BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Consolidated Edison Company of New York, Inc.

Cases 13-E-0030, 13-G-0031, and 13-S-0032

May 2013

Prepared Testimony of:
Staff Accounting Panel

Jane Wang
Public Utility Auditor 3

Claude Daniel
Public Utility Auditor 2

Mike Summa
Public Utility Auditor 3

Kevin Higgins
Supervisor, Utility Accounting
and Finance

Office of Accounting, Audits
and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

90 Church Street
New York, New York 1007

Q. Would the members of the Staff Accounting Panel please state your names, employer, and business addresses.

A. Jane Wang, Claude Daniel, Michael Summa and Kevin Higgins. We are employed by the New York State Department of Public Service (DPS or the Department). Our business addresses are Three Empire State Plaza, Albany, New York 12223 and 90 Church Street, New York, New York 10007.

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

A. I am employed as a Public Utilities Auditor 3 in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from Tsinghua University, Beijing, China in 1985 with a Bachelor of Science degree in Electric Power Engineering. I also received a Master's degree in Electric Power Engineering from Tsinghua University in 1988. I received a Master's in Business Administration from Union College, Schenectady, New York in 1997. Prior to joining the Department in April 2005, I worked at General Electric Company as a cost engineer and at Time Warner Cable as a Staff Accountant.

Q. Please briefly describe your responsibilities with the Department.

A. My responsibilities include routine examination of accounts, records, policies and procedures of regulated utilities and review of cost of service, rate of return, and other accounting matters in utility rate proceedings.

Q. Ms. Wang, have you previously testified before the Commission?

A. Yes, I submitted testimony in Case 05-S-1376, Con Edison – Steam Rates, Case 06-G-1332, Con Edison – Gas Rates, Case 07-E-0523, Con Edison – Electric Rates, Case 07-S-1315 Con Edison – Steam Rates, Case 08-E-0539 – Con Edison Electric Rates, Case 09-W-0731, United Water New York – Water Rates

Q. Mr. Daniel, what is your position in the Department?

A. I am employed as a Public Utilities Auditor 2 in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from Hunter College of the City University of New York with a Bachelor degree in Accounting and joined the Department in 1986.
Q. Please describe your responsibilities with the Department.
A. I routinely examine accounts, records, documentation, policies, and procedures of regulated utilities. I have also reviewed numerous petitions filed by Con Edison seeking authority for asset transfers, deferrals, reconciliations and refunds.
Q. Mr. Daniel, have you previously testified before the Commission?
A. Yes, I have prepared cost of service exhibits and offered testimony on various operating and maintenance (O&M) expense, taxes other than income taxes and rate base adjustments in previous Con Edison Electric, Gas and Steam Rate cases. I also testified regarding rate base items in rate cases involving New York Telephone Company.
Q. Mr. Summa, what is your position in the Department?
A. I am employed as a Public Utility Auditor 3 in

the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from the State University of New York at Plattsburgh and have Bachelor of Science degrees in Accounting and Business. I have been employed by the Department since early 2004. Previous to this, I was employed as a Senior Auditor at the State Education Department for three years.

Q. Please describe your responsibilities with the Department.

A. My responsibilities include the examination of accounts, records, documentation, policies and procedures of utilities that are regulated by the Commission and the development from that information of various analyses and recommendations to the Commission.

Q. Have you previously testified before the Public Service Commission?

A. Yes. I testified before the Commission in the following Central Hudson Gas and Electric Corporation's rate proceedings: Cases 09-E-0588 09-G-0589, 08-E-0887, 08-G-0888, 05-E-0934 and

05-G-0935. I also testified in the rate filing made by Jamestown Board of Public Utilities in Case 04-E-1485.

Q. Mr. Higgins, what is your position at the Department?

A. I am employed as a Utility Supervisor in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I am a graduate of the State University College of New York at Oneonta with a Bachelor of Arts degree in Business Economics. I have also earned an Associate degree in Accounting from Morrisville State College. I joined the Department in June 1987.

Q. Please describe your responsibilities with the Department.

A. My work as a Public Utility Auditor and Utility Supervisor has included the examination of accounts, records, documentation, policies and procedures of regulated utilities so as to develop issues for electric, gas, telecommunications and water rate proceedings, financing petitions, rate of return studies and other general accounting matters.

Q. Mr. Higgins, have you previously testified before the Commission?

A. Yes, most recently in Case 07-S-1315 Con Edison – Steam Rates, Case 08-E-0539 – Con Edison Electric Rates, and Case 09-E-0428 Con Edison Electric Rates.

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

A. Our testimony addresses accounting and ratemaking aspects of Con Edison Company of New York Inc.'s (Con Edison or the Company) electric, gas and steam rate filings. We will summarize Con Edison's electric, gas and steam filings from a revenue requirement perspective. We will also summarize Staff's electric, gas and steam revenue requirement recommendations. In addition, we will discuss our adjustments to the Company's rate year electric, gas and steam forecasts.

Further, we discuss Con Edison's proposal to continue its Smart Grid surcharge mechanism for certain Smart Grid project costs and our recommendation to discontinue it and transfer all of the Company's Smart Grid project costs to base electric rates. Finally, we will discuss the Company's request for deferral accounting for a number of its costs.

Q. Is the Panel sponsoring Exhibits?

A. Yes, we are sponsoring seven Exhibits.

Q. Would you please describe your Exhibits?

A. Yes. Exhibit___SAP-1 is Staff's electric cost of service presentation. Exhibit___SAP-2 is Staff's gas cost of service presentation. Exhibit___SAP-3 is Staff's steam cost of service presentation. We describe these exhibits in greater detail later in our testimony.

Exhibit___SAP-4 is Con Edison's letter to the Commission regarding the sale of its John Street property to Brooklyn Bridge Park Development Corporation. Exhibit___SAP-5 is Staff's proposal for sharing the gain resulting from the sale of the property.

Exhibit___SAP-6 shows the changes in Con Edison's employee headcount between December 2008 and December 2012.

Exhibit___SAP-7 lists the Company's costs, by service, which Staff recommends be subject to reconciliation in the rate year.

Exhibit___SAP-8 contains a number of responses to Staff Information Requests (IRs) that were produced during the discovery phase of this proceeding and Company supplied supporting work-papers that we refer to, or otherwise rely upon in the determination of Con Edison's electric, gas and steam revenue requirements.

Overview of Con Edison's Electric Rate Filing

Q. Would you summarize Con Edison's January 25, 2013 electric filing from a revenue requirement perspective for the rate year ending December 31, 2014?

A. In its initial filing, Con Edison requested a revenue requirement increase of approximately $375 million. Based on its March 25, 2013 preliminary electric update, the Company increased the amount of electric revenue relief it originally sought and is now requesting a revenue increase of approximately $411.9 million. This increase would result in an overall electric revenue increase, inclusive of Con Edison's projected electric supply costs, of 3.5%, or 7.9% on a delivery only revenue basis.

Overview of Staff's Position for Electric Rates

Q. What is the effect of Staff's adjustments on electric rate of return for the rate year ending December 31, 2014?

A. The adjustments, as shown on Exhibit___AP-1, Schedule 1, increase the electric rate of return before any proposed rates from 6.33% to 7.37%.

Q. What is the rate of return recommended by the Staff Finance Panel?

A. The Staff Finance Panel recommends a 6.76% rate of return based in part on an 8.70% return on equity.

Q. What is the required change in revenue requirement to achieve Staff's recommended rate of return?

A. The recommended change in electric revenue requirement is a $181.180 million decrease for the rate year ending December 31, 2014.

Q. What are the major electric cost elements Staff recommends be adjusted?

A. The adjustments fall into seven major categories: sales revenue; other electric operating revenues including the amortization of electric regulatory deferrals; operating and maintenance (O&M) expense; depreciation expense;

taxes other than income taxes; income taxes; and, rate base.

Q. Would the Panel indicate the amount of the adjustments for each of the seven categories?

A. Staff recommends that the Commission increase Con Edison's forecast of rate year electric sales revenues by $52.646 million.

Staff recommends that the Commission decrease Con Edison's forecast of rate year other electric operating revenues by $17.220 million. The major adjustments are related to Transmission Service Charge revenues, Transmission Congestion Charge revenues, and Purchase of Receivable (POR) discount revenues.

Staff recommends that the Commission decrease the Company's forecast of rate year O&M expense by $116.253 million. The major adjustments are related to the Company's requests for austerity, Company labor, employee welfare expenses, and interference expense.

Staff recommends that the Commission decrease the Company's forecast of rate year depreciation expense by $105.894 million. This adjustment reflects Staff's proposed rate year depreciation rates and the results of its electric depreciation reserve study.

Staff recommends that the Commission decrease the Company's forecast of rate year taxes other than income taxes by $3.724 million. The primary adjustments are to the Company's forecast of rate year Payroll Taxes and Subsidiary Capital Tax.

Staff recommends that the Commission decrease the Company's forecast of rate year rate base by $142.433 million. Staff adjusts the Company's forecast of plant-in-service, accumulated reserve for depreciation, non-interest bearing construction work in progress (NIBCWIP), regulatory deferrals, accumulated deferred income taxes (ADIT) and earning base capitalization (EBCap). Staff's O&M expense adjustments also impact the calculation of working capital reflected in rate base.

Finally, these recommended adjustments impact the calculations of New York State (NYS or State) and federal income taxes, primarily due to lower income resulting from the Staff witness Henry's recommended return on equity.

Q. Would you please describe your Exhibit___SAP-1.

A. Yes. As previously mentioned, Exhibit___SAP-1, is Staff's electric cost of service presentation. Exhibit___SAP-1 contains ten schedules. Schedule 1 is Staff's projection of electric operating income, rate base and rate of return for the rate year ending December 31, 2014, and includes our recommended revenue requirement. Schedule 1 is supported by Schedules 2 through 9.

Q. Please describe the format of Schedule 1.

A. Column 1 of Schedule 1 contains the electric income statement, rate base and rate of return figures as filed by the Company for the rate year, before any required revenue increase. Column 2 contains the Company's preliminary updates as of March 25, 2013. Column 3 reflects the income statement, rate base and rate of return figures as updated by the Company. Column 4 contains references to the supporting schedules that present Staff's adjustments set forth in Column 5. Column 6 presents Staff's projected rate year figures before any required revenue increase. Column 7 contains Staff's proposed changes in revenues, and Column 8 is Staff’s forecasted rate year electric income, rate base and rate of return after its recommended revenue decrease.

Q. What information is shown on Schedules 2, 3, and 4?

A. Schedule 2 shows the forecast of rate year other electric operating revenues including the amortization of electric regulatory deferrals. Schedule 3 shows the forecast of rate year electric O&M expenses by cost element. Schedule 4 shows the forecast of rate year electric taxes other than income taxes.

Q. What information is shown on the remaining schedules?

A. Schedules 5 and 6 calculate rate year electric state and federal income tax expense, respectively. The adjustments in these schedules correspond primarily to adjustments set forth in other schedules. Schedule 7 shows the forecast of electric rate base for the rate year. Schedule 8 shows the details of the electric regulatory deferrals included in electric rate base. Schedule 9 shows the details of the allowance for electric working capital, which is a component of electric rate base. Schedule 10 is a summary of Staff's adjustments related to the electric revenue requirement.

Overview of Con Edison's Gas Filing

Q. Would you summarize Con Edison's January 25, 2013 gas filing from a revenue requirement perspective for the rate year ending December 31, 2014?

A. In its initial filing, Con Edison requested a revenue requirement increase of approximately $25.3 million. Based on its March 25, 2013 preliminary gas update, the Company decreased the amount of gas revenue relief it originally sought by a relatively nominal amount. The Company is now requesting a revenue increase of approximately $24.5 million. This increase would result in an overall revenue increase, inclusive of the Company's projected supply costs, of 1.3%, or 2.5% on a delivery only revenue basis.

Overview of Staff's Position for Gas Rates

Q. What is the effect of DPS Staff's adjustments on gas rate of return for the rate year ending December 31, 2014?

A. The adjustments, as shown on Exhibit___SAP-2, Schedule 1, increase the gas rate of return before any proposed revenue requirement change from 7.30% to 8.90%.

Q. What is the rate of return recommended by Staff witness Henry?

A. As noted above, he recommends a 6.76% rate of return based in part on an 8.70% return on equity. As a result, the recommended change in gas revenue requirement is a $126.117 million decrease for the rate year ending December 31, 2014.

Q. What are the major cost elements DPS Staff recommends be adjusted?

A. The adjustments fall into six major categories: sales revenue; other gas operating revenues including the amortization of gas regulatory deferrals; O&M expense; depreciation expense; taxes other than income taxes; and, rate base.

Q. Would the Panel indicate the amount of the adjustments for each of the six categories?

A. Staff recommends that the Commission increase

Con Edison's forecast of rate year gas sales revenues by $18.440 million.

Staff recommends that the Commission increase Con Edison's forecast of rate year other gas operating revenues by $6.164 million. The major adjustments are related to POR discount revenues and the amortization of deferred property taxes.

Staff recommends that the Commission decrease the Company's forecast of rate year gas O&M expense by $20.083 million. The major adjustments are to the Company's requests for austerity, Company labor, employee welfare expenses, and interference expense.

Staff recommends that the Commission decrease the Company's forecast of rate year gas depreciation expense by $19.406 million. This adjustment reflects Staff's recommended rate year gas depreciation rates and the results of its gas depreciation reserve study.

Staff recommends that the Commission decrease the Company's forecast of rate year gas taxes other than income taxes by $1.722 million. Our primary adjustments are to the Company's forecast of rate year of Payroll Taxes and Subsidiary Capital Tax.

Staff recommends that the Commission decrease the Company's forecast of rate year gas rate base by $161.064 million. This adjustment reflects adjustments to Con Edison's forecast of plant-in-service, accumulated reserve for depreciation, NIBCWIP, regulatory deferrals, ADIT and EBCap. Staff's O&M expense adjustments also impact the calculation of working capital reflected in rate base.

Finally, Staff's recommended adjustments impact the calculations of state and federal income taxes.

Q. Would you please describe Exhibit___SAP-2.

A. As previously mentioned, Exhibit___SAP-2, is Staff's gas cost of service presentation. Exhibit___AP-2 contains nine schedules. Schedule 1 is Staff's projection of gas operating income, rate base and rate of return for the rate year ending December 31, 2014, and includes Staff's recommended revenue requirement. Schedule 1 is supported by Schedules 2 through 9.

Q. Please describe the format of Schedule 1.

A. Column 1 of Schedule 1 contains the gas income statement, rate base and rate of return figures as filed by Con Edison for the rate year, before any required revenue increase. Column 2 contains the Company's preliminary updates as of March 25, 2013. Column 3 reflects the income statement, rate base and rate of return figures as updated by the Company. Column 4 contains references to the supporting schedules that present Staff's adjustments set forth in Column 5. Column 6 presents Staff's projected rate year figures before any required revenue increase. Column 7 contains Staff's recommended changes in revenues, and Column 8 is Staff's forecasted rate year gas income, rate base and rate of return after its recommended revenue decrease.

Q. What information is shown on Schedules 2, 3, and 4?

A. Schedule 2 shows the forecast of rate year other gas operating revenues including the amortization of gas regulatory deferrals. Schedule 3 shows the forecast of rate year gas

O&M expense by cost element. Schedule 4 shows the forecast of rate year gas taxes other than income taxes.

Q. What information is shown on the remaining schedules?

A. Schedules 5 and 6 calculate rate year gas state and federal income tax expense, respectively. The adjustments in these schedules correspond primarily to adjustments set forth in other schedules. Schedule 7 shows the forecast of gas rate base for the rate year. Schedule 8 shows the details of the allowance for gas working capital, which is a component of gas rate base. Schedule 9 is a summary of Staff's adjustments related to the gas revenue requirement.

Overview of Con Edison's Steam Filing

Q. Would you summarize Con Edison's January 25, 2013, steam filing from a revenue requirement perspective for the rate year ending December 31, 2014?

A. In its initial filing, Con Edison proposed a revenue requirement decrease of approximately $5.3 million. Based on its March 25, 2013 preliminary steam update, the Company is now requesting a revenue requirement increase of approximately $6.5 million. This increase would result in an overall revenue increase, inclusive of the Company's projected supply costs, of approximately 1.0%, or 1.4% on a delivery only revenue basis.

Overview of Staff's Position for Steam Rates

Q. What is the effect of Staff's adjustments on steam rate of return for the rate year ending December 31, 2014?

A. The adjustments, as shown on Exhibit___SAP-3, Schedule 1, increase the steam rate of return, before any proposed revenue requirement change, from 6.33% to 7.83%.

Q. What is the rate of return recommended by Witness Henry?

A. He recommends a 6.76% rate of return based in part on an 8.70% return on equity. As a result, the recommended change in steam revenue requirement is a $27.997 million decrease for the rate year ending December 31, 2014.

Q. What are the major steam cost elements Staff is proposing to adjust?

A. The adjustments fall into seven major categories: sales revenue; other steam operating revenues including the amortization of steam regulatory deferrals; O&M expense; depreciation expense; taxes other than income taxes; income taxes; and, rate base.

Q. Would the Panel highlight the amount of the adjustments for each of the seven categories?

A. Staff proposes that the Commission increase Con Edison's forecast of rate year steam sales revenues by $1.356 million.

Staff recommends that the Commission decrease Con Edison's forecast of rate year other steam operating revenues by $1.795 million. The major adjustments are related to interdepartmental rent from the electric department for the East River Repowering Project and the amortization of deferred property taxes.

Staff recommends that the Commission decrease Con Edison's forecast of rate year steam O&M expenses by $4.387 million. The major adjustments are to the Company's requests for austerity, Company labor, and employee welfare expenses.

Staff recommends that the Commission

decrease the Company's forecast of rate year steam depreciation expense by $3.509 million. This adjustment reflects Staff's recommended rate year depreciation rates and the results of its steam depreciation reserve study.

We recommend that the Commission decrease Con Edison's forecast of rate year steam taxes other than income taxes by $0.249 million. The primary adjustments are to the Company's forecast of rate year Payroll Taxes and Subsidiary Capital Tax.

Staff recommends that the Commission decrease the Company's forecast of rate year rate base by $21.743 million. Staff's primary adjustments are to the Company's forecast of plant-in-service, accumulated reserve for depreciation, NIBCWIP, ADIT and EBCap. Staff's O&M expense adjustments also impact the calculation of working capital reflected in rate base.

Finally, Staff's recommended adjustments impact the calculations of rate year steam state and federal income tax expense. Except for our adjustment to the Company's proposed recapture of a 2005 tax deduction, which is discussed in more detail later in our testimony, the adjustments in these schedules correspond primarily to adjustments set forth in other schedules.

Q. Would you please describe Exhibit____SAP-3?

A. As previously mentioned, Exhibit___SAP-3, is Staff's steam cost of service presentation. Exhibit___SAP-3 contains nine schedules. Schedule 1 is Staff's projection of steam operating income, rate base and rate of return for the rate year ending December 31, 2014 including Staff's recommended revenue requirement. Schedule 1 is supported by Schedules 2 through 9.

Q. Please describe the format of Schedule 1.

A. Column 1 of Schedule 1 contains the steam income statement, rate base and rate of return figures as filed by Con Edison for the rate year, before any required revenue requirement change. Column 2 contains the Company's preliminary updates as of March 25, 2013. Column 3 reflects the income statement, rate base and rate of return figures as updated by the Company. Column 4 contains references to the supporting schedules that present Staff's adjustments set forth in Column 5. Column 6 presents Staff's projected rate year figures before any required revenue increase. Column 7 contains Staff's recommended changes in revenues, and Column 8 is Staff's forecasted rate year steam income, rate base and rate of return after its recommended revenue decrease.

Q. What information is shown on Schedules 2, 3, and 4?

A. Schedule 2 shows the forecast of rate year other steam operating revenues. Schedule 3 shows the forecast of rate year steam O&M expense by cost element. Schedule 4 shows the forecast of rate year steam taxes other than income taxes.

Q. What information is shown on the remaining schedules?

A. Schedules 5 and 6 calculate rate year steam state and federal income tax expense, respectively. The adjustments in these schedules correspond primarily to adjustments set forth in other schedules. Schedule 7 shows the forecast of steam rate base for the rate year. Schedule 8 shows the details of the allowance for working capital, which is a component of rate base. Schedule 9 is a summary of Staff's adjustments related to the steam revenue requirement.

Proposed Revenue Requirement Adjustments

Electric Sales Revenues

Q. Should electric sales revenues and East River Repowering Project (ERRP) rent expense paid to steam operations be synchronized for purposes of determining electric revenue requirement?

A. Yes. Con Edison recovers actual ERRP rents through the Monthly Adjustment Clause (MAC) and therefore the expense should have no impact on the Company's base rate delivery revenue requirement.

Q. Is there a mismatch between the Company's forecast of rate year electric sales revenues and electric O&M expense forecasts?

A. Yes. In its preliminary electric update, the Company increased its forecast of rate year ERRP rent expense from $71.890 million to $79.069 million, or by $7.179 million. However, the Company did not adjust its forecast of rate year revenues associated with its ERRP rent update. Consequently, an adjustment increasing Con Edison's forecast of or rate year electric sales revenues by $7.179 million is necessary.

Q. Does the Company agree with your recommended adjustment?

A. Yes. In its response to Staff IR DPS-482, the Company agrees that our adjustment is appropriate.

Other Operating Revenue (Common)

Q. Is the Panel recommending adjustments to the Company's forecast of late payment charge revenues for each service?

A. Yes. We recommend that the Company's forecast be increased by $0.256 million ($0.193 million Electric; $0.062 million Gas and $0.001 million Steam) to account for Staff's forecast of rate year sales revenue for each service.

Other Electric Operating Revenues

Excess Distribution Facilities

Q. Is Staff adjusting the Company's forecast of rate year other electric operating revenues from Excess Distribution Facilities?

A. Yes. We are increasing Con Edison's forecast of Excess Distribution Facilities revenues from $3.113 million to $3.312 million, or by $0.199 million to remove a normalization adjustment the Company reflected in its rate year forecast.

Q. Does the Company agree with your adjustment?

A. Yes. In its response to DPS-438, the Company, based upon its review of more current actual information, agrees to our adjustment.

Transmission Service Charge Revenues (Electric)

Q. What do transmission service charge (TSC) revenues represent?

A. TSCs represent the revenue resulting from daily transmission wheeling transactions scheduled through the New York Independent System Operator (NYISO).

Q. What is the current accounting and ratemaking for TSCs?

A. Under the 2010 Electric Rate Plan, an annual revenue imputation of $15 million is reflected in base rates. If Con Edison's actual TSC revenues are less than the $15 million, the Company is allowed recover the shortfall through its Monthly Adjustment Clause (MAC). If the

Company's actual TSC revenues are more than the $15 million, the excess is refunded to customers through its MAC.

Q. What were Con Edison's actual TSC revenues over the last three rate years?

A. The Company's actual revenues were $8.8 million, $6.9 million and $5.8 million for the rate years ending March 31, 2011, 2012 and 2013, respectively.

Q. How much is Con Edison reflecting in the rate year related to TSC revenues?

A. Con Edison is proposing to continue a revenue imputation of $15 million in the rate year. The Company is also proposing to continue to reconcile the difference between its actual TSC revenues and the $15 million and flow the difference through the MAC.

Q. Is the Panel recommending an adjustment to the Company's proposed rate year forecast?

A. Yes. We are recommending a reduction to the Company's forecast from $15 million to $7 million, or by $8 million to reflect the declining trend in TSC revenues over the last three rate years. Our objective here is to reflect the most reasonable forecast in the rate year and minimize any subsequent recovery or refunding through adjustment clauses.

It should be noted that our adjustment has no overall bill impact in the rate year. That is because if the imputation remained at $15 million and actual revenues are $7 million as we forecast, the Company would still recover the $8 million shortfall through its MAC.

Transmission Congestion Charge Revenues (Electric)

Q. What do transmission congestion credits (TCC) revenues represent?

A. TCCs represent the revenues resulting from the sale of transmission congestion credits through the NYISO.

Q. What is the current accounting and ratemaking for TCCs?

A. Under the 2010 Electric Rate Plan, an annual revenue imputation of $120 million is reflected in base rates. If its actual TCC revenues are less than the $120 million, Con Edison is allowed recover the shortfall through its MAC. If the Company’s actual TCC revenues are more than the $120 million, the excess is refunded to customers through the MAC.

Q. What were the Company's actual TCC revenues over the last three rate years?

A. The Company's actual TCC revenues were $110.6 million, $93.6 million and $75.3 million for the rate years ending March 31, 2011, 2012 and 2013, respectively.

Q. How much is Con Edison reflecting in the rate year related to TCC revenues?

A. The Company is proposing to continue to reflect an imputation of $120 million in the rate year. Con Edison is also proposing to continue to reconcile the difference between its actual TCC revenues and the level imputed in rates and flow the difference through its Monthly Adjustment Clause (MAC).

Q. Is the Panel recommending an adjustment to the Company's proposed rate year forecast?

A. Yes. We are recommending a reduction to the Company's forecast from $120 million to $90 million, or by $30 million to reflect the declining trend in TCC revenues over the last three rate years. Similar to our rationale above for TSC revenues, our objective here is to reflect the most reasonable forecast in the rate year and minimize any subsequent recovery or refunding through adjustment clauses.

As with TSC revenues, our adjustment has no overall bill impact to electric customers in the rate year. That is because if the imputation remained at $120 million and actual revenues are $90 million as we forecast, the Company would recover the $30 million shortfall in revenue through the MAC.

POR Discount Revenues

Q. Would the Panel explain what POR discount revenues represent?

A. POR discount revenues represent the small discount on accounts receivable that Con Edison purchases from Energy Service Companies (ESCOs) as part of its retail access program. The discount rate is determined bi-annually and is designed to compensate Con Edison for its exposure to uncollectible ESCO accounts, credit and collection costs, administrative costs and risk that the actual uncollectible rate may be higher than the assumed uncollectible rate.

Q. Please explain how the Company forecasts

electric revenues for the rate year resulting from its purchase of receivables from ESCOs?
A. The Company’s revenue forecast of $20.853 million for the rate year was based on the historic three-year average of actual revenues for the period July 2009 through June 2012. For the twelve months ended June 2010, 2011 and 2012 actual revenues were $16.753 million, $22.419 million, and $23.388 million, respectively.
Q. Do you agree with the Company’s forecast?
A. No. The use of the three-year historic average to forecast the rate year level will significantly underestimate the level of electric POR discount revenues in the rate year. In fact, the three-year average yields a revenue forecast that is approximately $2.5 million lower than the revenue the Company realized in the historic test year.
Q. Please explain.
A. In its response to DPS-467, Con Edison presents the number of ESCOs providing electric commodity service in the Company’s service territory and the number of ESCO accounts enrolled in its electric POR program. The response shows that

both groups have significantly increased between 2010 and 2012. The increase in the number of ESCO account enrollments in the Company's electric POR program is one of the contributing factors in the growth of POR discount revenues over the last three years.

Furthermore, Con Edison's Customer Operations Panel (COP) is requesting in this proceeding capital related expenditures of $5.1 million for systems that are utilized to effectuate customer choice of electric and gas energy suppliers. In support of the request, the COP states that the retail competitive market in Con Edison's territory is continuing to experience substantial growth in the number of ESCO customer enrollments. COP notes that as of December 2012, over 900,000 customers are taking supply service from ESCOs, representing an annual increase of about 100,000 customers over approximately the last two years. Furthermore, it maintains that with the Company's customers clearly responding to the energy choices offered by ESCOs, enrollments will continue to increase through the 2013-2017 period, with over 1,200,000 customers taking electric supply service from ESCOs by 2017.

In consideration of the historic growth trend in retail access enrollments, the use of the three-year historic average to forecast rate year electric POR revenues does not reasonably forecast the current level of these revenues and also fails to consider the additional growth in ESCO enrollments anticipated by the Company.

Q. Do you have any additional concerns?

A. Yes, the Company's forecast also fails to reflect an appropriate POR discount rate that will be applicable in the rate year. By using the historic three-year average of POR revenues to forecast the rate year level, the Company's forecast by design assumes a lower discount rate than the discount rate currently in effect. Over the course of the historic three-year period the discount rate increased continually, from 1.76% in July 2009 to 2.55% in June 2012. The current discount rate for electric POR is 2.64%. Thus, the Company's forecast reflects an average discount rate that is lower than the current POR discount rate.

Q. Do you consider the current discount rate a better proxy to forecast rate year POR revenues?

A. Yes. In view of the continual increasing trend in the electric POR discount rate, using the current discount rate to forecast rate year POR revenue is conservative.

Q. Are you recommending that the Company's forecast of rate year of electric POR revenues be adjusted?

A. Yes. We are increasing the Company's forecast from $20.853 million to $30.972 million, or by $10.119 million to reflect the latest level of ESCO electric accounts receivables purchased by Con Edison and the current electric discount rate of 2.64%.

Q. How did the Panel determine the latest level of electric accounts receivables purchased by Con Edison from ESCOs and gas marketers?

A. We annualized accounts receivables purchased by Con Edison for the period between July 2012 and February 2013. Since we did not forecast any growth of accounts receivable in the rate year and in light of the substantial growth in ESCO enrollments anticipated by the Company, our forecasting approach is conservative.

Other Gas Operating Revenues

POR Discount Revenues

Q. Would the Panel explain how the Company forecasts rate year gas POR discount revenues?

A. In its gas testimony, the Company's Accounting Panel (CAP) states that the rate year forecast of $3.363 million was provided by the Company's Gas Rate Panel. In its response to DPS-310, the Company indicates that the rate year forecast is based on the reconciliation target for credit and collection costs currently in effect.

Q. How much POR discount revenue from ESCOs did the Company actually record in the historic test year?

A. The Company recorded revenues of $4.626 million, or $1.263 million more than its rate year forecast.

Q. Does Staff agree with the Company's rate year forecast?

A. No. The Company's forecast is seriously flawed and use of it will underestimate the level of revenues in the rate year.

Q. Please explain.

A. The POR discount applied to gas (and electric) account receivables purchased from the marketers and ESCOs includes four cost components: (1) an uncollectible rate; (2) a credit and collection cost rate; (3) a POR program administration cost rate; and, (4) an additional discount rate to compensate the Company for its financial risk that the actual uncollectible rate for the purchased receivables may be higher than the uncollectible rate. Although the Company's rate year forecast of gas O&M expenses reflects the costs associated with its gas POR program (i.e. uncollectible, credit and collections, and administrative costs), its POR revenue forecast only reflects the credit and collection component. Consequently, there is a mismatch between the POR revenue and expense in Con Edison's revenue requirement for gas service.

Q. Do you have additional concerns?

A. Yes. In its response to DPS-467, the Company presents the number of marketers providing gas service in its service territory and marketer accounts enrolled in its gas POR program. It shows that both groups have significantly increased since 2010. Furthermore, as noted above, Con Edison is requesting capital related funding for systems that support the substantial growth in the number of customers taking supply service from marketers. Consequently, Con Edison's rate year forecast is underestimated because it does not reflect the increase in gas purchased accounts receivables confirmed by the level of revenues in the historic test year and the additional growth anticipated by the Company.

Q. Are you recommending that the Company's rate year forecast be adjusted?

A. Yes. We increased the Company's forecast from $3.363 million to $5.263 million or by $1.900 million to reflect the latest level of gas accounts receivables purchased by Con Edison from marketers and the current gas discount rate of 2.63%.

Q. How did you determine the latest level of accounts receivables purchased by Con Edison from marketers?

A. We annualized the accounts receivables purchased by Con Edison for the period between July 2012 and February 2013. Since we did not forecast any growth of accounts receivable in the rate year and in light of the substantial growth in marketer enrollments anticipated by Con Edison, our forecasting approach is conservative.

Other Steam Operating Revenues

Interdepartmental Rents: East River Repowering Project

Q. Are you adjusting Con Edison's forecast of rate year steam interdepartmental rent revenue from the Company's electric department for ERRP)?

A. Yes. We are decreasing the forecast from \$79.069 million to \$74.510 million, or by \$4.559 million to reflect Staff's recommended rate year cost of capital.

Amortization of Regulatory Deferrals

Deferred Property Taxes (Common)

Q. What is the level of deferred property tax over-collections that the Company is proposing to refund to customers in these proceedings?

A. The Company is proposing to refund, over three years, a company-wide total of \$293.753 million (\$262.275 million Electric, \$14.563 million Gas and \$16.925 million Steam) of property tax over-collections, or $97.951 million ($87.425 million Electric, $4.854 million Gas and $5.642 million Steam) on an annual basis. The proposed refund is comprised of actual property tax expense over-recoveries of $186.745 million as of December 31, 2012 and estimated over-recoveries of $107.018 million for 2013.

Q. Is the Panel recommending that the Company's proposed refund be adjusted?

A. Yes. Based on actual property tax expense over-recoveries as of March 2013, we are increasing the Company's property tax over-recoveries by a Company-wide total of $19.121 million ($2.162 million Electric, $10.381 million Gas and $6.578 million Steam), to $312.844 million ($264.437 million Electric, $24.944 million Gas and $23.503 million Steam). Accordingly, we recommend increasing the amortization in the rate year by $6.374 million ($0.721 million Electric, $3.460 million Gas and $2.193 million Steam) since the over-recoveries are proposed to be amortized in rates over three years.

A concomitant adjustment decreasing rate base by $10.457 million ($1.171 million

Electric, \$5.623 million Gas and \$3.563million Steam) is required to account for the increased level of unamortized deferred property taxes in the rate year.

Sale of Property – John Street (Electric)

Q. Is the Company proposing to pass back to customers proceeds related to the sale of its John Street property?

A. Yes. The Company is proposing to pass back to customers a portion of the sales proceeds. The Company proposes to allocate \$4.478 million of the gain on the sale to customers and to provide that benefit to customers over three years of \$1.493 million annually.

Q. Please explain the sale of the John Street property.

A. By the letter dated January 31, 2013, as shown in Exhibit___SAP-4, the Company notified the Commission of its intent to sell approximately 3.4 acres of property located on John Street, Brooklyn, New York to the Brooklyn Bridge Park Development Corporation for approximately \$9 million. The transaction is expected to result in a pre-tax gain of approximately \$8.4 million for Con Edison.

Q. Is Commission approval of the sale required?

A. On advice of counsel, no. The Brooklyn Bridge Park Development Corporation is a "duly constituted authority of the State" as such the Panel has been advised by Staff Counsel that the proposed sale is exempt from Commission review and approval under Public Service Law section 70(7). Because rates are being set in this proceeding, however, the appropriate accounting of the proceeds from the sale of the property should now be determined by the Commission.

Q. What is the history of the John Street property?

A. The John Street property was acquired by Con Edison in 1963 for approximately $0.250 million. The Property was supported by ratepayers as electric property held for future use until 1996 when the Company determined that it was no longer needed for operations. In 1996 the Company transferred the property at its then book value of $0.554 million to non-utility property. At that time the Company should have assumed responsibility for all costs related to the property and related risk of ownership.

However, the Company failed to properly account for costs associated with the property and as a result, customers paid the property taxes through their electric rates until 2008 and still continue to bear the O&M costs associated with the property.

Q. How does the Company propose to allocate the gain on the sale between ratepayers and the Company?

A. The Company purports to allocate the gain between ratepayers and the Company reflecting the relative costs borne by each since 1996 when the property was reclassified to non-utility property. However, under its methodology, the Company proposes to determine the customers' share of the gain based on a 1998 appraisal of the property which determined a value of $1.2 million. To this amount, the Company adds the property taxes and O&M costs borne by customers subsequent to the transfer to non-utility plant, inclusive of carrying costs, to arrive at the customers' $4.478 million share of the net proceeds. The Company proposes to retain its original investment and $3.9 million of the net gain.

Q. Does the Panel agree with the Company's proposal?

A. No we do not.

Q. Please explain.

A. We believe that the benefit or net proceeds from the sale should follow the burden of supporting the property. Ratepayers fully supported the property by bearing all operating costs and taxes from 1963 to 1996 and providing the Company a full return on its investment. Due to the Company's improper accounting, ratepayers have inappropriately borne all the costs and risk on the John Street property since 1963. The only cost ratepayers did not bear is the forgone return on the $0.554 million investment since the property was removed from rate base in 1996. The Company's proposal also fails to provide customers with the appreciation in the fair market value of the land from 1996 to the present. Since customers continued to bear all the costs and risks associated with the property, following the transfer to non-utility property, we believe customers should receive a larger share of the net gain from the sale.

Q. Please explain the Panel's recommendation.

A. We recommend that the Commission determine that the Company be allowed to retain the carrying costs and related interest of $1.9 million on the $0.554 million since 1996, as shown in Exhibit___SAP-5, which is the only cost related to the property that was not borne by customers. Therefore, we recommend that the Commission require the Company to pass back to ratepayers $5.9 million.

Q. What is the impact of the Panel's adjustment?

A. Our adjustment increases the amount being passed back to electric customers by $1.5 million. A concomitant adjustment decreasing rate base by $0.796 million is required to account for the increased level of unamortized deferred gain on the sale of the property in the rate year.

Property Tax Refund: Town of Pleasant Valley (Electric)

Q. Did Con Edison reflect the disposition of the property tax refund that is the subject of the April 9, 2013 Joint Proposal between Staff and the Company in Case 12-M-0506?

A. Yes. In its electric filing, the Company reflects a total refund of $1.8 million over three years, or $0.6 million on an annual basis. The proposed refund and the disposition to electric customers reflect the conditions of the Joint Proposal. We should note that as of the date we filed this testimony, the Commission has yet to act on the Joint Proposal.

Medicare Part D (Common)

Q. Is the Company proposing to recover the shortfall for the difference between its actual tax Medicare Part D tax benefits and the Medicare Part D tax benefits reflected in rates?

A. Yes. The Company is proposing to recover $21.7 million ($15.4 million Electric, $4.6 million Gas and $1.7 million Steam) over a three year period, or $7.2 million annually ($5.1 million Electric, $1.5 million Gas and $0.570 million Steam) of deferred Medicare Part D tax benefits.

Q. Does the Panel agree with the deferred tax benefits Con Edison proposes to recover?

A. No. The deferred tax benefits for each service have not been properly calculated. In particular, the deferred tax benefits do not properly reflect the amounts that were previously included in rates related to the Medicare Part D subsidy.

Q. Does Con Edison agree with the Panel that the deferred tax benefits the Company proposes to recover were not properly calculated?

A. Yes. In its response to DPS-509, Con Edison agrees that its calculations need to be revised and that the Company would present them in its rebuttal filing.

Q. Is the Panel planning on adjusting the Company's request for recovery of deferred tax benefits?

A. Yes. We will review the Company's revisions which it will provide in its rebuttal filing. Should any significant issues arise with those revisions Staff will address them at the hearing and in brief.

Section 263-A Simplified Service Cost Method (Electric and Gas)

Q. Is the Company proposing to refund or recover carrying charges associated with its Simplified Service Cost Method (SSCM) accumulated deferred income tax (ADIT) balances?

A. Yes. Con Edison proposes to recover deferred carrying costs of $3.441 million and $1.563 million in its electric and gas revenue requirements, respectively, over a three year period, or $1.147 million and $0.521 million on an annual basis, respectively. The Company is also proposing to refund $4.901 million in its steam revenue requirement over a three year period, or $1.634 million on an annual basis.

Q. Please explain the nature of the carrying charges deferred on the Company's books.

A. The carrying charges represent the accrued interest associated with the tax benefits before the deduction was reflected in rates for each service as well as the accrued interest on the difference between the Company's actual deferred tax balances and the deferred tax balances reflected in rates beginning in March 2005 for Electric, and October 2004 for Gas and Steam.

Q. Does the Panel agree with the carrying cost amounts the Company is proposing to recover in its electric and gas revenue requirements?

A. No. Con Edison's electric and gas deferred carrying cost balances and, in turn, the proposed recoveries are overstated. The Company should be recovering $0.100 million less than it proposes for electric and should actually be refunding $0.663 million, not recovering $1.563 million for gas.

Q. Does Con Edison agree with the Panel that its proposed recoveries are incorrect by those amounts?

A. Yes. In its response to DPS-510, the Company agrees that its proposed recoveries are incorrect by those amounts. Consequently, we are reflecting a recovery of $3.315 million over three years, or $1.105 on annual basis for electric and a refund of $0.663 million over three years, or $0.221 on annual basis service for gas.

Concomitant adjustments decreasing rate base by $0.069 million for Electric and $2.223 million for Gas are required to reflect the increased level of unamortized deferred carrying charges in the rate year.

Q. Do you agree with the Company's request that it stop deferral accounting procedures for SSCM deferred tax balances?

A. Yes. The matter between the Company and the

Internal Revenue Service has been resolved.

Spent Nuclear Fuel Litigation (Electric)

Q. Would you briefly explain the nature of the Company's spent nuclear fuel (SNF) litigation?

A. The case involved Con Edison's claim that the Department of Energy (DOE) disregarded a 1982 statute and breached a 1983 contract with Con Edison. Under the statute and contract, in exchange for the payment of fees by Con Edison that exceeded $120 million, DOE was to commence disposal of spent nuclear fuel from Con Edison's Indian Point (IP) nuclear power plant beginning in January 1998. Con Edison sold IP to the Entergy Corporation in 2001, according to the Company, when DOE was already in breach of the contract. The case went to trial in June 2009 before the Court of Federal Claims. A decision was rendered in May 2010, wherein the Court awarded Con Edison $448,859 for its engineering studies, but denied the Company's other claims.

Q. How much is the Company requesting be recovered for SNF litigation costs in its electric revenue requirement?

A. The Company is requesting to recover $10.223

million of SNF litigation costs over three years, or $3.411 million on an annual basis.

Q. What is the basis for the Company's request?

A. The Company is seeking recovery pursuant to a proposal Staff made in its direct testimony in Case 09-E-0428. In that case, the Staff Accounting Panel proposed that, in view of the size of Con Edison's requested rate increase ($840 million) and the then current state of the economy, the Company be allowed to defer its rate year SNF litigation cost request of $2.67 million until the Company recovered the cost, partly or wholly from its lawsuit against DOE.

Q. How was Case 09-E-0428 resolved?

A. The signatory parties developed a comprehensive Joint Proposal (JP) to the Commission for a three-year electric rate plan, commencing April 1, 2010 and continuing through March 31, 2013. The Commission adopted the JP without modification by Order dated March 26, 2010.

Q. Did the JP or the Commission's Order adopting it include a provision for the deferral and recovery of SNF litigation costs?

A. No.

Q. How much SNF litigation expense did the Company actually incur since April 1, 2010, the effective date of current electric rate?

A. In its response to DPS-500, the Company indicates that since April 1, 2010 it has actually incurred legal expenditures of $18.430 million.

Q. How then does the Company derive the $10.223 million it is requesting in this proceeding?

A. Con Edison just creates the balance. Specifically, it reaches back to 2005 for unrecovered SNF litigation charges incurred; it then offsets those amounts by amounts previously collected in electric rates and the above mentioned DOE refund, and then applies interest to the unrecovered balance.

Q. How much of the $10.233 million has Con Edison actually deferred on its books to date?

A. The Company has not deferred any of $10.233 million on its books.

Q. What is the Panel recommending?

A. We recommend that the Commission reject the Company's request for recovery of past SNF litigation costs. The Company's reliance on a proposal advanced by Staff in direct testimony that ultimately was not a provision of the 2010 Electric Rate Plan is totally without merit. The Electric Rate Plan the Company is currently operating under does not allow for the deferral and recovery of SNF litigation costs. The Company's financial statements reflect that reality in that there is no deferred amount for SNF litigation costs on its books. Accordingly, Con Edison's request for recovery here for past SNF litigation costs should be rejected.

Q. Explain what adjustments are necessary to remove this item from the Company's electric revenue requirement request?

A. It is necessary to remove the proposed recovery of $3.411 million of nuclear fuel litigation costs from the Company's forecast of other electric operating revenues and $5.543 million of unamortized nuclear fuel litigation costs from the Company's forecast of rate year electric rate base.

Deferred Verizon Joint Use Poles Revenue (Electric)

Q. How much does the Company propose to refund in the rate year for deferred Verizon joint use pole revenue?

A. The Company proposes to refund $11.043 million over three years, or $3.681 million on an annual basis. The $11.043 million reflects the actual balance of deferred revenues on the Company's books as of December 31, 2012.

Q. Is Staff recommending an adjustment the Company's proposed refund?

A. Yes. In its response to DPS-391, Con Edison states that it anticipates to receive $2.2 million and $1.8 million of additional revenue related to its joint use pole agreement with Verizon in 2013 and 2014, respectively. Accordingly, we are increasing the Company's proposed refund from $11.043 to $15.043, or by $4.000 million to reflect the additional revenues anticipated by the Company.

Since the amortization of the refund is being reflected over three-years, we are increasing the pass back in the rate year from $3.681 million to $5.014 million, or by $1.333 million. A concomitant adjustment is also required, decreasing rate base by $1.581 million to reflect the increased level of unamortized deferred revenue associated with the Verizon joint use pole agreement in the rate year.

Reserve for 2005 -2008 Capital Expenditure (Electric)

Q. Would the Panel please explain its adjustment?

A. In its response to DPS-93, the Company agreed with us that its initial electric filing should be revised to reflect an additional credit of $2.448 million related to the Department's review of the Company's capital expenditures in Case 07-E-0523. In its preliminary electric update, the Company included the $2.448 million over three years, or $0.816 annually. However, Con Edison mistakenly presented it as a recovery from customers rather than as a refund to customers, thus overstating its electric revenue requirement by $1.6 million. In its supplemental response to DPS-93, the Company notes that since its initial response it has determined that the additional credit of $2.448 million should be reduced by $1.612 million to $0.836 million. The Company claims that the $1.612 million is the amount by which refunds to customers have exceeded the Company's cumulative liability related to this item from 2005 through

March 2013. Con Edison claims that its cumulative liability for the period April 2005 through March 2013 amounted to $36.442 million but actual refunds have amounted to $38.054 million, or $1.612 million more. Thus, the Company maintains that as of the beginning of the rate year the Company's liability to customers will be $0.836 million, or $2.448 million less $1.612 million.

Q. Do you agree with the Company's proposal?

A. Subject to the Company providing, in its rebuttal filing, detailed work-papers supporting the amounts claimed to have been refunded to electric customers between April 2005 and March 2013, yes.

Q. What adjustments are necessary to correct the Company's preliminary electric update and reflect the amounts that have already been refunded to customers?

A. It is necessary to increase the rate year forecast other electric operating revenues by $1.088 million and decrease electric rate year base by $1.768 million to reflect the balance of unamortized deferred revenue associated with this item.

Brownfield Tax Credits (Electric)

Q. Is Con Edison allowed to defer the difference between the actual NYS Brownfield tax credit it takes on its NYS tax return and the Brownfield tax credit amount reflected in electric delivery rates?

A. Yes.

Q. Did the Company include a request related to Brownfield tax credits in its electric filing?

A. Yes. In its preliminary electric update, the Company included a refund of $2.367 million over three years, or $0.789 million on an annual basis, for amounts related to the tax credit. However, as Con Edison indicated in its response to DPS-484, its intent was to reflect the amortization as a recovery from customers, not as a refund to customers.

Q. Did Staff review the Company's support for the requested recovery of $2.367 million?

A. Yes. We reviewed the support behind Con Edison's request and determined that no deferred amounts actually exist for either recovery or refunding. In fact, in its supplemental response to DPS-484 (supplement), the Company withdraws it request for recovery related to this item.

Q. Are any adjustments necessary to remove this item from the Company's electric revenue requirement and rate base?

A. It is necessary to decrease other electric operating revenues by $0.789 million and increase electric rate base by $1.282 million.

Net Plant Reconciliation (Electric)

Q. Under the 2010 Electric Rate Plan, is the Company required to defer the difference the revenue requirement impact (i.e., carrying costs including depreciation) of the amount by which its actual expenditures for capital programs result in average net plant (excluding removal costs) that is less the average plant-in-service balance (excluding removal costs) for each rate year?

A. Yes, for the transmission & distribution (T&D), production, shared service, infrastructure and the enterprise resource project (ERP or Project One) plant-in service categories. The revenue requirement impact is calculated by applying an annual carrying charge factor for the applicable capital expenditure category to the amount by which the actual is below the target. The reconciliations to average plant-in-service balances for rate year 2 and rate year 3 are cumulative within each of the T&D and Other capital expenditures categories. That is, a carrying charge deferral is required only if the actual average net plant balances for the 36 month period covered by the rate plan for a category is below the target average net plant balances over that period for the category. Con Edison is not allowed to recover the carrying charges associated with expenditures for capital programs in rate year 1 that cause the average net plant balances to exceed the RY1 plant-in-service target. The ERP is subject to reconciliation based on the average net plant balances for that project during the term of the 2010 Electric Rate Order.

Q. Did the Company include a request related to its net plant reconciliation credits in its electric filing?

A. Yes. In its initial filing, the Company included a refund of $24.721 million over three years, or $8.240 million on an annual basis, for amounts related to the reconciliation based on net plant activity through June 30, 2012. In its preliminary electric update, the Company reduced its refund from $24.721 million to $6.660 million, or by $18.060 million based on net plant activity through February 2013.

Q. Did the Panel review the Company's support for the proposed refund of $6.660 million?

A. Yes. We reviewed the net plant support behind the proposed refund and found several problems. First, the Company's actual electric net plant balance includes approximately $76 million of Smart Grid investment. However, the Company should not be including any Smart Grid capital expenditures in the net plant reconciliation because it is recovering the carrying charges through a surcharge mechanism, not in electric base rates. Its inclusion in the net plant reconciliation would cause a recovery of carrying charges on the same Smart Grid investment twice.

Second, the Company's net plant balance

includes approximately $45 million of capital expenditures associated with the reconstruction of the World Trade Center (WTC) that was transferred from the WTC deferral account to electric plant in service. However, the 2010 Electric Rate Plan did not provide for the transfer of WTC related capital expenditures out of the WTC deferral account to electric plant-in-service. Thus, the net plant targets established in the 2010 Electric Rate Plan did not reflect the transfer. Consequently, including the WTC capital expenditures in the net plant reconciliation is not appropriate.

Third, for the net plant reconciliation for its ERP, the Company included its Company-wide net plant of approximately $131 million rather than only the electric piece of the net plant of $115.9 million thereby understating carrying charges owed to customers.

Finally, the Company's reconciliation includes the carrying charges associated with T&D expenditures for capital programs in rate year 1 that caused their average net plant balances to exceed the rate year 1 plant-in-service target.

Q. Is Staff recommending that the Commission adjust the Company's electric net plant reconciliation?

A. Yes. We recommend that the Company's reconciliation be corrected to address the aforementioned issues as well as to update the reconciliation based on net plant activity through March 31, 2013. Consequently, we recommend increasing the Company's proposed refund from $6.660 million to $23.765 million, or by $17.105 million. Since the refund is being amortized over three years, we recommend increasing the Company's proposed rate year amortization from $2.220 million to $7.922 million, or by $5.702 million.

A concomitant adjustment is also required decreasing rate base by $9.266 million to reflect the increased level of the unamortized deferred credit associated with the net plant reconciliation in the rate year.

59th Street Gas Conversion (Steam)

Q. Is Con Edison seeking to recover in this case amounts associated with its fuel conversion project at the Company's 59th Street Station before it is reflected in steam rates?

A. Yes. The Company is seeking to recover, before it is admitted to steam rate base in this case, $1.710 million over three years, or $0.570 million annually, representing the revenue requirement associated with its 59th Street Station capital addition. Specifically, the proposed recovery represents the incremental revenue requirement associated with the 59th Street Station investment for the six month period July 1, 2013 through December 31, 2013 based on the Company's anticipated in service date of July 2013.

Q. What is the basis for this request?

A. In its testimony, the Company's Accounting Panel indicates that the basis for the deferral is that the Company's current 2010 Steam Rate Plan in Case 09-S-0794 provides the following: "The net plant targets do not include any costs associated with the 59th Street or 74th Street gas addition proposed by the Company in its initial filing. If, during the term of the Steam Rate Plan, the Company needs to install gas-burning capability (or implement other measures) at either or both stations in order to comply with a change in rule, law and/or regulation (e.g., a change in environmental laws relating to permissible levels of emissions from the Stations), the Company's recovery of and a return on these investments, incremental O&M expenses, if any, will commence on the date that such equipment is placed in service, subject to Commission approval of the petition described below."

Q. Did the Company file a petition with the Commission seeking authority to recover expenditures related to adding natural gas burning capability at its 59th and 74th Street Stations during the term of the 2010 Steam Rate Plan?

A. Yes. In July 2011, Con Edison petitioned the Commission in Case 09-S-0794, seeking approval of special ratemaking treatment for its expenditures associated with the two projects. In particular, the Company sought recovery on an accelerated basis of the total projected revenue requirement related to the projects including capital costs of $109 million through its steam

Fuel Adjustment Clause (FAC).

Q. Did the Commission issue an order allowing for accelerated recovery of the Company’s projected Steam plant capital investments?

A. No. In its Order issued February 22, 2012, the Commission denied Con Edison’s request for accelerated recovery of its projected capital investments and stated that the Company should seek to recover all prudently incurred costs associated with the projects through traditional base rate recovery in its next steam filing.

Q. Are you proposing to remove the requested costs from the Company’s rate year forecast?

A. Yes. Since the Company was not authorized to defer costs associated with the fuel conversions, there is no basis to provide rate recovery of the unauthorized deferral here. As a result, we are increasing the Company’s rate year forecast of other steam operating revenues by $0.570 million. A concomitant adjustment is also required decreasing rate base by $0.927 million to reflect the removal of this item from the Company’s rate year steam rate base.

Operation and Maintenance Expenses

Administrative & General Expense Capitalized (Common)

Q. Can you explain Con Edison's forecast of rate year Administrative & General (A&G) expense capitalized?

A. Yes. The A&G costs capitalized, an offset to O&M expense represents the overhead costs attributed to the Company's construction expenditures, including corporate accounting, purchasing, and information resources costs, etc. According to the Company's general accounting procedures, costs that are directly related to Company labor are allocated to construction in the same proportion as the ratio of the Company's direct construction labor costs to total labor costs (i.e., the labor capitalization rate). Costs that are related to construction projects in a manner not directly proportional to labor expenditures are allocated on the basis of a time study of each department involved. In a period of changing construction activities, the labor capitalization rate and the administrative expenditures applied to construction are both expected to change accordingly.

Q. How did the Company determine its rate year forecast of A&G expense capitalized?

A. The Company first determined the ratio of the increase in rate year capital expenditures over the historic test year level for each service. The ratio was then applied to the actual level of A&G expense capitalized in the historic test year for each service to arrive at the rate year forecast for each service.

Q Does Staff agree with the Company's rate year forecast?

A. No. While we agree with the Company's concept of adjusting the A&G credit proportionally with the change in capital expenditures, we do not agree with the ratio the Company used.

Q. Please explain.

A. When Con Edison developed its ratio it relied on its forecast of rate year plant additions net of retirements when it should have used its rate year forecast of capital expenditures. Since net plant additions are significantly less than the Company's planned capital expenditures, the Company's forecast of capitalized A&G is underestimated.

A. How does Staff recommend forecasting the rate year A&G expense capitalized?

A. We determined the ratio of forecast of capital expenditures to actual historic test year capital expenditure levels for each service. Our ratios were then applied to the actual level of A&G cost capitalized during the historic year for each service. The capitalized A&G costs were then escalated to the rate year levels using escalation rates that are applicable to the underlying costs to arrive at the rate year forecast of capitalized A&G for each utility service. As a result, we are proposing to increase the A&G expense credit (decrease O&M expense) by $4.690 million and $0.408 for electric and gas, respectively and decrease the credit (increase O&M expense) for steam by $1.639.

Austerity (Common)

Q. Do Con Edison's electric, gas and steam rate filing's include an imputation for austerity related measures?

A. Yes. The Company includes an imputation for austerity that increases its forecast of rate year O&M expenses by $16.7 million ($13.2 million Electric, $2.0 million Gas and $1.5 million Steam).

Q. Did the Company provide testimony or evidence by any means in support of its imputation to increase rate year O&M expense for austerity?

A. No. Unlike other program changes proposed by the Company, there is no justification for the need or nature of the costs for which the Company is seeking rate recovery. As a result there is no way to determine if the requested costs are just and reasonable.

Q. Is the Panel recommending an adjustment?

A. Yes. The Panel recommends that the Commission remove the entire $16.7 million ($13.2 million Electric, $2.0 million Gas and $1.5 million Steam) from the Company's rate year forecast of electric, gas and steam O&M expense due to lack of support and a verifiable link between the historic test year and the rate year.

Company Labor (Common)

Q. How did Con Edison develop its forecast of rate year labor expense?

A. Con Edison started with its actual booked historic test year labor expense of $733.7 million (Electric $565.5 million, Gas $109.4 million and Steam $58.8 million). It then normalized, or increased, the historic test year expense by $3.375 million (Electric $2.9 million, Gas $0.361 million and Steam $0.114 million) to account for certain non-recurring labor expenses and to annualize labor expenses that were not fully recognized in the historic test year. The Company then increased that amount by $9.048 million (Electric $7.4 million, Gas $1.3 million and Steam $0.348 million) to reflect new, or the expansion of existing electric, gas and steam programs, referred to by Con Edison as program changes. The Company then applied a labor escalation rate of 6.43%, inclusive of a 1% productivity adjustment, to arrive at a rate year expense forecast of $793.7 million (Electric $612.6 million, Gas $118.1 million and Steam $63.0 million).

Q. Is the Panel adjusting the Company's forecast of rate year labor expense?

A. Yes. We recommend two adjustments to Con Edison's rate year forecast. The first adjustment reflects a lower and more appropriate employee headcount than the Company uses. The second adjustment reduces the Company's request for labor related program changes.

Q. What level of employee headcount does Con Edison use to forecast its rate year labor expense?

A. By relying on the historic test year labor expense, the Company uses the average number of employees during the historic test year, or 13,716 employees.

Q. Do you agree with the Company's use of the average number of employees during the historic test year to forecast rate year labor expense in these proceedings?

A. No. The use of the average historic test year employee headcount will significantly overstate the forecast of labor expense in the rate year as it does not adequately reflect the Company's current employee headcount or the trend in force count over the past several years.

Q. Would the Panel please explain why?

A. The use of a historic year average employee headcount is appropriate when headcounts are varying in order to capture the increases and decreases in headcount over a period of time. However, the Company’s average employee headcount, as shown in Exhibit___SAP-6, has declined consistently since December 2008. From December 2008 to June 2011, the Company’s employee headcount decreased from 14,326 to 13,839, or by 487 employees. From July 2011 to June 2012, the historic test year, the Company’s employee headcount decreased further from 13,839 to 13,565, or by additional 274 employees.

Q. Did the Company’s employee headcount continue to decline between July 2012 and December 2012?

A. Yes. In its response to DPS-26, the Company states that from July 2012 to December 2012, its employee headcount decreased from 13,565 to 13,259, or by another 306 employees.

Q. Did Con Edison indicate how it is managing the Company’s workload with a reduced workforce?

A. Yes. In its response to DPS-384, the Company indicates it is using outside contractors, redeploying existing employees, and utilizing employee overtime. In addition, the Company notes that it has realized efficiencies due to project optimization and prioritization, as well as the use of new technology, such as automated meter reading. The Company acknowledges that all of these measures have mitigated the need to replace employees that leave the Company through attrition.

Q. Is the Panel recommending an adjustment to the Company's forecast?

A. Yes. We recommend that the Company's rate year forecast be reduced by $23.831 million (Electric $18.367 million, Gas $3.553 million and Steam $1.909 million) to reflect the Company's average December 2012 employee headcount of 13,259.

Q. Does the Company's forecast of labor expense include wage progression increases for weekly employees?

A. Yes. The labor expense forecast includes 0.7%semi-annual wage progression increases for weekly employees.

Q. What is the nature of a wage progression award for the Company's weekly employees?

A. Per the terms of the current collective bargaining agreements, certain employees are entitled to a series of wage progressions that over time increase the employee's rate of pay from the hiring rate to the top pay rate for their title. These awards are conditioned upon satisfactory performance evaluations and are in addition to other general wage award increases.

Q. Has the Commission rejected Con Edison's request for incremental wage progression increases for weekly employees in prior rate cases?

A. Yes. In 2009 Electric Rate Order in Case 08-E-0539, the Commission denied the Company's request to include incremental wage progression allowances in the Company labor expense forecast. The Commission determined that costs related to the wage progressions were reflected in the historic test year labor costs which the Company sought to increase for incremental progression amounts. Specifically, the Commission determined that employee turnover would result in savings not reflected in the Company's forecast methodology. The Commission found that the cost of the wage progressions for new hires was offset by the savings realized from employees who retire at the top of the wage progression scale. Additionally, the Commission determined that the Company's forecast included wage progressions for employees who were at the top of the wage progression scale and, therefore, not entitled to additional wage progressions.

Q. Did Con Edison make any changes to the methodology used to calculate wage progression increases in this case?

A. Yes. The Company forecasted wage progression increases for 60% of its weekly employees. The 60% factor represents the 2009 to 2012 three-year average fraction of weekly employees that received progression increases. However, the Company's methodology is slightly flawed because the 0.7% semi-annual wage progression factor was applied to the average weekly employee base wage. The average weekly base wage includes the wages for weekly employees that are not entitled to wage progressions, since they are at the top of pay scale. As such, the average base wage is higher than the average wage for progression eligible employees. Thus, the Company's forecast method will likely overstate the rate year cost of progression awards.

Q. Does this change in forecast method address all the concerns the Commission had?

A. No. The Company's revised forecast method only addresses the Commission's concern that not all weekly employees are entitled to wage progressions as they are at top of the wage progression scale. The revised forecast method does not address the concern that employee turn-over results in savings that offset any cost related to wage progressions.

Q. Did Con Edison provide any other rationale that attempts to address the Commission's concerns regarding incremental costs related to progression increases for weekly employees?

A. The Company asserts the percentage of its weekly employees that are eligible for retirement has decreased since 2008. Additionally, Con Edison claims that the attrition rate for employees above and below the age of 55 is approximately the same and that the average annual base wages paid to employees below the age of 55 has increased. Therefore, Con Edison claims it is not reasonable to assume that the cost of the wage progressions for new hires will be offset by the savings realized from employees who retire.

Q. Does the Panel support the Company's claims that wage progressions represent an incremental cost to the Company?

A. No. We still maintain that the savings resulting from employees leaving the Company offset the costs associated with other employee's advancement and wage progressions. Over time, with the natural turnover of employees, the progressive steps are averaged into any given year. In years when there is a high rate of turnover, the costs would be less than an average year. In years when turnover is low, the progressive increments may cost more than in an average year. Over time the savings from seasoned employees at higher pay levels leaving should more than offset the cost on step increases for new employees

Q. Is the Panel proposing an adjustment to the Company's forecast of labor expense related to progression increases in these cases?

A. Based on the circumstances we observed in these proceedings, we are not.

Q. Please explain.

A. Due to the historic and continuing declining trend in the Company's employee headcount, we recommend that a more current headcount be reflected in the overall forecast of Company labor expense. We recognized that in reflecting a lower actual headcount in our rate year labor expense forecast, we are in effect capturing some of the savings that would otherwise offset wage progressions in the rate year. Therefore, there is the potential for double counting the savings if our labor forecast and a disallowance of wage progressions were adopted by the Commission. As such, we are not recommending a wage progression adjustment in these cases.

Q. Would the Panel now turn to and explain the Company's request for labor related program changes?

A. Yes. The labor related program changes reflect the Company's request for incremental employees above the 13,716 employees reflected in its base labor forecast.

Q. Has the Company filled any of the requested positions?

A. Yes. According to its pre-filed testimony and Con Edison's responses to DPS-380, DPS-382, and DPS-383, the Company has filled a number of the positions as of December 31, 2012.

Q. Are you proposing to adjust the Company's request for labor related program changes?

A. Yes. Since we rely on the December 2012 employee headcount, we reduced the labor program change forecast for positions that were filled at the end of 2012. Consequently, we are reducing the Company's requested labor program changes by $5.123 million (Electric $4.233 million, Gas $0.731 million and Steam $0.159 million).

Contract Labor Expense (Common)

Q. Did the Panel adjust the Company's rate year forecast of contract labor expense?

A. Yes. Con Edison's aforementioned labor program change includes a request for 31 additional employees related to the Company's implementation of its new financial system, Project One, which we will discuss in more detail later in our testimony. In its response to DPS-508, the Company indicates that 12 of the 31 additional positions requested were actually filled by outside contractors between June 30, 2012 (the end of the historic test year) and December 31, 2012. Therefore, since these employees are not reflected in our forecast of rate year Company labor expense, it is appropriate to reflect them in the Company's forecast of rate year contract labor expense.

Q. What is the impact of your proposed adjustment to the Company's rate year forecast of contract labor expense?

A. Our adjustment increases the Company's forecast of contract total labor expense by $1.300 million (Electric $1.023 million, Gas $0.211 million and Steam $0.066).

Company Labor Fringe Benefit Adjustment (Common)

Q. Would the Panel explain what the Company's adjustment to labor fringe benefits represents?

A. Yes. The Company's forecast reflects the change in fringes benefits (i.e., pensions and other post-employment benefits (OPEB), employee welfare expenses, and worker compensation costs) in the rate year that are associated with its various proposals including its request for incremental employees.

Q. Are you adjusting the Company’s expense forecast?

A. Yes. We reduced the Company’s forecast by $3.535 million ($2.921 million Electric, $0.505 million Gas and $0.109 Steam) to account for our adjustment to the Company’s request for labor related program charges.

Q. Is the Panel proposing another adjustment to the Company’s forecast?

A. Yes. In its preliminary electric and gas updates, the Company increased the projected labor savings related to its Saturated Automated Meter Reading (AMR) program from $1.521 million to $1.965 million, or by $0.444 million. However, Con Edison did not adjust its forecast of rate year employee fringe benefits related to its revised rate year AMR labor savings. Consequently, an adjustment decreasing the Company’s forecast of rate year fringe benefits by $0.320 million ($0.262 million Electric and $0.058 million Gas) is appropriate.

Q. Does the Company agree with your adjustment?

A. Yes. In its response to DPS-481, Con Edison agrees that these adjustments are proper.

Consultants Expense (Common)

Q. Would the Panel explain how Con Edison developed its forecast of rate year consultant expense?

A. To project consultant expenses for auditing services provided by PricewaterhouseCoopers (PwC), Con Edison increased actual 2011 audit fees by 2% annually from the end of the historic test year through the rate year. The Company's forecast all other consultant expenses using a three year average of actual expenses for the period July 2009 through June 2012.

Q. Does the Panel agree with the Company's rate year forecast of non-PwC consultant expenses?

A. No. In its response to DPS-17 and DSP-364, Con Edison disclosed that its forecast includes expenses associated with Case 09-M-0243 and 09-M-0114, the Commission's investigative audit related to fraudulent and illegal actions committed by Con Edison employees and contractors.

Q. Would you briefly explain the investigative audit?

A. The Commission commenced these proceedings in 2009 following the arrests of 13 Con Edison employees and a Company contractor. The Con Edison employees were charged with crimes related to arranging for Con Edison to pay inflated claims by a contractor and with receiving over $1 million in bribes and kickbacks. This investigation focuses on Con Edison's internal controls that govern transactions with contractors. The investigation was also designed to estimate the extent of ratepayer harm stemming from improper activity for the period 2000-2009.

Q. Were internal control deficiencies observed in the course this investigation?

A. Yes. The Department's consultants, Charles River Associates, observed a number of issues with the Company's control environment in place at the time. In CRA's opinion, breakdowns in Con Edison's internal control processes and systems provided opportunities for the arrestees to perpetrate fraud.

Q. Has the Company taken any actions to prevent these fraudulent and illegal activities from happening again?

A. Yes. As discussed in Con Edison’s Accounting Panel testimony, the Company is proposing to increase spending to enhance its internal controls. Specifically, the establishment of a Business and Ethic department and a Quality Assurance department, to strengthen the Company’s auditing function and improve its ethics and compliance management.

Q. Is the Panel recommending adjustments to the Company’s rate year forecast?

A. Yes. We are removing all expenses related to the investigative audit that are embedded in the Company’s rate year forecast. In consideration of the internal control changes the Company has made and those planned by the Company to prevent future fraudulent and illegal activities, we do not expect the activity that caused the investigation to reoccur.

Q. Please quantify the Panel’s recommended adjustment?

A. Our adjustment decreases the Company’s forecast of rate year consultant expense by $2.100

million (Electric $1.704 million, Gas $0.277 million and Steam $0.119 million).

Corporate and Fiscal (Common)

Q. Is the Panel recommending adjustments to the Company's forecast of rate year corporate and fiscal expenses?

A. Yes. We are recommending that the Company's forecast be reduced by $0.128 million (Electric $0.104 million, Gas $0.017 million Steam $0.007 million) to reflect the removal of costs related to long-term equity grants and dividend equivalents for members of the Company's Board of Directors.

Q. Does Con Edison agree with the Panel's adjustment?

A. Yes. In response to DPS-461, the Company agrees and states that the costs were intended to be and should be removed from its rate year forecast.

Employees Pension and OPEB Expense (Common)

Q. How much is the Company's forecasting for rate year employee pension and OPEB expense?

A. The Company's preliminary update reflects a rate year expense of $468.8 million (Electric $384.8

million, Gas $56.6 million and Steam $27.4 million).

Q. How did the Company develop its forecast for rate year pension and OPEB expense?

A. The Company's rate year projections reflect the actuarial determined level of cost based on studies performed by the Company's consultants.

Q. Is the Panel recommending the Commission adjust the Company's rate year forecast?

A. Yes. We recommend the removal of the expense associated with the Company's Supplemental Retirement Income Plan (SRIP) from the forecast.

Q. Would you please describe the Company's SRIP?

A. According to its response to DPS-141, the Company's Supplemental Retirement Income Plan is a non-qualified deferred compensation plan that is incremental to the pension benefits provided to all employees in its qualified pension plans. The Company determines which employees are allowed to participate in the SRIP, as well as, the type and level of benefits provided.

Q. Would the Panel please explain what the primary difference is between the Company's qualified pension plan and its Supplemental Retirement

Income Plan?

A. The Company’s conventional qualified pension plans qualify for special tax treatment to the Company under the Internal Revenue Code (IRC) of 1986. In particular, the Company can deduct contributions made to its qualified pension plans on its tax return. The Supplemental Retirement Income Plan provides additional retirement benefits to certain highly compensated employees whose qualified pension benefits are limited by the Employee Retirement Income Security Act (ERISA) of 1974 and the Internal Revenue Code. Since the benefits provided by the Supplemental Retirement Income Plan exceed federal limits, the Company cannot deduct contributions made to the SRIP for income tax purposes.

Q. How many employees participate in the Company’s Supplemental Retirement Income Plan?

A. In its supplemental response to DPS-141, the Company indicates that, as of December 31, 2012, there are 81 active participants, 109 retired participants and nine beneficiaries participating in the plan.

Q. How much of Con Edison's forecast for pension and OPEB expense is for the SRIP?

A. The Company's forecast includes a total of \$9.984 million (Electric \$8.271 million, Gas \$1.107 million and Steam \$0.605 million) for its SRIP.

Q. Why does the Panel believe it is appropriate to remove Supplemental Retirement Income Plan from the Company's pension forecast in these proceedings?

A. Con Edison's SRIP is a discretionary benefit provided to certain highly compensated individuals. It provides benefits that are in excess of the Company's normal pension plan. Moreover, the plan is non-qualifying because the benefits provided exceed the federal limits. Con Edison has not provided any evidence in this proceeding to support the cost of program as being reasonable, nor why customers should be required to support the plan through recovery in their rates.

Although in its response to DPS-141, the Company states that its SRIP is part of a pension component of an overall reasonable compensation package, however in its responses to DPS-537 and DPS-686 Con Edison indicates that the cost of Supplemental Retirement Income Plan was not included in any of the compensation studies the Company put forth with respect to management compensation in these proceedings.

Q. Is the Company proposing to update pension and OPEB expense for the latest known actuarial data later in these proceedings?

A. Yes.

Q. Does the Panel have any objections to the Company's proposed update for the latest known actuarial data later in the proceeding?

A. No.

Employee Welfare Expenses (Common)

Q. How did the Company forecast rate year employee welfare expenses?

A. Con Edison uses three different methods to forecast its rate year employee welfare expenses. For non-health care benefits that are correlated to salaries and wages, the Company escalates the historic test year cost by its forecast for labor escalation of 6.43%. For non-health care benefits that are unrelated to salaries and wages, the Company forecasts using its general inflation factor of 4.49%. For health care costs (i.e., dental, prescription drug and hospital and medical insurance costs), the Company developed its forecast based on projections of rate year premium rates and enrollment levels.

Q. How did the Company determine the rate year premium rates it used for health care costs?

A. For its self-insured health care costs (MetLife Dental, Prescription Drug, and Cigna hospital and medical insurance costs), the Company increased its estimated 2012 cost, which is comprised of six-months of actual costs and six-months of estimated costs, in the rate year by using plan-specific escalation factors. The Company used plan-specific escalation factors of 6% for MetLife Dental and Prescription Drug costs and 10.9% for the Cigna hospital and medical insurance costs which are based on claim history and the projected impact of recent plan design changes.

For its managed health care costs (HMOs), the Company increased the projected 2013 premium rates, provided by the various HMOs, by its general inflation rate of 1.96% from 2013 to the rate year.

For long term disability costs, the Company escalated the historic test year expense by its forecast for labor escalation (6.43%). For Vision and Flex Benefits Administration, Con Edison escalated the historic test year cost by its general inflation rate of 4.49%.

In total, the Company's rate year forecast of health care expense, before employee contributions, reflects an increase of approximately 18% from the historic test year level.

Q. Is the use of plan-specific escalation factors consistent with Commission practice?

A. No. The use of plan-specific escalation factors to project health care costs is inconsistent with the Commission's practice of escalating health care costs by general inflation. This policy was established in Commission Opinion No. 84-27 issued October 12, 1985 and reaffirmed in numerous Commission decisions including Opinion 94-3 issued February 11, 1994 wherein the

Commission stated: "The treatment of medical insurance costs as one factor in a large pool of expenses subject to inflation should produce a reasonable result, because some items will increase at a rate greater than inflation and others at a lower rate."

Q. Has the Commission recently used inflation to forecast medical insurance expenses in rate cases?

A. Yes, in the 2008 Electric Rate Order in Case 07-E-0523, Con Edison – Electric Rates, issued March 25, 2008, the Commission included medical care expenses in the inflation pool. At pages 42-43 of the Order, the Commission stated: "The practice uses the recent costs and the current employee count to capture the present operating conditions. It also acknowledges that the costs in this and many other categories are expected to increase. Overall, the Company is expected to manage the cost increases in the entire group and to keep them, as best it can, to the general inflation rate. By this time, we would expect the utility companies to have accepted the standard practice and to apply their resources more productively to other matters."

Q. Is the Panel recommending an adjustment to the Company's forecast of rate year health care costs?

A. Yes. Consistent with past Commission practice we propose adjusting the Company's forecast to reflect latest known premiums, escalated by general inflation to the rate year. For the Company's self-insured, HMOs, and vision health care costs we use the Company's latest known 2013 premiums and current enrollment levels to develop a 2013 cost. We then escalate the 2013 cost by general inflation to the rate year (1.96%) to arrive at our forecast. We rely on the Company's responses to DPS-423 for latest known premiums and DPS-424 for current plan enrollment levels.

Q. Has the Company taken any measures to mitigate its health care costs in order to manage them at a level closer to inflation?

A. Yes. The Company's Compensation & Benefits Panel discuss several measures taken by Con Edison to control or reduce future health care costs.

Q. Did the Company quantify the savings associated with the various measures it took to control or reduce health insurance costs?

A. Yes. In response to DPS-136, the Company indicates that plan design changes were implemented in 2012, and were estimated to save $4.1 million for health insurance plans covering management employees and $7.8 million for plans covering union employees.

Q. Did the Panel also make a related adjustment to the Company's forecast of employee health insurance contributions?

A. Yes. To be consistent with our proposed rate year forecast of health care costs, we adjusted the Company's forecast of rate year enrollment levels to the current enrollment levels used in our forecast.

Q. What is the impact of your adjustments to the Company's rate year forecast of employee welfare expense?

A. Our recommended adjustments reduce the Company's forecast of rate year employee welfare expense by $20.807 million (Electric $16.375 million, Gas $3.370 million and Steam $1.061 million).

Insurance Expense (Common)

Q. How did the Company develop its forecast of rate year insurance expense?

A. Con Edison carries a number of types of insurance policies, including property, liability, directors and officers insurance, workers compensation bond and insurance on company employees. For all insurance other than excess liability insurance, the Company escalated latest known insurance premiums by its forecast of general inflation to the rate year. For excess liability insurance, the Company escalated latest known premium levels by a growth factor of either 12.5% or 20.0% depending on the provider.

Q. What evidence did Con Edison provide in support of the growth factors it used to forecast rate year excess liability insurance?

A. In its response to DPS-365, the Company indicates that its growth factors were based on discussions it had with its insurance brokers.

Q. Does the Panel agree with the growth factors of 12.5% or 20% the Company used to forecast rate year excess liability insurance expense?

A. No. The Company provided insufficient evidence to support its forecast of excess liability insurance. Absent reliable evidence, we see no reason to treat excess liability insurance costs any differently from the way the Company forecasts other forms of insurance and the way the Commission treats other costs such as health care costs. Consequently, we are proposing to reduce the Company's forecast of insurance expense by a total of $1.372 million (Electric $1.080 million, Gas $0.222 million and Steam $0.070 million) to reflect the Company's latest known excess liability premiums escalated by general inflation to the rate year.

A concomitant adjustment is also required to decrease rate base by a total of $0.537 million (Electric $0.435 million, Gas $0.085 million and Steam $0.017 million) to reflect our forecast of prepaid insurance expense for the rate year.

Q. Does the Panel have any other comments regarding the Company's forecast of rate year insurance premiums expense?

A. Yes. We would point out that the 2013-2014 New

York State budget included reforms to workers compensation insurance law. The reforms are intended to cut costs for employers, increase the minimum benefit to workers, and overhaul the way the workers' compensation system is managed.

Q. Will the reforms have an impact on the cost of workers' compensation insurance for the Con Edison in the rate year?

A. Based on the information we have gathered to date, it is unclear whether the reforms will have an impact on its workers compensation costs. However, the Company should disclose with appropriate evidence, in rebuttal, the impact the legislation will have on its cost of workers' compensation insurance.

Q. Did Con Edison state its intention to update insurance expense for the latest known insurance premiums?

A. Yes.

Q. Does the Panel object to the Company's proposal?

A. Subject to the condition of providing information in rebuttal concerning the impact of recent reforms to workers compensation law on its workers compensation costs, no.

Informational Advertising (Electric and Gas)

Q. What is the level of Con Edison's requested rate allowance for informational advertising?

A. The Company is requesting a total of $8.083 million ($6.669 million Electric and $1.414 million Gas) for informational advertising expense in the rate year.

Q. How did the Company forecast rate year informational advertising expense?

A. For its electric and gas services, the Company escalates the historic year level by its forecast of general inflation. Con Edison is not requesting an allowance for its steam service.

Q. Are you recommending that the Company's forecast of rate year electric and gas informational advertising expense be adjusted?

A. We recommend that the Company's forecast be decreased by $0.391 million ($0.247 million Electric and $0.144 million Gas) to reflect an allowance of 0.08% of Staff's forecast of rate year electric and gas revenues.

The Commission's Statement of Policy on Advertising and Promotional Practices of Public

Utilities, 17 NY PSC 1-R, issued February 25, 1977 suggests a range of between 0.04% and 0.1% of revenues be recoverable in rates for informational advertising, in inverse proportion to utility size. In its Order in Case 08-E-0523, the Commission allowed Con Edison's percentage to rise to 0.08%, excluding ESCO revenues. The Company has provided no testimony, evidence or justification for the larger allowance it proposes.

Q. Are you making any additional adjustments to the Company's forecast?

A. Yes. We are increasing the Company's forecast by $0.055 million ($0.040 million Electric and $0.015 million Gas) to account for Staff's adjustments increasing the Company's rate year forecast of electric and gas sales revenue.

Institutional Dues and Subscriptions (Common)

Q. How did Con Edison forecast rate year institutional dues and subscriptions expense?

A. The Company relies on a three-year historic average of actual incurred expenses for the period July 2009 through June 2012 to forecast its rate year expenses.

Q. How much is the Company requesting for institutional dues and subscriptions expense?

A. The Company requests a total rate year rate allowance of $2.557 million ($1.776 million Electric, $0.717 million Gas and $0.064 million Steam).

Q. Are you recommending an adjustment to the Company's request?

A. Yes. In its response to DPS-390, the Company provided a list of charges made to institutional dues and subscriptions expense during the historic test year. The list reflects a number of charges that appear to be donations for charitable, social or community welfare purposes. On advice of counsel, recovery of such donations from customers in rates is unconstitutional (Cahill v. PSC, 76 N.Y.2d 102 (1990)). Donations for charitable, social or community welfare purposes must be booked in a below the line account and, in turn, excluded from utility revenue requirements for ratemaking purposes. Since the Company uses a three-year historic average of expenses to forecast the rate year rate allowance and we only have detailed information relating to the historic test year, we cannot at this time quantify the appropriate amount by which to adjust the Company's rate year forecast.

Q. What then does the Panel propose?

A. Since we do not have the data to parse legitimate dues and subscriptions from the Company's rate year forecast of costs, we recommend eliminating the entire cost from the Company's revenue requirements. The Company should provide in its rebuttal a revised forecast of dues and subscriptions that excludes all forms of charitable contributions. As such, we recommend that the Company's rate year rate allowance be reduced by $0.745 million ($0.605 million Electric, $0.98 million Gas $0.042 million Steam).

Q Does the Panel have any other recommendations to ensure that the shareholders, not customers, pay for all future Con Edison philanthropy?

A. Yes. Con Edison should include in its rebuttal a description of the changes in accounting it will make to ensure that its charitable contributions are accounted below the line in a manner that is consistent with the Commission's Policy. The changes proposed by Con Edison should be designed to ensure that customers do not directly or indirectly, (i.e., through earnings sharing), bear any of the costs of the Company's charitable gifts.

Regulatory Commission Expense (Common)

Q. How much is the Company seeking for regulatory commission expense in the rate year?

A. The Company is requesting a rate year rate allowance of $39.908 million (Electric $30.498 million, Gas $7.334 million and Steam $2.076 million).

Q. Is the Panel proposing to adjust the Company's forecast of rate year regulatory commission expense?

A. Yes. In its responses to DPS-364 and DPS-557, the Company indicates that expenses related to the Commission's investigative audit in Case 09-M-0243, previously discussed in our testimony, are embedded in the Company's regulatory commission expense forecast. Consistent with our proposal to remove these expenses from the Company's forecast of consultant expenses, we are removing expenses from the Company's forecast of regulatory commission expense. Our adjustment decreases Con Edison's rate year forecast by $0.445 million (Electric $0.361 million, Gas $0.059 million and Steam $0.025 million).

Q. Is the Panel recommending any additional adjustment to the Company's forecast?

A. Yes. We recommend an additional adjustment to the Company's forecast of regulatory commission expense for gas service?

Q. Would you explain the proposed adjustment?

A. Yes. Historically, Con Edison has received refunds of assessments by the New York State Energy Research and Development Authority (NYSERDA). The Company's forecast of regulatory expense for gas service fails to reflect refunds of any amounts related to the NYSERDA assessment.

Q. Please explain your adjustment in more detail.

A. Each fiscal year a tentative NYSERDA assessment is developed based on estimated research costs and Con Edison's total intrastate revenues. In the following year, a final assessment bill for the period is developed using actual data and as a result a refund or a request for additional payment is issued to the Company. A review of Con Edison's actual experience over the past three fiscal years shows that the Company has received an assessment refund from NYSERDA in each year. Accordingly, we recommend that the Company's forecast of regulatory commission expense for gas service be reduced to reflect an estimated refund of $0.165 million in the rate year.

A concomitant adjustment decreasing the rate year prepaid PSC assessment included in gas rate base by $72,000 is also required.

Q. How did the Panel determine the estimated refund?

A. We developed a ratio based on a three-year average of actual refunds to estimated assessments and then applied that ratio to the Company's latest assessment bill.

Uncollectible Accounts Expense (Electric)

Q. Can you describe Con Edison's rate year forecast of uncollectible accounts expense for its electric service?

A. The Company's rate year forecast is comprised of a request for uncollectible expense associated with its electric customers' accounts and a request for uncollectible expense associated with its electric POR program. The Company used completely different approaches to forecast each request.

For Con Edison electric customer accounts, the Company developed a rate of uncollectible write-offs to electric sales revenue based on historic data. The uncollectible rate is then applied to the Company's rate year electric sales forecast to derive the rate year uncollectible expense forecast associated with Con Edison customer accounts. In its initial filing, the Company's uncollectible rate of 0.81% was based on actual write offs and sales revenue in the historic test year and resulted in a rate year forecast of $65.27 million. In its preliminary electric update, the Company increased its uncollectible rate to 0.82% based on actual write-offs and electric sales revenues for the 12-month ended February 2013. The update increased rate year uncollectible expense associated with Con Edison customer accounts to $66.075 million, or by $0.806 million.

For account receivables purchased from ESCOs through its electric POR program, Con Edison forecasts that approximately 49%, or $10.299 million, of its POR discount revenue forecast of $20.853 million will be uncollectible in the rate year.

The two forecasts combined are used to determine the Company's rate year forecast for uncollectible accounts expense for electric service of $76.374 million.

Q. Is Staff recommending adjustments to the Company's rate year forecast of uncollectible associated with its electric customer accounts?

A. Yes. We recommend this piece of the Company's forecast be adjusted to reflect Staff's rate year forecast of electric sales revenue. Consequently, we are increasing the Company's rate year forecast by $0.410 million.

Q. Does Staff agree with the Company's rate year forecast of uncollectible accounts expense associated with its electric POR program?

A. No. Con Edison's approach is arbitrary and the

Company failed to provide any basis to support it. Absent reliable evidence, we see no reason to accept the Company's forecast.

Q. Is the Panel proposing to adjust the Company's forecast?

A. Yes. Based on information provided in response to DPS-495 as well as work-papers provided by the Company, we were able to determine actual POR uncollectible write-offs for twelve months ended June 2010 through 2012 and for the eight months from July 2012 to February 2013. We then compared actual POR uncollectible write-offs with actual receivables purchased, provided in DPS-310 and DPS-311, for the same time periods. We found actual POR uncollectible rates in the range of 0.58% to 0.69%, with an average rate of 0.63%.

Accordingly, we are recommending that the average ratio of 0.63% be applied to the latest level of electric accounts receivable purchased from ESCOs, discussed earlier in our testimony, to project the rate year POR uncollectible expense. Our forecast results in rate year POR uncollectible expense of $7.389 million, or

$2.910 million less than the Company's forecast.

Q. Please summarize your two adjustments to Con Edison's rate year forecast of uncollectible accounts expense for electric service?

A. Our adjustments reduce the Company's rate year forecast of electric uncollectibles from $76.374 million to $73.874 million, or by $2.500 million.

Uncollectible Accounts Expense (Gas)

Q. Please describe Con Edison's rate year forecast of uncollectible expense for gas service?

A. Similar to the way the Company forecasted uncollectible expense for its electric service, the Company's rate year forecast for gas service is comprised of a request for uncollectible expense associated with its gas customers accounts and a request for uncollectible expense associated with its gas POR program. Here again, the Company uses different approaches to forecast each request.

For Con Edison gas customer accounts, the Company developed a rate of uncollectible write-off to gas sales revenue. The uncollectible rate was then applied to the Company's rate year forecast of gas sales to derive its rate year forecast of uncollectible expense. In its direct case, the Company's uncollectible rate of 0.81% was based on actual write off and gas sales revenue for 12-month period ended June 2012 and resulted in a forecast of rate year for uncollectible expense $12.022 million. In the Company's preliminary update, the write-off rate was updated to 0.82%, based on actual write-offs and gas sales revenues for 12-month ended February 2013. The update increased the rate year uncollectible expense associated with its gas customer accounts by $0.119 million to $12.140 million.

For gas account receivables purchased from ESCOs through its gas POR program, Con Edison just forecasted that approximately 43%, or $1.438 million, of its POR discount revenue forecast of $3.363 million will be uncollectible in the rate year.

Combining the two forecasts, the Company's rate year forecast for gas uncollectible expense is $13.578 million.

Q. Is Staff recommending that the Company's rate year forecast of uncollectible associated with its gas customer accounts be adjusted?

A. Yes. We are adjusting this piece of the Company's forecast to reflect Staff's rate year forecast of gas sales revenue. Consequently, we are increasing the Company's rate year forecast by $0.151 million.

Q. Does the Panel agree with the Company's rate year forecast of uncollectible accounts expense associated with its gas POR program?

A. No. As previously noted, Con Edison's approach is without sound basis. Absent reliable evidence, we see no reason to accept the Company's forecast.

Q. Is the Panel proposing to adjust the Company's forecast?

A. Yes. The Company's supporting work-papers and information provided in response to DPS-495, indicate actual uncollectible write-offs for twelve months ended June 2010 through 2012 and for the eight months from July 2012 to February 2013. We then compared actual gas POR uncollectible write-offs with actual gas accounts receivable purchased, provided in DPS-

310 and DPS-311, for the same period of time. We found actual POR uncollectible rates in the range of 0.58% to 0.69%, with an average rate of 0.63%.

Therefore, we recommend that the average ratio of 0.63% be applied to the latest level of gas accounts receivable purchased from ESCOs, discussed earlier in our testimony, to project the rate year POR uncollectible expense. Staff's forecast results in rate year POR uncollectible expense of $1.26 million, or a $0.178 million reduction from the Company's forecast.

Q. Please summarize your two adjustments to the Company's rate year forecast of uncollectible accounts expense for electric service?

A. Our two adjustments reduce the Company's rate year forecast from $13.578 million to $13.552 million, or by $0.026 million.

Project One (Common)

Q. What is Project One?

A. Project One, or Con Edison's Enterprise Resource Planning (ERP) System, is the largest technology investment in the history of Company. It replaced over sixty existing financial-related systems, including the Cost Analysis Reporting System, Materials Management System, Procurement Management System, Accounts Payable System, Concur Expense System and Con Edison's affiliate's Orange & Rockland's financial programs. Many of these systems were developed in the 1960's and 1970's and, according to the Company, were increasingly more difficult to maintain as they were programmed in a computer language that were no longer commonly used.

Project One is an enterprise-wide software system that is based on Oracle's financial and supply chain ERP system. The system allows users to develop business plans and budgets, record financial transactions and analyze data, purchase materials and services, manage inventory and report financial and purchasing data.

Q. What are the benefits of Project One to Con Edison?

A. Advantages include employing modern, integrated software programs to manage the Company's businesses. According to Con Edison, this project was undertaken to also improve reliability, timeliness and transparency of financial data, reduce financial reporting risk, and enhance cost management practices.

Q. How much has the Company invested in Project One?

A. As of February 28, 2012 Con Edison has invested roughly $156 million in Project One, of which $146 million is allocated to Con Edison and $10 million is allocated to Orange & Rockland Utilities, Inc (O&R).

Q. Is Con Edison requesting additional funding for Project One in this proceeding?

A. Yes. The Company, through it Shared Service Panel, is requesting $3.165 million ($2.492 million Electric, $0.513 million Gas and $0.160 million Steam) for 31 new employees to expand programming support for Project One. In addition, through its Accounting Panel, Con Edison is requested $2.801 million ($2.273 million Electric, $0.370 million Gas and $0.158 million Steam) related to ongoing fees for support from Oracle. Finally, the Accounting Panel testifies that the Company will expend an additional $12 million for capital updates to the system over 2014 and 2015.

Q. When did Con Edison seek approval for its investment in Project One?

A. In its last electric rate case, the Company requested funding for Project One. While the Staff Accounting Panel took issue with the ERP project in its direct case, the Company persuaded Staff, through information provided in rebuttal testimony and information provided during negotiations, to support this project as part of the electric Joint Proposal to the Commission. Staff’s support of the project was largely due to the net benefits that were to be realized from the investment once implemented.

In its response to DPS-293, in Case 09-E-0428 (Case 09-E-0428, Staff Accounting Panel Exhibit___AP-2, pages 18 through 29), Con Edison indicated that once implemented, the Company would realize significant cost savings. In particular, the Company disclosed ongoing annual net capital and operations and maintenance expense benefits of $7.684 million and $7.032 million, respectively once the project was implemented. The Company also indicated one-time capital and O&M benefits of $5.195 million and $4.000 million, respectively once the project was implemented.

Q. Has Project One been implemented?

A. Yes, it was implemented on July 1, 2012.

Q. What cost savings did Con Edison reflect in its rate filings related to the largest technology investment in its history?

A. The Company did not reflect any.

Q. Why not.

A. In its response to DPS-281, the Company claims that due to the size and scale of implementation, it is continuing the process of stabilizing Project One, and it will take a number of years for it to recognize full efficiencies.

Q. Is Panel proposing to impute cost savings into the Company's respective electric, gas and steam rates filings?

A. Yes. We are proposing to impute $6.540 million ($5.307 million Electric, $0.864 million Gas and $0.369 million Steam) of cost savings in the Company's forecast of electric, gas and steam expenses. This represents Con Edison's share or 93% of net O&M cost savings (Case 09-E-0428, Staff Accounting Panel Exhibit___AP-2, pages 18 through 29) that were relied on in the last electric case as the basis to support the investment in the Joint Proposal to the Commission.

Q. What is the Panel's basis for an imputation?

A. In its support the Project One investment the Company claimed significant cost savings for its customers. Absent those projected savings, it's doubtful that Staff would have even considered, let alone supported, the Company's request as part of the Joint Proposal to the Commission. If the Company miscalculated the amount and/or timing of the cost savings, associated with largest technology investment in its history, then it is the Company, not its customers that should bear the impact of that miscalculation.

Q. Do you have any additional recommendations to the Commission?

A. Yes. The Commission should direct Con Edison to file annually with the Secretary to the Commission a year-end report on its Project One investment reporting in detail: the capital investments made and O&M expense incurred to support Project One, along with an explanation of the expenditures; and, a quantification of any and all net benefits realized. If no benefits were realized, Con Edison would be required to explain why no benefits were realized.

Furthermore, we recommend that the Commission should consider, as part of its next management audit of Con Edison, directing that an in-depth review of the Company's Project One investment be performed.

Depreciation Expense

Smart Grid

Q. Does the Panel have any adjustments to the Company's forecast of rate year electric depreciation expense related to its Smart Grid Investment Grant (SGIG) project investments?

A. Yes. In the electric rate filing, the Company proposed to continue recovery of its Smart Grid investments via the Smart Grid surcharge mechanism. However, as we discuss in greater later in our testimony, we are recommending that the Company transition recovery of Smart Grid Demonstration Grant (SGDG) and SGIG project costs to base rates. Consequently, we are increasing the Company's forecast of rate year depreciation expense by $1.056 million to add back the SGIG related depreciation expense that the Company removed.

Taxes Other Than Income Taxes

Property Tax Expense (Common)

Q. Are you recommending an adjustment to the Company's rate year forecast of property tax expense?

A. Yes. We are decreasing Con Edison's rate year forecast by $1.171 million ($0.009 million Electric, $1.145 million Gas and $0.017 million Steam) to account for Staff's recommended adjustments to the Company's forecast of plant additions for each service in 2013 and 2014ce.

Q. Is Con Edison proposing to reconcile the difference between its actual property tax expense and the rate allowance for property tax expense for each service?

A. Yes. The Company requests a full and symmetrical reconciliation of property taxes for each service. Currently, for each utility service, Con Edison is deferring the difference between its actual property tax expense and the level reflected in rates on a shared 80% / 20% basis between customers and shareholder with the Company benefit or exposure capped at 10 basis points on equity annually.

Q. Do you support the Company's request for reconciliation of property tax expenses?

A. No. First, the Commission's is setting rates for just one rate year and such mechanisms are generally not employed by the Commission in a single year rate plan. In only one instance we know of, Case 08-E-0539, the Commission allowed a full reconciliation mechanism for property taxes in a one year rate plan. However, this was the result of the Commission giving due consideration to the potential upside risk to property taxes due to the economic downturn that started in the fall of 2008 that it considered unique.

Second, reconciliation is not necessary when setting rates for a single rate year because by the time the Commission issues its rate order in these cases, most of the property tax data will be known to the Commission and the latest know information can be reflected in the Commission’s rate order.

Payroll Taxes (Common)

Q. Are you making any adjustments to the Company’s forecast of rate year payroll taxes?

A. Yes, we are reducing the Company forecast by $2.868 million ($2.369 million Electric, $0.358 million Gas and $0.141 Steam) to track the effects of Staff’s recommended adjustments to the Company’s labor expense.

Subsidiary Capital Tax (Common)

Q. Are you recommending an adjustment to the Company’s forecast of rate year of Subsidiary Capital Tax?

A. Yes. We are decreasing the Company’s forecast of Subsidiary Capital Tax expense by $1.656 million ($1.346 million Electric, $0.219 million Gas and $0.091 Steam) based on the latest apportionment of revenues within New York City to total Company revenues (87%) and the common equity balance reflected in the Staff Capital

Structure Panel's forecasted rate year cost of capital.

New York State Income Taxes (Common)

Q. Did the Panel prepare schedules showing the rate year forecast of NYS income tax expense for each service?

A. Yes. Schedule 1, page 5 of our Exhibit___SAP-1 presents our calculation of rate year NYS income tax expense for electric service. Schedule 1, page 5 of our Exhibit___SAP-2 presents our calculation of rate year NYS income tax expense for gas service. Schedule 1, page 5 of our Exhibit___SAP-3 presents our calculation of rate year NYS income tax expense for steam service.

Federal Income Taxes

Q. Did the Panel prepare a schedule showing the rate year forecast of federal income tax expense for each service?

A. Yes. Schedule 1, page 6 of our Exhibit___SAP-1 presents our calculation of rate year federal income tax expense for electric service.

Schedule 1, page 6 of our Exhibit___SAP-2 presents our calculation of rate year federal income tax expense for gas service.

Schedule 1, page 6 of our Exhibit___SAP-3 presents our calculation of rate year federal income tax expense for steam service.

Manufacturing Tax Deduction (Steam)

Q. In its preliminary steam update, did the Company revise its state and federal income taxes for Steam service to try and recapture the revenue requirement related to a tax deduction that was reflected in the Steam Rate Order in Case 05-S-1376?

A. Yes.

Q. How much did the Company add back to its forecast of rate year state and federal income tax?

A. The Company added back $1.937 million to its tax forecasts, or one-third of the total amount of $5.811 million it seeks to recover in steam rates over a three-year period.

Q. Please explain the nature of the tax deduction.

A. The American Job Creation Act of 2004 created a manufacturing tax deduction to provide a tax deduction for income attributable to domestic production activities.

Q. What is the Company’s basis for adding back the manufacturing deduction in its forecast of income tax expense in the current steam case?

A. In its response to DPS-410, the Company indicates that when rates were established in Case 05-S-1376 a tax benefit related to the manufacturing deduction of $5.811 million was reflected in steam rates over two years, or $2.906 million per year. However, due to tax law changes establishing bonus depreciation, the Company incurred a loss for federal income tax purposes in 2009. Consistent with federal tax regulations, the loss was carried back to preceding tax years including 2005. As a result of the carry back, the actual amount of the manufacturing deduction the Company was able to realize was limited to $1.3 million, or $4.5 million less than the amount reflected in steam rates.

In the response to DPS-410, the Company also notes its intention, in its rebuttal filing, to reduce its request from $5.800 million to $4.500 million, or from $1.937 million to $1.500 million on annual basis.

Q. Does the Panel support the Company’s request to the recapture the revenue requirement associated with this tax benefit?

A. No. The Steam Rate Order in Case 05-S-1376 did not include a provision allowing the Company to defer the difference between the actual tax benefit related to the manufacturing deduction realized by the Company and the tax benefit reflected in rates. Furthermore, the concept of isolating one single of element of a long forgotten and expired rate plan for special ratemaking treatment without disclosure or justification is ill-conceived. Consequently, we are removing the manufacturing tax add back from the Company's forecasts of rate year state and federal income tax expense for steam service.

Rate Base

Plant In Service (Common)

Q. Are you making any adjustments to the Company's forecast of rate year plant in service?

A. We are reducing the Company's forecast by $102.732 million ($30.896 million Electric, $70.232 million Gas and $1.604 Steam) to account for Staff's forecast of capital expenditures and plant in service for each service in the rate year.

Smart Grid (Electric)

Q. Are you adjusting the Company's forecast of rate year electric net plant related to its Smart Grid Investment Grant (SGIG) project investments?

A. Yes. As discussed earlier, Con Edison proposes to continue recovery of SGIG investments through the Smart Grid surcharge mechanism and we recommend that the Company recover all Smart Grid related costs in electric base rates. As a result, we are increasing the Company's forecast of rate year electric net plant by $69.383 million to reflect the transfer of the Company's SGIG net plant investment from the current surcharge mechanism to electric rate year rate base.

Accumulated Reserve for Depreciation (Common)

Q. Are you making any adjustments to the Company's forecast of rate year accumulated reserve for depreciation?

A. We are reducing the Company's forecast by $98.964 million ($80.940 million Electric,

$7.480 million Gas and $10.544 Steam) to account for Staff's forecast of depreciation expense and plant-in-service for each service in the rate year.

NIBCWIP (Common)

Q. Is the Panel adjusting the Company's forecast of rate year Non-Interest Bearing Construction Work In Progress (NIBCWIP)?

A. Yes. We are decreasing the Company's forecast of electric and gas NIBCWIP by $84.577 million and $11.458 million, respectively, and increasing the Company's forecast of steam NIBCWIP by $0.773 million to correct an error in the Company's construction and plant model developing the rate year forecasts.

Q. Does the Company agree with your proposed adjustment?

A. Yes. In its response to DPS-606, the Company agrees that the adjustment is warranted.

Q. Are you making any additional adjustments to the Company's forecast of rate year NIBCWIP?

A. Yes. We are reducing the Company's forecast by $57.604 million ($30.341 million Electric, $25.395 million Gas and $1.868 Steam) to account for Staff's adjustments to the Company's forecast of 2013 and 2014 capital expenditures.

Deferred Fuel (Electric and Steam)

Q. Would the Panel explain how Con Edison forecasts rate year electric and steam deferred fuel?

A. Yes. The Company's rate year deferred fuel balances are based on the historic three-year average of deferred fuel balances for the period of July 2009 through June 2012.

Q. Is this methodology a change from that used by the Company, and approved by the Commission, to forecast electric and steam deferred fuel balances in the Company's previous electric and steam rate cases?

A. Yes. In its previous electric and steam cases, the Company based its forecast on projected deferred fuel balances.

Q. How was the projected deferred fuel balance developed in prior Con Edison rate cases?

A. It was developed using the Company's forecast of rate year fuel costs.

Q. Did the Company explain why it proposes to use a forecast based on historic information as opposed to using its forecast of rate year fuel costs?

A. Yes. In its responses to DPS-376 and DPS-379, the Company stated that electric and steam fuel costs vary and are difficult to forecast and therefore historic information provides a more reasonable basis.

Q. Do you agree with the Company's rationale that historic information provides a more reasonable basis to base the rate year forecast on?

A. No. The Company's electric and steam fuel cost forecasts provide a logical and supportable approach to calculate the rate year forecast.

Q. Does the Company rely on its fuel cost forecasts to project any other rate year rate base elements?

A. Yes. Con Edison relies on its fuel cost forecasts in the development of its forecast of rate year electric and steam working capital.

Q. Please quantify the Panel's deferred fuel adjustments.

A. We are decreasing the Company's forecast of rate year electric deferred fuel balance from $77.3 million to $71.9 million, or by $5.5 million and we decreasing the Company's forecast of rate year steam deferred fuel balance from negative $4.6 million to negative $9.4 million, or by $4.7 million.

FIT Interest Refund (Electric)

Q. Is Staff recommending adjustments to the Company's forecast of electric rate base for a balance included related to a Federal Income Tax (FIT) interest refund?

A. Yes. In its electric filing, the Company included an FIT interest refund representing a receivable the Company recorded in 2007 based on a notice from the IRS that it was due interest on its 1997 FIT return. After the IRS issued the notice it later rescinded it and did not make the interest payment to the Company. Consequently, this item should not be reflected in rate base. In its response to DPS-389, the Company agrees that this item should not be reflected in rate base. Accordingly, we are reducing electric rate year rate base by $1.506 million.

Mount Vernon Properties (Common)

Q. How much did Con Edison include in its revenue requirement for its Mount Vernon properties?

A. The Company included $2.081 million ($1.638 million Electric, $0.337 million Gas and $0.106 million Steam) for properties it previously purchased.

Q. Please describe the acquisition of the Mount Vernon Properties?

A. Extensive contamination was found below the foundations of four residences adjacent to a Company manufactured gas plant cleanup site in Mount Vernon, NY. In order to meet remediation requirements, the Company deemed it cost-effective to purchase the four houses. The Company believed purchasing the properties and demolishing the houses to excavate the soil had numerous advantages over the alternative of remediation with the houses in place.

Q. Please describe how the Company has accounted for the properties?

A. The book cost of the properties is reflected as a regulatory asset on the Company’s books.

Q. Does the Panel agree with the inclusion of the properties in the Company’s rate year rate base?

A. No. Since the Company has not identified any specific future utility use for the properties, we recommend that the properties be removed from rate year rate base for each service. In fact, in its response to DPS-454, the Company indicates that it has actually begun the process of marketing the property for sale.

Q. What about other expenses related to this property that potentially may be in the Company's rate year forecast?

A. We propose that the Company, in its rebuttal filing, remove any and all O&M, depreciation and/or property tax expense, associated with the property from its filing.

Q. Does the Panel have any other recommendations concerning the Mount Vernon properties?

A. Yes. Given Con Edison's lack of identified future utility use for the properties we recommend that the properties be transferred immediately from plant held for future use to non-utility property.

Working Capital (Common)

Q. Are you recommending an adjustment to the Company's forecast of Working Capital?

A. Yes. We are decreasing Con Edison's forecast of rate year working capital for electric and gas service by $14.066 million and $3.593 million, respectively, and increasing the forecast for steam service by $0.773 million to account for Staff's adjustments to the Company's forecast of rate year prepayments and O&M expenses.

Regulatory Deferrals

Site Investigation and Remediation Costs (Common)

Q. Are you proposing to adjust the Company's rate year balance of deferred Site Investigation and Remediation (SIR) program costs?

A. Yes. In its preliminary update for each service, Con Edison reflected the rate year balance of deferred SIR program costs at a pretax amount. That is, the Company did not reflect the accumulated deferred income taxes arising from the book-tax timing differences related to SIR costs in its rate year balance of deferred SIR program costs. Funds provided through deferred taxes are considered cost-free capital and, therefore, that portion of the Company's SIR program costs financed by such funds should not be allowed a return. Consequently, we decreasing Con Edison's forecast by $75.107 million ($60.615 million

Electric, $11.346 million Gas and $3.146 million Steam) to reflect the average rate year balance at a net of tax amount.

Q. Does the Company agree with your adjustment?

A. Yes. In its response to DPS-483, the Company agrees that our adjustment is proper.

Accumulated Deferred Income Taxes

ADR/ACRS/MACRS Depreciation Tax Deductions (Common)

Q. Does the Panel have an adjustment to the Company's rate year forecast of Accumulated Deferred Income Taxes (ADIT) related to ADR, ACRS and MACRS depreciation tax deductions?

A. Yes. We are decreasing the Company's rate year electric deferred tax forecast (increasing rate year electric rate base) by $253.258 million to correct a formulaic error in the Company's rate year forecast and to reflect actual ADIT balances as of December 31, 2012.

We are decreasing the Company's rate year gas forecast (increasing rate year gas rate base) by $1.741 million to reflect actual ADIT balances as of December 31, 2012 thereby shortening the period of forecast.

Similarly, we are increasing the Company's rate year steam forecast (decreasing rate year steam rate base) by $4.467 million to reflect actual ADIT balances as of December 31, 2012.

Q. Does the Company agree with your adjustments?

A. Yes. In its response to DPS-568, the Company agrees with the adjustments and provides the ADIT balances related to ADR/ACRS/MACRS depreciation on which our adjustments are based.

Q. Are there any additional adjustments to the Company's forecast?

A. Yes. Staff is recommending changes to the Company's forecasts of electric, gas and steam depreciation expense and plant additions for the rate year. Consequently, we are increasing the Company's rate year forecast (decreasing rate year rate base) for electric and steam by $8.292 million and $1.120 million, respectively, and decreasing the forecast for gas by $ 0.328 million to account for Staff's adjustments.

Repair Allowance (Common)

Q. Is the Panel adjusting the Company's rate year forecast of accumulated deferred income taxes related to Repair Allowance tax deductions?

A. Yes. We are increasing the Company's rate year electric forecast (decreasing rate year electric rate base) from $320.487 million to $420.076 million or by $99.589 million to correct an error in the Company's rate year forecast and to reflect actual ADIT balances as of December 31, 2012. The adjustment related to Repair Allowance is necessary because when separating the historic test year total ADIT into its Depreciation, Repair Allowance and SSCM deduction components, the amount used by the Company for Depreciation was understated by approximately $136 million and the amount for Repair Allowance overstated by that same amount. These offsetting errors were carried through the forecasts of ADIT for each of those components. The understatement for Depreciation is included in our adjustment to Depreciation discussed above. The overstatement for Repair Allowance required a separate adjustment.

We are also increasing the Company's rate year gas forecast (decreasing rate year gas rate base) from $91.784 million to $99.512 million or by $7.728 million to reflect actual ADIT balances as of December 31, 2012.

Finally, we are increasing the Company's rate year steam forecast (decreasing rate year steam rate base) from $5.588 million to $5.823 million, or by $0.235 million to reflect actual ADIT balances as of December 31, 2012.

Q. Does the Company agree with your adjustments?

A. Yes. In its response to DPS-568, the Company agrees with the adjustments and provides the ADIT balances related to Repair Allowance on which our adjustments are based.

SSCM Deductions (Common)

Q. Is the Panel adjusting the Company's rate year forecast of accumulated deferred income taxes related to simplified service cost method (SSCM) tax deductions?

A. Yes. We are decreasing the Company's rate year electric forecast (increasing rate year electric rate base) from $376.260 million to $375.659 million or by $0.601 million to reflect actual ADIT balances as of December 31, 2012 to synchronize the SSCM deferred taxes balances to the Company's construction and plant model which uses December 31, 2012 as the starting point to forecast rate year net plant.

We are also increasing the Company's rate year gas forecast (decreasing rate year gas rate base) from $83.761 million to $83.905 million or by $0.144 million to reflect actual ADIT balances as of December 31, 2012.

Finally, we are increasing the Company's rate year steam forecast (decreasing rate year steam rate base) from $35.440 million to $38.500 million, or by $3.060 million to reflect actual ADIT balances as of December 31, 2012.

Q. Does the Company agree with your adjustments?

A. Yes. In its response to DPS-568, the Company agrees with the adjustments and provides ADIT balances related to SSCM on which our adjustments are based.

Deferred SIT (Gas)

Q. Would you please explain your SIT gas adjustment?

A. We are decreasing the average rate year forecast (increasing rate year rate base) by $13.339 million to correct an error in the Company's forecast. In its forecast Con Edison used a state income tax rate of 71% instead of the current rate of 7.1% thereby creating an understatement of SIT deferred taxes in the rate year.

Q. Does the Company agree with your adjustment?

A. Yes. In its response to DPS-611, the Company agrees with the adjustment.

Q. Are you making any additional adjustments to the Company's forecast of rate year deferred SIT?

A. Yes. We are decreasing the rate year forecast for electric service by $0.045 million and increasing the rate year forecast for gas and steam service by $0.545 million and $0.105 Steam, respectively, to account for Staff's adjustments to the Company's forecast of rate year depreciation expense and plant-in-service.

Earnings Base Capitalization (EBCap) Adjustment

Q. Does the Panel agree with the Company's EBCap Adjustment?

A. No. We recommend that the Company's EBCap Adjustment (decreasing rate year rate base) be increased by $127.127 million ($98.967 million Electric, $18.650 million Gas and $9.510 million Steam) to account for our adjustment removing the Company's Supplemental Retirement Incentive Plan from the forecast of rate year pension and OPEB expense.

Q. Would the Panel please explain its adjustment in more detail?

A. Yes. The Company's historic test year capitalization includes a balance of $127.127 million related to the pension assets for the Company's Supplemental Retirement Incentive Plan. As part of our adjustment removing Supplemental Retirement Incentive Plan from the Company's forecast of rate year pension and OPEB expense, we removed the earnings from the Supplemental Retirement Incentive Plan pension assets that were credited to pension expense. Since we are not including the income generated by the Supplemental Retirement Incentive Plan pension assets in the Company's revenue requirement for any service it is appropriate to excluded the pension assets from the EBCap calculation.

Smart Grid Surcharge (Electric Only)

Q. Would the Panel explain how Con Edison is currently recovering its SGIG and SGDG project expenditures?

A. Yes. Pursuant to the Commission's October 19, 2010 Order in Case 09-E-0310, the Company was directed to establish a customer surcharge to permit for the recovery of the customers’ share of SGIG and SGDG projects which was not fully funded by federal grants. The Order provided that the surcharge method of recovering these costs is a short-term measure until the capital projects are included in rates in Con Edison’s next rate proceeding.

Q. Please explain the Con Edison’s request in this case.

A. The Company is proposing to include a portion of its SGIG and SGDG project costs in rate and continue the surcharge approach for others. Specifically, the Company has reflected its Smart Grid project expenditures through June 30, 2012 in rate base and has reflected the associated carrying charges costs in its revenue requirement. Con Edison proposes to continue the surcharge for Smart Grid project costs incurred after June 30, 2012 until included in rates at a time after the rate year in this proceeding.

The Company claims that this approach will allow Staff a reasonable opportunity to review the costs as of June 30, 2012 prior to the completion of this case.

Q. Do you support the Company's proposal?

A. No. By the beginning of the rate year, January 1, 2014, the Company will have expended approximately 97% of its total Smart Grid project costs and by March 31, 2014, the Company will have completed it Smart Grid project investments. Consequently, there is little, if any financial risk, to the Company or its customers by reflecting the Smart Grid project costs in rates in this proceeding.

Q. What is the Panel recommending?

A. We recommend that the Company's Smart Grid project costs be reflected in electric rates for the rate year ending December 31, 2014, and that the surcharge mechanism cease as December 31, 2013. As noted above, the Company's investment will be completed as of March 31, 2014 and there is little, if any, benefit to the Company, its customers, or Commission in prolonging the surcharge. As the Commission noted in its October 2010 Order, the surcharge method of recovering these costs is a short-term measure until the capital projects are included in rates in Con Edison’s next rate proceeding.

Q. What is needed to effectuate this recommendation?

A. We discussed the appropriate revenue requirements adjustments earlier in our testimony. In addition, the Company would be required to file, approximately 60 days after the expiration of the surcharge mechanism on December 31, 2013, a reconciliation of Smart Grid revenues collected and its actual Smart Grid costs for the nine months (April 1, 2013 – December 31, 2013) that the current surcharge mechanism would be in effect.

Deferral Accounting and Reconciliations

Q. Does the Company propose to continue the use of deferral accounting and reconciliation mechanisms for electric, gas and steam costs that the Commission has previously authorized?

A. Yes. The Company proposes to continue the reconciliation mechanisms related to property taxes, interference costs, pensions and OPEBS, Site Investigation Remediation (SIR) costs, the cost of long-term debt, net plant and changes to legislative, regulatory, and related actions as well as a number of other existing reconciliations for all services. For electric and gas service, the Company proposes to continue the existing supply rider provisions (i.e., MSC, MAC, GAC, etc.) as well as, the revenue decoupling mechanisms. For steam service, Con Edison proposes to continue the fuel adjustment clause. Additionally, for electric service the Company proposes to continue reserve accounting for major storm costs and ERRP major maintenance costs.

Q. Does the Company propose to modify any of the reconciliation mechanisms that are currently in effect?

A. The Company proposes to modify the reconciliation mechanisms related to property taxes, the electric and gas revenue decoupling mechanisms, interference costs, and net plant. In addition, the Company proposes that the existing provision related to legislative, regulatory, and related actions be modified to include changes in Company revenues due to such circumstances. Furthermore, the Company proposes to shorten the amortization period associated with the recovery of SIR costs from ten to five years.

Q. Does Con Edison propose to terminate any of the reconciliation mechanisms that are currently in effect?

A. The Company proposes that the reconciliation mechanisms for gas and steam research and development costs and the oil to gas conversions costs be terminated for gas service. Earlier in our testimony we discussed the Company's request to terminate deferral accounting for SSCM tax deductions.

Q. Does the Panel agree that the use of deferral accounting and reconciliation mechanisms should continue for these cost elements and in certain circumstances be modified or terminated?

A. We agree that the deferred accounting for pension and OPEB expenses should continue and the changes to legislative, regulatory, and related actions should continue. However, we do not support the Con Edison's proposed modification to include changes in Company revenues due to such circumstances because Con

Edison failed to provide any basis for the proposed modification. Staff also agrees with the Company that the reconciliation mechanisms for gas and steam research and development costs be eliminated. The Staff Policy Panel discusses the Company's request to eliminate the deferred accounting related to its oil to gas conversion program. The deferred accounting associated with interference costs, net plant, electric major storm reserve and major maintenance for East River Unit 1 and 2 are also discussed by the Staff Policy Panel. In addition, the Staff Policy Panel addresses the Company's request to change the amortization period associated with the recovery of SIR costs. The SIR Panel testimony addresses the Company's request to continue deferred accounting related to SIR costs. The existing reconciliation mechanisms related to the supply rider provisions for electric and gas service should continue without modification and the revenue decoupling mechanisms for electric and gas service should continue as discussed by the Staff Policy Panel and the Staff Gas Rates Panel. The Fuel

Adjustment Clause for steam service should continue as discussed by the Staff Steam Fuel Panel. Staff's Capital Structure Panel addresses the Company's request for deferred accounting related to the weighted average cost of long-term debt.

Q. Does the Company propose a new deferred accounting or reconciliation mechanisms?

A. The Company proposes to establish deferred accounting related to management variable pay, O&M costs associated with the Pipeline Safety Act of 2011, major storm reserves for gas and steam service, a weather normalization clause for steam service, and a storm hardening surcharge mechanism.

Q. Does the Panel agree with Company's proposal?

A. We agree with the Company's proposal to establish deferred accounting for any management variable pay such any allowances in rates not be paid, as described by the Company and the Staff Policy Panel addresses all of the other requests by the Company to establish new deferred accounting or reconciliation mechanisms.

Q. Would the Panel like to address any other issues related to deferred accounting?

A. Yes. In response to DPS-184 and DPS-185, the Company indicated that federal tax credits and NYS alternative fueling infrastructure credits, including a clean alternative fuel credit, may be available to the Company related to the Company's proposed Fuel Station and compresses natural gas Station Upgrades. Furthermore, the Company indicated any tax credits received from these projects would be deferred for customer benefit. We agree with the Company that any tax credits related to these projects should be deferred for customer benefit.

Q. Did the Panel prepare an exhibit that lists the Company's costs that will be subject to reconciliation in the rate year based on Staff's various recommendations?

A. Yes. Exhibit___SAP-7 lists the revenues and costs by service that will be reconciled in the rate year based on Staff's recommendations.

Q. Does this conclude your testimony at this time?

A. Yes.