STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 16-E-0060 –	Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service
CASE 16-G-0061 –	Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service
CASE 15-E-0050 –	Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service.
CASE 16-E-0196 –	Tariff filing by Consolidated Edison Company of New York, Inc. to revise General Rule 20 Standby Service contained in its electric tariff schedules, P.S.C. Nos. 10 and 12.

NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE STAFF STATEMENT IN SUPPORT OF THE JOINT PROPOSAL

Lindsey Overton Orietas
John Favreau
Anthony Belsito
Jalila Aissi

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

October 13, 2016

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

TABLE OF CONTENTS

Page No.

INTRODUCTION 1

BACKGROUND 1

OVERVIEW OF THE JOINT PROPOSAL 4

STANDARD OF REVIEW 7

ELEMENTS OF THE JOINT PROPOSAL 11

A. Term 11

B. Rates and Revenue Levels/Reasonableness of Rate Increases 11

1. Electric 11

a. Market Supply Charge (MSC) 12

b. Revenue Decoupling Mechanism 13

c. PJM Open Access Transmission Tariff (OATT) Charges 13

d. Other Charges 14

2. Gas 14

a. Revenue Per Customer Mechanism 15

b. Monthly Rate Adjustment/Gas Cost Factor 15

(i) Revenue Neutral Changes to MRA/GCF 15

(ii) Additions to the MRA 16

c. Non-Firm Revenues 16

d. Lost and Unaccounted for Gas 17

e. Oil-to-Gas Conversions 18

C. Computations and Disposition of Earnings and Cost of Capital 18

D. Capital Expenditures and Net Plant Reconciliation 20

1. Electric and Gas Net Plant Reconciliation 20

2. Capital Reporting Requirements 21

a. Electric 21

b. Gas 21

3. Non-Wires Alternative Adjustment Mechanism 21

4. AMI Net Plant Reconciliation 22

E. Reconciliations 23

1. Property Taxes 23

2. Municipal Infrastructure Support 23

3. Major Storm Cost Reserve (Electric) 24

4. AMI Customer Engagement Plan and AMI Rate Pilots 25

5. Research and Development Expense 25

6. Pipeline Safety Act 26

7. Gas Service Lines 26

8. System Peak Reduction, Energy Efficiency and Electric Vehicle Programs 27

F. Additional Accounting Provisions 27

1. Depreciation Rates and Reserves 27

a. Depreciation Rates (Electric and Gas) 27

b. Electric Reserve Deficiency 28

2. Property Tax Refunds and Credits 28

3. Hudson Avenue 29

4. Income Tax 30

a. Cost of Removal (COR)....................30

b. Excess Deferred Federal Income Tax 31

5. Allocation of Common Expenses/Plant 32

G. Electric Revenue Allocation/Rate Design 33

1. Revenue Allocation/Embedded Cost of Service Study 33

2. Rate Design....................35

3. Customer Charges....................35

4. Stand-Alone Plug-In Electric Vehicle Charger Rate 36

5. Commercial and Industrial Customer Rate Design 36

6. Standby Service and Buyback Rates....................36

a. Minimum Monthly Charge for Customers Exempt from Standby Rates 36

b. Exemptions from Standby Rates....................37

c. Reliability Credit....................38

d. Optional Bill Credit for Export-Only Buyback Customers and Standby/Export Pilot 40

e. Changes to Standby and/or Buyback Rates 41

f. Lump Sum Payment of O&M Expenses and Property Taxes 41

g. Multi-Party Offset Tariff....................42

7. Business Incentive Rate 43

a. Allocation....................43

b. Rates....................44

8. Other Tariff Changes 44

H. Gas Revenue Allocation/Rate Design 44

1. Revenue Allocation 44

2. Rate Design 45

a. Firm Delivery Rates 45

i. Minimum Monthly Charges 45

ii. SC 2 Rate I and Rate II Applicability 45

iii. Weather Normalization Adjustment 46

b. Interruptible Delivery Rates 46

c. Gas Balancing 47

3. Other Tariff Changes 47

I. Performance Metrics 47

1. Electric 47

a. Electric Service Reliability Performance Mechanism 47

b. Electric Safety Standards 48

2. Gas 48

a. Gas Safety Performance Mechanism 48

3. Customer Service Performance Mechanism 49

J. Additional Electric Provisions 49

1. System Peak Reduction Programs, Energy Efficiency and Electric Vehicle Programs 49

2. Distributed Generation Interconnection Earnings Adjustment Mechanism 52

K. Additional Gas Provisions 53

1. Residential Methane Detector Program 53

2. Inside Gas Meters 53

3. Workforce Development 53
4. Fire Department Gas Emergency Training 53
L. Customer Operations Provisions 54
1. Customer Service System Replacement 54
2. Data Access 55
3. Inactive Gas Accounts 56
4. Forms of Identification for Service Applications 56
5. Notifications for Potential Replevin Action 57
6. Digital Customer Experience 57
7. Outreach and Education 58
8. Mandatory Hourly Pricing 58
9. Uncollectible/Residential Service Termination Positive Incentive 59
M. Advanced Metering Infrastructure 60
1. AMI Scorecard 60
2. AMI Platform Service Revenues 61
3. AMI Customer Awareness Earning Adjustment Mechanism 61
N. Electric and Gas Low Income Programs 61
1. Customer Enrollment 62
2. Electric and Gas Customer Qualification 62
3. Electric and Gas Low Income Discount Program 62
4. Reconnection Fee Waivers 62
5. Cost Recovery 63
6. Reporting Requirements 63

O. Studies and Collaboratives....63

1. Interconnection Procedures Collaborative....63

2. Marginal Cost Study....64

3. Gas Peak Demand Reduction Collaborative....65

4. Interruptible Gas Collaborative....65

5. CNG Access Study....65

6. Climate Change Vulnerability Study....66

7. Building Meter Conversion Study....66

P. Miscellaneous Provisions....67

CONCLUSION....68

INTRODUCTION

On September 20, 2016, Consolidated Edison Company of New York, Inc. ("Con Edison" or "the Company"), Staff of the New York State Department of Public Service ("Staff"), New York Power Authority ("NYPA"), the City of New York ("City" or "NYC"), United States General Services Administration, Consumer Power Advocates ("CPA"), New York Energy Consumers Council, Inc. ("NYECC"), Pace Energy and Climate Center ("Pace"), Environmental Defense Fund ("EDF"), Acadia Center, Metropolitan Transportation Authority ("MTA"), Time Warner Cable, Inc. ("Time Warner"), Community Housing Improvement Program ("CHIP"), Great Eastern Energy, LLC, Digital Energy Corp., Joint Supporters, the E Cubed Company, LLC, Northeast Clean Heat and Power Initiative, Association for Energy Affordability, Inc., Energy Concepts Engineering, PC, Real Estate Board of New York, Natural Resources Defense Fund ("NRDC") (collectively the "Signatory Parties") submitted a Joint Proposal recommending a comprehensive resolution of all issues raised in the above-captioned proceedings. By this Statement in Support of the Joint Proposal ("Statement"), Staff recommends that the Commission adopt the provisions of the Joint Proposal and establish the Electric and Gas Rate Plans ("the Rate Plans") for Con Edison to begin on January 1, 2017.

BACKGROUND

On January 29, 2016, Con Edison submitted tariff leaves, pre-filed testimony and exhibits[1] in support of a rate increase of approximately $482 million for electric operations and approximately $154 million for gas operations for the Rate Year January 1, 2017, through December 31, 2017 ("RY1").[2] If adopted as filed by Con Edison, the Company's electric delivery revenues would increase by approximately 9.5%, which represents a system average

[1] The pre-filed testimony and exhibits of Con Edison and other parties are discussed herein for the sole purpose of comparing provisions of the Joint Proposal to the parties' pre-filed positions as a proxy for potential outcomes were this case fully litigated.

[2] The tariff leaf amendments were suspended by successive notices of the Secretary to the Commission ("Secretary") through December 26, 2016. Cases 16-E-0060 and 16-G-0061, supra, Suspension of the Effective Date of the Major Rate Changes (issued February 10, 2016), and Notice of Further Suspension of Effective Date of Major Rate Changes (issued June 6, 2016).

total customer bill increase of 4.5%.[3] The Company's gas delivery revenues would increase by approximately 13.4%, resulting in an overall bill increase of 8.2%.[4] Although Con Edison did not propose an alternative multiple year rate plan in its initial filing, the Company did include financial information for the two rate periods beyond the RY1 and indicated that it was open to pursuing a multi-year agreement.

The primary rate drivers identified by the Company in support of its rate filings for electric operations are a lower sales forecast, growth in rate base, higher financing costs, depreciation expense changes and higher property taxes, offset by a decrease in pension expenses and a change to common expense allocation factors. The primary drivers for gas operations are higher operations and maintenance ("O&M") expenses associated with increased gas leak inspection and repairs, a change to common expense allocation factors and rate base growth caused by gas enhancement and pipe replacement, offset by higher sales volumes.

A technical and procedural conference was held on March 2, 2016, before Administrative Law Judges ("ALJs") Julia Smead Bielawski and Ben Wiles in New York City.[5] The conference was attended by the Company, Staff and a large group of parties to these proceedings. The purpose of the procedural conference was to identify parties and major issues, establish a schedule for the proceedings, and address issues related to discovery and other procedural matters identified by the parties at the conference. By ruling dated March 11, 2016, ALJs Bielawski and Wiles adopted a case schedule as follows: Staff and Intervenor direct testimony due May 27, 2016, rebuttal testimony due June 17, 2016, and an evidentiary hearing to begin July 20, 2016.

On March 25, 2016, the Company filed its preliminary update, which decreased its proposed electric revenue requirement by approximately $2.4 million, from $482 million to

[3] Con Edison is operating under the Order Adopting Terms of Joint Proposal to Extend Electric Rate Plan, issued June 19, 2015, in Cases 15-E-0050, et al. ("2015 Rate Order"), which extended the terms of its previous electric rate plan. The Commission last set electric rates for Con Edison in Case 13-E-0030, in which the Commission established a two-year rate plan for the rate years ended December 31, 2014 and 2015. Case 13-E-0030, Consolidated Edison Company of New York, Inc. – Electric Rates, Order Approving Electric, Gas and Steam Rate Plans in Accord with Joint Proposal (issued February 21, 2014) ("2014 Rate Order").

[4] The 2014 Rate Plan established a three-year gas rate plan effective through December 31, 2016.

[5] At this time, ALJs Ben Wiles and Dakin Lecakes are assigned to these proceedings.

$479.6 million, and increased its gas electric revenue requirement by approximately $4.9 million, from $154 million to $158.9 million.

On May 27, 2016, Staff, NYECC, CPA, UIU, Public Utility Law Project of New York, Inc. ("PULP"), NYC, Time Warner, NYPA, EDF, Utility Workers Union of America, AFL-CIO, Local 1-2, County of Westchester and Pace each filed direct testimony and exhibits in response to Con Edison's initial filing, as preliminarily updated on March 25, 2016. Staff's pre-filed testimony and exhibits recommended a revenue increase of $45.0 million for electric and a revenue decrease of $25.2 million for gas.

On June 10, 2016, Con Edison filed a letter with the Secretary, pursuant to 16 NYCRR §3.9, to provide notice of impending settlement negotiations in these proceedings. Specifically, the letter noted that the Company, Staff and other parties agreed to enter into settlement negotiations beginning on June 23, 2016.

On June 17, 2016, Con Edison, Staff, UIU, NYECC MTA, NYC, PULP and Pace filed updated and/or rebuttal testimony and supporting exhibits. At that time, the Company updated its electric revenue requirement proposal to $498.2 million, an increase of approximately $18.6 million from its March 25, 2016 preliminary update filing. The Company also updated its gas revenue requirement to $124.6 million, a reduction of approximately $34.3 million from its preliminary update filing.

Settlement negotiations commenced on June 23, 2016, and continued on a number of occasions thereafter in New York City. The Company, Staff and numerous other parties participated in all or some of the settlement conferences. On July 8, 2016, Con Edison filed a letter with the Secretary noting its willingness to accept a one-month extension of the tariff suspension period, through January 26, 2017, for the purpose of facilitating ongoing settlement negotiations. On July 13, 2016, ALJs Wiles and Lecakes issued a Ruling on Schedule, postponing the previously scheduled hearings until August 17, 2016, to allow for the continuation of settlement negotiations. Thereafter, on August 11, 2016, Con Edison filed a second letter consenting to an extension of the tariff suspension period through February 26, 2017. In light of the parties' settlement efforts, the ALJs granted this further postponement and scheduled hearings to begin on September 16, 2016.

On September 1, 2016, the active parties who were engaged in negotiations notified ALJs Wiles and Lecakes that an agreement in principle had been reached to resolve the issues presented in these cases, and requested that the evidentiary hearings be postponed in order to provide time for the parties to submit a Joint Proposal. The ALJs granted the request and postponed the evidentiary hearings; however, the ALJs did not, at that time, establish new hearing dates.

Staff, on behalf of the Signatory Parties, filed the Joint Proposal on September 20, 2016. On September 21, 2016, a procedural conference was held and a variety of procedural matters were discussed, including a further schedule for considering the Joint Proposal. On September 28, 2016, the ALJs issued a ruling on schedule stating, among other things, that evidentiary hearings to begin November 2, 2016.

Pursuant to New York State Public Service Law ("PSL") §66(12), Con Edison caused a notice of its rate filing to be published in The New York Post on February 5, 12, 19 and 26, 2016. In addition, the notice of proposed rulemaking, pursuant to State Administrative Procedure Act §202(1), was published in the State Register on April 27, 2016. The comment period ended on June 13, 2016, and many public comments were received.

OVERVIEW OF THE JOINT PROPOSAL

As discussed in greater detail below, and in the various sections of this Statement, the Joint Proposal contains a number of provisions designed to protect and benefit ratepayers, maintain and improve upon Con Edison's ability to provide safe and adequate service and, to the extent feasible and appropriate, provide a resolution of the various other issues raised by parties to these proceedings. The Joint Proposal also includes provisions designed to implement the Commission's policy objectives addressed in the Reforming the Energy Vision ("REV") proceeding, such as modernization of the electric grid and the integration and optimization of resources both in front of and behind the meter.[6]

Section A of the Joint Proposal, contains the recommended three-year term for the Electric and Gas Rate Plans. Under the Rate Plans, "RY1" is the 12 months ending December 31, 2017; Rate Year 2 ("RY2") is the 12 months ending December 31, 2018; and Rate Year 3 ("RY3") is the 12 months ending December 31, 2019.

Section B of the Joint Proposal includes electric and gas rates and revenue levels. The Electric Rate Plan proposes annual revenue increases of $242.3 million in RY1, $155.3 million

[6] Case 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision.

in RY2 and $155.2 in RY3. The RY1 revenues include the $47.8 million increase in electric delivery service revenues effective January 1, 2017, as established in the Commission's 2015 Rate Order.[7] To provide rate stability and mitigate the impact of the RY1 increase, the Joint Proposal recommends the levelization of the annual revenue increases over the term of the Electric Rate Plan. The levelized rate increases include interest accrued on the portion of a given Rate Year's indicated increase deferred to another Rate Year within the term of the Electric Rate Plan. As a result, the annual levelized rate increases would result in rates at the end of RY3 that are higher than the non-levelized increases. Accordingly, if the Company does not file for new rates to be effective January 1, 2020, the Joint Proposal requires the Company to make a compliance filing by December 1, 2019, to set rates effective January 1, 2020, at a level that is designed to produce non-competitive delivery base rate revenues on an annual basis that are lower by $44.25 million.

The Gas Rate Plan proposes annual increases of $35.5 million in RY1, $155.3 million in RY2 and $155.2 million in RY3. The RY1 gas revenues include the $40.9 million increase in gas delivery service revenues approved by the Commission in the 2013 Gas Rate Plan.[8] The Joint Proposal does not recommend that the gas rate increases be levelized over the term of the Gas Rate Plan as levelization would result in frontloading of rate increases in RY1. Additionally, the increases in RY2 and RY3 are already level.

The Signatory Parties predicated each of the Rate Year revenue requirements on a return on equity ("ROE") of 9.0%, as indicated in Appendices 1 and 2 to the Joint Proposal.[9] Additionally, Section C of the Joint Proposal details earnings sharing between ratepayers and shareholders in the event the Company achieves earnings that are more than 50 basis points above the level authorized in each Rate Year.

Section D addresses the Company's capital expenditure plans during the term of the Rate Plans. The provisions in this section set net plant in service targets, based upon the Signatory Parties' agreed upon levels of capital expenditures, and provide for a downward only true-up of any variance between the target used to set rates and actual net plant levels. This reconciliation mechanism protects ratepayers and simultaneously provides the Company with the necessary

[7] 2015 Rate Order, p. 5.
[8] 2014 Rate Order, p. 2.
[9] Joint Proposal Appendix 1, p. 6 and Appendix 2, p. 6.

flexibility to maintain its provision of safe and reliable service. This section also contains annual reporting requirements which will enable the parties to monitor project progress and related expenditures. Section D also provides a mechanism for the Company to recover costs incurred for the implementation of Non-Wires Alternative ("NWA") projects, as discussed in the Commission's Order Adopting a Ratemaking and Utility Revenue Model Policy Framework, issued May 20, 2016, in Case 14-M-0101 ("REV Track Two Order"). The recommended Rate Plans will provide the Company an opportunity to earn incentives for the implementation of NWA projects consistent with the Commission's Order Implementing with Modification the Targeted Demand Management Program, Cost Recovery and Incentives, issued December 17, 2015, in Case 15-E-0229 ("TDM Order"). Con Edison will file quarterly reports for each NWA project detailing the expenditures and program activities, incremental costs incurred, operational savings and other benefits.

As with other rate plans adopted by the Commission, the Joint Proposal allows for the reconciliation of a number of revenue and expense items to the levels assumed in rates. These reconciliations, detailed in Section E of the Joint Proposal, protect ratepayers from under-spending in these categories, and, in a number of cases where the revenue or expense in question is not wholly within the Company's control and is difficult to forecast with a reasonable amount of certainty, protect the Company when actual revenues or expenses rise above or below the levels assumed in rates.

Section F of the Joint Proposal covers a number of accounting provisions, including depreciation rates, interest on deferred costs, the treatment of property tax refunds and credits, income tax, excess deferred income tax and the allocation of common expenses and plant.

Section G of the Joint Proposal details the electric revenue allocation and rate design, as well as other tariff changes, including standby service and buyback rates. Similarly, Section H addresses gas revenue allocation and rate design, including interruptible delivery rates and gas balancing, along with other tariff changes.

The various performance metrics are addressed in Section I and also in Appendices 14, 15, 16 and 17 of the Joint Proposal. Additional electric and gas provisions are discussed in Sections J and K, respectively. Of note, Section J contains the System Peak Reduction Programs, EE and Electric Vehicle ("EV") Programs, and the distributed generation ("DG") interconnection Earnings Adjustment Mechanism ("EAM"). Section K includes, among other things, details of the methane reduction collaborative, residential methane detector program, and the Company's commitment to relocate gas meters outside when performing certain work.

Section L provides details on the customer operations provisions, including the Customer Service System ("CSS") replacement, data access, outreach and education and a positive incentive designed to reduce residential service terminations and bad debt write-offs. Section M addresses Advanced Metering Infrastructure ("AMI") scorecard metrics, Platform Service Revenues ("PSRs") per the REV Track Two Order and the AMI Customer Awareness EAM. Section N contains details of Con Edison's Electric and Gas Low Income Programs, including customer enrollment, reconnection fee waivers and reporting requirements. This section also discusses the implementation of the requirements of the Commission's Order Adopting Low Income Program Modifications and Directing Utility Filings, issued May 20, 2016, in Case 14-M-0565 ("Low Income Order").

Section O discusses a number of studies and collaboratives through which the Company will meet with Staff and interested parties on a variety of issues such as DG interconnection procedures and gas peak demand reduction. Lastly, Section P contains standard miscellaneous provisions commonly included in rate proceeding joint proposals.

STANDARD OF REVIEW

The Commission's Settlement Guidelines state that all decisions, including those to adopt the terms of joint proposals, must be just and reasonable and in the public interest.[10] In addition to compliance with proper procedures, determining whether the terms of a joint proposal are in the public interest involves substantive consideration of the following:

1. consistency with the law and regulatory economic, social and environmental State and Commission policies;
2. whether the terms of the joint proposal compare favorably with the likely result of a fully litigated case and produce a result within the range of reasonable outcomes;
3. whether the joint proposal fairly balances the interests of ratepayers, investors and the long-term soundness of the utility; and
4. whether the joint proposal provides a rational basis for the Commission's decision.

[10] Cases 90-M-0255 and 92-M-0138, Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines (issued March 24, 1992), p. 30.

Additional consideration is given to the completeness of the record and whether the joint proposal is contested.

The Joint Proposal entered into in this case resolves all of the outstanding issues presented in pre-filed testimony and settlement negotiations. In doing so, it fully comports with the Commission's Settlement Guidelines. The fact that Con Edison, Staff and 21 other parties have executed the Joint Proposal is a testament to the extensive efforts employed by the Signatory Parties to address key issues and the equitable resolution thereof; indeed, the Joint Proposal is an agreement reached between normally adversarial parties.

Comparing the pre-filed positions of the Signatory Parties to the terms of the Joint Proposal supports the conclusion that the Joint Proposal produces a result within the range that could be expected in litigation. The non-levelized rate increases under the Joint Proposal are significantly lower than what the Company would otherwise have sought through litigation at the time the Joint Proposal was executed; at the same time, the Joint Proposal allows for rate certainty. The Joint Proposal contains various provisions that place a strong emphasis on Con Edison's ability to manage its costs, and provides enhanced incentives to that end (e.g., net-plant reconciliation, the gas safety performance metrics and customer service performance mechanism). At the same time, Con Edison will receive sufficient additional revenues allowing the Company to implement new programs and current and forthcoming REV initiatives, and to make repairs and improvements to its electric and gas systems to ensure the continued provision of safe and reliable service. Moreover, the Joint Proposal continues reconciliation mechanisms and reporting requirements characteristic of Commission adopted rate plans.

The Joint Proposal's recommended allowed ROE of 9.0% is a fair compromise between the Company's position in its original filing and Staff's position in its direct pre-filed testimony. The 9.0% ROE is comparable to the ROE allowed for other major utilities operating under a recent Commission-approved multi-year rate plans.[11] Furthermore, the earnings sharing mechanism mandates ratepayer sharing if over-earning were to occur.

The Joint Proposal also provides for the implementation of the various directives contained in the REV Track Two Order. Specifically, among other things, the REV Track Two Order directed revisions to the Company's standby service tariffs and EAMs related to system efficiency, EE and DG interconnections, as well as the option to propose an EAM related to customer engagement in the implementation of AMI.[12] The Joint Proposal establishes EAMs for each of these categories through the combination of the programmatic EE and System Peak Reduction EAMs; outcome-based distributed energy resources (DER) Utilization, Customer Load Factor, and Energy Intensity EAMs; the DG Interconnection EAM; and the AMI Customer Awareness EAM. The Joint Proposal implements a maximum level of EAMs of up to $18.6 million in RY1, $34.6 million in RY2, and $52.1 million in RY3. The level of EAMs contained in the Joint Proposal is reasonable and will provide the Company with a meaningful incentive to achieve the outcomes desired by the Commission.

In sum, the Joint Proposal should be adopted because it satisfies the criteria the Commission has established, pursuant to the PSL, for judging the reasonableness of settlements, namely that safe and adequate service be provided at just and reasonable rates. Further, the Joint Proposal achieves a fair balance of interests among the Signatory Parties, and includes terms that may not have been attainable except through a negotiated multi-year agreement.

Support Among the Parties

Support for the Joint Proposal comes from a number of entities with varying interests and concerns, including ratepayer protection, climate change and environmental protection, the provision of safe and reliable service at just and reasonable rates, and rate certainty. The support for the Joint Proposal demonstrates that the agreement addresses a substantial number of important issues to the satisfaction of a diverse group of Signatory Parties. Although not every

---

[11] Recently, the Commission approved a 9.0% ROE, as recommended in the joint proposal, in the New York State Electric & Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E") rate proceedings. Cases 15-E-0283, et al., New York State Electric & Gas Corporation – Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016) ("NYSEG/RG&E 2016 Rate Order"). The Commission also approved a 9.0% ROE for Con Edison in the 2015 Rate Order, which extended the Company's existing electric rate plan by one year.

[12] Track Two Order, p. 154.

party signed on to every issue addressed in the Joint Proposal, the vast majority of the Signatory Parties supported most, if not all, of the provisions contained therein.[13]

In addition, as part of the Joint Proposal, the Company agreed to collaborative meetings with Staff and other interested parties on a variety of issues, including the Company's implementation of EAMs related to DG and System Efficiency/EE, interconnection procedures, gas peak demand reduction and interruptible gas rates and services. The Signatory Parties recognize the importance of an open exchange of ideas and information with respect to these topics. These collaborative processes ensure that the Company, Staff and other interested parties will have the opportunity to work together to develop mutually beneficial projects and ideas.

Adequacy of the Record

The record is adequate to justify adoption of all the terms contained in the Joint Proposal. The terms included in the Joint Proposal are based on information and data supplied by Con Edison, Staff and other parties in pre-filed testimony, during the course of discovery, updates and/or during negotiations. The parties had ample opportunity to review the documentation provided by the Company and to conduct extensive discovery into the content and development of those documents. The parties had the opportunity to review all initial and rebuttal testimony prior to the finalization of the Joint Proposal, ensuring that all parties' perspectives were given consideration during the course of settlement negotiations. Moreover, many parties actively participated in the settlement negotiations process.[14]

The appendices to the Joint Proposal represent a detailed agreement between the Signatory Parties as to the costs and revenues underlying the proposed electric and gas base rates and the various mechanisms provided for in the Joint Proposal. These costs and revenues, along with the other terms of the Joint Proposal, provide a sound, equitable and rational evidentiary basis on which to determine that the Joint Proposal is reasonable and should be adopted.

Public Interest

When considering whether the Joint Proposal is in the public interest, the document should be considered as a whole, with each individual section providing support and balance to the others. Staff is aware that the Commission may accept, reject, or modify, in whole or in part,

[13] It should be noted that UIU is not a Signatory Party to the Joint Proposal.
[14] In addition, an evidentiary hearing will be held before ALJs Wiles and Lecakes beginning on November 2, 2016, at which the record can be further developed.

any recommendation or term of the Joint Proposal; however, it is Staff's belief that the Joint Proposal fairly resolves the revenue requirement and policy initiative issues, thereby ensuring that the Company can maintain its provision of adequate service at an equitable and well-reasoned cost. The Joint Proposal meets the public interest standard and, thus, should be approved in its entirety.

The Joint Proposal should be adopted because it not only satisfies the criteria established by the Commission for judging the reasonableness of settlements, but it also provides for enhanced performance standards designed to ensure the safety and reliability of the Company's electric and gas services while keeping rates affordable and reasonable. The record is more than adequate to support the terms of the Joint Proposal, which are consistent with both law and policy, have a rational basis, balance the interests of ratepayers and Con Edison, and compare favorably with the outcome of litigation. It is for these reasons that the Joint Proposal should be adopted.

ELEMENTS OF THE JOINT PROPOSAL[15]

A. Term

A three-year rate plan is reasonable because it provides the Company and its customers with assurance of rates for an acceptable period, balancing the uncertainties of future developments with the capital and rate stability needs of the Company to manage its utility businesses.

B. Rates and Revenue Levels/Reasonableness of Rate Increases

1. Electric

The Joint Proposal (Section B.1) recommends annual revenue increases of $194.6 million in RY1, $155.3 million in RY2 and $155.2 million in RY3. The RY1 revenues are in addition to the $47.8 million increase in electric delivery service revenues effective January 1, 2017, as

[15] In order to facilitate the reader's comparison of the actual provisions of the Joint Proposal with the descriptions included in this Statement, the headings in this section generally correspond to the headings in the Joint Proposal.

established by the Commission in the 2015 Rate Order,[16] resulting in an annual revenue increase of $242.3 million for RY1. To provide rate stability, the Signatory Parties propose to levelize the annual revenue increases over the term of the Electric Rate Plan. The annual levelized revenue changes associated with transmission and distribution ("T&D") delivery revenue, the retained generation component of the Monthly Adjustment Charge ("MAC") mechanism and purchased power working capital is approximately $199.0 million in each Rate Year. Appendix A identifies the rate drivers for each of the three Rate Years. Notable drivers include: (1) the continued need for infrastructure investment; (2) increases in property tax expense; (3) increased depreciation expense; and (4) increases in operating costs to cover new required programs, as well as projected cost increases for on-going programs.

The electric revenue requirements includes an adjustment, equal to an additional 1% productivity adjustment for electric service ($13.4 million) to reflect an efficiency opportunity identified in the most recent Management and Operations Audit, in Case 14-M-0001, regarding the Company's procurement practices.

a. Market Supply Charge (MSC)

The Joint Proposal recommends continuation of standard, currently-effective adjustment mechanisms that provide for recovery of various supply and supply-related costs. The Joint Proposal also provides for recovery of new cost elements through the MAC and NYPA Other Charges and Adjustments (OTH), including Company earned incentives under the EAMs, the Electric portion of the Climate Change Vulnerability Study cost and the Marginal Cost of Service Study cost, costs and incentives related to NWA projects, and bill credits related to the Reliability Credit Program and the Optional Bill Credit For Export-Only Buyback Program. The Commission has noted that it anticipates that the Climate Change Vulnerability and Marginal

[16] 2015 Rate Order, p. 5. The 2014 Rate Order provided for a rate increase for RY2 of $47.8 million. Customers were insulated from the increase in RY2 due to a bill credit in the same amount. The effect was a delivery rate freeze for RY2. In its 2015 Rate Order, the Commission maintained the delivery rate freeze in RY3, in part, by way of using available customer credits to continue to offset the $47.8 million rate increase approved in the 2014 Rate Order. Accordingly, with the expiration of the current electric rate plan electric base delivery service revenue collected from customers beginning in 2017 will increase by $47.8 million.

Cost of Service Studies will provide valuable information[17] and recovery via the MAC allows the Company to collect the costs for these studies on an as incurred basis. The MAC also provides a vehicle for Con Edison to collect costs associated with NWA projects and incentives.

b. Revenue Decoupling Mechanism

The Joint Proposal continues the Company's electric Revenue Decoupling Mechanism (RDM), with modifications. Consistent with current Commission policy, the mechanism reconciles forecasted sales revenues in a manner designed to eliminate the financial disincentive a company would otherwise have to promote energy efficiency. The Joint Proposal modifies the electric RDM with respect to the NYPA and Kennedy International Airport Cogeneration Partners (KIAC) reconciliation process. The RDM target for NYPA and KIAC will continue to be forecast based on pure base revenues ("PBR"); however, the combined monthly RDM under/over collections for NYPA and KIAC will be modified such that over/undercollections will be allocated between NYPA and KIAC based on the respective ratios of their individual actual PBR to the total of their aggregate actual PBRs for the month. The allocated monthly over/under collections will be accumulated during each RDM reconciliation period and used to calculate separate RDM Adjustments that will be assessed to NYPA and KIAC. This modification is reasonable as it reduces volatility of RDM adjustments by consolidating classes with relatively few customers. The modification is consistent with past practices and should be adopted by the Commission.

c. PJM Open Access Transmission Tariff (OATT) Charges

Con Edison will continue to recover all rates and charges associated with the 1,000 MW firm transmission service provided pursuant to PJM Interconnection L.L.C.'s Open Access Transmission Tariff (OATT). In April 2016, Con Edison notified PJM, pursuant to the OATT, that it would discontinue this service effective May 1, 2017 and, therefore, the OATT will remain in effect for the first four months of RY1. Under the Joint Proposal, PJM OATT costs continue to be allocated between Con Edison's standard customer classes and NYPA customers. This allocation is based on the Transportation and Distribution revenue allocator for each rate year. For years in which Con Edison incurs PJM rates and charges over the full rate year, the

[17] 2014 Rate Order, p. 71; see Cases 14-E-0423, et al., Proceeding on Motion of the Commission to Develop Dynamic Load Management Program, Order Adopting Dynamic Load Management Filings with Modifications (issued June 18, 2015), pp. 8-9.

NYPA allocation will continue to be limited to $4.6 million. If PJM OATT rates and charges are incurred for less than a full rate year, the NYPA allocation will be pro-rated.[18] Allocating PJM rates and charges to NYPA is reasonable because the services provided to Con Edison under the PJM OATT were intended to provide reliability benefits to all of Con Edison's delivery customers, including NYPA.

d. Other Charges

The Joint Proposal recognizes that the Company may be subject to governmental or regional transmission organization (RTO) transmission and/or generation-related charges, costs or credits (e.g., FERC, NYISO, PJM, EPA) not already listed in or otherwise covered by the then-effective MAC/MSC tariff language. Therefore, the Joint Proposal allows the Company to make a tariff filing with the Commission to provide for recovery of such charges/costs, or application of such credits, through the MAC/MSC mechanism and/or comparable adjustment mechanism.

2. Gas

The Joint Proposal (Section B.2) recommends an annual revenue decrease of $5.4 million in RY1 and increases of $92.3 million in RY2 and $89.5 million in RY3. The RY1 decrease is an offset to the $40.9 million increase in gas delivery service revenues effective January 1, 2017, as established by the Commission in the 2014 Rate Order, resulting in an annual revenue increase of $35.5 million for RY1. Appendix B identifies the rate drivers for each of the three Rate Years. Notable drivers include additions to net plant and related depreciation expense, labor, gas operations expenses in RY1 and property taxes for RY2 and RY3. Notable drivers include higher O&M expenses associated with increased gas leak inspection and repairs, a change to common expense allocation factors and rate base growth caused by gas enhancement and pipe replacement.

The gas revenue requirements include an adjustment, equal to an additional 1% productivity adjustment for gas service ($3.0 million), to reflect an efficiency opportunity identified in the most recent Management and Operations Audit conducted in Case 14-M-0001 regarding the Company's procurement practices.

[18] The proration will be $4.6 million times the number of months in which Con Edison incurs PJM rates and charges divided by 12.

a. Revenue Per Customer Mechanism

Currently, the RDM Adjustment becomes effective in the second month following the end of a Rate Year and is surcharged or credited to customers over an 11-month period. In its pre-filed testimony, the Company proposed to change this to a 12-month period.[19] Staff agreed with Con Edison's proposal[20] and the Joint Proposal reflects this change. A 12-month recovery period will reduce the volatility of customer bills and, therefore, should be adopted.

b. Monthly Rate Adjustment/Gas Cost Factor

(i) Revenue Neutral Changes to MRA/GCF

1. Balancing Charge Revenues

The Joint Proposal requires that the firm customers' share of balancing charge revenues be credited through the Monthly Rate Adjustment ("MRA") instead of the Gas Cost Factor ("GCF"). Currently, firm customers' share of balancing revenues derived from gas marketers and interruptible customers are credited through a reduction in the average cost of gas, which is contained in the GCF. In its direct testimony, the Company proposed to move firm customers' share of the revenues related to balancing service to the Non-Firm Revenue component of the MRA.[21] Although Staff recommended that the firm customers' portion of balancing revenues remain in the GCF,[22] this provision is reasonable because these balancing revenues are derived from load-following assets that are currently recovered from all firm sales and firm transportation customers through the MRA. Therefore, the MRA is a more appropriate mechanism through which to credit all firm customers for their share of these revenues.

2. Supplier Refunds

Currently, gas supplier refunds are credited to firm sales customers in the GCF applicable to SC 1, 2, 3 and 13 and to firm transportation customers in the MRA. It its direct testimony, the Company proposed to credit gas supplier refunds through the MRA for both firm sales and firm transportation customers.[23] The Joint Proposal adopts the Company's proposal, which is reasonable because it is more appropriate to credit supplier through the same mechanism for both sales and firm transportation customers.

---

[19] Company Gas Rates Panel, Initial, pp. 53-54.
[20] Staff Gas Rates Panel, Initial, p. 42.
[21] Company Gas Rates Panel, Initial, p. 60.
[22] Staff Gas Rates Panel, Initial, pp. 53-56.
[23] Company Gas Rates Panel, Initial, pp. 59-61.

(ii) Additions to the MRA

1. Safety and Reliability Surcharge Mechanism

In its pre-filed testimony, Con Edison proposed that any incremental capital expenditures and associated O&M costs for main replacement above established targets be recovered through the reliability surcharge mechanism ("RSM").[24] The Company would only be allowed to recover costs through the RSM when the Company exceeds both the allowed revenue requirement associated with these costs and the targeted mileage.[25] In its testimony, Staff recommended establishing a safety and reliability surcharge mechanism ("SRSM") through which Con Edison would be allowed to recover its return on investment, depreciation expense and property taxes associated with capital investments for leak prone pipe replacement that are incremental to the level included in base rates.[26] Additionally, Staff recommended allocating the SRSM to service classifications based on delivery service revenues and recovery on a volumetric basis.[27] The Joint Proposal establishes a SRSM similar to that as proposed by Staff. In the event the Company exceeds the mileage targets and associated cost of replacement amounts reflected in base rates, Con Edison is allowed to recover carrying costs associated with incremental capital expenditures for leak prone pipe replacement, capped at the lesser of the target replacement cost for each location or the actual cost. Given the diversity of the natural gas system, there are four different unit rate targets, one for leak prone pipe replacements in Manhattan, Queens, Bronx and Westchester County, respectively. The SRSM also provides for recovery of O&M expenses associated with lowering the leak backlog below target levels. The SRSM is in the public interest because it provides important safety benefits in the form of additional leak prone pipe replacement and repairs, consistent with Commission policies.

c. Non-Firm Revenues

The revenue requirement for each Rate Year reflects a revenue imputation of $65 million attributable to Non-Firm Revenues. Non-Firm Revenues includes: net base revenues from interruptible customers (SC 12 Rate 1 and SC 9 Rates B & D); net base revenues from contract,

---

[24] Company Accounting Panel, Initial, p. 164.
[25] Id.
[26] Staff Gas Rates Panel, Initial, p. 46.
[27] Id. at 48.

interruptible and off-peak power generation customers; net revenues associated with interstate pipeline capacity; and gas balancing revenues. As the revenue requirement is offset by the $65 million imputation, Con Edison is allowed to retain 100% of the first $65 million. In the event actual Non-Firm revenues are less than $65 million, the Company will defer the difference, with interest, and surcharge customers in the following Rate Year. In the event, actual Non-Firm revenues are greater than $65 million, the Company will credit 85% of the difference, to customers beginning the next month. The Non-Firm Revenue Imputation provisions in the Joint Proposal remain unchanged from the current gas rate plan established by the 2014 Rate Order. In its direct testimony, Staff proposed to increase the imputation level to $68 million based on a forecasted increase in net base revenues from interruptible SC 9 Rate C and SC 12 Rate 2 customers.[28] The net base revenue increase forecasted by Staff was attributable to a proposed increase in rates from 8 cents per therm to 11.5 cents per therm. However, revenues from SC 9 Rate C and SC 12 Rate 2 customers are not included in the Non-Firm Revenue Imputation. The $65 million Non-Firm Revenue Imputation level is reasonable because it is in line with historically achieved levels and is a reasonable projection of revenues Con Edison will achieve during the Gas Rate Plan.

d. Lost and Unaccounted for Gas

Under the current gas rate plan, Con Edison was required to perform two studies: a Generator lost and unaccounted for gas (“LAUF”) Contribution Study and a New York Facilities[29] (“NYF”) LAUF Study. The Generator LAUF Contribution Study concluded that line losses attributable to generators are appropriately reflected in Con Edison’s current LAUF calculation. The second study, however, concluded that losses on the NYF system should be included in the LAUF calculation. In its testimony, the Company proposed to maintain the current methodology for calculating LAUF.[30] Staff, however, recommended that, on a monthly basis, the net receiver of gas on the NYF be subject to the 0.5% factor.[31] The Joint Proposal implements Staff’s recommendation, which is reasonable because it incorporates the results of the two studies and properly allocates the losses on the NYF system. The gas revenue

[28] Staff Gas Rates Panel, Initial, p. 41.
[29] The NYF members are Con Edison, KeySpan Gas East Corp. d/b/a Brooklyn Union of L.I. and The Brooklyn Union Gas Company d/b/a National Grid NY.
[30] Company Gas Supply Panel, Initial, p. 50.
[31] Staff Gas Rates Panel, Initial, p. 45.

requirement continues to reflect the NYF revenues and costs in base delivery rates. The NYF members are currently considering an amendment to their cost sharing responsibilities; should a new or amended NYF Agreement be established, the Company will reconcile its actual NYF costs and revenues against the amount included in base rates through the MRA and/or LAUF until base gas delivery rates are reset.

e. Oil-to-Gas Conversions

The Joint Proposal commits the Company to perform certain activities to further facilitate oil-to-gas conversions in its service territory, including continuation of the oil to gas incentive program. This program provides financial incentives, up to $1.46 million per Rate Year, to encourage residential and commercial customers to convert from oil to gas. The Company will file an annual report with the Secretary detailing the specifics of the program, including the amounts of incentives committed and/or disbursed and number of customers and estimated sales in the aggregate by service classification. This provision will help customers to comply with the New York City and Westchester rules,[32] requiring the phase out of Nos. 4 and 6 heating oils. The new rules require certain buildings to phase out the use of Nos. 4 and 6 oils, but do not limit these customers from burning No. 2 oil or biodiesel. Since burning natural gas results in lower emissions than Nos. 4 and 6 fuel oil, encouraging customers to convert to natural gas provides environmental benefits. For these reasons, this provision is in the public interest and should be adopted.

C. Computations and Disposition of Earnings and Cost of Capital

As illustrated on page six of Appendices 1 and 2, the Joint Proposal's revenue requirement for RY1 reflects an overall cost of capital of 6.82%, which consists of a return on common equity (ROE) of 9.0%, a common equity ratio of 48.0%, a long-term debt ratio of 50.55% with a cost rate of 4.93%, and a customer deposits ratio of 1.45% with a cost rate of 0.85%. In RY2 and RY3, the return on common equity remains at 9.0%, the common equity ratio remains at 48.0%, and the long-term debt and customer deposit ratios also remain the same; however, the overall cost of capital decreases slightly in RY2 to 6.80% and again in RY3 to

[32] In 2011, NYC passed a regulation requiring certain buildings to phase out the use of heavy heating oil known as No. 6 and No. 4 by 2015 and 2030, respectively. This regulation affects buildings that require a boiler operation permit to operate the building's heating system. Westchester County has also recently passed similar legislation.

6.73% as result of a reduction in the projected long-term cost of debt to 4.88% in RY2 and 4.74% in RY3. In the Company's initial filing, it sought an overall cost of capital of 7.32%, which consisted of a return on common equity of 9.75%, a common equity ratio of 48.0%, a long-term debt ratio of 50.56% with a cost rate of 5.21%, and a customer deposit ratio of 1.44% with a cost rate of 0.85%. Staff's pre-filed testimony recommended an overall cost of capital of 6.63%, a return on common equity of 8.6%, a common equity ratio of 48.0%, a long-term debt ratio of 50.55% with a cost rate of 4.92%, and a customer deposit ratio of 1.45% with a cost rate of 0.85%.

The cost of capital terms contained in the Joint Proposal, and in particular the 9.0% ROE, are a reasonable outcome given the current economic environment. The terms adequately recognize the increased financial risk and business risk inherent in setting rates over a multi-year period. In addition, the Joint Proposal's recommended ROE is the same as that adopted by the Commission in the NYSEG/RG&E 2016 Rate Order. The allocation of risk and the rate of return reflected in the Joint Proposal reasonably balance the return requirements of Con Edison's investors with customers' expectations of safe and reliable service at just and reasonable rates.

According to a recent Moody's report, attached hereto as Appendix C, the Joint Proposal has been recognized as a credit positive for the Company mainly because it offers clear evidence of the cooperation between the Company, Staff and key customers, which Moody's states is essential in order to maintain a stable and predictable financial profile for Con Edison as New York progresses with the REV initiative. In addition to the Joint Proposal being recognized by Moody's as a credit positive for the Company, the relative predictability and stability that the multi-year Rate Plans will lend to the Company's operations over the next three years will add to the benefit of customers.

For the duration of the respective rate plans, the Joint Proposal recommends earnings sharing thresholds set at 50 basis points above the recommended ROE of 9.0%, or 9.5%. Earnings above the threshold will be deemed "shared earnings." Earnings above the 9.5% threshold, but less than 10.0%, are shared equally (50%/50%) between customers and the Company. Earnings equal to or in excess of 10.0%, but less than 10.5%, are shared 75%/25% between customers and the Company, respectively. Finally, earnings equal to or in excess of 10.5% are shared 90%/10% between customers and the Company, respectively. For earnings in excess of the sharing threshold in any Rate Year, Con Edison will apply 50% of its share and the full amount of the customers' share to reduce electric and gas under-collections of Site Investigation and Remediation (SIR) program costs.

The use of the earnings sharing mechanism is beneficial to customers because it provides the Company with a financial incentive to control its costs, while simultaneously ensuring customers an opportunity to share in those efficiency gains. The use of earnings sharing thresholds, and the tiered nature of the earnings sharing mechanism, is consistent with prior multi-year rate plans approved by the Commission. Similarly, the actual threshold level and the widths of the various sharing bands are also generally consistent with other rate plans, if not tighter than previous Con Edison rate plans.

D. Capital Expenditures and Net Plant Reconciliation

1. Electric and Gas Net Plant Reconciliation

Con Edison proposed to eliminate the downward only net plant reconciliation mechanism in its pre-filed testimony for both gas and electric.[33] The Joint Proposal includes downward-only reconciliation mechanisms for electric and gas that are similar in nature to those proposed by Staff in its direct testimony.[34] The mechanism requires the Company to defer, for ratepayer benefit, the revenue requirement impact of actual average net plant in service balances that are less than the average plant in service balances used to develop the revenue requirement. This provides customers with important protections against under-spending that would otherwise not be captured through traditional ratemaking. The mechanism also provides the Company flexibility over the term of the Rate Plans to modify the type, timing, nature and scope of capital projects from those currently incorporated into the net plant targets. The continuation of the downward reconciliation mechanism for electric and gas is consistent with that currently in place under the existing rate plans. AMI will be excluded from the net plant reconciliation mechanisms and will be discussed in Section D.4.

---

[33] Company Gas Infrastructure and Operations Panel, Initial, p. 132; Company Electric Infrastructure and Operations Panel, Initial, p. 183.

[34] Staff Electric Policy Panel, p. 37 and Gas Policy Panel, Initial, p. 28.

2. Capital Reporting Requirements

a. Electric

In its testimony, Staff recommended additional reporting requirements for AMI to allow for easier tracking of costs.[35] Pace also supported additional tracking of REV-related projects and costs.[36] The Joint Proposal includes provisions for the continuation of existing electric capital reporting requirements and for additional reporting on capital projects and expenditures associated with the Company's Distributed System Implementation Plan ("DSIP"). These provisions require Con Edison to file its most recent projected electric capital projects and programs lists and associated capital expenditures on January 15 of each Rate Year. In addition, the Company will file actual Rate Year annual capital and O&M expenditures (and deferred amounts, if applicable), for AMI, REV demonstration projects, and DSIP implementation on February 28, 2018, 2019 and 2020. This is consistent with Staff's and Pace's position on additional reporting on AMI and REV-related costs.

b. Gas

The Company proposed to eliminate the current semi-annual capital expenditure reporting requirements,[37] while Staff recommended quarterly reporting.[38] The Joint Proposal requires the Company to continue the existing semi-annual reporting requirements. The required reporting of capital expenditures on a semiannual basis will allow Staff and other parties to track and review actual capital expenditures related to the capital program targets included in the rates and to review variances from projected budget amounts.

3. Non-Wires Alternative Adjustment Mechanism

The REV Track Two Order indicated that if multi-year rate plans include Net Plant Reconciliation mechanisms the plans should be designed to remove traditional utility disincentives to pursue DER alternatives in lieu of capital expenditures on infrastructure projects. The Joint Proposal recognizes that NWAs can provide benefits to customers and establishes a NWA Mechanism consistent with the intent of the Track Two Order. The Joint Proposal allows Con Edison to recover the costs of NWAs through the MAC and NYPA OTH and provides for

---

[35] Staff AMI Panel, Initial, p. 16; Staff Electric Policy Panel, Initial, p. 41; Staff Gas Infrastructure and Operations Panel, Initial, p. 58.
[36] Pace Witness Rabago, Initial, p. 17.
[37] Company Gas Infrastructure and Operations Panel, Initial, p. 132-133.
[38] Staff Gas Infrastructure and Operations Panel, Initial, pp. 54-56.

incentives as established under the TDM program.[39] Under the Joint Proposal, if a capital project reflected in the average electric plant in service balances is displaced by a NWA project, Con Edison is required to reduce those balances to exclude the net plant associated with the project. This ensures that ratepayers are protected from simultaneously funding a NWA project and the capital expenditure such NWA project was designed to delay or replace. The carrying charges on the capital project will be used as a credit to offset NWA recoveries. Additionally, the Joint Proposal requires that Con Edison follow the same reporting process as established for the TDM Program, and that Con Edison perform a Benefit Cost Analysis ("BCA") in accordance with the BCA Handbook[40] to justify the NWA project.

4. AMI Net Plant Reconciliation

The Joint Proposal incorporates the requirements of the Commission's Order Approving Advanced Metering Infrastructure Business Plan Subject to Conditions, issued March 17, 2016, in Case 15-E-0050 ("AMI Order"), which authorized Con Edison to implement its AMI Business Plan, subject to a $1.285 billion cap on capital expenditures. As such, the Joint Proposal requires that a net plant reconciliation for AMI capital expenditures be implemented for all AMI capital expenditures (that includes amounts allocated to both electric and gas customers). However, the electric and gas revenue requirements reflect the business specific average AMI plant in service balances (excluding removal costs) for each of the three Rate Years. Upon completion of the implementation of AMI, it will be determined whether a credit is due to electric and/or gas customers or a debit to Con Edison. If the actual capital expenditures result in a revenue requirement that is lower than the net plant associated with the $1.285 billion of capital expenditures, Con Edison will defer such amount for credit to customers in the manner thereafter determined by the Commission. Since AMI implementation is projected to be completed (currently scheduled to be complete by year end 2022) beyond the term of the Rate Plans, the Joint Proposal also addresses regulatory assets and/or liabilities accumulated at the end of the Rate Plans by acknowledging that such regulatory asset or regulatory liability may reverse over the remaining AMI project implementation period and requiring that any credit due electric and/or gas customers or debit due the Company will be determined upon project

[39] TDM Order, pp. 12-15.
[40] Case 14-M-0101, supra, Order Establishing a Benefit Cost Analysis Framework (issued January 21, 2016).

completion. The terms of the Joint Proposal pertaining to the AMI net plant reconciliation effectuate the Commission's AMI Order, and provide customers with protections similar to the electric and gas net plant reconciliation mechanism. Therefore, the Joint Proposal terms related to AMI net plant reconciliation should be adopted.

E. Reconciliations

The Joint Proposal contains a number of provisions regarding reconciliations of specific Company revenues and costs. Except for the discontinuation of one reconciliation no longer needed, Workers' Compensation, the Joint Proposal continues the reconciliation mechanisms for various revenues and costs, including property tax expense, municipal infrastructure support, major electric storm cost reserve, AMI Customer Engagement Plan and AMI rate pilots, research and development expense (gas), gas service lines and system peak reduction, EE and EV programs, which are discussed below, adopted by the Commission in its prior rate orders.

1. Property Taxes

The Joint Proposal would limit the reconciliation for property tax variances to 90% of the difference between the allowances for property taxes reflected in the annual revenue requirements and Con Edison's actual property taxes, subject to a cap of 10 basis points on common equity in RY1, 7.5 basis points on common equity in RY2, and 5 basis points on common equity in RY3. The reconciliation is symmetrical, which allows the Company to defer differences for recovery from or credit to customers. During the periods of the Company's prior rate plans, this provision resulted in substantial benefits to customers as a result of lower than forecasted NYC property taxes. While there is no guarantee that such material credits will again result, the provision provides protection to both the Company and ratepayers for an expense that is approximately 20% of the Company's delivery revenue requirement and largely beyond the Company's control.

2. Municipal Infrastructure Support

In its direct testimony, the Company proposed a full and symmetrical reconciliation mechanism to replace the partial and asymmetrical reconciliation mechanism currently in effect under the current rate plans for municipal interference expenses on the basis that Con Edison is required to perform interference work at the behest of municipalities and such costs are not fully controlled by the Company.[41] The Staff Electric Policy Panel recommended to maintain the existing mechanism as a way to provide an incentive to manage these costs like any other O&M expense.[42]

The Joint Proposal continues the current reconciliation mechanism, as recommended by Staff, which will provide Con Edison with an incentive to control its interference expenditures. As such, the Joint Proposal requires Con Edison to defer 100% of expenses below the amounts included in rates for ratepayer benefit. Since Con Edison does not have complete control over interference expenditures, the Joint Proposal allows the Company to defer 80% of expenses over the amount allowed in rates with a cap of 30%. The Company is allowed to defer 80% of expenses beyond the 30% band only if such increased expenses are a result of certain projects. Staff review the Company’s forecast of interference expenses and found the same to be reasonable.[43] The Joint Proposal adequately protects customers from over-collection of interference expenses by providing for 100% reconciliation on expenditures below the forecast, while the partial upward reconciliation provides a balance for Con Edison, which does not have complete control over the interference work it must undertake.

3. Major Storm Cost Reserve (Electric)

The Joint Proposal continues the annual funding level of $21.4 million to the major storm reserve and process for dealing with major storm damage costs in excess or less than the amount allocated to the reserve. All major storm expenses are subject to Staff review. Costs chargeable to the reserve remains as is currently in effect except for the qualification of events that impact the Company’s underground network system. In the Company’s direct testimony, it requested clarification from the Commission on whether underground system storm costs can be charged to the major storm reserve.[44] Con Edison supported the recovery of underground storm cost from salt damage and flooding events that meet the definition of major storm, as defined in 16 New York Codes, Rules and Regulations (NYCRR) §97.1(c). While Staff agreed with the recovery of underground system storm costs from the major storm reserve, Staff stated that the criteria for such storm events should be more stringent than the definition of major storm, as defined in 16

[41] Company Municipal Infrastructure Support Panel, Initial, p. 58.
[42] Staff Electric Policy Panel, Initial, pp. 43-44.
[43] Staff Shared Services & Municipal Infrastructure Support Panel, pp. 13-14.
[44] Company Electric Infrastructure and Operations Panel, Initial, pp. 216-217.

NYCRR §97.1(c), given that its location reduces the probability of damage from snow, ice, wind or rain storms.[45] The Joint Proposal specifies that funding from the reserve can be used for weather event(s) that result in at least 5,000 customer outages and 800 jobs in the underground network system. This includes one storm event that satisfies these criteria and multiple storm events that are up to two days apart and, in aggregate, satisfies these criteria. The Joint Proposal recognizes that setting a more stringent criteria for events impacting the underground network system is warranted. The 5,000 interruptions criteria is the approximate system-wide projected number of customer outages required for the mobilization of a Full Scale Incident Command Structure under Con Edison's emergency plan; and 800 jobs is a level, based on historical data, when additional resources would most likely be needed.

4. AMI Customer Engagement Plan and AMI Rate Pilots

In response to the Commission AMI Order, Con Edison filed an AMI Customer Engagement Plan along with an AMI Rate Pilot proposal.[46] The Company's electric and gas base rates amount reflects the funding needed to implement the plans discussed in this filing. These costs were not included in the Company's updated revenue requirement; however, funding for these programs is critical due to the significant capital expenditures associated with AMI deployment and the expected benefits AMI will provide to Con Edison and its ratepayers. To account for the uncertainty associated with funding requirements, the Joint Proposal requires the Company to reconcile the actual level of costs incurred for the AMI Customer Engagement Plan and AMI Rate Pilots to the three-year cumulative targets and defer any underspending over the term of the Rate Plans for future credit to customers. In the event the Company's actual AMI Customer Engagement Plan and AMI Rate Pilots costs are less than the target level for a particular Rate Year, the Company is required to defer the amount of such under spending, which can be used to reduce actual expenditures in subsequent Rate Years.

5. Research and Development Expense

The Staff Gas Infrastructure and Operations Panel recommended that the Company continue the downward-only reconciliation of the Research and Development (R&D) program, and that the deferral balance be used to fund a Residential Methane Detector Program.[47] The

[45] Staff Electric Infrastructure and Operations Panel, Initial, pp. 130-132.
[46] Case 15-E-0050, supra, AMI Customer Engagement Plan (filed July 29, 2016).
[47] Staff Gas Infrastructure and Operations Panel, Initial, p. 77.

Joint Proposal continues a downward-only reconciliation and establishes a Residential Methane Detector program using the current R&D deferral balance (discussed in Section K.1 of this Statement). The reconciliation provision provides the Company with flexibility to spend up to 120% of the annual budgets so long as such funding can be achieved with prior deferred over-recoveries. The Commission approved a similar provision in the O&R 2015 Rate Plans, which allowed the utility to use unspent funds on safety-related R&D projects, such as methane detection.[48]

6. Pipeline Safety Act

In its pre-filed testimony, Con Edison proposed a full reconciliation and the opportunity to defer the O&M expenses incurred to comply with the new regulations enacted in response to the Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 ("Pipeline Safety Act of 2011").[49] In its testimony, Staff noted that there are 16 mandates associated with the Pipeline Safety Act of 2011 that are pending completion and, therefore, recommended that the Company be allowed to defer these O&M expenses.[50] The Joint Proposal incorporates Con Edison's proposal and allows the deferral of the incremental O&M costs incurred to comply with the new regulations. This provision is reasonable because the costs are currently unknown and are not within the Company's control and, for these reasons, deferral accounting is appropriate.

7. Gas Service Lines

In its testimony, Con Edison proposed to include $11.0 million in its annual O&M budget to cover the incremental leak survey and corrosion inspection requirements associated with the Commission's recently amended definition of "gas service line."[51] Additionally, Con Edison proposed a full reconciliation to the extent actual expenditures varied from the level included in rates due to uncertainty in expenditures.[52] In testimony, Staff stated that the costs should be addressed in Case 15-G-0244 because a State-wide implementation framework was being developed in that case.[53] Accordingly, the gas revenue requirements included in the Joint

[48] Cases 14-E-0493, et al., Orange and Rockland Utilities – Electric and Gas Rates, Order Adopting Terms of Joint Proposal and Establishing Electric Rate Plan (issued October 16, 2015) ("O&R 2015 Rate Order").
[49] Company Accounting Panel, Initial, p. 148.
[50] Staff Gas Infrastructure and Operations Panel, pp. 76-77.
[51] Company Gas Infrastructure and Operations Panel, Initial, pp. 109-113.
[52] Id. at 134-137.
[53] Staff Gas Infrastructure and Operations Panel, Initial, pp. 63-64.

Proposal do not provide funding for costs that Con Edison may incur as a result of the Commission's recently amended definition of "gas service line." If Con Edison incurs incremental costs associated with complying with the amended definition (*e.g.*, for inspection, repair, outreach/communications), the Company will defer these costs for future recovery from customers to the extent that cost recovery is not addressed in Case 14-G-0357 and/or Case 15-G-0244.

8. System Peak Reduction, Energy Efficiency and Electric Vehicle Programs

The Company's electric base rates reflect regulatory asset amounts for the System Peak Reduction, EE above ETIP and EV Programs. Under the terms of the Joint Proposal, Con Edison will defer annually the revenue requirement associated with program expenditures below the target levels reflected in electric base rates for credit to customers. The Company's electric base rates also reflect EV Program expenses, and the Joint Proposal requires the Company to defer underspending on such expenses for future credit to customers. Expenditures above the respective annual amounts for each of these programs will not be recoverable from customers.

The Joint Proposal also provides an opportunity for Con Edison to earn EAMs associated with these programs in the event the Company achieves threshold savings levels. The potential EAMs associated with these programs grow, on a unit basis, for savings above the target level. It is appropriate to limit recovery of these expenditures because the funding provided in base rates is adequate for Con Edison to achieve savings at the target levels and, further, Con Edison has the ability to earn EAMs for these programs.

F. Additional Accounting Provisions

1. Depreciation Rates and Reserves

a. Depreciation Rates (Electric and Gas)

Under the terms of the Joint Proposal, new depreciation rates for electric, gas and common plant accounts are established. The average service lives and survivor curves, as shown in Appendix 11, were agreed upon by determining the appropriate curve fits for each account using the Company's life tables and mortality studies. The net salvage percentages for each account were determined by analyzing data contained in the Company's net salvage analysis study.

b. Electric Reserve Deficiency

The theoretical reserve is the amount of depreciation expense that should have been collected for a specific plant account as of a particular date. The theoretical reserve is dependent on the average service lives and net salvage factors used to determine the account's depreciation rate, as well as the survivor curve. The theoretical reserve, when compared to the book reserve, will show any imbalance be it a surplus or deficiency present in each account. Should the accumulated imbalance reach 10% of the theoretical reserve, typically some portion of the deficiency or surplus would be subject to an amortization. In testimony, both Con Edison and Staff stated that there was an electric depreciation reserve deficiency which should be amortized.[54] In the Joint Proposal, the Signatory Parties reached an agreement on the recovery of the electric depreciation reserve deficiency and agreed to amortize half of the deficiency above the 10% tolerance band over a 15 year period. This depreciation reserve deficiency treatment mitigates impacts to customers by limiting recovery to 50% of the deficiency above the 10% tolerance band. It also allows the new depreciation rates to potentially reduce the book to theoretical deficiency over time. A 15-year amortization period is consistent with past Commission precedent and should be adopted as contained in the Joint Proposal.

2. Property Tax Refunds and Credits

The property tax sharing and reconciliation provisions provide incentives for Con Edison to minimize its property tax liabilities. Like prior Con Edison rate plans, any property tax refunds, including credits against tax payments, received by the Company as a result of its efforts will be shared 86%/14% between customers and shareholders after the netting of incremental costs incurred by Con Edison to achieve the refunds or credits. Additionally, Con Edison is not precluded from requesting a greater share of lower than projected property tax expense if, due to its own efforts, the Company is able to obtain fundamental taxation changes (e.g., reclassification of property in New York City), which produce substantial net benefits.

The Joint Proposal's recommendation, however, does not change the Company's obligations under 16 NYCRR §89.3 of the Commission's rules and regulations to notify the Commission of any tax refunds received or the Commission's authority under PSL §113(2) to determine whether the refunds should be passed on to ratepayers. Furthermore, the deferral,

[54] Company Depreciation Panel, Initial, p. 53; Staff Depreciation Panel, Initial, p. 24.

recovery, and retention of property tax refunds remain subject to an annual filing to the Commission by the Company of its ongoing efforts to reduce its property tax burden.

The stipulated property tax reconciliation and refund components of the Joint Proposal provide the Company with an incentive to not only contain property tax expenses to the greatest extent possible, but also to pursue fundamental taxation changes which would benefit both Con Edison and its customers.

3. Hudson Avenue

Con Edison proposed to transfer the amount of the undepreciated investment in equipment and facilities at the retired Hudson Avenue Station, totaling $92.3 million, from the accumulated provision for depreciation of steam plant to the accumulated provision for depreciation of electric plant. The Company also proposed to amortize the $92.3 million over 20 years, or $4.6 million per year, effective at the beginning of the Rate Year.[55] In its testimony, Staff recommended an allocation of the undepreciated costs of plant between the steam and electric businesses based on historic fuel usage at the Hudson Avenue Station. During the 111 years the Hudson Avenue Station was in operation, 83% of the total fuel used at the station was attributable to electric operations. Staff recommended allocating the $92.3 million by this factor, resulting in $76.8 million of the undepreciated book value to electric and $15.5 million to steam. Staff proposed to recover the undepreciated book cost over a 20-year period.[56]

The Joint Proposal reflects that 83% of plant balances and 100% of the land balance for the Hudson Avenue Station will be transferred from steam rate base to electric rate base as of January 1, 2017.[57] This provision of the Joint Proposal should be adopted because Hudson Avenue Station has been retired from service since 2011 and is no longer providing service to steam customers. Additionally, the undepreciated investment is no longer being depreciated and, without an amortization, will remain on the Company's steam books indefinitely. This has the effect of decreasing rates charged to steam customers through a lower rate base. Because the undepreciated costs of the facility are known and not speculative, the transfer to electric and

[55] Company Depreciation Panel, Initial, p. 34.
[56] Staff Electric Rates Panel, Initial, p. 30.
[57] The Joint Proposal provides that Con Edison will defer the revenue requirement impact of the transfer for steam customers until steam rates are reset.

associated amortization of the remaining undepreciated investment is warranted and reasonable.[58]

4. Income Tax

a. Cost of Removal (COR)

In its initial gas filing, Con Edison proposed to eliminate a duplicate tax deduction associated with removal costs (i.e. removal costs net of salvage) for gas service. The effect of the proposed correction was an increase in gas revenue requirement of approximately $37 million. In Case 15-E-0050, a similar correction for a portion of this error was made when establishing the electric revenue requirement, which increased the electric revenue requirement by approximately $95 million in that case. In its initial electric filing, the Company proposed an increase in the electric revenue requirement of approximately $43 million to provide for the full correction of this error.[59]

Con Edison testified that the Company has been inadvertently reflecting tax benefits associated with removal costs twice in its accounting for income taxes. First, the Company has been historically flowing-through the tax benefit of the tax deduction for incurred removal costs as a reduction to its current FIT expense in its gas cost of service presentations. Second, the Company's computation of flow-through depreciation mistakenly included removal costs as an offset to book depreciation expense, thereby understating deferred federal income taxes (FIT), resulting in a double counting of removal costs in determining total FIT expense. Consequently, the Company proposes to correct its computation of flow-through depreciation for gas service in the Rate Year by excluding the component for removal costs in its calculation of deferred income taxes, which increases deferred income tax expense.

In addition, since Con Edison recorded an insufficient amount of deferred taxes due to this error in accounting for removal costs, the Company does not have a sufficient level of accumulated deferred taxes for financial reporting purposes. As a result, Con Edison has recorded electric and gas regulatory assets and electric and accumulated deferred tax liabilities on the Company's books to make up for this deficiency. The Company, by way of its federal

[58] As steam rates are not being reset at this time, the Joint Proposal requires Con Edison to defer 83 percent of the carrying charges associated with Hudson Avenue Station plant balances (excluding land) and 100 percent of the carrying charges for the land balance, currently reflected in steam delivery rates, for ratepayer benefit.

[59] Company Accounting Panel, Initial, pp. 5-8.

income tax calculation, proposed to commence the amortization of the regulatory assets related to its past error of its income tax accounting for removal costs beginning in the Rate Year.

Staff's Accounting Panel recommended correction of this error conditioned on its ability to verify the existence of the error. Despite numerous attempts, Staff was unable to verify the existence of the COR error. Staff also testified as to its concern that the Company was applying various controls to recover through its income tax accounting the regulatory assets that resulted from the Company's improper accounting for removal costs. As indicated in Staff's direct testimony, Con Edison needs to demonstrate that ratepayers received duplicate tax deductions in rates equal to the amount of the regulatory assets.[60] To date, the Company has not yet made that showing.

The Joint Proposal resolves the dispute by allowing the Company to 1) correct the tax deductions associated with removal costs for electric and gas service and 2) commence recovery of the claimed regulatory assets. The Joint Proposal, however, contains auditing provisions such that during the term of the Rate Plans, Staff will perform an audit to verify the COR error in the Company's income tax accounting for ratemaking in the previous years and determine if ratepayers received benefits equal to the amount of regulatory assets reflected in current revenue requirements for electric and gas services. Specifically, the Joint Proposal provides for a reconciliation of the amounts reflected in electric and gas revenue requirements associated with removal costs to the results of Staff's audit findings. This approach is reasonable because it provides an adequate timeframe for Staff to examine and validate the balances being recovered.

b. Excess Deferred Federal Income Tax

In its direct testimony, Staff's Accounting Panel took issue with the amount of excess deferred FIT reflected by Con Edison in its Rate Year forecast of electric and gas rate base.[61] Specifically, during the time electric and gas rates were last set and Con Edison's current filings, the Company materially reduced its excess deferred FIT balances. Although Staff sought to determine the reason(s) for the reductions to the excess deferred FIT balances, the Company was not able to provide sufficient evidence to support its internal accounting. As a result, Staff recommended that the excess deferred FIT balances be increased to reflect the current electric

[60] Staff Accounting Panel, Initial, pp. 98-119.
[61] Staff Accounting Panel, Initial, p. 124-130.

and gas rate plan levels until such time the Company can demonstrate the appropriateness of the Company's accounting for excess deferred FIT.[62]

The Joint Proposal resolves the disagreement by allowing the Company to reflect its proposed excess deferred FIT balances; however, the Joint Proposal provides that, during the term of the Rate Plans, Staff will perform an audit of the excess deferred FIT balances to verify the accuracy of the balances. Further, the Joint Proposal provides for a reconciliation of the amounts reflected in electric and gas revenue requirements to the results of Staff's audit findings. This approach is reasonable because it provides an adequate timeframe for Staff to examine and validate the balances being reflected in rates.

5. Allocation of Common Expenses/Plant

In its initial filing, Con Edison proposed a change to the common expense allocation factors. Specifically, the Company proposed to allocate Customer Operations and Customer Service 84% to electric and 16% to its gas operations.[63] For the remaining categories, including Pensions & Health Insurance Capitalized and the various other Administrative & General expenses, the Company proposed to allocate those costs 77.6% to electric, 15.95% to gas and 6.45% to steam.[64] The Company argued that the current allocation factors have been in effect since 1999 and new allocation are needed to more accurately align costs with current operations. Specifically, Con Edison recognized that a greater portion of common expenses are related to gas and steam than in the past.

In its direct testimony, Staff did not take exception to the Company's proposal. Indeed, Staff noted that common expenses should be allocated as accurately as possible among the Company's electric, gas and steam services and that, although allocation factors are not a perfect measure of the costs incurred by each service, they should be reviewed and updated periodically to represent present and/or future conditions. The updated common expense allocation factors contained in the Joint Proposal more accurately align costs with current operations, recognizing a greater portion of common expenses are related to gas and steam, and, thus, should be approved.

---

[62] Id.
[63] Company Accounting Panel, Initial, p. 28.
[64] Id.

G. Electric Revenue Allocation/Rate Design

1. Revenue Allocation/Embedded Cost of Service Study

Con Edison's 2013 Embedded Cost of Service ("2013 ECOS Study"), which allocates Con Edison's operating costs to the full service and NYPA classes based on analyses of the rate base and operating expenses for the calendar year 2013, forms the basis for electric revenue allocation in this Joint Proposal. In previous cost studies, high tension assets were classified solely as demand-related and, thus, the costs were allocated to service classes on the basis of class non-coincident peaks ("NCP"). The 2013 ECOS Study, filed with the Company's direct case, introduced a customer component of the high tension primary distribution system. The 2013 ECOS Study showed that all individual service classes, with the exception of one, were found to have either a surplus or deficiency, indicating a need for revenue realignment among classes. The Company proposed to apply one-third of the class-specific deficiencies and surpluses in a revenue neutral manner to arrive at the realigned total Rate Year delivery revenues.[65] The Company then allocated the delivery revenue increase among customer classes in proportion to the relative contribution made by each class to the realigned total Rate Year delivery revenues (i.e., the customer, demand and usage charges, as applicable).[66]

The Staff Electric Rates Panel supported the Company's methodology and ECOS Study results. As noted in its testimony, Staff agreed with Con Edison's costs allocation methodologies, as they follow established costs principles that are consistent and have evolved with regulatory precedent over time. Staff further noted its support for the Company's introduction of a customer component of the high tension primary distribution system stating that this component is consistent with the National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual ("NARUC Manual") and has been adopted by a number of New York State utilities as part of their cost allocation procedures Staff also agreed with the Company's proposal to apply one-third of the class-specific 2013 ECOS Study deficiencies and surpluses as a means to mitigate bill impacts.

[65] Company Electric Rates Panel, Initial, p. 10.
[66] Id. at 11.

The UIU Electric Rate Panel disagreed with the 2013 ECOS Study, and, recommended a number of modifications.[67] Specifically, the UIU Electric Rates Panel recommended the following modifications:[68]

1. The demand allocator for distribution plant should be based exclusively on a class NCP demand allocator instead of on an average of the NCP and individual customer maximum demand ("ICMD") allocators.
2. The primary distribution system (conductors) should be classified as 100% demand-related instead of the split between demand and customer components.
3. The secondary delivery system (poles, conductors and transformers) should be allocated based on demand instead of the split between demand and customer components.

The demand allocator is used to allocate low tension distribution system costs to customer classes in the ECOS Study, and is designed to reflect peak demands occurring on various parts of the low tension grid. The closer the grid equipment is to the customer, the greater the importance of the individual customer maximum demands; likewise, the further the grid equipment is from the customer, the greater the importance of class diversified peak demand NCP. The 2013 ECOS Study reflects this design principle. Specifically, for all classes other than residential, the low tension allocation factor is equal to the average of the class NCP and the class ICMD; for the residential class, the Study used a weighting of 75% of ICMD and 25% of NCP.

As for the classification of primary and secondary distribution systems, it is appropriate to classify primary conductors into a demand component and a customer component NARUC recognizes that a "minimum size distribution system can be built to service the minimum loading requirements of the customer."[69] NARUC recognizes both demand and customer components of primary conductors and further recognizes the minimum system approach as an appropriate method to determine such classification.[70] Con Edison's calculation of the primary distribution component was based on the results of a minimum system methodology, which parallels the

[67] UIU Electric Rates Panel, Initial, p. 7, 18-22.
[68] Id.
[69] NARUC Manual, p. 90.
[70] Id.

methodology used by the Company to determine the customer component of low tension distribution plant that was adopted in a prior rate case by the Commission.[71]

The Joint Proposal incorporates the agreement between the Signatory Parties to use the Company's 2013 ECOS Study as the basis for electric revenue allocation and apply one third of the deficiency and surplus indications. This approach is reasonable because it addresses existing surpluses and deficiencies as indicated in the 2013 ECOS Study, while simultaneously mitigating large bill increases to those customers in the deficient classes

2. Rate Design

The Joint Proposal establishes new competitive and non-competitive electric delivery service rates, including changes to provisions of the MAC. Specifically, for Rate I of SCs 5, 8, 9, and 12, demand and energy rates were redesigned on a revenue neutral basis by shifting five percent of energy revenue revenues to demand revenues. This shift recognizes that the majority of transmission and distribution costs are fixed in nature and more closely aligns to how cost are incurred and collected from customers.

3. Customer Charges

In its pre-filed testimony, the Company proposed to maintain the current customer charges for SC 1 and SC 2 customer classes,[72] and Staff agreed with the Company's proposal.[73] UIU proposed to reduce customer charges for SC 1 and SC 2 based on the results of UIU's recommended ECOS model.[74] Con Edison disagreed with the UIU proposal in its rebuttal testimony on the basis that UIU's ECOS methodology contained many shortcomings, as discussed previously.[75]

The Joint Proposal maintains the current customer charges for SC 1 and SC 2. This provision is reasonable because the Company's ECOS Study shows that current customer charges are below the customer costs. Maintaining the customer charges also mitigates bill impacts for residential and small non-demand metered commercial service classes. This is a

---

[71] Case 04-E-0572, Consolidated Edison Company of New York, Inc. – Electric Rates, Order Adopting Three-Year Rate Plan (issued March 24, 2005).
[72] Company Electric Rates Panel, Initial, p. 12.
[73] Staff Electric Rates Panel, Initial, pp. 13-14.
[74] UIU Electric Rates Panel, Initial, pp. 32-33.
[75] Company Demand Analysis and Cost of Service Panel, Rebuttal, p. 36.

reasonable approach, similar to that taken by the Commission in many recent rate cases and should be adopted here.[76]

The Joint Proposal also establishes a provision for unmetered SC 2 customers through which the monthly customer charge will be reduced by $4.41. This reduction is intended to reflect the removal of metering costs from the customer charge. Usage charges for all SC 2 customers will be increased to offset the resulting revenue shortfall.

4. Stand-Alone Plug-In Electric Vehicle Charger Rate

Pursuant to the 2013 Rate Order, Con Edison was required to propose a stand-alone PEV charging rate designed for residential customers. The Joint Proposal provides for a new special provision that allows certain customers the option to separately meter their PEV charging at a Voluntary Time of Use (VTOU) rate under SC 1 instead of SC 2 or 9. These customers can take service solely for PEV charging under a separate account billed under SC 1, Rate III which is a VTOU rate. The off-peak usage under SC 1 Rate III would require less sales to offset the cost of the additional customer charge as compared with the VTOU under SC 2.

5. Commercial and Industrial Customer Rate Design

The REV Track Two Order requires that existing commercial and industrial delivery charges be evaluated to determine whether they can be improved by making the charges more peak-sensitive and/or by changing the determinants such as peak-to-off-peak ratio that influence customer decisions. The Joint Proposal requires the Company to perform this evaluation and file a report of its findings by April 1, 2017.

6. Standby Service and Buyback Rates

a. Minimum Monthly Charge for Customers Exempt from Standby Rates

In its initial testimony, CPA proposed to modify the Minimum Monthly Charge (MMC) applicable to SC 9 customers that would otherwise be standby rates customers but for an exemption. Specifically, CPA proposed that the MMC be reduced in the event that the customer installs distributed energy resources (DER) and that the term "contract demand," as defined for

[76] Case 15-E-0283 – New York State Electric & Gas Corporation – Electric Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016); Case 14-E-0493, Orange and Rockland Utilities, Inc. – Electric Rates, Order Adopting Terms of Joint Proposal and Establishing Electric Rate Plan (issued October 16, 2015); Case 14-E-0318, Central Hudson Gas & Electric Corporation – Electric Rates, Order Approving Rate Plan (issued June 17, 2015).

the purposes of non-standby rates, be clarified.[77] In its rebuttal testimony, Con Edison disagreed with CPA's proposal. The Company stated that DER should not be considered a permanent load reduction since DER can fail, and that customers already have the opportunity to reduce their MMC if the installed DER has operated reliability for 18 months.[78] The Company also argued that there is no further clarification necessary regarding the contract demand for the purposes of determining the MMC.[79]

The Joint Proposal implements a one-time reduction to the contract demand used to calculate the MMC in the amount of the nameplate rating of a generator which is exempt from standby rates. This provision of the Joint Proposal is reasonable because it closes a seemingly-unintended loophole in the Commission's Standby Rate Exemption Order[80] and allows customers to immediately benefit from their standby-exempt DER instead of having to wait 18 months for a reduction in their respective MMCs.

b. Exemptions from Standby Rates

In their shared initial testimony, EDF and Pace proposed to: 1) expand the list of Designated Technologies eligible for exemption from standby rates to include battery energy storage, and 2) restrict the eligibility for new combined heat and power ("CHP") projects for exemption from standby rates to those with emissions of Nitrogen Oxide ("NO_X") of no more than 1.6 pounds per megawatt-hour (lbs/MWh).[81] In its rebuttal testimony, the Company noted that it does not support expanding the list of eligible designated technologies in a rate case and that the issue should instead be addressed on a State-wide basis.[82]

The Joint Proposal adopts the EDF and Pace proposals with minor modifications. The Joint Proposal specifies Battery Storage installations of up to 1 MW in inverter capability will be defined as a Designated Technology, and will therefore be eligible for exemption from standby rates. The Joint Proposal also implements a restricted NO_X emission rate of 1.6 lbs/MWh for new CHP facilities going forward, with grandfathering at the previous NO_X emissions rate of 4.4

[77] CPA Witness Dowling, Initial, pp. 33-34.
[78] Company Electric Rate Panel, Rebuttal, pp. 45-46.
[79] Id. at 48
[80] Case 14-E-0488, Standby Rates Exemptions, Order Continuing and Expanding the Standby Rate Exemption (issued April 20, 2015) ("Standby Rate Exemption Order").
[81] EDF/PACE Standby Service Panel, Initial, pp. 23-27.
[82] Company Electric Infrastructure and Operations Panel, Rebuttal, pp. 115-116.

lbs/MWh for currently-exempt facilities and those facilities that have an accepted interconnection application or air permit application as of January 1, 2017. This provision of the Joint Proposal provision is reasonable and should be adopted because it advances the policy goals of the REV Proceeding by encouraging penetration of Battery Storage technologies and reducing environmental emissions of new CHP systems.

c. Reliability Credit

In its initial testimony, Staff recommended that the Company institute a Reliability Credit mechanism based on customer net load as directed by the Commission in its Track Two Order.[83] The Reliability Credit would replace the existing Performance Credit which is based solely on minimum generation output.[84] Staff proposed that the Reliability Credit 1) be measured using a customer's net load over the course of two consecutive summer periods, 2) exclude up to three outage events of no more than five 24-hour periods per summer, and 3) be paid an amount that is equal to the difference between a customer's contract demand and the maximum demand recorded on the customer's revenue meter during the peak hours of the summer period (measurement period) multiplied by the contract demand charge rate per kilowatt (kW).[85] Staff further clarified that the general language of the Track Two Order regarding the measurement period for the Reliability Credit should be 8 AM to 10 PM, Monday through Friday, from June 1 to September 30 of each year to coincide with definitions of peak hours and summer period already defined in the Company's tariff for demand-billed customers.[86] In its rebuttal testimony, the Company stated that it planned to provide tariff leaves conforming to the Track Two Order in compliance with the Commission's determination in this proceeding using a measurement period of 8 AM to 10 PM, weekdays, from June 1 to September 30. [87] The Company further notes that it disagrees with several aspects of the Reliability Credit as ordered by the Commission and has filed a petition for rehearing stating as much, and that the Commission's decision on the petition for rehearing should apply to this case as well.[88]

[83] Staff Electric Rates Panel, Initial, p. 23; Track Two Order, p. 15.
[84] 2015 Rate Order, pp. 11-12.
[85] Staff Electric Rate Panel, Initial, p. 26
[86] Id. at 27
[87] Company Electric Rate Panel, Rebuttal, p. 49
[88] Id. at 50.

The Joint Proposal implements the Reliability Credit as proposed by Staff, with minor modifications. Under the terms of the Joint Proposal, the measurement period for Rate Year 1 will be the same as that used for Con Edison's current Performance Credit (i.e., 10 AM to 10 PM, Monday through Friday, excluding holidays, from June 15 through September 15), whereas the measurement period for Rate Years 2 and 3 will be as proposed by Staff (i.e., 8 AM to 10 PM, Monday through Friday, excluding holidays, from June 1 through September 30). The measurement period for Rate Years 2 and 3 is reasonable because, unlike the current Performance Credit, the Reliability Credit is based on a customer's net load and not the minimum output of the customer's generator. The measurement period under the current Performance Credit was designed to discourage customers from uneconomically dispatching their generation assets during low load conditions when such generation is typically not needed (e.g., during mornings, and both early and late in the summer period, when ambient temperatures are likely to be lower). Since the Reliability Credit is based on a customer's net load and a customer may earn a Reliability Credit by managing its energy usage even if such customer's generation assets are offline, expanding the measurement period to the full extent of the peak hours and summer period is reasonable. Maintaining the measurement period of the current Performance Credit for the purposes of the Rate Year 1 Reliability Credit is reasonable since it will give existing customers, many of whom are used to operating their generation assets to maximize their Performance Credit, an additional year to optimize their procedures for the Reliability Credit. The Joint Proposal also extends the date for customers to elect which outage events will be excluded from the measurement period from October 1 to October 10 of each year. This modification is reasonable as a conforming change to the measurement period, and will allow customers the necessary time to select the outage events they wish to exclude from each summer's measurement period.

The Joint Proposal also requires that in order to earn the Reliability Credit the generating facility output must be separately metered using a Commission-approved, revenue grade, interval meter (output meter). It is the Customer's responsibility to furnish and install the meter at its expense, and the Customer must arrange for and maintain communications service from the output meter to the Company. Requiring that the output of generating facilities be separately metered is reasonable since the data obtained will: (1) provide status monitoring ability for operations and planning purposes; (2) provide insight into operation of customer-sited DER for future consideration as part of REV and other Commission proceedings; and (3) will likely be needed in the future as dispatch and settlement of payments for DER becomes increasingly granular.

d. Optional Bill Credit for Export-Only Buyback Customers and Standby/Export Pilot

In addition to the terms described above, the Joint Proposal also implements a bill credit for export-only SC 11 buyback customers (SC 11 credit) and a Standby Exemption and Rate Pilot program (Standby Pilot) which were developed during the course of settlement negotiations. The SC 11 bill credit provides a payment to export-only customers for their reliable generation during specific hours of the summer months. This will help to support distribution network peak shaving activities as if such customers were enrolled in the Company's Commercial System Relief Program (CSRP) peak-shaving demand response program. Since export-only SC 11 customers do not have a baseline on which customer performance during called CSRP demand response events are measured, such customers have traditionally not been eligible to participate in the CSRP or earn payments for the value of their generation assets from reducing peak load on the Company's distribution system.

The Standby Pilot consists of two options: 1) an exemption from standby rates of up to 10 years for a combined 75 MW of new or expanded CHP and battery storage facilities; and 2) a rates pilot to test a variety of standby and export rate design options available for up to 50 MW of new or existing standby and export customers as well as 75 MW reserved for participants from the exemption option who choose to participate in lieu of the exemption. In order to qualify for the full 10-year exemption under the exemption option, CHP facilities must meet rigorous new efficiency standards, and such CHP units may not be located in certain areas with poor local air quality as the CHP emissions could result in further adverse air quality impacts. The rates pilot option will develop and test a number of rate design options including: 1) allowing customers to assume all or a portion of the reliability risk of their onsite DER by contracting for a lower level of standby service; 2) time and locational-variant Daily As-Used Demand Charge pricing, with more granular As-Used Demand charge pricing based on distribution network-specific peak hours; and 3) new export delivery rates for SC 11 customers with onsite generation that actively sell excess generation to the grid and operate their generation for the benefit of the distribution grid. The standby pilot incorporates and tests many of the standby rate improvement concepts advanced by the City, NYECC, EDF, and Pace in their respective initial testimonies. Furthermore, the Standby Pilot will continue to advance the Commission's policy of encouraging CHP and battery storage penetration on the distribution system, and will provide a valuable source of data for designing standby and export rates in the future.

e. Changes to Standby and/or Buyback Rates

In its initial testimony, Staff noted that the Track Two Order required electric utilities to make filings describing the current cost allocation methodology for their current standby rates and to include recommendations as to how standby rates should be improved. The filings, and proposed changes to standby rates, are going to be addressed outside of the current rate proceeding.[89] Staff recognized that, as a result of that filing, standby rates may change, potentially resulting in a revenue impact on the Company. Accordingly, Staff proposed that Con Edison be allowed to defer any difference in revenues between the future standby rates and the current standby rates as implemented in this proceeding.[90] In its rebuttal testimony, the Company agreed with Staff that changes to standby rates should be made outside of this rate proceeding, as part of its compliance with the Track Two Order.[91]

The Joint Proposal implements Staff's recommendations, considering further modifications to the standby rate design and cost allocation methodology in a separate proceeding outside of the current rate case, and allowing the Company to defer any difference in revenues between the rates set in this proceeding and the resulting modifications to standby rates resulting from the Track Two Order. Staff expects that the concerns and proposals expressed by many of the other parties regarding standby rate design will be examined and brought to the Commission for consideration as part of a separate standby rate design proceeding.

f. Lump Sum Payment of O&M Expenses and Property Taxes

In its initial pre-filed testimony, Con Edison proposed to allow customers to make a one-time non-refundable lump sum payment (O&M lump sum payment) in lieu of annual surcharge payments to cover the costs of ongoing operations and maintenance and property tax expenses associated with the customer's interconnection equipment. The Company explained that the

[89] Staff Electric Rate Panel, Initial, p. 27; REV Track Two Order, p. 130.
[90] Id. at 28.
[91] Company Electric Rate Panel, Rebuttal, p. 42.

O&M lump sum payment was developed in the same manner as an existing charge for excess distribution facilities.[92] In its initial testimony, Staff supported the Company's O&M lump-sum payment in concept;[93] however, Staff noted that the O&M lump-sum payment as calculated by the Company did not take inflation into account, and that the O&M lump sum payment should be modified to do so.[94] In its rebuttal testimony, the Company argued that the formula it used for calculating the O&M lump sum payment already took inflation into account, and that including inflation a second time, per Staff's proposal, would be improper.[95]

The Joint Proposal implements the O&M lump sum payment as proposed by the Company. This provision is reasonable and should be adopted because it will offer standby service customers a choice in determining how to finance and pay for the ongoing operations and maintenance and property tax expenses associated with their DER interconnections to the system.

g. Multi-Party Offset Tariff

In pre-filed direct testimony, both CPA and the City proposed that the Multi-Party Offset Tariff, currently under consideration by the Commission in Case 16-E-0196, be redesigned to allow standby generating facilities to serve multiple customers in separate buildings.[96] CPA further argued that the Company's interpretation of "common use" as it relates to Campus Offset and Multi-Party Offset customers contradicts the plain language of its tariff, and recommended that the Commission determine that common use does not imply a physical connection among campus buildings.[97] In its rebuttal testimony, the Company argued that the proceeding before the Commission in Case 16-E-0196 is the proper venue for discussions related to the Multi-Party Offset Tariff, and that it would respond to the parties' concerns in that proceeding.[98] The Company also noted that it has long interpreted common use to be physical in nature such as a common basement, a common thermal loop, or other physical building connections, and that the

---

[92] Company Electric Rate Panel, Initial, p. 62.
[93] Staff Electric Rate Panel, Initial, p. 21
[94] Id. at 22.
[95] Company Electric Rate Panel, Rebuttal, p. 53.
[96] City Witness Stevens, Initial, p. 42-43; CPA Witness Dowling, Initial, pp. 38-39.
[97] Id. at 37.
[98] Company Electric Infrastructure and Operations Panel, Rebuttal, p. 114.

Commission should reject CPA's request to modify Con Edison's interpretation of common use.[99]

The Joint Proposal implements the Multi-Party Offset Tariff, as filed by the Company in Case 16-E-0196, with the modification that customers in multiple buildings may participate if each of the customers is connected to the shared generating facility by a common thermal loop. This modification will allow multiple customers in a campus arrangement to participate in the multi-party offset tariff, and greatly improves the applicability of the option for multi-building entities such as hospitals and universities in New York City.

7. Business Incentive Rate

a. Allocation

Under Con Edison's Business Incentive Rate ("BIR") program, up to 452 MW of load is eligible for business incentive rates, whereby rate reductions are offered to customers who provide certain economic or societal benefits (e.g. customers who perform not-for-profit biomedical research or revitalize vacant premises within the service territory). Currently, the program consists of four components including: New York City Comprehensive (195 MW), Westchester Comprehensive (42 MW), New and Vacant (155 MW), and Biomedical Research (60MW). Con Edison proposed reinstating the Business Incubators and Business Incubator Graduates component of the BIR, indicating that the New York City Economic Development Corporation has helped to launch 15 startup incubators and co-working spaces for innovative and promising entrepreneurs. CPA advocated to increase the Biomedical Research megawatt allocation to 80 MW on the basis that the current allocation has been nearly fully utilized and that laboratories typically consume five to 10 times more energy per square foot than typical office buildings.[100] CPA further noted that, due to the high energy density at bio-research facilities, power costs are a major component of these facilities' operating expenses.[101]

The Joint Proposal, reallocates the MW eligibility for incentive rates for each component and reestablishes the Business Incubators and Business Incubator Graduates component of the BIR. The reallocated megawatt limits are: New York City Comprehensive (165 MW),

---

[99] Id. at 115.
[100] CPA Witness Luthin, Initial, pp. 35-36.
[101] CPA Witness Luthin, Initial, pp. 22.

Westchester Comprehensive (44 MW), New and Vacant (155 MW), Biomedical Research (80MW), and Business Incubators and Business Incubator Graduates (12 MW).

b. Rates

In direct testimony, Con Edison proposed to reduce BIR discounts from 45% to 34% for SC 9 Rate 2 customers, and from 49% to 39% for Rate 1, 3 and 4 customers on the basis that the discounts have been set to be reflective of marginal costs.[102] CPA rejected Con Edison's proposal, stating that such changes reduce the effectiveness of BIR due to the long planning horizon required by research institutions and other developers of large projects.[103] The Joint Proposal provides for BIR discount rates of 34% for SC 9 Rate 2 customers and 39% for Rate 1, 3 and 4 customers.

8. Other Tariff Changes

The Joint Proposal requires the Company to make a number of electric tariff changes proposed by the Company that were not disputed by Staff or other parties in pre-filed testimony. These changes are all reasonable and should be adopted.

H. Gas Revenue Allocation/Rate Design

1. Revenue Allocation

Similar to electric, the Company proposed to apply one-third of the class-specific 2014 ECOS Study deficiencies and surpluses in a revenue neutral manner to arrive at the realigned total Rate Year delivery revenues.[104] The Company then allocated the delivery revenue increase among customer classes in proportion to the relative contribution made by each class to the realigned total Rate Year delivery revenues (i.e., the customer, demand and usage charges, as applicable).[105] In its pre-filed testimony, the Staff Gas Rates Panel supported the Company's methodology and the 2014 ECOS Study results.[106]

The Joint Proposal incorporates the agreement between the Signatory Parties to use the Company's 2014 ECOS Study as the basis for gas revenue allocation and apply one third of the deficiency and surplus indications. This approach is reasonable because it addresses existing surpluses and deficiencies as indicated in the 2014 ECOS Study, while simultaneously mitigating

---

[102] Company Electric Rates Panel, Initial, p. 33.
[103] CPA Witness Dowling, Initial, p. 43.
[104] Company Gas Rates Panel, Initial, pp. 33-34.
[105] Id.
[106] Staff Gas Rates Panel, Initial, pp. 24.

large bill increases to those customers in the deficient classes. For these reasons, this provision of the Joint Proposal is reasonable and should be adopted.

2. Rate Design

a. Firm Delivery Rates

i. Minimum Monthly Charges

The Company proposed to increase the minimum charge for SC 1 to be better aligned with the customer cost indicated in the 2014 ECOS Study, and to maintain the minimum charges for SC 2 Rate I, SC 2 Rate II, SC 3, and SC 13 at their current levels.[107] Staff supported the Company's methodology.[108] The Joint Proposal includes minimum monthly charges as proposed by Con Edison and Staff.

ii. SC 2 Rate I and Rate II Applicability

Con Edison's gas tariff contains provision regarding SC2 (Firm General Service) Rate I (General) and Rate II (General – Heating) applicability. Currently, rate applicability is determined by the customer's end-use of natural gas, with Rate II being applicable to customers using natural gas for heating purposes. Con Edison proposed to change the applicability criteria to a quantitative test that is indicative of a customer's load factor. The Company proposed to determine sub-class applicability using a test based on the ratio of each SC 2 customer's average billed winter use per day divided by their average billed summer use per day, and to perform the test annually after the completion of all May billing cycles. The Company proposed a ratio of 2.0 as the threshold to move a customer from Rate I to Rate II. Conversely, any Rate II customer whose ratio falls below 1.6 would be transferred to Rate I, and referred to the difference between the 2.0 and 1.6 as a deadband.[109]

Staff agreed with the Company's proposal to reclassify SC 2 customers based on load factor. Staff agreed with Con Edison that that customers with different load factors utilize the distribution system differently; and the change appropriate to align rates with costs causation. Staff, however, disagreed with the Company's deadband proposal indicating it unfairly locked Rate II customers into the higher rate and indicated that if the Commission

---

[107] Company Gas Rates Panel, Initial, p. 39.
[108] Staff Gas Rates Panel, Initial, p. 32.
[109] Company Gas Rates Panel, Initial, pp. 23-26.

determined it is necessary to implement a deadband in order to avoid reclassification between Rate I and Rate II each year, the deadband should be symmetric.[110]

The Joint Proposal provides that the applicability criteria for the Rate I and Rate II sub-classes of SC 2 will be determined by a quantitative test based on the ratio of each SC 2 customer's average billed winter use per day divided by their average summer use per day. The test will be applied annually after the completion of all May billing cycles. As a result of the annual test, any Rate I customers whose ratio is above 2.2 will be transferred to Rate II. Any Rate II customer whose ratio is below 1.8 will be transferred to Rate I. Any customer with a ratio greater than or equal to 1.8 and less than or equal to 2.2 will remain at its existing rate. The Joint Proposal is reasonable because it reflects Staff's recommendation to apply a symmetric deadband around the 2.0 ratio, which is fairer to customers who may fall below the 2.0 ratio.

iii. Weather Normalization Adjustment

In the Gas Supply & Reliability Panel testimony, Staff recommended that the Company change from using a historic 10-year average to forecast its sales volumes to a 30-year average, which is consistent with the way Con Edison develops its reliability forecast.[111] The Joint Proposal implements Staff's recommendation. This provision is reasonable and should be adopted because the longer term is important for design day and capacity planning purposes and provides consistency among the Company's planning functions.

b. Interruptible Delivery Rates

The Company currently performs a calculation to determine if interruptible service customers paid more than they would have otherwise paid on the applicable firm rate equivalent (SC2 or SC3). In the event the interruptible service charges were higher, the excess is refunded to the customer. The Company proposed to modify the timing of the annual revenue reconciliation applicable to interruptible customers taking service under SC 12 Rate 1, such that the interruptible reconciliation period would be moved to the 12 months ended May instead of April. This modification will align the interruptible revenue reconciliation to coincide with the SC 2 rate applicability review. As a result of this change, the May 2017 review would be based on a 13-month period.[112] The provision in the Joint Proposal is reasonable because alignment of

---

[110] Staff Gas Rates Panel, Initial, p. 39.
[111] Staff Gas Supply & Reliability Panel, Initial, pp. 5-6.
[112] Staff Gas Rates Panel, Initial, p. 40.

the interruptible reconciliation period and the SC 2 annual review provides for consistency of firm rates under SC 2 Rate I or SC 2 Rate II for the 12-month period.

c. Gas Balancing

Con Edison's Gas Supply Panel proposed to modify the indices for both daily and monthly cash-outs applicable to SC 9 customers, including power generators, and SC 20 Gas Marketers. Specifically, the Company proposed to use the average of the city gate daily mid-point prices at Transco Z6-NY, Texas Eastern M3 and Iroquois Zone 2. The Company's Gas Supply Panel stated that these market indices better reflect the current business environment in that gas is purchased in New York City at each of the three indices.

The Staff Gas Supply and Reliability Panel agreed with the Company's proposal with the modification that Con Edison's daily cash-out price should be a load weighted average of the mid-point price for each of the indices and that the tariff should use the term "penalty" for imbalances beyond the applicable tolerance band. The Joint Proposal incorporates Staff's recommended modification to the Company's proposal. This provision is reasonable and in the public interest because it helps to ensure supply reliability despite the continued constrained capacity in Con Edison's service territory.

3. Other Tariff Changes

The Joint Proposal requires the Company to make a number of electric tariff changes proposed by the Company that were not disputed by Staff or other parties in pre-filed testimony. These changes are all reasonable and should be adopted.

I. Performance Metrics

1. Electric

a. Electric Service Reliability Performance Mechanism

Appendix 14 of the Joint Proposal contains provisions related to Con Edison's Electric Reliability Performance Mechanism. These provision remain largely unchanged with the exception of the Restoration Performance and the Intrusion Detection System metrics, which are discontinued under the terms of the Joint Proposal. With regards to the Restoration Performance metric, the Commission approved a scorecard, in Case 13-E-0140, to quantitatively assess electric utilities' performance in restoring electric power after a significant outage making this metric duplicative and unnecessary. The Intrusion Detection System metric is also no longer needed because Con Edison has met the requirements of the metric by installing intrusion detection systems at 12 bulk power substations before April 30, 2015.

b. Electric Safety Standards

In supplemental testimony, filed March 25, 2016, Con Edison proposed to modify the existing five-year Structure Inspections and Repair program with a pilot program to conduct an enhanced safety inspection program on an eight-year cycle.[113] In its testimony, Staff supported the Company's proposal[114] and Appendix 15 of the Joint Proposal establishes an eight-year cycle Structure Inspections and Repairs pilot. The revenue requirement associated with this program provides funding for inspection, repair, and stray voltage testing of underground and overhead facilities along with other publicly accessible structures to meet the requirements of the Electric Safety Standards established in Case 04-M-0159.[115] The cycle change is accompanied with improvements to the inspection process, increases in stray voltage testing, and increases in repairs per year with a goal of improving the overall safety of Con Edison's system beyond what the current program provides without significant increases in the cost of the program. The results of the pilot will be accessed in 2019 to determine if a change is needed to the cycle and/or inspection activity. The Joint Proposal specifies the annual inspection goals, which are the same as those in effect under the current Electric Safety Standards. All other aspects of the program will be subject to the Commission's orders in the Electric Safety Standards proceeding.

2. Gas

a. Gas Safety Performance Mechanism

The gas safety performance metrics in the Joint Proposal represent a favorable outcome based on both Staff's testimony and gas safety performance metrics established in rate plans for other gas utilities in the State. The metrics and the basis points associated therewith are consistent with the rate plans of other gas utilities in the State; however, the Joint Proposal does contain some unique metric parameters to reflect the specific nature of Con Edison's service territory and system. Specifically, the Joint Proposal increases targets for miles of leak prone

[113] Company Electric Infrastructure and Operations Panel, Supplemental.
[114] Staff Electric Operations and Infrastructure Panel, Initial, pp. 81-83.
[115] Case 04-M-0159, Proceeding on Motion of the Commission to Examine the Safety of Consolidated Edison Company of New York, Inc.'s Electric Transmission and Distribution Systems, Order Granting In Part Petition to Modify Electric Safety Standards (issued January 13, 2015), Appendix A.

pipe replacement and reduces targets for damage prevention, leak backlog and safety violations. Of note, the Joint Proposal eliminates the deadband for safety violations and institutes a positive revenue adjustment for leak prone pipe replacement and leak backlog reduction beyond the target metrics.

The provisions of the Joint Proposal encourage additional improvement by Con Edison in these areas by tightening the existing targets. The Joint Proposal's gas safety measures benefit customers by incentivizing the Company to meet higher performance standards and continuously improve over the three year Gas Rate Plan. The Joint Proposal provides for certain negative revenue adjustments should the Company fail to meet the established targets for any of these performance measures.

3. Customer Service Performance Mechanism

The Joint Proposal continues the customer service quality metrics with the same measures. The performance mechanism establishes $40 million of potential negative revenue adjustments that are allocated at $9 million for Commission Complaint Rate, $6 million for Customer Satisfaction – Emergency Calls Surveys, $6 million for Customer Satisfaction – Phone Center Callers Surveys, $6 million for Customer Satisfaction – Service Center Visitors Surveys, $8 million for Outage Notification, and $5 million for the Call Answer Rate within 30 seconds. The Joint Proposal establishes threshold performance levels designed to encourage the continued improvement of customer service and, therefore, should be adopted.

J. Additional Electric Provisions

1. System Peak Reduction Programs, Energy Efficiency and Electric Vehicle Programs

The Track Two Order required utilities to propose EAMs related to EE and system efficiency, including targets that are related to reduction of system peak demand and load factor improvement.[116] The Commission acknowledged that, in the short term, system peak reduction metrics may require utility-specific strategies to produce results in a cost-effective manner. The terms of the JP will provide the impetus for development of advanced technologies and market activities.

[116] REV Track Two Order, p. 72-77, 79-83.

The Joint Proposal includes provisions to implement an incremental EE program, a new system peak reduction program, as well as an EV off-peak charging program. Together these programs are referred to as the New Programs. With respect to incremental EE, the Joint Proposal includes targets which, in tandem with the Company's existing Energy Efficiency Transition Implementation Plan ("ETIP") target, would result in the acquisition of over twice the amount of annual EE savings currently expected through ETIP programs alone in RY3.[117] Under the system peak reduction program, Con Edison will work directly with customers and market partners to reduce demand during hours coincident with the New York Independent System Operator's ("NYISO") bulk system peak load conditions. To drive the development of advanced technologies, the system peak reduction target is designed and priced on Con Edison implementing the program such that one-half of the cumulative target over the three-year term of the Electric Rate Plan is achieved via advanced technologies, including, but not limited to, localized battery storage packaged systems, and advanced BMS/controls. The system peak reduction program will allow Con Edison to spur market development in DER while providing for system benefits in reduced wholesale capacity obligations for customers and reduced reliance on transmission and distribution infrastructure during NYISO peak hours. Similarly, the electric vehicle off-peak charging program will help provide access to advanced charging technologies and rate designs to unlock the potential of shifting EV charging habits for the benefit of EV owners and the electric grid. Per the Joint Proposal, the New Programs will be coordinated with Con Edison's ETIP programs and managed as an integrated portfolio to optimize benefits.

The Joint Proposal provides for positive earning opportunities with respect to the New Programs, and Con Edison will receive EAMs if it achieves threshold savings levels for each of these programs. Achievement of the EE and system peak reduction thresholds are stretch goals for the Con Edison, and the targets and threshold levels increase in difficulty to attain over the 3-year rate period. At the threshold level, Con Edison can earn $8.8 million ($6.7 million for incremental EE and $2.1 million for system peak reduction) in incentives over the three year period. Similarly, Con Edison's potential earnings adjustments grow with the increased difficulty to achieve the targets over the term of the plan. At the target level, Con Edison can earn $24.6 million ($17.4 million for incremental EE and $7.2 million for system peak reduction)

[117] ETIP savings targets are 180,323 MWs per year and the Joint Proposal's Rate Year 3 EE target is 391,000 MWs.

in incentives over the three year period; and, at the maximum levels, the Company can earn up to $49.8 million ($34.8 million for incremental EE and $15.0 million for system peak reduction) in incentives over the three year period.

The costs associated with the New Programs at target levels are funded through base rates, with most costs being recovered over a ten year period, subject to downward-only reconciliation for any unspent program funds. Unlike most of the other program costs, the electric vehicle rate incentive payment costs related to the EV off-peak charging program will be treated as an expense and recovered from customers during each rate year. These costs are subject to caps and the Company will not receive additional funding, requiring the Company to leverage operational efficiencies to achieve beyond the target levels. Thus, the higher potential EAMs on a unit basis for savings achieved between the target and at maximum levels are reasonable. The Joint Proposal also establishes a requirement that these programs be cost effective on a portfolio basis and meet a Societal Cost Test Benefit Cost Analysis of 1.00 or higher, and that the BCA be filed three months prior to the beginning of the year. The Joint Proposal also requires Con Edison to file a back cast analysis of the BCA. These programs, and their respective EAMs, are responsive to the Commission's clean energy initiatives, REV initiatives, and the REV Track Two Order directive to develop positive earning opportunities for utilities that exceed the developed EE targets.

The Joint Proposal also establishes outcome-based performance metrics and associated EAMs intended to increase system efficiency and reduce energy consumption. Under the terms of the Joint Proposal, metrics and EAMs related to increased DER utilization, Customer Load Factor, and Energy Intensity will be developed through a collaborative process allowing for input from stakeholders. Parties with diverse interests are working to establish proposed metrics for each of the outcome based EAMs with a target completion date of November 1, 2016 such that the outcome based EAMs will be considered by the Commission concomitantly with the Joint Proposal. The DER utilization metric and associated EAM is intended to encourage Con Edison to work with DER providers and expand the use of DER in its service territory for the purpose of reducing customer reliance on grid-supplied electricity and for increasing beneficial electrification (e.g. batteries, ice storage and EV charging). The customer load factor metric and EAM is intended to incent Con Edison to improve the load factor of poor load factor customers in a manner which is consistent with REV's three environmental goals. The energy intensity metric will provide an incentive for reduced total usage on a per-customer (or other appropriate per unit) basis. The earnings opportunity related to the three outcome-based metrics increase significantly in value over the term of the rate plan. At the target levels, the Company EAMs associated with the three outcome-based metrics grows from $2.2 million in RY1 to $16.7 million in RY3, and at the maximum levels potential earnings grow from $5.4 million to $30.6 million over the same period. The outcome-based EAMs, coupled with the programmatic EE and system peak reduction EAMs, are responsive to this Commission's directive to begin developing outcome-based EAMs while simultaneously implementing meaningful incentives for Con Edison to deliver valuable EE and system peak reduction opportunities for the benefit of its customers.

2. Distributed Generation Interconnection Earnings Adjustment Mechanism

With a goal of expediting the interconnection process to promote development of DERs, the Commission, in its REV Track Two Order, required utilities to propose DG Interconnection EAM as part of rate case filings.[118] The Commission indicated that the EAM should include three components: a threshold condition of interconnection timeliness, a customer satisfaction survey, and an independent third-party audit of failed applications.

The Joint Proposal establishes a five basis point DG Interconnection EAM for RY2 and RY3.[119] It also provides that parties may seek Commission approval for a change in the basis point value of the DG EAM of up to five basis points, such that the value of the EAM could potentially be between 0 and 10 basis points if the Commission were to approve such a change. In addition, the Joint Proposal establishes a collaborative process to allow parties, DG developers, customers, and other stakeholders to provide input on the survey instrument to be used and the targets to be set for RY2 and RY3. Con Edison will be required to report on its performance under this EAM on an annual basis, and, if applicable, identify the reason(s) for not meeting the metrics.

---

[118] REV Track Two Order, pp. 85-87.

[119] Five basis points equates to approximately $7.95 million and $8.25 in RY2 and RY3, respectively.

K. Additional Gas Provisions

1. Residential Methane Detector Program

The Joint Proposal provides that the Company will work with Staff and interested parties to develop a residential methane detector program. Through the program, the Company will provide approximately $2 million of methane detectors, over the term of the Gas Rate Plan, to residential customers on a first-come, first-serve basis at no charge. Approximately one-half of the methane detectors will be provided to participants in the gas low income program. Con Edison will file a plan detailing the program with the Commission by December 31, 2016. Methane detectors alert customers to lower levels of gas that would not otherwise be detected through odorization, which, in turn, provides advanced warning of a gas leak and potentially avoids a natural gas incident.

2. Inside Gas Meters

The Joint Proposal requires the Company to relocate and install gas meters that are located inside a customer's premises outside when performing any planned service line replacements, new service installations, or under other circumstances that offer the customer and the Company the opportunity to relocate meters outside (e.g., major renovation projects), except in certain situations as outlined in the Joint Proposal. Relocating the gas meters outside or into an accessible location should result in additional savings for accounts without a customer of record (e.g. estimating bills, notification of possible landlords, meter locking) and work associated with illegal, unauthorized piping (e.g. turn off or close lockable controlling valve to isolate the supply of gas), which ultimately would result in savings for customers.

3. Workforce Development

The Gas Supply & Reliability Panel recommended that Con Edison expand its current workforce development program to train new employees and provide opportunities for existing personnel to become qualified to perform additional tasks. The Joint Proposal provides that the Company will continue to work with local schools, labor unions and other qualified organizations to administer a workforce development program to train future utility workers to meet the Company's increased operational needs.

4. Fire Department Gas Emergency Training

The Joint Proposal provides for upgrades at the Westchester County Gas Emergency Training Facilities, as well as additional funding for gas emergency training programs. Both local fire departments and Con Edison responders play a critical role in responding to natural gas odors, leaks, and incidents. A robust gas emergency training program with fire department first responders will benefit the public through increased awareness of and response to natural gas emergencies.

L. Customer Operations Provisions

1. Customer Service System Replacement

In its direct case, the Company indicated its intent to move forward with a full replacement of the CSS with a new commercial off-the shelf system that will provide for updated software programming, improved billing functions and increased customer access to account and usage information, beginning in the first quarter of 2020.[120] In its testimony, Con Edison proposed to maintain the sustainability of the existing CSS until its replacement through, among other things, system upgrades and functional enhancements at a total capital cost of approximately $45 million over a five-year period, with $30 million of the costs to be incurred during the term of the Rate Plans.[121] Con Edison stated that, without such upgrades, the CSS would be increasingly difficult to support and maintain until its replacement beginning in 2020.[122] In its testimony, Staff noted that future investment in the maintenance of the current CSS, which is over 40 years old, was no longer financially reasonable and recommended that the Company accelerate its CSS replacement schedule.[123] For that reason, Staff recommended that the Company expedite its proposed schedule to fully deploy CSS replacement and, at this time, implement only those changes required for CSS system viability.[124]

The Joint Proposal expedites the Company's replacement of the CSS from the proposed start date of 2020 to 2018 with completion in 2023. While the replacement of the entire CSS represents a significant investment, it will provide for greater reliability and flexibility and enable important programming changes. In addition, the Company will avoid costs related to the maintenance and support of the outdated system that it would otherwise incur if Con Edison

[120] The Company noted that this plan was based on the findings of a third-party customer survey authorized by the Commission in the 2014 Rate Order. Company Customer Operations Panel, Initial, pp. 76-77.
[121] Company Customer Operations Panel, Initial, p. 77-79.
[122] Id. at 79.
[123] Staff Consumer Policy Panel, Initial, pp. 42-45.
[124] Id. at 44.

were to defer the CSS replacement until 2020. The complete replacement of the CSS will improve the Company's operations and customer services and, for these reasons, this provision is in the public interest and should be adopted.

2. Data Access

In its pre-filed testimony, the Company proposed a capital project that would interface the Benchmarking Web-Service with Portfolio Manager which would largely automate the process to provide aggregated whole building data to building owners.[125] In its initial testimony, Staff proposed that the fee designed to recover the labor costs of providing this data should accordingly be reduced, but not eliminated.[126] Staff noted that, while the fee for such data could be eliminated, a "beneficiaries pay" approach (such that customers whom request this data pay for the annual revenue requirement of the related capital project) is appropriate. Accordingly, Staff recommended a charge of approximately $15 per request.[127] The City proposed that Con Edison eliminate the charge to customers for requesting aggregated whole building data, and instead hire an outside vendor to automate the process of providing these data directly to the United States Environmental Protection Agency's ("EPA") online Portfolio Manager.[128] In its rebuttal testimony, the Company stated that it is willing to eliminate the charge for aggregated whole building data provided its costs of providing such data was socialized and included in the Company's revenue requirement.[129] Additionally, the Company noted that a great majority of the process for obtaining aggregated whole building data is already automated and that hiring an outside vendor to further automate the process would be more expensive than if the Company were to do so internally.[130]

The Joint Proposal provides for the elimination of the fee for the provision of aggregated whole building data, as well as automated upload of such data to the EPA's Portfolio Manager, provided that Con Edison reserves the right to petition the Commission for authorization to charge fees for providing building-level data or other data consistent with the Track Two Order. The terms of the Joint Proposal are reasonable because it eliminates a significant fee for

---

[125] Company EIOP, Initial, Exhibit__(EIOP-1), Schedule 3, p. 7.
[126] Staff Electric Rates Panel, Initial, pp. 32-33.
[127] Id. at 33
[128] City Policy Panel, Initial, pp. 13-19.
[129] Company Customer Operations Panel, Rebuttal, p. 52.
[130] Id. at 54.

providing a building owner data from its own building, brings Con Edison in line with other utilities which do not charge customers for such data, and maintains the Company's right to develop and request authorization to charge PSRs for data as envisioned in the Commission's Track Two Order.

The Joint Proposal also adopts the Company's proposal to implement and develop Green Button Connect ("GBC") functionality with respect to customer usage information, which will be operational at the end of 2017.[131] The Company will develop a secure web portal on its website which will enable customers or authorized third parties authorized to access granular usage data.[132] The Company will further pursue the potential adoption of other data sets in Rate Years 2 and 3, such as billing information, meter information, account information and customer information.[133] This provision is consistent with the Commission's directive in the Distributed System Implementation Plan Guidance, which requires utilities with AMI deployment plans to submit a plan, budget and timeline for implementing GBC or a suitable alternative.[134] GBC empowers customers and will aide in the achievement of several REV objectives by providing a platform for customer interactions with third parties that are offering products and services which may result in additional savings for customers and reduce energy usage. For these reasons, this provision is reasonable and should be adopted.

3. Inactive Gas Accounts

The Joint Proposal includes steps that the Company will take to improve its gas service termination processes with respect to inactive gas accounts, including, among other things, better coordination with NYC, Westchester County and other municipalities in the County. Con Edison will also develop a voluntary Leave on for Landlord program, which will result in fewer site visits. The improvement of the inactive gas account process will improve safety in the Company's service territory and, therefore, this provision should be adopted.

4. Forms of Identification for Service Applications

In its initial testimony, UIU proposed that the Company accept Individual Identification Number (ITIN) and New York City Identification Card (IDNYC) as two additional forms of

---

[131] Company Customer Operations Panel, Initial, pp. 47-48.
[132] Staff Consumer Policy Panel, Initial, p. 19.
[133] Case 15-E-0050, supra, AMI Customer Engagement Plan (filed July 29, 2016), p. 42.
[134] Case 14-M-0101, supra, Order Adopting Distributed System Implementation Plan Guidance (issued April 20, 2016), Attachment 1, p. 13.

identification for service applications to allow New Yorkers without Social Security numbers to gain access to electric and gas service.[135] The ITIN is a processing number issued by the Internal Revenue Service to individuals who are required to have a U.S. taxpayer identification but are not eligible for a Social Security Number. The IDNYC is personal identification card issued by the City of New York designed to help individuals who have difficulties in obtaining other government issued forms of identification.[136] In its rebuttal testimony, the Company stated that it was willing to consider the acceptance of these two forms of identification for service applications.[137] The Joint Proposal provides that the Company will accept ITIN and IDNYC cards as acceptable forms of identification for service applications. This provision is in the public interest because it will allow a larger population of New Yorkers to obtain access to electric and gas service and, therefore, should be adopted.

5. Notifications for Potential Replevin Action

During the course of settlement negotiations, the Company worked with PULP and other interested parties to develop a letter to be used when notifying customers when the Company is initiating replevin actions of residential meters. Specifically, the letter explains how customers can respond to legal action initiated by the Company to seize its residential meter and provides information related to customer rights and responsibilities. The Company has agreed to send the notice to customers approximately seven to 10 days prior to the initiation of a replevin action by Con Edison. This provision of the Joint Proposal is in the public interest and should be adopted because it will greatly benefit ratepayers who may lack knowledge about the replevin legal process and any rights and responsibilities they might have in the context of those proceedings.

6. Digital Customer Experience

The Joint Proposal adopts the Company's proposal to implement Digital Customer Experience (DCX), a multi-channel digital upgrade to its external communications platforms, mobile website, redesign of its internet website, *My Account* network customer portal, and its smartphone application.[138] These upgrades will offer new technologies to customers, including online billing and payments, smartphone applications, usage analysis tools, access to weather

[135] UIU Witness Collar, Initial, pp. 19-21.
[136] Collar, Initial, pp. 19-20.
[137] Company Customer Operations Panel, Rebuttal, p. 102.
[138] Company Customer Operations Panel, Initial, pp. 19-21.

and pricing information, storm response and outage notifications, and utility control of customer devices such as smart thermostats.[139] In its direct testimony, Staff supported the implementation of DCX as it will incorporate additional customer access to energy usage information and third party products and services, including customer engagement opportunities through the GBC My Data program and AMI deployment.[140] This proposal is reasonable and should be adopted.

7. Outreach and Education

The Company will continue to file with the Secretary on an annual basis its outreach and education plans and summary assessment reports (with copies to the Director of the Office Consumer Services). In addition to the continuation of its core outreach and education programs, the Company will incorporate activities intended to inform the public about new programs and projects, including DCX, GBC My Data and AMI deployment.[141] The Joint Proposal is reasonable because the outreach and education plans and summary assessment reports will include detailed budgets and describe the specific campaign messages to be disseminated, the communications vehicles to be used, the goals of the programs, criteria for measuring achievements, and results of accomplishing the goals. This process will ensure that outreach and education activities are fully developed, adequately funded and not duplicative. For these reasons, this provision of the Joint Proposal should be adopted.

8. Mandatory Hourly Pricing

In its pre-filed testimony, Con Edison proposed to expand its Mandatory Hourly Pricing (MHP) program to include customers with peak billed demand between 300 and 500 kW.[142] Currently, the Company's MPH program includes customers with demand 500 kW and above. The Company's plan to expand MHP was staged over a five-year period coinciding with the deployment of AMI. Staff, however, noted a preference for the expansion to take place at one time for all new MHP customers in the peak billed demand category of 300-500 kW because it would provide a smoother transition for new MHP customers.[143] Staff further noted that delaying the expansion of MHP until after all AMI meters are installed would allow for a single transition date, instead of six separate dates in each of the five boroughs and Westchester service

---

139 Id. at 23.
140 Staff Consumer Policy Panel, Initial, pp. 16-17.
141 Staff Consumer Policy Panel, Initial, p. 49.
142 Company Customer Operations Panel, Initial, p. 59.
143 Staff Witness Graves, Initial, p. 7.

territory as AMI meters are installed. A single transition to MHP would enable Con Edison to better tailor MHP education to specific customers' needs and avoid any confusion that could arise from six transition periods.[144]

The Joint Proposal provides that the MHP program will continue "as is" during the Electric Rate Plan, and, once the Company completes the territory-wide implementation of AMI, Con Edison will expand its MHP program to include customers with demands over 300 kW. As previously explained, delaying the implementation of this expansion until after the territory-wide completion of AMI installation is complete will create a smoother transition for this large pool of customers. For these reasons, this provision is reasonable and should be adopted.

9. Uncollectible/Residential Service Termination Positive Incentive

In its direct testimony, Staff recommend an incremental uncollectible/residential termination incentive where the Company could receive a maximum positive revenue adjustment of $15 million (10 basis points) if uncollectibles did not exceed $37.1 million and terminations did not exceed 62,000 per year; or, alternatively, a maximum negative revenue adjustment of $15 million if uncollectibles exceeded $60.6 million and terminations exceeded 99,000 per year.[145] The Company provided rebuttal testimony opposing the incentive mechanism on the basis that a number of factors that contribute to both uncollectibles and terminations are beyond the Company's control.[146] In addition, the Company provided updated uncollectible data which adjusted the lower and upper thresholds to $41.1 million and $68.6 respectively.[147]

The Joint Proposal establishes an annual tiered incremental uncollectible/residential termination incentive where the Company will earn a positive incentive of $6 million if it effectively reduces residential service terminations below 62,000 and residential uncollectibles below $45.7 per year; $4 million if residential service terminations are reduced below 65,000 and uncollectibles below $45.7 million per year; and $2 million if terminations are reduced below 68,000 and uncollectibles below $48 million per year. Any positive adjustment earned will be allocated based on the common cost allocation for Customer Accounting Expenses (84%/16%).

---

[144] Id. at 8-9.
[145] Staff Consumer Policy Panel, Initial, p. 73.
[146] Company Consumer Operations Panel, Rebuttal, pp. 91-92.
[147] Id. at 97. Staff initially calculated its proposal on a five-year average of $48.9 million in residential uncollectibles; however, using the Company's corrected numbers, the five-year average increased to $54.8 million.

Excessive use of service terminations as a credit and collections tool may jeopardize the health, safety and welfare of New Yorkers and high uncollectibles contribute to higher ratepayer costs. This incentive will help to avoid such risks and expenses for ratepayers and, thus, is in the public interest and should be adopted.

M. Advanced Metering Infrastructure

1. AMI Scorecard

AMI technology and the information that can be provided through AMI will provide vast benefits to Con Edison and its customers. To maximize the potential benefits of AMI, the Commission required Con Edison to propose AMI metrics to monitor and track Con Edison's progress with the implementation of AMI.[148] On April 22, 2016, the Company filed supplemental testimony in these rate proceedings describing the Company's proposed metrics. The Company proposed 21 different metrics in seven areas: customer engagement – online portal; customer engagement – awareness; education and outreach; billing; outage management; system operations and environmental benefits; equipment failures; and DG integration.

Staff, Pace, and EDF recommended modifications to the metrics proposed by Con Edison. Staff recommended using some of the metrics as proposed by Con Edison; however, Staff also recommended an AMI deployment metric and incentive as an effort to ensure that customers and Con Edison would realize benefits from the AMI infrastructure as soon as possible.[149] This metric was also meant to address concerns associated with difficult installation locations, as discussed in the AMI Order. In its testimony, Pace generally supported the metrics proposed by the Company, but also recommended numerous additional and more frequent reporting requirements.[150] EDF also generally supported the proposed metrics, but recommended that the Company be required to report on additional metrics that capture the progress toward achieving the benefits of AMI as laid out in Con Edison's AMI Panel and Business Plan.[151] The Joint Proposal addresses these recommendations and concerns by including 17 metrics covering numerous areas, including meter deployment as recommended by Staff.

[148] AMI Order, pp. 46-47.
[149] Staff AMI Panel, Initial, pp. 24-59.
[150] Pace Witness Bourgeois, Initial, pp. 8-11.
[151] EDF Witness Badtke-Berkow, Initial, p. 4.

2. AMI Platform Service Revenues

In the REV Track II Order, the Commission indicated that transitive-based revenues are at the heart of the REV initiative,[152] and therefore set criteria for all regulated utilities to earn revenues from activities that facilitate growth of the markets. As PSRs are derived from monopoly functions, the Commission stated that a large percentage of these revenues should be returned to ratepayers.[153] The Joint Proposal addresses this issue by specifying that 80% of any PSRs that Con Edison receives, should it be able to use the AMI system to provide additional revenue sources, will be preserved for rate payer benefit.

3. AMI Customer Awareness Earning Adjustment Mechanism

In the REV Track Two Order, the Commission indicated its preference to transition to outcome oriented EAMs.[154] Accordingly, the Staff AMI Panel recommended a Customer Engagement EAM.[155] Staff proposed this EAM due to the significant capital commitment associated with AMI and the potential benefits customers can achieve as a direct result of the implementation of AMI.

The Joint Proposal includes an EAM for AMI Customer Awareness, designed to measure customers' knowledge of the features and benefits of AMI. Con Edison will conduct a survey prior to AMI deployment in each region to determine a baseline for setting targets. At the completion of AMI deployment in each region, the Company will conduct another customer awareness survey. If Con Edison achieves or exceeds the target in the post-AMI deployment survey, it will receive $250,000 with a maximum potential earning of $500,000 during the term of the Rate Plan, based on Con Edison completing AMI deployment in two regions each year.

N. Electric and Gas Low Income Programs

On May 20, 2016, the Commission issued the Low Income Order, which, among other things, established a comprehensive single State-wide low income program design for electric and gas utilities.[156] The Company will implement electric and gas low income programs consistent with the Commission's Low Income Order. During the transition process, certain

---

[152] REV Track Two Order, p. 46.
[153] Id.
[154] REV Track Two Order, p. 2, 6, 70, 86.
[155] Staff AMI Panel, Initial, p. 25.
[156] Staff Consumer Policy Panel, Initial Testimony, pp. 52-56.

parts of the programs will be implemented at different dates over the term of the Rate Plans.[157] The Electric and Gas Low Income Programs will recover $54.7 million of discounts for electric and $10.9 million of discounts for gas in each Rate Year. The majority of the Joint Proposal provisions related to the Electric and Gas Low Income Programs were implemented based on the Commission's directives contained in the Low Income Order and, for that reason, should be adopted.

1. Customer Enrollment

The Joint Proposal maintains the Company's current enrollment procedures established with the New York City Human Resources Administration and Westchester County Department of Social Services (the "Agencies"). To facilitate the reconciliations, the Joint Proposal maintains the Company's contribution of up to $50,000 in each Rate Year towards the Agencies' mailing costs, not to be recovered in rates. In addition, the Company will provide the Agencies up to $50,000 in Rate Year 1, not recovered in rates, for the administration costs of adding Medicaid as a qualifying program to the Electric Low Income Program.

2. Electric and Gas Customer Qualification

The Joint Proposal modifies the current criteria, as required in the Low Income Order, with the addition of Medicaid as a qualifying program to the Electric Low Income Program starting January 1, 2017. As in the existing programs, all qualifying customers will be accepted into the programs without limitation.

3. Electric and Gas Low Income Discount Program

The Joint Proposal modifies the Company's current discount program, providing eligible electric customers with a $10 discount and all SC 1 gas non-heat customers with a $3 discount in RY1. SC 3 gas heating customers will continue to receive a discount of $0.4880 per therm for usage in the 4-90 therm block, as well as a $7.50 discount on their otherwise applicable minimum charge. In RY2, and going forward, the Company will implement the tiered discount level approach consistent with the Low Income Order.

4. Reconnection Fee Waivers

The Joint Proposal continues the Company's reconnection fee waiver program with one modification. The Company will now provide one waiver per customer each Rate Year

[157] Company Customer Operations Panel, Rebuttal, pp. 82-84.

(formerly, each rate plan) and continue to grant additional waivers on a case-by-case basis. Reconnection fee waiver programs are optional under the Low Income Order as long as the budget for such programs does not exceed 1 percent of the total low income budget and is incremental to the rate discount budget where funding for rate discounts is not limited. If, after the first six months of a Rate Year, the reconnection fee budget is expected to exceed the target, the Company will limit the waiver to 50 percent of the total reconnection fee. Once the cost of waiver program reaches the target budget during any Rate Year, the program will end.

5. Cost Recovery

The Joint Proposal allows all under-and over-recoveries associated with the low income discounts and the waiver of reconnection fees. In addition, up to $50,000 per year for the Agencies' administrative costs above the first $50,000 will be passed through the RDM to all customers subject to the RDM for the Electric Low Income Program. This provision is reasonable and takes into account that, if the Electric Low Income Program continues beyond the term of the Electric Rate Plan, but the RDM as currently structured does not, continuation of the Low Income Program will be contingent upon the implementation of an equivalent mechanism that provides for full recovery of the low income customer charges/discounts, waiver of reconnection fees, and up to $50,000 per year for the Agencies' administrative costs above the first $50,000.

6. Reporting Requirements

The Joint Proposal requires Con Edison to file quarterly reports on the Low Income Program, beginning the first quarter after January 1, 2017. For RY1, Con Edison's reports will contain the information required by the Joint Proposal, broken down by NYC and Westchester County participants; beginning January 1, 2018, the Company will report the data required pursuant to the Low Income Order.

O. Studies and Collaboratives

1. Interconnection Procedures Collaborative

The Joint Proposal addresses concerns regarding Con Edison's internal process for dealing with interconnection applications by initiating a collaborative with the New York State

Distributed Generation Ombudsman ("State Ombudsman").[158] The collaborative will be used to streamline Con Edison's internal process and improve communications with DG applicants. Any modifications resulting from the collaborative shall be in accordance with the Standardized Interconnection Requirements.

The collaborative will be used as a forum to discuss: 1) development of customers, developer, and Company checklists of requirements for transparency; 2) improvement to written materials for developers; 3) scheduling of project meetings; (4) streamlining the internal review process for failed DG inspections when requested by customer; (5) procedures and processes for streamlining and improving the interconnection process; (6) procedures for soliciting and submitting information, such as drawings or project plans to and from Con Edison; (7) timelines for reviews of project information; and (8) customer requests for estimates of interconnection costs.

The Joint Proposal details the topics to be discussed in the Interconnection Procedures collaborative and the timeframes for when certain actions to be taken. Specifically, the collaborative will begin in October 2016 and conclude after six months at which point Con Edison will file a report. The report will detail topics discussed, recommendations developed, and actions taken or to be taken to implement the recommendations, and, if applicable, the Company's reasoning for why it has not or will not implement a recommendation(s).

2. Marginal Cost Study

In its testimony, Staff recommended that the Company update its Electric marginal cost of service (MCOS) study to provide a more granular level (down to the substation level) of demand and cost information to implement the goals of REV and maximize the potential value that could be obtained from distributed opportunities resulting from REV-related proceedings.[159] For gas, Staff recommended that the Company perform a detailed analysis estimating the costs to serve all customers, both firm and interruptible.[160]

The Joint Proposal requires the Company to initiate discussion with Staff, with input from interested parties, to agree upon an approach for the Company to develop and apply

[158] The State Ombudsman includes representatives from the Department and NYSERDA and leads two working groups, the Interconnection Policy Working Group and the Interconnection Technical Working Group.
[159] Staff Witness Andruski, Initial, pp. 7-8.
[160] Id. at 21.

marginal cost studies in future filings. This provision is reasonable and should be adopted because more granular marginal cost studies will aid in the implementation of REV-related initiatives and maximize the potential value of those initiatives.

3. Gas Peak Demand Reduction Collaborative

The Company will collaborate with Staff and interested parties to examine the impacts of current delays of upstream interstate pipeline construction on growing demand associated with oil-to-gas conversions and new business, and explore gas peak demand reduction incentives, including demand response. Phase 1 of the collaborative will examine the ability of customers using solar thermal and/or geothermal technologies to reduce gas peak demand and, in turn, the need for additional infrastructure investment. The second phase will consider the results of the Phase 1 analysis and potential peak demand reduction incentives (e.g. peak demand reduction program for firm dual-fuel customers) and opportunities for interruptible and non-firm customers to contribute to peak demand reduction.

4. Interruptible Gas Collaborative

In its Gas Supply Panel testimony, the Company proposed to allocate 8% of its pipeline capacity costs and 8% of its transmission level facilities costs to electric customers.[161] Staff's Gas Policy Panel testimony rejected Con Edison's proposal and instead recommended that the Company perform an interruptible gas customer cost study to better determine the costs Con Edison incurs to serve these customers.[162] The Joint Proposal requires the Company to examine interruptible rates in a two-part collaborative, beginning first with an interruptible gas study and concluding with a report to be submitted by the Commission detailing the results of the study and any recommended changes. The Company will work with Staff and interested parties to file the report by December 31, 2018.

5. CNG Access Study

The Staff Gas Supply & Reliability Panel recommended that Con Edison evaluate the potential for incremental expansion of its Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG), as well transportation fueling capability within its service territory.[163] Specifically, Staff recommended that the Company focus on the costs and benefits associated with allowing

[161] Company Gas Supply Panel, Initial, pp. 32-47.
[162] Staff Gas Policy Panel, Initial, pp. 35-39.
[163] Staff Gas Supply & Reliability Panel, p. 7.

non-company fleet customer usage of the proposed CNG fueling station in the Bronx, as well as using LNG to reduce diesel usage and associated emissions.[164]

The Joint Proposal provides that the Company will perform a study to review public access at its current and proposed CNG facilities and, if it is determined that greater access for non-fleet vehicles is feasible, the Company develop a cost structure and process for billing non-fleet vehicles at these facilities. The Company commits to filing the study with the Secretary by September 30, 2017.

6. Climate Change Vulnerability Study

Con Edison was previously directed to complete a climate change and vulnerability study to aid in the ongoing review of the Company's design standards and development of a risk mitigation plan.[165] Con Edison was further required to make the study available for the Commission's use no later than March 2019.[166] The Commission expressed concern about the unknown cost of the Comprehensive Climate Change and Vulnerability Study,[167] and, therefore, required that final approval of costs related to this study would be addressed in Con Edison's next rate cases. The Commission further directed the Company to seek alternative sources of funding for this study.

The Joint Proposal appropriately addresses these issues by including a $4 million cap on cost of the study. The Company is also required to seek alternative sources of funding for the study, including working with NYC and other utilities with service territories in the NYC/Westchester area. In addition, the Joint Proposal recognizes the need to complete the study by December 31, 2019.

7. Building Meter Conversion Study

In testimony, Staff recommended that the Company convert individually metered residential non-heat customers in multi-unit buildings to a single building meter on the basis that such a conversion would result in operational savings associated with meter reading, billing

---

[164] Staff Gas Supply & Reliability Panel, pp. 6-8.
[165] 2014 Rate Plan, p. 71.
[166] Case 13-E-0030, supra, Order Adopting Storm Hardening and Resiliency Phase Two Report Subject to Modifications (issued February 5, 2015), p. 22.
[167] Case 13-E-0030, supra, Order Adopting Storm Hardening and Resiliency Phase Three Report Subject to Modifications (issued January 25, 2016), p. 25.

costs, call center costs and uncollectibles.[168] Staff noted that an EAM would encourage the Company to pursue such conversions and, therefore, recommended that the Company propose an EAM in its rebuttal testimony. In its rebuttal testimony, Con Edison rejected Staff's recommendation, indicating that the reconfiguration of internal building piping systems could be very complex and expensive to both the Company and building owners.[169] The Company further noted that building owners would be responsible for monthly billing, which would likely result in the need to renegotiate lease agreements.

The Joint Proposal requires Con Edison to retain a consultant to perform a study examining the costs and feasibility of a Company-wide building meter conversion effort. In conducting the study, the consultant will analyze the costs and challenges associated with a conversion of a selected building. This study will provide important information on the coordination necessary to complete a successful building conversion, as well as the costs associated therewith, which could be useful in developing a successful program in the next rate case.

P. Miscellaneous Provisions

The Joint Proposal contains a number of provisions that provide general terms for the agreement, or continue certain aspects of Con Edison's current rate plans without modification. These provisions, contained in Section P, Miscellaneous Provisions, of the Joint Proposal, represent matters that were not disputed by any parties and are uncontroversial in nature. Additionally, these terms and conditions are in general conformance with those typically seen in rate plans of this type.[170] These provisions are reasonable and should be adopted.

There is, however, one new provision in this section related to the implementation of ring-fencing measures. The Joint Proposal recommends that a process be implemented in the event Con Edison's non-utility businesses grow to a point that these riskier ventures have the potential to cause undue harm to the Company. The need for this new provision was prompted by the recent growth of Con Edison's non-utility businesses. Specifically, the Joint Proposal establishes a target that triggers review of the need to implement ring-fencing measures. This provision states that, if the non-utility businesses grow beyond the specified target, the Company

---

[168] Staff Gas Policy Panel, Initial, pp. 20-22.
[169] Company Gas Infrastructure and Operations Panel, Rebuttal, pp. 158-159.
[170] See NYSEG/RG&E 2016 Rate Order.

must file a ring-fencing plan to insulate the utility from the non-utility businesses or, in the alternative, demonstrate why additional ring-fencing measures are not necessary at that time. The Joint Proposal's implementation of a target is beneficial because it ensures that sufficient review will occur should the size of the non-utility businesses reach a point where there is the potential for harm to the Company through a downgrade in ratings.

CONCLUSION

The terms of the Joint Proposal entered into in these cases fully satisfy the Commission's Settlement Guidelines. Taken as a whole, the Commission can reasonably conclude that the terms of the Joint Proposal would fall within the potential result of litigated cases. As noted above, the fact that the Company, Staff, and 21 other parties have signed on to the Joint Proposal testifies to the proper balancing of the interests of ratepayers and Con Edison contained in its terms. The Joint Proposal continues and advances the Commission's goals and policies, while minimizing the potential economic impact of the recommended rate increases on ratepayers. Con Edison, meanwhile, will receive sufficient funding to operate and manage its electric and gas businesses, implement new programs and current and forthcoming REV initiatives and make repairs and improvements to its electric and gas systems to maintain its ability to provide safe and reliable service. Importantly, many of the terms of the Joint Proposal set the stage for the regulatory and policy objectives envisioned in the REV Track Two Order.

While the Joint Proposal does not directly address issues related to the Company's most recent management audit, the issues raised in Staff's testimony have been satisfactorily resolved. In fact, during the pendency of these proceedings, the audit was officially closed by the Director of Management and Operations Audits, as detailed in the May 5, 2016 letter, attached hereto as Appendix D.

For all of the above reasons, Staff respectfully recommends that the terms of the Joint Proposal be found to be in the public interest and adopted by the Commission in their entirety.

Respectfully submitted,

_________/s/_________

Lindsey Overton Orietas
John Favreau
Anthony Belsito
Jalila Aissi

Dated: October 13, 2016
Albany, New York

Consolidated Edison Company of New York, Inc
Reconciliation of Electric Revenue Requirements
For the Rate Years Ended December 31, 2017, 2018 and 2019
($000)

	Current Electric Rates vs. Joint Proposal Rate Year 1 Rate Year Ending December 31, 2017	Joint Proposal Rate Year 1 vs. Joint Proposal Rate Year 2 Rate Year Ending December 31, 2018	Joint Proposal Rate Year 2 vs. Joint Proposal Rate Year 3 Rate Year Ending December 31, 2019
Join Proposal Revenue Requirements	$242,330	$155,315	$155,206
Changes in the Cost of Electric Service		**Revenue Requirement Effect**	
Electric Sales Revenues	$218,880	($56,450)	($29,356)
Other Electric Operating Revenues			
Transmission Congestion Charges Credits	15,448	0	0
All Other Electric Operating Revenues	3,738	(787)	(2,110)
Total Other Electric Operating Revenue	19,186	(787)	(2,110)
Amortization of Regulatory Deferrals			
SIR Program Cost Recovery	(23,468)	6,260	5,670
Energy Efficiency Programs	2,035	4,941	10,927
T&D Deferral (C. 07-E-0523)	0	(15,018)	0
All Other Regulatory Deferrals	(14,118)	4,950	(2,036)
Total Amortization of Regulatory Deferrals	(35,551)	1,133	14,561
Operations & Maintenance Expenses			
Company Labor Expense	27,449	11,523	7,304
Electric Operations	12,515	6,468	5,818
Customer Operations	9,208	8,207	1,801
Interference Expense	8,789	2,706	(727)
Pension & OPEB Expenses	(106,982)	(21,303)	(51,800)
Employee Welfare Expenses	(18,839)	2,842	2,903
Additional Productivity Imputation	(13,808)	0	0
Uncollectible Accounts Expense	(12,295)	325	50
Substation Operations	(8,551)	503	515
Injuries & Damages	(7,592)	854	873
All Other O&M Expenses	(5,148)	9,548	3,742
Total Operations & Maintenance Expenses	(115,255)	21,673	(29,521)
Depreciation Expense			
Increase for Book Depreciation	39,644	50,430	59,132
Amortization of Reserve Deficiency	12,152	0	
Amortization of Hudson Avenue Station	3,944	0	
Total Depreciation Expense	55,740	50,430	59,132
Taxes Other Than Income Taxes			
Property Taxes - New York City	49,572	65,692	67,028
Property Taxes - Upstate & Westchester	17,801	6,707	8,348
All Other Taxes Other Than Income Taxes	4,071	1,250	1,323
Total Taxes Other Than Income Taxes	71,444	73,649	76,699
Income Taxes (flow-through items)	(17,928)	8,582	6,506
Rate Base			
Net Plant	89,780	94,075	97,513
EBCap Adjustment	17,525	0	0
NIBCWIP	11,612	(3,682)	3,368
Hudson Avenue (Transferred from Steam)	7,559	(385)	(372)
Unamortized Balance of Regulatory Deferrals	5,647	(5,801)	8,779
Accumulated Deferred Income Taxes	(63,838)	(36,765)	(37,031)
Working Capital	(5,695)	2,027	1,181
All Other Rate Base Items	(1,182)	12,478	(213)
Total Rate Base	61,408	61,947	73,225
Rate of Return	(17,402)	(3,936)	(14,234)
Unreconciled Revenues	1,808	(926)	304
Total Reconciled Revenue Requirements	$242,330	$155,315	$155,206

Consolidated Edison Company of New York, Inc
Gas Revenue Requirements Reconciliations
For the Rate Years Ended December 31, 2017, 2018 and 2019
($000)

	Current Gas Rates vs. Joint Proposal Rate Year 1 RYE December 31, 2017	Joint Proposal Rate Year 1 vs. Joint Proposal Rate Year 2 RYE December 31, 2018	Joint Proposal Rate Year 2 vs. Joint Proposal Rate Year 3 RYE December 31, 2019
Recommended Gas Revenue Requirements	$35,483	$92,337	$89,453
Changes in the Cost of Gas Service		**Revenue Requirement Effect**	
Gas Sales Revenues	($78,924)	($25,407)	($21,608)
Other Gas Operating Revenue	(7,083)	(1,130)	(638)
Amortization of Regulatory Deferrals			
Recovery of Deferred SIR Costs	(4,708)	1,299	1,176
All Other Regulatory Deferrals	(35,634)	7	7
Total Amortization of Regulatory Deferrals	(40,342)	1,306	1,183
Operations & Maintenance Expenses			
Gas Operations (Non-Labor related expenditures)	49,095	4,157	2,768
Company Labor	21,773	3,673	2,134
Interference	7,981	(47)	(1,409)
Pension / OPEBs	6,617	(4,424)	(10,755)
Employee Welfare Expenses	2,902	589	601
All Other O & M Expense	74	3,248	1,630
Total Operations & Maintenance Expenses	88,443	7,196	(5,031)
Depreciation Expense	24,958	20,909	22,291
Taxes Other Than Income Taxes			
Property Taxes	(6,327)	30,447	33,001
Payroll & All Other Taxes Other Than Income Taxes	1,193	259	264
Total Taxes Other Than Income Taxes	(5,134)	30,706	33,265
Income Taxes (Flow-through items)	16,853	5,237	3,732
Rate Base			
Net Plant	85,216	72,133	72,442
Non-Interest Bearing CWIP	16,484	(928)	2,718
EB/Cap Adjustment	9,417	-	-
Accumulated Deferred Income Taxes	(47,271)	(18,728)	(17,248)
Regulatory Deferrals (Net)	(3,327)	2,045	1,961
All Other Rate Base items	(49)	725	558
Total Rate Base	60,470	55,246	60,432
Rate of Return	(23,245)	(1,272)	(3,972)
Unreconciled Revenues	(513)	(454)	(202)
Total Reconciled Revenue Requirements	$35,483	$92,337	$89,453

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT

CECONY Multi-Year Rate Case Proposal Is Credit Positive

From Credit Outlook

Analyst Contacts:

NEW YORK	+1.212.553.1653
Ryan Wobbrock *Vice President - Senior Analyst* ryan.wobbrock@moodys.com	+1.212.553.7104

Last Tuesday, Consolidated Edison Company of New York, Inc. (CECONY, A2 stable), the staff of the New York State Public Service Commission (NYSPSC) and several rate-case interveners jointly proposed CECONY electric and gas rate plans for January 2017 through December 2019. The joint proposal is positive for CECONY because it shows a cooperative rate-case negotiation and agreeable outcome for several customer groups, and which would result in $1.2 billion of cumulative increased electric revenue and nearly $380 million of cumulative increased gas revenue over three years. We expect the revenue increases to increase CECONY's funds from operations (FFO)/debt to around 19% over the next three years from 17% for the last 12 months that ended 30 June 2016.

The proposed three-year rate plan is based on a 9.0% allowed return on equity (ROE) and a 48% equity layer in the capital structure. It also includes $199 million of annual electric revenue increases and gas revenue increases of around $36 million in 2017, $92 million in 2018 and $90 million in 2019. Because the joint proposal included several customer groups and the commission staff, we expect the NYPSC to approve it with few changes sometime before year-end.

We consider 19% FFO/debt to be weak for an A2 transmission and distribution utility. However, we see the 19% metric as a floor given that the company would be allowed to earn more than the stated 9.0% ROE and share excess earnings with customers, and because it has the potential to achieve incentive ROE adders for meeting certain efficiency targets.

The joint proposal addresses CECONY's future cost recovery, which had been uncertain over the past 18 months as increasing operating costs and robust capital expenditures have driven the need for a more comprehensive rate plan. Since the June 2015 NYPSC rate order, CECONY's last-12-month operating costs have grown by around 3% and capital expenditures have risen by around 15%, while last-12-month FFO has only grown by 2%.

Beyond the financial implications of the joint proposal, the multi-party filing is a significant positive because it offers clear evidence of cooperation between CECONY, the NYPSC staff and key customers. This collaborative relationship is essential for CECONY to maintain a stable and predictable financial profile, especially as New York makes progress in its Renewing the Energy Vision (REV) initiative. The REV initiative includes broad regulatory changes aimed at transforming the state's energy distribution system and customer use of energy over the next decade. A cooperative dialogue and mutually agreeable solutions for CECONY investments and cost recovery are critical as REV becomes a more material driver of the utility's operational and financial profile.

What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's Credit Outlook informs our research clients of the credit implications of current events.

Report Number: 192371

Author
Ryan Wobbrock

Production Specialist
Wing Chan

MOODY'S
INVESTORS SERVICE

NEW YORK STATE OF OPPORTUNITY. | Department of Public Service

Public Service Commission
Audrey Zibelman
Chair

Patricia L. Acampora
Gregg C. Sayre
Diane X. Burman
Commissioners

Kimberly A. Harriman
General Counsel
Kathleen H. Burgess
Secretary

Three Empire State Plaza, Albany, NY 12223-1350
www.dps.ny.gov

May 5, 2016

Mr. John McAvoy
4 Irving Place
Chairman and Chief Executive Officer
Consolidated Edison Company of New York, Inc.
New York, New York 10033

Re: Case 08-M-0152 – Comprehensive Management Audit of Consolidated Edison Company of New York, Inc.

Dear Mr. McAvoy:

The Office of Accounting, Audits and Finance of the Department of Public Service is confirming the completion of the implementation oversight of the audit recommendations in Case 08-M-0152 – Comprehensive Management Audit of Consolidated Edison Company of New York, Inc. Based on the last Implementation Plan Report Update dated January 28, 2015, and further information provided regarding recommendation 53, all recommendations have been implemented by Con Edison.

With respect to recommendation 53, Liberty had identified that "a comprehensive resource analysis be performed for all business units on a regular basis". Resource planning improvements reported by the Company, including implementation of the VEMO system, have satisfied the intent of recommendation 53 with regard to internal workforce planning. The Company has also demonstrated significant improvement assessing external resources, in particular through an improved, integrated annual budgeting and strategic planning environment. The Company is currently unable, however, to perform contractor versus in-house resource assessments on a regular basis, but this inability is due to a lack of methods and tools available in the industry to perform such analyses. More sophisticated resource planning methods and tools are being developed throughout the industry, and are being assessed by the Company. Further, the Company's resource planning efforts continue to undergo examination in the ongoing state-wide Staffing Operations Audit (Case 13-M-0449). In consideration of this, staff has determined that recommendation 53 is complete.

In sum, the reports and information provided have contained sufficient details about the completion of all recommendations from this audit to satisfy staff that the recommendations have been implemented.

Thank you for your efforts on this important project.

Sincerely,

Doug Elfner
Director, Management and
Operations Audit
Office of Accounting, Audits and
Finance

cc: Wilton Cedeno
Stuart Nachmias