

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

JOINT PROPOSAL

DEMAND ANALYSIS AND COST OF SERVICE PANEL REBUTTAL TESTIMONY

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1

Introduction

2 Q. Please state your names.

3 A. William Atzl, Lucy Villeta, Kristin Graves and Yan

4 Flishenbaum.

5 Q. Have you previously submitted testimony in this proceeding?

6 A. Yes, we have.

7 Q. What is the purpose of your rebuttal testimony on the Joint

8 Proposal?

9 A. We are responding to the Statement in Opposition and Direct

10 Testimony of the UIU Electric and Gas Rate Panels on the

11 Joint Proposal regarding the Company's electric and gas

12 embedded cost of service ("ECOS") studies, revenue

13 allocation methodology and rate design.

14 Q. Does the Panel have any overall comments on UIU's testimony

15 and Statement of Opposition?

16 A. Focusing entirely on a small number of issues associated

17 with the Company's electric and gas ECOS studies, UIU

18 claims that the Joint Proposal should be modified as it is

19 not in the public interest. The issues UIU focuses on are:

20 Electric

21 1. Low tension demand allocator;

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1           2. Introduction of customer component to primary;

2           3. Selection of sizes in determining minimum system of  
3           secondary conductors and transformers;

4           4. Revenue allocation and rate design issues;

5   Gas

6           5. Classification and allocation of costs associated  
7           with distribution mains (minimum system) including  
8           resulting revenue allocation and rate design issues;

9           6. Increase in the interruptible off-peak firm delivery  
10          rate;

11   Electric and Gas

12          7. AMI cost allocation; and

13          8. REV issues.

14   Q.   Does the Company agree with UIU's positions?

15   A.   No.   The Joint Proposal is based on electric and gas ECOS  
16       studies that were developed in a similar manner, with one  
17       exception in the electric study, that UIU and its  
18       predecessor CPB have not objected to in recent Con Edison  
19       settlements.  As explained in this testimony and the  
20       accompanying statement, UIU provides no reasonable support  
21       for modifications to the Company's electric and gas ECOS

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1 studies that would shift cost responsibility from  
2 residential customer classes to other customer classes.

3 Q. Are UIU's recommendations partial to particular classes of  
4 customers?

5 A. Yes. UIU's proposals serve two purposes: first, to shift  
6 cost responsibility away from residential and small  
7 commercial customers and second, to reduce fixed monthly  
8 customer charges. UIU's recommendations therefore benefit  
9 the Company's SC1 residential and SC2 small commercial  
10 electric customer classes and the Company's SC1 and SC3  
11 residential gas classes. Effectively, UIU accepts all  
12 other aspects of the Proposal but claims that the Proposal  
13 is not in the public interest due to cost allocation issues  
14 that have a relatively minor impact on customers. For  
15 example, as noted in UIU's Statement in Opposition (p. 4),  
16 the RY1 electric SC1 residential delivery revenue impact of  
17 4.2% is only slightly greater than the 3.6% overall average  
18 delivery revenue increase for all classes. Similarly, the  
19 RY1 delivery revenue impact on the SC1 and SC3 residential  
20 gas classes is 3.7% as compared with a 3.1% overall average  
21 delivery revenue increase for all classes.

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1 Q. Please continue.

2 A. The Company's cost allocation methodologies, which all but  
3 one of the signatories to the Joint Proposal agree with,  
4 follow established costing principles, are consistent with  
5 past Commission-approved practice, and have evolved with  
6 regulatory precedent over time. The Company does not  
7 simply introduce new costing methodologies but rather  
8 develops new methods considering cost causation and other  
9 factors.

10 Q. How is your testimony organized?

11 A. We will handle the electric and gas issues separately and  
12 then address AMI and REV issues as they pertain to both  
13 electric and gas service.

14 **Electric**

15 Q. Please summarize UIU's positions regarding the Company's  
16 electric ECOS study filed and reflected in the Joint  
17 Proposal in this proceeding.

18 A. UIU criticizes the manner in which the Company determines  
19 the demand and customer classification of distribution  
20 costs, arguing that the Company classifies too many costs  
21 as customer related. As discussed in our initial

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1 testimony, the Company introduced a customer component of  
2 primary distribution facilities. Only UIU and Pace oppose  
3 this change. UIU also challenges the Company's selection  
4 of conductor sizes in calculating the minimum system  
5 customer component of low tension distribution lines. UIU  
6 also recommends that transformers be classified as entirely  
7 demand related and therefore excluded from the minimum  
8 system.

9 Q. Does UIU raise other concerns?

10 A. Yes. UIU further recommends that the ECOS demand allocator  
11 for low tension distribution plant ("low tension demand  
12 allocator") be based exclusively on class Non-Coincident  
13 Peaks ("NCP").

14 **Low Tension Demand Allocator**

15 Q. Please explain Individual Customer Maximum Demands ("ICMD")  
16 and NCP.

17 A. ICMD represents the actual sum of billing demands for a set  
18 of customers which do not necessarily occur at the same  
19 time. NCP is the sum of demands for a class of customers  
20 at the time of the class peak.

21 Q. How does the Company's ECOS study handle ICMD and NCP?

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1 A. In allocating low tension distribution costs, the Company  
2 uses a weighted average of 50% NCP and 50% ICMD for non-  
3 residential classes. A special adjustment is made for the  
4 SC1 residential class to allow for the diversity of  
5 individual customer loads in multi-family dwellings,  
6 resulting in a weighting of 75% NCP and 25% ICMD for this  
7 class. The Joint Proposal incorporates the Company's ECOS  
8 study, including its underlying assumptions regarding cost  
9 allocation and the inclusion of ICMDs in the low tension  
10 demand allocator.

11 Q. What is UIU's position on including ICMDs in the low  
12 tension distribution allocator?

13 A. UIU believes that the inclusion of ICMDs is inappropriate  
14 and results in an over-allocation of costs to certain  
15 classes. UIU supports the exclusive use of class NCP as  
16 the appropriate allocator for low tension distribution  
17 costs claiming that "sections of secondary conductor or  
18 conduit or poles are not generally planned on the basis of  
19 individual customer demands." (pp. 13, 14)

20 Q. Do you agree?

21 A. No. UIU's position assumes that local distribution

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1 facilities are sized to meet the coincident demands of  
2 customers served by them. While this may be true, the many  
3 local demands on a utility distribution system are not  
4 coincident with each other, nor are they necessarily  
5 coincident with the overall non-coincident peak of any  
6 individual class of customers. Localized demands, such as  
7 those on a single transformer, are driven more by ICMDs of  
8 the customers served by that transformer than by the  
9 overall NCP of the class to which the customers belong.  
10 Demands on system components further from the actual  
11 customers tend to be more coincident with the overall non-  
12 coincident peak. Therefore, the use of a blended allocator  
13 consisting of ICMDs and NCPs is an entirely appropriate  
14 approach.

15 Q. Is UIU's position supported by Exhibit \_\_ (UERP-JP-10) to  
16 UIU's testimony?

17 A. No. Exhibit \_\_ (UERP-JP-10) Charging for Distribution  
18 Utility Services: Issues in Rate Design, December 2000 (pp.  
19 32-33) does not support UIU's position. It states,  
20 "As a general matter, distribution facilities are designed  
21 and operated to serve localized area loads. Substations

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1 are designed to meet the maximum expected load of the  
2 distribution feeders radiating from them. The feeders are  
3 designed to meet at least the maximum expected loads at the  
4 primary and secondary service levels. (As noted above, some  
5 investment in distribution capacity may be seen as reducing  
6 energy losses rather than serving peak demand.) For  
7 costing purposes it is the relevant subsystem's  
8 (substation, feeder, etc.) peak that matters, but these  
9 peaks may or may not be coincident with each other or with  
10 the overall system's peak. There can be significant  
11 variation among them. Consequently, one practice is to  
12 allocate the costs of substations and primary feeders  
13 (which usually enjoy relatively high load factors) to  
14 customer class non-coincident peaks and to allocate  
15 secondary feeders and line transformers (with lower load  
16 factors) to the individual customer's maximum demand."

17 Q. Does this Exhibit mention anything else related to NCP and  
18 ICMD?

19 A. Yes. The following footnote is included in the above-  
20 referenced text:

21 "Class non-coincident peak may not be the best measure of

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1 cost causation, since much of the system serves a variety  
2 of customer classes. Chernick, Paul, *From Here to*  
3 *Efficiency: Securing Demand-Management Resources*, Vol. 5,  
4 1993, p. 81. Ideally, the object is to design rates that  
5 reflect the costs of customers' contributions to the  
6 relevant peak."

7 Q. Please continue.

8 A. UIU's position is not supported by its own Exhibit. Unlike  
9 UIU's position, the Exhibit agrees with the Company and  
10 allows distribution costs to be allocated based on both  
11 ICMD and NCP.

12 Q. What additional arguments does UIU make to support its  
13 position?

14 A. In an attempt to bolster its position, UIU makes a number  
15 of easily dismissible arguments, as explained below. These  
16 arguments include:

- 17 1. an analogy of the ICMD/NCP methodology to roads;
- 18 2. that the Company did not explain the allocation in its  
19 testimony;
- 20 3. that distribution costs are incurred to meet peak  
21 demands and NCPs are the relevant loads;

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1           4. that the Company plans its system to meet NCP, not  
2           ICMD;

3           5. that the use of this allocator was a concession to  
4           NYPA;

5           6. that distribution systems do not experience ICMD; and

6           7. that the Company agrees that smaller customers should  
7           be treated differently than larger customers.

8           These arguments are unpersuasive as we explain below.

9    Q.    First, UIU uses an analogy to a road transportation system,  
10        arguing that roads are not sized to meet the maximum load  
11        of all cars being on the road at once. They claim that  
12        this is equivalent to an electric distribution system not  
13        being sized to meet the sum of individual customer maximum  
14        demands. Is this an appropriate analogy?

15   A.    No, it is not. Roads are often crowded at rush hours and  
16        other peak times. The equivalent "rush hour" issue in an  
17        electric system would mean the potential for frequent  
18        brown-outs, voltage reductions, and other problems  
19        associated with over-loading of the electric system.

20   Q.    Please continue.

21   A.    Additionally, during winter storms or other stressed

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1 periods, denizens of a region understand that roads may be  
2 closed or nearly impassable. During storms and times of  
3 high summer temperatures accompanied by high humidity, Con  
4 Edison customers expect to be able to run their air  
5 conditioning and other systems uninterrupted. Electric  
6 systems are not and cannot be designed like roads.  
7 Therefore, UIU's analogy is inapt.

8 Q. Second, UIU claims that the Company did not make it clear  
9 in its pre-filed direct testimony that the low tension  
10 demand allocator includes any factors beyond NCP demand (p.  
11 11). Is UIU's claim relevant?

12 A. No. There are three places where the Company initially  
13 explained the low tension demand allocator. First, the  
14 Company's explanatory notes which preface exhibit \_\_ (DAC-  
15 2) describe this allocation factor. Second, the weighting  
16 is demonstrated in the workpaper that determines the demand  
17 allocators, which was provided along with our initial  
18 testimony. Third, in the April 5, 2016 rate case walk-  
19 through for all parties, attended by two UIU staff, three  
20 slides showed the inclusion of ICMD and NCP for the low  
21 tension allocator. See Exhibit \_\_ (JP-DAC-1)

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1 Q. Third, UIU states (pp. 10-11) that "it is generally  
2 accepted that most distribution costs are incurred in order  
3 to meet peak demands" and that "the relevant loads are the  
4 NCP loads of the various customer classes." Do you agree  
5 with these statements?

6 A. No. Not only does UIU's own exhibit contradict their  
7 position, as mentioned above, the NARUC Manual (p. 97)  
8 states that "customer-class non-coincident demands (NCPs)  
9 and individual customer maximum demands are the load  
10 characteristics that are normally used to allocate the  
11 demand component of distribution facilities." The NARUC  
12 Manual goes on to say, "The facilities nearer the customer,  
13 such as secondary feeders and line transformers, have much  
14 lower load diversity. They are normally allocated  
15 according to the individual customer's maximum demands."

16 Q. Fourth, UIU states that "The Company thus admits ... that  
17 it plans its delivery system to meet NCP demand, not ICMD"  
18 (p. 12). Does this statement incorrectly characterize the  
19 Company's position?

20 A. Yes. UIU is summarizing the Company's response to UIU 8-  
21 152 (included in Exhibit \_\_\_\_ (DAC-4) and (UERP JP-6)), in

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1       which the Company stated that it matches cable capacity to  
2       the demand in a load area. UIU mistakenly translates the  
3       phrase "in a load area" (which is a geographic concept  
4       comprised of a small number of customers in multiple  
5       customer classes) as being equivalent to "NCP demand" which  
6       is determined for an entire customer class, but these are  
7       completely different concepts. As mentioned earlier, the  
8       many local coincident demands that drive localized utility  
9       distribution system investment are not coincident with each  
10      other, nor are they necessarily coincident with the overall  
11      non-coincident peak of any individual class of customers.  
12      Localized demands, such as those on a single transformer,  
13      are driven more by ICMDs of the customers served by that  
14      transformer than by the overall NCP of the class to which  
15      the customers belong.

16    Q.   Does the Company agree with UIU's statement that the "ICMD  
17       is a hypothetical demand metric estimated by summing the  
18       peak demands of each individual customer in a given  
19       customer class?" (p. 11)

20    A.   No. ICMD is not a hypothetical metric, but represents the  
21       actual sum of billing demands for a set of customers.

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1 Q. Fifth, please address UIU's claim that the Company's  
2 introduction of ICMD in its low tension distribution demand  
3 allocator was a concession to NYPA first introduced in Case  
4 96-E-0897 (p. 13).

5 A. The Company's costing methodologies have evolved with  
6 regulatory precedent, whether litigated or settled, over  
7 time based on input from PSC Staff and other parties to the  
8 Company's rate proceedings. The NCP/ICMD weighting has  
9 been approved by the Commission in multiple rate cases over  
10 two decades. UIU and its predecessor, the Consumer  
11 Protection Board ("CPB"), have participated in these  
12 proceedings and had ample opportunity to challenge this  
13 methodology. They chose not to.

14 Q. Sixth, UIU states that "Distribution systems do not  
15 actually experience ICMD" (p. 11). Do you agree with this  
16 statement?

17 A. Yes. Distribution systems, in their entirety, do not  
18 experience ICMDs or class NCPs. Portions of the system  
19 closest to the customer experience loads closest to ICMDs  
20 while portions of the system further from the customer  
21 experience NCPs. This is why the Company weights the two

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1 factors in the low tension demand allocator.

2 Q. Lastly, UIU states that "The Company agrees that smaller  
3 customers should be treated differently from larger  
4 customers" regarding the weighting of ICMDs and NCPs (p.  
5 13). Do you agree with this statement?

6 A. No. We do not agree that smaller customers should be  
7 treated differently and we are unsure as to where UIU  
8 believes the Company made such a claim. As stated in the  
9 Company's response to NYC 2-44 (included in Exhibit \_\_\_\_  
10 (DAC-4)), the reason for the 75%/25% NCP-ICMD weighting for  
11 SC1 is not due to customer size, but because a large  
12 portion of residential customers reside in multi-family  
13 buildings. That is, the ICMD of individual SC1 residential  
14 customers does not map directly to a building load. In  
15 other words, the 75%/25% weighting takes into consideration  
16 load diversity at the building level recognizing that not  
17 every residential apartment in a multi-family building will  
18 experience their highest billing demand at the same time.  
19 To use the sum of their ICMDs as a proxy for connected  
20 building load would over-allocate this class's use of the  
21 low tension system since this method would consider one

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1 ICMD for each apartment. Hence, the Company assigns less  
2 weight to the residential ICMD (25%) than to the  
3 residential NCP (75%).

4 Q. Are there any other points the Company would like to make  
5 regarding the low tension demand allocator?

6 A. Yes. The Company has consistently used its methodology in  
7 recent class demand studies. Additionally, the load  
8 diversity study undertaken by the Company supported this  
9 weighting and was submitted to and accepted by the  
10 Commission in Case 13-E-0300.

11 Q. Does the Company find instances where UIU contradicts  
12 itself?

13 A. Yes. UIU argues (p. 12-13) that ICMDs are not considered  
14 in sizing secondary conduit and poles, and goes so far as  
15 to cite the Company's planning practices in response to UIU  
16 8-152 and 8-147 as supporting evidence (included in Exhibit  
17 \_\_\_\_ (DAC-4) and Exhibit UERP-JP-6). In the very next  
18 sentence, however, UIU acknowledges that "there may be  
19 large commercial or industrial facilities which require  
20 that their individual demands be taken into account with  
21 regard to plant that is close to their facilities." UIU

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1 acknowledges that ICMDs come into play for large commercial  
2 customers but not for the Company's many residential  
3 apartments or small commercial storefronts in large  
4 buildings. UIU's testimony did not explain its  
5 contradictory position.

6 Q. UIU advocates for the sole use of NCP as the low tension  
7 demand allocator. What effect would this have on the  
8 various classes?

9 A. The table below reflects the results of UIU's proposal, and  
10 is a collapsed version of UIU's Table 1 (p. 21). This  
11 proposal has the effect of shifting cost responsibility  
12 away from the residential and small commercial customers to  
13 the other classes and is self-serving for UIU's  
14 constituency of residential and small commercial customers.  
15 If UIU went further to recommend ICMDs as a factor for  
16 large commercial customers but not for residential and  
17 small commercial customers, the bias would be more  
18 pronounced.

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1

Low Tension D08 Allocator	SC1 Residential	SC2 Small Commercial	SC 9 Conventional
Company NCP/ICMD 75%/25% SC1 50%/50% others	39%	6%	30%
UIU Recommended 100% NCP	36%	5%	32%
UIU NCP/ICMD 100%/0% SC1 & SC2 50%/50% others	34%	5%	34%

2

3 Q. What is your conclusion regarding this issue?

4 A. For the reasons stated above, the Company's methodology  
5 for the low tension demand allocator is reasonable and  
6 should be adopted.

7

**Minimum System Customer Component**

8 Q. Do you have any general comments on UIU's claim that the  
9 Company's ECOS study violates the principle of cost  
10 causation by allocating too many costs on the basis of  
11 customer allocations and thereby under-allocating demand-  
12 related costs?

13 A. Yes. Throughout its testimony,<sup>1</sup> UIU comments that costs  
14 classified as customer-related in the Company's ECOS study

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<sup>1</sup> See the following references:

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1 are allocated to customer classes based on the number of  
2 customers. This understanding is simply not correct. The  
3 Company allocates the customer component of distribution  
4 plant (both primary and secondary) to customer classes  
5 based on the number of services. A service does not  
6 necessarily equate to a customer. For example, while a  
7 large industrial customer may be connected to the  
8 distribution system via several service connections, a  
9 small residential customer might share a single service  
10 connection with several adjacent customers.

11 Q. Please continue.

12 A. Company Exhibit \_\_ (DAC-2), Schedule 1, Table 7, shows  
13 that SC1 has approximately 85% of total customers on the  
14 system. However, the SC1 allocator used to assign  
15 responsibility for customer related distribution costs is  
16 based, not on the number of customers, but on the number  
17 of services. For example, the SC1 allocator for  
18 underground services is approximately 50%. On the other  
19 hand, while SC9 conventional customers represent

- 
- p. 9, lines 3-622 in general;
  - p. 15, line 9-13 regarding primary distribution;
  - p. 16, line 9-12 regarding secondary distribution; and
  - p. 18, lines 23-24 regarding transformers.

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1 approximately four percent of total customers, they  
2 account for almost 29% of underground services.

3 Q. Please continue.

4 A. The Company's use of services is an appropriate allocator  
5 of the customer component of distribution plant because it  
6 accurately reflects cost causation and is fair to all  
7 customers. UIU's testimony related to primary and  
8 secondary conductors and transformers is based on the  
9 false assumption that the Company allocates customer-  
10 related distribution costs via number of customers.

11 **Minimum System Customer Component - Primary**

12 Q. Please describe the Company's proposal regarding the  
13 classification of a portion of primary facilities as  
14 customer related.

15 A. In the ECOS study in this case, the Company used the same  
16 methodologies as it did in previous ECOS studies with one  
17 exception; we classified a portion of the primary  
18 distribution system as customer related. The Company's  
19 derivation of the 6% primary distribution customer  
20 component was based on the results of a minimum system  
21 methodology which parallels the Company's methodology used

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1 to determine the customer component of low tension  
2 distribution plant. This secondary distribution minimum  
3 system methodology was established in a Memorandum of  
4 Understanding ("MOU") agreed to and signed by the parties  
5 as a result of a collaborative initiated in Case 04-E-0572.

6 Q. Does the MOU specifically provide a methodology for  
7 determining an appropriate customer/demand split for  
8 primary assets?

9 A. No. The MOU does not specifically address the  
10 classification of primary assets. However, in introducing  
11 a customer component to primary distribution, the Company  
12 is employing a consistent classification methodology as it  
13 applies to the same distribution plant accounts (FERC  
14 Accounts 364-368) for both primary and secondary  
15 conductors.

16 Q. Why did the Company make this change in its ECOS study?

17 A. Under the 2014 Rate Order in Case 13-E-0030, discussed in  
18 our initial testimony, the Company was required to re-  
19 evaluate its cost of service methodologies related to how  
20 the Company classifies and allocates customer costs. In  
21 performing this task, not only did the Company re-consider

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1 current methodologies, it also considered the practices of  
2 other New York State Utilities (i.e., Central Hudson Gas  
3 and Electric ("CHG&E"), New York State Electric and Gas  
4 Corporation ("NYSE&G"), Rochester Gas & Electric ("RG&E"),  
5 and Niagara Mohawk Corporation d/b/a National Grid  
6 ("National Grid")). These utilities all recognize a  
7 demand and customer component to primary in their embedded  
8 cost of service studies. Furthermore, all but one of the  
9 signatories to the Joint Proposal agree that the  
10 methodology and the results of the Company's ECOS study  
11 are reasonable and support the introduction of a primary  
12 customer component.

13 Q. Please continue.

14 A. As noted in UIU's statement in opposition, NYSEG/RG&E  
15 filed ECOS studies classifying distribution plant  
16 (including primary) as 50% demand and 50% customer in Case  
17 15-E-0283, *et.al.*, but these cases resulted in a joint  
18 proposal that did not specifically identify an ECOS study  
19 underlying its revenue allocation. However, in approving  
20 the joint proposal, the Commission did not reject

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1 NYSEG/RG&E's classification of distribution plant as 50%  
2 demand and 50% customer related.

3 Q. UIU's Statement alleges (p. 29) that the Company's  
4 reference to other New York utilities is "misleading"  
5 because in the 2015 NYSEG/RG&E case, the Commission  
6 approved a joint proposal that was not based on any  
7 particular ECOS study. Do you agree?

8 A. No. First, the Company was not misleading because, at the  
9 time of Con Edison's initial filing in this case (January  
10 29, 2016), the Commission had not yet acted on the joint  
11 proposal in that NYSEG/RG&E case. Nonetheless, the  
12 electric ECOS study in the 2015 NYSEG/RG&E case was filed  
13 based upon a 50/50 percent customer/demand split for  
14 distribution plant and the Commission did not reject the  
15 50/50% classification in approving that joint proposal.

16 Q. Please continue.

17 A. Despite UIU's arguments to the contrary, the Company's  
18 review of other utilities' costing methods was not limited  
19 to NYSEG/RG&E. The Company also reviewed the costing  
20 methodologies of Central Hudson and National Grid and  
21 found that these companies also recognize a demand and

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1 customer component to primary in their embedded cost of  
2 service studies.

3 Q. Is there industry precedent to classify primary  
4 distribution into both a demand and customer component?

5 A. Yes. NARUC recognizes that a "minimum size distribution  
6 system can be built to serve the minimum loading  
7 requirements of the customer" (p. 90). NARUC recognizes  
8 both demand and customer components of primary conductors  
9 (p. 89) and further recognizes the minimum system approach  
10 as an appropriate method to determine such classification  
11 (p. 90).

12 Q. UIU (p. 15) claims that the cost allocation of primary  
13 conductors should be based entirely on demand. Is it  
14 appropriate to classify primary conductors into both a  
15 demand component and a customer component in an ECOS  
16 study, as the Company proposes?

17 A. Yes. Much of the discussion UIU puts forth (pp. 16-17)  
18 related to secondary distribution also applies to primary  
19 distribution. We agree with UIU that a utility as  
20 provider of last resort must serve a customer with little  
21 to no usage. Some portion of both primary and secondary

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1 distribution investment is therefore incurred to connect  
2 customers with minimal load (p. 17). Indeed, without  
3 primary equipment, the minimum system would not be capable  
4 of delivering the minimum loading requirements of the  
5 customer. Hence, it is appropriate to classify a portion  
6 of both primary and secondary equipment as customer  
7 related.

8 Q. Please address UIU's argument that primary systems are a  
9 more efficient way of carrying significant loads by  
10 reducing line losses and that, if a utility were to build  
11 the least expensive system needed to provide a minimal  
12 amount of electricity to customers (minimum system), it  
13 could simply install secondary lines (p. 15).

14 A. Indeed, primary systems are a more efficient way of  
15 carrying loads by reducing line losses. Primary systems  
16 are also necessary to carry loads to customers who are  
17 physically located a distance away from the area stations  
18 that supply them. Without primary equipment, the minimum  
19 system would not be capable of delivering the minimum  
20 loading requirements of the customer, and it is therefore  
21 reasonable to classify a portion of primary distribution as

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1 customer related using the minimum system methodology  
2 employed by the Company.

3 Q. UIU implies that the factors underlying incremental  
4 investment should drive the allocation of the embedded  
5 costs of the primary distribution system (p. 15). Do you  
6 agree?

7 A. No. The subject of incremental (or decremental) load and  
8 investment is an important factor in a marginal cost study  
9 but is not relevant to an embedded cost of service study.  
10 Marginal costs are defined as the change in the cost that  
11 arises when the quantity produced is incremented by one  
12 unit. There would be no need to replace an existing  
13 conductor with a larger size conductor to serve existing  
14 or decreasing load. Marginal costs, however, would apply  
15 when an existing conductor is replaced with a larger-sized  
16 conductor to address increasing load.

17 On the other hand, an embedded cost of service study  
18 measures class cost responsibility based on existing  
19 infrastructure that supports existing customer loads.  
20 Therefore, UIU's argument that the factors underlying

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1        *incremental* investment should drive the allocation of the  
2        *embedded* costs of the distribution system is incorrect.

3    Q.    What is your conclusion regarding this issue?

4    A.    Based on the discussion above, the Company made a single  
5        change in its electric ECOS methodology to classify a  
6        portion of primary distribution as customer-related. This  
7        change was based on: (1) the fact that the minimum system  
8        requires primary equipment to deliver energy to customers;  
9        (2) other New York utilities recognize a demand component  
10       and a customer component for primary; (3) it parallels the  
11       Company's treatment of secondary; and (4) industry  
12       practice, such as the NARUC Manual, supports this  
13       methodology.

14        **Minimum System Customer Component - Secondary Conductors**

15    Q.    In its ECOS study, did the Company make any changes in the  
16        classification and allocation of costs associated with  
17        secondary distribution facilities?

18    A.    No. The Company followed its past methodology which was  
19        approved by the Commission in electric rate cases and has  
20        been in effect since Case 07-E-0523.

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1 Q. Does the DAC Panel agree with UIU's assertion (p. 16) that  
2 the "secondary delivery system (poles, conductors,  
3 transformers) is primarily related to customer demand?"

4 A. No. This statement contradicts past Commission precedent  
5 as well as the NARUC Manual which states that "the number  
6 of poles, conductors, transformers, services, and meters  
7 are directly related to the number of customers on the  
8 utility's system" (p. 90). Indeed, NARUC recognizes both a  
9 demand and customer component of distribution plant (see  
10 references above in the discussion on primary).

11 Q. UIU (p. 16) states, "While we agree that meters and  
12 service plant are partly customer related, the secondary  
13 delivery system (poles, conductors, transformers) is  
14 primarily related to customer demand" and "We also note  
15 that in 2000, the most recent year for which we have found  
16 a reference, more than 30 states agreed with this approach  
17 and classified only meters and services as customer  
18 related. (Exhibit \_\_ (UERP-JP-10), Charging for  
19 Distribution Utility Services: Issues in Rate Design, p.  
20 29)." Does the Panel agree?

21 A. The document to which UIU refers states (p. 30, not 29):  
22

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1            "There are a number of methods for differentiating  
2            between the customer and demand components of  
3            embedded distribution plant. The most common method  
4            used is the "basic customer" method, which classifies  
5            all poles, wires, and transformers as demand-related  
6            and meters, meter-reading, and billing as customer-  
7            related. This general approach is used in more than  
8            thirty states."  
9

10           UIU has "cherry picked" information that supports its case  
11           from this document, but fails to acknowledge that this  
12           document (p. 29) also notes that:

13           "not all jurisdictions employ the same methods for  
14           analyzing the various cost components, and there is  
15           of course a wide range of views on their nature –  
16           marginal, embedded, fixed, variable, joint, common,  
17           etc. – and thus on how they should be recovered in  
18           rates."  
19

20           Although omitted by UIU, the document acknowledges a  
21           "minimum size" method, stating:

22           "The 'minimum size' method operates, as its name  
23           implies, on the assumption that there is a minimum-  
24           size distribution system capable of serving  
25           customers' minimum requirements. The costs of this  
26           hypothetical system are, so the argument goes, driven  
27           not by customer demand but rather by numbers of  
28           customers, and therefore they are considered customer  
29           costs. The demand related cost portion then is the  
30           difference between total distribution investment and  
31           the customer related costs."  
32

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1           There is no question that there is a wide range of views  
2           as to the appropriate demand/customer classification of  
3           distribution costs. The fact that the methodology  
4           proposed by UIU has been used in certain states does not  
5           make that methodology appropriate for use in Con Edison's  
6           service territory.

7   Q.    Please continue.

8   A.    A more recent survey conducted by Commonwealth Edison in  
9           2011 supports similar disparate findings recognizing that  
10          some utilities allocate according to demand only, while  
11          others split distribution into demand and customer  
12          portions. There is no one-size-fits-all solution to this  
13          as UIU would lead one to believe.

14   Q.    Please address UIU's assertion (p. 17) that the Company's  
15          approach is flawed because it is "calculated based on an  
16          amount of plant that is significantly larger than the  
17          minimum amount needed to provide a connection."

18   A.    The Company disagrees for two reasons. First, as  
19          mentioned in the Company's response to discovery request  
20          UIU 10-206 (included in Exhibit \_\_\_\_ (DAC-4)), the Company  
21          is in compliance with the Case 04-E-0572 MOU. The MOU

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1           determined that the minimum size will be calculated using  
2           the weighted average unit cost of installed wire sizes  
3           from 1 to 10.

4    Q.    Please continue.

5    A.    Second, the sizes selected represent a range of sizes of  
6           the equipment currently installed and in use in the  
7           system. To select the absolute smallest minimum size  
8           conductor (1 AWG), as was done by UIU for their  
9           recommended ECOS study (p. 22 of Direct Testimony of UIU  
10          Electric Rate Panel on Joint Proposal), would mean basing  
11          the minimum system calculation on conductor sizes that  
12          represent only 0.02% and 0.003% of the total footage of  
13          overhead and underground secondary conductors,  
14          respectively. The approach taken by UIU creates a minimum  
15          system that is not representative of equipment typically  
16          used on the system.

17   Q.    Please continue.

18          The minimum system methodology established by the MOU and  
19          employed by the Company was agreed upon by the parties  
20          during an ECOS study collaborative in the 04-E-0572 rate  
21          case. This collaborative was open to all interested

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1 parties, including UIU's predecessor the Consumer  
2 Protection Board ("CPB"). The selection of a range of  
3 conductor sizes 1 through 10 representative of the  
4 predominant minimum size of secondary distribution  
5 conductors installed. This methodology develops the  
6 customer-related portion of the minimum system, as agreed  
7 to by the parties in the MOU, and represents a balanced  
8 approach. It eliminates the ambiguity of having to choose  
9 one conductor size vs. another. It addresses the problem  
10 exhibited by UIU's approach in basing the calculation on a  
11 conductor size that does not have a meaningful  
12 representation on the system. It also does not bias the  
13 customer component to very old or very new conductors by  
14 taking into account a range of sizes.

15 In addition, the MOU established a methodology to allocate  
16 the customer-related portion of the minimum system based  
17 on the number of overhead and underground services. This  
18 is contrary to UIU's continued insistence that the Company  
19 uses number of customers as the allocator for these costs.  
20 UIU's Electric Rate Panel has not provided any compelling

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1 arguments to demonstrate that methodologies agreed upon in  
2 the MOU need to be altered in any way.

3 **Minimum System Customer Component - Transformers**

4 Q. Please address UIU's assertion that the Company's  
5 selection of sizes for inclusion in the minimum system  
6 component of transformers "includes all transformers up to  
7 25 KVA, although in reality it has much smaller  
8 transformers in service" (p. 16).

9 A. UIU presents a similar argument for transformers for  
10 secondary conductors discussed above. UIU would advocate  
11 that smaller transformers should be selected for inclusion  
12 in the minimum system calculation transformers to benefit  
13 residential and small commercial customers. Instead, as  
14 the Company explained in response to discovery request  
15 City 6 - 205 (contained in Exhibit \_\_\_ (DAC-4)), the  
16 Company follows a methodology that is a natural extension  
17 of its approach in the selection of sizes for secondary  
18 conductors. That is, the Company selects a range of  
19 minimum sizes up to and including 25 KVA transformers,  
20 which represents the predominant minimum size installed.

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1 Q. UIU claims that the Company's responses to discovery  
2 requests UIU 8-150 and UIU 10-207 (included in Exhibit \_\_\_\_  
3 (DAC-4)) support the classification of transformers  
4 entirely as demand-related given that they are sized and  
5 installed taking into consideration the demand in a given  
6 load area. Please respond.

7 A. UIU's argument here is similar to that presented for  
8 primary conductors above, that is, UIU argues that because  
9 demand drives incremental investment, demand is the cost  
10 causative factor that should be considered in classifying  
11 transformers as entirely demand-related. This argument is  
12 flawed for the same reasons previously discussed above.  
13 Increased demand in a load area drives increased marginal  
14 costs. Embedded costs, on the other hand, recognize that  
15 that some portion of transformers is incurred simply to  
16 connect all customers regardless of load. The Company's  
17 minimum system methodology is recognized by NARUC as an  
18 appropriate approach to determine the demand and customer  
19 classification.

20 Q. Please address UIU's criticism that the Company's minimum  
21 size calculation is flawed because it "includes equipment

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1 called autotransformers, which are transmission voltage  
2 (up to 480,000 Volts), and regenerators, neither of which  
3 are installed to serve minimum load."

4 A. The Company has determined that, in certain instances, the  
5 voltage designations in the descriptions of  
6 autotransformers were misidentified in the Company's plant  
7 account records. For example, the 480,000 Volts  
8 identified by UIU is actually 480 Volts, a secondary  
9 distribution voltage. Autotransformers that fall in the  
10 range of sizes used in the determination of the minimum  
11 system are properly included in the customer component of  
12 transformers.

13 **Alternate ECOS Proposal**

14 Q. Has the JP-DAC Panel reviewed the "corrections" provided  
15 by UIU presented as Exhibit \_\_ (UERP-JP-1) and summarized  
16 in their testimony as Table 2?

17 A. Yes. UIU's testimony includes Table 2, which shows the  
18 results of their alternate ECOS study implementing their  
19 proposed recommendations. It combines all of their  
20 changes (low tension on NCP, primary 100% demand,  
21 transformers 100% demand, and minimum system conductors

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1 based on minimum size 1 AWG). It brings the SC1  
2 residential rate of return up from 5.12% and a \$37 million  
3 deficiency to a 6.58% rate of return and no deficiency.  
4 Similarly, the SC2 small commercial rate of return  
5 increases from 5.27% and a \$4 million deficiency to a  
6 9.28% rate of return and a \$38 million surplus. As  
7 evidenced by these results, the UIU alternate study is a  
8 results-oriented attempt to benefit residential and small  
9 commercial customers at the expense of other customers  
10 and, due to its shortcomings, should be rejected.

11 **Revenue Allocation and Rate Design Issues**

12 Q. What does UIU recommend regarding the Company's proposed  
13 rate design?

14 A. UIU recommends (pp. 41-43) that customer charges for SC1  
15 and SC 2 be reduced while volumetric charges are increased  
16 to provide "appropriate price signals" to influence  
17 customer behavior. Additionally, UIU believes the REV  
18 Track Two Order (at p. 119) encourages economic DER and  
19 conservation through increases in energy charges.

20 Q. Does the Panel agree with UIU's recommendations?

21 A. No, it does not.

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1 Q. Please explain why.

2 A. The Company opposes the UIU Electric Rate Panel's  
3 recommendation to reduce the current customer charges for  
4 SCs 1 and 2. As discussed above, there are many  
5 shortcomings in the methodology used in UIU's recommended  
6 ECOS study, and therefore, to reduce the current SCs 1 and  
7 2 customer charges to reflect the customer costs  
8 calculated based on UIU's recommended ECOS study for SCs 1  
9 and 2 is not appropriate. Additionally, the current  
10 customer charges for SCs 1 and 2, are below the customer  
11 costs as indicated by the Company's ECOS study. As  
12 summarized in the table below, the Company's current  
13 customer charge for the residential class is the second  
14 lowest of investor-owned utilities in New York State.

15 Summary of SC1 Customer Charges:

<u>Electric Utility</u>	<u>SC1 Customer Charge</u>
Central Hudson	\$24.00
RG&E	\$21.38
O&R	\$20.00
NIMO	\$17.00
CECONY	\$15.76
NYSEG	\$15.11

16

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1 Fixed costs incurred to provide service to customers,  
2 which are independent of the costs associated with usage  
3 and demand for the service class, are recovered through  
4 the customer charge for the service class. Any shortfall  
5 in the revenue recovered through the customer charge  
6 shifts revenue responsibility to the per kWh usage charges  
7 resulting in a subsidy for lower usage customers at the  
8 expense of higher usage customers. Reducing customer  
9 charges for SCs 1 and 2, as recommended by the UIU's  
10 Electric Rate Panel, would exacerbate such subsidization.  
11 Furthermore, the UIU Electric Rate Panel has not provided  
12 any detailed bill impact analysis showing how customers  
13 with various usage levels in these service classes would  
14 be impacted by UIU's proposal. UIU's proposal to reduce  
15 the current customer charges for SCs 1 and 2 is  
16 unsubstantiated and, therefore, should be rejected.

17 Gas

18 Q. Please summarize UIU's issues relating to the Gas ECOS  
19 study and Gas Revenue Allocation?

20 A. As noted earlier, UIU's issues relate to:

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- 1           • Classification and allocation of costs associated  
2           with distribution mains (minimum system) including  
3           resulting revenue allocation and rate design issues;  
4           and  
5           • Increases in the interruptible off-peak firm delivery  
6           rate.

7 Q.    In the Panel's development of the gas ECOS study for this  
8        proceeding, did the Panel make any changes to the study  
9        developed for the last gas rate case?

10 A.    No. In reviewing that study, the inputs and the results,  
11        the Company did not see any changed circumstances or  
12        issues that would require changes to the study. Therefore,  
13        the study was developed and completed using the same  
14        methodology as in the last case.

15 Q.    Does UIU's Gas Rate Panel on the Joint Proposal ("UIU Gas  
16        Rate Panel") make any complaints regarding this study?

17 A.    Yes. UIU makes several allegations related to one central  
18        issue, the classification and allocation of costs  
19        associated with distribution mains. As we explain below,  
20        UIU's allegations do not warrant any changes to the  
21        Company's gas ECOS study. In fact, UIU's testimony

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1 provides a quote from the Commission in a Central Hudson  
2 case about changing ECOS studies, which is applicable to  
3 this case and requires that no changes be made to the  
4 Company's ECOS study.

5 Q. Please explain the quote.

6 A. In the 20 or so new pages of testimony included in the UIU  
7 Gas Rate Panel testimony, UIU provides (pp. 48-49) a  
8 recitation of cases where the gas minimum system has been  
9 rejected by commissions other than this Commission.  
10 However, in a 2008 Central Hudson case, where Staff  
11 suggested removing the minimum system, the Commission  
12 adopted the Recommended Decision rejecting Staff's  
13 adjustment, stating:

14 "... [B]oth the existing and proposed methodologies are  
15 deemed acceptable by NARUC with no indication that  
16 one or the other is superior. It concluded that such  
17 a large shift in cost responsibility should not be  
18 adopted without compelling evidence that it is  
19 necessary to rectify some serious inequity." (Case  
20 08-E-0887, Central Hudson, Order Adopting Recommended  
21 Decision with Modifications, pp. 46-47).

22  
23 Q. Does UIU's testimony explain a serious inequity that needs  
24 to be rectified?

25 A. No. UIU complains about the minimum system, which was  
26 reflected in ECOS studies for the last several Con Edison

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1 gas rate proceedings, to which UIU or its predecessor CPB  
2 was a party. The fact that it is not used in certain  
3 jurisdictions is not a reason to change the method the  
4 Company is using.

5 **Classification and Allocation of Distribution Mains**  
6 **(Minimum System)**  
7

8 Q. What are UIU's complaints regarding the classification and  
9 allocation of distribution mains (minimum system)?

10 A. UIU contends that it is not appropriate to classify a  
11 portion of the costs associated with distribution mains as  
12 customer related.

13 Q. Please summarize UIU's recommendation (p. 7) to reject the  
14 Joint Proposal's proposed classification of a portion of  
15 the cost of distribution mains as a Distribution Customer  
16 Component.

17 A. UIU disagrees that these costs should be classified as  
18 customer-related. They contend that the primary purpose  
19 of distribution mains is to move gas through the system to  
20 customers' premises (p. 17), regardless of the presence or  
21 absence of customers being connected to the system. In  
22 other words, they explain that the distribution system in  
23 essence is designed to move energy from one source to

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1 another, which ignores the fact that other customers use  
2 the system. They argue that the Company's approach in  
3 assigning a portion of distribution mains to a  
4 Distribution Customer Component falls outside the  
5 "customer-related" classification, as these costs are not  
6 impacted by customers being connected to the system.

7 Q. Does the Company agree with UIU's explanation of customer-  
8 related costs?

9 A. No. The Company's testimony explains that customer-  
10 related costs are fixed costs caused by the presence of  
11 customers connected to the system, regardless of any  
12 customer's particular level of usage (pp. 12-13).

13 Q. Is there any support for the Company's classification?

14 A. Yes. The Company's approach adheres to the principles of  
15 cost allocation as described on page 22 of the National  
16 Association of Regulatory Utility Commissioners Gas  
17 Distribution Rate Design Manual ("NARUC Gas Manual"). The  
18 NARUC Gas Manual states, "Customer costs are those costs  
19 found to vary directly with the number of customers served  
20 rather than with the amount of utility service supplied."  
21 The Manual further explains, "A portion of costs

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1 associated with the distribution system may be included as  
2 customer costs."

3 These costs are developed on the basis of the minimum size  
4 main theory. "This theory assumes that there is a zero or  
5 minimum size main necessary to connect the customer to the  
6 system and thus affords the customer an opportunity to  
7 take service if he so desires." The Company's ECOS Study  
8 is consistent with the recommendation in the NARUC Gas  
9 Manual.

10 Q. What does UIU recommend?

11 A. In contrast to the NARUC approach, the UIU Gas Rates Panel  
12 employs a methodology that classifies costs associated  
13 with distribution mains as 100% demand related and, in  
14 turn, allocated such costs to the various customer classes  
15 on the basis of customer demands.

16 Q. What is the impact of UIU's methodology?

17 A. By employing only customer demands to assign distribution  
18 main costs to the customer classes, UIU increases the SC1  
19 residential class' rate of return from 4.01% as filed by  
20 the Company to 11.48%. This is an increase of 186%. As a  
21 result, the SC1 class went from \$14.9 million deficient to

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1 a surplus of \$34.1, thus shifting \$49.0 million of their  
2 cost responsibilities to the other service classes.

3 Q. Please comment on UIU's claims that the Company assigns  
4 customer related distribution costs to service classes on  
5 the basis of the number of customers in each service  
6 class.

7 A. Similar to claims made by UIU regarding the electric ECOS  
8 study, the UIU Gas Rate Panel makes erroneous assertions  
9 that the Company allocates the customer-related share of  
10 Distribution Gas Mains in Account 376 "in proportion to  
11 the number of customers in each class" (p. 29). UIU  
12 expounds on this subject and presents numerous analogies  
13 in an attempt to prove that the uniform, per-customer  
14 allocator is not the right way to allocate these costs.

15 But UIU fails to justify that its change is proper.

16 Q. Please continue.

17 A. UIU's testimony is incorrect when it claims that the  
18 Company allocates the customer-related portion of gas  
19 mains on the basis of the number of customers. Page 6 of  
20 Company's Exhibit\_\_\_ (GRP-1) states that the distribution  
21 customer component is allocated to service classes "based

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1 on a study of the length of mains per service connection  
2 and the number of services for each class." The Company's  
3 services study recognizes that customer use of services is  
4 dependent on the type and size of each particular  
5 customer.

6 Table 7 of Exhibit \_\_\_\_ (GRP-1) indicates that the SC1  
7 residential share of the number of gas customers on the  
8 system is approximately 61%, while its allocator for the  
9 customer component is approximately 25%. On the other  
10 hand, while SC 2 non-heating customers represent  
11 approximately five percent of total customers, they  
12 account for over 12% of distribution customer component  
13 allocator.

14 Q. Please respond to UIU's assertion that the Company chose  
15 to focus on the cost of 2.0 inch steel main pipe size  
16 because it would result in assigning more costs into the  
17 customer-related category "by choosing the more costly  
18 size, the Company shifted more costs into the 'customer-  
19 related' category." (p. 30)

20 A. There is no basis for UIU's assertion. The Company's  
21 methodology reflected in the table below is backed by a

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1 detailed analysis of gas distribution mains as contained  
2 in workpapers supporting Exhibit GRP-1, Schedule 1 which  
3 were provided to all parties, including UIU. This  
4 detailed analysis follows a predominant minimum size  
5 approach.

6 Q. In an attempt to discredit the Company's approach, UIU  
7 claims that if the Company were to focus on, for example,  
8 1.5 inch steel mains rather than 2.0 inch steel mains,  
9 then the costs classified as customer related would have  
10 been less significant based on the fact that 1.5 inch pipe  
11 yields a price of \$3.17 a linear foot as compared to  
12 \$14.19 per foot for the 2.0 inch pipe used in the  
13 Company's analysis. Do you agree?

14 A. No. If, as UIU suggests, the Company's goal is to  
15 maximize costs assigned to the customer related category,  
16 the Company could have focused on 1.25 inch piping, which  
17 yields a price of \$24.15 per linear foot and in turn would  
18 have placed even more cost into the customer related  
19 category. However, the Company did not choose a size of  
20 pipe with the intention of assigning more costs to the  
21 customer category. Instead, the Company's criteria in

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1 selecting the 2.0 inch size is guided by the installed  
 2 footage of each pipe size to determine the predominant  
 3 minimum size of piping on the Company's system (See table  
 4 below). The selection of size is done independent of the  
 5 average cost of any given size in the Company's analysis.

T & D MAINS		BOOK COST (\$)	QUANTITY (FEET)	OVERALL PRICE PER LINEAR FOOT
<u>SIZE (INCHES)</u>	T&D MAINS	T&D MAINS	T&D MAINS	
<u>STEEL (MATERIAL TYPE)</u>				
1.25	\$54,240	2,246	\$ 24.15	
1.5	\$8,947	2,825	\$ 3.17	
2	\$16,591,762	1,169,549	\$ 14.19	

6

7 Q. Is the Company's methodology in classifying and allocating  
 8 distribution main costs consistent with the methodology  
 9 adopted by the Commission in previous Con Edison gas rate  
 10 cases?

11 A. Yes. As noted above the Company has not made any changes  
 12 to its gas cost of service methodology used in its recent  
 13 gas rate cases. Specifically, in the Company's last four  
 14 gas rate cases the Commission approved revenue allocations  
 15 based on the use of this minimum system methodology. In  
 16 developing the ECOS study for this rate case, the Company

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1           evaluated this methodology and decided that no changes  
2           were warranted.

3   Q.    Please address UIU's comment (p. 32) that in the most  
4           recent Orange and Rockland ("O&R") gas rate case (Case 14-  
5           G-0494) Distribution Gas Mains (Account 376) were  
6           classified as 100% demand related.

7   A.    In its rebuttal testimony in that case, O&R's Gas Rate  
8           Panel objected to this classification of gas main costs  
9           and provided similar arguments found herein to support the  
10          methodology of developing the customer component of  
11          distribution mains.   Ultimately, the 100% demand  
12          allocation of distribution mains was included in that  
13          joint proposal in the give and take of settlement  
14          negotiations to achieve an overall settlement.

15   Q.    Does the Gas Rate Panel have any further comments on UIU's  
16          recommendations?

17   A.    Yes, given the unreasonable cost shift from residential to  
18          other customer classes that would result from adoption of  
19          the UIU Gas Rate Panel's proposals, and the absence of any  
20          reasonable basis for accepting UIU's view of customer-  
21          related costs, the Commission should reject UIU's

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1 modification to the Company's ECOS study reflected in the  
2 Joint Proposal .

3 **Revenue Allocation**

4 Q. Did UIU comment on the revenue allocation reflected in the  
5 Joint Proposal?

6 A. Yes, UIU disagrees with it, since it relies on the results  
7 of the Company's ECOS study. UIU's position is that the  
8 Company's ECOS results should not be used since "the  
9 differences in class returns are relatively modest, and  
10 are entirely dependent upon aspects of the study which we  
11 believe are invalid and should be rejected." (p.8) They  
12 also "strongly recommend the Commission reject the revenue  
13 allocations included in the JP, because the JP is heavily  
14 biased against small customers to the benefit of larger  
15 customers." (p.72)

16 Q. Please comment on their assertions.

17 A. As noted above in the ECOS section, the Company's ECOS  
18 study is not invalid as UIU asserts. The Company and all  
19 but one of the signatory parties to the Joint Proposal  
20 support the Company's gas ECOS study and its use in  
21 revenue allocation. The Company's gas ECOS study

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1 methodology has been used in the Company's gas ECOS  
2 studies in prior rate cases dating back to 2003, which  
3 were ultimately adopted by the Commission with no  
4 modifications. The fact that UIU does not like the  
5 results of the Company's ECOS study does not in and of  
6 itself make the study biased against small customers.

7 Q. Please continue.

8 A. In addition, since UIU agrees that for the Company's ECOS  
9 study, "the differences in class returns are relatively  
10 modest," this is all the more reason to correct such  
11 differences now, while the bill impacts are small, rather  
12 than waiting until the differences become more substantial  
13 and correcting them causes significant bill impacts.

14 Q. Does UIU propose an alternate method for revenue  
15 allocation?

16 A. Yes. They propose that the revenue allocation be based  
17 upon an alternate UIU ECOS study that allocates the costs  
18 of distribution mains solely on the basis of demand, or a  
19 "less mechanical" (p. 68) approach that relies on an  
20 across-the-board revenue allocation - like the approach  
21 used by KEDNY and KEDLI in Cases 16-G-0058 and 16-G-0059.

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1 Q. Do you agree with either of their proposals?

2 A. No. As noted earlier, there are flaws in UIU's ECOS  
3 methodology and, therefore, it should not be considered in  
4 revenue allocation and rate design.

5 Q. Please continue.

6 A. The KEDNY and KEDLI approach is to apply the overall  
7 revenue increase to firm service classes on an equal  
8 percentage basis. The Staff Gas Rates Panel in its  
9 testimony in these KEDNY and KEDLI cases recommended this  
10 approach "Due to the magnitude of the rate increases." (p.  
11 45). They further stated that "At this time, we do not  
12 believe it is appropriate to move service class rates of  
13 return closer to the system average because of the  
14 projected bill impacts." (p. 45)

15 Q. Is the KEDNY/KEDLI approach appropriate in the Con Edison  
16 gas rate case?

17 A. No, for a number of reasons. First, the gas revenue  
18 increase in the Joint Proposal is not of a magnitude to  
19 warrant such an approach and the Company's projected bill  
20 impacts are significantly lower than KEDNY's, as shown in

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1 the table below, which were cited as reasons for using  
 2 this method.

**Range of Total Bill Impacts (%): CECONY 16-G-0061 JP vs KEDNY 16-G-0059 JP**

	Con Edison			National Grid (KEDNY)		
	SC	Bill Impact Range		SC	Bill Impact Range	
		Min	Max		Min	Max
<u>Residential Non-Heating<sup>1</sup></u>						
Rate Year 1	1	5.53%	5.98%	1A	4.36%	24.34%
Rate Year 2		9.28%	9.82%		6.19%	26.85%
Rate Year 3		7.74%	8.73%		5.11%	27.58%
<u>Residential Heating<sup>2</sup></u>						
Rate Year 1	3	0.00%	1.79%	1B	0.29%	11.08%
Rate Year 2		0.00%	5.72%		0.88%	9.65%
Rate Year 3		-0.13%	3.43%		0.88%	10.36%
<u>Non-Residential Non-Heating<sup>3</sup></u>						
Rate Year 1	2 Rate I	-1.17%	0.00%	2-1	0.34%	6.94%
Rate Year 2		0.00%	3.93%		0.53%	7.33%
Rate Year 3		-0.60%	2.13%		0.53%	7.11%
<u>Non-Residential Heating<sup>4</sup></u>						
Rate Year 1	2 Rate II	0.00%	1.53%	2-2	0.26%	8.47%
Rate Year 2		0.00%	5.89%		0.53%	8.80%
Rate Year 3		-0.09%	3.23%		0.52%	9.38%

<sup>1</sup> Reflects usage ranging from 0 to 100 therms  
<sup>2</sup> Reflects usage ranging from 0 to 400 therms.  
<sup>3</sup> Reflects usage ranging from 0 to 50,000 therms  
<sup>4</sup> Reflects usage ranging from 0 to 250,000 therms

Source:

KEDNY: Appendix 3, Schedule 3 from the JP from Cases 16-G-0059 and 16-G-0058  
 Con Ed: Bill Impact tables provided to the parties on September 16, 2016

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1           Second, this method would make no progress toward reducing  
2           the class deficiencies and surpluses. In fact, this  
3           method will likely increase deficiencies and surpluses,  
4           making them more difficult to correct in future rate  
5           cases. On the other hand, the Company's revenue  
6           allocation is intended to eliminate the deficiencies and  
7           surpluses over the term of the Rate Plan.

8           The Company's revenue allocation also mitigates the  
9           projected bill impacts by reflecting one-third of the  
10          class specific surplus or deficiency.

11        Q.    UIU expresses great concern regarding the impact of the  
12            Joint Proposal on SC1 customers, noting that it disagrees,  
13            "with the proposal to increase rates for the SC-1  
14            Residential and Religious class by more than the overall  
15            average increase." (p. 69)

16        Q.    Please comment on UIU's position regarding the SC1 impact.

17        A.    In any rate case, class deficiencies and surpluses are  
18            identified through ECOS studies and an attempt is made to  
19            correct those deficiencies and surpluses. By definition,  
20            that results in customer classes receiving a revenue  
21            change that differs from the overall average. One must

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1           then determine whether the correction of the deficiency or  
2           surplus, combined with the class's share of the revenue  
3           increase, creates an undue burden on customers in that  
4           class and requires mitigation. For example, in Orange and  
5           Rockland's last electric rate case, Case 14-E-0493,<sup>2</sup> the  
6           Commission adopted a revenue allocation in which delivery  
7           revenue changes by class were mitigated in a manner such  
8           that each class did not receive a revenue change that was  
9           more than +2.0 times or less than -2.0 times the overall  
10          delivery revenue change on a percentage basis.<sup>3</sup> In other  
11          words, the Commission found it reasonable that certain  
12          classes would experience delivery revenue percentage  
13          increases that were up to two times the overall average  
14          increase. In this case, UIU cites the relationship  
15          between the impact on the SC1 class and the system  
16          average. The SC1 Rate Year 1 delivery revenue impact of  
17          5.44% is 1.77 times the system average of 3.08%, well  
18          within the 2.0 limit supported by the Commission in the

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<sup>2</sup> Case 14-E-0493 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service, Order Adopting Terms of Joint Proposal and Establishing Electric Rate Plan, issued October 16, 2015.

<sup>3</sup> *Id.*, at Attachment A (Joint Proposal), Appendix 18, page 1.

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1 O&R case. Therefore, the Joint Proposal's gas revenue  
2 allocation, and resulting impact on SC1 customers, is  
3 reasonable.

4 Rate Design

5 Q. Does UIU agree with the monthly minimum charges (sometimes  
6 referred to as customer charges) reflected in the Joint  
7 Proposal?

8 A. UIU seems inconsistent in its view on this subject. They  
9 "agree with the JP's proposal to leave many of its  
10 customer charges unchanged." (p.79) UIU then states (p.  
11 82), "The proposed revenue increase should be collected  
12 exclusively through increases in these customers' delivery  
13 volumetric rates." This statement implies that customer  
14 charges remain unchanged. However, UIU later suggests (p.  
15 82) "...it would be appropriate to moderately lower the  
16 fixed monthly charges in Rate Year 1, rather than  
17 maintaining them at their current levels - since the  
18 current customers' charges exceed the current customer  
19 costs." This view is not only inconsistent with UIU's  
20 position expressed elsewhere in its testimony, it is also  
21 misleading. The customer costs referred to in the

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1           aforementioned quote apparently refer to customer costs  
2           resulting from the UIU ECOS study. The Joint Proposal's  
3           gas ECOS study demonstrates that current customer charges  
4           are lower than customer costs. Therefore, at the very  
5           least, the customer charges (other than SC1) should remain  
6           unchanged to prevent them from moving further from costs.  
7           In addition, even with the increase in the SC1 customer  
8           charge, the SC1 customer charge for low income customers  
9           was reduced for RY1 (in RY2 and RY3 the discount to the  
10          customer charge was converted to a bill credit that  
11          results in the same benefit).

12 Q.   Why should the Commission adopt the Joint Proposal's  
13       position to increase the SC1 monthly minimum charge?

14 A.   As explained in Appendix 21 to the Joint Proposal, the SC1  
15       minimum charge is increased in all three rate years to  
16       avoid disproportionately affecting customers using more  
17       than 6 therms per month and was set at a level which  
18       produces similar bill impacts, on a percentage basis,  
19       across all usage ranges.

20 Q.   Did UIU have any other comments on the block structure  
21       adopted in the Joint Proposal?

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1 A. Yes, UIU proposes (p. 83) "a block structure that declines  
2 less steeply," arguing that the current declining block  
3 rates do not properly incentivize customers to conserve  
4 energy.

5 Q. Do you agree with their position on declining block rates?

6 A. No. When one considers the magnitude of supply costs and  
7 delivery surcharges that any customer has to pay for each  
8 incremental therm, a slightly lower tail block rate in the  
9 delivery component would not discourage energy efficiency.  
10 Furthermore, even modest steps toward a different block  
11 rate structure may have substantial bill impacts for some  
12 or all customer classes.

13 Q. Did UIU have any other comments related to rate design?

14 A. Yes. UIU recommends (pp. 83-84) that the Company  
15 implement a detailed study that would include "the various  
16 factors that impact residential bills and customer  
17 reactions to those bills." UIU suggests that load  
18 characteristics, customer usage patterns, weatherization  
19 and installation of energy efficiency products, price  
20 elasticity, housing stock, affordability, and weather  
21 sensitivities all should be studied.

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1 Q. Do you agree?

2 A. No, the Company already produces a detailed Demand  
3 Analysis that uses customer interval data to develop the  
4 load characteristics and customer usage patterns that are  
5 used to calculate the demand allocators. The demand  
6 allocators have a direct and sometimes significant impact  
7 on the Company's revenue allocation and rate design. The  
8 actual customer usage considered in the Demand Analysis  
9 reflects the impacts of the factors UIU lists.

10 **Non-Firm Service**

11 Q. What is UIU's position in relation to the Joint Proposal's  
12 increase in the interruptible off-peak firm delivery rate,  
13 i.e., SC12 Rate 2 and SC9 Rate (C)?

14 A. UIU recommends increasing the rate to 11.5 cents per  
15 therm, as originally proposed by the Company.

16 Q. Why are the interruptible off-peak firm delivery rate  
17 increases in the Joint Proposal reasonable in this  
18 particular rate case?

19 A. Although the interruptible off-peak firm delivery rate of  
20 8.0 cents per therm is maintained for one, two and three  
21 year contracts entered into during RY1 and increased to



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1 addressed prior to applying the revenue increases in the  
2 revenue allocation process. However, some AMI costs are  
3 included in the revenue increases for each rate year.  
4 They are allocated among customer classes in the same  
5 manner as the rest of the revenue increase in any rate  
6 year. This is consistent with the treatment of any costs  
7 included in the revenue increases. Any AMI costs that get  
8 closed to net plant during the term of the Rate Plan will  
9 be treated as any other capital program. In future rate  
10 cases, booked AMI costs will be included in the Company's  
11 ECOS studies and will be allocated based on appropriate  
12 cost allocation methodologies.

13 Q. Did the Commission make any statements in the AMI Order<sup>4</sup>  
14 related to allocating AMI costs?

15 A. Yes. The AMI Order states that "[c]ost allocation among  
16 customer classes and among Con Edison's various services  
17 (electric, gas and steam) will be determined in rate  
18 proceedings."

19 Q. Does the Proposal allocate AMI costs?

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<sup>4</sup> Cases 15-E-0050 et al, Con Edison Electric Rates, Order Approving Advanced Metering Infrastructure Business Plan Subject to Conditions (issued March 17, 2016).

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1 A. As noted above, the Proposal treats AMI costs included in  
2 the revenue increases as any other capital program.

3 Q. Does UIU have an issue with the treatment of AMI costs  
4 during the Rate Plan?

5 A. Yes. UIU disagrees with the Proposal's allocation. UIU  
6 claims that AMI is a novel project, with large capital  
7 expenditures and allocation should be based on benefits  
8 because the expected benefits were what convinced the  
9 Commission to approve the project.

10 Q. Do you agree with UIU's claim that AMI costs should be  
11 allocated based on benefits?

12 A. No. UIU's suggestion that AMI cost allocation needs to be  
13 based on benefits has no precedent in any actual ECOS  
14 study or revenue allocation or manual that describes how  
15 an ECOS study should be implemented. To its knowledge,  
16 the Company has consistently treated capital project costs  
17 in the same way and exceptions have not been made for  
18 other programs with similar order of magnitude spending  
19 like storm hardening or substation construction. UIU  
20 (Statement, p. 12) claims that the "novelty" and capital  
21 costs of this program, including a "5-month long

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1 collaborative" for the program, somehow make this program  
2 different and therefore appropriate for a different cost  
3 allocation method. UIU's proposed change in allocation  
4 methodology is not justified by the theories it advances  
5 for the proposal, including the scale of a program or the  
6 fact that a cost benefit analysis was performed to justify  
7 the program and it cites no Commission decision in  
8 support.

9 Q. Please continue.

10 A. For example, the Company's recent storm hardening program,  
11 featuring a novel approach to protect facilities and costs  
12 close in magnitude to the AMI program, included a several  
13 year-long collaborative effort with cost benefit analyses  
14 for projects. In the 2013 case, no party proposed that  
15 only customers that would benefit from storm hardening,  
16 e.g., those in lower-lying flood prone areas, should pay  
17 for the storm hardening costs. All Con Edison electric,  
18 gas and steam customers were assigned the costs for that  
19 program.

20 Similarly, in the early to mid-2000s, the Company built a  
21 series of substations to meet forecasted loads.

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1           Substation costs were allocated as any other capital cost  
2           or program. For example, neither the Company nor any rate  
3           case party suggested that Brooklyn customers should pay  
4           for a particular substation simply because it was built in  
5           Brooklyn and serves Brooklyn load. Or because a  
6           substation was built due to increases in commercial load,  
7           only commercial customers should pay for it. These costs  
8           are allocated among all customer classes.

9    Q.    Are there other negative consequences associated with  
10        UIU's proposal to allocate costs based on benefits?

11   A.    Yes. Applying UIU's benefits allocation theory, there  
12        would likely be no low income rate. If the cost of the  
13        low income discounts was borne by the people who benefit  
14        from it, then the discounts would be recovered solely from  
15        low income customers, not the entire customer population  
16        as is currently the case.

17   Q.    Are there other drawbacks to allocating costs based on  
18        benefits?

19   A.    Yes. The Company does not and cannot review each project  
20        to determine who receives the benefits and then allocate  
21        costs based on those benefits. Embedded cost of service

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1 studies would take years to develop and would rely on  
2 greater subjectivity and be subject to greater scrutiny as  
3 compared to the current methodology. Would any party  
4 really be able to agree to benefits? In addition,  
5 benefits can be viewed in two ways. There are customers  
6 for whom certain benefits are available and then there are  
7 customers that actually take advantage of those benefits.  
8 It is unclear whether UIU proposes to allocate AMI costs  
9 based on benefits available to customers or to customers  
10 that take advantage of those benefits.  
11 UIU also claims that another reason to allocate AMI costs  
12 based on benefits is because much of the expected savings  
13 are for supply related items, which they claim will accrue  
14 in a greater amount to large users and not small users.  
15 Interestingly, UIU was not concerned when recommending a  
16 reduction in the SC1 customer charge and corresponding  
17 increase in volumetric charges, which would accrue  
18 benefits in greater amounts to small users and not large  
19 users. It is only over time that the actual benefits will  
20 be known and UIU's assumptions that the level of benefits  
21 is greater for one category of customers than others may

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1 or may not be correct. Moreover, there is no  
2 justification for using benefits.

3 Q. Please continue.

4 A. UIU's claims that allocating AMI costs based on benefits  
5 is consistent with cost-causation and would advance REV  
6 are flimsy at best. Benefits allocation does not  
7 necessarily equal cost causation. UIU's cost allocation,  
8 which would move meter costs, the overwhelming majority of  
9 which are applicable to residential customers, to  
10 commercial customers based on "benefits," shows that UIU  
11 itself understands that the benefits approach is not  
12 necessarily aligned with cost causation. The arguments  
13 that the benefits allocation somehow supports and advances  
14 REV are similarly easily dismissible. The REV discussion  
15 in the Track Two Order quoted by UIU is focused on the  
16 importance of the alignment of utility *shareholder*  
17 incentives with customers' interests (UIU Statement, pp.  
18 20-21). Nowhere does the Track Two Order suggest that  
19 cost causation, the foundation of all ECOS studies, should  
20 be revised to take benefits of certain projects into  
21 consideration. Moreover, UIU's suggested approach would

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1 be an enormous administrative undertaking that would not  
2 be feasible to implement. For example, analyses would  
3 also have to be updated over time to reflect the changing  
4 nature of benefits, such as supply benefits that would  
5 vary with changes in supply costs over time.

6 Implementation of the UIU proposal would involve a  
7 separate and distinct rate case process where there would  
8 be contentious disagreement regarding the cost allocation  
9 on a project-by-project basis for any REV-related or  
10 "novel" initiative, rather than a single ECOS study.

11 **REV issues**

12 Q. Do you agree with UIU's justification for its rate design  
13 based on the REV Track Two Order?

14 A. No. UIU contends that the REV Track Two Order (at p. 119)  
15 supports UIU's claim that usage charges should be  
16 increased by stating "Rate design should encourage  
17 economic DER and conservation." This quote from the REV  
18 Track Two Order is not an invitation to increase usage  
19 charges to artificially improve the economics of DER and  
20 conservation. In the REV Track Two Order, the Commission  
21 encourages "economic" DER and conservation. This does not

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1 mean that rates should be arbitrarily modified simply to  
2 encourage additional DER and conservation. UIU also fails  
3 to mention the text in that same sentence indicates that  
4 rate design should also consider "avoiding the bypass that  
5 can occur if the individual customer savings from avoided  
6 usage are larger than the system and societal value of the  
7 avoided usage." This balance between encouraging  
8 DER/conservation and bypass concerns has yet to be  
9 established, and UIU has not demonstrated that REV-related  
10 concerns are addressed under UIU's proposed lower customer  
11 charges.

12 Q. Please continue.

13 A. In support of its statement that there is no evidence that  
14 existing customer charges contribute to adequate  
15 incentives and price signals, UIU quotes the REV Track Two  
16 Order "...Staff analyzed rate design in the context of REV  
17 and found that, much like the utility revenue model,  
18 current rate design practices fail to provide adequate  
19 incentives and price signals that are suitable for a  
20 modern electric system." (p. 109) The Company notes that  
21 the REV Track Two Order highlights nine rate design

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JOINT PROPOSAL

DEMAND ANALYSIS AND COST OF SERVICE PANEL REBUTTAL TESTIMONY

1 principles proposed by Staff and the need for more  
2 analysis to make gradual changes. UIU has not  
3 demonstrated that its proposal addresses Staff's  
4 principles and achieves a better result that is not biased  
5 toward residential and small commercial customers.

6 Q. Does this conclude the JP DAC Panel's testimony?

7 A. Yes, it does.