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Marc Richter
Vice President

October 13, 2016

By Electronic Mail
Hon. Kathleen Burgess
Secretary to the Commission
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223

Re: Cases 16-E-0060, *et al*
Con Edison Electric and Gas Rate Cases
Statement in Support of Joint Proposal

Dear Secretary Burgess:

In accordance with the *Ruling on Schedule* issued on September 28, 2016 in the captioned proceedings, attached for filing please find Consolidated Edison Company of New York, Inc.'s Statement in Support of the Electric and Gas Joint Proposal.

Very truly yours,

Marc Richter

Cc: Hon. Ben Wiles (via electronic mail)
Hon. Dakin Lecakes (via electronic Mail)
All Active Parties in Cases 16-E-0060, *et al* (via electronic mail)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

STATEMENT IN SUPPORT OF
ELECTRIC AND GAS JOINT PROPOSAL

Dated: October 13, 2016
New York, New York

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STATEMENT IN SUPPORT OF
ELECTRIC AND GAS JOINT PROPOSAL

I. Preliminary Statement

On September 19, 2016, Consolidated Edison Company of New York, Inc. ("Con Edison" or "Company"), New York State Department of Public Service Staff ("Staff"), New York Power Authority ("NYPA"), the City of New York ("City" or "NYC"), United States General Services Administration, Consumer Power Advocates ("CPA"), New York Energy Consumers Council, Inc. ("NYECC"), the Pace Energy and Climate Center ("Pace"), the Environmental Defense Fund ("EDF"), Acadia Center, Metropolitan Transportation Authority ("MTA"), Time Warner Cable Inc. ("Time Warner"), Community Housing Improvement Program ("CHIP"), Great Eastern Energy, LLC, Digital Energy Corp., Joint Supporters, the E Cubed Company, LLC, Northeast Clean Heat and Power Initiative, Association for Energy Affordability, Inc., Energy Concepts Engineering, PC, Real Estate Board of New York, and

Natural Resources Defense Fund ("NRDC") entered into a Joint Proposal (the "Proposal") to resolve the issues raised in the above-captioned proceedings.[1] Among other things, the Proposal provides for establishment of new rates for Con Edison's electric service ("Electric") and gas service ("Gas") for a three-year period from January 1, 2017 through December 31, 2019 ("Electric Rate Plan" and "Gas Rate Plan," taken together are referred to as "Rate Plans").

The Proposal was filed with the New York State Public Service Commission ("Commission") on September 20, 2016. Pursuant to a *Ruling on Schedule* issued on September 28, 2016, by Administrative Law Judges Dakin Lecakes and Ben Wiles, the presiding judges in this proceeding, Con Edison submits this Statement in Support of the Electric and Gas Joint Proposal ("Statement").

The Proposal provides customers with rate predictability for the duration of the rate plans; provides the Company with funds needed to build, operate and maintain safe and adequate electric and gas systems, including funds for energy efficiency programs; provides for returns to Company investors expected to enable the Company to raise capital at reasonable terms and to maintain the financial integrity essential to provide access to the capital markets; reflects various measures to mitigate rate increases; imposes on the Company increased responsibility to perform efficiently; enhances the Company's low income customer discount program to meet current Commission requirements; enhances certain electric and gas safety, reliability and customer service performance metrics and associated revenue adjustments if the established targets are not met; establishes new energy efficiency and system peak reduction programs; implements Earning Adjustment Mechanisms ("EAMs") allowing the Company to achieve positive

[1] Several Signatory Parties included an exception to their support related to standby rate issues addressed in the Proposal. Two other Signatory Parties included exceptions relating to the low income discount program (NYC), NYPA's cost allocation for outcome-based EAMs (NYC), and certain electric and gas cost allocation issues (Pace).

incentives for its efforts related to energy efficiency, distributed generation ("DG") interconnections and Advanced Metering Infrastructure ("AMI") customer awareness; provides positive incentives for the Company exceeding targets related to leak prone pipe replacement, reducing the leak backlog and reducing uncollectible costs and service terminations; resolves a number of issues related to the Company's standby and buyback rates; advances the Company's implementation of the Reforming the Energy Vision proceeding,[2] including through investments in the distribution system platform; and addresses various other issues and concerns raised by the parties during the course of these proceedings.

The Proposal addresses these issues in a manner that resulted in most of the active parties to the proceedings supporting, or not opposing, the Proposal.

As set forth below, the Proposal fully satisfies the Commission's settlement guidelines, and should be adopted by the Commission in all respects and without modification.[3]

II. Standard of Review

The Proposal is just, reasonable and in the public interest and therefore meets the Commission's threshold requirement for adopting proposed settlements. Factors the Commission considers in determining whether a settlement proposal is in the public interest include: consistency with State law and policies; whether the result compares favorably with the

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[2] Case 14-M-0101 – *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* ("REV Proceeding"), Order Instituting Proceeding (issued April 25, 2014).

3 This Statement focuses on matters that were the subject of material differences of opinion or are otherwise relatively more significant for any of a variety of reasons. That any particular provision of the Proposal is not addressed in this Statement is not, and should not be construed to be, an indication that the Company believes that such provision is (i) not an important element of the comprehensive resolution of all issues in these cases, or (ii) not just and reasonable in the context of the Proposal as a whole and should not be adopted by the Commission.

likely result of full litigation; a fair balance among interests of customers and the Company; and a rational basis for decision.[4]

Appropriate notice of settlement negotiations was made in accordance with 16 NYCRR §3.9 (a). All active parties were provided the opportunity to fully participate in settlement discussions and were advised of all settlement meetings and/or teleconferences. Agreement was reached after following all applicable Commission settlement procedures.

The record in these proceedings is extensive and provides a rational basis for a Commission decision adopting the Proposal. In addition to the Company, fifteen parties submitted direct and/or rebuttal testimony in these proceedings, establishing a record comprised of thousands of pages of testimony and exhibits. Parties subsequently engaged in discovery, with the Company responding to over 1,700 formal discovery requests on its January 29, 2016 filings. All parties have been afforded the opportunity to submit statements or testimony in support or opposition to the Proposal, as well as reply statements or testimony.

The Signatory Parties represent a broad range of diverse interests, including major commercial, residential, low income and governmental customers and/or their representatives, environmental advocacy organizations, and DG developers. In terms of balancing the interests of customers, the Company and other important stakeholders, the Proposal reflects compromises of the widely-differing viewpoints of the numerous participants in the settlement process, including those of non-signatory parties. A driving factor in the Company's consideration and support of the Proposal was the benefit of multi-year rate plans, which allow the Company to focus on operational improvement opportunities for each service, promoting desired Company-

[4] Case 90-M-0255, *Proceeding on Settlement Procedures and Guidelines*, Opinion No. 92-2 (issued March 24, 1992).

wide progress toward increased effectiveness, and further implementation of the Commission's REV initiatives.

The settlement process enabled parties to fully explore their respective positions and reach a compromise. As with any compromise, individual provisions of the Proposal may not be to the liking of one or more parties, and all parties, including, most significantly, the Company, made substantial and difficult concessions to reach this agreement. For example, the Proposal provides the Company with significantly lower revenues than the Company sought and greater challenges in meeting its service obligations. Given the wide range of complex issues presented and the inherent litigation risk, the Company ultimately concluded that the Proposal was reasonable on an overall basis, accepting the many features of the Proposal that were a significant departure from the Company's position as part of the give and take inherent in any compromise. As explained more fully in the sections that follow, the Proposal is within the reasonably expected range of potential litigated outcomes.

III. Provisions of Joint Proposal

A. Rates and Revenue Levels

1. Electric and Gas Revenue Levels

The Proposal recommends changes to the Company's electric delivery service rates and charges, including the fixed component of the Monthly Adjustment Clause ("MAC"), designed to produce an additional $194.554 million in revenues on an annual basis starting in RY1, an additional $155.315 million increase in revenues on an annual basis starting in RY2, and an additional $155.206 million increase in revenues on an annual basis starting in RY3. The RY1 revenues are in addition to the $47.776 million increase in electric delivery service revenues effective January 1, 2017, as established by the Commission in the 2015 Rate Order,[5] as a result of the expiration of the temporary credit at the end of the 2016 rate year.

The Signatory Parties propose that the base rate changes and the $47.776 million increase approved by the Commission in the 2015 Rate Order be implemented on a levelized basis, including interest, to provide rate stability over the term of the Electric Rate Plan. The annual levelized revenue changes associated with Transmission and Distribution ("T&D") delivery revenue, the retained generation component of the MAC and purchased power working capital is $199.034 million per Rate Year.

For gas, the Proposal recommends changes to the Company's retail gas sales and gas transportation service rates and charges, designed to produce a $5.373 million decrease in revenues on an annual basis starting in RY1, a $92.337 million increase in revenues on an annual basis starting in RY2, and an additional $89.453 million increase in revenues on an annual basis starting in RY3. The revenue decrease in RY1 is offset by the $40.856 million increase in gas delivery service revenues effective January 1, 2017, as established by the Commission in the 2014 Rate Order,[6] as a result of the expiration of the temporary credit at the end of the 2016 Rate Year.

The revenue requirements reflected in the Proposal are significantly less than those requested in the Company's initial filing.[7] The recommended rate changes reflect adoption of

[5] Case 15-E-0050 and Case 13-E-0030, *Consolidated Edison Company of New York, Inc. – Electric Rates*, Order Adopting Terms of Joint Proposal to Extend Electric Rate Plan (issued June 19, 2015) ("2015 Rate Order").

[6] Case 13-E-0030, *et. al.*, *Consolidated Edison Company of New York, Inc. – Electric, Gas and Steam Rates*, Order Approving Electric, Gas and Steam Rate Plans in Accord with Joint Proposal (issued February 21, 2014) ("2014 Rate Order").

[7] Although the Company's filing requested increased revenues for a single rate year, the Company presented, for illustrative purposes, financial forecasts and information for second and third rate years to facilitate settlement discussions for multi-year rate plans.

many of the adjustments that Staff proposed in direct testimony, in addition to adjustments proposed by other parties. The adjustments also reflect many of the same methodologies used to establish rates under the existing electric and gas rate plans.

Although the Company accepted certain cost and expense adjustments for purposes of achieving a resolution of all of the issues in this proceeding, the Company's acceptance should not be construed as acknowledging such costs to be avoidable, unnecessary, unreasonable or unrecoverable in the context of providing safe and adequate service to its customers (*e.g.*, the proposed rates reflect projections of property tax expenses lower than the Company's forecasts and productivity imputations beyond the traditional one percent imputation). In other words, the proposed rates and revenue requirements present significant challenges for the Company.

2. Return on Common Equity

The Proposal reflects a return on common equity ("ROE") of 9.0% for the three-year terms of the Rate Plans.[8] The Company submitted testimony demonstrating that an ROE of 10.3% would appropriately compensate equity investors for the risk they bear by investing in the Company for a one-year rate plan. Staff proposed an ROE of 8.6 percent. Based on returns for utilities in the United States, and recent returns approved by the Commission for utilities in New York, the 9.0 percent ROE is at the bottom end of this range.

The Company's expert witness on ROE, James Vander Weide, is on record with a recommended ROE of 10.3% based on the discounted cash flow model ("DCF"), the capital asset pricing model ("CAPM") and a comparable earnings model. Dr. Vander Weide's testimony includes a robust explanation of the three methods included in his model and why it is

[8] The returns reflected in the Proposal are "all in" returns and do not represent the result of an agreed-upon base return plus an agreed-upon stay out premium.

proper to use all three methods. Dr. Vander Weide's testimony also explains how he tested the reasonableness of his recommended ROE and his model results.

Commission Staff also submitted testimony on their recommended ROE. That ROE is reflective of the Commission's continuing adherence to a cost of capital methodology that consistently establishes returns that are at the lower end of the range of returns within the utility industry.

The Company maintains that the Commission's ROE model, which prescribes a two-thirds weighting of the DCF model and one-third weighting of the CAPM, produces inappropriately low returns for three primary reasons. First, the DCF model and the CAPM methodology do not fulfill the comparable earnings standard adopted by the United States Supreme Court in its *Bluefield* and *Hope* decisions.[9] That is, neither method provides information about the earned returns on investments in other enterprises having corresponding risks. Second, the DCF model used the book value share price as an input rather than the market value share price. Since the resulting return on equity is applied to a book value measure of rate base, using a market value share price in the DCF model understates the return on equity when the market value share price is above the book value share price. Third, by rejecting the comparable earnings method, the model narrows the use of methods from three to two to calculate return on equity. The practice of using just two methods is out of step with both the academic literature and with the practices in most, if not all other, jurisdictions in the U.S.

Moreover, the ROE in Staff's initial testimony is for a one-year rate case and does not include the traditional stayout premium to compensate the Company for increased risks

[9] *See Bluefield Water Works & Improvement Co. v. Pub. Serv. C'mmn of West Virginia*, 262 U.S. 679 (1923) ("Bluefield"); *FPC v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("Hope").

associated with multi-year rate plans. More specifically, the Commission's model estimates a ROE for a specific point in time under specific market conditions (*e.g.*, interest rates, utility valuations). The inputs to this model with the highest impact on the output, interest rates and utility valuations are constantly changing as market conditions and market expectations change. Such conditions and expectations are subject to dramatic change over the course of a multi-year rate plan. Notwithstanding this potential for dramatic change, in multi-year rate agreements, the Company is "locked in" to a ROE that will not change with market conditions for the length of the rate agreement (in this case three years). Given today's historically low interest rate environment, it would be fair to expect interest rates are more likely to rise in the near future than fall further. Any upward movement interest rates will typically lower utility valuations which both have the effect of increasing the ROE estimated by the Commission's model. Thus by agreeing to a multi-year settlement, the Company bears the risk of rising interest rates and other changes in market conditions. It has been the Commission's practice to add a stayout premium to the ROE in multi-year rate agreements to compensate the Company for such risks. In the current market environment, an ROE for a multi-year rate plan must duly reflect these material risks.[10]

In the Company's view, a 9.0 percent ROE is arguably but barely within the zone of reasonableness for a one-year rate plan. To put the ROE in context, the Company examined Regulatory Research Associates' database of all completed electric and gas rate cases nationwide since 1980. Of the nearly 2,600 rate cases with a reported ROE, a 9.0% ROE ranks as the fourth

[10] *See, e.g., FPC v. Conway Corp*. 426 U.S. 271, 278 (1976) (where the Supreme Court of the United States explains that in ratemaking "there is no single cost-recovering rate, but a zone of reasonableness" and that "[s]tatutory reasonableness is an abstract quality represented by an area, rather than a pinpoint. It allows a substantial spread between what is unreasonable because too low and what is unreasonable because too high.") (internal citations omitted).

lowest. On the other hand, the 9.0 ROE is consistent with 9.0 percent ROEs approved by the Commission for utilities in New York over the last year for multi-year rate plans.[11]

For all the reasons above, the Commission should accept the 9.0% ROE for purposes of approving the Proposal.

3. Energy/Supply/Fuel Adjustment Mechanisms

The Proposal recommends continuation of standard, currently-effective adjustment mechanisms that provide for the recovery of various supply and supply-related costs, including purchase power costs and embedded generation (MSC/MAC mechanism),[12] NYPA Surcharge,[13] and gas supply and supply-related costs (MRA, GCF, and WACOC).[14] The Proposal details certain additional costs that will be recovered through these mechanisms during the term of the Rate Plans. The parties concluded that these adjustment mechanisms were the preferred alternative for recovering certain costs or incentives related to various programs and other initiatives established by the Proposal, since, for example, the amounts to be recovered are either not yet known, subject to a cap, or would otherwise be subject to reconciliation.

a) MAC and NYPA Surcharge

The four additional cost categories that will be recovered through the MAC and NYPA OTH are as follows: (1) incentives that are earned pursuant to electric EAMs for energy

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[11] *See* Cases 14-E-0493 & 14-G-0494, Orange and Rockland Utilities, Inc. – Electric and Gas Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans at p. 11 (issued Oct. 16, 2015); Cases 15-E-0283, *et al*., New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation – Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal at p. 32 (issued June 15, 2016); Case 15-G-0382, St. Lawrence Gas Company, Inc. – Rates, Order Establishing Multi-year Rate Plan at p. 23 (issued July 15, 2016). Like Con Edison, other New York utilities also use fully-forecasted test years, revenue decoupling, full pass-through of commodity costs, and true-ups of short-term debt in ratemaking.

[12] Market Supply Charge ("MSC").

[13] Charges from NYPA are collected through the Statement of Other Charges ("NYPA OTH Statement").

[14] Monthly Rate Adjustment ("MRA"), Gas Cost Factor ("GCF") and Weighted Average Cost of Capacity ("WACOC").

efficiency related programs, DG Interconnections and AMI Customer Awareness; (2) actual costs incurred for climate change and marginal cost studies up to the caps established in the Proposal; (3) costs and incentives for Non-Wires Alternative programs;, and (4) standby reliability credits.

b) MRA/GCF

The Proposal addresses recovery of several cost categories through the MRA and GCF.

First, two revenue neutral changes move items to the MRA from the GCF: (1) the customers' share of balancing charge revenues included in Non-Firm Revenues above the non-firm imputation; and (2) Gas Supplier Refunds.[15] These changes provide for greater equity and consistency in the allocation of the credits between and among firm sales customers and firm transportation customers.

Second, the costs of four new programs will be recovered through the MRA: (1) the incremental costs of work associated with decreasing the leak backlog and increasing the replacement of leak prone pipe beyond the targets reflected in the revenue requirements; these incremental costs will be recovered through a new component of the MRA called the Safety and Reliability Surcharge Mechanism ("SRSM"), consistent with the on-going Commission proceeding in Case 15-G-0151; (2) payments made to Algonquin Gas Transmission Pipeline and Tennessee Gas Pipeline, LLC for the upgrade and/or modification of interstate pipeline facilities at the Peekskill and Rye gate stations to enhance delivery services to the Company;[16] (3) the gas customers' share of actual costs incurred for the climate change study up to the cap established in

[15] In this context, Gas Supplier Refunds pertain to refunds for gas pipeline and/or storage reservation charges.

[16] Recovery of payments for each project will commence when each project is been placed into service.

the Proposal; and (4) the gas customers' share of any Company incentive earned pursuant to the AMI customer awareness EAM.

c) Other charges

The Proposal continues provisions established in the prior rate plans that recognize that the Company may be subject to various other governmental and/or RTO[17]-like transmission and/or generation-related charges, costs or credits (*e.g.*, FERC,[18] NYISO,[19] PJM,[20] EPA[21]) not already listed in or otherwise covered by the then-effective MAC/MSC, GCF/MRA/WACOC, and that the Company may make a tariff filing with the Commission providing for the recovery of such charges/costs, or application of these credits, through these mechanisms and/or a comparable adjustment mechanism(s). These provisions properly recognize that the Company may become subject to charges established by other governmental entities during the terms of these Rate Plans, which charges are both unavoidable and not subject to reasonable forecast in setting rates in this proceeding, and should be recovered from customers on a timely basis, following Commission review of proposed tariff amendments.

4. Revenue Decoupling Mechanisms

The Proposal continues, with minor changes, the Company's Electric Revenue Decoupling Mechanism ("RDM") and gas Revenue Per Customer ("RPC") revenue decoupling mechanisms. Consistent with current Commission policy, these mechanisms reconcile

[17] Regional Transmission Organization ("RTO")

[18] Federal Energy Regulatory Commission ("FERC")

[19] New York Independent System Operator ("NYISO")

[20] PJM Interconnection LLC ("PJM")

[21] Environmental Protection Agency ("EPA")

forecasted sales revenues in a manner designed to eliminate a Company disincentive to promote energy efficiency.

5. Other Electric Rate Items

a) PJM OATT Charges

The Proposal provides for the Company to continue to recover from Con Edison customers through the MAC and from NYPA through the NYPA OTH Statement all rates and charges associated with the 1000 MW firm transmission service provided pursuant to the PJM Open Access Transmission Tariff ("OATT"). The Proposal also continues the cap on NYPA's share of such costs, which was established by the 2014 Rate Order, and provides for the cap to be pro-rated if PJM rates and charges are incurred for less than a full Rate Year.[22] Accordingly, settlement discussions provided a basis for all customers impacted by these PJM OATT rates and charges to reach a mutually acceptable allocation of cost responsibility, as reflected in the Proposal.

6. Other Gas Rate Items

a) Non-Firm Revenues

Con Edison's gas rate plans have traditionally included a base rate revenue imputation attributable to Non-Firm revenues, which are revenues that the Company generates, for example, through the administration of its interruptible service program and the Company's efforts to maximize value from interstate pipeline capacity acquired to meet the needs of firm gas customers, through strategies such as capacity release and asset management transactions. This

[22] The Company notified PJM, pursuant to the PJM tariff, that the Company would not continue this service beyond April 30, 2017. As an example of the pro-ration of the NYPA cap, if the Company receives a final bill from PJM in May 2017 for deliveries through April 30, 2017 (the contract termination date), NYPA's share of the PJM OATT costs would be limited to $1.533 million. And if the allocation to NYPA exceeds the applicable limitation in RY1 or any subsequent Rate Year, any excess in that year will be collected from Con Edison customers through the MAC.

gas rate plan is no different. Like the 2014 Rate Plan, firm delivery rates are reduced by a $65 million imputation of anticipated revenues from the foregoing Company efforts and customers are to be credited with the lion's share of any such revenues achieved by the Company in excess of the $65 million imputation. Specifically, 85% of all revenues achieved above the target will be credited to customers.

b) Lost and Unaccounted for Gas ("LAUF")

In accordance with Commission regulations, the Proposal establishes a mechanism to address lost and unaccounted for gas ("LAUF"). Specifically, the Proposal continues the currently effective methodology for calculating the line loss factor ("LLF"), the development of the LAUF target and the parameters around the LAUF target that will trigger Company absorption of costs or retention of benefits, which the parties determined should continue without change with one possible exception.

The Proposal notes that the revenue requirements include New York Facilities costs and revenues in base delivery rates but that the New York Facilities members are currently evaluating an amendment to their cost sharing responsibilities, which may also include the development of a loss factor for gas exchanges between and among the New York Facilities members. The Proposal recognizes that the execution of a new or amended agreement among the New York Facilities members will change the level of costs or revenues that the Company will incur or receive, respectively, under that agreement. Accordingly, in light of this anticipated action, the Proposal appropriately provides for the Company to reconcile actual New York Facilities costs and revenues against the amount included in base rates through either the MRA or LAUF, as applicable, until base gas delivery rates are reset.

c) Transco Heater/Odorization

In the 2014 Rate Plan, the Commission authorized the Company to recover FERC-approved charges for Transcontinental Gas Pipe Line ("Transco") to construct, own and operate new natural gas heaters, including modified piping and supplemental odorization equipment at Transco's Meadowlands facility. The surcharges were deemed to be appropriate because the project is designed to enable Con Edison to meet its needs for heating and odorizing Transco-delivered gas. However, earlier this year, Transco advised the Company that it was no longer willing to pursue cost recovery for this project through a FERC-approved surcharge and instead demanded direct reimbursement of its project costs. Accordingly, the project was re-evaluated during the course of this proceeding and the project was again determined to be the preferred alternative for the Company to meet its need to heat and odorize Transco-delivered gas. The Proposal enables this project to go forward and the Company to recover through base rates the amounts it pays Transco for the project, over 15 years, starting on January 1, 2017.

d) Oil to Gas Conversions

The Proposal continues the Company's efforts to facilitate customer conversions from oil to gas in three ways. First, the Company will continue its existing conversion program, aimed at helping customers switch to meet New York City's Clean Heat program. Second, it continues, until 2020, its New York City Area Growth program, which reduces costs for applicants to convert within designated zones and expedites their conversion to natural gas for heat. Third, in line with the County of Westchester passing legislation similar to the New York City Clean Heat program, the Company will expand its Area Growth program into Westchester County.

In addition to continuing and expanding programs, the Company will also continue its existing efforts to foster and further facilitate gas conversion activities. These activities include enabling applicants to track their conversion timelines; filing reports with the Secretary on the progress of gas expansion and any associated delays; continuing the availability of information and transparency for customers; providing maps of zones being rolled out under the Area Growth programs; maintaining the existing time for customers to make conversion decisions; and continuing the existing level of detail on the estimates of customer contributions to the costs to connect to the Company's gas distribution system.

B. Computation and Disposition of Earnings

An earnings sharing mechanism ("ESM"), under which a utility shares with customers earnings above pre-established thresholds, is a traditional component of Company and other utility multi-year rate plans. An ESM is intended to balance the interests of parties who are concerned that a utility's earnings under a multi-year rate plan may significantly exceed projected earnings, and the interests of parties, like the Company, who maintain that customers will derive greater benefits from rate mechanisms that eliminate sharing requirements for the period of a rate plan and thereby produce stronger earnings and efficiency incentives that will redound to customer benefit in the long term.

The ESMs for electric and gas under the Proposal favor the interests of customers in several respects. First, the earnings sharing thresholds in the Proposal are lower than the current rate plans. Under the current rate plans, the Company receives 50% of the benefit of shared earnings that are 60-125 basis points above the targeted ROE, 25% of the benefit between 125-175 basis points above the targeted ROE, and 10% of the benefit above 175 basis points above the targeted ROE. The Proposal narrows these sharing thresholds to 50-100 basis points, 100-150 basis points, and 150 basis points above the targeted ROE.

As a further benefit to customers, the Proposal continues a provision in recent Con Edison rate plans that provides for 50% of the Company's share of any shared earnings to inure to the benefit of customers, as opposed to shareholders, because 50% of the Company's share will be used to reduce deferred Site Investigation and Remediation ("SIR") costs that would otherwise remain deferred for future collection from customers. The application of a portion of the Company's share of shared earnings, as well as the full customer share of any shared earnings, to offset deferred SIR costs is responsive to the Commission's expectation that negotiation of ESMs in rate plans explore the opportunity to allocate some portion of shared earnings to offset SIR costs.[23]

The Company's agreement to the restructured ESMs reflect another material concession made by the Company in return for other elements of this comprehensive settlement.

C. <u>Capital Expenditures and Net Plant Reconciliation</u>

1. Capital Expenditures

The rates established by the Proposal reflect forecasted capital expenditures by the Company for a myriad of projects and programs necessary for the Company to maintain its high levels of safety, reliability and service that customers and other stakeholders have come to expect and rely on. In addition, the Proposal includes forecasted capital expenditures necessary to advance REV goals, including $85 million for the Distributed System Platform. These projects and programs were thoroughly examined during the course of the four-month discovery period and continuing through settlement discussions. The Signatory Parties reached consensus on the capital dollars necessary to implement these projects and programs. At the same time, the Proposal, like other recent Company rate plans, properly recognizes that the Company requires

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[23] Case 11-M-0034, *Proceeding on Motion of the Commission to Commence a Review and Evaluation of the Treatment of the State's Regulated Utilities' Site Investigation and Remediation (SIR) Costs*, Order Concerning Costs for Site Investigation and Remediation (issued November 28, 2012), p. 12 ("SIR Order").

flexibility over the term of the Rate Plans to modify the list, priority, nature and scope of its capital programs and projects.

The Proposal also continues, with the modifications discussed below, downward-only net plant reconciliation mechanisms designed to address concerns that customers not pay for capital dollars reflected in rates that the Company does not spend. The Company notes that it proposed in its rate filings that net plant reconciliation be eliminated altogether or, alternatively, that net plant reconciliation not be downward-only, and explained why asymmetrical, downward-only reconciliation mechanisms are inappropriate. However, the Company believes that the modified net plant reconciliation mechanisms in the Proposal establish a reasonable compromise as to net plant reconciliation in the context of a comprehensive settlement of issues in this case.

2. Electric and Gas Net Plant Reconciliation

A major component of the Proposal is downward-only net plant reconciliation for gas and electric net plant. The Proposal establishes net plant targets and requires the Company to refund to customers the carrying charges included in the revenue requirements associated with net plant investment that is not made (*i.e.*, the delta between the target and a lower actual net plant level). In addition, with limited exceptions, the Company will absorb, during the terms of the Rate Plans, the carrying costs associated with gas and electric capital expenditures that result in net plant levels that exceed the stated targets.

The overall framework and scope of these downward-only net plant reconciliations differ from those under the existing electric and gas rate plans in that separate categories of plant are not generally reconciled individually (*i.e.*, in “silos”). For example, the parties recognized that there is no reason to continue a separate silo for storm hardening expenditures that, going forward, are integrated with the Company’s overall reliability expenditures. On the other hand, as discussed below, the parties recognized the need for a single silo for AMI net plant applicable to electric and gas services.

The Proposal does not provide for upward net plant reconciliation for the Company, with the exception of certain gas interference expenditures.[24] As is the case in the current gas rate plan, gas interference expenditures related to major public projects are subject to limited upward reconciliation under the Proposal. Such an exception is appropriate given that these are mandated costs largely beyond the Company's control, the costs can be significant, and the exception applies to limited categories of municipal projects. Moreover, recovery is both capped and only applicable if these additional costs cause the Company to exceed the overall net plant target for gas.

As required by the REV Track Two Order,[25] the Proposal also includes a Non-Wires Alternative ("NWAs") Adjustment Mechanism that describes how NWAs that displace planned capital expenditures will be accounted for during the Electric Rate Plan. Specifically, the Proposal provides that the difference in costs between an NWA implemented during the Electric Rate Plan and costs in rates associated with the displaced project, including the overall pre-tax rate return on such costs, will be recovered over ten (10) years through the MAC and NYPA OTH Statement. Unamortized NWA costs, including the return, will be incorporated into the Company's base rates when electric base delivery rates are reset. The Company will earn incentives for NWA implementation on the same terms and conditions as established by the

[24] As discussed above, the Proposal provides for recovery of incremental capital expenditures associated with the replacement of leak-prone pipe above established targets through the SRSM rather than through an upward reconciliation of net plant.

[25] Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*, Order Adopting a Ratemaking and Utility Revenue Model Policy Framework (issued May 19, 2016) ("Track Two Order").

Commission for incentives under the Targeted Demand Management program.[26] Any earned incentives will be recovered through the MAC and NYPA OTH Statement.

Accordingly, the Proposal facilitates the Company's continued implementation of Commission policy that utilities should implement cost-effective alternatives to traditional electric infrastructure investment. The electric and gas net plant reconciliation mechanisms under the Proposal are accompanied by the same substantial and detailed capital expenditure reporting requirements under the current rate plans. The Proposal further expands existing reporting requirements to include, for example, REV-related projects, AMI and rehabilitation of large-diameter gas mains.[27]

3. AMI Net Plant Reconciliation

A new category of net plant for AMI is contemplated by the Proposal. The AMI Order[28] authorized the Company to implement its AMI Business Plan for both electric and gas customers subject to a $1.285 billion cap on capital expenditures. Accordingly, unlike the separate and distinct capital programs for electric and gas services and the separate and distinct net plant reconciliation mechanisms associated with each of these programs, the Proposal recognizes that net plant reconciliation be addressed on a single overall aggregate basis and be structured to defer any determination of amounts owed either customers or the Company until the end of the AMI program. In doing so, the determination of amounts due either customers or the Company

[26] *See* Case 15-E-0229, Con Edison's Targeted Demand Management Program Incentive Mechanism (filed March 4, 2016) (Commission decision on incentives associated with Company investments in Targeted Demand Management projects, which are equivalent to NWAs, is pending).

[27] The reporting requirements are set forth in Appendix 22 to the Proposal.

[28] Case 15-E-0050, *Consolidated Edison Company of New York, Inc. – Electric Rates*, Order Approving Advanced Metering Infrastructure Business Plan Subject to Conditions (issued March 17, 2016) ("AMI Order").

can be evaluated against both the amounts that have been reflected in electric and gas rates over the life of the program and against the overall $1.285 billion cap.

At that time, a regulatory asset or liability will be created for each commodity for the difference between actual capital expenditures and the level included for ratemaking purposes.[29]

The reporting requirements related to AMI capital expenditures are the same as those for other electric and gas capital expenditures. In addition, as discussed later in this Statement, the Company will be reporting on a number of AMI metrics, which will keep the Commission, Staff and the parties informed as to the Company's AMI deployment activities and numerous AMI-related matters.

D. Reconciliations

The Commission routinely adopts reconciliation mechanisms for costs and expenses that are difficult to project with any reasonable degree of accuracy in order to protect both customers and investors from the risks that projections upon which rates are based may vary materially from actual costs the Company incurs.

The Proposal provides for the reconciliation of certain of the Company's actual costs or revenues to the amount reflected in the revenue requirement. For some items, the Proposal provides for a full true-up, protecting customers and the Company equally in the event of variation. For others, the sharing of risk is asymmetrical in favor of customer interests. The reconciliation mechanisms are generally the same as those in place under the current electric and gas rate plans, and/or pursuant to longstanding Commission policy or practice.[30] Although there

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[29] Nothing in the Rate Plans is intended to affect in any manner the Company's rights under the AMI Order to petition the Commission in the event that AMI capital expenditures exceed $1.285 billion.

[30] To avoid the inadvertent discontinuance of a reconciliation or deferral accounting mechanism because it is not specified for continuation in the Proposal, the Proposal reasonably provides that all existing reconciliations and/or deferral accounting mechanisms will continue except for those expressly identified in the Proposal for termination.

are new reconciliations, none were matters of significant, if any, dispute in litigation positions. As such, only a few of the reconciliation mechanisms identified in the Proposal are specifically addressed here. The reconciliation mechanisms are reasonable and should be adopted.[31]

1. Property Taxes

The Proposal continues the partial reconciliation of the Company's property tax expense during the terms of the Rate Plans. The Proposal provides for variations of actual property taxes from the levels provided for in rates to be shared between customers and the Company on a 90/10 basis, with the Company's 10% share capped at amounts equal to 10 basis points, 7.5 basis points and 5 basis points of its return on common equity for RY1, RY2 and RY3, respectively. The Company will defer for recovery from or credit to customers the full amount of any variation above or below the level at which the cap takes effect.

The risk of a partial sharing of variations in property taxes was accepted by the Company in the context of an overall settlement, notwithstanding the Company's litigated position that there be full reconciliation of property taxes in light of the evidence in these proceedings, and in prior proceedings, that the Company undertakes aggressive efforts to minimize property taxes (which are generally recognized as being substantially outside of the Company's control), that these efforts have resulted in customer savings, and that there is no reason to believe that the Company's efforts in this regard would be reduced if property taxes were fully reconciled.

The Proposal provides for discontinuance of one reconciliation mechanism for Workers' Compensation insurance. The Workers' Compensation reconciliation mechanism established in the current rate plans is no longer necessary because the revenue requirements proposed in these cases reflect the Workers' Compensation insurance laws as previously amended by the Legislature.

[31] In addition to the accounting matters associated with reconciliation mechanisms, the Company notes that the Proposal recommends that the Commission authorize certain accounting by the Company to effectuate the manner in which the Proposal resolves various issues.

In addition, the Company views the lower caps on the amounts to be shared in RY2 and RY3 as a reasonable means of settling material differences between Company and Staff on forecasting property tax for RY 2 and RY3.

2. Municipal Infrastructure Support Expense (Interference)

The Proposal continues the asymmetrical deferral mechanism that will apply in the event the Company's O&M expense for Municipal Infrastructure Support varies from the amount reflected in the revenue requirements established for these Rate Plans. The asymmetry of the mechanism benefits customers in that it provides full protection to customers if the actual expense is less than the rate allowance, while limiting the amount of and circumstances in which the Company may recover expense in excess of the rate allowance. That is, as under the current rate plans, if the expense exceeds the level provided in rates for any Rate Year, only 80% of the variation above the target within a band of 30% will be deferred for recovery from customers. Expenditures above the target plus 30% will not be recoverable from customers except in certain circumstances related to major public works projects, as specified in the Proposal, in which case only 80% of the variation above 30% will be recoverable.

As the Company discussed in its direct testimony, interference costs are beyond the Company's direct control, are not subject to reasonable estimation, are driven by the infrastructure work performed by the City and other municipalities, and constitute work the Company is required to perform pursuant to a schedule established by the municipality that often requires a significant diversion of Company resources and significant incremental costs. While the Company coordinates closely with the City to forecast interference costs, there could be a number of currently unidentified City infrastructure initiatives during the term of three-year rate plans that have significant cost impacts and/or the estimated Company costs for identified projects may turn out to be substantially higher than forecasted amounts. As such, the Municipal

Infrastructure Support reconciliation mechanism is another example of a provision that the Company ultimately deemed acceptable in the context of a comprehensive settlement.

3. Major Storm Cost Reserve

Given the unpredictability of costs related to major storms affecting the Company's electric system, the Proposal continues provisions that provide the Company the opportunity to recover its prudently incurred costs in responding to major storms. In its electric rate filing, the Company proposed to modify the current major storm reserve mechanism by (i) eliminating the 2% deductible applicable to storm response expenses and (ii) modifying the 30-day limitation on the period for which costs may be charged to the storm reserve (*i.e.*, up to 30 days following the date on which the Company is able to serve all customers), absent a separate petition. Under the Proposal, the Company's recovery of major storm costs will remain subject to a 2% deductible and the existing 30-day limitation on the period for which costs may be charged to the storm reserve absent a separate petition.

This is another example of aspects of the Proposal that were difficult for the Company to accept. For example, the Company disagrees with Staff's premise for the storm deductible, *i.e.*, that costs incurred by the Company to restore the system to normal will necessarily include work that the Company otherwise planned to perform during the year. The Company explained in its testimony that the extra work resulting from a storm (*e.g.*, replacing temporary repairs) would exceed any benefit from performing work that was otherwise required.

On the other hand, the Proposal recognizes that major storms can have a significant impact on the underground network and that costs incurred in addressing events impacting the underground system should be chargeable to the storm reserve. Although the Company's direct testimony explained why the same definition of major storms that applies to weather events affecting the Company's overhead system should apply to its underground network system, the

Company agreed to a narrower definition of major storm for underground networks than for its overhead system in order to resolve all issues relating to the major storm reserve. Specifically, the Proposal includes a new definition of "major storm" for the Company's underground network system: Weather event(s) that result in at least 5,000 customer outages and 800 jobs as recorded in the Company's outage management system.[32] Moreover, the Company also agreed to withdraw its request to recover costs incurred in responding to major storms that impacted the underground system during the term of the current electric rate plan. As a result, the revenue requirement for electric over the three-year term of this Proposal is approximately $17.1million lower[33] than the Company requested in the January 2016 electric rate filing. This Company concession provides an additional material benefit to customers in contrast to what may have resulted from litigation.

E. Additional Accounting Provisions

1. Depreciation Rates and Reserves

Depreciation matters were the subject of significant differences of opinion in testimony with various parties presenting vastly different approaches in the determination of depreciation. Party positions as to the rate allowance for depreciation and the extent of variations between the book depreciation reserve and the theoretical reserve varied from those presented by the Company by hundreds of millions of dollars. Although the Proposal sides with no party's full position as to average service lives, net salvage factors, life tables or depreciation reserve variations or the preferred theoretical basis or method for determining them, the depreciation factors under the Proposal (Appendix 11) are closest to Staff's position. These factors were

[32] This includes one storm event that satisfies these criteria and multiple storm events that are up to two days apart and, in aggregate, satisfies these criteria.

[33] This amount is $6.8 million for 2015 underground events and $10.326 million for 2014 underground events.

difficult for the Company to accept because it has historically been subject to longer average service lives than the industry norm and, consequently, lower depreciation rates that have resulted in a significant accumulation of an electric reserve deficiency. Ultimately, the Company accepted the rates in the Proposal because they provide the Company the opportunity to resume recovery of the electric reserve deficiency. The Commission had previously established an amount of recovery of the electric reserve deficiency, but that recovery ceased under the 2014 rate plan. In the Proposal, the Signatory Parties recognized that it does not benefit ratepayers to have a large and growing reserve deficiency that will need to be paid for in the future and agreed that recovery should resume in 2017. The parties were also able to agree upon a method for determining net salvage factors in both the electric and gas services. This agreement and the allowance for recovery of a portion of the electric reserve to commence in the Rate Year were critical in reaching terms for depreciation that were acceptable to the Company.

2. Property Tax Refunds and Credits

The Proposal continues the property tax refund and credits sharing mechanism included in the existing electric and gas rate plans, which are consistent with and in furtherance of Commission policies. The Company proposed continuation of the mechanism in its filing and no party opposed.

3. Hudson Avenue

The Proposal resolves an on-going issue that was not resolved in the last two electric rate cases by transferring certain Hudson Avenue properties from steam rate base to electric rate base effective January 1, 2017. The Company demonstrated that steam has no current or future use for these properties but that electric is reasonably expected to need these properties to provide electric service within its forecast period.

While the Commission regulations included under the Uniform System of Accounts, 16 NYCRR 463.13, permits the Company to transfer the entire remaining plant balance from steam rate base to electric rate base, the Company accepted the transfer of only 83% of the plant balance, based on Staff's testimonial position of allocating these costs based on fuel usage for Hudson Avenue (*i.e.*, the remaining 17% of the plant balance will remain in steam rate base).[34] The 83/17 split resolved the positions of various parties who had argued for materially different allocations of Hudson Avenue costs between steam and electric in the event of a transfer of these properties. The Company accepted the continuing allocation of some costs to steam in the context of an acceptable overall settlement.

The Proposal also provides for costs and/or credits associated with this transfer to be deferred on steam's books until the next steam rate case.

4. Income Tax

In its rate filing, the Company proposed a correction in methodology for the accounting for removal costs determining income tax expense, which increased the electric revenue requirement by $35.0 million and the gas revenue requirement by $35.3 million. The Company also proposed that there be an annual amortization of the regulatory asset that reflects the cumulative rate effect of the change from the previous methodology in accounting for removal costs, which understated income tax expense in past periods.

The Proposal provides for recovery of these amounts. However, because of the highly technical nature of the removal cost issue, the Proposal provides for Staff to perform (i) an audit to verify the error in the Company's income tax accounting for ratemaking in previous years and determine if customers received benefits equal to the amount of the regulatory asset reflected in

[34] The Proposal transfers the land balance entirely to electric rate base.

the current electric and gas revenue requirements, and (ii) an audit of the Company's determination of electric and gas excess deferred federal income tax liability balances, which are components of rate base in the electric and gas revenue requirements. Staff and the Company commit to work together to resolve any differences as to the two audits described above, including differences as to the recovery of such amounts from customers. Customers are fully protected against any over-recovery of such amounts because the final agreed-upon or Commission-ordered differences resulting from the Staff review will be deferred and any amounts to be refunded (or collected from customers) will be determined by the Commission.

5. Allocation of Common Expenses/Plant

The Proposal includes new common expense allocation factors. The Company explained that the new allocation factors are necessary updates to more accurately align costs with current operations. No party objected to the change in the litigation phase of the case. Accordingly, the Proposal reflects the updated factors.

6. Allocation of Intercompany Shared Services Expense

The Proposal includes a Company concession on the allocation of intercompany shared services expense. Specifically, it provides that expenses for intercompany shared services that are allocated to the Company and its affiliates from Consolidated Edison, Inc. ("CEI") be based on a three-part formula using forecasted 2017 revenues, payroll and total assets for each entity. The Company's historic approach to the allocation of these expenses was based on historic gross margins, payroll and total assets for each entity. Staff's testimony recommended that revenues be used in the three-part formula instead of gross margin, and that inputs to the formula use 2017 forecasts for each of the three rate years. The Company accepted Staff's position in the context of an overall settlement.

F. <u>Electric Rate Design</u>

1. Embedded Cost of Service ("ECOS") Study

The Proposal allocates the change in electric delivery revenues among customer classes based on the Company's electric ECOS Study.

a) Con Edison's ECOS Study

The ECOS study analyzes costs and revenues (at current rates) associated with the Company's electric delivery system for 2013, *i.e.*, transmission, distribution and customer-related cost categories or functions and also includes cost categories related to the competitive functions (electric procurement, competitive metering, receipts processing and printing and mailing a bill).

The ECOS study was performed in accordance with long-standing Commission practice and, with one exception discussed below, used the same methodology to allocate costs that was used to allocate costs in the 2014 and 2015 rate plans approved by the Commission. Moreover, the underlying bases for the ECOS study are reasonable, logical and equitable. While the development of an ECOS study is a highly technical undertaking that includes the exercise of reasonable judgment, the Company performs this study in an unbiased manner, allocating costs to the appropriate service classification ("SCs") in order to fairly assess cost responsibility to each category of customers.

The ECOS study analyzes classes of customers corresponding to SCs contained in the Company's electric rate schedules, including retail access customers and customers of NYPA served by Con Edison under the PASNY schedule. The results of the ECOS study are expressed as Total Company ("total system") and class rates of return. Based on past practice, class revenue responsibilities are measured with respect to a plus/minus 10% tolerance band around the total system rate of return. Classes are not considered "surplus" or "deficient" if the class

ECOS rate of return falls within this tolerance band. Classes that fall outside this band are either surplus or deficient by the revenue amount, including appropriate state and federal income taxes, necessary to bring the realized return to the upper or lower level of the band. In the end, the ECOS study determines the class-specific revenue surpluses and deficiencies to be used in adjusting revenues, on an overall revenue-neutral basis, before application of the rate changes. The Company's ECOS study is not developed in a results-oriented fashion as ECOS studies produced by other parties representing specific customer classes may be.

As indicated above, the Company performed the ECOS study using the same methodologies as in prior studies, except for one change. Under the 2014 Rate Order, the Company was required to re-evaluate its cost of service methodologies related to how the Company classifies and allocates customer costs. In performing this task, not only did the Company re-consider current methodologies, it also considered what other New York State utilities were doing.

Prior to this re-evaluation, the Company classified primary facilities as demand-related only. In the re-evaluation process, the Company determined that the minimum system requires a primary equipment component because without primary equipment, the minimum system would not be capable of delivering the minimum loading requirements of the customer. The minimum system is intended to represent the cost associated with a minimum size distribution system built to serve the minimum loading requirements of the customer.

Further, the Company researched the costing methodologies used by the other New York State utilities (*i.e.*, Central Hudson Gas and Electric ("CHG&E"), Niagara Mohawk Corporation d/b/a National Grid ("National Grid"), New York State Electric and Gas Corporation ("NYSE&G") and Rochester Gas & Electric ("RG&E")). These utilities all recognize a demand

and customer component to primary. In addition to the other utilities' recognition of a demand and customer component, the Company also considered industry practice, including the National Association of Regulatory Utility Commissioners ("NARUC") Manual, which includes both demand and customer components for primary facilities.

As a result of this review, and to parallel the methodology the Company applies to the secondary system, which includes both a demand and customer component, the Company introduced a customer component of the Primary Distribution System in the ECOS study filed in this proceeding.

b) Utility Intervention Unit's ("UIU") ECOS Study

In this case, UIU submitted its own ECOS study. The rebuttal testimony of the Company's Electric Rate Panel and the Demand Analysis and Cost of Service Panel explained how UIU's ECOS study differs in significant respects from the Company's ECOS study and why UIU's ECOS study should not be adopted.

UIU challenges many items in the Company's ECOS study, including, for example, the Company's low tension distribution demand allocator, and the Company's use of a minimum system methodology that develops the customer component of secondary distribution costs. As noted earlier, the only change to the Company's ECOS methodology was the inclusion of the customer component in the Primary Distribution system. The remaining items challenged by UIU are components of the ECOS study that have evolved with regulatory precedent over many years and UIU's ECOS study alters these precedents and methods to achieve an end-result favoring residential customers.. The initial and rebuttal testimony of the Company's Demand Analysis and Cost of Service Panel as well as its Electric Rate Panel, which will be offered into evidence at the hearing in this case, explain the basis for the Company's ECOS study and demonstrate that UIU's ECOS study is inappropriate.

For example, UIU takes issue with the Company's low tension distribution demand allocator, arguing that Class Non-Coincident Peaks ("NCP") should be exclusively used as the appropriate allocator of low tension distribution costs. The Company's use of a combination of Individual Customer Maximum Demands ("ICMD") and NCP is reasonable and as stated in the NARUC Manual, NCPs and ICMDs "are the load characteristics that are normally used to allocate the demand component of distribution facilities."[35] In fact, to develop a more specific allocator for the residential class, the Company conducted a load diversity study of multiple dwellings stemming from the Commission Order adopting the 2010 Rate Plan,[36] and the Company's weighting of ICMD and NCP for the residential class reflects the results of this study. These results were incorporated in the 2014 Rate Plan and are explained further in the Company's rebuttal testimony in this case.

Further, as noted above, UIU makes two "in the alternative" arguments related to the Company's use of minimum system methodology that develops the customer component of secondary distribution costs. First, UIU argues that there should be no minimum system and second, in the alternative, UIU suggests that the Company select smaller-sized cable in determining the minimum system component of secondary cable.

The Company's minimum system methodology was established in a Memorandum of Understanding ("MOU") agreed to and signed by the parties as a result of a collaborative initiated in the 2005 Rate Plan.[37] In addition, UIU's arguments are contrary to the Commission's practice of setting customer delivery rates based on cost of service studies that recognize a

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[35] NARUC Manual, p. 97.

[36] Case 09-E-0428, *et al*, *Consolidated Edison Company of New York, Inc. – Electric Rates*, Order Establishing Three Year Electric Rate Plan (issued March 26, 2010) ("2010 Rate Plan").

[37] Case 04-E-0572, *Consolidated Edison Company of New York, Inc. – Electric Rates*, Order Adopting Three Year Rate Plan (issued March 24, 2005) ("2005 Rate Plan").

customer component of the distribution delivery system. In developing the ECOS study, the Company reviewed the MOU methodology and found no reason to alter the derivation of the customer component. The Company's rebuttal testimony noted that the range of sizes selected in determining the minimum system component of secondary cable and transformers is representative of the equipment installed and in use in the system and represents a balanced approach that does not bias the customer component to very old or very new equipment. UIU has not shown that there is a need to change this methodology, nor have there been any changed circumstances that require changes to this methodology.

UIU's position on the low tension demand allocator and the customer component of the delivery system produce an ECOS study that is biased towards residential and small commercial customers by shifting an inordinate amount of cost responsibility for low tension distribution facilities and customer component of primary distribution facilities onto large commercial customers regardless of industry standards or prior Commission decisions. This is evident from a comparison of the study results. The stark difference between the allocations resulting from the Company's ECOS study and the UIU study is evidenced in the chart below. For example, with respect to SC1, UIU's ECOS allocates no additional costs to residential customers, whereby the Company's ECOS finds a $37.3 million deficiency. Similarly, for the two SC9 classes, the UIU ECOS study would leave those classes' costs as they are whereas the Company's ECOS study shows significant surpluses that should be allocated to other classes.

Service Class	ECOS Table 1 (Deficiency)/Surplus	
	UIU Exhibit (UERP-1)[38]	Company Exhibit (DAC-2, Table 1)
SC1	$0	($37,333,708)
SC2	37,560,747	(3,995,747)
SC5 Rate I&III	(3,659)	(10,239)
SC5 Rate II	(232,296)	(31,145)
SC6	245,598	355,781
SC8 Rate I&III	(26,019,579)	(1,645,967)
SC8 Rate II	(1,779,233)	(148,064)
SC9 Rate I&III	0	37,629,866
SC9 Rate II	0	46,988,081
SC12 Rate I&III	(2,039,554)	(470,362)
SC12 Rate II	(1,973,891)	0
SC13	1,302,878	1,348,017
CECONY Subtotal	$7,061,011	$42,686,513
NYPA	($56,449,287)	($5,209,446)
CECONY	7,061,011	42,686,513
Total	**$49,388,276**	**$37,477,067**

c) Joint Proposal

The Proposal adopts the Company's ECOS study for purposes of allocating costs and revenues to all classes. While a number of parties criticized the Company's ECOS study in testimony, all but two parties to this proceeding, including numerous parties that represent diverse interests across all customer classes, including the interests of residential and low income customers, such as Staff, NYC and PULP, accepted the Company's ECOS study for the purposes of setting rates in this proceeding.

At the September 21, 2016 procedural conference, UIU expressed its intention to oppose the use of the Company's ECOS study for setting rates in this proceeding. As discussed above,

[38] UIU's ECOS Study from its Electric Rate Panel testimony.

the Company believes that UIU's pre-filed testimony provides no justification to change the ECOS study agreed to by the parties to the Proposal. If and to the extent UIU submits additional testimony or a statement in opposition on this matter, the Company will respond as appropriate.

2. Stand-alone Plug-In Electric Vehicle ("PEV") Charger Rate

The Proposal establishes a new provision, Special Provision F, within SC 1 that will allow customers with separately metered PEV chargers to take service, solely for PEV charging, under a separate account billed under SC 1, Rate III, the voluntary time-of-use ("VTOU") rate. Special Provision F will apply to customers who have an existing SC 1 account or a residential tenant or residential occupant in a building served under another SC. Currently, such customers must separately meter their PEV chargers under SC 2, which has a higher customer charge than under SC 1, or, if applicable, they must take whole-house service, including the PEV charging, under SC 1. This change provides customers with greater flexibility and possibly lower costs and promotes PEV. This new provision could provide lower charges under Special Provision F, which supports Commission policy initiatives to promote PEVs.

3. SC2 Special Provision D

The Proposal provides that Special Provision D of SC 2, which provides a reduced customer charge for use of radio transceivers using less than 30 kilowatt-hours per month and located on street lights or utility distribution poles at 100 or more locations, will be modified to reduce the minimum number of locations to 40 or more. Service will be also permitted for use of devices at other locations that provide free Wi-Fi services to the public subject to the limitation on monthly kilowatt-hour use and minimum number of locations described above. This change will allow additional Wi-Fi and other similar devices to qualify for the lower rate.

4. Business Incentive Rate ("BIR")

The Company's BIR offers discounted delivery rates to businesses in order to spur economic development in the Company's service area. The BIR is comprised of 452 MW of load eligible for discounts. The Proposal provides for the continuation of the BIR and makes changes to two areas of the BIR: (1) Biomedical Research and (2) Business Incubators and Graduates programs, that will enhance the benefits of the BIR program.

Biomedical Research will be expanded from 60 MW to 80 MW with the additional 20 MW coming from the NYC Comprehensive Package. This will allow continued attraction and expansion of biomedical research facilities into the Company's service territory, benefitting customers and the local economy.

The Business Incubators and Business Incubator Graduates will be reinstated for a total allocation of 12 MW, with 10 MW transferred from the NYC Comprehensive Package and 2 MW transferred from the Westchester Comprehensive Package. This program had elapsed and the Signatory Parties agreed that incubator type programs should continue to be encouraged within the Company's service territory.

The Company views business development and economic growth as a key to achieving the State's goal of increased prosperity for New York. Business development will spur job growth and employment leading to increased income for New Yorkers. With a view to increased prosperity, the State needs as many tools to address and encourage economic development as it can reasonably develop, and providing additional opportunities for certain customers to receive the BIR is in line with these objectives.

5. Standby Service and Buyback Rates

A number of parties, including Staff, raised issues concerning the Company's standby rates. As in the Company's last rate proceeding, these parties sought a number of changes to the standby rates that were not in response to any new proposals made by the Company as part of its rate filing. The Proposal resolves the various issues raised by parties regarding the Company's standby rates and terms of service, some of which are designed to further REV objectives, as follows: (1) the minimum monthly charge ("MMC") applicable to SCs 5, 8, 9, 12, and 13 standby customers exempt from standby rates will be modified to permit a one-time reduction in the MMC-Contract Demand amount; (2) battery storage up to 1 MW of inverter capability will be defined as a Designated Technology under the Con Edison tariff and will be exempt from standby rates; (3) the NOx emissions standard applicable to exemptions established under the Standby Exemption Order[39] will be reduced from 4.4 lbs/MWh to 1.6 lbs/MWh, except that 4.4 lbs/MWh NOx will continue to be the applicable standard for currently-exempt customers and customers that have an accepted interconnection application and/or air permit application as of January 1, 2017; (4) the Company will implement the Reliability Credit directed by the Track Two Order as a replacement for the Standby Performance Credit in accordance with the terms and conditions established in this Proposal;[40] (5) an optional bill credit will be available to SC 11 Buyback customers who export only; (6) the Company will offer standby customers the option to pay an up-front non-refundable lump sum charge instead of annual surcharges to cover operation and maintenance expenses and property taxes associated with interconnection costs; (7) the Company will implement its multi-party offset tariff proposal pending in Case 16-E-0196,[41] modified to also permit customers in multiple buildings to participate if each of the customers is

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[39] Cases 14-E-0488 *et al.*, *In the Matter of the Continuation of Standby Rate Exemptions*, Order Continuing and Expanding the Standby Rate Exemption (issued April 20, 2015) ("Standby Exemption Order").

[40] The Company notes that the Proposal reserves the Company's rights to implement any Commission changes to the standby reliability credit in response to the pending petition for rehearing by Con Edison and the other electric utilities in Case 14-M-0101.

[41] Case 16-E-0196, Tariff Filing by Consolidated Edison Company of New York, Inc. to Revise General Rule 20 Standby Service Contained in its Electric Rate Schedules, PSC Nos. 10 and 12.

connected to the generating facility by a thermal loop (delivering steam, hot water, or chilled water);[42] and (8) the Company will implement a standby rate pilot as set forth in Appendix 20 of the Proposal.

The Company had agreed to standby rate changes as part of the 2015 rate plan extension, and the Company was required under the Track Two Order to make a filing in that proceeding regarding the basis for its current standby rates. Accordingly, the Company reasonably believed that no further changes to standby rates were necessary or appropriate in this case. As can be seen from the list above, however, the Company compromised and agreed to a significant number of changes to standby/buyback rates that it did not propose as part of its rate filing. The Company notes in particular that the pilot represents a major undertaking to develop significant changes to the Company's standby and buyback rates. The pilot rates to be developed will be in furtherance of the Commission's REV-related objective of developing more accurate price signals for distributed energy resources.[43]

G. <u>Gas Rate Design</u>

1. Gas ECOS Study

The Proposal allocates gas revenues based on the Company's gas ECOS study. The ECOS Study analyzes costs and revenues (at current rates) associated with the Company's gas delivery system for 2014, *i.e.*, transmission, distribution and customer-related cost categories or functions and also includes cost categories related to the competitive functions (gas procurement, receipts processing and printing and mailing a bill).

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[42] The Proposal also clarifies how the multi-party offset will be handled for a customer that is a direct customer of NYPA.

[43] Because the pilot and the other contemplated initiatives are intended to result in new standby rates/buyback tariff rates that are implemented during the term of the Rate Plan, the Company will defer any difference in revenues resulting from such change in rates and/or change between the current and future standby rate/buyback tariff methodology, for recovery from or credit to customers, as applicable.

Like the Company's electric ECOS study, the gas ECOS study was performed in accordance with long-standing Commission practice. Moreover, the underlying bases for the ECOS study are reasonable, logical and equitable. While the development of an ECOS study is a highly technical undertaking that includes the exercise of reasonable judgment, the Company performs this study in an unbiased manner, allocating costs to the appropriate service classification in order to fairly assess cost responsibility to each category of customers.

After review of the methodologies and concluding that there was no reason to change them, the Company performed the gas ECOS study using the same methodologies as in prior studies. The Company's Gas ECOS studies have formed the basis of revenue allocation in recently approved gas rate plans. The initial and rebuttal testimony of the Company's Gas Rate Panel, which will be offered into evidence at the hearing in this case, explain the basis for the Company's ECOS study and demonstrate that UIU's ECOS study is inappropriate.

As discussed above regarding the Company's electric ECOS study, the gas ECOS study produces class-specific revenue surpluses and deficiencies to be used in adjusting revenues before application of the rate changes.

In its pre-filed testimony, UIU criticizes the Company's gas ECOS study and presents its own ECOS study, which differs in one significant respect from the Company's study. UIU contends that distribution main costs should be classified as entirely demand related. This position is contrary to the NARUC Gas Distribution Rate Design Manual that supports Company's methodology of including a portion of distribution main costs in the customer component. It is also contrary to the testimony of UIU in the last Con Edison gas rate proceeding (Case 13-G-0031), who argued that these distribution main costs should be classified as entirely energy related. As is the case with its electric ECOS study, UIU's approach here is biased towards residential classes.

The table below compares Con Edison's surpluses and deficiencies against UIU's surpluses and deficiencies. Like electric, there is a stark difference in SC1 results, with UIU having a $34 million surplus and the Company having a nearly $15 million deficiency:

	ECOS TABLE 1(Deficiency)/ Surplus	
Service Class	**UIU 2-10**	**Company Exhibit (GRP-1), Table 1**
SC1	$34,090,000	($14,926,000)
SC2 Rate I	$25,228,000	$13,942,000
SC2 Rate II	($30,751,000)	0
SC3	($5,984,000)	0
Total	$22,583,000	($984,000)

For the purposes of settlement, all parties except UIU accepted the Company's gas ECOS study, including parties that also represent small and low income customers, including Staff, NYC and PULP. UIU provides no reasonable basis for changing the gas ECOS study used in this Proposal.

2. SC 2 Rate I and Rate II

The firm delivery rates reflect the Company's proposal to change the applicability criteria for the SC 2 Rate I and SC 2 Rate II subclasses of Service Class No. 2. Currently, SC 2 Rate II is available to customers who are not eligible for service under SC Nos. 1, 3 or 14 and who use all or any portion of their gas for space heating. The proposed applicability criteria would change from an end-use based criteria to a quantitative test indicative of a customer's load factor. The Company's proposal follows basic cost causation principles requiring customers with low load factors to pay the higher rate under Rate II and customers with high load factors to pay the lower rate under Rate I regardless of end-use. There was no opposition to this change, which properly places cost responsibilities on customers based on usage characteristics.

3. Interruptible Service

In its initial filing, the Company proposed to increase its interruptible Off-Peak Firm delivery rate, *i.e.*, SC 12 Rate 2 and SC 9 Rate (C), to 11.5 cents per therm from the current rate of 8.0 cents per therm for one, two and three year contracts. Forecasted delivery revenues from these customers are reflected in the Company's revenue requirement so that any increase to this rate would benefit firm gas customers. This proposal generated substantial opposition from stakeholders representing Off-Peak Firm customers, who argue in favor of a lower, rather than a higher, rate. The Proposal represents a significant compromise by the Company because the current delivery rate of 8.0 cents per therm is maintained for one, two and three year contracts entered into during RY1 and increased to only 8.25 cents per therm in RY2 and 8.50 cents per therm in RY3, respectively for one, two and three year contracts entered into during RY2 and RY3, respectively. The increase in the delivery revenues in RY2 and RY3 resulting from these increased rates does reduce firm gas rates from what they otherwise would have been absent these increased Off-Peak Firm revenues, but to a much lesser extent than the Company's proposal. On the other hand, as discussed *infra*, the Company, Staff and interested parties will engage in a collaborative to further study this issue during the term of the Gas Rate Plan. The Company found the combination of these provisions to reasonably address this very contentious matter in the context of reaching an overall comprehensive settlement.

4. Gas Balancing

The Proposal makes several changes to the gas balancing provisions applicable to SC 9 gas customers, including power generators, and SC 20 Gas Marketers. These changes include: (1) increasing the unauthorized use charge from $4.50 to $5.00 per therm to be consistent with the unauthorized use charges of other New York State utilities; (2) updating the daily cashout prices from an index price to a weighted average of index price based on prior years actual deliveries to more accurately reflect the cost of providing cashout service to customers; (3) changing cashout tariff language to clarify that cashouts greater than the first balancing tier should be considered a penalty (unless otherwise provided in an individually negotiated contract); and (4) clarifying the definition of Operational Flow Order.

H. Performance Metrics

The Proposal continues most electric, gas and customer service performance metrics, with modifications that increase the target level of performance for some metrics and broaden the scope of an existing gas metric. The Proposal also eliminates two electric performance metrics that are no longer applicable. While the Company accepted the continuation of existing performance metrics, there was disagreement among the parties as to the extent to which, if any, existing performance mechanisms should be changed.

The Proposal reflects a compromise among the Signatory Parties on this matter.[44] As discussed below, the Company ultimately viewed the modified metrics as acceptable in the context of this comprehensive settlement. The Company notes as a constructive development the inclusion in the Proposal of opportunities for the Company to achieve modest levels of positive incentives. Positive incentives are an effective mechanism to spur superior Company performance in implementing State public policy initiatives that have positive benefits for customers.[45]

[44] Continually tightening standards to more closely match a particular historical performance can be a disincentive to improve, can result in the diversion of resources from more important work, and carries the potential for higher customer costs to maintain such levels of performance.

[45] See discussion of Earnings Adjustment Mechanisms in the Track Two Order, at 65.

1. Electric Performance Metrics

The Proposal maintains the threshold performance standards and revenue adjustments for seven of the current Electric Reliability Performance Mechanisms ("RPM") (Appendix 14) and eliminates two metrics for which the underlying activity is complete or the metric has been superseded by a different regulatory mechanism.[46]

In its initial filing, the Company proposed adjustments to the performance standard thresholds for several RPMs and also recommended positive incentives for three of the existing RPMs. Staff did not support the Company's proposals. As part of the overall give and take needed to conclude agreement on the Proposal, the Signatory Parties agreed to continue the performance standards and revenue adjustments for the seven RPMs at the current levels.

2. Electric Safety Standards

The Proposal authorizes the Company to modify the inspection cycle for underground equipment required by the Commission's Safety Standards in Case 04-M-0159.[47] Under this pilot, the Company will increase the inspection cycle for underground equipment (excluding underground residential distribution equipment) from five years to eight years (Appendix 15). The modification to the inspection cycle for underground equipment allowed the Company to reduce the overall funding request for this activity during the Rate Plan while establishing new

[46] The Proposal eliminates the Intrusion Detection System ("IDS") Metric. The IDS required the Company to install and make operational Intrusion Detection Systems at twelve Bulk Power System substations by December 31, 2014. The Company met the IDS requirements and it is therefore no longer applicable. In addition, the Proposal eliminates the Restoration Performance Metric. The Restoration Performance Metric was instituted on a trial basis until the Commission approved the "Outage Scorecard" in Case 13-E-0410. The Commission approved the "Outage Scorecard" on December 23, 2013. Accordingly, the Restoration Performance Metric terminated as of that date and did not need to be continued.

[47] Case 04-M-0159, *Proceeding on Motion of the Commission to Examine the Safety of Electric Transmission and Distribution Systems*.

Company processes for targeted inspections that are forecasted to increase overall safety at the existing budget level.[48]

The eight year inspection cycle runs from January 1, 2015 (encompassing two years of inspections already performed) through December 31, 2022, or beyond the term of the proposed Rate Plan, which the Company expects will be the full term of the pilot. However, in an effort to determine if the extended inspection cycle has had any unanticipated adverse consequences, the Proposal establishes a review process that will occur before the conclusion of the eight-year inspection cycle pilot. Specifically, the Company committed to review the pilot in its next electric rate filing for rates to be effective January 1, 2020. If the Company does not file for rates to be effective January 1, 2020, the pilot will be subject to review in 2019.[49]

3. Gas Performance Metrics

The Company proposed maintaining the existing gas performance metrics and implementing significant and continuing increases in the annual levels of leak-prone gas mains to be replaced. Staff proposed tightening several of the existing performance targets and modifying the provisions of several metrics.

For the most part, the safety performance metrics included in the Proposal are similar to the safety performance metrics established in the Company's last gas rate case, but, as recommended by Staff, reflect a tightening of some of the targets, expands the scope of the Gas Regulations performance metric by including regulations relating to the Company's liquefied

[48] The two new initiatives are the enhanced targeted mobile contact voltage inspection program, as part of the existing vehicle scan program, and an enhanced Underground Safety Inspection Program, which includes infrared and amperage testing. These two initiatives are expected to identify more targeted, higher risk issues, and thereby reduce manhole events, such as smoking manholes, manhole fires and electric shocks in the targeted scan areas.

[49] In either case, if the eight-year inspection period is modified, the Proposal provides that the Company will be provided with a reasonable transition that recognizes the time needed to acquire, train and mobilize the additional resources to meet any revision to the underground inspection program. See Appendix 15.

natural gas ("LNG") operations, and eliminates the "dead-band" under Gas Regulations performance metric (which Staff argued was necessary for consistency with other gas utilities). The Proposal also reflects the higher levels of leak-prone gas main replacement proposed by the Company in its initial filing.[50]

The Company accepted the Staff-proposed modifications reflected in the Proposal in order to resolve the issues in these proceedings. Acceptance was due to a number of factors, including that the revenue requirements were adjusted to reflect increased costs the Company would incur to achieve certain of these more stringent standards; some of the more stringent standards are phased in over the term of the Gas Rate Plan, thereby providing some opportunity for the Company to adjust its operations; and, consistent with prior rate plans, the Proposal includes provisions regarding the circumstances under which the Company may seek to be excused for not attaining a safety performance target.

However, notwithstanding these attenuating provisions, the Staff modifications were among the more difficult for the Company to accept. In particular, the Proposal eliminates an important component of the current Gas Regulations performance metric. Under the current gas rate plan, negative revenue adjustments did not apply unless and until the Company's performance exceeded certain target levels. Under the Proposal, negative revenue adjustments will apply from the first violation, thereby establishing a "standard of perfection" in order to avoid negative revenue adjustments or other "penalties" that is, to the Company's knowledge, unique to any other area of the Company's business and/or to the Commission's regulation of utility service. And while the Company has, and will continue to, strive to achieve such

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[50] The Proposal reflects the Company's recommendation to increase annual levels of leak-prone pipe removal from 70 miles under the last gas rate plan to 90 miles by RY3, a 30% increase. The Company also agreed to continue increasing annual replacement levels after RY3 until reaching 100 miles per year.

"standard of perfection," it also bears emphasis (as indicated in the Proposal) that establishing a performance metric relative to violations of the identified gas regulations is not an admission by the Company that violations of one or more of these rules creates any safety or other risks to customers or the public.

As noted above, the Proposal also includes opportunities for modest levels of positive incentives. Specifically, the Company will have the opportunity to earn up to five basis points for lowering its leak backlog below applicable targets and up to ten basis points for exceeding leak-prone gas main replacement targets. To the extent that the Company earns these positive incentives, customers will benefit from a reduction in the number of Type 3 leaks (and associated methane emissions) in the Company's leak backlog and/or an accelerated elimination of leak-prone gas main from the Company's gas distribution system.

4. Customer Service Performance Metrics

The Proposal includes performance mechanisms that continue to measure the Company's performance with respect to customer service. The Proposal maintains the current customer satisfaction performance mechanisms for gas, but makes more stringent the Call Answer Rate, customer satisfaction survey metrics, and the Commission Complaint metrics of the electric customer service performance mechanism.

The Company testified that the existing metrics fairly and appropriately measure the Company's performance in each area, and that the Company has expended significant effort in reaching the current targets. Nevertheless, to address calls from Staff and other parties for more stringent targets, the Proposal provides for adjustments to the mechanisms that are designed to generally conform the Company's customer service performance mechanisms with those of other utilities.

I. <u>Additional Electric Provisions</u>

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

The Proposal includes new system peak reduction, energy efficiency and electric vehicle programs, which, with associated EAMs also discussed in this section, will further the REV goals of increasing system efficiency as well as decreasing energy use and system peak demand.

a) System Peak Reduction Programs

The Company will design and implement a new system peak reduction program to reduce system peak demand and will work directly with customers and market partners to offer battery storage systems, thermal storage, building management systems ("BMS")/controls, chiller and Heating, Ventilation and Air Conditioning ("HVAC") upgrades, demand response enablement, and fuel switching to non-electric air conditioning, among other measures. The Company will strive to design and implement the system peak reduction program such that one- half of the cumulative target over the three-year term of the Electric Rate Plan is achieved via advanced technologies, including, but not limited to, localized battery storage packaged systems, thermal storage and advanced BMS/controls.

The Company will implement a new electric vehicle ("EV") Program, which will: (1) incent existing light-duty electric vehicles in the market to charge during off-peak hours, with the goal of reducing system peak demand; and (2) provide equipment, at no cost to the customer, to measure and verify charging times. In addition, in order to reach agreement, the Company agreed that, within 30 days after the issuance of a Commission order in these proceedings, the Company will commence discussions with interested parties on the possible development of a new service classification, new rates within existing service classifications, incentives and/or pilot programs for electric vehicles, including but not limited to cars, light trucks, heavy trucks and buses. The intent of these discussions is to attempt to incentivize the off-peak charging of electric vehicles in a manner that reflects the environmental and other societal benefits of vehicles operating on electricity rather than fossil fuels.

The targeted incremental system peak reduction levels set forth in the Proposal include peak reductions from the system peak reduction and EV programs as well as peak reductions from the Energy Efficiency Program (described below) and the Energy Efficiency Transition Implementation Plan ("ETIP").

b) Energy Efficiency Program

Con Edison will implement a portfolio of energy efficiency programs, the Energy Efficiency Program, with budgets and savings targets above and beyond those currently offered through its ETIP. The Company will develop these programs to increase energy efficiency achievements through a combination of responding to locational needs, bundling offerings through Distributed Energy Resources ("DER") providers, leveraging market-based approaches including market solicitations, time-variant pricing, and other market transformation efforts. Program costs will be recovered through base rates, with the costs of the Energy Efficiency Program and the system peak reduction program and the equipment portion of the EV Program recovered over ten years, including the overall pre-tax rate of return of such costs. The rate incentive portion of the EV Program will be recovered through base rates as an expense. Cost recovery through base rates is consistent with the Commission's REV Track One Order.[51]

[51] Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*, Order Adopting Regulatory Policy Framework and Implementation Plan (issued February29, 2015) ("Track One Order"), p. 79.

The energy efficiency targets set forth in the Proposal are inclusive of the ETIP targets and include GWh reductions resulting from the Energy Efficiency Program as well as ETIP and the system peak reduction and EV programs.

The Proposal requires that the new programs be managed as an integrated portfolio, coordinated with the Company's ETIP program efforts so the programs will not compete with each other. In addition, the Company will work with NYSERDA and NYPA to avoid competition with their programs.

c) Earnings Adjustment Mechanisms

Reflecting significant compromises among the parties, the Proposal includes two types of EAMs for the Company's system peak reduction and energy efficiency efforts. First, the Company will have the opportunity to earn Program-Achievement Based EAMs for achieving the targets set for the: (1) Incremental GWh Savings EAM; and (2) the Incremental System Peak MW Reductions EAM. As part of the compromise necessary to obtain agreement of the parties, the Company agreed that it would only receive Incremental GWh EAM incentives for performance incremental to the GWh savings set forth in its ETIP filed April 1, 2016.

Second, as another significant compromise, the Company agreed to Outcome-Based EAMs despite its serious reservations about agreeing to an EAM that is based upon outcomes that are beyond the Company's control and, as described below, are not yet finalized. The Proposal includes three Outcome-Based EAMs:

1. Energy Intensity – this EAM incentivizes Con Edison to help customers reduce total usage on a per customer or other appropriate per unit basis (*e.g.*, GDP, floor space, employment – metric(s) to be defined through the collaborative described below).

2. Customer Load Factor – this EAM incentivizes Con Edison to improve the load factor of poor load factor customers in a manner which is consistent with REV's three environmental goals (metric to be defined through the collaborative described below).

3. DER Utilization – this EAM is intended to encourage Con Edison to work with DER providers and expand the use of DER in its service territory both for the purposes of reducing customer reliance on grid-supplied electricity and for beneficial electrification.

The parties were not able to work out the details of the three Outcome-Based EAMs prior to the signing of the Proposal and agreed to a collaborative with the objective of completing work on EAMs for RY1 by November 1, 2016. It is the intent and expectation of the Signatory Parties that the details of the EAMs for RY1, including incentive levels, as appropriate, will be considered by the Commission simultaneously with its consideration of the Proposal. In the event the collaborative reaches agreement on the Outcome-based metrics, the Company, working with collaborative participants, will prepare a consensus report describing that agreement by November 1, 2016, which will include a detailed description of the Outcome-based metrics and associated EAMs.

2. Distributed Generation EAM

The Company filed testimony proposing an interconnection incentive for DG projects under 50 kW because they constitute most of the projects in the Company's service territory. After the Commission issued the Track Two Order stating that a DG EAM should be applied to projects above 50 kW only, Staff filed testimony stating that the Company should propose a DG incentive in this proceeding for projects 50 kW and above only. The Company responded in its rebuttal testimony that it would not propose a DG EAM only for projects 50 kW and above but would be willing to discuss it if there are settlement negotiations.[52]

The parties engaged in discussions over a DG incentive and agreed that a DG EAM should be implemented for RY2 and RY3. Under this proposed EAM, the Company will have

[52] The Company continues to believe that an incentive for projects 50 kW and below would make sense for its service territory because they constitute the overwhelming majority of the Company's projects.

the opportunity to earn an EAM for interconnection DG larger than 50 kW and up to 5 MW. As required by the Track Two Order, the EAM will measure three components of DG processing: (1) Standard Interconnection Requirement timeliness; (2) an independent third party customer satisfaction survey; and (3) an independent third party audit of failed applications.[53] There will be no EAM for RY1 and the EAM will be five basis points for RYs 2 and 3,[54] except that parties may seek Commission approval for changes in the basis point amount of up to five basis points.

In order to develop the appropriate baselines and metrics for an EAM, the Proposal provides that the Company will convene a collaborative process soon after September 16, 2016 to seek agreement on such issues.[55] Except for RY1, if Con Edison is unable to achieve consensus with the collaborative on DG EAM targets, parties may file with the Commission request(s) for approval of targets no later than September 27, 2017. For RY1, Staff will determine the targets.

On March 31 of 2018, 2019, and 2020, Con Edison will submit a report to the Commission on its previous year's performance in relation to the three targets and include a discussion of its earned EAM, if applicable. The Company will also provide an explanation of targets not achieved, if applicable. The Company may begin collecting the calculated amount of incentives forty-five days thereafter, if there is no Commission action[56] taken within that time. The incentives will be allocated between Con Edison customers and NYPA.

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[53] The Company may defer for future recovery the combined cost of the independent third party audit and survey if the aggregate cost is greater than $100,000 in any Rate Year.

[54] Such amount is estimated to be $7.95 million in RY2 and $8.25 million in RY3.

[55] The Company has scheduled the first collaborative meeting for October 18, 2016.

[56] If the Secretary issues a notice of potential Commission action within the 45-day period, unless the Commission takes action within 120 days from the date of the notice, the Company may begin recovery after the end of such 120-day period.

J. **Additional Gas Provisions**

The Proposal includes several different gas provisions proposed by various parties that will provide safety, environmental and economic benefits to our customers and the public at large.

The Proposal seeks to further enhance gas safety through proposals like the Residential Methane Detector Program, Relocation of Inside Gas Meters and Fire Department Gas Emergency Training. Under the Residential Methane Detector Program, the Company will use a $1.975 million balance in the Company's gas R&D budget to fund the purchase and distribution of residential methane detectors to customers at no charge, on a first-come, first-serve basis. One half of these detectors will be provided to customers participating in the Company's low income program.

Another safety-related activity included in the Proposal is the relocation of gas meters outside when performing planned service line replacements, new service installations or other circumstances that offer the customer and the Company to opportunity to relocate meters. These relocations will facilitate the survey and inspection efforts required under the Commission's amended definition of a gas service line.[57]

Finally, the Proposal provides for enhanced training for local fire departments responding to gas-related emergencies throughout the Company's service territory. These enhancements include more hands-on training, improvements to the training curriculum, improvements to training facilities and an increased frequency of drills and other training targeted at improving the awareness of and response to natural gas leak emergencies.

[57] See, Case 14-G-0357, *In the Matter of Revising 16 NYCRR Gas Safety Regulations for Consistent Application of More Stringent Federal Gas Safety Standards in 49 CFR*; and Case 15-G-0244, *Proceeding on Motion of the Commission to Develop Implementation Protocols for Complying with Inspection Requirements Pertaining to Gas Service Lines Inside Buildings.*

The Proposal also includes provisions that offer environmental benefits. The Proposal outlines potential next steps for the Methane Reduction Collaborative initiated under the last gas rate plan. These next steps provide for further consideration of prioritizing Type 3 leak repairs based on leak flow rates and consideration of prioritizing pipe replacement activities using leak flow rates as a secondary factor. It is expected that the Company will reduce methane emissions by targeting the highest volume leaks for repairs.

Finally, the Proposal will provide economic benefits in the Company's service territory by creating potential employment opportunities. The Company has agreed to continue working with local schools, local labor unions and other qualified organizations to administer a workforce development program to train future utility workers to meet the Company's increased operational needs.

K. Customer Operations Provisions

The Proposal includes various provisions that continue and enhance the Company's commitment to customer service and support the Commission's REV initiatives. The following are examples of such provisions.

1. Customer Service System Replacement

The Proposal advances the start of the Company's Customer Service System ("CSS") Replacement program to mid-2018, and outlines three phases for the program designed to result in implementation of a replacement CSS in 2023. The Company agreed to this schedule adjustment in order to mitigate parties' concerns regarding the need for continued investment in the sustainability of the legacy CSS. This revised schedule puts the Company on a challenging path to undertake three interrelated, enterprise-wide information technology programs at the same time (*i.e.*, AMI, Digital Customer Experience ("DCX"), and CSS Replacement). However, in the spirit of compromise, the Company accepted this challenge in the context of an overall comprehensive settlement.

2. Outreach and Education

The Proposal continues the Company's efforts to inform and educate customers about their rights as utility customers and new programs available to them. Notably, the Proposal supports the Company's continued emphasis on gas safety awareness campaigns, which are critical to the safety of our customers, employees, and the general public. Additionally, the Proposal expands the Company's outreach and education efforts to include a coordinated customer engagement campaign supporting the AMI, DCX and Green Button Connect My Data ("GBC") programs. Taken together, these programs will empower customers to analyze their energy usage and identify opportunities for savings; manage their accounts using intuitive, convenient tools that align with their digital preferences; and evaluate DER opportunities by sharing their usage data with third parties. The coordinated campaign for AMI, DCX and GBC will make customers aware of the new resources available to them and the potential benefits of becoming more engaged energy consumers.

3. Inactive Gas Accounts

Under the Proposal, the Company will make several improvements to its gas service termination processes related to inactive gas accounts. The Company agreed to these enhancements in order to address safety-related concerns raised by certain parties. These enhancements include, but are not limited to, the following measures: improving customer service representative scripts to attempt to obtain successor or landlord information for contact to establish responsibility for service; expanding the team of employees responsible for making field visits on inactive gas accounts to obtain successor information, or to gain access to lock the meter; enhancing the process to prioritize the resolution of a meter associated with an inactive gas account that shows consumption; developing a Leave on for Landlord program that includes documented confirmation the landlord has accepted responsibility for accounts being transferred to the landlord; and working with municipalities to streamline any required permitting.

4. Data Access Issues

The Proposal contains multiple elements that support the Company's data access plans and also were the result of compromises among the parties. First, the Company will implement and deploy GBC functionality with respect to customer usage information by December 31, 2017, and consider adding data sets beyond customer usage data in RY2 or RY3. Once implemented, the GBC authorization and authentication protocols will allow customers to share their information with authorized third parties using a secure, nationally-accepted standard for data exchange. Second, the Proposal specifies that the Company will provide NYPA governmental customers with access to data on the same terms as data are available to Con Edison customers. This provision will allow NYPA customers to take full advantage of the Company's investments in AMI, GBC and DCX and leverage the new technologies for their benefit. Third, the Company accepted New York City's proposal to eliminate fees to building owners for aggregated whole-building data for the term of the Rate Plan, while reserving the Company's right to seek future Commission authorization for data fees consistent with the REV Track Two Order.

5. Replevin Process

PULP raised concerns related to the Company's replevin practices during the course of these proceedings, and through a separate petition requesting the Commission to investigate the Company's replevin practices.

In response to the concerns raised by PULP, the Company demonstrated that it takes service disconnections seriously; that it complies with all applicable Commission rules and regulations; and that instituting a replevin action before the Courts for removal of the Company's meters is a last resort in the few instances where customers refuse to pay for service and continually deny the Company access to its equipment. Additionally, the Company explained that the Court's replevin process had recently undergone review by the New York State Attorney General as well as by the Court itself, which resulted in minor modifications to the process that the Company has already implemented. Finally, the Company confirmed that the Commission's recent audit of its compliance with the Home Energy Fair Practices Act ("HEFPA") in Case 14-M-0001 did not find any areas for improvement with respect to the Company's replevin process.

Notwithstanding, in an effort to address PULP's specific concerns regarding the Company's communications with customers regarding replevin actions, the Company agreed on specific language to include in a letter sent to customers prior to their receipt of a court notice regarding the Company's proposed replevin action. With this change, PULP committed in the Proposal to inform the Commission that its concerns related to the Company's replevin process have been addressed.

6. Enhancing Customer Experiences

Under the Proposal, the Company will make a number of adjustments to its customer-facing processes, with the objective of making it easier for customers to do business with the Company.

To begin, effective January 1, 2017, the Company will expand access to its services by accepting New York City-issued identification cards ("IDNYC") and federal individual taxpayer identification numbers ("ITIN") as valid forms of documentation on its residential applications for service. Accepting these additional forms of identification will benefit customers that either do not have social security numbers or access to more traditional forms of identification.

Next, the Proposal includes a commitment to begin sending notifications to gas customers if the Company replaces the volume corrector on a gas meter and that action results in back-billing of the customer's account. This notification will proactively make customers aware of changes on their account and explain the reason for the changes, potentially obviating the need to call the Company for an explanation.

Additionally, the Proposal provides for further discussion on concerns raised by CHIP and its members regarding transfer of tenant account balances to landlord accounts. Among other things, CHIP claims that its members were billed by the Company for arrearages incurred by tenants who had abandoned or otherwise vacated their leased premises without terminating Company accounts. The Company maintains that the evidence presented by CHIP in this case has not been sufficient to substantiate its claims. However, as part of its good faith effort to negotiate a settlement, the Company agreedto initiate further discussions with CHIP and other interested parties to address concerns regarding arrearages for landlord/tenant accounts.

7. Positive Incentive – Terminations and Uncollectible Expenses

The Proposal establishes a new positive-only metric that would allow the Company to achieve a positive revenue adjustment if it can achieve certain targets of reductions in both residential service terminations and bad debt write-offs. Staff has repeatedly supported implementation of such a metric[58] and originally proposed that the metric include both a positive revenue adjustment for meeting the established targets and a negative revenue adjustment if the Company failed to meet the targets. The Company objected because the two objectives are inherently contradictory to one another (*i.e.*, reductions of terminations generally drive higher

[58] *See, e.g.*, Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision,* Staff White Paper on Ratemaking and Utility Business Models (issued July 28, 2015).

payment arrears, which increase bad debt write-offs). The Company also stressed that there are many factors beyond a utility's control that determine a customer's ability to pay their energy bill(s), including the state of the economy, the availability of well-paying jobs, fuel costs, wholesale power supply costs, and annual fluctuations in the availability of Home Energy Assistance Program ("HEAP") grants.

The Proposal implements a positive-only metric, which reflects a reasonable compromise among the parties and appropriately reflects that there are many economic factors outside the Company's control that lead to fluctuations in the number of customers falling into arrears, potential terminations, and bad debt write-off as economic conditions change. Achieving this positive incentive will be challenging for the Company, but it agreed to the incentive as structured within the context of an overall settlement. In seeking to achieve this incentive, the Company will necessarily explore new ways to reduce both terminations and bad debt write-offs.

L. AMI

1. AMI Scorecard

As required by the AMI Order, the Proposal contains an AMI Metrics Scorecard intended to monitor the progress of AMI and its benefits, including benefits to system operation and to outage management, reduced billing errors and increased customer awareness. The metric scorecard accordingly comprises customer engagement and operational functions associated with AMI deployment.

The Customer Engagement metrics on the AMI Scorecard will provide the Commission, Staff, and interested parties with a means of tracking the Company's progress as it implements new energy savings messaging and tools and educates customers and stakeholders about AMI technology, features, and benefits. The Scorecard will also provide information on customers' utilization of online tools and data sharing functionality, and their adoption of time-variant rates.

The operational portion of the metric scorecard tracks specific items related to outage management, system operation and environmental benefits, billing errors and the AMI deployment schedule. These specific items include numbers of estimated bills, savings associated with fewer truck rolls for false outages and power quality complaints, and conservation voltage optimization. The proposed AMI deployment schedule and reporting associated with AMI metrics are set forth in Appendix 18 to the Proposal.

2. AMI Customer Awareness Earnings Adjustment Mechanism

The Proposal includes an EAM of $250,000 per deployment region focused on the Company's efforts to promote customer awareness of AMI technology, features, and benefits. As described in the Company's AMI Customer Engagement Plan, filed on July 29, 2016, customer awareness of AMI is a key element in attracting and educating customers about how they can better understand and manage their energy use, shop for renewable energy, enroll in energy efficiency programs, and provide and compare energy products and services. Though the AMI Customer Awareness EAM is driven by AMI deployment, the Company's engagement efforts will support the overarching REV objectives of increasing customer engagement and facilitating integration of DERs.

M. <u>Electric and Gas Low Income Programs</u>

The size and availability of discounts to low income customers is routinely an area of contention in Company rate proceedings, since higher low income discounts means higher rates to customers that do not participate in the low income programs. During the course of this proceeding, the Commission issued its *Order Adopting Low Income Program Modifications and Directing Utility Filings* (issued May 20, 2016) ("Low Income Order") in Case 14-M-0565, which established statewide parameters for all utility low income programs. The Proposal provides for the continuation of the Company's current gas and electric Low Income Programs, with significant modifications to make the Programs consistent with the Low Income Order. Notably, effective January 1, 2017, customers enrolled in Medicaid will become eligible for the Electric Low Income Program, adding approximately 93,000 customers to the Electric Low Income Program.

Staff and the Company proposed generally to align the Programs with the Low Income Order. Other parties took issue with certain aspects of the Low Income Order and argued that changes should not be made until the pending rehearing requests of the Low Income Order are resolved.

The Proposal resolves these differing positions and provides for two-staged implementation of the Low Income Order. Effective January 1, 2017, customers in the Electric Low Income Program will receive a $10.00 discount from the otherwise applicable customer charge, SC 1 customers in the Gas Low Income Program will receive a $3.00 discount from the otherwise applicable minimum charge, and SC 3 customers in the Gas Low Income Program will continue to receive a discount of $0.4880 per therm for usage in the 4-90 therm block as well as a $7.25 discount on their otherwise applicable minimum charge. This represents a $0.50 increase to the electric discount and a $1.50 increase to the SC 1 gas discount.

Effective January 1, 2018, the Company will implement the tiered discount levels identified in the Low Income Order and in the table below. Tier 1 will include customers enrolled in the Electric and Gas Low Income Programs by virtue of receiving benefits under a standard HEAP payment or any other Company's other qualifying programs. Tier 2 will include customers that have received a standard HEAP grant with one adder (currently $25.00). Tier 3 will include customers that have received a standard HEAP grant with two adders (currently

$50.00). Tier 4 customers are customers enrolled in the Electric and Gas Low Income Programs by virtue of being enrolled in a Direct Vendor or Utility Guarantee Program.[59]

The Proposal continues the Company's reconnection fee waiver program, but provides additional assistance to customers by allowing customers to receive one waiver per year, as opposed to one waiver per Rate Plan.

In total, the Electric Low Income Program is projected to cost approximately $54.7 million annually, with an additional $547,000 annually for continuation of the reconnection fee waiver program and the Gas Low Income Program is projected to cost approximately $10.9 million annually, with an additional $75,000 for the reconnection fee waiver program.

Additionally, as required by the Low Income Order, beginning January 1, 2018, the Company will begin automatically enrolling customers participating in the Gas or Electric Low Income Program into the Company's existing budget billing program on an opt-out basis.

All other Company enrollment procedures will also continue. Additionally, the Company agreed to contribute (without reimbursement from customers) $50,000 annually to the City of New York and Westchester administrative agencies to aid with administrative costs of the semi-annual reconciliation (with Company customers bearing up to an additional $50,000 of actual administrative expenses incurred by the Agencies). The Company also agreed to provide an additional $50,000 to the agencies to aid with the administrative costs of adding Medicaid customers to the Electric Low Income Program.

The Proposal reflects a concerted effort among both Signatory Parties and non-signatory parties, represents a reasonable outcome based on the varied positions taken throughout this

[59] The Proposal recognizes that the Low Income Order is pending rehearing and recommends that if the Commission orders any changes to the Low Income Programs established by the Proposal (including, for example, changes to Tier 4 discounts) that such changes be implemented as soon as practical after the order is issued and implemented on a prospective-only basis

proceeding, and is within the range of outcomes that likely would have resulted from a Commission decision in a litigated proceeding. Moreover, the Proposal modifies the Programs consistent with the Low Income Order.

N. Studies/Collaboratives

The Proposal resolves most issues raised by the Company's rate filings and the parties' responses to these filings, either affirmatively through the rates and terms set forth in the Proposal, or by concluding that certain proposals should not or need not be addressed at this time. For a number of matters, the Signatory Parties agreed that further study and/or discussion in a Collaborative is necessary before making recommendations to the Commission regarding changes to rates or terms of service, and/or before the Commission should rule on any such proposed changes. These areas include collaboratives to discuss the Company's interconnection procedures, gas peak demand reduction and interruptible gas service and studies on delivery marginal cost, compressed natural gas access, climate change vulnerability and gas building meter conversions.[60] These studies/collaboratives will require a significant amount of work from the Company and demonstrate its willingness to pursue and evaluate customer and other stakeholder concerns beyond the end of the formal rate-setting process.

O. Miscellaneous Provisions

The Proposal contains a section comprised of a number of generally standard multi-year rate plan provisions, including, for example, provisions that explain the extent to which provisions of the Proposal should continue until base delivery rates are changed by Commission order, except for a handful of provisions that continue unless and until changed by Commission

[60] Listed here are the collaboratives set forth in Section O of the Proposal on studies/collaboratives. The Proposal contemplates other collaboratives for energy efficiency, distributed generation incentive, and the standby/export rates pilot, that are described in the applicable sections of the Proposal.

order, and the circumstances under which it may be necessary or appropriate to change the Company's rates during the term of the Rate Plans. This long-standing provision was modified to recognize that in certain instances, parties other than the Company may petition the Commission to implement new service classifications and/or cancel existing service classifications, or to change rate design or revenue allocation within or among non-NYPA service classes, where such change(s) is not contrary to the agreed upon terms and conditions set forth in the Proposal.

The Proposal also continues provisions for the Company to defer on its books of account the full change in expense, up or down, resulting from changes in tax laws and/or other laws, rules and regulations that result in a change in the Company's annual electric or gas costs in an amount equal to or more than ten (10) basis points ("new laws provision"). The Company accepted a continuation of the current provision (i) subject to the Proposal's recognition that the Company may incur, and may seek to fully recover (*i.e.*, not subject to the 10 basis point threshold), incremental costs as a result of ongoing actions in the REV and REV-related proceedings and certain gas safety proceedings (*e.g.*, the Commission's gas service line definition proceeding and new federal Pipeline Safety Act regulations), and (ii) notwithstanding numerous other ongoing regulatory initiatives that have the potential to impose increased costs on the Company not contemplated by the rates established in these proceedings, and which may, if not individually but in the aggregate, exceed the ten basis point threshold. Accordingly, the Company is, in part, relying on the Commission to act in such proceedings in a manner that recognizes that current rates do not contemplate incremental costs associated with the implementation of new Commission initiatives and therefore provides, as appropriate, for recovery of such costs in the orders issued in those proceedings.

The Proposal includes a new provision, "Financial Protections," that is in response to the concern in Staff's direct testimony that the Company financial position could be negatively affected by its parent company's growing activity in non-Commission regulated businesses. Although the Company disagreed with Staff's assessment of the current situation in terms of the need for additional financial protections, the settlement process provided the opportunity for the Company, Staff and other interested parties to further explore the need for additional protections. After jointly concluding that no financial protections in addition to those already in place were necessary at this time, the parties crafted a series of provisions designed to provide information to Staff that will enable Staff to monitor a material change in circumstances and re-evaluate the need for additional financial protections. Specifically, the Proposal provides that the Company will provide Staff five-year earnings forecasts annually and notify Staff when there are material changes to the five-year forecast. In addition, the Company agreed that if Consolidated Edison, Inc.'s ("CEI") investments in non-utility businesses cause it to exceed certain thresholds, the Company will notify the Commission and submit a filing providing a ring-fencing plan to insulate the Company or demonstrating why additional ring-fencing measures are not necessary at that time.

IV. Conclusion

The Proposal reflects not only the tradeoffs among the Signatory Parties, but also a substantial effort to address the concerns voiced by all the parties to the process. Indeed, certain aspects of the Proposal reflect the input of non-signing parties. All participants were given the opportunity to voice their concerns and a significant effort was made to address them. Given the balancing required to effectuate the Proposal, certain parties primarily interested in a discrete element of the Proposal may have difficulty in accepting the results of the balancing process. Nevertheless, the resulting agreement represents a good faith effort to address and balance all interests and produce a just and reasonable proposal. Should one or more parties criticize individual elements of the Proposal and/or urge its rejection, such arguments must be measured against the numerous compromises that were negotiated in order to reach an agreement.

In the final analysis, the Proposal should be approved in all aspects because it resolves the various issues presented in a manner fully consistent with the public interest and, as detailed in this Statement, is within a range of results that could be expected in a litigated proceeding; reflects agreement among normally adverse parties; and comports with the Commission's current policies. [61]

The Company faces numerous operating, financial and regulatory risks and prospects under this Proposal and must continue its mission of providing unparalleled service reliability in what is likely the most challenging environment faced by any utility in the nation. The Company assessed these risks and prospects, as well as the possible outcomes of fully litigated proceedings, and concluded that the Proposal is acceptable. If the Proposal is not approved in its entirety, the Company respectfully requests that the Commission remand the Proposal to the

[61] E.g., Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*, Order Instituting Proceeding (issued April 25, 2014).

parties to enable them to pursue their respective positions and remedies, with appropriate relief should it be necessary to further suspend the effective date of any rate changes.

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Respectfully submitted,

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