

PROPERTY TAX AND DEPRECIATION PANEL - GAS

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1 **I. INTRODUCTION**

2 Q. Would each member of the Property Tax and Depreciation
3 Panel ("PTD Panel") please state your name and
4 business address.

5 A. **(Hutcheson)** My name is Charles D. Hutcheson. My
6 business address is 4 Irving Place, New York, New
7 York.

8 **(Merritt)** My name is Stephanie Merritt. My business
9 address is 4 Irving Place, New York, New York.

10 **(Li)** My name is Qun Li. My business address is 4
11 Irving Place, New York, New York.

12 Q. Mr. Hutcheson, by whom are you employed and in what
13 capacity?

14 A. I am employed by Consolidated Edison Company of New
15 York, Inc. ("Con Edison" or the "Company") as Manager
16 of the Property Tax and Depreciation group. My duties
17 include the overall supervision and responsibility for
18 the property tax and book depreciation functions for
19 the regulated subsidiaries of Consolidated Edison,
20 Inc.

21 Q. Mr. Hutcheson, please briefly outline your educational
22 background and business experience.

23 A. I graduated from Hofstra University in 1978 with the
24 degree of Bachelor of Business Administration in

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1 Accounting. I have been employed by Con Edison since
2 1979 and have held various positions of increasing
3 responsibility within the Finance area. My first
4 assignment with the Company was in the Depreciation
5 Section, where I spent my first 15 years of employment
6 attaining the position of Senior Accountant. In 1993,
7 I moved to the Rates and Budget Section. In 1996, I
8 transferred to the Financial Restructuring Team, where
9 my duties were to assist in the development of Con
10 Edison's rate plan filed in the New York State Public
11 Service Commission's ("Commission") Competitive
12 Opportunities Proceeding. I moved to the Tax
13 Department in 1997 as a Senior Tax Accountant in the
14 Federal Tax Section. In September 1999, I was
15 promoted to Manager, Property Taxes, responsible for
16 the property tax compliance function and the Company's
17 efforts to hold down property taxes. In December
18 2001, I once again began working on depreciation
19 matters when the Tax Department assumed responsibility
20 for the book depreciation function. My current
21 depreciation responsibilities include analyzing and
22 interpreting the results of the Company's statistical
23 plant mortality and net salvage studies.
24 I am a member of the Society of Depreciation

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1 Professionals. The Society serves as a forum to share
2 information and insights related to the field of
3 depreciation. Membership includes those in the
4 utility industry, government, education, and other
5 industries.

6 Q. Ms. Merritt, by whom are you employed and in what
7 capacity?

8 A. I am also employed by Con Edison. I hold the position
9 of Accounting Supervisor in the Property Tax and
10 Depreciation group. I am responsible for the payment
11 and accounting functions for the Company's property
12 taxes.

13 Q. Ms. Merritt, please briefly outline your educational
14 background and business experience.

15 A. I graduated from Le Moyne College in 2004 with the
16 degree of Bachelor of Science in Accounting as well as
17 a Bachelor of Arts in Economics. I have been employed
18 by Con Edison since 2005 and have held various
19 positions of increasing responsibility within the
20 Finance area. After approximately two years in
21 Corporate Accounting, I transferred to the Tax
22 Department where I was promoted to Staff Accountant in
23 the Property Tax and Depreciation Group. In that
24 position, my major responsibilities included the

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1 preparation and interpretation of the Company's
2 depreciation studies in connection with rate
3 proceedings. I have held my current position of
4 Accounting Supervisor since 2010.

5 Q. Ms. Li, by whom are you employed and in what capacity?

6 A. I am also employed by Con Edison. I hold the position
7 of Senior Accountant in the Property Tax and
8 Depreciation group and am responsible for the book
9 depreciation accounting functions for the Company.

10 Q. Ms. Li, please briefly outline your educational
11 background and business experience.

12 A. I earned a Bachelor of Science degree from Wuhan
13 Science and Technology University and in 2002 was
14 graduated from Bowling Green State University with the
15 degree of Master of Science in Accountancy. From 1990
16 to 1999 I worked in the accounting area at Bao Steel
17 Group, starting as a Staff Accountant and holding
18 positions of increasing responsibility. I rose to the
19 title of Assistant Project Manager. In 1997, I became
20 a Certified Cost Engineer. I later worked as a Senior
21 Accountant in the health care and education fields. I
22 have been employed by Con Edison since March 2012 as a
23 Senior Accountant.

24 Q. Have any members of the PTD Panel previously testified

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1 before any regulatory commission?

2 A. **(Hutcheson)** I have submitted testimony and testified
3 on the subject of depreciation and/or property taxes
4 in numerous cases for Con Edison and Orange and
5 Rockland Utilities, Inc. before this Commission;
6 before the New Jersey Board of Public Utilities (on
7 behalf of Rockland Electric Company); and before the
8 Pennsylvania Public Utility Commission (on behalf of
9 Pike County Light & Power Company).

10

11 **II. PURPOSE OF TESTIMONY**

12 Q. What is the purpose of the PTD Panel's testimony in
13 this proceeding?

14 A. Our testimony covers two areas -- depreciation and
15 property taxes.

16 Concerning depreciation, our testimony:

- 17
- Presents recommendations with respect to annual
18 depreciation expense for Gas and Common plant at
19 proposed depreciation rates;
 - Identifies the Accumulated Provision for
20 Depreciation recorded on the Company's books
21 ("book reserve") at December 31, 2011, the
22 computed reserve (which is interchangeably
23 referred to as the theoretical reserve) based on
24

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- 1 existing depreciation rates, and the computed
2 reserve based on proposed rates for both Gas and
3 Common plant;
- 4 • Details our conclusions regarding the variations
5 between the book and computed reserves at
6 existing and proposed rates for both Gas and
7 Common plant; and
 - 8 • Discusses our conclusions regarding the
9 variations between the book and computed
10 depreciation reserves at existing and proposed
11 rates for both Gas and Common plant.

12 The property tax portion of our testimony:

- 13 • Presents general background information on
14 property taxes;
- 15 • Describes the level of property taxes experienced
16 recently by the Company;
- 17 • Presents our property tax forecast and explains
18 the methodology and certain assumptions used in
19 that forecast;
- 20 • Discusses the recently-enacted New York State law
21 related to "capping" property taxes;
- 22 • Explains the limitations on the Company's ability
23 to control, and as a consequence, reasonably

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1 estimate, the level of its property tax
2 obligations; and

- 3 • Discusses the Company's efforts to pay no more
4 than its fair share of property taxes.

5 Q. Please summarize any changes to depreciation and
6 property tax expense levels for the twelve months
7 ending December 31, 2014 (the "Rate Year") that result
8 from the PTD Panel's proposals.

9 A. Changes related to depreciation will decrease
10 depreciation expense in the Rate Year by \$3.5 million
11 including allocated Common plant depreciation based on
12 projected Rate Year plant balances. Our property tax
13 forecast is \$11.0 million greater than the level
14 currently included in gas rates.

15

16 **III. DEPRECIATION**

17 **A. PROPOSED AVERAGE SERVICE LIVES, LIFE TABLES AND**
18 **RELATED STUDIES**

19 Q. Have you reviewed the adequacy of the book reserve and
20 the factors that determine annual depreciation expense
21 and the theoretical reserve for Gas and Common plant?

22 A. Yes. The Company prepares studies that test the
23 adequacy of the book reserve in relation to the
24 theoretical reserve. Comparing the book reserve to

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1 the theoretical reserve allows for the determination
2 of whether there is a book reserve deficiency or
3 excess. In addition, the Company prepares plant
4 mortality and net salvage studies to determine the
5 appropriate average service lives, net salvage
6 factors, and life tables for each depreciable plant
7 account. The studies reflected in our testimony and
8 exhibits are based on accounting and retirement
9 history data through December 31, 2011.

10 Q. Based on these studies, are you recommending changing
11 any average service lives, net salvage factors or life
12 tables from those currently in effect?

13 A. Yes. After a thorough review of the studies and
14 consideration of other factors that may influence the
15 selection of the appropriate average service life,
16 salvage factor and life table, we have concluded that
17 various changes to the Company's depreciation factors
18 for Gas and Common plant are warranted.

19 Q. Are you sponsoring an exhibit that summarizes your
20 proposals?

21 A. Yes, Exhibit ____ (PTD-1) entitled "CONSOLIDATED EDISON
22 COMPANY OF NEW YORK, INC., PROPOSED DEPRECIATION RATE
23 CHANGES FOR GAS AND COMMON UTILITY PLANT AT DECEMBER
24 31, 2011."

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1 Q. Was Exhibit ____ (PTD-1) prepared by you or under your
2 direction and supervision?

3 A. Yes, it was.

4 Q. Please describe Exhibit ____ (PTD-1).

5 A. The exhibit compares the annual provision for
6 depreciation on a "BOOK BASIS" (i.e., at current
7 depreciation rates) and on a "PROPOSED BASIS" (i.e.,
8 at the depreciation rates proposed to be adopted in
9 this proceeding). The exhibit also includes a
10 comparison of the book reserve at December 31, 2011 to
11 the theoretical reserve for depreciation computed
12 using the depreciation factors currently in effect and
13 to what the theoretical reserve would be using the
14 depreciation factors we are proposing in this case.

15 Q. What is the basis for the PTD Panel's selection of
16 depreciation factors in this proceeding?

17 A. As we have indicated, the selections are based on a
18 review and analysis of the historical data comprising
19 the Company's mortality and net salvage studies.
20 These statistical studies are the primary, but not the
21 only, basis for determining an appropriate average
22 service life, h-curve (i.e., life table) and net
23 salvage factor. Examples of other factors that
24 influence plant retirement expectations are

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1 technological change and obsolescence. In those
2 instances where the accounts do not have sufficient
3 retirement history to produce statistically reliable
4 mortality or net salvage data, we propose to continue
5 existing depreciation factors.

6 Q. What part does the average service life play in the
7 determination of depreciation rates?

8 A. The estimated average service life is the period
9 (number of years) over which the original cost of
10 plant will be depreciated. With an average service
11 life of 25 years, annual depreciation is $1/25^{\text{th}}$, or 4%,
12 of the original cost of the plant before taking into
13 account the net salvage factor.

14 Q. What is the effect on annual depreciation expense of a
15 change to an average service life?

16 A. The depreciation expense accrual varies inversely with
17 its underlying average service life -- the longer the
18 average service life, the lower the annual
19 depreciation rate, and therefore, the lower the annual
20 depreciation expense. Conversely, the shorter the
21 average service life, the higher the annual
22 depreciation rate, and therefore, the higher the
23 annual depreciation expense.

24 Q. Please generally describe the changes you propose to

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1 average service lives.

2 A. As to average service lives, we are proposing to
3 change two Gas accounts, both toward higher average
4 service lives that will decrease annual depreciation
5 expense. For Common plant, we are proposing to
6 increase the life of one account.

7 We have estimated that the average service life
8 changes we are proposing will result in a decrease in
9 annual depreciation expense of approximately \$3.1
10 million for Gas plant and a further decrease of
11 approximately \$1.9 million for Common plant. However,
12 since Common plant is allocated to both Electric and
13 Gas service, the decrease for Common plant allocated
14 to the Gas Department will amount to approximately
15 \$0.3 million. Therefore, the overall change in
16 depreciation expense for Gas due to average service
17 life changes, based on a book cost at December 31,
18 2011, is a decrease of approximately \$3.4 million
19 annually.

20 Q. Please provide the depreciation expense changes
21 related to changes in average service life by account.

22 A. In terms of dollar impact, we have estimated the
23 change by plant account as follows:

24

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<u>ACCOUNT</u>	<u>AVERAGE SERVICE LIFE</u>		<u>AMOUNT</u>
<u>NUMBER</u>	<u>EXISTING</u>	<u>PROPOSED</u>	<u>(000)</u>
<u>Gas Plant</u>			
380100	55	60	\$ (2,869)
369000			<u>(190)</u>
Total Gas			\$ (3,059)
 <u>Common Plant (at 100%)</u>			
390000	50	55	\$ (1,906)

1 Concerning life tables, we are proposing to change
 2 those for four Gas accounts that will increase the
 3 computed reserve, offset by two life table changes
 4 that will lower the computed reserve for depreciation.
 5 We are not proposing any changes to life tables for
 6 Common plant.

7 Q. Please generally describe life tables.

8 A. Life tables, or "h-curves" are survivor curves
 9 representing a number of typical patterns of
 10 historical retirement dispersion that all can result
 11 in the same average service life. The combination of
 12 an average service life, net salvage factor and an h-
 13 curve is used to compute a theoretical reserve for
 14 depreciation. Changes to h-curves do not impact
 15 annual depreciation expense but do affect computed

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1 reserves, which are used to help determine whether the
2 Company's depreciation reserve is adequate.

3 Q. Are you sponsoring an exhibit that contains the data
4 you considered when selecting the average service
5 lives and life tables you are proposing?

6 A. Yes, we are sponsoring Exhibit ____ (PTD-2) entitled
7 "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., GAS
8 AND COMMON UTILITY PLANT, SUMMARY OF AVERAGE SERVICE
9 LIVES, EQUIVALENT "h" CURVES AND OTHER STATISTICAL
10 DATA INDICATED BY PLANT MORTALITY STUDIES BASED ON
11 EXPERIENCE THROUGH DECEMBER 31, 2011" for that
12 purpose. The exhibit includes the computer generated
13 average service lives, equivalent h-curves, and other
14 statistical data indicated by the rolling and
15 shrinking band analysis of the Company's mortality
16 experience with respect to Gas and Common Plant
17 through 2011.

18 Q. Was Exhibit ____ (PTD-2) prepared by you or under your
19 direction and supervision?

20 A. Yes, it was.

21 Q. How are the data in Exhibit ____ (PTD-2) organized?

22 A. The data are summarized by grouping it into what is
23 referred to as "bands." Rolling and shrinking bands
24 refer to the periods over which historical experience

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1 is analyzed. Rolling bands are bands of constant
2 width (e.g., ten years) developed by deleting the
3 earliest year's experience from the prior rolling band
4 and adding an additional year's experience. For
5 example, rolling bands ten years in width developed
6 from data for the period 2000 - 2011 would produce the
7 following rolling bands: 2000 - 2009; 2001 - 2010; and
8 2002 - 2011. Shrinking bands are bands that initially
9 accumulate all historical experience and then delete
10 one year at a time, usually beginning with the
11 earliest year until a band one year in width is
12 developed. Therefore, using the period 2000 - 2011,
13 the shrinking bands would be produced as follows: 2000
14 - 2011; 2001 - 2011; 2002 - 2011; . . . 2011 - 2011.

15 Q. How do you interpret the data?

16 A. The Company has a significant amount of historical
17 data within its studies, and the grouping of that data
18 by rolling and shrinking bands facilitates its
19 interpretation. The data may be analyzed by looking
20 at the full experience band, the only band that
21 includes all of the data within a study, or looking at
22 some of the many bands generated that contain data for
23 something less than the full experience. Rolling
24 bands are useful, especially the ones that contain

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1 data for the more recent experience. Shrinking bands
2 are useful to observe how the data is trending.

3 Q. What additional data in the statistical study allows
4 for further analysis?

5 A. The depreciation studies allow for graphs to be
6 produced that depict the observed life table (the
7 percent surviving by age, reflecting the actual
8 experience recorded in a band from the statistical
9 study) of each plant account being studied. The
10 studies also allow for any combination of survivor
11 curve and average service life to be statistically and
12 graphically compared to the observed life table to
13 determine how closely they match. That process
14 provides useful information in the selection of an
15 average service life and h-curve.

16 Q. Is there a single rolling or shrinking band that
17 should be relied on to select an appropriate life for
18 an account?

19 A. No. All of the data within a study should be
20 considered when determining an appropriate selection
21 along with other factors affecting average service
22 life as we explained previously.

23 Q. Is the PTD Panel sponsoring an exhibit containing the
24 graphical comparisons you have discussed?

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1 A. Yes, we are sponsoring Exhibit ____ (PTD-3) entitled
2 "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., GAS
3 AND COMMON UTILITY PLANT, SURVIVOR CURVES INDICATED BY
4 PLANT MORTALITY STUDIES BASED ON EXPERIENCE THROUGH
5 DECEMBER 31, 2011" for that purpose. The exhibit
6 includes the graphical illustration of each
7 statistical study comparing the percent surviving from
8 the observed life table derived from the Company's
9 actual mortality experience with the percent surviving
10 from the average service life and h-curve we have
11 proposed in this proceeding.

12 Q. Was Exhibit ____ (PTD-3) prepared by you or under your
13 direction and supervision?

14 A. Yes, it was.

15 Q. From which experience band are the graphs included in
16 Exhibit ____ (PTD-3) derived?

17 A. The extensive historical retirement data that the
18 Company has results in a study producing numerous
19 rolling and shrinking bands for each plant account.
20 We included a single graphical depiction of the
21 comparison of the h-curve to the observed life table
22 for each study, that being for the full experience
23 band (i.e., widest shrinking band).

24 Q. Why have you selected for presentation that particular

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1 band of the many that were produced?

2 A. The full experience band is the only band in a study
3 that includes all of the study data. However, it is
4 important to remember that reliance on only the full
5 experience band to select an average service life and
6 life table would not be proper because reliance on
7 that single band will not allow for recognition of
8 trends that may be developing within the study.

9 Q. From what source were the data in Exhibits ___ (PTD-2)
10 and ___ (PTD-3) obtained?

11 A. The data were produced by a depreciation study
12 computer program developed by PowerPlan Consultants,
13 Inc., a company providing integrated software for
14 plant accounting and depreciation study purposes for
15 plant asset intensive companies such as the Company.
16 The Company implemented the PowerPlan system in 2010.
17 The depreciation study module of that integrated
18 software provides a full set of industry-standard
19 statistical data-gathering and analysis tools used to
20 develop average service lives and life tables based on
21 the Company's extensive history of plant mortality
22 experience. It produces depreciation study results
23 essentially the same as were produced by the Company's
24 prior depreciation study program, which the Company

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1 had used since the 1960s. The new software is less
2 time consuming to use than the legacy program without
3 sacrificing the integrity of the underlying
4 statistical analysis.

5

6 **B. PROPOSED NET SALVAGE FACTORS AND RELATED STUDIES**

7 Q. What part does salvage play in the determination of
8 depreciation rates?

9 A. In addition to providing for recovery of the original
10 cost of plant over its estimated average service life,
11 the Company's annual depreciation rates include an
12 estimated net salvage factor. The purpose of this
13 estimated net salvage factor is to reflect, over the
14 life of the plant, the expected salvage value of plant
15 less the expected cost of removal upon retirement.
16 Those two values are expressed as a percentage of
17 original cost retired and included in the annual
18 depreciation rate. As a result, and in accordance
19 with basic depreciation principles, the original cost
20 of a plant asset along with the net of the expected
21 salvage value and cost of removal are spread over the
22 expected useful life of the plant asset.

23 Q. Please generally describe the changes you propose to
24 net salvage factors.

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1 A. We have estimated that the net salvage changes we are
2 proposing will increase annual depreciation expense by
3 approximately \$0.2 million for Gas plant and
4 approximately \$2.0 million for Common plant, at 100%
5 (i.e., before allocating portions of this change to
6 Common plant to Electric and Gas). The Gas portion of
7 the Common plant amount after allocation amounts to
8 approximately \$0.3 million, thereby making the overall
9 change in total depreciation expense for Gas due to
10 net salvage changes, based on a book cost at December
11 31, 2011, an increase of approximately \$0.5 million
12 annually.

13 Q. Please identify your net salvage proposals by plant
14 account.

15 A. As to net salvage factors, we are proposing to change
16 10 Gas accounts, all of which will result in an
17 increase in annual depreciation expense due to a move
18 to a higher negative net salvage factor. For Common
19 plant, we are proposing a move to a higher negative
20 net salvage factor for a single account. In terms of
21 dollar impact, we have estimated the impacts as
22 follows:
23
24

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ACCOUNT	<u>NET SALVAGE FACTOR</u>		AMOUNT
<u>NUMBER</u>	<u>EXISTING</u>	<u>PROPOSED</u>	<u>(000)</u>
<u>Gas Plant</u>			
367300	(50)	(75)	\$ 76
383000	(20)	(30)	37
Other (net)			<u>90</u>
Total Gas			\$203
 <u>Common Plant (at 100%)</u>			
390000	(60)	(75)	\$ 1,972

1

2 Q. Are you sponsoring an exhibit containing the data you
 3 considered when determining the proper net salvage
 4 factor to be used in developing depreciation rates?

5 A. Yes, we are sponsoring Exhibit ___ (PTD-4) entitled
 6 "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., GAS
 7 AND COMMON UTILITY PLANT, SUMMARY OF HISTORICAL NET
 8 SALVAGE" for that purpose. The exhibit contains the
 9 historical net salvage in dollar amount and as a
 10 percent of the book cost of plant retired. The book
 11 cost of plant retired, cost of removal and salvage is
 12 shown for the most recent 25 years for the actual
 13 retirements in the indicated calendar years. Exhibit
 14 ___ (PTD-4) also provides totals for the full

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1 experience band ending in 2011, rolling bands five
2 years in width, and a computation of the net salvage
3 as a percent of the book cost retired for the full
4 experience band, each rolling band, and each shrinking
5 band.

6 Q. Was Exhibit ____ (PTD-4) prepared by you or under your
7 direction and supervision?

8 A. Yes, it was.

9 Q. What is the source of the data for Exhibit ____ (PTD-
10 4)?

11 A. The historical data shown for each account is based on
12 the Company's books and records.

13

14 **C. GAS PLANT RESERVE VARIATION**

15 Q. Please provide some background information on
16 depreciation reserve variations.

17 A. In order to test the adequacy of the book reserve for
18 depreciation, the Company performs an annual study
19 comparing the book reserve at year-end to a
20 theoretical reserve calculated using service lives, h-
21 curves and net salvage factors in effect and, if
22 applicable at the time, service lives, h-curves and
23 net salvage factors the Company is considering
24 proposing in a rate case. The variation between the

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1 book and theoretical reserves can be expressed as
2 total dollars and as a percentage of the theoretical
3 reserve. Results of such a study can indicate either
4 a positive variation (excess reserve) or a negative
5 variation (reserve deficiency). For example, a book
6 reserve of \$190 and a theoretical reserve of \$200
7 would result in a book reserve deficiency of \$10, or
8 5%. Such comparisons as of December 31, 2011 for Gas
9 and Common plant are summarized in Exhibit ____ (PTD-1)
10 in which the book reserve is compared to the
11 theoretical reserve calculated at depreciation rates
12 currently in effect, the "BOOK BASIS", and at those we
13 propose be adopted in this proceeding, the "PROPOSED
14 BASIS."

15 Q. What does Exhibit ____ (PTD-1) show with respect to the
16 variation between the book depreciation reserve and
17 the computed reserve for Gas plant at December 31,
18 2011?

19 A. For Gas plant, the book reserve was approximately
20 \$1,015.2 million. The computed reserve is \$938.3
21 million on the "BOOK BASIS" and \$923.5 million on the
22 "PROPOSED BASIS." The book reserve of \$1,015.2
23 million is approximately \$76.9 million, or 8.2% more
24 than the computed reserve on the "BOOK BASIS" and

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1 approximately \$91.7 million, or 9.9% more than the
2 computed reserve on the "PROPOSED BASIS."

3 Q. What do you recommend regarding the book reserve
4 variation related to Gas plant?

5 A. We recommend that no action be taken at this time
6 based on the following. The \$91.7 million, or 9.9%
7 book reserve surplus at our proposed depreciation
8 factors includes an immediate \$14.8 million, or 19.1%
9 increase in the surplus due to our proposed changes to
10 depreciation factors. We consider that to be a
11 significant degree of sudden change in the book to
12 theoretical reserve ratio. The changed depreciation
13 factors cause an instantaneous change in the
14 theoretical reserve but they will not affect the book
15 reserve until the time new depreciation rates are
16 implemented in January 2014, the beginning of the Rate
17 Year. Even then, the effect on the book reserve will
18 occur over time. For instance, the changes we are
19 proposing will decrease annual depreciation expense by
20 \$2.8 million annually based on existing plant
21 investment and \$3.5 million in the Rate Year which
22 will have the effect of lowering the surplus over time
23 beginning when the changes are implemented in January
24 2014 but a more complete impact is not currently

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1 observable. In other words, the effect of the changes
2 on the book to theoretical reserve relationship should
3 be tested for a reasonable time before acting to
4 counter them. For those reasons, we believe the
5 variation between the book reserve and the theoretical
6 reserve should not be addressed for ratemaking
7 purposes in this proceeding. We would revisit and
8 report on this matter in the Company's next gas rate
9 filing.

10
11 **D. COMMON PLANT RESERVE VARIATION**

12 Q. What does Exhibit ___ (PTD-1) show with respect to the
13 variation between the book depreciation reserve and
14 the computed reserve for Common plant at December 31,
15 2011?

16 A. For Common plant, the book reserve was approximately
17 \$547.8 million. The computed reserve is \$567.1
18 million on the "BOOK BASIS" and \$568.5 million on the
19 "PROPOSED BASIS." The book reserve of \$547.8 million
20 is approximately \$19.3 million, or 3.4% less than the
21 computed reserve on the "BOOK BASIS" and approximately
22 \$20.8 million, or 3.7% less than the computed reserve
23 on the "PROPOSED BASIS."

24 Q. What do you recommend regarding the book reserve

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1 deficiency related to Common plant?

2 A. The variation between the book reserve and the
3 theoretical reserve is well within reasonable limits.
4 Consequently, we recommend that no action be taken to
5 mitigate the variation at this time.

6

7 **E. IMPACT OF PROPOSED CHANGES IN DEPRECIATION**

8 Q. Please summarize your depreciation proposals.

9 A. We recommend the Commission approve the various
10 depreciation changes we have proposed as summarized on
11 Exhibit ___ (PTD-1) to more closely align the average
12 service lives, life tables, and net salvage factors
13 employed with those supported by the depreciation
14 studies we have conducted and presented in this
15 proceeding. In addition, we recommend that no action
16 be taken with respect to the Gas and Common plant
17 reserve variations we have discussed.

18 Q. What effect will your proposed changes have on annual
19 depreciation expense?

20 A. As summarized on Exhibit ___ (PTD-1), the amount of
21 the annual provision for depreciation expense for the
22 Company's total Gas plant is \$93.7 million under
23 existing rates and \$90.9 million under proposed rates.
24 These amounts exclude the portion of depreciation

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1 expense related to Common plant allocated to gas
2 expense and are based on the book cost of plant
3 investment as of December 31, 2011.

4 For Common plant, depreciation expense is \$130.7
5 million under existing rates and somewhat lower at
6 \$130.6 million under proposed rates, also based on the
7 book cost of plant investment as of December 31, 2011.
8 These amounts are before allocation to Electric and
9 Gas operations. The Rate Year impact of our proposals
10 was identified earlier in our testimony and was
11 computed by the Company's Gas Accounting Panel
12 reflecting the proposed depreciation factors we
13 provided, forecasted changes to plant balances and the
14 allocation of Common plant depreciation to Gas
15 service.

16
17 **IV. PROPERTY TAXES**

18 **A. BACKGROUND INFORMATION**

19 Q. Please explain the general basis upon which property
20 taxes levied upon the Company have historically been
21 determined.

22 A. Historically, the property taxes Con Edison has paid
23 were based on the "value" of property and include
24 taxes on land and the structures and/or equipment

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1 erected or affixed to the land, known as real estate
2 taxes. In New York State, utilities also pay property
3 taxes on utility equipment located on or under the
4 public streets and highways, known as special
5 franchise taxes.

6 In New York State, public utility property is valued
7 under a method known as the "cost approach." The New
8 York State Office of Real Property Tax Services
9 ("ORPTS") and most of the larger local assessors in
10 the Company's service territory determine value by
11 using a Reproduction Cost New Less Depreciation
12 ("RCNLD") methodology for utility property. RCNLD
13 calculates what it would cost to reproduce property at
14 current construction costs based on a trending index,
15 subtracts an allowance for depreciation and
16 obsolescence, if any, and adds the value of land to
17 arrive at a "value" for the entire property. RCNLD is
18 used only to value certain of the Company's structures
19 and all of its equipment. The value of land is
20 determined by comparable sales data.

21 In New York City (or "the City"), there are four
22 "classes" of property. Classes 1 and 2 pertain to
23 various types of residential property. The Company's
24 property, depending on its type, is included in Class

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1 3 (utility property) or Class 4 (general business
2 property).

3
4 **B. SUMMARY OF RECENT AND PROJECTED PROPERTY TAXES**

5 Q. Please provide some background on the amount of
6 property taxes paid by the Company.

7 A. The Company pays property taxes to New York City and
8 other municipalities. The other municipalities are
9 principally located in Westchester County but also in
10 Orange, Rockland, Dutchess, and Putnam Counties. The
11 Company also pays a relatively minor amount of taxes
12 in Mississippi and West Virginia in connection with
13 gas storage. We will refer to those other
14 municipalities as "Westchester & Other."

15 During calendar year 2011, \$167.7 million of property
16 taxes was allocable to gas service. Of that total,
17 \$126.8 million was applicable to New York City and
18 \$40.9 million was applicable to Westchester & Other.
19 For calendar year 2012 we have forecasted property
20 taxes allocable to gas expense to be \$170.3 million.
21 Of that amount, \$126.3 million is applicable to New
22 York City and \$44.0 million to Westchester & Other.
23 For calendar year 2013 we have forecasted property
24 taxes allocable to gas expense to be \$186.5 million.

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1 Of that amount, \$140.4 million is applicable to New
2 York City and \$46.1 million to Westchester & Other.

3 Q. Have you forecasted the Rate Year property taxes for
4 this proceeding?

5 A. Yes. Our forecast of property taxes allocable to gas
6 expense for the Rate Year is \$206.3 million. Of that
7 amount, \$158.0 million is applicable to New York City
8 taxes and \$48.3 million to Westchester & Other.

9 Q. Will the Company provide updates related to property
10 taxes during this proceeding?

11 A. Updates have been customary in the Company's rate
12 proceedings and the Company intends to provide them in
13 this case. The Company intends to update property
14 taxes as part of its formal update at the update stage
15 of this proceeding and proposes to provide updated
16 property tax information throughout this case if new
17 information becomes available from the City, ORPTS or
18 any other municipality. It is the Company's
19 recommendation to base the revenue requirement in this
20 case reflecting the latest available information on
21 property taxes, subject to full reconciliation as
22 discussed by Company witness Muccilo (Gas Accounting
23 Policy). The Company anticipates an update for
24 tentative assessed values for its non-special

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1 franchise property in New York City, usually available
2 to the Company in January, tentative assessed values
3 for its special franchise property in New York City,
4 usually available in March, and for Westchester &
5 Other Town property tax payments to be made in January
6 2013.

7
8 **C. NEW YORK CITY TAX FORECAST**

9 Q. Please explain how you forecasted New York City
10 property taxes.

11 A. We used the Company's 2012/13 final real estate and
12 special franchise assessed values as a starting point
13 and applied final tax rates to those values to compute
14 taxes for fiscal year 2012/13. We then computed the
15 estimated change in assessment by adding net plant
16 changes forecasted by the Company's Gas Accounting
17 Panel. For subsequent periods, estimated tax rate
18 changes for New York City for each tax class were
19 based on the most recent six fiscal years of tax rate
20 history for each class so that percentage changes for
21 five individual fiscal years could be developed.

22 Q. What was the five-year average percentage change in
23 the tax rate resulting from your calculations?

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1 A. The five-year average change in the tax rates
2 indicated increases of 1.51% and 0.45% for Classes 3
3 and 4, respectively.

4 Q. What percentage change in rates did you use?

5 A. We selected tax rate changes that approximate the
6 five-year average percentage changes. Our projected
7 property taxes reflect escalations of the tax rates of
8 1.50% and 0.50% for Classes 3 and 4, respectively.

9 Q. Is that because you expect the rate changes in each of
10 the next several years to approximate the five-year
11 average changes?

12 A. No. Although the rates of change have not varied
13 greatly in recent years, property tax forecasts are
14 subject to much uncertainty and actual tax rate
15 changes can be quite volatile. For example, City tax
16 rates have increased as much as 18.5% from one year to
17 the next. We will address that subject further later
18 in our testimony but we note that it is that degree of
19 possible variability that results in an inability to
20 reasonably forecast property taxes for the Rate Year
21 even based on recent experience.

22 Q. Are you sponsoring an exhibit containing the
23 computation of the five-year average escalation rate?

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1 A. Yes, we are sponsoring Exhibit ___ (PTD-5) entitled
2 "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.,
3 HISTORICAL NEW YORK CITY TAX RATES AND DEVELOPMENT OF
4 TAX RATE ESCALATION FOR FORECAST, CLASS 3 & 4 TAX
5 RATES" for that purpose. The exhibit shows the Class
6 3 and Class 4 tax rates for New York City for the last
7 six fiscal years and the computation of the five-year
8 average percentage change in tax rates. It also
9 computes the forecasted tax rates for fiscal years
10 subsequent to 2012/13.

11 Q. Was Exhibit ___ (PTD-5) prepared by you or under your
12 direction and supervision?

13 A. Yes.

14

15 **D. COUNTY OF WESTCHESTER AND UPSTATE COUNTIES TAX**
16 **FORECAST**

17 Q. Please describe how you arrived at the forecasted
18 property tax amounts for Westchester & Other.

19 A. For Westchester & Other, we used the Company's latest
20 actual property taxes paid during calendar year 2012
21 as a starting point. Then, because it is not
22 practicable to specifically forecast property taxes
23 for each of the many different municipalities and

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1 school districts to which the Company pays property
2 taxes since each has different factors affecting their
3 need to raise revenue, we developed an overall
4 escalation percentage to develop the forecasted
5 amounts. The escalation percentage was developed
6 based on recent historical tax payment information
7 from calendar years 2007 through 2012.

8 Q. What escalation percentage did you use?

9 A. We used an escalation percentage of 4.91%, which was
10 equal to the five-year average computation we
11 performed.

12 Q. Is that because you expect the rate changes in each of
13 the next several years to approximate the five-year
14 average changes?

15 A. No. Property tax forecasts are subject to much
16 uncertainty and actual annual changes can be quite
17 volatile. For example, within the five-year average
18 we computed, the year-to-year percentage increase
19 ranged from a low of 0.36% to a high of 8.86%.

20 Q. Are you sponsoring an exhibit containing the
21 computation of the five-year average escalation rate?

22 A. Yes, we are sponsoring Exhibit ____ (PTD-6) entitled
23 "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., FIVE
24 YEAR AVERAGE OF PROPERTY TAXES PAID, WESTCHESTER AND

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1 OTHER" for that purpose. The exhibit summarizes the
2 tax payments made for the last six calendar years and
3 computes the five-year average for Westchester &
4 Other.

5 Q. Was Exhibit __ (PTD-6) prepared by you or under your
6 direction and supervision?

7 A. Yes.

8 **E. TWO PERCENT PROPERTY TAX "CAP"**

9 Q. Have you considered the impact of New York State's
10 property tax "cap" law in your property tax forecast?

11 A. Yes, we have, however, it is important to recognize
12 that the "cap" is not applicable to New York City
13 taxes. In other words it only applies to a limited
14 base of the Company's property taxes.

15 Q. Please generally describe the new legislation.

16 A. The legislation, on its face, limits real property tax
17 levy increases by local governments to the lesser of
18 2% annually or the rate of inflation. However, in no
19 case shall the levy growth factor be less than zero.
20 Those limitations, however, may be overridden by a 60%
21 vote of the governing body of the local government or
22 a 60% vote of school district voters.

23 Q. Are there exclusions that limit the reach of the cap?

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- 1 A. Yes, for instance, there are exclusions for court
2 orders or judgments against the governing body or
3 school district. There are also exclusions for
4 contributions to employee retirement funds beyond
5 specified limits. Other exclusions require
6 computations to determine what the legislation refers
7 to as a "quantity change factor" which may allow the
8 tax levy to increase above the cap due to development.
9 There are also exclusions that will allow school
10 districts to increase the tax levy for certain
11 expenditures associated with facilities, capital
12 equipment, debt service, lease expenditures, and
13 transportation debt service, subject to the approval
14 of the qualified voters where required.
- 15 Q. Assuming none of the exclusions applies and inflation
16 is more than 2% (thereby capping the tax levy at the
17 2% maximum), wouldn't the Company's tax liability
18 simply increase by 2%?
- 19 A. No, and that is why our forecast for Westchester &
20 Other taxes is not simply a 2% across-the-board annual
21 increase.
- 22 Q. Please explain.
- 23 A. The Company invests each year in new plant facilities
24 and retires certain facilities that are no longer

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1 providing utility service. Each of those plant
2 transactions may add to or reduce the Company's
3 assessed valuations and therefore its property tax
4 liability. After an assessment roll is determined by
5 a municipality a tax rate is computed for each
6 municipality and school district by dividing that
7 assessed value into the tax levy. Although the total
8 tax levy may increase by exactly 2%, individual
9 taxpayers may see tax changes either higher or lower
10 than the 2% overall increase based on how their
11 assessed values have changed in relation to other
12 taxpayers in the tax district. Therefore, the
13 Company's taxes, or any other taxpayer's taxes, could
14 vary from the 2% increase, even without the occurrence
15 of any of the exclusions built into the law. Property
16 taxes become even more difficult to forecast when and
17 if certain exclusions, including voter overrides,
18 certain pension payments, court orders, quantity
19 change factors, and capital outlays, impact some or
20 all of the municipalities and school districts where
21 the Company pays property taxes.

22 Q. How much could taxes vary from the 2% cap?

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1 A. There is no upside limit. It is also important to
2 note that the new legislation adds further uncertainty
3 to forecasting property taxes.

4 Q. What actual payments have been made by the Company
5 regarding property tax bills subject to the 2% "cap"
6 law?

7 A. The law took effect for fiscal years beginning January
8 1, 2012 for local governments and for the 2012/13
9 fiscal year (July 1, 2012 through June 30, 2013) for
10 school districts. To date, Con Edison has paid tax
11 bills in Westchester & Other for 2012 that were levied
12 pursuant to the "cap" law.

13 Q. What have you observed regarding property tax bills
14 subject to the 2% "cap" law?

15 A. The Company's experience for amounts paid in 2012 for
16 bills levied pursuant to the "cap" compared to bills
17 paid in 2011 indicated a percentage increase of 5.1%,
18 which approximates the five-year average growth rate
19 we computed. Therefore, we concluded that, at least
20 at this time, the Company's experience with the "cap"
21 law did not require an adjustment to be made to our
22 forecast for this case. Again, the "cap" does not
23 affect the overwhelming majority of Con Edison's taxes
24 since it does not apply to New York City.

1 **F. INABILITY TO REASONABLY FORECAST PROPERTY TAXES**

2 Q. Why is a reasonable forecast of property tax not
3 practicable?

4 A. We have found that it is very difficult to reasonably
5 estimate future property taxes for many reasons. For
6 example, whether local governments and school
7 districts, outside of New York City, will be able to
8 restrict tax levy increases to 2% or the rate of
9 inflation, whichever is less, as the new legislation
10 states, is far from certain and even if they do, it is
11 also uncertain that the Company will have its tax
12 burden lessened as a result. What appears clear is
13 that an across-the-board increase in the Company's tax
14 liability not exceeding 2% will not be realized given
15 the many ways in which the new legislation provides
16 for taxing authorities to avoid being restricted in
17 their tax levy increases and the Company's experience
18 to date.

19 As to New York City taxes, it is very difficult to
20 predict tax rates, and there have been large
21 variations in the rates that were unexpected and did
22 not conform to a five-year average methodology. For
23 example, in fiscal year 2007/08 the City unexpectedly
24 cut rates on average by 7% and then raised rates by

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1 7.5% in the middle of the following fiscal year.
2 Additionally, in the middle of fiscal year 2002/03,
3 the City raised rates by 18.5%. These significant
4 changes in rates show that results in one year, or an
5 average over several years, cannot be counted on to
6 predict those for the next year. Decreases in City
7 tax rates can also come at surprising times such as
8 the modest rate declines in fiscal years 2010/11 and
9 2011/12 for Class 3 and Class 4 tax rates following
10 two years of increases and occurring during less than
11 robust economic times. In addition, the Company's tax
12 burden is so large that even small variations in the
13 Class 3 and Class 4 tax rates from the forecasted
14 rates have significant impacts on the Company's tax
15 liability.

16 In all cases, the Company's property taxes are subject
17 to the vagaries of municipal management, economic
18 circumstances, and political influences.

19 Q. Can you provide an example of the effect of a tax rate
20 change for New York City?

21 A. Yes. Absent any other changes in the forecast, a 1%
22 increase in New York City's tax rates above the rates
23 we have used in our forecast for both Classes 3 and 4
24 would increase Rate Year taxes by \$1.6 million so even

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1 a minor change in the forecasted tax rate can have a
2 significant impact on property tax levels.

3 Q. Does the Company have a proposal regarding
4 reconciliation of property taxes to reasonably address
5 the uncertainty of the Company's level of property
6 taxes for the Rate Year?

7 A. Yes. As explained by Company Witness Muccilo, given
8 the variability and uncertainty we have explained, the
9 Company believes that an accounting and ratemaking
10 mechanism that symmetrically and fully protects the
11 interests of customers and the Company from forecast
12 variations is reasonable and appropriate.

13 Q. Do you believe full and symmetrical property tax
14 reconciliation lessens the Company's incentive to
15 mitigate its property tax liability?

16 A. Not at all. As we will explain in greater detail
17 later in our testimony, and as the Company has
18 explained in numerous rate proceedings and annual
19 reports of its activities regarding property taxes,
20 the Company has a long and proven record of
21 undertaking efforts to reduce the Company's property
22 tax burden. Challenges to unfair assessments;
23 lobbying efforts to seek favorable legislation;
24 developing and pursuing tax benefit proposals;

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1 obtaining expert consultation; and aggressively
2 pursuing available and potential tax benefits are a
3 normal course of business for the Company.

4 Q. Has the Commission previously approved the full
5 reconciliation of property taxes in a Company rate
6 case?

7 A. Yes, in Case 08-E-0539, the rate case in which the
8 Commission last established electric rates for the
9 Company on a litigated rather than settled basis and
10 for a single rate year (i.e., outside of the context
11 of a multi-year rate plan on settled terms).

12 Q. In Case 08-E-0539, did the Commission address concerns
13 that a full reconciliation would lessen the Company's
14 incentive to minimize property taxes?

15 A. Yes. The Commission concluded that would not be the
16 case. On pages 106-107 of the Commission's *Order*
17 *Setting Electric Rates*, issued April 24, 2009 in Case
18 08-E-0539, the Commission said:

19
20 We share DPS Staff's concern about
21 removing an incentive for the Company
22 to minimize its property tax expenses.
23 However, the record in these cases
24 shows that the Company has aggressively
25 sought to minimize its property tax
26 assessments. Indeed, there is no
27 assertion to the contrary. Moreover,
28 our long standing policy is that a
29 utility will be allowed to retain a

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1 share of property tax refunds,
2 frequently in the 10-15% range, to the
3 extent it can be established
4 conclusively that the utility's efforts
5 contributed to that outcome. Taking
6 these two factors into account, we
7 conclude that the Company already has
8 and will retain an incentive to
9 minimize its property tax assessments.
10

11 **G. EFFORTS TO MINIMIZE PROPERTY TAXES**

12 Q. Please summarize the Company's efforts to minimize
13 property taxes.

14 A. The Company has aggressively challenged its property
15 tax assessments so that it pays no more than its fair
16 share of property taxes. The Company has been and
17 remains very concerned with the level of property
18 taxes in its service territory and the impact of these
19 taxes on customer bills.

20 Q. Please discuss the Company's efforts to keep property
21 taxes to a minimum.

22 A. Property tax amounts are a function of a tax rate
23 multiplied by an assessed value. The Company has no
24 influence on the tax rates that municipalities set;
25 therefore, our basic effort is to focus on the
26 fairness of assessed values set by the municipalities.

27 Q. How do you determine which assessments should be
28 challenged?

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- 1 A. Annually, we review our property assessments to
2 determine if they fall within a range of
3 reasonableness under an RCNLD valuation. This
4 approach to valuation begins with the original cost of
5 property, which is then trended to the current time
6 using a construction cost index to arrive at an
7 estimated cost to reproduce the property today. That
8 valuation is then reduced by depreciation. RCNLD is
9 considered the market or full value of utility
10 property and the method is used for valuation purposes
11 by the Office of Real Property Tax Services, New York
12 City assessors and some local assessors. If the
13 actual assessments vary substantially from our RCNLD
14 calculations, we file complaints with the applicable
15 taxing authorities. We attempt to settle these
16 complaints when we believe that a settlement is a more
17 cost effective way of reducing our tax burden than
18 prolonged litigation, the outcome of which is
19 uncertain. We do, however, pursue litigation when our
20 efforts to reach what we believe to be a fair
21 compromise fail.
- 22 Q. Please describe recent efforts in that regard more
23 specifically.

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1 A. As to New York City, negotiations are ongoing with the
2 New York City Law Department concerning settlement of
3 proceedings challenging the assessments on certain of
4 Con Edison's locally assessed properties for the
5 fiscal years 1994/95 through 2011/12.

6 On October 22, 2012, Con Edison again filed real
7 property tax petitions with the New York City Tax
8 Commission seeking reductions of Con Edison's 2012/13
9 final tax assessments on real property. The filings
10 were based on the real property tax assessment roll
11 made final on May 25, 2012.

12 Q. Please continue.

13 A. In Westchester & Other, the Company aggressively
14 challenges property tax assessments in order to pay no
15 more than our fair share of property taxes. In the
16 past, Con Edison has reached settlements with the
17 cities of Mt. Vernon, New Rochelle, Rye, White Plains,
18 and Yonkers, and the towns of Carmel, Chester,
19 Cortlandt, East Fishkill, Greenburgh, Harrison,
20 LaGrange, Mt. Kisco, Mt. Pleasant, New Castle,
21 Ossining, Peekskill, Ramapo, Stony Point, Tuxedo, and
22 Yorktown, and the Village of Hillburn. These
23 settlements, which applied in part to gas operations,
24 cover a significant amount of Con Edison's property

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1 tax locations outside of New York City although we
2 continue to monitor assessments in all of these areas
3 to see if a challenge is again warranted.

4 Q. Please discuss your most recent efforts in Westchester
5 & Other.

6 A. The Company recently arrived at settlements with the
7 City of Peekskill and the Town of Pleasant Valley and
8 has pending litigation with the Town of LaGrange. The
9 Peekskill settlement involved both electric and gas
10 property. The other two pertained only to electric
11 property.

12 Q. Please discuss the settlement with the City of
13 Peekskill.

14 A. The proceedings against the City of Peekskill were
15 settled during 2012. The Company entered into
16 negotiations during 2010 in order to settle the
17 outstanding proceedings for 2008, 2009 and 2010. An
18 agreement was reached with the city attorney.
19 However, the processing of the settlement by the city
20 was delayed. The delay caused another year to be
21 added on to the challenge and the settlement was
22 executed in 2012 covering years 2008 through 2011.
23 The agreement will provide refunds in the amount of
24 \$363,000 while providing future tax savings of

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1 approximately \$617,000 due to reduced assessments
2 though 2015.

3 Q. Does the Company challenge its special franchise
4 taxes?

5 A. Yes, the Company has commenced proceedings in Supreme
6 Court, Albany County, challenging the ORPTS special
7 franchise full values for New York City's 2009/10,
8 2010/11, 2011/12, and 2012/13 assessment rolls. The
9 court has set July 2013 for the filing of Con Edison's
10 appraisal for the first three proceedings.

11 The special franchise complaints allege that the
12 ORPTS' application of the RCNLD methodology produces
13 anomalous results that significantly overstate the
14 value of special franchise property. The complaints
15 are based on the ORPTS not properly taking into
16 account the effects of:

- 17 • Dramatic increases in copper prices that have not
18 returned to normal levels;
- 19 • Spikes in steel prices;
- 20 • Depreciation due to use of an artificial property
21 age ceiling in relation to the property's average
22 service life; and
- 23 • The proper level of Economic Obsolescence ("EO")
24 and Functional Obsolescence ("FO").

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1 Although challenging the obsolescence allowances in
2 the complaints, Con Edison continues to apply for and
3 receive EO and FO benefits. A request for an EO
4 benefit is filed for on all services (electric, gas
5 and steam) and the FO benefit is applied for on low-
6 pressure gas pipes and on electric, gas and steam
7 facilities in the vicinity of the World Trade Center
8 site. Con Edison has been approved for each of these
9 benefits for many years and during 2012 again received
10 approval from the ORPTS for the 2013/14 fiscal year,
11 although the FO benefit on the facilities near the
12 Trade Center no longer applies due to cost recoveries
13 from the federal government.

14 Q. Can you give some examples of other types of efforts
15 the Company has undertaken to reduce its property tax
16 obligations?

17 A. Yes. The Company diligently seeks available benefits
18 that reduce its taxes.
19 For several years the Company secured the benefit of
20 the Industrial and Commercial Incentive Program
21 ("ICIP") in New York City. The ICIP was created to
22 encourage the development, expansion, and preservation
23 of commercial and industrial real estate. The ICIP
24 grants a property tax exemption for the additional

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1 real property taxes that would otherwise be payable as
2 a result of eligible industrial and commercial
3 construction work.
4 Con Edison has filed ICIP applications for projects
5 involving the construction of new facilities and
6 substations, substation renovations, and substation
7 upgrades. Con Edison filed for and received the
8 exemption regarding 17 different projects, some of
9 which included multiple filings, which are estimated
10 to generate more than \$1 billion in tax savings over
11 the course of their benefit periods which range from
12 12 to 25 years. The ICIP expired as of June 30, 2008,
13 despite efforts by the Company for the program to be
14 extended. The ICIP was replaced by a similar tax
15 benefit program which, again, despite Company efforts,
16 was made inapplicable to utility property. The
17 Company continues, however, to receive benefits for
18 the projects that were eligible under ICIP and, absent
19 future law to the contrary, expects to receive them
20 for the duration of their tax exemption benefit
21 periods. During the 2012/13 fiscal year, it is
22 estimated that the tax savings will amount to \$69
23 million.

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1 Of particular significance with respect to gas
2 operations, the Company has an ICIP exemption that
3 eliminated 100% of the tax increase on new gas
4 facilities constructed at our Hunt's Point Regulating
5 Station. Assuming no change in tax rates, we estimate
6 the tax savings will amount to approximately \$28
7 million over the 25-year benefit period which extends
8 through 2029. Another ICIP exemption applicable to
9 gas operations is a project at our Third Avenue Yard
10 in Brooklyn. That facility is a Common Plant
11 Facility, so the gas department will benefit from the
12 portion of those tax savings that are allocated to
13 gas. Assuming no change in tax rates, we estimate the
14 tax savings will amount to \$37 million over the 25-
15 year benefit period with the gas department's share
16 totaling approximately \$6 million.

17 The Company has also addressed the tax structure in
18 New York City.

19 Q. Please explain.

20 A. New York City's classified property tax system divides
21 the City's real property tax burden among four
22 classes, including one specifically for utility real
23 property (Class 3). The classification system is a
24 contributing factor to Con Edison's significant

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1 property tax burden. Con Edison has continued to
2 advocate for the merging of the utility property class
3 (Class 3) and the general business property class
4 (Class 4). The Company's taxable property is
5 primarily Class 3 property and a lesser portion is
6 Class 4 property. The City's real property
7 classification system is a major concern for Con
8 Edison because Class 3 pays 8% of all property taxes
9 in the City but it owns just 3% of the total market
10 value of property in the City. In addition, Con
11 Edison's property is nearly 80% of Class 3 by assessed
12 value and because of that, there is little protection
13 for the Company from the effect of tax rate increases.

14 Q. Please explain.

15 A. Only a few other taxpayers share in the Class 3 tax
16 burden so the Company must absorb nearly 80% of the
17 increase on Class 3. If Class 3 and Class 4 were
18 merged, the Company would absorb a much smaller share
19 because the Company would be a smaller percentage of a
20 much larger tax class. This is especially important
21 because the City tends to favor a shifting of tax
22 burden away from homeowners and onto the utility and
23 general business classes.

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1 In addition, combining Classes 3 and 4 would be
2 revenue neutral for the City. Under pending
3 legislation to merge Classes 3 and 4, the proposed
4 three-class system would generate the same tax revenue
5 as the existing four-class system.

6 Q. What would be the annual property tax savings to the
7 Company if Classes 3 and 4 were merged on a tax
8 revenue neutral basis for the City?

9 A. The savings to the Company will depend on
10 circumstances at the time of the merger such as
11 individual property class shares of the total tax
12 liability and which of several possible approaches to
13 the matter becomes law. The Company is confident,
14 however, that savings to the Company would be
15 significant absent a major change to the fundamental
16 manner in which the City currently assesses properties
17 and establishes tax rates and intends to continue
18 urging the merger. Additionally, merging Class 3 with
19 4 could help lessen Con Edison's property tax
20 volatility as valuation increases and decreases could
21 be phased-in for Class 3 property as is the current
22 practice for Class 4 thereby placing the Company's
23 property on equal footing with other businesses in the
24 City.

PROPERTY TAX AND DEPRECIATION PANEL - GAS

1 Q. Please describe the Company's efforts regarding the
2 merger of Classes 3 and 4.

3 A. Over the past several years the Company has had
4 several meetings with members of both the New York
5 State Senate and Assembly seeking to pass the class
6 merger legislation and engender legislative support.
7 In 2011 the bill was approved by the Senate Local
8 Governments Committee and the Senate Rules Committee
9 before appearing on the floor of the Senate where it
10 nearly received a full vote. However, it was removed
11 from the Senate floor calendar before that vote could
12 take place. In 2012 Con Edison continued its efforts
13 supporting the bill.

14 Q. Does the Company keep the Commission and Staff
15 apprised of the Company's efforts to reduce its
16 property tax obligations?

17 A. Yes. The Company prepares an annual report of its
18 efforts to reduce its property tax obligations. The
19 report is filed with the Commission and provided to
20 Staff and the parties to the Company's rate
21 proceedings as well. The Company also meets with
22 Staff to update them on accounting and finance issues.
23 Property tax issues, including legislative efforts,
24 have regularly been part of that agenda.

PROPERTY TAX AND DEPRECIATION PANEL - GAS

1 Q. Despite the Company's efforts to mitigate property
2 taxes, do the Company's property taxes continue to
3 increase?

4 A. Yes.

5 Q. Why?

6 A. Property taxes are used to finance local governments
7 and public schools. The funds raised via the property
8 tax levy are often the major revenue source for the
9 taxing entity. The Company bears the levied tax
10 obligations determined by the taxing authorities
11 seeking to raise the funds they determine are
12 necessary. Those needs, in concert with the Company's
13 activities resulting in increased capital investment,
14 have historically resulted in higher tax bills for the
15 Company despite successful Company challenges to
16 assessed valuations of its property.

17 Q. Does that conclude the PTD Panel's testimony?

18 A. Yes, it does.

19