Operations Panel

Question No. :366

The panel discusses at page 9, lines 12 to 16 its assessment of alternatives for providing steam capacity. (a) Please list all of the "on-going initiatives" referenced in the testimony. (b) Please list all of the alternatives "for providing future steam capacity" that have been examined by Con Edison and the results of its examination of each alternative.

Response:

In addition to what may come out of the Steam Production Cost study, the Company is evaluating resource options at Hudson Avenue and the A House at Ravenswood. The initiatives are on-going and results are unavailable at this time since the studies have not been completed yet.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff8
Date of Response: 01/17/2006
Responding Witness: Operations Panel

Question No. :370

(a) Please identify each steam generating plant that Con Edison plan to refurbish, as discussed on page 9, line 22. (b) Please provide a detailed estimate of the refurbishment costs for each project listed in the response to (a).

Response:

a.&b. The testimony was referring to the possible replacement or refurbishment of Hudson Avenue, as a placeholder pending completion of the Steam Production Study, as indicated in the response to Staff discovery request 242.

Company Name: Con Edison
Case Description: Request for Steam Rate Increase
Case: 05-S-1376

Response to DPS Interrogatories – Set Staff17
Date of Response: 02/15/2006
Responding Witness: Operations Panel

Question No. :441

follow-up to Staff Information Requests 347 and 348, (a) Does Con Edison annually reconcile its budgets and proposed projects to its actual expenditures and the projects actually undertaken and/or completed? (b) If the response to (a) is yes, please explain how this reconciliation is performed and provide copies of the reconciliations for 2000, 2001, 2002, 2003, 2004, and 2005. (c) If the response to (a) is no, why not?

Response:

- a) The Company reconciles annually actual expenditures to the budget.
- b) The financial information for both the actual expenditures and the original budgets for steam production capital projects are compared.

Con Edison objects to the time period for the data requested. Please see the attached for the requested information for the years 2002 through 2005.

Steam Production Capital Expenditures - 2002
Based on Original Budget

Description	Actual	Budget	Variance
SPR03 - Steam Production - Major Projects			
Various Locations	-	1,000,000.00	(1,000,000.00)
Various Locations	-	1,500,000.00	(1,500,000.00)
TOTAL SPR03	-	2,500,000.00	(2,500,000.00)
SPR04 - Environmental			
Various Locations - Blanket for EHS Projects	-	800,000.00	(800,000.00)
Install Automatic Valves In Kerosene Storage Tank Piping	98,113.75	-	98,113.75
Replace Fire Detection System In	25,501.99	-	25,501.99
Public Announcement(pa), Evacuaton, And Fire Alarm Syste	1,402.39	-	1,402.39
Public Announcement (pa) And Evacuation Alarm Sys	9,047.56	-	9,047.56
Install All Stainless Steel Oil Water	180,267.17	-	180,267.17
Install A Moat Around Transformer For Gt's 3,4 & 5 At	267,686.70	-	267,686.70
Install A Co2 Neutralization System To Treat Boiler Blow	59,848.41	-	59,848.41
Replacement Of Water Softening Equipment	597,512.54	-	597,512.54
No. 6 Fuel Oil & Kerosene Secondary Containment.	254,045.83	-	254,045.83
Installation Of Sewer Line From Oil/water Separator	360,541.74	-	360,541.74
Provide Electrical & Sprinkler Service, Office & Outdoor Wor	110,346.53	-	110,346.53
Installation Of Oxygen Indication On Boilers 115-119.	10,502.72	-	10,502.72
Install Brine Regeneration System For Water Treatment	42.30	-	42.30
Install New Brine Regeneration System For Water Tre	296,400.89	-	296,400.89
TOTAL SPR04	2,271,260.52	800,000.00	1,471,260.52
SPR05 - Capacity			
Refurbishment Of The Boiler Tubing At E. 60th St	328,593.70	-	328,593.70
Refurbishment Of The Boiler Tubing.	636,329.13	-	636,329.13
Replacement Of Cable Tray 115c Due To Fire.	161,526.96	-	161,526.96
Refurbishment Of The Boiler Tubing-package Boile	741,514.08	-	741,514.08
TOTAL SPR05	1,867,963.87	-	1,867,963.87
SPR07 - Reliability			
Install Calibrated Micromotion F.o.	105,058.02	-	105,058.02
Installation Of Gas Turbo Meters And Related Equipmen	37,792.08	-	37,792.08
Desup Water Pump No2	228,857.28	-	228,857.28
Surge Tank Modifications	55,998.38	-	55,998.38
Install Deaerator No 4	8,930.94	-	8,930.94
Replacement Of Gt#2 And Boiler's Ups	499.55	-	499.55
Replacement Of Feedwater Heater 77e At East River St	362,558.16	-	362,558.16
Replacement Of Dock Nos. 1 & 2 Batteries	35,968.93	-	35,968.93
Install New Hoist Beam And Hoist Assembly Wire Rope A	10,499.83	-	10,499.83
Install New Fuel Oil Recirculation Valve On East River	873.85	-	873.85
Install Opt022 Input Modules And	58,318.43	-	58,318.43
Install New Steam Send Out Valve In Piping That Conne	2,970.85	-	2,970.85
Stuyvesant Town Pump House Refurbishment At Eas	183,430.97	-	183,430.97
Install 3 Low Pressure Desuperheating Water Control Valves	64,858.41	-	64,858.41
Sidewalk Replacement At 74th Street	(29.40)	-	(29.40)
Install Package Boiler Non- Return Valves At 74th Stree	25,986.72	-	25,986.72
Relocation Of Station Batteries At E. 60th Street Steam	174,219.94	-	174,219.94
Install Resin Traps In Cation Backwash Piping At E. 60th St	85,633.68	-	85,633.68
Replacement Of Station Air Compressors	556,743.22	-	556,743.22
Treated Water Pumps And Motors	222,577.98	-	222,577.98
Pneumas Valve Upgrade	222,955.88	150,000.00	72,955.88

Steam Production Capital Expenditures - 2002
Based on Original Budget

Description	Actual	Budget	Variance
Burner Management System	1,056,188.45	750,000.00	306,188.45
Boiler 71 Economizer Outlet Duct Replacement.	588,455.14	-	588,455.14
Atomizing Steam And Condensate System, Redisgn Boil	51,257.88	-	51,257.88
Refurbishment Of Boiler #3 Tubing.	(186,737.37)	-	(186,737.37)
Refurbishment Of The Boiler Tubing At 74th Street Packa	297,230.68	-	297,230.68
Install New Motor Operated Dampers For Annex Boilers # 114	13,454.69	-	13,454.69
Modify 14th Street Steam Main Piping.	137,477.61	-	137,477.61
Replace 125v Bank "b" Battery At East River South Ste	30,502.26	-	30,502.26
Replace And Modify Catskill City Water Meter #5.	19,818.12	-	19,818.12
Replace Steam Sendout Valves S0-7	70,936.29	-	70,936.29
Installation Of Feed Water Start Up Regulator For Boiler	24,546.67	-	24,546.67
Replace Switchgear A1-1	202,057.61	-	202,057.61
Upgrade Controls And Instrumentation For Treated Water Si	95,175.81	-	95,175.81
Install New Suspension System Over Vent Ducts On Varioy	83,703.60	-	83,703.60
Installation Of Start-up Strainers For Package Boilers	51,598.95	200,000.00	(148,401.05)
York Steam Line Upgrade	134,810.76	500,000.00	(365,189.24)
Replacement Of Cable Tray 114c.	99,476.00	-	99,476.00
Pressure Part Replacement	137,741.73	-	137,741.73
Desuperheater Station	(35,333.21)	-	(35,333.21)
TOTAL SPR07	5,317,065.37	1,600,000.00	3,717,065.37
SPR08 - Regulatory			
Replace 2500 Square Feet Of Exterior Wa LI On The Annex	8,363.93	-	8,363.93
Remove And Replace Lower Roof At E. 60th Street Steam	471,316.98	-	471,316.98
Remove Existing Roofing And 3' Of	858,049.55	-	858,049.55
Install A New Steel Platform At El.17'-9" For Access	29,371.70	-	29,371.70
Facade Replacement And Repair At	62,630.80	-	62,630.80
Resurface The Floors In The H.p. Boiler House, Units	1,611,889.39	-	1,611,889.39
Head House Renovation And Addition Of Second F	681,653.34	-	681,653.34
Dock Rehabilitation	683,132.37	-	683,132.37
Install New Insulated Aluminum Siding And Windows	(75.78)	-	(75.78)
TOTAL SPR08	4,406,332.28	-	4,406,332.28
SPR09 - Small Capital			
Various Locations - Blanket for Small Capital Projects	-	1,200,000.00	(1,200,000.00)
Build Reinforced Concrete Moat Wall	9,793.83	-	9,793.83
Install Opacity Monitors On Package	(14,504.20)	-	(14,504.20)
Remove Old And Install New Id Fan Outlet Dampers At Ea	301,273.07	-	301,273.07
Install Conduit Associated With Station Fiber Optic Backbone	108,162.52	-	108,162.52
TOTAL SPR09	404,725.22	1,200,000.00	(795,274.78)
TOTAL PRODUCTION	14,267,347.26	6,100,000.00	8,167,347.26

Steam Production Capital Expenditures - 2003
Based on Original Budget

Description	Actual	Budget	Variance
SPR03 - Steam Production - Major Projects			
Various Locations	-	1,200,000.00	(1,200,000.00)
Various Locations	-	5,000,000.00	(5,000,000.00)
Various Locations	-	1,000,000.00	(1,000,000.00)
East River Station	-	1,000,000.00	(1,000,000.00)
Facade Improvements	-	1,000,000.00	(1,000,000.00)
Replace Annex Control Room Air Conditioners	(620.02)	-	(620.02)
TOTAL SPR03	(620.02)	9,200,000.00	(9,200,620.02)
SPR04 - Environmental			
Install Automatic Valves In Kerosene Storage Tank Piping	334.76	-	334.76
Install Bird Deterrent Systems	1,112.81	-	1,112.81
Public Announcement (pa) And Evacuation Alarm Sys	723.97	-	723.97
Install A Moat Around Transformer For Gt's 3,4 & 5 At	(15,457.88)	-	(15,457.88)
Install A Co2 Neutralization System To Treat Boiler Blow	177,887.74	-	177,887.74
Replacement Of Water Softening Equipment	16,526.23	-	16,526.23
No. 6 Fuel Oil & Kerosene Secondary Containment.	(54,734.85)	-	(54,734.85)
Installation Of Sewer Line From Oil/water Separator	138,040.27	-	138,040.27
Provide Electrical & Sprinkler Service, Office & Outdoor Wor	144,570.46	-	144,570.46
Installation Of Oxygen Indication On Boilers 115-119.	3,769.62	-	3,769.62
Install Gas Cylinder Storage Enclosure At 74th St	43,021.10	-	43,021.10
Install Noise Attenuating Louvers In The H.p. Boiler B	157,446.30	-	157,446.30
Re-route And Cool Condensate From Package Boiler F.o.	51,134.92	-	51,134.92
Install Resin Traps For Cation Tanks	533,069.55	-	533,069.55
Kerosene Storage Tank Overfill Protection.	53,509.65	-	53,509.65
Install New Brine Regeneration System For Water Tre	7,242.89	-	7,242.89
TOTAL SPR04	1,258,197.54	-	1,258,197.54
SPR05 - Capacity			
Package Boiler Pressure Part Replacement-package	645,113.05	850,000.00	(204,886.95)
Refurbishment Of The Boiler Tubing At E. 60th St	98,900.29	-	98,900.29
Refurbishment Of The Boiler Tubing.	59,512.01	-	59,512.01
Refurbishment Of The Boiler Tubing-package Boile	(33,829.80)	-	(33,829.80)
Reconnect Gas Turbines 1 And 2.	5,608.15	-	5,608.15
TOTAL SPR05	775,303.70	850,000.00	(74,696.30)
SPR07 - Reliability			
Install Calibrated Micromotion F.o.	7,731.03	-	7,731.03
Installation Of Gas Turbo Meters And Related Equipmen	87,143.34	-	87,143.34
Upgrade The Package Boler Main Supply And Recircula	178,985.73	-	178,985.73
Modernize Package Boiler Controls.	42,149.32	-	42,149.32
Desup Water Pump No2	13,019.49	-	13,019.49
Surge Tank Modifications	1,654.60	-	1,654.60
Install Deaerator No 4	420.69	-	420.69
Replacement Of Gt#2 And Boiler's Ups	37,067.60	-	37,067.60
Replacement Of Feedwater Heater 77e At East River St	312,439.33	600,000.00	(287,560.67)
Install Opt022 Input Modules And	109,178.67	-	109,178.67
Install New Steam Send Out Valve In Piping That Conne	108.97	-	108.97
Stuyvesant Town Pump House Refurbishment At Eas	64,830.30	-	64,830.30
Relocation Of Station Batteries At E. 60th Street Steam	25,387.55	-	25,387.55
Install Resin Traps In Cation Backwash Piping At E. 60th St	2,228.15	-	2,228.15
Replacement Of Station Air Compressors	23,738.41	-	23,738.41

Steam Production Capital Expenditures - 2003
Based on Original Budget

Description	Actual	Budget	Variance
Treated Water Pumps And Motors	(44,631.11)	-	(44,631.11)
Burner Management System	128,365.44	-	128,365.44
Boiler 71 Economizer Outlet Duct Replacement.	(119,956.83)	-	(119,956.83)
Atomizing Steam And Condensate System, Redisgn Boil	2,003.90	-	2,003.90
Modify 14th Street Steam Main Piping.	130,388.02	-	130,388.02
Replace Steam Sendout Valves S0-7	875.96	-	875.96
Installation Of Feed Water Start Up Regulator For Boiler	260,864.29	-	260,864.29
Replace Switchgear A1-1	23,945.67	-	23,945.67
Upgrade Controls And Instrumentation For Treated Water Si	156,835.36	-	156,835.36
Install New Suspension System Over Vent Ducts On Varioy	136,716.57	-	136,716.57
Installation Of Start-up Strainers For Package Boilers	87,163.68	-	87,163.68
York Steam Line Upgrade	765,882.70	-	765,882.70
Replace No. 4 Fuel Oil Heater	81,468.18	-	81,468.18
Replacement Of Cable Tray 114c.	15,730.19	-	15,730.19
Install Two (2) 4000 Amp Circuit Breakers For 70 Id A	158,142.92	-	158,142.92
Replace Boiler Feed Pump Automatic Recirculat	206,071.91	-	206,071.91
Install New Hp Feedwater Heater 9-4.5	539,864.17	-	539,864.17
Unit 120 Economizer Replacement.	968,202.27	700,000.00	268,202.27
Install New 4 Mmbtu Igniters - Boiler 120.	484,441.22	-	484,441.22
Install New 4 Mmbtu Igniters - Boiler 121.	441,853.46	-	441,853.46
Install A Ups For Package Boiler Gas And Fuel Oil Val	45,938.96	-	45,938.96
Install New Steam Traps, Piping, Valve And Fitting To The H	98,668.38	-	98,668.38
Refurbishment Of The Boiler Tubing.	468,865.54	-	468,865.54
Complete Retubing Of Bolier No.1 At E.60th St Station	241,355.58	-	241,355.58
Install New Forced Draft Fan For Package Boiler #3.	300,076.95	-	300,076.95
Plant Reliability	2,213,708.22	1,550,000.00	663,708.22
Install New East River Re-powering Simulator.	669,596.26	-	669,596.26
Install New Boiler Floor Tubes Of #114 Annex Boiler	275,307.90	-	275,307.90
Sso Valves Helb	36,067.58	-	36,067.58
Ravenswood Generating Station Relocation Of A-hou	(9.00)	-	(9.00)
Pressure Part Replacement	(145,569.61)	-	(145,569.61)
Desuperheater Station	14,381.52	-	14,381.52
TOTAL SPR07	9,548,699.43	2,850,000.00	6,698,699.43

SPR08 - Regulatory

Replace 2500 Square Feet Of Exterior Wa LI On The Annex	117.11	-	117.11
Remove And Replace Lower Roof At E. 60th Street Steam	28,374.39	-	28,374.39
Remove Existing Roofing And 3' Of	26,791.29	-	26,791.29
Install A New Steel Platform At El.17'-9" For Access	1,875.15	-	1,875.15
Resurface The Floors In The H.p. Boiler House, Units	4,172.54	-	4,172.54
Replace And Repair Various Roofs	73,478.12	-	73,478.12
Switch House Roof Replacement	377,084.20	-	377,084.20
Installation Of New Concrete Pedestals At South Steam Stati	123,567.71	-	123,567.71
Head House Renovation And Addition Of Second F	140,371.22	480,000.00	(339,628.78)
Safety Netting Installation	426,756.43	-	426,756.43
Install Gunite Liner	10,667.06	-	10,667.06
Install Exit Stairs	(8,273.95)	-	(8,273.95)
Close Exterior Wall Openings And Provide Adequate Win	36,774.56	-	36,774.56
Dock Rehabilitation	(493,541.21)	-	(493,541.21)
TOTAL SPR08	748,214.62	480,000.00	268,214.62

SPR09 - Small Capital

Various Locations - Blanket for Small Capital Projects	-	2,060,000.00	(2,060,000.00)
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Steam Production Capital Expenditures - 2003
Based on Original Budget

Description	Actual	Budget	Variance
Replace Portion Of Existing Glazed Roof At Old Turbine	12,857.54	-	12,857.54
Install Opacity Monitors On Package	(89,772.12)	-	(89,772.12)
Install Conduit Associated With Station Fiber Optic Backbone	101,202.48	-	101,202.48
Supply And Install A New Blower System For The Steam Boiler 122 New 4 Mmbtu Igniters	84,323.06	-	84,323.06
Fd Fan Pedestal Replacement	362,046.74	-	362,046.74
Replace Steam Turbine Drive With Motor For Heater Inp	86,633.48	-	86,633.48
Install New 24" Steam Send Out Valves So-8 And So-1	13,640.42	-	13,640.42
Tool Room Extension	90,692.01	-	90,692.01
Low Pressure Boiler House Deaerator Steam Pres	134,546.30	-	134,546.30
Upgrade Tank Farm Control Air System	425,292.67	-	425,292.67
Install New Air Preheater Baskets And Air Duct For Pac	115,633.09	-	115,633.09
Installation Of Tertiary Dampers And Cylindrical Burner T	655,215.43	-	655,215.43
Replace Lower Two Sections Of Stairway B At The E.	115,900.93	-	115,900.93
Low Pressure Boiler House Oxygen Monitoring System At	17,569.55	-	17,569.55
Suspended Ceiling System At Hudson Ave.	104,870.06	-	104,870.06
Msoo 12 In. Butterfly Valve At Hudson Ave.	87,942.49	-	87,942.49
Install Motor Operated Roll-up Door.	55,912.22	-	55,912.22
Install New Lighting Fixtures	49,732.96	-	49,732.96
Install New Blowdown System	52,625.45	-	52,625.45
TOTAL SPR09	58,209.05	-	58,209.05
	2,535,073.81	2,060,000.00	475,073.81
TOTAL PRODUCTION	14,864,869.08	15,440,000.00	(575,130.92)

Steam Production Capital Expenditures - 2004
Based on Original Budget

Description	Actual	Budget	Variance
SPR03 - Steam Production - Major Projects			
Replace Stack Lighting	-	100,000.00	(100,000.00)
Relocation Of Stack Opacity	-	400,000.00	(400,000.00)
Facade Repairs	-	400,000.00	(400,000.00)
Roof Replacement	-	700,000.00	(700,000.00)
Hp Digital Control System	-	100,000.00	(100,000.00)
Rehabilitate Tunnel	-	600,000.00	(600,000.00)
Stack Opacity Monitor Relocation	-	500,000.00	(500,000.00)
Replace South Deaerators	-	600,000.00	(600,000.00)
Installation Of Lp Boiler Co2 System.	-	900,000.00	(900,000.00)
Low Pressure Standpipe	-	500,000.00	(500,000.00)
Replace Ceiling Beams Above Surge Tank	-	400,000.00	(400,000.00)
Replace Deaerator # 5	-	500,000.00	(500,000.00)
Replace Id/fd Duct Work	-	300,000.00	(300,000.00)
Installation Of Sequence Recorder	-	300,000.00	(300,000.00)
Facility Refurbishment	Install New Steel Be	-	-
Upgrade Desuperheating Water Pump	-	300,000.00	(300,000.00)
York Steam Replacement	-	1,500,000.00	(1,500,000.00)
Roof Replacement	-	500,000.00	(500,000.00)
Main Pier Repair/dock Rehab.	-	1,000,000.00	(1,000,000.00)
TOTAL SPR03	-	10,100,000.00	(10,100,000.00)
SPR04 - Environmental			
Various Locations - Blanket for EHS Projects	-	1,230,000.00	(1,230,000.00)
Replacement Of Water Softening Equipment	46,352.51	-	46,352.51
No. 6 Fuel Oil & Kerosene Secondary Containment.	250.37	-	250.37
Installation Of Sewer Line From Oil/water Separator	153,037.49	-	153,037.49
Provide Electrical & Sprinkler Service, Office & Outdoor Wor	887.90	-	887.90
Installation Of Oxygen Indication On Boilers 115-119.	23.02	-	23.02
Install Gas Cylinder Storage Enclosure At 74th St	451,284.62	-	451,284.62
Install Noise Attenuating Louvers In The H.p. Boiler B	28.18	-	28.18
Install Resin Traps For Cation Tanks	(67,644.48)	-	(67,644.48)
Kerosene Storage Tank Overfill Protection.	8,921.29	-	8,921.29
Replace Three Oil Filled Transformers With Dry Type At 74t	203,528.40	600,000.00	(396,471.60)
Install New Self Contained Automatic Water-mist Fire Supp	3,647.19	-	3,647.19
Containment Moats Around The Silicone Transformer	44,945.13	-	44,945.13
Install Co2 Waste Neutralization System At Ravenswood	478,276.66	-	478,276.66
Gt Co2 Safety Monitoring At Hudson Avenue Statio	1,829.98	-	1,829.98
Tank Farm Oil Water Separator Upgrade At Hudson Av	208,762.24	-	208,762.24
Continuous Emission Monitoring (cems) Program At Ea	34,653.24	-	34,653.24
Continuous Emissions Monitoring (cems) Upgrade At Hudson Av	42,407.81	-	42,407.81
Continuous Emissions Monitoring (cems) Upgrade At 74th Stre	80,453.68	-	80,453.68
Continuous Emissions Monitoring (cems) Upgrade At 59th Stre	42,407.81	-	42,407.81
Continuous Emission Monitoring (cems) Ate. 60th Street Steam	42,407.81	-	42,407.81
Install Emergency Lighting	99,355.44	400,000.00	(300,644.56)
Install Emergency Lighting	-	500,000.00	(500,000.00)
Install Co2 Waste Neutralization System For Boiler Bl	74,218.87	-	74,218.87
Install New Brine Regeneration System For Water Tre	(1,362,364.81)	-	(1,362,364.81)
TOTAL SPR04	587,670.35	2,730,000.00	(2,142,329.65)
SPR05 - Capacity			
Package Boiler Pressure Part	Replacement-package	30,609.52	-
			30,609.52

Steam Production Capital Expenditures - 2004
Based on Original Budget

Description	Actual	Budget	Variance
Refurbishment Of The Boiler Tubing-package Boile	11,404.98	-	11,404.98
Boiler 71 Overhaul	429,966.74	-	429,966.74
TOTAL SPR05	471,981.24	-	471,981.24
SPR07 - Reliability			
Install Calibrated Micromotion F.o.	61.40	-	61.40
Upgrade The Package Boler Main Supply And Recircula	16,221.47	-	16,221.47
Modernize Package Boiler Controls.	63,061.17	716,000.00	(652,938.83)
Replacement Of Feedwater Heater 77e At East River St	(74,835.21)	-	(74,835.21)
Install Opt022 Input Modules And	(87,885.70)	-	(87,885.70)
Stuyvesant Town Pump House Refurbishment At Eas	455.40	-	455.40
Install Package Boiler Non- Return Valves At 74th Stree	321.74	-	321.74
Relocation Of Station Batteries At E. 60th Street Steam	11,469.64	-	11,469.64
Replacement Of Station Air Compressors	371.88	-	371.88
Treated Water Pumps And Motors	(158,822.21)	-	(158,822.21)
Bumer Management System	(34,897.18)	-	(34,897.18)
Refurbishment Of Boiler #3 Tubing.	(2,443.36)	-	(2,443.36)
Replace 24" Desuperheater On 75th Street At 74th Stree	489,448.97	400,000.00	89,448.97
Installation Of New Automatic Valves	3,944.12	-	3,944.12
Installation Of Feed Water Start Up Regulator For Boiler	12,897.14	-	12,897.14
Upgrade Controls And Instrumentation For Treated Water Si	2,771.79	-	2,771.79
Install New Suspension System Over Vent Ducts On Varioy	23,987.16	-	23,987.16
Installation Of Start-up Strainers For Package Boilers	575.94	-	575.94
York Steam Line Upgrade	10,610.76	-	10,610.76
Replace No. 4 Fuel Oil Heater	19,966.77	-	19,966.77
Install A Package Boiler 2300v Motor Control Center	252,908.02	300,000.00	(47,091.98)
Replace Boiler Feed Pump Automatic Recirculat	80,292.34	-	80,292.34
Install New Hp Feedwater Heater 9-4.5	71,534.16	-	71,534.16
Unit 120 Economizer Replacement.	(116,959.49)	-	(116,959.49)
Install New 4 Mmbtu Igniters - Boiler 120.	(3,555.37)	-	(3,555.37)
Install New 4 Mmbtu Igniters - Boiler 121.	107,768.76	-	107,768.76
Install A Ups For Package Boiler Gas And Fuel Oil Val	65,434.08	-	65,434.08
Install New Steam Traps, Piping, Valve And Fitting To The H	26,520.25	-	26,520.25
Refurbishment Of The Boiler Tubing.	431,536.24	-	431,536.24
Replace Water Piping Beneath Water Treatment Pump Platf	518,593.66	500,000.00	18,593.66
Complete Retubing Of Bolier No.1 At E.60th St Station	21,664.06	-	21,664.06
Install New Forced Draft Fan For Package Boiler #3.	280,728.27	-	280,728.27
Refurbishment Of South Deaerator	584,155.56	-	584,155.56
Plant Reliability	478,820.65	-	478,820.65
Install New East River Re-powering Simulator.	291,059.11	-	291,059.11
Install New Boiler Floor Tubes Of #114 Annex Boiler	1,154,009.99	1,200,000.00	(45,990.01)
Pb Retubing	1,120,628.42	700,000.00	420,628.42
13kv Breakers	-	400,000.00	(400,000.00)
Cross Loop Cooling System Piping.	705,047.41	450,000.00	255,047.41
Replace A3/a5 Substation	-	300,000.00	(300,000.00)
8 Row Steam Header	417,670.42	750,000.00	(332,329.58)
Replace Feedwater Riser	-	500,000.00	(500,000.00)
Modernize Package Boiler Controls.	-	832,000.00	(832,000.00)
Replace Upstream Isolation Valves For Deaerator Steam Regu	223,812.05	-	223,812.05
Upgrade Ta-7 And Ta-8	27,459.34	-	27,459.34
Winterize Lpbh - Window Covers	18,174.78	-	18,174.78
Complete Retubing Of Boiler #5.	733,750.12	-	733,750.12
Front Wall Replacement - Units 115, 116, 118 & 119.	235,372.29	-	235,372.29

Steam Production Capital Expenditures - 2004
Based on Original Budget

Description	Actual	Budget	Variance
Retubing Of Package Boiler #4 .	843,211.15	-	843,211.15
Winterization Of Boiler House Enclosure.	490,736.99	-	490,736.99
Install Steam Piping For Annex Black Start Capabili	156,047.39	-	156,047.39
Upgrade Hudson Avenue Sanitary Lift Station.	110,174.06	-	110,174.06
System Emission Monitoring And Recording Code (sema	38,999.36	-	38,999.36
Replace Catskill And Croton Regulating Valves.	15,616.56	-	15,616.56
Partial Retubing Of Boiler #3	214,352.83	-	214,352.83
Installation Of New Vent Fans	19,181.17	-	19,181.17
Complete The Retubing Of Boiler #1	219,546.37	-	219,546.37
Replace Treated Water Pump Suction Piping.	60,998.46	-	60,998.46
Replace Blowdown Heat Exchanger For Package Boilers.	59,853.21	-	59,853.21
Flood And Sump Pump Replacement	30,147.81	-	30,147.81
Replace The Flash Tank Safety Valves	47,952.16	-	47,952.16
Replace Blowdown Heat Exchanger For Package Boilers	68,867.72	-	68,867.72
Upgrde Standpipe System	36,455.29	-	36,455.29
Install A Floating Wall Anchoring System.	35,137.90	-	35,137.90
Lpb Upgrades	-	1,500,000.00	(1,500,000.00)
Boiler Feedpump Replacement	53,312.68	1,000,000.00	(946,687.32)
Install 1,200 Ft. Of 20" Water Main To Provide Water Supply	2,485,614.62	-	2,485,614.62
Sso Valves Helb	267.13	-	267.13
Simplify 27kv Bus Feeders And Light And Power Arra	37,696.41	-	37,696.41
Desuperheater Station	1,109,049.30	-	1,109,049.30
TOTAL SPR07	14,156,925.38	9,548,000.00	4,608,925.38
SPR08 - Regulatory			
Remove And Replace Lower Roof At E. 60th Street Steam	(12,250.83)	-	(12,250.83)
Resurface The Floors In The H.p. Boiler House, Units	13,307.57	-	13,307.57
Replace And Repair Various Roofs	245,932.57	-	245,932.57
Switch House Roof Replacement	176,129.71	-	176,129.71
Head House Renovation And Addition Of Second F	172,659.04	-	172,659.04
Safety Netting Installation	159,079.41	3,000,000.00	(2,840,920.59)
Install Gunite Liner	459,654.81	1,000,000.00	(540,345.19)
Removal Of Stack No's 1, 2 & 3.	67,136.75	-	67,136.75
Roof Replacement Program	7,379.94	-	7,379.94
Structural Rehab.	-	1,000,000.00	(1,000,000.00)
Domestic Water Tank Instrumentation	856.81	-	856.81
Rehab.steel/concrete	2,161,230.12	1,000,000.00	1,161,230.12
Dock Rehabilitation	2,147,992.09	-	2,147,992.09
Partial Dock Removal At Hudson Avenue	74.85	-	74.85
TOTAL SPR08	5,599,182.84	6,000,000.00	(400,817.16)
SPR09 - Small Capital			
Various Locations - Blanket for Small Capital Projects	-	2,582,000.00	(2,582,000.00)
Replace Portion Of Existing Glazed Roof At Old Turbine	16,885.14	-	16,885.14
Build Reinforced Concrete Moat Wall	(6,638.75)	-	(6,638.75)
Install Conduit Associated With Station Fiber Optic Backbone	77,322.14	-	77,322.14
Replace Gas Turbine Batteries & Battery Chargers.	135,958.33	-	135,958.33
Supply And Install A New Blower System For The Steam	2,826.99	-	2,826.99
Boiler 122 New 4 Mmbtu Igniters	128,553.99	-	128,553.99
Fd Fan Pedestal Replacement	240,181.15	-	240,181.15
Replace Steam Turbine Drive With Motor For Heater Inp	88,827.05	-	88,827.05
Replace City Water Piping	150,840.91	-	150,840.91
Low Pressure Boiler House Deaerator Steam Pres	(425,552.49)	-	(425,552.49)

Steam Production Capital Expenditures - 2004
Based on Original Budget

Description	Actual	Budget	Variance
Upgrade Tank Farm Control Air System	50,701.85	-	50,701.85
Install New Air Preheater Baskets And Air Duct For Pac	(44,828.33)	-	(44,828.33)
Boiler Feed Pump Motors At 59th St.	163,508.93	-	163,508.93
Low Pressure Boiler House Oxygen Monitoring System At	1,576.42	-	1,576.42
Install Id Fan Dampers	147,149.50	225,000.00	(77,850.50)
Treated Water Back Pressure Regulator	35,953.48	-	35,953.48
Install New Steel Grating Walkway Along The Existing Stairs	239,964.86	-	239,964.86
Replace Deteriorated Transite Ducts At 59th Street Stati	55,436.82	-	55,436.82
Unitize Feed To F.o. Pumps With Diverse Electric Sup	16,171.38	-	16,171.38
Replace Fuel Oil Heaters (3) At 74th Street Station.	160,212.56	-	160,212.56
Replace 5th And 6th Floor Hvac Units At 59th Street	40,960.63	-	40,960.63
Install A Permanent Ph Monitoring System In Each Of T	138,711.28	-	138,711.28
Install A Permanent Ph Monitoring System In Each Of Th	26,346.15	-	26,346.15
Install A Permanent Ph Monitoring System In Each Of Th	40,787.76	-	40,787.76
Install A Permanent Ph Monitoring System In Each Of Th	48,563.09	-	48,563.09
Install A Permanent Ph Monitoring System In Each Of Th	34,336.06	-	34,336.06
Install A Permanent Ph Monitoring System In Each Of Th	19,337.24	-	19,337.24
Battery Room Upgrade At 59th Street Station.	15,614.85	-	15,614.85
Battery Room Upgrade At Hudson Avenue Statio	13,970.21	-	13,970.21
Upgrade Existing Msso Software And Operator Consoles At	27,773.68	-	27,773.68
Replace City Water Piping, Phase Ii At 59th Street Stati	402,447.98	-	402,447.98
Water Softening Controls Upgrade At E. 60th Street Steam	35,436.57	-	35,436.57
Replace Fuel Oil Heaters (3) At Hudson Avenue Statio	323,459.53	-	323,459.53
Replace Main Isolation Valve At 74th Street Station.	105,614.49	-	105,614.49
Install New Spill Boxes On 75th Street At 74th Street Stati	14,764.05	-	14,764.05
Air Condition Electronic Communication Room At Hudson Avenu	12,116.52	-	12,116.52
Installation Of Contingency Feed To Annex Ups At Huds	37,803.54	-	37,803.54
Install New Air Compressors,dryers, Control Valves,air S	93,735.75	-	93,735.75
Roof Drain Piping Project At 59th Street Station.	39,039.55	-	39,039.55
Replace Air Compressor No. 1 At Hudson Avnue Station	95,347.65	-	95,347.65
TOTAL SPR09	2,801,218.51	2,807,000.00	(5,781.49)
TOTAL PRODUCTION	23,616,978.32	31,185,000.00	(7,568,021.68)

Steam Production Capital Expenditures - 2005
Based on Original Budget

Description	Actual	Budget	Variance
SPR04 - Environmental			
Various - Blanket for EHS Projects	-	650,000.00	(650,000.00)
Public Announcement (pa) And Evacuation Alarm Sys	2.28	-	2.28
Install A Co2 Neutralization System To Treat Boiler Blow	(163,217.25)	-	(163,217.25)
Replacement Of Water Softening Equipment	(110.88)	-	(110.88)
Provide Electrical & Sprinkler Service, Office & Outdoor Wor	761.14	-	761.14
Install Gas Cylinder Storage Enclosure At 74th St	289,396.67	-	289,396.67
Install Noise Attenuating Louvers In The H.p. Boiler B	(0.01)	-	(0.01)
Replace Three Oil Filled Transformers With Dry Type At 74t	444,910.59	750,000.00	(305,089.41)
Install New Self Contained Automatic Water-mist Fire Supp	318,121.20	-	318,121.20
Containment Moats Around The Silicone Transformer	33,194.39	-	33,194.39
Install Co2 Waste Neutralization System At Ravenswood	111,050.83	-	111,050.83
Gt Co2 Safety Monitoring At Hudson Avenue Statio	27,325.48	-	27,325.48
Upgrade The Existing Emergency Notification System	152,585.64	-	152,585.64
Tank Farm Oil Water Separator Upgrade At Hudson Av	462,636.43	350,000.00	112,636.43
Continuous Emission Monitoring (cems) Program At Ea	(11,629.73)	65,000.00	(76,629.73)
Continuous Emissions Monitoring (cems) Upgrade At Hudson Av	8,326.37	65,000.00	(56,673.63)
Continuous Emissions Monitoring (cems) Upgrade At 74th Stre	(27,546.69)	120,000.00	(147,546.69)
Continuous Emissions Monitoring (cems) Upgrade At 59th Stre	(16,792.24)	65,000.00	(81,792.24)
Continuous Emission Monitoring (cems) Ate. 60th Street Steam	(4,915.56)	65,000.00	(69,915.56)
Install Emergency Lighting	631,184.49	900,000.00	(268,815.51)
Install Emergency Lighting	282,234.49	500,000.00	(217,765.51)
Automatic Water Mist Fire Suppression System For Fuel Oil	-	300,000.00	(300,000.00)
Fire Sprinkler System For Basement Parking Areas.	70,310.04	400,000.00	(329,689.96)
Install Six Fire Safe Self-closing Valves.	175,717.91	300,000.00	(124,282.09)
Install New Steam Trap Assemblies At Each Burner Corne	17,449.20	-	17,449.20
Spill Containment 74 Street	1,616.69	-	1,616.69
Opacity Meters Replacement	(30.49)	-	(30.49)
Upgrade/replace Fire Pump	-	150,000.00	(150,000.00)
Install New Brine Regeneration System For Water Tre	1,331.16	-	1,331.16
TOTAL SPR04	2,803,912.15	4,680,000.00	(1,876,087.85)
SPR05 - Capacity			
Refurbishment Of The Boiler Tubing.	(92.90)	-	(92.90)
Refurbishment Of The Boiler Tubing-package Boile	4,005.98	-	4,005.98
Boiler 71 Overhaul	197,830.42	-	197,830.42
TOTAL SPR05	201,743.50	-	201,743.50
SPR07 - Reliability			
Upgrade The Package Boler Main Supply And Recircula	651.24	-	651.24
Modernize Package Boiler Controls.	1,416,819.48	-	1,416,819.48
Install Deaerator No 4	(29.47)	-	(29.47)
Replacement Of Feedwater Heater 77e At East River St	(1.85)	-	(1.85)
Install New Steam Send Out Valve In Piping That Conne	(9.43)	-	(9.43)
Relocation Of Station Batteries At E. 60th Street Steam	53.35	-	53.35
Treated Water Pumps And Motors	167,872.07	-	167,872.07
Burner Management System	(9,705.03)	-	(9,705.03)
Atomizing Steam And Condensate System, Redisgn Boil	(1,123.41)	-	(1,123.41)
Replace 24" Desuperheater On 75th Street At 74th Stree	54,606.09	-	54,606.09
Install New Suspension System Over Vent Ducts On Varioty	(2,405.82)	-	(2,405.82)
York Steam Line Upgrade	22,437.75	-	22,437.75

Steam Production Capital Expenditures - 2005
Based on Original Budget

Description	Actual	Budget	Variance
Install A Package Boiler 2300v Motor Control Center	106,720.08	205,000.00	(98,279.92)
Replace Boiler Feed Pump Automatic Recirculat	6,191.89	-	6,191.89
Install New Hp Feedwater Heater 9-4.5	2,594.53	-	2,594.53
Install New 4 Mmbtu Igniters - Boiler 120.	531.14	-	531.14
Install A Ups For Package Boiler Gas And Fuel Oil Val	6,531.66	-	6,531.66
Install New Steam Traps, Piping, Valve And Fitting To The H	4,031.66	-	4,031.66
Refurbishment Of The Boiler Tubing.	(34,337.40)	-	(34,337.40)
Replace Water Piping Beneath Water Treatment Pump Platf	279,904.22	-	279,904.22
Complete Retubing Of Boiler No.1 At E.60th St Station	691.20	-	691.20
Install New Forced Draft Fan For Package Boiler #3.	14,468.85	-	14,468.85
Refurbishment Of South Deaerator	27,678.07	-	27,678.07
Install New East River Re-powering Simulator.	343,030.83	-	343,030.83
Install New Boiler Floor Tubes Of #114 Annex Boiler	(144,677.73)	-	(144,677.73)
Install New Transformer 70n-1 At Hudson Avenue Sta	1,116,935.17	-	1,116,935.17
Pb Retubing	12,899.83	-	12,899.83
13kv Breakers	5,682.51	550,000.00	(544,317.49)
Cross Loop Cooling System Piping.	69,054.11	-	69,054.11
Replace A3/a5 Substation	540,040.73	500,000.00	40,040.73
Resurfacing Floors	281,376.14	-	281,376.14
8 Row Steam Header	(54,427.40)	-	(54,427.40)
Low Pressure Standpipe	-	200,000.00	(200,000.00)
Upgrade Desuperheating Water Pump	-	290,000.00	(290,000.00)
Modernize Package Boiler Controls.	833,291.04	600,000.00	233,291.04
Replace Upstream Isolation Valves For Deaerator Steam Regu	3,735.44	-	3,735.44
Upgrade Ta-7 And Ta-8	231,915.66	250,000.00	(18,084.34)
Winterize Lpbh - Window Covers	532,420.25	500,000.00	32,420.25
Complete Retubing Of Boiler #5.	(58,824.45)	-	(58,824.45)
Front Wall Replacement - Units 115, 116, 118 & 119.	3,039.56	-	3,039.56
Retubing Of Package Boiler #4 .	75,260.09	-	75,260.09
Winterization Of Boiler House Enclosure.	171,100.82	-	171,100.82
Replace Raw Water Pumps	146,878.62	200,000.00	(53,121.38)
Install Steam Piping For Annex Black Start Capabili	28,912.93	-	28,912.93
Upgrade Hudson Avenue Sanitary Lift Station.	23,730.00	-	23,730.00
System Emission Monitoring And Recording Code (sema	291,156.29	-	291,156.29
Purchase And Develop Hardware & Software For The Man	206,167.10	-	206,167.10
Replace Catskill And Croton Regulating Valves.	56,038.30	100,000.00	(43,961.70)
Partial Retubing Of Boiler #3	60,164.72	-	60,164.72
Installation Of New Vent Fans	63,434.03	-	63,434.03
Complete The Retubing Of Boiler #1	725,736.63	190,000.00	535,736.63
Install A New 8" Stea Line From The York Steam Line Tie	213,433.62	-	213,433.62
Replace Blowdown Heat Exchanger For Package Boilers.	49,556.05	-	49,556.05
Flood And Sump Pump Replacement	66,699.63	-	66,699.63
Replace Blowdown Heat Exchanger For Package Boilers	12,786.90	-	12,786.90
Upgrde Standpipe System	26,072.21	-	26,072.21
Purchase And Install (2) 35kw Emergency Diesel Gen	111,293.50	-	111,293.50
Install A Floating Wall Anchoring System.	16,479.72	-	16,479.72
Lpb Upgrades	1,789,214.36	4,500,000.00	(2,710,785.64)
Boiler Feedpump Replacement	755,371.35	1,540,000.00	(784,628.65)
Relocation/replacement Of Forced Draft Fans 82 And 83	527,752.52	1,200,000.00	(672,247.48)
Install 1,200 Ft. Of 20" Water Main To Provide Water Supply	33,338.11	-	33,338.11
Replacement Of Ignitor Systems For Boiler 71, 72, And 8	1,335,877.14	-	1,335,877.14
Rebuild Pb Fans - Phase li	550,923.41	300,000.00	250,923.41
Install New Boiler Floor Tubes Of #115 Annex Boiler.	505,422.51	700,000.00	(194,577.49)

Steam Production Capital Expenditures - 2005
Based on Original Budget

Description		Actual	Budget	Variance
Hp Boiler Raw Water System	Reconfiguration.	24,680.69	-	24,680.69
Pb Fan Replacements-phase I		1,422,145.06	250,000.00	1,172,145.06
Prs 2/3 Low Flow Bypass		-	400,000.00	(400,000.00)
B Board L&p Distribution Panels		615,599.35	750,000.00	(134,400.65)
Mobile Boiler (black Start)		-	500,000.00	(500,000.00)
Burner Throat Upgrades		357,301.07	225,000.00	132,301.07
Traps Upgrades		220,931.39	300,000.00	(79,068.61)
Replace Deaerator		1,437,089.42	1,000,000.00	437,089.42
Replace Deteriorated Piping From	Hip Discharge At Col	309,789.29	300,000.00	9,789.29
Replace Deteriorated Piping From	#4 Deaerator To The	163,980.40	300,000.00	(136,019.60)
Replace Ecolochem With Reverse	Osmosis	337,744.68	250,000.00	87,744.68
Modernize Package Boiler Controls		-	750,000.00	(750,000.00)
Provide Deisel Supply To Mov &	Controls	294,605.74	200,000.00	94,605.74
Refurbish Dock And Bulkhead		117,927.64	500,000.00	(382,072.36)
Install Two (2) New Motor Control	Centers.	432,311.41	-	432,311.41
Replace Feedwater Heater #6		391,613.31	-	391,613.31
Annex Control Feedwater Regs- 59th		474,782.01	-	474,782.01
Replacement Of Air Compressors	East River South Ste	229,696.86	-	229,696.86
74 Th Street - Hp Feedpump		96,194.54	-	96,194.54
Refurbish Air Heaters	74th Street Station	149,882.06	-	149,882.06
Replacement Of Deaerator	59th Street Generati	60,961.18	-	60,961.18
Install Water Treatment Trailers	59th Street Station	417,805.57	-	417,805.57
Water Supply Piping And Pump	Hudson Avenue	37,795.93	-	37,795.93
Install Black Start Equipment		420,916.68	-	420,916.68
Replace Boiler 115 Superheater Tubes		1,438,712.16	1,300,000.00	138,712.16
Replace Boiler 114 Superheater.		161,845.74	-	161,845.74
Rebuild Boiler	74th Street	551,224.24	-	551,224.24
Critical Control Room Parameters	(project Previously 6ep977	(1,100.13)	-	(1,100.13)
Pressure Part Replacement		(16,098.76)	-	(16,098.76)
TOTAL SPR07		23,770,800.65	18,850,000.00	4,920,800.65
SPR08 - Regulatory				
Remove And Replace Lower Roof At	E. 60th Street Steam	29.86	-	29.86
Remove Existing Roofing And 3' Of		(10,030.00)	-	(10,030.00)
Resurface The Floors In The H.p.	Boiler House, Units	37.10	-	37.10
Replace And Repair Various Roofs		386,434.89	-	386,434.89
Switch House Roof Replacement		(259.21)	-	(259.21)
Head House Renovation And	Addition Of Second F	(217.81)	-	(217.81)
Safety Netting Installation		2,918.96	-	2,918.96
Install Gunite Liner		(79.11)	-	(79.11)
Removal Of Stack No's 1, 2 & 3.		(64,065.40)	400,000.00	(464,065.40)
Roof Replacement Program		1,993,466.44	1,800,000.00	193,466.44
Structural Rehab.		10,849.87	1,000,000.00	(989,150.13)
Facility Refurbishment	Install New Steel Be	7,931.29	800,000.00	(792,068.71)
Roof Repairs		-	300,000.00	(300,000.00)
Domestic Water Tank Instrumentation		14,303.20	-	14,303.20
Rehab.steel/concrete		816,149.15	1,000,000.00	(183,850.85)
Steel & Concrete Upgrades	Hudson Avenue Statio	695,590.69	-	695,590.69
Dock Rehabilitation		1,308,630.11	750,000.00	558,630.11
TOTAL SPR08		5,161,690.03	6,050,000.00	(888,309.97)
SPR09 - Small Capital				
Various - Blanket for Small Capital Projects		-	3,095,000.00	(3,095,000.00)

Steam Production Capital Expenditures - 2005
Based on Original Budget

Description	Actual	Budget	Variance
Replace Portion Of Existing Glazed Roof At Old Turbine	11,359.13	-	11,359.13
Remove Old And Install New Id Fan Outlet Dampers At Ea	-	(325,000.00)	325,000.00
Install Conduit Associated With Station Fiber Optic Backbone	25,988.43	-	25,988.43
Replace Gas Turbine Batteries & Battery Chargers.	28,769.77	-	28,769.77
Supply And Install A New Blower System For The Steam	9,685.62	-	9,685.62
Replace Steam Turbine Drive With Motor For Heater Inp	115,001.22	-	115,001.22
Low Pressure Boiler House Deaerator Steam Pres	1,305.66	-	1,305.66
Boiler Feed Pump Motors At 59th St.	27,214.49	-	27,214.49
Install Id Fan Dampers	(352.24)	-	(352.24)
Replace Deteriorated Transite Ducts At 59th Street Stati	(61.13)	-	(61.13)
Unitize Feed To F.o. Pumps With Diverse Electric Sup	997.83	-	997.83
Replace Fuel Oil Heaters (3) At 74th Street Station.	1,090.06	-	1,090.06
Replace 5th And 6th Floor Hvac Units At 59th Street	180,850.08	-	180,850.08
Install A Permanent Ph Monitoring System In Each Of T	56,785.48	-	56,785.48
Install A Permanent Ph Monitoring System In Each Of Th	28,630.89	-	28,630.89
Install A Permanent Ph Monitoring System In Each Of Th	31,077.86	-	31,077.86
Install A Permanent Ph Monitoring System In Each Of Th	(12,641.10)	-	(12,641.10)
Install A Permanent Ph Monitoring System In Each Of Th	9,787.62	-	9,787.62
Install A Permanent Ph Monitoring System In Each Of Th	44,607.91	-	44,607.91
Battery Room Upgrade At 59th Street Station.	68,693.89	-	68,693.89
Battery Room Upgrade At Hudson Avenue Statio	71,388.26	-	71,388.26
Upgrade Existing Mssso Software And Operator Consoles At	49,573.49	-	49,573.49
Replace City Water Piping, Phase Ii At 59th Street Stati	8,310.13	-	8,310.13
Water Softening Controls Upgrade At E. 60th Street Steam	187,939.22	250,000.00	(62,060.78)
Replace Fuel Oil Heaters (3) At Hudson Avenue Statio	(61,855.63)	-	(61,855.63)
Install Gas Turbo Meter As A Spare To Allow For The Gas	26,274.73	-	26,274.73
Install A 10 Ton Air Conditioning Unit At E. 60th Street St	87,667.08	-	87,667.08
Install New Spill Boxes On 75th Street At 74th Street Stati	114,168.80	-	114,168.80
Air Condition Electronic Communication Room At Hudson Avenue	(11,270.52)	-	(11,270.52)
Furnish And Install Desiccant Dehumidifier For Ann	43,768.92	-	43,768.92
Install New Air Compressors,dryers, Control Valves,air S	248,491.14	-	248,491.14
Roof Drain Piping Project At 59th Street Station.	58,669.65	-	58,669.65
Install New Jib Crane And Hoist On The Third Floor Of The F	21,195.44	-	21,195.44
Install Antifoam Dispensing System At 59th Street Stati	56,767.89	-	56,767.89
Install An Escape Hatch And Stairwell Needed For A Safe An	91,311.20	-	91,311.20
Replace Electric Actuator For 6 Inch Emergency Shut Off V	131,174.70	-	131,174.70
Replace And Relocate 125v Dc Distribution Panel 1	21,159.80	-	21,159.80
Annex Boiler Drum Level Instrumentation Modification At 59th	355,503.76	-	355,503.76
Replace 125vdc Distribution Panel D-1	45,594.02	-	45,594.02
Install New Fire Supsession System On North Side Of Pier	64,046.12	-	64,046.12
Replace Treated Water Pump Suction Piping At East 74th	173,165.28	-	173,165.28
Install New Ph Monitoring System At The Hudson Avenueue Stati	172,811.82	-	172,811.82
Plant Information System Connection Upgrade At 59 St Sta	95,460.23	-	95,460.23
Replace Water Strainer 74th Street Station	38,137.32	-	38,137.32
Installation Of Emergency Lighting 74th Street Station	40,451.19	-	40,451.19
Low Pressure Pumps 59th Street	175,969.28	-	175,969.28
Fire Hydrant Replacement Hudson Avenue Statio	12,786.69	-	12,786.69
Hot Water Heaters Hudson Avenue Heater	18,447.18	-	18,447.18
Paving Hudson Avenue	21,718.59	-	21,718.59
Boiler Blowdown System Hudson Avenue	83,567.76	-	83,567.76
74th - Package Boiler Ignition System	136,216.62	-	136,216.62
TOTAL SPR09	3,207,401.63	3,020,000.00	187,401.63

Steam Production Capital Expenditures - 2005
Based on Original Budget

Description	Actual	Budget	Variance
TOTAL PRODUCTION	35,145,547.96	32,600,000.00	2,545,547.96

Case: 05-S-1376

Responding Witness: Operations Panel

Question No. :464

As a follow-up to Staff Information Request 349, please provide the actual steam production capital expenditures for the years 2000, 2001 and 2002.

Response:

Without waiving the right to object to the introduction of this information into the record in this proceeding, the Company hereby responds as follows.

Total steam production capital expenditures for the years requested are:

2000 -- \$10.7 million
2001 -- \$12.8 million
2002 -- \$12.4 million

Trends in Capital Spending over the Period 2002 to 2005**Steam Production Capital Expenditures ¹ (in millions)**

Year	Annual Company Forecast Amount	Actual Annual Amount
2002	6.1	14.3
2003	15.4	14.9
2004	31.2	23.6
2005	32.6	35.1

Year	Annual Company Forecast Amount
2006	46.1
2007	47.2
2008	66.5
2009	67.8
2010	68.2

Notes: ¹ Company response to Staff IR 349.

**Summary of Con Edison's Steam O&M Expenses
(\$000)**

	A	B	C	D	E	F	G	H	I
	12 MONTHS ENDED:	Total	Asbestos Removal & Abatement	Major Maintenance Projects	Plant Component Upgrade	Plant Inspection and Repair	Preventative Maintenance	Routine Maintenance	Scheduled Overhauls
1	9/30/03 Allowed in Rates (RY 3 of Case 99-S-1621)	14,416	\$1,893	\$1,660	\$0	\$595	\$720	\$3,675	\$5,873
2	6/30/03 Actual (Case 03-S-1672 Historic Year)	14,405	1,417	937	248	119	3,324	4,723	3,637
3	Variance	(11)	(476)	(723)	248	(476)	2,604	1,048	(2,236)
4	9/30/04 Allowed in Rates (RY 4 of Case 99-S-1621)	14,416	\$1,893	\$1,660	\$0	\$595	\$720	\$3,675	\$5,873
5	6/30/04 Actual	8,059	440	(125)	65	25	309	3,836	3,509
6	Variance	(6,357)	(1,453)	(1,785)	65	(570)	(411)	161	(2,364)
7	9/30/05 Allowed in Rates (RY 1 of Case 03-S-1672)	17,090	1,467	970	940	1,617	3,441	4,890	3,765
8	6/30/05 Actual (Case 05-S-1376 Historic Year)	7,851	562	690	256	265	856	3,716	1,506
9	Variance	(9,239)	(905)	(280)	(684)	(1,352)	(2,585)	(1,174)	(2,259)
10	Company's 9/30/07 Rate Year Request	9,137	920	1,255	270	280	903	3,920	1,589

To: Rate Case Team
From: John Roberts
Marco Padula
Subject: Trip report. Travel to Con Edison's Hudson Avenue Plant on December 15, 2005.
Date: December 19, 2005.

On Thursday, December 15, 2005, we met with Ed Foppiano (Chief, Civil/Mechanical Engineer), Charlie Thompson (Section Manager EH&S) and Gus Sanoulis (Plant Manager) of Con Edison to tour the Hudson Avenue Steam Plant. In addition, we met the Hudson Avenue Operations Manager, Plant Technical Manager, and Plant EH&S Manager. We reviewed each capital item contained in the work papers applicable to Hudson Avenue and toured the entire facility. This note captures my general observations of our tour of the plant.

We saw four operating boilers (71, 72, 81, and 82) located in what I would call the operating section of the plant. In the 1980s three of the four boilers were modernized with updated burner fronts and throats. Boiler 82 was not refurbished at that time and is expected to be retired. Many of the plant structures at Hudson Avenue, other than the portions of the power house occupied by these four boilers, and the Annex, were no longer in active use. We questioned why the non-operating plant areas had not been demolished and want to pursue this with the accountants. The boilers we saw were very old and as a result of their vintage, dated plant designs do not take advantage of several efficiency opportunities. For example, the forced draft fans (FD Fans), which supply combustion air to the burners, take their suction from outside air. This design deficiency fails to take advantage of radiant and other boiler casing heat losses which are normally captured in the upper regions of the building structure(s) that surround the boiler. It is likely that the boilers, which were built in the 1920s and commissioned in the early 1930s, might not have been designed to recover this type of thermal loss. Even if that may have been the case back then, it might be worth pursuing to explore the Con Edison's interest, over the years, in reducing plant thermal losses to minimize fuel expense. These heat losses are normally captured and fed back into the boiler, thereby pre-heating the air used for combustion, and, in turn, thereby improving boiler efficiency. Other thermal losses observed at this plant include the absence of air heaters, steam leaks, poor insulation, and the lack of soot-blowing. These are discussed below.

We saw the four boiler forced draft (FD) fans; two of which Con Edison plans to relocate for structural reasons. This project appears warranted as is needed to address the deteriorated foundations and flooring supporting the fans. (The modification will not improve the thermal performance of the plant since the fan suction will continue to be from outside the structure.)

We observed the feed water heating system and de-aerators, which provide water to these four boilers and that need to be replaced. Feed-pipe exterior corrosion and small steam leaks were observed in piping where insulation had been removed. One pin-hole sized leak was observed in the De-Aerating Feed Tank. We saw several instances where insulation had fallen off the pipe(s) in had been attached too. Associated thermal losses were obvious. We observed the grid marks left by engineers that had performed structural inspections of the feed water piping and the de-aerating feed tanks.

We noted that these boilers were not equipped with air-heaters to reduce stack gas temperatures. Air-heaters would convey the heat from the combustion gases - that would otherwise go up the stack - to the combustion air, before it enters boiler. This has a two fold thermal improvement since it results in lowered stack gas temperature(s) and also pre-heats the air used for combustion. The result is greater thermal efficiency as a greater portion of the heat generated by the combustion process is transferred to water in the boiler.

We noted that the control room for the four operating boilers is located in an adjacent structure (referred to as the "Annex" which also houses boiler 100 and turbine 10) introducing an unnecessary distance issue (communication) between the plant and its controls. Boiler 100 and its associated turbine (#10) were brought back into service, out of retirement, to support In-City generation during the electric capacity

shortage period that existed prior to the summer of 2001. (Recall the Department's interest and public appeals to build In-City generation and the gas turbines that were built by NYPA.) The Annex boiler and turbine was finally retired in September 2004. This unit has been returned to operation in the past and could be capable of providing steam although startup would require some time to complete if the unit were needed again. The re-licensing process and necessary modifications could take as much as two years to complete.

The issue of maintaining operational fire apparatus (pumps, piping and valves, etc) seems to have been dealt with but would be an unnecessary cost if the inactive structures were demolished.

We observed Stacks 1, 2 and 3 which are positioned over an inactive portion of the plant and questioned why these structures had not been removed already as part of the demolition process. The stacks have not been used since around 1960. The structural condition of the abandoned stacks was observed to be deteriorating and the roof areas of the inactive building were both leaking and structurally deteriorating, presenting a potential safety hazard to operators and other employees.

We also observed the fire protection system which is located in the same inactive portion of the plant. The fire protection system piping was not able to pass its five year hydrostatic test. Con Edison explained that it is difficult to keep the fire system functional when the building it serves is inactive because firewater would freeze and burst the pipe. The station received a variance from Fire Inspectors to keep the piping system in a standby mode and only fill it with water in the event it is needed.

We observed several places where floors and walls were no longer safe; concrete was observed to be crumbling and falling from the underside of several floors. Management has erected scaffolding in many areas to protect workers from falling floor sections. We saw a wall, located on the north side of the annex building that was no longer in use. The wall had separated from its foundation along the bottom seam and cracking was noticeable along each side. The vertical cracks had been sealed with a black caulking but it was clear that the seal was not providing much in the way of structural support. Continued movement of the wall, away from its foundation, will lead to its collapse and is an imminent safety hazard to employees.

The undersides of several floor sections were observed to be cracking and falling concrete was presenting a safety hazard.

Our general impression was that while the Hudson Avenue plant may have been state-of-the-art in the 1930s and 1940s it was well beyond its useful life and should be retired. We note that Con Edison will be required to spend some money in the near term (i.e., the next three to five years) to keep the plant operating reliably and safely to meet anticipated steam loads. We question the wisdom of any long-term investment to extend the operating life of the unit beyond that time frame. We will need to determine, based upon information requests, which Capital Production items would be avoided, if a decision is made in the summer of 2006 to build a steam plant similar to East River at the Hudson Avenue Site.

The attached spreadsheet shows the spending plans that Con Edison currently has for the Hudson Avenue Station. The plan calls for annual spending levels of:

<u>Year</u>	<u>Capital Spending Forecast</u>
2006	\$13,575,000.00
2007	\$12,900,000.00
2008	\$50,900,000.00
2009	\$56,700,000.00
<u>2010</u>	<u>\$49,000,000.00</u>
Total	\$182,825,000.00

This level of expenditure should be expected for boilers that are over 60 years old. The units can be expected to require continued high levels of capital spending in the period 2010 to 2025 should they be expected to operate over that time period.

On the other hand, many of these costs could be scaled back if a decision was made to re-power the Hudson Avenue site. As a placeholder, we might assume that historic levels of capital spending would be maintained. (See spreadsheet). This could represent a Capital Production Spending Reduction of as much as \$120 million which could be a good down-payment on a new plant.

It seems reasonable to expect stakeholders to accelerate completion of the Steam Production Cost Study. The study results should assist Con Edison and other interested stakeholders in the development of a long-term steam production plan that optimizes production capital investment for the long-term (i.e., the next 20 to 25 years). Such a decision should be made before expenditures of this magnitude are made at Hudson Avenue. It does not seem reasonable to invest such large sums of money in a plant whose design and physical condition is so old. The Hudson Avenue site seemed to have plenty of room for expansion. Aging and degrading plant structures could be removed leaving ample space to build a newer, cleaner and more efficient power plant that will provide steam more economically for the next sixty or more years.

Finally, we believe that the issue requires a solution and cannot be postponed further.