

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Consolidated Edison Company of New York, Inc.

Case 09-E-0428

August 2009

Prepared Testimony of:

Staff Interference Panel

Kristee Adkins
Public Utility Auditor 2

Paul J. Darmetko, Jr.
Utility Engineer 2

Michael J. Rieder
Utility Engineer 3

Office of Accounting & Finance
Office of Electric, Gas, & Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Would the members of the Staff Interference Panel
2 please state your names, employer, and business
3 address?

4 A. Kristee Adkins, Paul J. Darmetko, Jr., and Michael
5 J. Rieder. We are employed by the New York State
6 Department of Public Service (DPS or Department)
7 located at Three Empire State Plaza, Albany, New
8 York 12223.

9 Q. Ms. Adkins, do you discuss your educational
10 background, professional and testimonial
11 experience, and responsibilities in other
12 testimony in this proceeding?

13 A. Yes, I provide that information in the Staff
14 Accounting Panel testimony in this proceeding.

15 Q. Mr. Darmetko, do you discuss your educational
16 background, professional and testimonial
17 experience, and responsibilities in other
18 testimony in this proceeding?

19 A. Yes, I provide that information in the Staff
20 Depreciation Panel testimony in this proceeding.

21 Q. Mr. Rieder, do you discuss your educational
22 background, professional and testimonial
23 experience, and responsibilities in other
24 testimony in this proceeding?

1 A. Yes, I provide that information in the Staff
2 Depreciation Panel testimony in this proceeding.

3 Q. What is the purpose of the Staff Interference
4 Panel testimony?

5 A. The purpose of our testimony is to address and
6 recommend changes to municipal infrastructure
7 support (interference) operation and maintenance
8 (O&M) expenses and capital costs proposed by
9 Consolidated Edison Company of New York, Inc. (Con
10 Edison or the Company). In addition, we will
11 discuss the Company's request for a reconciliation
12 mechanism for its O&M related interference
13 expenditures.

14 Q. Please indicate if your analysis refers to, or
15 otherwise relies upon, any information produced
16 during the discovery phase of this proceeding.

17 A. We refer to, and have relied upon, several of the
18 Company's responses to DPS Staff (Staff) and
19 Consumer Protection Board (CPB) Information
20 Requests (IR). These responses are in
21 Exhibit__ (SIP-1).

22 Interference Costs

23 Q. What are interference costs?

24 A. Con Edison incurs O&M or capital interference

1 costs when it must support and protect its
2 electric, gas and steam facilities when a
3 municipality, primarily New York City (NYC or the
4 City), performs improvement projects on municipal
5 infrastructure, such as the installation and
6 repair of water mains, sewers and drainage
7 facilities, and the reconstruction of roadways,
8 curbs, and sidewalks. This activity is required
9 by the City and is referred to as interference
10 work.

11 Q. How much is the Company requesting as a rate
12 allowance for interference expense in the rate
13 year?

14 A. In its testimony, Con Edison's Municipal
15 Infrastructure Support Panel (MISP) stated that
16 the Company is seeking a rate year rate allowance
17 of \$92.341 million for interference expenditures.
18 This was comprised of \$73.526 million for non-
19 World Trade Center (non-WTC) O&M interference
20 expenditures and \$18.815 million for WTC related
21 interference expenditures. However, the Company's
22 revenue requirement calculation shows a rate year
23 forecast of \$75.828 million, reflecting an
24 additional \$2.302 million for inflation. In its

1 response to Staff IR DPS-234 (Exhibit__(SIP-1)),
2 the Company's MISP asserts that its forecast of
3 interference expenditures of \$92.341 million is in
4 rate year dollars. Consequently, the increase for
5 inflation of \$2.302 million reflected by the
6 Company in its revenue requirement calculation is
7 incorrect and should be removed.

8 Non-WTC O&M Interference Expense

9 Q. Please explain the nature of non-WTC O&M
10 interference costs.

11 A. Non-WTC O&M interference costs, as defined by Con
12 Edison, are the O&M costs related to projects in
13 all areas outside the World Trade Center (WTC)
14 reconstruction site in lower Manhattan.

15 Q. How much does the Company request as a rate
16 allowance for non-WTC O&M interference expense in
17 the rate year?

18 A. In its testimony, the MISP states that the Company
19 is seeking a rate year rate allowance of \$73.526
20 million for non-WTC O&M interference expense. As
21 noted above, in its response to Staff IR DPS-234
22 (Exhibit__(SIP-1)), the Panel acknowledges that
23 its forecast is in rate year dollars.

24 Q. Please explain the methodology used by the Company

1 to forecast the rate year non-WTC O&M interference
2 expense.

3 A. Con Edison developed its rate year non-WTC O&M
4 interference expense forecast based on the five-
5 year NYC 2009-2013 Capital Commitment Plan (CCP)
6 published in January 2009. The CCP identifies the
7 anticipated infrastructure improvement projects
8 the City plans to undertake in the fiscal year
9 July 1, 2008 through June 30, 2009 (FY 2009) as
10 well as its fiscal years 2010 through 2013. Since
11 not all projects planned by the City will actually
12 be undertaken, the CCP includes a commitment
13 target, which is the percentage of the planned
14 projects that the City expects to complete for
15 each City agency.

16 The Company develops a modified commitment
17 target based on the weighted average of the
18 commitment targets for three City agencies, the
19 Department of Design and Construction, the
20 Department of Transportation (DOT) and the
21 Department of Environmental Protection, whose
22 projects primarily impact Con Edison's
23 interference expense. Illustrated in its response
24 to CPB IR CPB-107 (Exhibit__(SIP-1)), the Company

1 determined that a weighted average commitment
2 target of 80% should be used for FY 2009. Based
3 on the City's actual commitment targets for the
4 four fiscal years 2005 through 2008 and the
5 Company's projected weighted average of 80% for FY
6 2009, Con Edison calculates a five-year average
7 commitment target of 67.4%.

8 Con Edison reviews the City's proposed
9 forecast in the CCP categories defined as Water
10 Main (WM), Sewer, Highway and Bridge projects
11 since these categories have the greatest impact on
12 its electric, gas and steam facilities. The
13 Company states that it removes projects related to
14 the WTC from the CCP Highway category and projects
15 related to waterway bridges from the CCP Bridge
16 category. Additionally, the Company states that
17 it only uses WM-1 and WM-6 projects from the CCP
18 Water Main category. The Company then multiplies
19 the spending projection for the remaining City
20 projects in these categories by the five-year
21 average commitment target of 67.4%. To further
22 refine its forecast, the Company applies a five-
23 year average of 91.9%, which represents the City's
24 actual expenditures as a percentage of the City's

1 forecasted commitment target expenditures stated
2 in the CCP.

3 Q. Please continue.

4 A. Con Edison states that a relationship exists
5 between the City's actual infrastructure
6 expenditures and the Company's actual interference
7 costs, specifically the Company's actual
8 interference costs can be calculated as a
9 percentage of the City's actual infrastructure
10 expenditures. Con Edison applies a five-year
11 average, from 2004 through 2008, of 11.8% to the
12 City's infrastructure expenditure forecast. This
13 results in company-wide interference expense
14 forecast of \$117.24 million and \$115.48 million
15 for FY's 2010 and 2011, respectively.

16 These company-wide forecasts are then
17 allocated to each of the Company's operating
18 segments. The electric unit is allocated 74% of
19 the forecasted company-wide expense. This
20 allocation rate is based on a five-year average of
21 Con Edison's actual electric interference
22 expenditures as a percentage of its actual gross
23 interference expenditures for 2004 through 2008.
24 This allocation results in estimates of \$86.75

1 million and \$85.46 million for FY's 2010 and 2011,
2 respectively, for the electric department.

3 In this proceeding, the Company adds a
4 "unique" step to its forecasting methodology, in
5 which the Company applies an adjustment factor of
6 88.43% to its estimate. This factor represents a
7 five-year average of the Company's budget of
8 electric O&M interference expenditures to its
9 actual expenditures for 2004 through 2008. The
10 Company claims this unique step was taken in order
11 to mitigate the impact of interference
12 expenditures on customers. However, the Company
13 stated that this step should only be reflected in
14 association with the implementation of its
15 proposed bi-lateral reconciliation mechanism.
16 This additional step results in revised forecasts
17 of \$76.72 million and \$75.57 million for FY 2010
18 and FY 2011, respectively. The Company combines
19 the appropriate portion of the City's two fiscal
20 year forecasts to arrive at a rate year forecast.

21 Finally, the Company removes interference
22 related labor from its forecast to arrive at a net
23 rate year of \$73.52 million for non-WTC O&M
24 interference expense forecast.

1 Q. Does the Panel have any concerns with the
2 Company's forecasting methodology for non-WTC O&M
3 interference expenditures?

4 A. Yes. First, as show in Exhibit__(MISP-2) page 5
5 and the Company's response to Staff IR DPS-15
6 Revised (Exhibit__(SIP-1)), the Company's actual
7 historic non-WTC O&M interference spending,
8 excluding labor, was \$53.825 million, \$67.358
9 million, \$51.930 million, \$51.482 million and
10 \$60.803 million, for the years 2004 through 2008,
11 respectively. Consequently, the Company's request
12 for \$73.52 million in the rate year is
13 significantly greater than the actual five-year
14 average of \$57.120 million for non-WTC
15 interference expense.

16 Second, the Company proposes to use the same
17 methodology for forecasting non-WTC O&M
18 interference expense that was adopted by the
19 Commission in its 2008 Rate Order (Case 07-E-
20 0523), which resulted in an over-recovery of
21 \$11.026 million. In that case, the Commission
22 allowed the Company a rate year rate allowance of
23 \$73.160 million. The Commission also required
24 that the Company defer, for ratepayer benefit, any

1 amounts recovered in rates but not actually spent.
2 The Company's actual non-WTC expense was only
3 \$62.134 million for the rate year ended March 31,
4 2009. The Company attributes the over recovery to
5 the difference between the City's actual
6 expenditures (\$732 million) and the City's CCP
7 (\$958 million) that was used in setting the rate
8 allowance. Accordingly, the Company's
9 methodology, which relies on the City's CCP, is
10 not a sound basis to forecast the Company's rate
11 year non-WTC interference expenditures.

12 Third, the Company's "unique" step, as
13 discussed above, is proof that the Company itself
14 sees its forecasting methodology as producing an
15 overzealous forecast. As noted above, Con Edison
16 applied an adjustment factor (88.43%) to its
17 forecast in order to make its rate request for
18 these expenditures more reasonable. The necessity
19 of this additional step calls into question the
20 Company's forecasting methodology.

21 Fourth, in its 2009 Rate Order (Case 08-E-
22 0539), the Commission rejected the same
23 methodology the Company proposes using in this
24 case to forecast non-WTC O&M interference expense.

1 In its 2009 Rate Order, the Commission adopted a
2 Staff methodology based on a five-year average of
3 actual historic non-WTC O&M interference spending.

4 Fifth, the Company's current rate year actual
5 non-WTC O&M interference expenditures, through
6 June 2009, provided in its response to Staff IR
7 DPS-236 Revised 2 (Exhibit__(SIP-1)), shows that
8 the Company has only spent \$10.135 million for
9 non-WTC O&M interference expense. Thus, assuming
10 that level of spending continues through the end
11 of the rate year, the Company will incur non-WTC
12 O&M interference expenditures of approximately
13 \$40.54 million on an annualized basis. This level
14 of spending is significantly less than the
15 Company's rate year request of \$73.526 million.

16 Finally, we are concerned that some of the
17 WTC projects are duplicated in the Company's
18 forecast of non-WTC interference expense. The
19 Company proposes an overly complicated and error
20 prone process to separate out WTC related
21 projects. The Company tries to identify and
22 remove WTC projects from the City's CCP database
23 published in January 2009, which is comprised of
24 three volumes totaling 1,783 pages. Some of the

1 errors in the original filing have been addressed,
2 for example the Company's response to Staff IR
3 DPS-403 (Exhibit__(SIP-1)) reflects some
4 corrections to the initial filing for the removal
5 of WTC projects from the CCP Highway category.
6 However, other projects the Company has identified
7 as WTC projects remain in the Company's non-WTC
8 forecast. For example, the Company reflected the
9 HWMP2030 Chatham Square project in its
10 Exhibit__(MISP-3) as a WTC project. However, Con
11 Edison did not remove it from its non-WTC O&M
12 interference forecast. We have little confidence
13 that the Company has caught, or could catch, all
14 of the double counted projects, further
15 undercutting the rationale for basing the forecast
16 of non-WTC O&M interference expense on the City's
17 CCP.

18 Q. Is the Panel proposing any adjustments to the
19 Company's rate year forecast of non-WTC O&M
20 interference expense?

21 A. Yes, we are proposing a rate year rate allowance
22 of non-WTC O&M interference expense of \$58.242
23 million, or a decrease of \$15.284 million to the
24 Company forecast.

1 Q. How did the Panel forecast rate year non-WTC O&M
2 interference expense?

3 A. We used the same methodology adopted by the
4 Commission in its 2009 Rate Order.

5 Q. Please explain how the Panel applied that
6 methodology.

7 A. We started with a projected City infrastructure
8 expenditure base of \$684.4 million, which
9 represents a five-year average of the City's
10 historic spending from 2004 through 2008, based on
11 the Company's response to Staff IR DPS-283
12 (Exhibit__(SIP-1)). General escalation based on
13 the Gross Domestic Product (GDP) price deflator
14 was then applied to forecast the expected City
15 expenditures for the fiscal years 2010 through
16 2013. Then, the Company's ratio of 11.8%, which
17 is illustrated in Exhibit__(MISP-2) p. 3 and
18 represents Con Edison's expenditures as a
19 percentage of NYC's expenditures, was applied to
20 forecast Con Edison's company-wide expenditures of
21 \$81.877 and \$82.288 million for FY's 2010 and
22 2011, respectively.

23 We then calculate the rate year non-WTC
24 company-wide interference forecast of \$82.185

1 million by taking 75% of FY 2010 and 25% of FY
2 2011. The Company's electric allocation rate of
3 74%, illustrated in Exhibit__ (MISP-2) p. 4, is
4 then applied to project the electric non-WTC O&M
5 interference expense of \$60.564 million. Finally,
6 we remove interference labor of 3.83%, illustrated
7 in Exhibit__ (MISP-2) p. 5, to project the rate
8 year allowance of \$58.242 million.

9 WTC O&M Interference Expense

10 Q. Would you please explain the nature of WTC O&M
11 interference expenditures?

12 A. Yes. WTC O&M interference costs relate to WTC
13 reconstruction projects in lower Manhattan.

14 Q. How much is the Company requesting as a rate
15 allowance for WTC O&M interference expense in the
16 rate year?

17 A. In its testimony, the MISP states that the Company
18 is seeking a rate year rate allowance of \$18.815
19 million for WTC related O&M interference expense.
20 As noted above, in its response to Staff IR DPS-
21 234 (Exhibit__ (SIP-1)), the Panel acknowledges
22 that its forecast is in rate year dollars.

23 Q. How does the Company's approach for forecasting
24 WTC O&M interference expense differ from what you

1 described above for non-WTC O&M interference?

2 A. Based on a list of WTC projects provided by NYC,
3 the Company states that it developed order of
4 magnitude estimates for the O&M interference work
5 for each project given the Company's past
6 experience with similar jobs in the WTC area. The
7 Company claims these estimates reflect the nature
8 of the work required in the WTC projects, even
9 though the Company has not provided any support
10 for these estimates in its filing.

11 Q. Why does the Company use a different methodology
12 to forecast WTC O&M interference expense?

13 A. In its testimony, MISP explains that WTC O&M
14 interference work requires extensive removal of
15 abandoned facilities and rearranging and lowering
16 active facilities so that the reconstructed
17 roadways meet Federal DOT specifications in order
18 for the City to receive federal financing. It
19 also claims that the narrower roadways in lower
20 Manhattan are a complicating factor which
21 precludes the development of a generic
22 mathematical formula to forecast future
23 expenditures. Finally, the MISP maintains that
24 WTC interference work is being implemented under

1 the "Joint Bid" protocol. This protocol was
2 introduced by New York State Legislation in 2007,
3 specifically for the work funded by the Federal
4 Government in lower Manhattan. According to Con
5 Edison, the City and all of the major utilities
6 operating in NYC accepted the Joint Bid protocol.
7 Under this protocol, utility interference work
8 estimates are included in the City's bid document
9 that is competitively bid by contractors as a
10 package.

11 Q. Does the Panel have any concerns relating to the
12 Company's forecasting methodology for WTC O&M
13 interference expenditures?

14 A. Yes. First, as stated in the Company's response
15 to Staff IR DPS-282 (Exhibit__(SIP-1)), the
16 Company's actual electric WTC O&M interference
17 expenditures were \$6.937 million and \$6.299
18 million for the calendar years 2007 and 2008,
19 respectively. This compares to the Company's rate
20 request of \$18.815 million.

21 Second, the Company proposes to use the same
22 methodology for forecasting WTC O&M interference
23 expense that was adopted by the Commission in its
24 2008 Rate Order (Case 07-E-0523), which resulted

1 in an over-recovery of \$11.266 million. In that
2 case, the Commission allowed the Company a rate
3 year rate allowance of \$18.825 million. The
4 Commission also required that the Company defer,
5 for the benefit of ratepayers, any amounts
6 recovered in rates but not actually spent. The
7 Company's actual electric WTC O&M interference
8 expense was only \$7.559 million for the rate year
9 ended March 31, 2009. The Company attributes the
10 over recovery of WTC O&M interference expense to
11 scheduled work commencement dates of five major
12 projects being slipped to later start dates, as
13 stated in its responses to Staff IRs DPS-235 and
14 DPS-318 (Exhibit__(SIP-1)). In its response to
15 Staff IR DPS-236 Revised 2 (Exhibit__(SIP-1)), the
16 Company notes ongoing delays in WTC reconstruction
17 activity. While the Company states that it
18 expects the work to begin in the near future, the
19 Company does not provide any specific evidence to
20 support that assertion.

21 Third, the Company's current rate year actual
22 WTC O&M interference expenditures, through June
23 2009, provided in its response to Staff IR DPS-236
24 Revised 2 (Exhibit__(SIP-1)), shows that the

1 Company has only spent \$2.323 million for WTC O&M
2 interference expense. Thus, assuming that level
3 of spending continues through the end of the rate
4 year, the Company will incur WTC O&M interference
5 expenditures of approximately \$9.292 million on an
6 annualized basis. This level of spending is
7 significantly less than the Company's rate year
8 request of \$18.815 million.

9 Q. Is the Panel proposing any adjustments to the
10 Company's rate year forecast of WTC O&M
11 interference expense?

12 A. Yes, we are proposing a rate year rate allowance
13 for WTC O&M interference expense of \$10.228
14 million, a decrease of \$8.587 million from the
15 Company's forecast.

16 Q. Please explain the methodology you used to
17 forecast WTC O&M interference expense.

18 A. Our methodology starts with a base of \$2.152
19 million, which represents a five-year average of
20 the City's actual expenditures from 2004 through
21 2008 for WTC infrastructure projects, based on the
22 Company's response to Staff IR DPS-283
23 (Exhibit__ (SIP-1)). General escalation based on
24 the GDP price deflator was then applied to

1 forecast the expected NYC expenditures for the
2 fiscal years 2010 through 2013.

3 Next, using the Company's response to Staff
4 IR DPS-283 (Exhibit__(SIP-1)), we developed a
5 ratio representing Con Edison's historic WTC O&M
6 interference spending as a function of the City's
7 historic WTC infrastructure spending. For both
8 the Company's and the City's historic spending, we
9 used an average of the expenditures during 2007
10 and 2008.

11 Q. Why did you use a historic two-year average
12 instead of a five-year average, as the Panel did
13 in forecasting non-WTC spending?

14 A. The Company's response to Staff IR DPS-282
15 (Exhibit__(SIP-1)) illustrates that in 2007
16 company-wide WTC related O&M interference
17 expenditures decreased precipitously from the much
18 higher levels of expenditures incurred in 2004,
19 2005 and 2006. In 2007 and 2008, company-wide WTC
20 O&M interference expenditures remained fairly
21 constant at \$8.597 million and \$9.277 million,
22 respectively. The Company claims that projects
23 included in its forecast for the historic year
24 (2008) were slipped due to delays in bidding,

1 awarding and commencing field work, and that the
2 pace for these projects is picking up. However,
3 the Company did not provide specific evidence to
4 support its claim that these projects will result
5 in increased spending during the rate year.
6 Indeed, looking beyond the historic test year,
7 spending in 2007 was generally consistent with
8 spending during 2008, as well as the annualized
9 spending thus far in the current rate year. This
10 buttresses our opinion that the level of
11 expenditure for WTC O&M interference expense
12 normalized in 2007, and supports the
13 reasonableness of our use of two years of
14 historical data to develop our forecast.

15 Q. Please continue with your methodology.

16 A. Our ratio is applied to our projection of the
17 City's expenditures to forecast a company-wide
18 projection for FYs 2010 through 2013. Next, we
19 calculate the company-wide forecast of rate year
20 WTC O&M interference expense of \$14.015 million by
21 taking 25% of FY 2010 and 75% of FY 2011.

22 Based on a two-year (2007-2008) average of
23 the Company's actual electric WTC O&M interference
24 expenditures compared to its total WTC O&M

1 interference expenditures, we derived an electric
2 allocation rate of 74.0% that we then applied to
3 our company-wide forecast. This step results in
4 an allocation of \$10.379 million to the electric
5 department. Finally, we remove interference labor
6 at a rate of 1.46%, which the Company provided in
7 its response to Staff IR DPS-317 (Exhibit__ (SIP-
8 1)). Staff's rate year allowance for WTC O&M
9 interference expense is \$10.228 million.

10 O&M Interference Expense Adjustment Summary

11 Q. Please summarize your adjustments to the Company's
12 forecast of O&M interference expense.

13 A. We are proposing a total rate year rate allowance
14 for interference expense of \$68.47 million which
15 is comprised of \$58.242 for non-WTC related
16 expenditures and \$10.228 for WTC related
17 expenditures.

18 Update O&M Interference Expense

19 Q. Does the Panel recommend that the Commission allow
20 the Company to update its non-WTC O&M interference
21 forecast as requested, using the January 2010
22 publication of the CCP?

23 A. No, Staff's methodology eliminates the need to
24 update the forecast since our methodology is based

1 on historic spending and not the City's forecast
2 of infrastructure improvements.

3 O&M Interference Reconciliation

4 Q. Does the Panel support the Company's proposal for
5 a bi-lateral reconciliation with a 2.5% dead-band
6 for all O&M interference expenses?

7 A. No. We recommend a downward only true-up of O&M
8 interference expenses. First, it appears, based
9 on the Company's current level of expenditures,
10 the Company will not spend the rate allowance
11 provided to it by the Commission for these
12 expenditures in the Company's last rate case.

13 Second, Case 09-M-0114 is a separate ongoing
14 investigation of the actions of Con Edison
15 employees and at least one contractor in which the
16 Con Edison employees arranged for the Company to
17 pay inflated claims by the contractor. While we
18 are not addressing the issues raised in Case 09-M-
19 0114, and our recommendation in this case has no
20 effect on that separate ongoing proceeding, it
21 bears noting that the actions being investigated
22 in Case 09-M-0114 could have contributed to
23 inflated O&M interference expense included in the
24 in the historical data used in the forecasts we

1 have just presented. Thus, even our forecasts
2 might be higher than necessary and ratepayers
3 should not be held responsible for such inflated
4 costs.

5 Third, providing the Company with an upward
6 reconciliation would not incent Con Edison to
7 control its O&M interference costs. In its
8 response to Staff IR.DPS-235 (Exhibit__ (SIP-1)),
9 though the Company asserts that it has limited
10 control over interference expense, the Company
11 points out that its cost-cutting initiatives have
12 resulted in reduced expenditures. The Company
13 states that it has successfully pursued an
14 "Aggressive Arbitration Strategy" to mitigate
15 interference costs. If an upward reconciliation
16 is allowed, the Company would no longer have an
17 incentive to pursue such cost-cutting initiatives.
18 Accordingly, we recommend a downward only
19 reconciliation requiring the Company to return to
20 customers any portion of the O&M interference
21 expense rate allowance that is not spent.

22 Q. The Company's indicates the possibility that its
23 interference related expenditures may increase as
24 a result of federal stimulus funds being

1 distributed to NYC for capital projects. How does
2 the Company's claim impact your evaluation of the
3 Company's bi-lateral reconciliation proposal?

4 A. We studied the Company's claim, but were not able
5 to find any evidence to support it. Accordingly,
6 this claim has no impact on our evaluation of the
7 Company's request for a bi-lateral reconciliation.

8 Capital Interference

9 Q. What is the Company's forecast for capital
10 interference costs?

11 A. The Company's forecast for non-WTC capital
12 interference costs for calendar years 2010 through
13 2013 is \$28.86 million, \$26.70 million, \$28.45
14 million and \$28.45 million, respectively. The
15 Company's forecast for WTC interference costs for
16 calendar years 2010 through 2013 is \$16.14
17 million, \$18.30 million, \$21.55 million and \$21.55
18 million, respectively.

19 Q. Please discuss your concerns related to the
20 Company's interference capital budget associated
21 with the City's capital improvement projects.

22 A. Unlike the O&M expense projection, capital
23 interference costs are estimated based on a review
24 of individual projects contained within the City's

1 CCP. In analyzing the reasonableness of the
2 Company's forecast for calendar years 2010 and
3 2011, we started by comparing it to the Company's
4 historic interference capital costs, as provided
5 by the Company in its response to Staff IR DPS-362
6 (Exhibit__(SIP-1)). This comparison revealed that
7 Con Edison's total proposed level of \$45 million
8 for the calendar years 2010 and 2011 is almost
9 22.6% more than its 2008 actual level.
10 Furthermore, comparing the Company's 2004 - 2008
11 total budgeted amounts to actual amounts in that
12 same period reveals significant variations,
13 ranging from under-spending by 32.4% to over
14 spending by 32.8%. Based on this comparison, we
15 have concluded that the Company's budget has not
16 been a reasonable indicator of its actual
17 expenditures.

18 Q. How does the panel propose to forecast capital
19 related interference expenses?

20 A. We believe a more reasonable approach is to base
21 the calendar year forecast upon the most recent
22 actual spending levels. As such, we recommend
23 that the forecast be calculated by using a five-
24 year average, consisting of actual expenditures

1 for the period 2005 - 2008, plus the most recent
2 available actual 2009 annualized expenditures
3 through July 2009, to calculate a five-year
4 average for calendar year 2010 and 2011. This
5 results in our recommended capital budget of
6 \$23.777 million and \$14.092 million for non-WTC
7 and WTC, respectively for a total of \$37.869 in
8 interference related capital expenses.

9 Q. Is this the same methodology that was approved by
10 the Commission in the 2009 Rate Order?

11 A. It is the same methodology, with one change. In
12 the 2009 Rate Order, the Commission approved the
13 use of a five-year average to calculate the
14 capital expense related to interference using the
15 last five full calendar years of actual data. In
16 this proceeding, we are recommending the inclusion
17 of the most current actual annualized data
18 available for calendar year 2009 to calculate the
19 five-year average. We are making this
20 recommendation in this case because we want to
21 make full use of the most current data available
22 when developing our five year average for calendar
23 years 2010 and 2011. We believe that using the
24 most current data will result in a more accurate

1 forecast of interference related capital expense.

2 Q. What do you propose for calendar years 2012-2013?

3 A. We are not addressing the out years beyond
4 calendar year 2011, as they are being addressed by
5 the Policy Panel with regard to Staff's proposal
6 for Company stage filings.

7 Q. What is the Panel's opinion about the downward
8 reconciliation of interference related plant?

9 A. We recommend continuing the existing downward
10 reconciliation of interference related plant, as
11 approved in the 2008 Rate Order, and that the
12 Company's proposed bi-lateral reconciliation
13 mechanism be rejected. Allowing the Company an
14 upward reconciliation does not incent the Company
15 to control its costs or effectively manage its
16 interference related capital investment. As such,
17 the plant in service levels we propose in our
18 testimony should be construed as the cap, or
19 maximum limit, on the amount of interference
20 related plant used for ratemaking purposes.
21 Additionally, as discussed above, it is possible
22 that the actions being investigated in Case 09-M-
23 0114, could have contributed to inflated Capital
24 interference expense included in the historical

1 data used in the forecasts we have just presented,
2 and ratepayers should not be held responsible for
3 such potentially inflated costs. If, at the
4 conclusion of the rate year, an amount less than
5 our forecasted level is actually added to the
6 Company's plant accounts, we recommend that the
7 Commission require that Con Edison refund to
8 customers the incremental carrying charges
9 associated with this reduced level of investment.
10 If the amount of plant added to the Company's
11 plant accounts during the rate year exceeds the
12 level recommended in this testimony, the Company
13 should not be allowed to prospectively recover the
14 associated carrying charges in its next rate case
15 unless it fully justifies the need for, and the
16 cost of, the projects which led to expenditures
17 above the level proposed in our testimony.

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

19 A. Yes, it does.