ACCOUNTING PANEL – STEAM

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I. INTRODUCTION

Q. Would the members of the Accounting Panel please state your names and business address?

A. Joseph Miller, Richard A. Kane and Stephen Prager. Our business address is Consolidated Edison Company of New York, Inc. ("Con Edison," the "Company" or "CECONY"), 4 Irving Place, New York, NY 10003.

Q. What are your current positions with Con Edison?

A. **(Miller)** I am the Assistant Controller responsible for the Regulatory Accounting & Filings, Accounts Payable, Payroll and Account Reconciliation sections.

(Kane) I am the Department Manager of Regulatory Accounting & Filings.

(Prager) I hold the position of Senior Accountant in Regulatory Accounting & Filings.

Q. Please explain your educational background, work experience, and current general responsibilities.

A. **(Miller)** In June 1984, I received a Bachelor of Business Administration Degree in Accounting from Baruch College and in January 1990, I received a Masters of Business Administration in Finance from Baruch College. I began my employment with Con Edison in July 1984 as a Management Intern. I worked in the

Corporate Accounting Department from July 1985 until January 2001 primarily between Accounting Research and Procedures (ARP) and the General Accounts (GA) sections starting as a Staff Accountant, then Supervisor and ultimately reaching the Department Manager level in both sections. In 2001, I worked as a Department Manager within the Corporate Planning Department and then in 2002, I became the Department Manager of our Financial Reporting section. In 2004, I became an Assistant Controller and then a Director of Treasury’s Risk Management section. From 2006 through 2012, I was an Assistant Controller for the Financial Reporting Sections which ultimately included ARP, GA, Commodity and Derivative Accounting, Account Reconciliations and Financial Reporting.

(Kane) In May 1976, I received a Bachelor of Science degree in Accounting from Manhattan College. I worked for Con Edison from August 1976 until January 1978 as a staff accountant. I then joined Orange & Rockland Utilities, Inc (“O&R”) and became Supervisor – Facility Accounting. In 1980, I became Manager – Budgets. In 1989, I became Manager – General Accounting and in 1996, the Accounts Payable Section was added to my responsibilities. As a result of O&R's merger with Con Edison, the two Accounting Departments were combined. After the merger, I continued to be responsible for overseeing O&R's General Accounting Section and Financial Reporting area until March 2003. At that time, I assumed my current position as Department Manager of Regulatory Accounting & Filings. The primary responsibility of the section is to coordinate as well as participate in rate filings before regulatory agencies.

(Prager) I received a Bachelor of Science degree in Accounting from Yeshiva University in 1988. I started my career at Con Edison in July 1988 as a management intern. From July 1989 through September 1998, I worked in Accounting Research and Procedures. From October 1998 through March 2000, I worked in General Accounts. Since April 2000, I have been working in Regulatory Filings, coordinating the rate cases of Con Edison and Orange and Rockland and its subsidiaries.

Q. Have any members of the Accounting Panel previously testified before the New York State Public Service Commission ("PSC" or the "Commission")?

A. **(Kane)** Yes, I have previously testified before the Commission in numerous proceedings.

(Prager) I have previously testified before the Commission as well.

II. PURPOSE OF TESTIMONY

Q. Please summarize your testimony.

A. The Accounting Panel primarily explains and details:

- Historic financial statements and statistical data, including balance sheets, income statements, unappropriated retained earnings, state and federal income taxes, utility plant and depreciation reserves (Exhibit __ (AP-1) to Exhibit __ (AP-4);
- Revenues, Operation and Maintenance ("O&M") expenses and Other Operating Deductions from the historic period of the twelve months ended June 30, 2012 ("Historic Year") through the twelve months ending December 31, 2014 ("Rate Year") are presented in Exhibit __ (AP-5); a summary of normalizing adjustments to the Historic Year and

various program changes are also presented in Exhibit ___ (AP-5);

- The book cost of utility plant, the accrued depreciation reserve and the construction work in progress for steam utility plant for the Historic Year through the Rate Year are presented in Exhibit ___ (AP-6).
- Exhibit ___ (AP-7) - Production Expenses – Steam;
- The average rate base for the Historic Year through the Rate Year, including normalization adjustments, is presented in Exhibit __ (AP-8);
- Various accounting changes, adjustments, amortizations of deferred charges and the resultant rate decrease of $5.4 million for the Rate Year at proposed rates and based upon an overall rate of return of 7.69 percent is presented in Exhibit ___ (AP-9);
- The overall rate of return of 7.69 percent and the capital structure for the Rate Year (Exhibit ___ (AP-10);
- Fund requirements and sources of funds for the Rate Year (Exhibit ___ (AP-11);

- Interest coverage on the SEC basis including the actual for the calendar years 2007 through 2011 and as forecasted for the Rate Year (Exhibit ___ (AP-12); and
- Cost Allocations.

III. HISTORIC FINANCIAL AND STATISTICAL DATA -- (AP-1)

Q. Are you sponsoring exhibits containing historical financial and statistical data as required by the Commission?

A. We are sponsoring several for that purpose. The first, which was prepared under our direction and supervision, is entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – FINANCIAL AND STATISTICAL DATA – INDEX TO SCHEDULES," and is set forth as Exhibit ___ (AP-1).

Q. What information is contained in Exhibit ___ (AP-1)?

A. The Exhibit consists of an index and eight separate schedules containing financial data and the results of operations with particular reference to the Company's steam operations. The balance sheets are shown as of December 31 for the years 2008 through 2011, and as of

June 30, 2012, the end of the Historic Year. Details of the income accounts are shown for the calendar years 2009 through 2011 and the Historic Year. The arrangement of the schedules is as follows:

- Schedule 1 - Balance Sheets;
- Schedule 2 - Income Statements;
- Schedule 3 - Unappropriated Retained Earnings;
- Schedule 4 - Steam Utility Operating Income before and after income taxes;
- Schedule 5 - Steam Operating Revenues by Amount and Equivalent Cents per MLBS Sold;
- Schedule 6- Statement of MMLBS of Steam Supplied and Revenue Billed by Classification of Service. This schedule also reflects revenue per MLBS sold;
- Schedule 7 - Steam Operation and Maintenance Expenses. Schedule 7 consists of eight pages. Page 1 is a summary statement, which shows the O&M expenses on a functional basis, both in dollar amounts and equivalent cents per MLBS sold. Pages 2 through 8 show the details of the various functional groups by account number, in dollar amounts and in equivalent cents per MLBS sold;

- Schedule 8 - Taxes Other Than Income Taxes – Steam.

All of the information in Exhibit ___ (AP-1) comes from the books and records of the Company except revenues and expenses stated in cents per MLBS sold or produced which were computed.

IV. CALCULATION OF FEDERAL AND STATE INCOME TAXES - (AP-2)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – CALCULATION OF FEDERAL AND STATE INCOME TAXES – STEAM - FOR THE TWELVE MONTHS ENDED JUNE 30, 2012 " consisting of 6 pages, set forth as Exhibit ___ (AP-2), prepared under your direction and supervision?

A. Yes, it was.

Q. Please describe Exhibit ___ (AP-2).

A. Pages 1 through 3 set forth the calculation of federal income tax for steam operations, including accruals, deferrals and amortizations of deferrals for the Historic Year. Pages 4 through 6 show the calculation of New York State income tax for steam operations for the same twelve month period. These amounts are also included on Exhibit ___ (AP-1), Schedule 2, page 4.

V. BOOK COST OF UTILITY PLANT -- (AP-3)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – BOOK COST OF UTILITY PLANT – STEAM – AS OF DECEMBER 31, 2008, 2009, 2010, 2011 AND JUNE 30, 2012," set forth as Exhibit ___ (AP-3), prepared under your direction and supervision?

A. Yes, it was.

Q. What is shown on Exhibit ___ (AP-3)?

A. This exhibit shows the book cost of Utility Plant – STEAM – by utility plant account at December 31, 2008, 2009, 2010, 2011 and June 30, 2012. The amounts shown for Steam Plant in Service and Construction Work in Progress were taken directly from the books and records of the Company.

Q. Do the figures shown for Steam Plant in Service on Exhibit ___ (AP-3) represent the original cost of existing property, which is used and useful as of the dates indicated?

A. To the best of our knowledge and belief, they do. The plant accounts are maintained in balance with the continuing property records which show the original cost of the existing property classified in accordance with established continuing property record units.

VI. DEPRECIATION OF STEAM PLANT -- (AP-4)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – ACCUMULATED PROVISION FOR DEPRECIATION OF STEAM PLANT AS OF DECEMBER 31, 2008, 2009, 2010, 2011 AND JUNE 30, 2012," set forth as Exhibit ___ (AP-4), prepared under your direction and supervision?

A. Yes, it was.

Q. Please describe Exhibit __ (AP-4).

A. This exhibit shows the accumulated provision for depreciation of Steam Plant in Service as of December 31, 2008, 2009, 2010, 2011 and June 30, 2012. The amounts shown on this exhibit were taken from the books and records of the Company.

VII. REVENUES AND OPERATING EXPENSE DATA -- (AP-5)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – REVENUES AND OPERATING EXPENSE DATA," set forth as Exhibit ___ (AP-5) prepared under your direction and supervision.

A. Yes, it was.

Q. Please describe Exhibit __ (AP-5)

A. Generally speaking, Exhibit __ (AP-5) contains extensive detail regarding elements or components of revenue and expense on which the Company's rate request is based. The first page of Exhibit __ (AP-5) contains an index of the 10 schedules included in the exhibit.

Q. Please describe Schedule 1 of Exhibit __ (AP-5).

A. Schedule 1, page 1 is a statement of Steam Operating Income before income taxes by component for the Historic Year and the Rate Year. Column 1 shows the data as recorded on the Company's books of account for the Historic Year. Column 2 reflects the changes made to normalize the Historic Year costs and to provide for increased or decreased costs and activity levels or other linkage to arrive at the Rate Year estimate shown in Column 3. The Historic Year revenues and costs were developed from various schedules from Exhibit ___ (AP-1). Total Steam Other Operating Revenues are shown on page 2 of Schedule 1 of Exhibit ___ (AP-5). We will address them in greater detail later in our testimony. O&M expenses by cost element are summarized on page 1 of Schedule 1 and are detailed on Schedule 1, page 3. The O&M expense amounts were developed from various other schedules in the exhibits we are presenting. Pages 4a, 4b, 5a and 5b of Schedule 1 detail the Steam depreciation and amortization expenses. Page 6 details the costs classified as taxes other than income taxes.

Q. How were sales revenues and associated fuel costs for the Rate Year shown on Schedule 1 of Exhibit __ (AP-5) developed?

A. The Company's Steam Forecasting Panel provided us with the sales revenue forecast and it is addressed in their testimony. Fuel costs were developed by the Steam Fuel Panel. We adjusted the fuel costs to an accounting basis to reflect the deferred accounting for these costs prescribed by the Commission as implemented through Steam's Fuel Adjustment Clause (FAC).

Q. How were Other Operating Revenues, and Other Operating Income Deductions, as shown on line 2 and lines 6 - 9 of page 1 of Schedule 1 of Exhibit __ (AP-5) determined?

A. The Historic Year levels are from Exhibit ___ (AP-1). We developed the Rate Year forecasts for Other

Operating Revenues and Taxes Other than Income Taxes except property taxes which were provided to us by the Company's Property Tax and Depreciation Panel. These items are shown on Schedule 1, pages 2 and 6, respectively. Development of Depreciation and Amortization expense is shown on Schedule 1, pages 4a, 4b, 5a and 5b. Underlying depreciation rates are addressed in the testimony of the Company's Property Tax and Depreciation Panel.

Q.   Please explain the derivation of the O&M expenses for the Rate Year shown on page 3 of Schedule 1 of Exhibit __ (AP-1).

A.   This page shows the derivation of the projected expense in the Rate Year from the Historic Year expense. Sources of the changes in expense level such as normalization adjustments, program changes, labor cost escalation and general inflation escalation are identified. We note that in this filing we have made a change from past filings regarding the presentation of O&M expenses. On page 3 there are 6 new categories of expenses. We added Bargaining Unit Contract Cost (line 5), Austerity (line 8), Company Labor – Fringe Benefit Adjustment (line 11), and Uncollectible

Expenses – Sundry (line 59) in order to show the Rate Year amounts for these items with better clarity. We added RCA – Levelization of Rate Increase (line 43) and Regulatory Commission Expense – 18-a Assessment (line 51) to segregate this item that we excluded from the Revenue Requirement, as explained below.

Various Company witnesses, including the Accounting Panel, will explain the normalizing adjustments and program changes.

Q. Please describe the remaining schedules in Exhibit __ (AP-5).

A. Schedule 2 is our development of the projection of labor costs from the Historic Year to the Rate Year and Schedule 3 of Exhibit __ (AP-5) presents the projected employee levels reflected in that projection. Schedule 4 summarizes the Historic Year and Rate Year O&M expenses by Major Account Group ("MAG") function and the changes between the two periods. The totals correspond to Schedule 1, page 3. Schedule 5 shows the Historic Year elements of expense by MAG.

Schedule 6 shows a summary by function of the O&M expenses for the Historic Year by MAG and the changes in the forecast to the Rate Year. Schedule 6 also includes a summary (pages 2 – 4) of the normalizations and program changes by projects within categories and the allocation to steam, where appropriate. These normalizations and program changes are also reflected in Schedules 7 and 8, respectively, by cost element. When a normalizing adjustment or program change affects an individual element of expense, it is shown as an addition or subtraction from the Historic Year, at the Historic Year price level. The business need for the specific normalizations and program changes are discussed by various Company witnesses in their testimony. Schedule 9 of Exhibit __ (AP-5) shows the Company's Steam O&M expenses subject to general escalation. Finally, Schedule 10 lists cost elements that the Company expects to update during this proceeding and the witnesses sponsoring the cost elements. However, there may be other cost elements that should be updated as well, and if so, the Company will provide notification of these updates as appropriate.

A. OTHER OPERATING REVENUES

Q. Does Exhibit ___ (AP-5) show the details of Other Operating Revenues?

A. Yes. Schedule 1, page 2 of Exhibit ___ (AP-5) shows the detail of Other Operating Revenues in the Historic Year and Rate Year. The Historic Year level of $67.3 million is forecast to increase by $13.2 million for a Rate Year level of $80.5 million.

Q. Please describe each item of Other Operating Revenues shown on page 2 of Schedule 1 of Exhibit __ (AP-5).

A. We will do so addressing each item in sequence. There are 21 items.

Line 1, Interdepartmental Rents – ERRP and Line 2, Interdepartmental Rents – Hudson Avenue Tunnel: These revenues represent carrying charges that the steam department charges the electric department for facilities it uses jointly with steam. Carrying charges on shared facilities include components for rate of return, depreciation and taxes. The carrying charges are applied to the book cost of the facility. For the Rate Year, revenue includes a $71,890,000 charge to the electric department for ERRP, which represents 2/3 of the total annual carrying charges for the Rate Year of $108,173,000. Interdepartmental rent revenue for the Historic Year for the joint usage of the Hudson Avenue Tunnel continues in the Rate Year at an increased level of $0.2 million, which equates to a Rate Year level of $2.3 million.

Line 3, 74th/59th Streets: This item also relates to Interdepartmental Rents. The $1.5 million decrease in the revenues related to the 74th and 59th Street Generating stations is discussed by the Steam Infrastructure and Operations Panel.

Line 4, Fuel Management Program: This represents the steam department's allocation of revenues related to fuel oil exchange transactions by the Company's steam operations. The Rate Year forecast is zero as explained by the Company's Steam Fuel Panel.

Line 5, Late Payment Charges: The Rate Year estimate was based on the Historic Year ratio of late payment charges to sales revenues. The factor of 0.080% was then applied to the Rate Year sales revenue forecast to arrive at late payment charges of $0.524 million.

Line 6, Special Services Repair Program: This program provides steam repairs and other special services, such as investigations of leaks and turn-ons/turnoffs. The Company estimates the Rate Year level for such activity at $671,000 based on a historic three-year average for the period July 2009 through June 2012.

Line 7, Real Estate Rents: This revenue, projected to be $78,000 in the Rate Year, represents rental income from Verizon Wireless related to the lease of a cell tower at 506 East 75th Street.

Line 8, Net Unbilled Revenues: This item represents the deferral of the difference between the unbilled revenue level reflected in rates and the actual unbilled revenues. As such, the Rate Year projection is zero.

Line 9, Rider F Revenues: This line reflects the accounting entries to record the steam rider F program credit deferral and collection through the FAC.

Line 10, Hedging Program Interest: This line reflects a reclassification of interest assessed on funds advanced for the program to Interest and Dividend Income.

Line 11, Preferred Stock Redemption: This represents the deferral of cost savings realized by the Company by redeeming its outstanding preferred stock and issuing long term debt in its place. Such deferral was required by the Commission's January 19, 2012 order in Case 08-M-1244.

Line 12, Auction Rate Miscellaneous Revenues: This line represents the reconciliation of actual auction rate interest expense of variable rate bonds to the targeted amounts per Case 09-S-0794.

Line 13, Interest Revenues: This line includes reductions to revenues for interest the Company owes its customers for the cash flow benefits related to Bonus Depreciation and for the settlement related to employee / contractor misconduct.

Line 14, SO2 Allowances: For the reasons explained in the testimony of Company witness Price, no sales of SO2 allowances are projected for the Rate Year.

Line 15, Property Taxes: This line represents the deferral of property tax expense under runs as compared to the target levels reflected in rates in Case 09-S-0794. The amortization of the forecast deferred balance at December 31, 2013 is shown on Exhibit___(AP-9), Schedule 4.

Line 16, Local Law 11: Pursuant to Case 07-S-1315, the Company was allowed to recover $4.9 million of

Local Law 11 costs over the thirty-six month period from October 2008 through September 2011. This line contains the amortization of deferred costs recorded during the period from July 1, 2011 through September 30, 2011.

Line 17, WTC Carrying Costs: This line represents the net amount of carrying charges accrued on the average deferred World Trade Center cost balance during the Historic Year.

Line 18, Carrying Charges on Plant Balances: This line represents the reconciliation of production and distribution plant additions under the current rate plan. The Company defers the revenue requirement impact of the amount by which the Company's actual capital program expenditures result in average net plant balances below the targets approved under the current rate plan.

Line 19, Rate Case Amortizations: This line represents the amortization of various previously deferred amounts being amortized over the term of the current rate plan.

Line 20, Interest on Steam Deferrals: This line reflects interest collected from customers on the under-collection of reconcilable deferred fuel items such as the steam variance, water and water chemicals which are recoverable through the FAC.

Line 21, Steam Interference Reconciliation: This line reflects the accounting entries booked to reconcile actual interference expenses, excluding labor, with the targets established under the current rate plan.

B. DEPRECIATION AND AMORTIZATION

Q. Please explain Depreciation and Amortization shown on Exhibit ___ (AP-5), Schedule 1, page 1.

A. The depreciation and amortization expense of $71.526 million for the Rate Year was calculated based on projected plant balances through the Rate Year and composite depreciation rates based on currently effective depreciation rates by plant account. The composite depreciation rates were provided to us by the Company's Property Tax and Depreciation Panel. The currently effective depreciation rates as well as those proposed to be effective at the start of the Rate Year as reflected in the revenue requirement are discussed in that Panel's testimony. Details of the calculation of the depreciation and amortization amounts are shown in Exhibit ___ (AP-5), Schedule 1, pages 4a, 4b and 5a. Exhibit ___ (AP-5), Schedule 1, pages 5b shows the calculation of depreciation at proposed rates. We would note that the proposed changes in depreciation rates if adopted by the Commission, would increase the annual depreciation expense by $9,484,000 as reflected on Exhibit__(AP-9), Schedule 1 and 3, which we will discuss later.

C. TAXES OTHER THAN INCOME TAXES

Q. Please explain the first three line items on Schedule 1, page 6, of Exhibit __ (AP-5) named Taxes Other than Income Taxes.

A. The first item is Property Taxes (lines 1 and 2) consisting of New York City property taxes for the Historic Year applicable to Steam operations of $84,957,000. The Rate Year forecast totaling $101,187,000 was provided to us by the Company's Property Tax and Depreciation Panel and is described in their testimony. Line 2 represents the reconciliation of actual property taxes to the levels established in base rates in Case 09-S-0974 in accordance with the reconciliation mechanism adopted by the Commission in that case. There is no Rate Year forecast for items of this nature.

Q. How did you calculate Revenue Taxes for the Rate Year on line 4 of Schedule 1, page 5, of Exhibit __ (AP-5)?

A. Revenue taxes derived from revenues included in the Steam Forecasting Panel's sales revenue forecast are $17,922,000. To this, we added revenue taxes applicable to Other Operating Revenues, such as late payment charge revenues and others, in the amount of $34,000 for a total of $17,956,000.

Q. Please describe the increase in Payroll Taxes from the Historic Year to the Rate Year indicated on Schedule 1, page 6, of Exhibit __ (AP-5).

A. The increase in payroll taxes is due principally to the increase in base wages subject to FICA. A normalization adjustment was required to reclassify payroll tax recoveries from the A&G Credit element of expense to payroll taxes. Under the Company's new accounting system, the manner in which this credit is recorded has changed. Effective July 1, 2012, this credit is now reflected as a reduction to payroll taxes rather than included in the A&G Credit. The forecast of payroll taxes was developed by dividing the historic level of payroll taxes by the historic payroll applicable to steam operations. This factor was then applied to the projected level of payroll to arrive at the Rate Year level of payroll tax expense of $4,102,000.

The Company will revise payroll taxes for known changes, if any, in the FICA rate and base in the update stage of this proceeding. Any change in payroll taxes resulting from action by any taxing authority as well as any revisions related to changes in forecasted employee levels will also be reflected in the update stage of this proceeding.

Q. Please explain the Sales and Compensating Use Tax on line 6.

A. These are the state and local sales and use taxes paid by the Company when acquiring a broad range of goods and services. The amount shown is the portion of such taxes chargeable to expense as opposed to being capitalized. We have escalated the Historic Year level to recognize general inflationary increases in the cost of goods and services. The forecast did not assume any change in the current sales tax rates.

Q. Please explain the Subsidiary Capital Tax item on line 7 on Page 6 of Schedule 1 of Exhibit __ (AP-5).

A. Subsidiary capital tax is a tax imposed by the City of New York on the Company. The Rate Year forecast of this tax was based on the average historic growth in the Company's capitalization from 2005 through 2010 and the allocation of the tax to Steam operations is $467,000.

Q. Please describe All Other Taxes on line 8.

A. All Other Taxes represents minor taxes such as commercial rent and occupancy tax, motor vehicle taxes, state gasoline tax, state highway use tax, federal diesel and gasoline taxes, the New York State tax on insurance premiums and hazardous waste. The Company estimated the Rate Year level for such taxes at $61,000 based on a historic three-year average for the period July 2009 through June 2012.

Q. Does this conclude your explanation of page 6 of Schedule 1 of Exhibit __ (AP-5) regarding taxes other than income taxes?

A. Yes.

D. NORMALIZING ADJUSTMENTS

Q. Please explain what is shown on and the purpose of Schedule 7 of Exhibit __ (AP-5).

A. The purpose of this schedule is to eliminate from the elements of expense those amounts that are either nonrecurring, out of period, or for which the Company has decided to not seek recovery in this proceeding and also to annualize amounts that were not fully recognized in the Historic Year.

Q. For which normalization adjustments shown in Exhibit ___ (AP-5), Schedule 6, Page 1 are you responsible?

A. We are responsible for several which we will identify and explain.

Line 1, Water Treatment: This $615,000 reduction to expense represents the accounting entries recorded on the Company's books relating to the reconciliation of water treatment expense. Per the rate plan effective in Case 07-S-1315 the Company was authorized to amortize $2.46 million of water treatment expenses over four years (October 2008 through September 2012), or $615,000 per rate year. Since, this amortization ceased prior to the Rate Year, we are normalizing the $615,000 out of expense.

Line 7, Interference Reconciliation: This normalization adjustment of $1,874,000 in the Historic Year represents accounting entries to true-up actual interference expense with the target established under the current rate plan.

Line 9, Customer Uncollectibles: The uncollectible accounts expense in the Historic Year was negative $206,000, due to an out of period adjustment. This normalizing adjustment removes the out of period adjustment. We will explain the development of uncollectible accounts expense for the Rate Year later in our testimony.

Line 11, Fringe Benefit Adjustment: This adjustment represents the increase in pensions and OPEBs, employee welfare expenses, and workers' compensation cost related to the increase in employees, through normalization adjustments, as sponsored by various Company witnesses, including the Accounting Panel.

Line 12, Employee Welfare Expenses: The total normalization for this element of expense is a decrease of $246,000. As shown on Exhibit CBP-11, sponsored by the Compensation and Benefits Panel, this normalization has several components; the largest is reclassification recovered benefit costs from the shared services EOE to employee welfare expense. With the new accounting system put into place in July 2012, these recoveries will be more appropriately reflected as credits against employee welfare costs going forward. The Benefits and Compensation Panel discusses all of the components, except for the $43,000 increase related to the Deferred Income Plan, which we will explain. We are normalizing out of historic expenses, the administrative fee related to the administrative costs and losses on participants' accounts under the Deferred Income Plan. The Rate Year costs to administer these programs are projected to be offset by the investment gains generated by the trust funds.

Line 13, Long Term Equity Grants: This adjustment eliminates from the revenue requirement in this proceeding, the expense for the Company's long-term equity grant compensation program, for both officers and non-officer management employees, but without prejudice to the Company's right to seek the recovery of such costs in future rate proceedings.

Line 14, Executive Annual Variable Pay: This normalization adjustment eliminates the cost of the executive variable pay. The Company is not seeking to recover the cost of this plan through rates in this proceeding, but without prejudice to the Company's right to seek the recovery of such costs in future rate proceedings.

Line 15; SIR Reconciliation: This adjustment resets the amortization of Site Investigation and Remediation ("SIR") costs during the Historic Year to zero which is replaced in the Rate Year by the level of SIR cost amortization as addressed later in our testimony.

Line 16, Pension & Medicare Part D Reconciliation: This adjustment eliminates the effect of accounting for the reconciliation of the Company's pension, OPEB and Medicare Part D expenses during the Historic Year. This adjustment also includes an accounting reclassification of recovered retirement-related expenses from the Shared Services EOE to pension/OPEB expense.

Line 17, Levelization of Rate Increase: This normalization adjustment eliminates the effect during the Historic Year of accounting for the levelization of the three annual rate increases under the Company's current steam rate plan.

Line 18, Business Ethics and Compliance: As discussed more fully below, the Company created the Business

Ethics and Compliance department ("BEC") in January 2012. This adjustment reflects the annualization of salaries for the three new positions which were created and staffed during the creation of the group in 2012. This adjustment does not include an annualization of salaries for nine positions in the BEC that were transfers from Auditing at the end of 2011, and were not replaced in Auditing.

Line 19, P-Card Signing Bonus: The adjustment removes the effect of a non-recurring Historic Year credit from the card-issuing bank with respect to renegotiation of the terms of service of the Company's "P-Card" purchasing process due to the implementation of the Oracle ERP system. Prior to those changes, the contract with the card issuing bank was renegotiated and a signing bonus was received as a commitment to meet specific spending amounts in the future. This was a one-time credit that will not be received in future years.

Line 20, Ghost Card Early Payment: This adjustment is to reflect in the Rate Year the effect on early payment discounts or rebates of the slightly later in the month payment schedule under Project One than our previous processing schedule (8th vs. 1st. of the month). This will essentially reduce the level of early payment discounts by half.

Line 21, Project One: During the historic period many employees were working on Project One, and consequently their labor costs were capitalized. Most employees are returning to their old positions or filling vacancies. No normalization is needed or made for any of these returning employees. The $98,000 normalization on this line applies to employees who are leaving Project One for newly created positions; twelve employees in a new organization, Finance and Supply Chain, five employees in a new department, Project Accounting, and two buyers in the Purchasing Department. We explain these changes more fully below.

Line 22; Water Accrual: At the end of 2011, the Company's review of the liability on its books for water (mostly used for generation) showed an over accrual related to a prior period. This normalization eliminates the out of period adjustment during the Historic Year to the water accrual.

Line 23, 18-a Assessment: This adjustment is to normalize the 18-a Surcharge Assessment during the Historic Year. Since the 18-a Surcharge Assessment includes a return on the average prepaid balance at the Company's authorized rate of return, we have excluded the annual assessment from operating revenues, operating expenses and rate base in order to eliminate any potential impact on the revenue requirement that would result from using a rate of return in this filing that is different from that currently authorized.

Line 24, Austerity: This adjustment removes the Historic Year effect of the austerity imputations reflected in the revenue requirements under the Company's current steam rate plan.

Line 26, Insurance: This adjustment is to eliminate an out of period life insurance premium payment.

Line 27, Shared Services: This item reflects an accounting reclassification. The Historic Year level of shared service costs for the 12 months ended June 30, 2012 includes $23.1 million of combined pension and other post-retirement benefits that were charged to PSC account 922 under the accounting system in place prior to implementation of Project One. Effective July 1, 2012 pension, OPEB and health insurance costs will be included under PSC account 926, while the payroll tax costs will be included in PSC account 408. The $1.2 million adjustment reflects the portion allocated to steam.

Line 29; M&S Write-off: In conjunction with the implementation of Project One, the Company changed its policy regarding the accrual for unpaid receipts for material and supplies. Due to this policy change, the June 2012 accrual was $1.2 million lower than it would have been under the old policy. This normalizing adjustment for $67,000 removes the steam portion of this non-recurring event.

Finance and Supply Chain Organization

Q. Please describe the newly formed Finance and Supply Chain organization.

A. We would first like to provide some relevant background information regarding system changes as a result of implementing Project One. Starting in November 2009, the Company undertook a three-year project to develop and implement a new integrated system for its finance, supply chain and management reporting activities. The new system, which is known as Project One, was the largest technology investment in the Company's history. Project One replaced 61 existing systems at CECONY and O&R with Oracle Enterprise Resource Planning (ERP), Business Intelligence, and Hyperion Planning and Budgeting systems. The scope of Project One included integrating Procurement, Inventory Management, Accounts Payable, Miscellaneous Accounts Receivable, Projects Accounting, Treasury, General Ledger, Consolidations, Budgeting and Financial Forecasting, and Management Reporting systems onto one common platform. In addition, the Company also implemented a new multi-segment account structure for capturing and reporting all financial data.

The overall objective of Project One was to strengthen and improve our financial, purchasing and operational activities through an integrated information system. The design of the new structure reduces the risk of error in the financial reporting process through more automation of processes and controls.

As a result of the implementation of Oracle Finance, Supply Chain and Business Intelligence systems in July

2012, additional staffing will be required to provide ongoing support for the new systems. A new organization consisting of 15 positions was created in Corporate Accounting headed by an Assistant Controller. Out of the 15 positions, 12 were staffed by individuals who worked on the development and implementation of Project One and, up until June 30, 2012, the cost of their labor was capitalized as part of the project cost. The organization has three sections: Finance, Supply Chain, and User Provisioning.

Q. Please describe the work that the new organization is performing?

A. The staff is providing ongoing support relating to the Oracle Finance, Supply Chain, and Business Intelligence system modules. The primary support activities include: (i) troubleshooting and defect resolution, (ii) management and reconciliation with other interfacing systems,(iii) configuration support and maintenance, (iv) analysis, design, and testing of enhancements, upgrades and patches, and (v) business user support and training.

The Finance section will be performing the above functions relative to the General Ledger and Accounts Receivable modules. The section will manage and support the interfaces between these modules and other Con Edison applications (e.g., the Customer Service System, the Allegro energy management system). In addition, the section will also be responsible for maintenance of the chart of accounts. This includes processing requests for additions, deletions, and changes to the chart of account values; synchronizing the changes across all Oracle applications; maintaining the parent-child hierarchical structure for each chart of accounts segment; and maintaining cross-validation rules. The section will also be responsible for creating new financial reports as the need arises.

The Supply Chain section will perform support activities for the Procurement, Inventory Management, Accounts Payable, and Employee Expense Reimbursement modules. They will manage and support the integration with other Con Edison applications, such as the Construction payment system (COMPASS), and Cable inventory system, and Logica, when implemented. They will also support the external interfaces with the Company’s banks and suppliers.

The User Provisioning section is responsible for the creation and maintenance of user accounts, and granting users role-based access to the Oracle systems.

Q. What are the projected O&M projected costs related to this new organization?

A. The Company is projecting a total cost of $1.33 million for the Rate Year ($972,000 for electric, $200,000 for gas, and $63,000 for steam with the remaining $95,000 applicable to O&R) for the 12 individuals whose labor costs were capitalized during the Historic Year, due to their work on Project One.

Project Accounting Organization

Q. Please describe the newly formed Project Accounting organization.

A. We would first like to provide some relevant background information regarding system changes as a result of implementing Project One. As part of the implementation of Oracle Finance, Supply Chain and Business Intelligence systems in July 2012, Con Edison implemented the Oracle Projects module. Oracle

Projects is a suite of Oracle modules which forms the central part of the software solution for a project-oriented company. It provides an integrated cost management solution for all projects and activities across the company. It enables the collection of costs at a granular level of detail, the application of overhead costs, and the timely and accurate accounting of such costs. Oracle Projects integrates with all Con Edison's work management systems, as well as its payroll, fixed assets and other systems to collect, classify, report and monitor costs.

A new Project Accounting section was created comprising a section manager, five senior analysts and four junior accountants. Out of the 10 positions, five were staffed by individuals who worked on the development and implementation of Project One and, up until June 30, 2012, their labor was capitalized as part of the project cost and five positions were transfers from the Property Record section. The key functions of the new organization include: (i) setup and maintenance of new projects and tasks; (ii) master data maintenance; (iii) management and reconciliation with work management and other interfacing systems;

(iv) management of the labor distribution process; and (v) accounting transfers and corrections.

Q. What are the O&M costs that are included in the filing for the new Project Accounting organization?

A. The Company is projecting a total cost of $547,000 for the Rate Year ($400,000 for electric, $82,000 for gas, and $26,000 for steam with the remaining $39,000 applicable to O&R) for the five individuals whose labor costs were capitalized during the Historic Year, due to their work on Project One.

E. PROGRAM CHANGES

Q. Please explain what is shown on and the purpose of Schedule 8 of Exhibit __ (AP-5).

A. The purpose of this schedule is to detail all the new programs and any other changes to the elements of expense, other than escalation that are not shown on Schedule 7.

Q. For which program changes shown in Exhibit ___ (AP-5), Schedule 8, are you responsible?

A. We are responsible for several which we will identify and explain.

Lines 3, 11, and 29, Interdepartmental Rents: The $4.224 million increase shown for Interdepartmental

Rents is due to a $2.018 million increase in the carrying costs resulting from increases in property taxes and increases in capital investment at East River Station and the Ravenswood tunnel. As shown on line 29, MAG 49 – Administrative and General Expense, $2.206 million is attributable the increased cost for common capital expenditures for such items as computers, mobile equipment, communication equipment, etc.

Line 15, Uncollectibles: The Rate Year level of uncollectible accounts expense is estimated to be $425,000, based on the three-year average for the period October 2009 through September 2012.

Line 20, Financial Services: The increase of $196,000 represents the increase in miscellaneous financing costs, fees and services for the Company's expected increase in financing needs to support its increased capital and operating costs as testified to by various witnesses in this proceeding, as well as various fees paid to the rating agencies. The largest component of the increase is for the cost of a Letter of Credit to support new financings. Fees paid to banks and other financial institutions to service the Company's outstanding debt have also been increasing significantly.

Line 23, Consultants: Consultants are hired by the Company to assist on subject matters about which the Company does not possess sufficient expertise. Additionally, services provided by PricewaterhouseCoopers ("PwC"), such as auditing, research, and accounting advice are also included. The forecast was based on a three-year (July 2009 through June 2012) average of historic costs, excluding PwC. The PwC audit portion was based on a 2.0 percent increase of the 2011 audit fees for 2012 as agreed to by the Board of Directors. This rate of increase was projected forward for the Rate Year.

Line 24, Business Ethics and Compliance: As we discuss below, the Company created the Business Ethics and Compliance Department in January 2012. This adjustment reflects the salaries for four positions that were filled after the end of the Historic Year and the four new positions which will be filled by the beginning of the Rate Year.

Line 25, Law: As discussed below, the Company's Law Department is seeking to upgrade its Case Management

System and its Document Imaging System. This adjustment reflects the salaries for two new positions which will be filled during the first quarter of 2013.

Line 26, Outside Legal: This adjustment of $4,000 is to reflect a three-year (July 2009 through June 2012) average cost for use of outside legal services.

Line 28, Fringe Benefits: This adjustment represents the increase in pensions and OPEBs, employee welfare expenses, and workers' compensation related to the increase in employees through program changes as sponsored by various Company witnesses, including the Accounting Panel.

Line 30, Injuries and Damages: In accordance with prior practice in rate case filings, the Rate Year level of injuries and damages was forecasted based on the average net claim payments for the most recent three-year period. In accordance with Case 08-S-0153, the Company excluded liability claims in excess of $5 million up through April 30, 2012. The adjusted three-year average, for the period July 2009 through June 2012 results in annual claims payments of $55.6 million, of which the allocation to steam is $2.835

million. With escalation, the Rate Year amount for injuries and damages is $2.976 million.

Line 31, Institutional Dues and Subscriptions: This increase of $5,000 is to reflect the three-year (July 2009 through June 2012) average of this element of expense.

Line 32, Insurance: The increase of $282,000 primarily represents increases in premiums for liability insurance ($192,000) and in the Workers Compensation Board assessment charge ($40,200). The information regarding actual premiums was provided to us by the Company's insurance department. Some policies will expire before the beginning of the Rate Year and in those instances we used general escalation factors of 1.9 percent for 2013 and 2.0 percent for 2014 to project insurance costs for the Rate Year. The increase in liability insurance is primarily in the excess liability insurance category, where the premium costs increased by 14.8% at the last policy renewal in May 2012. These increases are due to the Company's own adverse loss experience, increasing underwriting scrutiny by insurers of utilities with gas pipeline services, and the San Bruno explosion, which is having adverse ramifications for all utilities in terms of both limited capacity and higher pricing. The Company will update for the latest insurance premiums at a later time in this proceeding.

Line 33, A&S Transfer Credit: A&S Transfer Credit, relates to capitalization of administrative function costs as those administrative functions relate to capital spending. This filing reflects the Company's plans to spend $37.029 million more on capital projects in the Rate Year than such expenditures on which the Historic Year A&S Transfer Credit was based. As a result, more of the administrative function costs, primarily salary related, will be capitalized. This credit (decrease) to expense is estimated to be $853,000.

Line 34, Employee Pensions / OPEBS: This line reflects the actuarially determined level of expenses for employee pensions and other post employment benefits ("OPEBs"), which was based on two studies performed by the Company's actuary, Buck Consultants, dated September 24, 2012 for pensions and October 5, 2012 for OPEBs. Supplemental Retirement Income Plan ("SRIP") projections were obtained from a study dated

May 18, 2012. The studies were based on the Company's actual 2011 experience. Assumptions used in the forecast of pensions were a discount rate of 4.0 percent and an expected return on plan assets of 8.0 percent. Assumptions for OPEBs were equivalent to those used for pensions, plus a health care cost trend rate of 6.0 percent for 2012 with the rate decreasing gradually by 0.25 percent per year to 4.5 percent in 2018. The OPEB actuary forecast reflects similar assumptions. In addition the actuary projections reflects a switch in the Companies' financing mechanism of the post-65 retiree drug plan to an Employer Group Waiver Plan ("EGWP/Wrap") in lieu of the Medicare Part D retiree drug subsidy (RDS) plan effective January 1, 2013. This change in the retiree drug plan contributed to a $1.6 million decrease in OPEB expense.

Q. Please summarize the estimate of the Rate Year employee pensions/OPEBs expense that is allocated to steam.

A. The net amount of the actuarially determined level of expense for employee pensions/OPEBs and other payments, net of capitalization, allocable to steam for the Historic Year is $27.058 million. The estimated cost allocated to steam for the Rate Year is $28.044 million. This $986,000 increase consists of a program change increase of $1.827 million offset by a normalization adjustment decrease of $840,000 discussed previously in the normalization section of our testimony. The $1.827 million increase is driven by the use of a lower discount rate of 4% in actuarial projections compared to 4.7% in 2012 offset by the implementation of Total Rewards and adoption of EGWP/WRAP plan effective January 1, 2013.

At the time we prepared our testimony, a preliminary estimate indicated the value of the assets held by the Pension trust at the end of 2012 to be approximately $8.7 billion. By comparison, at the end of calendar year 2008 the pension assets were valued at less than $6 billion. Gains and losses from the pension assets in any one year are recognized in expense over time to smooth out extreme fluctuations. As a result, market gains in recent years are being credited to expense over fifteen years and serve to moderate the net increase in this expense.

Q. Please continue.

A. **Line 35, Project One:** The Company implemented Oracle's Finance and Supply Chain Enterprise Resource Planning system, and Oracle's Business Intelligence system in July 2012. The annual support fees payable to Oracle provides for priority technical support services. It allows Con Edison to receive software fixes and enhancements. Additionally, it provides access to Oracle's support teams to resolve Con Edison specific issues and questions. It also grants Con Edison access to Oracle's online knowledge base. The $158,000 increase to expense represents the steam allocation of the fees.

Line 37, Shared Services: The projection of shared service billings is based on the historic costs, adjusted for the post-retirement benefits normalization described in the related section of this testimony. The remaining costs were apportioned to labor and non-labor related costs, escalated accordingly and allocated amongst the services to arrive at the $26,000 program change for Steam.

Line 38, Sundry Uncollectibles: This $66,000 decrease to Sundry Uncollectibles expense results in a Rate Year amount of $31,000. The Rate Year amount is based on a five-year average for the period July 2007 through June 2012.

Line 39, Business Finance and Quality Assurance: This adjustment includes the salaries for three positions, filled after the end of the Historic Year in the Business Finance department that the Company established in 2012. Also included are the salaries for seven positions that will be filled in 2013 and 2014 in connection with the creation of the Quality Assurance department in the Company's finance area. We provide further explanation of these departments later in our testimony.

Line 40, Regulatory Commission Expenses: The increase of $343,000 is comprised of a $296,000 increase related to the PSC Assessment and a $47,000 increase related to all other expenses included in this element of expense. The Rate Year PSC Assessment was forecasted based on the latest PSC Assessment letter dated August 10, 2012, excluding refunds, for the 2012-2013 State fiscal year ending March 31, 2013. The PSC's calculation of the assessment is based on intrastate revenue from 2011. The other expenses are estimated based on the use of a three-year (July 2009 through June 2012) average of historic costs. The Company will update this element of expense based on the PSC Assessment letter for the 2013-2014 State fiscal year.

Business Finance and Quality Assurance

Q. You mentioned earlier that the Company formed a Business Finance organization during 2012. Please explain the Company's objective in doing so.

A. The Company established the Business Finance organization, under a new officer level position of Vice President of Business Finance, filled in August 2012, in furtherance of implementing the element the Cultural Imperatives, as described by the Management Audit Panel, to reinforce cost management consciousness. Establishing the Business Finance organization follows the Company having established its Cost Management organization.

The Company established the Cost Management organization to centralize and sharpen focus on cost management by replacing the previous more parochial approach to budgeting and cost analysis. The Cost Management organization began the process of centralizing cost management by bringing the cost analysts and managers in the operating areas together in an organization charged to stress the importance of cost management to operating the Company and to improve the quality, consistency and cohesiveness of cost planning and analysis.

The Business Finance organization will further promote cost management and a cost consciousness mindset through further consolidation by bringing financial planning, budgeting, and forecasting functions under one organization. This consolidation will create a greater alignment in the Company's short and long range plans, promote best practices in cost management and improve financial performance. This centralization promotes the continued high priority of cost management and consistency of communication across all organizations, greater integration of input from all areas of the Company, and responsiveness to the needs from all business units and levels of management.

The new organization is being formed to explicitly drive the reinforcement of cost management throughout CECONY and O&R and provide a platform and more prominent role for cost management, financial planning and financial analysis within the Company. In addition, the Business Finance organization is expected to help reduce corporate risk through increased financial transparency; drive efficiency within operating and support organizations; and identify and drive cost-savings opportunities across the Company.

Other benefits will include standardization of financial reporting available via Project One and Business Intelligence and the development of new employee competencies, focusing on improved financial analytics. In addition, the recent consolidation of systems and reporting due to Project One will enable Business Finance to more efficiently achieve its objectives.

Q. How will the Company staff the Business Finance organization?

A. The new organization will merge existing personnel from Company operating areas and Shared Services, O&R Operations and Financial Services, as well as personnel from Business Improvement Services, Financial Forecasting and Revenue and Volume Forecasting. Additional personnel include the new vice president and associated executive assistant as well as a new director at an estimated labor-related O&M cost during the Rate Year of $575,000 ($420,000 for electric, $86,000 for gas, and $27,000 for steam with the remaining $42,000 applicable to O&R). The new vice president was hired from outside the Company in August 2012. The new director position will oversee the consolidated financial forecasting and Business Intelligence functions and is expected to be filled in January 2013. The new executive assistant position was filled in August of 2012.

Q. Please describe the new Quality Assurance department you mentioned earlier in your testimony.

A. The Quality Assurance department's objective will be to become an integral part of Company's Finance department. Its focus will be to improve key Finance processes by strengthening internal controls and reducing the frequency of internal control deficiencies. The Quality Assurance function will develop and coordinate plans to improve work practices in Corporate Accounting, Treasury, Tax, and Rate Engineering. The department will conduct quality assurance reviews that will evaluate the effectiveness of internal controls and the current processes. It will also conduct benchmarking initiatives to maintain an understanding of the best practices in these areas. A curriculum of training and industry knowledge will be created from inside and outside the Company. The Quality Assurance department will participate in periodic meetings with similar organizations to share experiences and to maximize the effectiveness of the reviews.

The Quality Assurance department’s focus on improving key processes within the Finance function will help improve Finance’s performance and its ability to help the Company meet its goals. Some examples of these processes include analyzing the closing of the books and bill payment processes in Corporate Accounting as well as the cash payment process in Treasury. Having skilled professionals review these key processes would lead to improvements in controls and efficiencies. Improving the overall effectiveness of the Finance function is the objective.

The Quality Assurance team will collectively possess the requisite education and experience enabling them to analyze and evaluate the financial and operational issues in Finance or between Finance and other departments. The team will foster the environment of continuous process improvement by providing comprehensive analysis of post process and in-process reviews. An annual coordinated risk assessment discussion among senior management, Auditing and PwC (external auditor) will provide the topics that the Quality Assurance team will address within the next planning cycle. The Quality Assurance team will operate independently providing senior management with a fair and objective appraisal of the effectiveness of process controls and efficiency of operational performance. The team will establish a data management system to collect data from quality assurance reviews to share with organizations within Finance; identify trends and perform analyses to identify areas of concern; formulate short, mid and long-term plans for compliance with approved procedures; prepare reports that evaluate the effectiveness of processes used within all areas of Finance, including recommendations for improvement. The Quality Assurance methodology will be to measure, inspect or observe processes and compare them to approved criteria (e.g., GAPs). Standardizing work practices, where appropriate, will be a focus across all process reviews.

Q. How will the Company staff the Quality Assurance organization?

A. The Company is requesting funding for seven employees to staff this new function. The Company plans to phase-in this program over a two-year period with a Section Manager and the three Senior Analysts during 2013 and an additional three Senior Analysts during 2014.

Q. Will these positions be filled from outside the Company?

A. A mix of outside hires and inside transfers would be optimal. Outside employees can come with different perspectives and experience. The Company would look for individuals with quality assurance or audit experience. Employees from inside the Company could come from Auditing Operations or within Finance. Their positions would need to be backfilled. We estimate a labor-related O&M cost during the Rate Year of $665,000 ($486,000 for electric, $100,000 for gas, and $32,000 for steam with the remaining $47,000 applicable to O&R).

Business Ethics and Compliance

Q. Turning now to the Business Ethics and Compliance department you mentioned earlier, what was Con Edison's process for managing business ethics and compliance issues at the beginning of the current rate plan?

A. The Auditing Department was charged with the administration of the Ethics and Compliance program at Con Edison since the 1980s. At the beginning of the current rate plan, three employees (one director and two section managers) were responsible for maintaining and providing guidance on the Standards of Business Conduct; business ethics and compliance training and communications; administering the ethics helpline; reviewing and maintaining policies and procedures; reviewing conflict of interest disclosures; and leveraging internal staff to perform investigations of allegations of employee misconduct. An additional section manager was solely dedicated to creating and administering FERC compliance and training program to oversee FERC standards of conduct and NERC requirements for all Consolidated Edison, Inc. ("CEI") affiliate companies.

In 2010, four auditor/investigators were hired to consolidate all investigations of employee misconduct under the Director.

In 2011, a system analyst was hired to assist with compliance issues in the group. The system analyst assisted the FERC Compliance and Training section manager to set up and test a new database for regulatory compliance issues.

Q. What factors led to the Company reassessing this process?

A. In the wake of three separate federal prosecutions of Con Edison employees and contractors from 2009 through 2011, Con Edison hired organizational consultants to review the Company's controls and provide recommendations regarding the best ethics and compliance governance structure to protect our stakeholders' interests. As a result of this review, Con Edison's Board approved the creation of a separate organization to increase focus on ethics and compliance.

Q. Has the Company changed any processes to improve the management of ethics and compliance?

A. Yes. In response to the consultants' recommendations, a Vice President and Chief Ethics and Compliance Officer ("CECO") was appointed on January 1, 2012, and a separate Business Ethics and Compliance department ("BEC") was created. The CECO is designated as the person with day-to-day responsibility for the Ethics and Compliance Program for all of CEI, including Con Edison. The CECO reports administratively to the General Counsel, and maintains a direct line of communication to the CEO and Audit Committee of the Board of Directors. The CECO restructured the organization and added staffing, as described more fully below. One of the goals of the restructuring and increased staffing is to better align the BEC with the requirements of the U.S. Sentencing Guidelines for Organizations.

Q. Please describe Con Edison's current BEC structure and resources.

A. The BEC is divided into three functional groups: Investigations; Training and Communications; and FERC

Training and Compliance. Currently, the BEC is staffed with 16 employees.

Q. Do you have an organizational chart of the BEC?

A. Yes, it is Schedule 1 of the document entitled "Personnel Requested For The Law Department" designated as EXHIBIT __ (AP-13) which was prepared under our supervision and direction.

Q. Of the 16 positions currently in the BEC, how many are positions that were formerly part of Auditing and how many are new positions that were added after the BEC was established?

A. Nine positions (the Investigations Director, three section manager positions, four investigators, and the system analyst) were transferred from Auditing at the end of 2011, and were not replaced in Auditing. An additional seven positions (the CECO, Training and Communications Director, four project specialists, and an analyst) were created and staffed during the creation and restructuring of the group in 2012. These are new, permanent positions filled during the Historic Year, which were normalized to reflect a full year of service in the Rate Year.

Q. Do you anticipate adding any more positions to the BEC?

A. Yes. We expect to add four more positions: a project specialist for communications; a third project specialist for FERC Compliance and Training; an attorney; and an additional investigator.

The ethics and compliance function is closely related to the cultural imperatives of openness, fairness and trust to which the Company has committed itself. Change management is a long and complicated process that must be closely tended to be successful in a large organization. As we will explain, these staffing requirements are established to meet the projected increased demands of the employee population as the program grows in breadth and visibility.

Q. Do you have a list of current BEC positions and anticipated positions; the date the position was filled or is planned to be filled; and the annual salary or salary range associated with each position?

A. Yes. That information is on Schedule 2 of Exhibit 13.

Q. Please describe each of the functional groups under the BEC.

A. The Investigations group focuses on investigating allegations of employee misconduct. The group has focused on identifying trends and leveraging technology and data to perform its investigations, and the team is comprised of individuals with both law enforcement and utility industry expertise.

The Training and Communications group is responsible for developing and executing all ethics training and communications; administering the ethics helpline; providing guidance on issues relating to the Standards of Business Conduct; reviewing conflicts of interest disclosures; conducting outreach relating to ethics and compliance with all employees, vendors and third parties; performing issue and trends tracking in collaboration with the investigations group; developing enhanced background check processes; and preparing reports for the Audit Committee.

The FERC Compliance and Training group handles the oversight of all FERC compliance and training issues.

Q. Please discuss some of the positive results of the restructuring effort?

A. The BEC has commenced a communications campaign that has raised awareness of the department’s functions, objectives and services. We have increased visibility of the program through in-person and electronic communications. The team has also presented to management at staff meetings throughout the Company to introduce the BEC's mission and objectives. These staff meetings have resulted in positive feedback about the organization, and increased communications from employees seeking guidance on various ethical issues.

We revised our new employee and new management ethics training to allow more discussion of real-world scenarios and present the BEC as a resource and partner for employees to seek advice and raise concerns about ethical issues.

We also recently consolidated the helpline phone numbers for all subsidiaries into one, easy to remember phone number and email address (1-855-FOR-ETHX; FORETHX@coned.com) to further facilitate reporting.

We developed a tracking system to assist in tracking and coordinating investigative efforts among the BEC, Security Departments of Con Edison and O&R, Human Resources, Equal Employment Opportunity Affairs, and the O&R Ethics office. The tracking system will also permit BEC to further identify and report on trends within the operating organizations. We have issued a Request for Proposals to obtain even more robust case management capabilities with vendors who are experienced helpline and case management providers.

In addition, the BEC obtained commitment from Human Resources to integrate ethical awareness as an element in evaluating employee performance in the 2013 performance review cycle for management employees. Human Resources also has agreed to expand its pre-employment criminal background checks to improve our due diligence processes. The BEC also worked with Human Resources to revise the portion of its Behavioral Events Interview that focuses on ethics and integrity to update the examples and scenarios used to assess candidates for employment.

The creation of the FERC program in 2009-2010 has led to a greater awareness and a better understanding of FERC, NERC, anti-market manipulation, accounting, reporting and oversight. New centralized elements of the FERC program include new and updated procedures and training, a formalized FERC audit program, and greater attention to FERC risk management.

Q. Why are additional resources required in order for the BEC Group to accomplish its objectives?

A. Section 8 of the United States Sentencing Guidelines for Organizations sets the baseline requirements for an effective ethics and compliance program. Over the last 15 years or so, industry best practices have been established for such programs. The BEC seeks to enhance its program to align itself with those industry standards. To accomplish this goal, additional resources with expertise in the areas of investigations, compliance, training, and communications are necessary.

The current resources are inadequate to continue to meet the ethics and compliance needs of a publicly traded company like Con Edison in a complicated legal, regulatory, and compliance landscape that is constantly changing and expanding. In addition, many of the initiatives launched this year need additional resources and support to maintain and manage for long-term success.

The BEC intends to have all employees participate in regular annual ethics training. The BEC plans to supplement annual mandatory e-learning with manager-led training. This will, by necessity, include in-person, tailored training designed to teach managers how to reach employees in the various business units, who perform diverse tasks on a daily basis.

In conjunction with our Public Affairs Department, the BEC has developed a communications plan for 2013, which includes electronic and hard copy communications to employees around the Company, on a quarterly basis, focused on relevant and timely themes to educate and raise awareness. Currently, the majority of employee communications are disseminated electronically through our Postmaster system. Significantly, a large part of our employee base is comprised of field workers who are not accustomed to acquiring information about their work through electronic means. To be most effective in our communications mission, a network of resources is needed to develop and manage the communications that must be disseminated in ways that will increase engagement.

Con Edison is a major user of contractor services within the City and State of New York. Therefore, the BEC is developing a vendor outreach program to develop partnerships with vendors with whom we do business to assess and promote ethics and compliance. This will allow us to improve our vendor due diligence by confirming that those parties with whom we do business have adequate ethics and compliance programs, and if they do not, to assist in developing them as an incentive to continue their business relationships with Con Edison. One of the project specialists for training is currently working on this effort.

We are in the process of securing an outside vendor to provide non-business hours and web-based reporting, to give an additional level of assurance for those who desire to report anonymously, as well as more robust case management capabilities. Increased regulatory frameworks, such as the Dodd-Frank Act, compel companies to maintain robust internal reporting systems for reported concerns of misconduct.

Employees who contact the BEC through the Helpline during business hours will continue to have the option to speak to an in-house resource. Those within the

BEC who take calls are able to leverage their knowledge of the Company and the Standards of Business Conduct during their interactions with callers to more quickly 1) respond to requests for advice and guidance, and/or 2) refer reports of suspected misconduct to the correct organization for follow up. Increased awareness, integration and visibility of the program will result in increased requests for advice and guidance.

Q. Please describe the additional resources required in the BEC group.

A. The BEC intends to add a project specialist during Q1 2013 to support the communications function. This person will be responsible for maintaining the internal website to keep employees informed about BEC initiatives; assisting the section manager to develop the annual communications plan; and creating and disseminating communications. Among the responsibilities of the communications project specialist will be to assist the manager to develop, coordinate, and manage a network of employees in each business unit who will serve as advisors or liaisons to their colleagues on ethical issues.

The BEC plans to add an attorney to the team during Q2 2013 to provide advice and counsel to the investigations, training, and communications teams regarding compliance issues. Currently, the Law Department assigns an attorney to provide services as a part-time function, but the rapid expansion of laws and regulations, as well as increased scrutiny of ethics and compliance functions by regulators and stakeholders, demands a full time position dedicated to Ethics and Compliance matters.

We will perform periodic enhanced background and asset checks of employees in sensitive positions. Enhanced background and asset checks routinely reveal information that requires further review.   The BEC plans to increase its investigations staff by one position in the Rate Year to conduct the necessary follow up when issues are identified.

The FERC group intends to further develop and expand its centralized compliance oversight of FERC regulatory and legal issues. These issues cover, for example, interlocking directorates, standards of conduct, reliability, interconnection of generation and transmission, price reporting, electronic and gas quarterly reporting, natural gas capacity-related transactions, anti-market manipulation, market-based rate authority, filing of contracts and tariffs and PSC affiliate issues. The BEC plans to add a third Project Specialist in the Rate Year, who would mainly focus on Affiliate transactions and billing, PSC market-based requirements, energy trading code of conduct, interlocking directorates, market-behavior requirements, regulatory monitoring, case tracking and settlement monitoring.

Q. What is the projected increase in labor-related O&M costs for the Rate Year associated with (1) normalizing new positions established during the test year for a full year, and (2) new positions that have been or will be filled during the linking period and the Rate Year?

A. The projected Rate Year increase in O&M costs associated with these eleven positions is $1.176 million of which $60,000 is allocated to steam.

Q. Are there any projected program changes for BEC for the twelve-month periods ending December 31, 2015 and December 31, 2016?

A. Not at this time.

Law Department System Upgrades and Labor

Q. Please describe the Law Department system upgrades and two new positions you mentioned earlier.

A. As we mentioned above, the Company's Law Department is seeking to upgrade its Case Management System and its Document Imaging System. We will first explain the capital funding required for the Case Management System and then explain the need for the new associated position.

The Law Department has a Case Management System that was developed in-house approximately sixteen years ago. The system is comprised of the following components: Docket Management (developed in 1996), Case Tracking & Case Notes (developed in 1999), File Management (developed in 1997), Time Management (developed in 1991), Process Service (developed in 1999), and Outside Legal (developed in 1994). Each of these components is critical to the administration and operation of the Law Department and enables the department to promptly respond to claims, litigation discovery demands, and pleadings in addition to tracking all activity associated with claims or litigation. The system also provides a mechanism to manage case files and track attorney, paralegal and investigator activity on these matters.

Q. Why does the Law Department need to replace its current system?

A. One reason is a change in legal reporting requirements. The Medicare, Medicaid and SCHIP Extension Act of 2007 ("MMSEA" or "the Act") imposes a new duty on companies identified as "primary payers," which includes any entity with liability for medical payments. The Act requires primary payers to provide the government with information regarding all settlements, awards, judgments, or other payments for personal injury cases involving a Medicare beneficiary and gives Medicare the right to recover payments made to Medicare beneficiaries. As of January 2011, Con Edison has been required to report all workers' compensation and no-fault automobile injury cases opened on or after January 1, 2010. Beginning in January 2012, there was an added requirement to electronically submit quarterly reports of total payments for personal injury matters paid on or after October 1, 2011. Failure to comply with these reporting requirements will result in a penalty of $1,000 per day, per claim.

We are currently partnering with our Workers' Compensation third-party administrator to self-administer mandatory reporting using a software product that the administrator has developed. However, because of the nature of our current Case Management System, it cannot communicate with our administrator's system. Accordingly, we must manually enter data separately into both systems and monitor compliance without using data in the Case Management System. The possibility of failing to enter a case or monitor it up until the time to report is a significant concern.

The purchase of a new case management system with the capability of transmitting the data directly to Medicare will eliminate the duplication of entering data and reduce the possibility of missing reportable cases.

In addition, the Case Management System's technology is obsolete and uses development language and communications gateways that are no longer supported by the vendor. The system requires frequent modification to accommodate claims involving major incidents and litigation involving multiple parties. We are frequently asked to provide reports of data and must turn to Information Resources to create these reports. Moreover, the system has not kept pace with the significant changes in technology that have occurred since it was created and therefore lacks basic capabilities such as remote access, ad-hoc user reporting, integration with other Law Department systems, or attaching supporting documents such as photographs, medical records, or company records.

Q. What are the funding requirements for a new Case Management System?

A. The projected funding is $1.5 million in 2014 to install and implement a new system. A major part of the implementation will involve developing and implementing process changes, and converting significant amounts of current and historical data. We are projecting an additional $500,000 in 2015 to integrate the Case Management System with our existing document and litigation management systems. The Law Department intends to add a Litigation Support position to manage and administer the new system.

The department does not have a dedicated employee who could assume the responsibilities for database and application support; database management; preparation of electronic data for document review and production; script creation; vendor management, and quality control. Our current system, developed internally, relies on Information Resources programming expertise for modifications, enhancements and reporting. We have benchmarked our staffing levels with the City of New York, the New York Power Authority, and Public Service Electric & Gas and found that a dedicated system administrator is critical to the success of this type of project.

Q. What are the projected increases in labor-related O&M costs associated with filling the Litigation Support position during the linking period or in the Rate Year?

A. The projected increases in labor-related O&M costs associated with filling the Litigation Support position is approximately $133,000, of which $6,780 is allocated to steam.

Q. Please explain the capital funding required for the Document Imaging System and the need for the new associated position.

A. The Law Department is planning to develop and implement a Document Imaging System to enable us to electronically manage claims and litigation documents. The system will allow us to receive paper documents from external sources (e.g., legal proceedings and discovery requests) and existing documents (e.g., company records) and convert them to an electronic format.

Q. Why is the Document Imaging System needed?

A. Con Edison's litigation attorneys defend the Company in approximately 3,000 pending personal injury and property damage lawsuits. Accessing, searching, and presenting supporting documents is critical to the defense of these cases. Documents in legal cases include court pleadings, transcripts, and discovery materials. Our attorneys, investigators, paralegals, and support staff currently access, search, retrieve, and use hard-copy documents because most of the documents exist only as paper.

The Law Department's Document Imaging system would enable the attorneys, investigators, paralegals and support staff to work with documents in electronic format rather than paper format, allow work on matters from court or other remote locations, and allow greater and more efficient access to all case-related documents. Implementation of a document imaging system will provide our attorneys, investigators and paralegals with the ability to search materials electronically rather than manually, and provide immediate access to case-related documents while in court or at other remote locations. Without such a system, the department lacks the ability to access critical documents during examinations before trial, settlement negotiations, and trial. Our extensive dependency on paper also places severe limitations on the department's ability to function from remote locations or during potentially catastrophic events. In addition, the New York State court system has a stated goal of moving to electronic filing of documents and has already implemented this process in many cases. The electronic filing of documents will only become more widespread in the future and we run the potential risk of being unable to comply with court rules.

Q. What is the projected funding for the Document Imaging System?

A. The Law Department is projecting funding for the Document Imaging System in the amount of $1.5 million in 2014. Additional funding of $750,000 is projected for 2015, $500,000 for 2016, and $500,000 for 2017. The funding is required to integrate the Document Imaging System with our case management, document management and litigation support systems. The department intends to add a Specialist during the linking period or in the Rate Year to manage the process and administer the system. A successful document imaging system requires a controlled process to make sure that documents are properly identified and coded for scanning. The Specialist will provide support to our legal staff to ensure system and data integrity. The department's staff is otherwise occupied with managing the day-to-day activities associated with a caseload of approximately 3,000 active lawsuits and approximately 1,000 active claims. We do not have a dedicated employee who can assume the responsibilities of overseeing the daily activities of the document imaging system.

Q. What is the projected O&M labor-related cost associated with filling the position during the linking period or in the Rate Year?

A. The projected O&M labor-related cost associated with filling this position is $69,200, of which $3,530 is allocated to steam.

Q. Are there any projected program changes for the Law Department for the twelve-month periods ending December 31, 2015 and December 31, 2016?

A. Not at this time.

F. GENERAL ESCALATION

Q. Please describe how you escalated certain costs and the general escalation rate you used.

A. The general escalation rate is applied to costs anticipated to increase at the rate of inflation as measured by the Gross Domestic Product ("GDP") price deflator. The labor component was removed from each element of expense and then the residual amounts were escalated using the GDP price deflator for most elements of expense subject to escalation. For certain expenses the escalation factor is specifically tailored to the particular expense item such as medical insurance costs as addressed by the Company’s Compensation and Benefits Panel.

Q. Please describe the general escalation rate you used.

A. The actual GDP deflator used was published as of October 10, 2012 by the U.S. Department of Commerce. The quarterly forecasts for 2012 and 2013 are from the Blue Chip Economic Indicators, dated November 10, 2012. The annual forecast for 2014 is from the Blue Chip Economic Indicators, dated October 10, 2012. Utilizing these forecasts, we calculated the increase from the average of the Historic Year through the average of the Rate Year to be 4.96%. As with past practice in the Company’s rate cases, we will update the inflation factors to reflect the latest available inflation forecasts later in this proceeding.

G. LABOR ESCALATION

Q. What escalation factor did you use to project Steam labor costs from the Historic Year to the Rate Year?

A. We used an escalation factor of 6.43 percent.

Q. Please explain the derivation of the 6.43 percent escalation factor you used to escalate the Historic Year labor expense level to the Rate Year.

A. As shown on Exhibit ___ (AP-5), Schedule 2, page 1, column 1, total Company salaries and wages for the Historic Year amounted to $1,376,299,000. Straight-time union labor shown includes temporary summer employees. For the Rate Year, total Company salaries and wages, as shown in column 3, amount to $1,464,750,000. The increase of $88,451,000 in total Company labor dollars from the Historic Year level to the Rate Year level equates to a 6.43 percent increase after reflecting the 1% annual productivity adjustment discussed later in our testimony. We assumed the same total labor escalation factor would apply to escalation of the Historic Year labor amount for Steam operations to arrive at the Rate Year level of labor expense.

Q. Please describe the development of the total Company Rate Year labor cost forecast that equates to a 6.43 percent increase over the Historic Year.

A. As shown on Exhibit __ (AP-5), Schedule 3, starting with the average number of employees during the Historic Year of 13,716, we assumed a one percent annual productivity reduction from June 30, 2012 through December 31, 2014 to arrive at the productivity-adjusted average number of employees during the Rate Year of 13,443, a reduction of 273 employees from the average number of actual employees during the Historic Year. That one percent productivity-based employee reduction has lowered the labor escalation factor by approximately 2 percent from 8.66 percent to 6.43 percent as shown on Schedule 2 of this exhibit. The Company's labor and labor-related forecasts for the Rate Year were developed based on the 6.43 percent productivity-based factor.

Q. Does the method you used regarding employee level recognize that there will not at all times be a full complement of employees on the Company's payroll?

A. Yes. By starting with the average number of employees during the Historic Year and not normalizing the Historic Year labor cost to reflect what it would have been at a full complement of employees, our forecast reflects the fact that vacancies do occur.

Q. Please explain the remainder of the approach you used to forecast labor costs.

A. Exhibit __ (AP-5), Schedule 2, page 4, shows the computation of the average wages and salaries in the Rate Year for weekly and management employees. For weekly employees, we included a general wage increase of 2.0 percent effective in July of 2012, 2.5% in July of 2013 and 3.0% for each remaining year starting in July 2014. Semi-annual progression increases of 0.7 percent in October and February of each year are also included but applied to only 60 percent of total weekly employees. The 60 percent figure is based on a three-year (2009-2012) average of the actual number of weekly employees that received progression increases. The annual and progression wage increase rates are all pursuant to the collective bargaining agreements with the unions representing the weekly employees. For management employees, we assumed annual 3.0 percent merit increases in April each year. That rate was used in order to approximate the rates applicable to union employees. We then used the Rate Year average staffing levels and average rates of pay to develop the total Company Rate Year straight-time wages and salaries as shown on Schedule 2, page 2 of Exhibit __ (AP-5).

Page 3 of Schedule 2 of Exhibit __ (AP-5) shows the calculation of salaries and wages other than straight-time payrolls. In the Historic Year, actual weekly premium time and overtime payrolls were $34,737,000 and $110,308,000, respectively. We increased these Historic Year amounts by the wage escalation rates contained in the current bargaining unit contracts. Management compensatory wages were developed by starting with the Historic Year level of $30,197,000 and then applying the average rate of increase, as previously mentioned, to arrive at the Rate Year amount.

Q. Has the Commission previously rejected progression increases for weekly employees as a part of the Company's labor expense?

A. Yes. However, the calculation of progression increases in this filing addresses the Commission's reasons for rejecting progression increases in the 2008 rate proceeding.

Q. Please explain.

A. In Case 08-E-0539, the Commission disallowed the progression increases for the following reasons:

1. The progression increases were calculated for all union employees.

2. One-third of the Company's employees were eligible for retirement and assumed to be at the top of their pay grade.
3. The Company would experience savings from higher paid employees leaving the Company that would more than offset the costs of wage progressions

Q. Are these assumptions true for the current rate filing?

A. No. As we noted above, in this case, the Company applied wage progressions to only 60 percent of total weekly employees, based on a three-year (2009-2012) average of the actual number of weekly employee that received progression increases.

Second, we reviewed the actual number of union employees that may be eligible for retirement (55 and older). We found that this equates to roughly 20% of all weekly employees and not one-third of weekly employees as indicated in the 2008 order.

Moreover, the Company has not experienced a greater decrease in the number of employees over 55 retiring or leaving the Company than it has for all union employees. The turnover or attrition for both groups of union employees (those over and under 55 years of age) is equivalent.

In terms of actual increases in base wages paid to union employees over the last three years, the average annual increase for union employees under 55, which make up 80% of the union population, has been 1.65% higher than for those over 55. The largest portion of this differential is attributable to employee wage progressions of 1.3%. Other factors that account for this differential are increased shift differentials for employees assigned to evening and night time work-shifts, which the Company has not requested in the filing, and for promotional or other changes in job titles of employees.

Accordingly, considering (1) the lower percentage of weekly employees eligible for retirement than assumed in the 2008 case, (2) an attrition rate for above- and below-55 that is equivalent, (3) the application of progression increases for purposes of this rate filing to only 60 percent of weekly employees, (4) the Company’s nonrecovery of shift differential expenses, and (5) higher average annual increases for below-55 employees, it is not reasonable to assume that savings from higher-paid employees leaving the Company will offset the costs of wage progressions.

Q. Do your labor cost projections include the variable portion of the non-officer management labor cost?

A. Yes. The Company's Compensation and Benefits Panel demonstrates the reasonableness of the Company's compensation of its management, and weekly, employees.

Q. Does the Company's rate filing reflect a productivity imputation?

A. Yes. The Company's filing reflects a one percent productivity imputation.

Q. Does the Company's rate filing anticipate productivity from Company initiatives?

A. Yes. Various Company efforts serve to avoid unnecessary costs and result in this rate request being lower than it would otherwise be. They are described by various witnesses, including the Steam Infrastructure and Operations Panel, the Shared Services Panel, the Municipal Infrastructure Support Panel, the Compensation and Benefits Panel, the Property Tax and Depreciation Panel, Company witness Price as to environmental costs, and the Steam Fuel Panel as to fuel costs.

In addition, the Management Audit Panel discusses efficiencies and savings associated with the Company's implementation of Management Audit recommendations.

Q. Why did the Company nonetheless apply a one percent productivity adjustment?

A. We applied the one percent to minimize the number of issues to be addressed in this proceeding. The Company recognizes that a one percent imputation is common practice. However, we would emphasize that there is nothing in the Commission's rules that require the Company to reflect a productivity imputation in its rate filings. Nor does it otherwise seem reasonable that the Company's expense forecast, which reflects expected costs in the Rate Year, should effectively be subject to automatic reduction of one percent before the costs are even examined in this case. Accordingly, we would add that the Company's decision to reflect this mitigation measure in this case is without prejudice to its right to not continue this practice in future rate filings.

VIII. AVERAGE PLANT BALANCES -- (AP-6)

Q. Has the Accounting Panel prepared projections of net plant balances for the linking period from June 30, 2012 through December 31, 2013 and for the Rate Year appraising the impact of the current construction and retirement programs on the Steam department's average rate base?

A. Yes, we have.

Q. Was the three page tabulation, the first entitled "ESTIMATED NET PLANT – STEAM – TWELVE MONTH AVERAGE ENDING DECEMBER 31, 2014, AT CURRENT DEPRECIATION RATES", a second entitled "ESTIMATED NET PLANT – STEAM – TWELVE MONTH AVERAGE ENDING DECEMBER 31, 2014, AT PROPOSED DEPRECIATION RATES", and the third "ESTIMATED NET PLANT – STEAM – JUNE 30, 2012 – DECEMBER 31, 2013," and designated as EXHIBIT __ (AP-6) prepared under your supervision and direction?

A. Yes, it was.

Q. What does this exhibit show?

A. There are two schedules. The first relates to the average net plant in rate base. The second schedule relates to the average construction work in progress ("CWIP") balance in rate base (i.e., non-interest bearing CWIP) and the balance subject to Allowance for Funds Used During Construction ("AFUDC") (<u>i.e.</u>, interest bearing CWIP) which is not included in rate base.

Q. Please continue and describe those two schedules.

A. Page 1 of Schedule 1 of the exhibit shows the projected average net plant for the twelve months ending December 31, 2014 at current depreciation rates. Page 2 of the schedule shows projected average net plant for the twelve months ending December 31, 2014 at proposed depreciation rates. Page 3 of the schedule shows the estimated monthly balances from June 30, 2012 through December 31, 2013 that served as a basis for our Rate Year projections. The first column shows the book cost of plant; the second column shows the accumulated provision for depreciation and the third column shows the resulting net plant. Schedule 2 shows the average estimated balance for CWIP, both interest bearing and non-interest bearing. The schedule shows the data for the same time periods as Schedule 1. Page 1 shows the data for the twelve months ended December 31, 2014. Page 2 shows the data for the linking period. Page 1 of Schedule 1 ties into the average rate base Exhibit ___ (AP-8), lines 1 through 4, discussed later in our testimony. Page 2 of Schedule 1 ties into the last column of Exhibit ___ (AP-8) lines 1 through 4. Non-Interest bearing CWIP on Page 1 of Schedule 2 ties into the average rate base Exhibit ___ (AP-8), line 5.

Q. Please describe the development of the projections contained in Exhibits 6 and 8.

A. Using estimated capital expenditures provided to us by the various witnesses in this proceeding and the Company's books and records for CWIP balances as of June 30, 2012, we developed estimated transfers to plant in service, and CWIP balances. We then added the estimated transfers to plant in service to the actual plant in service account balances at June 30, 2012 and deducted the book cost of plant for retirements. In addition, we calculated the accumulated provision for depreciation in order to develop net plant balances. Included in this calculation is the forecasted depreciation accruals based on current depreciation rates, and net removal costs provided by the Company's Property Tax and Depreciation Panel. The details of the average net plant balances are included in the first four lines of the average rate base which is included in Exhibit __ (AP-8), columns 1 through 3, for the Rate Year. We will update for any significant changes later in this proceeding.

Q. Does the net plant rate base include the Steam department's share of common capital costs including general equipment?

A. Yes

Q. How is the cost of common general equipment or plant allocated?

A Overall, the Company's common plant expenditures are allocated to the operations that benefit from the projects. A reasonable basis for the allocation is used. For example, if the cost driver is the number of employees or the number of units, costs will be allocated accordingly. If a common plant project benefits O&R, the portion of the project applicable to O&R will be charged to an O&R capital account through the affiliate billing process. If there is not another basis to allocate costs, the shared services percentage will be used. This rate is currently 7.1 percent.

Q. How does the Company allocate costs among electric, gas and steam operations?

A. Generally, the portion of common plant allocated to Con Edison is allocated 83 percent to Electric operations and 17 percent to Gas operations. Steam operations is charged an interdepartmental rent charge for common plant used in steam operations. That charge to steam operations is credited to the electric and gas departments.

IX. STEAM PRODUCTION EXPENSES -- (AP-7)

Q. Have you prepared an exhibit, which shows the breakdown of steam production costs by station for the twelve months ended June 30, 2012.

A. Yes. It is the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – PRODUCTION EXPENSES – STEAM (INDIVIDUAL STATIONS) – TWELVE MONTHS ENDED JUNE 30, 2012, set forth as Exhibit ___ (AP-7) and which was prepared under our supervision and direction.

Q. Please describe Exhibit ___ (AP-7).

A. This exhibit consists of two pages and shows the allocation by station of steam production expenses in the Historic Year. Included on the second page of the exhibit are the production costs as shown on page 1 expressed in terms of equivalent cents per MLBS produced.

Q. Are generating stations classified as electric plant also used in the production of steam for delivery to the Company’s steam customers?

A. Yes. Steam was produced at East River.

Q. Please explain the accounting for electric production expenses chargeable to steam operations.

A. The production of steam at this electric generating station involves charges for the fuel used to produce steam, plus processing charges for water, labor, and chemicals. The charges for the fuel used to produce steam are made directly to steam production expense and are included in Account 703, Fuel, whereas the processing charges for such steam are charged to Steam Production Expenses, Station Supplies and Expenses, Account 705.2, and credited to Electric Production Expenses.

Q. How are the charges to the steam department determined for steam produced at these electric stations?

A. The Steam Fuel Panel discusses in their testimony the computations of quantities of fuel used to produce steam for steam operations.

X. AVERAGE RATE BASE – (AP-8)

Q. Turning to average rate base, was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – RATE BASE – STEAM – AVERAGE TWELVE MONTHS ENDED JUNE 30, 2012 AND AVERAGE TWELVE MONTHS ENDING DECEMBER 31, 2014" and designated as Exhibit __ (AP-8) prepared under your direction and supervision?

A. Yes, it was.

Q. Please describe the exhibit.

A. The first page shows the average rate base for the actual twelve months ended June 30, 2012 in column 1; the adjustment to the Historic Year to reflect conditions in the Rate Year absent a rate filing in column 2; the average rate base for the Rate Year absent a rate filing in column 3; the adjustments to the average rate base in the Rate Year as a result of this filing in column 4; and the fully adjusted average rate base for the Rate Year upon which the proposed rate increase is based in column 5. Page 2 details the items in working capital as shown on page 1, line 6. Page 3 shows the net deferrals from reconciliation mechanisms as shown on page 1, line 13.

Q. Please describe the various rate base items that are listed in the first three columns of page 1.

A. Lines 1 through 4 show the average book cost of plant, accumulated provision for depreciation and net plant balance and line 5 shows the average balance for Non-interest bearing CWIP. Historic Year levels on lines 1, 3, and 5 were developed from the books and records of the Company. The Rate Year levels were previously discussed. Line 2 relates to the Hudson Avenue Generating Station ("Hudson Avenue"). The adjustment of $92.288 million in column 2 reflects the undepreciated cost of structures and equipment that is proposed to be transferred from the Steam depreciation reserve to the Electric depreciation reserve in this proceeding as discussed by Company witness Muccilo and others. The adjustment on line 3, column 4, of ($14.1) million, reflects the change in the average accumulated depreciation reserve resulting from the proposed changes in depreciation rates. Those changes are discussed in the testimony of the Company's Property Tax and Depreciation Panel.

Q. Is the rate base forecast for plant subject to update to reflect steam system storm hardening projects?

A. Yes. The Company's storm hardening proposals are discussed by the Steam Infrastructure and Operations Panel and Company witness Muccilo. Planned expenditures for storm hardening in 2014 of $26.5 million were finalized too late to be reflected in the revenue requirement. We estimate at this time that the associated revenue requirement would be approximately $2.2 million. We will reflect an appropriate adjustment at the time of the update.

Q. Please explain the remaining rate base items on EXHIBIT ___ (AP-8).

A. **Line 6** shows the level of the working capital included in rate base. We will explain the details of working capital later in our testimony.

Line 7, Deferred Fuel, represents the average balance of deferred fuel, net of federal income tax. This amount represents 30 days of recoverable fuel costs. Deferred fuel is the amount of fuel, above the base cost of fuel that will be recovered in the following month.

Line 8 represents the average balance of the Metropolitan Transportation Authority ("MTA") surcharge paid but not yet collected from customers, net of income taxes.

Lines 9 and 10 reflect the steam portion of the unamortized balance of debt discount, premium and expense; and preferred stock expense, respectively, as additions to rate base. This rate base treatment was directed by the Commission's Order on Rehearing in Electric Case 27353.

Line 11 represents the Mount Vernon properties that the Company purchased as part of the environmental remediation.

Line 12 shows the balance of customer advances for construction, net of income tax. These are funds provided by customers for the construction of utility services on their premises.

line 13, these items in general represent the estimated average rate base impacts of the various reconciliation provisions of the 2007 and 2009 rate cases and any remaining balances from prior rate plans that were not reflected in the current rate plan. The detail supporting the net balance is shown on page 3. We will discuss the derivations and disposition of these items in the Revenue Requirement and Accounting Adjustments section of this testimony. Lines 14 through 27 reflect the accumulated deferred federal and State income taxes for various items.

Line 14 represents the taxes resulting from the normalization of federal tax depreciation. The average balance of accumulated deferred taxes for the Rate Year was developed by starting with the June 30, 2012 actual balance and was increased each month, through the Rate Year, to the extent of tax depreciation normalized for book purposes offset in part by the flow-back of tax depreciation previously deferred.

Q. Does this filing reflect the continuation of the 50% bonus deprecation for 2013 as provided for in the American Tax Payer Relief Act of 2012?

A. No. The Company was not in a position to reflect the impacts of the new law in this filing. Internal Revenue Service regulations have not been issued and the Company has not had an opportunity to evaluate the best tax strategy to apply for 2013 and 2014 to minimize it current tax payments. The Company will update this filing at an appropriate time to reflect the impact of the extension of Bonus Depreciation along with other factors to be considered when developing tax strategy.

Q. Please continue with line 15.

Line 15 relates to repair allowance and the accelerated deduction of plant service costs computed under the Simplified Service Cost Method.

Line 16 relates to capitalized overheads (Section 263A of the IRS Code).

Line 17 is the accumulated federal income tax related to the capitalization of computer software costs.

Line 18 reflects excess deferred state income taxes resulting from changes in statutory tax rates.

Lines 19 and 20 reflect the amount of accumulated deferred Federal income taxes on Vested Vacation and Prepaid Insurance Expenses.

Line 21 represents deferred balance of taxes paid on unbilled revenues. The Commission, in its Statement of Policy on Accounting and Ratemaking Procedures to Implement Requirements of the Tax Reform Act of 1986

(“TRA-86”), issued July 8, 1989, in Case 29465, directed utilities to normalize the effect of unbilled revenues in taxable income.

Line 22 reflects the accumulated deferred federal income taxes associated with Contributions in Aid of Construction, which are reflected as taxable income and for which the Commission also mandated tax normalization since TRA-86.

Line 23 is the deferred federal income tax for the MTA taxes.

Line 24 reports the deferred federal income taxes on Capitalized Interest. The Commission, also in Case 29456, concluded that utilities should normalize the income tax expense for additional interest required to be capitalized for tax purposes under TRA-86.

Line 25 reflects accumulated deferred federal income tax associated with the repair and maintenance allowance.

Line 26 is the deferred federal income tax effect resulting from the payment of Call Premiums when redeeming long-term debt issues prior to their maturity dates. The Call Premiums paid are a current deduction for federal income tax purposes, but amortized over the remaining lives of the redeemed issues, in accordance with prior Commission policy. **Line 27** reflects the deferred balance of New York State income taxes on various items.

Q. Please explain Line 29, Rate base over/under capitalization adjustment.

A. This reflects the required adjustment to make earnings base equal to capitalization. The Company's adjustment is a relatively small positive amount and has been for the last several years.

Q. You previously indicated that line 29 of the Rate Base Exhibit reflects a requirement to make earnings base equal to capitalization. Would this represent the Earnings Base Capitalization or "EB/Cap" Adjustment the Commission has adopted in numerous prior rate proceedings?

A. Yes. This adjustment has been required by the Commission to synchronize rate base plus interest bearing items (what is often referred to as the "Earnings Base") with the total capitalization employed in utility service

Q. Did the Company adjust its EB/Cap calculation in this case to include an adjustment for prepaid pension expenses?

A. Yes, without prejudicing our position in future rate proceedings, the Company made an adjustment for prepaid pensions of approximately $20 million as shown on Exhibit __ (AP-8), page 1 of 3.

Q. Please turn to page 2 of Exhibit ___ (AP-8) and explain the items of Working Capital.

A. Working Capital is comprised of three categories: Materials and Supplies, including Liquid Fuel Inventory, Prepayments, and Cash Working Capital.

Q. How did you determine the average balance of liquid fuel inventory and other materials and supplies for the rate year as reflected in column 5 of page 2?

A. To develop the rate year amount of liquid fuel inventory and other materials and supplies, excluding fuel, we took the average balance for the Historic Year and escalated it using the general escalation factor of 4.96 percent, which we discussed previously, to arrive at the increase of $1.75 million as shown in column 2.

Q. Please continue with an explanation and description of the components in Prepayments.

A. Steam prepayments, lines 4-10, consist of the steam department's allocation of insurance premiums, property taxes, the PSC assessment, the new 18-a assessment to be collected through a surcharge, software and maintenance contracts, interference, and other.

Q. How did you develop the level of prepaid insurance and property taxes?

A. Prepaid insurance for the Rate Year was forecasted by assuming that 25 percent of insurance premiums are prepaid. This factor was developed by dividing the prepaid insurance balance at June 30, 2012 by the steam portion of the insurance premiums at June 30, 2012. We applied this factor to our estimate for steam insurance premiums in the Rate Year of $3.594 million to arrive at the rate year level for insurance prepayments of $910,000. This treatment is consistent with the Commission’s determination in the Company’s prior rate cases. Prepayments for New York City property taxes were forecasted based on the Company’s actual level of steam property taxes for fiscal year

2011/2012 and the estimated levels for fiscal year 2013/2014. Payments for property taxes are currently made to New York City in July and January of each year. Based on the forecast level of expense, prepayment for New York City property taxes in the rate year is estimated to be $21.081 million.

Q. Please continue with the prepayment for the PSC Assessment.

A. We developed the amount for the PSC assessment, line 6, by taking the latest known steam assessment of $938,000 for the fiscal year ending September 30, 2012. This amount is then escalated to the Rate Year and reflected payments on a semi-annual basis in March and September. As indicated above, if a revised assessment is received during the course of this proceeding, we will update the PSC Assessment, as appropriate.

Q. Please explain the prepayment for Regulatory Assessment – 18-a Legislation.

A. The prepayment amount for regulatory assessment relating to the 18-a Legislation represents the temporary State Energy and Utility Service Conservation Assessment imposed on public utility companies from April 1, 2009 to September 30 2014 as a result of Public Service Law 18-a. The average prepaid assessment for the Rate Year is $16.726 million.

Q. How have you handled the 18-a assessment in the Rate Year?

A. The current surcharge mechanism provides for a full return on the average prepaid balance. In order to eliminate any revenue requirement impact for this item, we have eliminated this balance along with the associated revenue and test year level of expense consistent in the manner this item was treated in Case 09-E-0428.

Q. Please explain the prepayment for Software and Maintenance Contracts and Interference.

A. The prepayment amounts for Software and Maintenance Contracts, Interference, and Other were developed by utilizing the average balance at June 30, 2012 and escalating at 4.96 percent inflation factor to arrive at a Rate Year level of $144,000 and $42,000, 597,000 respectively.

Q. Please explain the last item of working capital.

A. Line 22 is the allowance for cash working capital. The historic year calculation was described earlier in our testimony. For the Rate Year, we started with operation and maintenance expenses of $385.427 million. From this amount we eliminated purchased steam and fuel expenses, interdepartmental rents, and uncollectibles to arrive at the level of operating expenses that would be subject to the 1/8 FERC Working Capital Formula that the Commission has applied for many years. The total cash working capital allowance is $28.479 million as shown in column 3, line 22.

XI. REVENUE REQUIREMENT AND ACCOUNTING ADJUSTMENTS -- (AP-9)

A. SUMMARY OF REVENUE REQUIREMENT

Q. Please describe the basis for the revenue requirement in this filing.

A. The revenue requirement is based upon our forecast of steam operations for the Rate Year, and an overall rate of return requirement of 7.69 percent. The decrease in the Company's revenue requirement is $5,431,000, inclusive of gross receipts taxes.

Q. I show you a document, the first page of which is entitled, "OPERATING INCOME, RATE BASE AND RATE OF RETURN FOR STEAM OPERATIONS SHOWING THE EFFECT OF THE PROPOSED INCREASE IN RATES – TWELVE MONTHS ENDING DECEMBER 31, 2014" and designated as Exhibit __ (AP-9) and ask if it was prepared under your direction and supervision?

A. Yes, it was.

Q. Please describe Exhibit ___ (AP-9).

A. Exhibit ___ (AP-9) consists of four schedules. Schedule 1 summarizes the development of operating income, average rate base and rate of return for the Rate Year as adjusted for the rate increase. Column 1 shows operating income and rate of return unadjusted, or as it would be reflected in the books of account, for the Rate Year. The operating income before income taxes is as shown on Exhibit ___ (AP-5), Schedule 1, page 1, column 3. The New York State and federal income tax computations in this column are detailed on Schedule 2, pages 1 and 2, respectively, and the average rate base in this column is based on Exhibit ___ (AP-8). Column 2 summarizes certain adjustments to operating income that are detailed on Schedule 3.

The adjustments to average rate base in this column are also reflected on Exhibit ___ (AP-8). Column 3 is the summation of columns 1 and 2. Column 4 shows the effect of the $5,431,000 rate decrease. Column 5, which is a summation of columns 3 and 4, shows operating income, average rate base and rate of return for the Rate Year after factoring in the rate increase. Schedule 4 summarizes the Regulatory Liabilities due customers and the Regulatory Assets to be recovered from customers that are reflected on Schedule 3 and included in the calculation of the revenue requirement.

Q. What rate of return does Schedule 1 of Exhibit __ (AP-9) show?

A. The unadjusted rate of return in column 1 is 7.7 percent. After factoring in the adjustments to operating income, rate base but not the proposed rate increase, the rate of return on average rate base is 7.91 percent.

Q. What was the steam department's actual rate of return for the Historic Year of the twelve-months ended June 30, 2012?

A. As shown on Exhibit ___ (AP-1), Schedule 2, page 4, steam operating income for the Historic Year was $92,283,000. The steam department's average rate base for the Historic Year, as shown on Exhibit ___ (AP-8), was $1,512,862,000 producing an actual rate of return for the Historic Year of 6.10 percent. For the reasons explained throughout this filing, absent a rate reduction, the Company is projecting the higher return of 7.91 percent for the Rate Year.

Q. Please explain Schedule 2, page 1 of Exhibit __ (AP-9).

A. Schedule 2, page 1 details the New York State income tax computation for each of the 5 columns shown on Schedule 1. Column 1 of Schedule 2, page 1 is the calculation of New York State income tax expense for Steam operations. Starting with book operating income before income taxes as shown on line 1, we then set forth on lines 2-37 the various required tax adjustments to book operating income to determine taxable income as shown on line 38. We then compute on line 39 the amount of New York State income tax payable using the statutory rate applicable to such taxable income. From the New York State income tax payable so calculated, we reflect on line 40 normalizations for certain items reflected as adjustments to taxable income and other tax credits to arrive at New York State income tax expense as shown on line 41. The items detailed on column 2 of this schedule, which reflect rate case adjustments, are more fully detailed on Schedule 3 of this Exhibit __ (AP-9) and are discussed later. Column 3 is the sum of columns 1 and 2. Column 4 is the additional New York State income tax to be paid as a result of the additional revenue requirement and column 5 is the sum of columns 3 and 4.

Q. Please explain Schedule 2, page 2 of Exhibit __ (AP-9).

A. Schedule 2, page 2 details the federal income tax computation for each of the 5 columns shown on Schedule 1. Column 1 of Schedule 2, page 2 is the calculation of federal income tax expense for Steam operations. Starting with book operating income before income taxes as shown on line 1, we deducted on line 2 the amount of New York State income tax previously determined on Schedule 2, page 1 to arrive at book operating income before federal income tax on line 3.

We then set forth on lines 4-47 the various required tax adjustments to book operating income to determine taxable income as shown on line 48. We then compute the amount of federal income tax payable on line 49 using the statutory rate applicable to such taxable income. From the federal income tax payable so calculated, we reflect on lines 50-55 normalizations for certain items reflected as adjustments to taxable income as well as amortizations for items normalized in the Rate Year or in prior periods to arrive at federal income tax expense as shown on line 56. The items detailed on column 2 of this schedule, which reflect rate case adjustments, are more fully detailed on Schedule 3 of this exhibit and will be discussed later. Column 3 is the sum of columns 1 and 2. Column 4 is the additional federal income tax to be paid as a result of the additional revenue requirement and column 5 is the sum of columns 3 and 4.

B. OTHER OPERATING REVENUES – PASSBACK OF DEFERRED CREDITS

Q. Please explain the adjustments to other operating revenues as shown on Schedule 3 of Exhibit __ (AP-9).

A. Schedule 3 details the adjustments to operating income as shown on Schedule 1, column 2 by major income statement category.

Q. Please discuss the deferred credit items included in Other Operating Revenues on Schedule 3 of Exhibit __ (AP-9) that the Company is now proposing to refund to customers according to that Schedule.

A. Adjustments 1(a) through 1(m) reflect items for which there are deferred credit balances on the books of account that the Company is proposing to refund to customers. The proposed refund period for each item listed is three-years starting at the beginning of the Rate Year. The total amount of the credits for the Rate Year is $18.274 million.

Q. Please discuss the origin of the accounting credits to be refunded to customers as listed on Schedule 3 of Exhibit __ (AP-9).

A. There are several and we will address them in the order they appear. It should be noted that the amounts shown on Schedule 3 of Exhibit __ (AP-9) are based on projected credit balances as of the start of the Rate Year and, because they result from reconciliation mechanisms, the balances should be updated to actual, later known amounts.

Adjustment 1(a) reflects a refund over three years of the amount of Property Tax expense provided for in Case 09-S-0794 in excess of the actual expense incurred as determined by applying the property tax sharing mechanism under the current rate plan.

Adjustment 1(b) proposes to refund over a three-year period the estimated deferred pension and OPEB credit balance of $1,644,000 at December 31, 2013. We project that the deferred pension and OPEB costs of $16,624,000 at June 30, 2012 will be offset by $18,268,000 of credits to the deferral through December 31, 2013. Thus the deferred amount at the start of the Rate Year is estimated to be a credit of $1,644,000. A three-year amortization would be $548,000 per year. Deferral accounting for pension and OPEB costs is provided for by the Commission's Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions issued September 7, 1993 in Case 91-M-0890.

Adjustment 1(c) represents the refund over three years of the over recovery of long term debt interest costs. The over collection resulted from lower income tax payments that resulted from new tax legislation (i.e., Bonus Depreciation) that reduced the Company’s debt financing requirements and, more notably, the collapse of the variable rate tax exempt bond market which reduced the interest rate paid on this debt during the Historic Year to less than 1% as shown on Exhibit __ (AP-10), Schedule 5 that will be adopted later in our testimony.

Adjustment 1(d) reflects a refund over three years of estimated deferred carrying charges on net plant under runs during the current rate plan. The under run is attributable to projects not completed during the term of the rate plan approved in Case 07-S-1315. For the current rate plan approved in Case 09-S-0794, actual net plant additions are above the targets.

Adjustment 1(e) reflects the refund over a three-year period of the amount of restitution and recoveries received in connection with criminal activities committed by several former employees and contractors against the Company, plus interest.

Adjustments 1(f) and 1(g) are to pass-back to customers over three years rate base carrying charges avoided as a result of additional income tax deductions the Company was able to secure for (bonus) depreciation and the repair allowance deduction.

Adjustment 1(h) reflects the refund over a three-year period of carrying charges accrued on the variation between the forecasted Deferred Income Tax balance related to the Section 263A-1(a)(3)– Simplified Service Cost Method (SSCM) tax benefits included in rate base under the current steam rate plan and the actual net balance. There was an issue between the Company and the IRS regarding the acceptable method for calculating the SSCM deduction. That issue has been resolved and the Company proposes that the necessary reconciliations be resolved in this proceeding rather than in Case 04-M-0026, which the Commission instituted for that purpose. The actual deductions allowed by the IRS were significantly less than the Company originally deducted on its tax returns and the final deduction allowed and adjustments to resolve this matter with the IRS for tax years up through 2008 are now complete.

The Company has reflected a credit to customers of $4.9 million over three years in the revenue requirement in this filing based on the projected amount as of the beginning of the Rate Year. The Company will update that amount if necessary based on later known information.

Q. Returning to the other deferred credits on Schedule 3 of Exhibit __ (AP-9), please continue addressing the items in turn beginning with adjustment 1(i) related to interest on deferred balances.

A. **Adjustment 1(i)** refunds to customers over three years carrying charges accrued on the variation between the forecasted balance of deferred SIR costs reflected in rate base under the current steam rate plan and the actual deferred balance.

Adjustment 1(j) reflects a refund over three years of insurance and other recoveries in excess of the World Trade Center related costs and interest on those costs.

Adjustment 1(k) relates to the redemption of all outstanding shares of the Company's preferred stock on May 1, 2012. There is a net financing saving to the Company related to the redemption of the preferred stock. In an order dated January 19, 2012 in Case 08-M-1244, the Commission directed the Company to defer the net savings in total financing costs for the benefit of customers until base rates were reset. This adjustment reflects the refund to customers over a three-year period of these net savings.

Adjustment 1(l) reflects the refund over a three-year period of steam interference under-spending of $53,000, or $18,000 per year.

Adjustment 1(m) reflects the crediting to customers of the regulatory liability that Company witness Muccilo explains will be recorded due to over recovery of costs being amortized under the current rate plan. The amount shown of $0.988 million represents three monthly accruals, for the period October 1, 2013 through December 31, 2013, based on the $3.951 million annual amount developed in Mr. Muccilo’s testimony.

C. OTHER OPERATING REVENUES-RECOVERY OF DEFERRED CHARGES

Q. Please discuss the deferred charge items included in Other Operating Revenues on Schedule 3 of Exhibit __ (AP-9) that the Company is proposing to recover from customers.

A. There are several and we will address them in the order they appear. In each case the Company is proposing to recover the deferred charge over three years effective at the start of the Rate Year, except for adjustment 2(a) related to the amortization of environmental costs for which the Company proposes a five-year amortization. It should be noted that the amounts shown on Schedule 3 of Exhibit __ (AP-9) are based on projected deferred charge balances as of the start of the Rate Year and, because they result from reconciliation mechanisms, the balances should be updated to actual, later known amounts. The total amount of the charges for the Rate Year is $8.136 million.

Adjustment 2(a) reflects the five-year amortization of SIR costs estimated through the end of the Rate Year netted against the recoveries approved under the current rate plan. The amortization amount is $1.997 million. The use of a five-year amortization period is explained by Company witness Muccilo.

Adjustment 2(b) proposes to recover over a three-year period, deferred Medicare Part D costs of $1,470,000 at June 30, 2012, plus $241,000 of estimated increases to the deferral through December 31, 2013. Thus the deferred amount is estimated to be $1,711,000 at the start of the Rate Year. A three-year amortization would be $570,000 per year. The deferral represents the variation between the actual Medicare Part D tax deduction reflected in rates and the tax deduction permitted. Recent federal legislation eliminated the earlier exclusion of projected retiree reimbursements for prescription drug coverage from taxable income.

Adjustment 2(c) reflects the recovery over a three-year period of variations between the level of SO2 Allowances projected to be sold during the current rate plan and the actual revenues received. As discussed in the testimony of Company witness Price, the market for SO2 allowances has significantly diminished and for the foreseeable future, we do not anticipate there will be any significant revenue contribution from the sale of these allowances. Consequently, we recommend that the target amount of revenues currently reflected in rates be eliminated (i.e., be set at zero) but that the reconciliation of target and actual revenues continue.

Adjustment 2(d) proposes to recover over a three-year period the interest deferred as a result of various reconciliation mechanisms]under the current rate plan.

Adjustment 2(e) proposes to recover over a three-year period $100,000 of deferred consulting costs related to the Steam Peak Reduction Collaborative, as provided for under the current rate plan.

Adjustment 2(f) relates to Superstorm Sandy and represents the amortization over three years of incremental costs incurred in response to the storm. The costs remain subject to update. The storm affected 48 steam main segments (approximately 30 miles of steam pipe), caused the preemptive shutdown of the East River and Brooklyn Navy Cogeneration Partners Generating Stations and forced shutdown of the 59th and 74th Street Generating Stations (making nearly 90% of total steam generating capacity unavailable) and flooded a portion the First Avenue Steam Tunnel, among other consequences. The storm affected 561 customers, approximately one-third of all steam customers.

These incremental costs relate to, among other items, Company overtime labor, contract services for pumping flooded generating stations and steam main structures, equipment repairs including replacement parts from inventory or purchased as required, and hazardous waste disposal.

The costs reflected in the rate request will form the basis of a Company petition to the Commission for authorization to defer incremental costs of responding to Superstorm Sandy.

Adjustment 2(g) relates to the recovery of carrying charges associated with the gas addition projects at the 59th Street and 74th Street steam production plants. The Company's Steam Infrastructure and Operations Panel and Steam Fuel Panel explain the need for and other aspects of this project. The projected in-service dates are June 2013 for the 59th Street project and December 2013 for the 74th Street project. The Company intends to defer the recovery of and return on these investments and incremental depreciation from the in-service dates through December 31, 2013. The estimated deferral amounts to $1.7 million which the Company proposes to recover over three years. The basis for this deferral is that the current steam rate plan provides:

> The net plant targets do not include any costs associated with the 59th Street or 74th Street gas addition projects proposed by the Company in its initial filing. If, during the term of the Steam Rate Plan, the Company needs to install gas-burning capability (or implement other measures) at either or both stations in order to comply with a

> change in rule, law and/or regulation (*e.g.*, a change in the environmental laws relating to permissible levels of emissions from the Stations), <u>the Company's recovery of and a return on these investments, incremental O&M expenses, if any, and incremental property taxes, if any, will commence on the date that such equipment is placed in service,</u> subject to Commission approval of the petition described below. [emphasis added]

The Company submitted a petition for recovery of the gas additions in July 2011, explaining that the facilities were required to comply with new environmental regulations. The Company also requested accelerated recovery through the Fuel Adjustment Clause (FAC). The Commission rejected the request for accelerated recovery and advised the Company to seek recovery of prudently incurred costs associated with the projects through traditional base rate recovery in the Company's next steam filing.

D. DEPRECIATION AND AMORTIZATION EXPENSES

Q. Please explain the adjustment to depreciation expenses as shown on Schedule 3 of Exhibit __ (AP-9).

A. We are increasing depreciation expense by $9.484 million due to the proposed changes in steam depreciation rates, as discussed in the testimony of the Steam Property Tax and Depreciation Panel.

XII. RATE OF RETURN -- (AP-10)

Q. Is the Accounting Panel sponsoring an exhibit regarding the required rate of return?

A. Yes, we are sponsoring the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – RATE OF RETURN REQUIRED FOR THE RATE YEAR – TWELVE MONTHS ENDING DECEMBER 31, 2014," set forth as Exhibit ___ (AP-10), which was prepared under our direction and supervision for that purpose?

Q. Please describe Exhibit ___ (AP-10), Schedule 1.

A. Exhibit __ (AP-10), Schedule 1 shows the actual capital structure for the Company as of June 30, 2012, the average cost rate for each component of the capital structure and the related cost of capital. The Company's overall weighted cost of capital at June 30, 2012 was 7.64 percent.

Q. Please describe Exhibit ___ (AP-10), Schedules 2, 3, and 4.

A. These schedules show the projected average capital structure, the average cost rate for each component of the capital structure and the related cost of capital for the Rate Year and the two following twelve-month periods ending December 31, 2015 and December 31, 2016. The Company's overall weighted cost of capital for the Rate Year is projected to be 7.69 percent.

Q. How did you derive the amount of average long-term debt for each period?

A. To derive the average long-term debt for the Rate Year, we determined the amount of long-term debt outstanding at the end of each month from June 2012 through December 2014. We then utilized these amounts to calculate the average of long-term debt outstanding. We followed the same methodology for each subsequent period.

Q. How was the amount of long-term debt outstanding each month determined?

A. We estimated changes in the outstanding amount of debt from month to month during the linkage period from June 30, 2012 forward based on the funding requirements forecasted. Exhibit__ (AP-10), Schedules 5, 6, 7, and 8 list the actual and projected long term debt balance as of June 30, 2012 and forward. This resulted in the Company's forecasted issuances and scheduled maturities as follows:

The issuance of $900 million, 4.15 percent Series 2013A debentures on June 3, 2013;

The issuance of $420 million, 4.15 percent Series 2013B debentures on December 2, 2013;

The forecasted issuance of $530 million, 4.70 percent Series 2014A debentures on April 1, 2014;

The forecasted issuance of $600 million, 4.70 percent Series 2014B debentures on June 2, 2014;

The forecasted issuance of $470 million, 5.40 percent Series 2015A debentures on June 1, 2015;

The forecasted issuance of $560 million, 5.40 percent Series 2015B debentures on December 1, 2015;

The forecasted issuance of $500 million, 6.10 percent Series 2016A debentures on September 1, 2016;

The forecasted issuance of $500 million, 6.10 percent Series 2016B debentures on December 1, 2016;

The maturity of the $300 million, 5.625 percent Series 2002a debentures on July 1, 2012;

The maturity of the $500 million, 4.875 percent Series 2002B debentures on February 1, 2013;

The maturity of the $200 million, 3.85 percent Series 2003B debentures on June 15, 2013;

The maturity of the $200 million, 4.70 percent Series 2004A debentures on February 1, 2014;

The maturity of the $275 million, 5.55 percent Series 2009A debentures on April 1, 2014;

The maturity of the $350 million, 5.375 percent Series 2005C debentures on December 1, 2015;

The maturity of the $400 million, 5.50 percent Series 2006C debentures on September 15, 2016; and

The maturity of the $250 million, 5.30 percent Series 2006D debentures on December 1, 2016.

The forecasted amount of average long-term debt for the Rate Year is $10,839 million as shown on Schedule 6 of Exhibit ___ (AP-10).

Q. Does this forecast of debt issuances take into account the impact of the tax law changes enacted by the American Taxpayer Relief Act of 2012?

A. No. The Company was not in a position to take the potential impacts of the new law into account when the debt financing plan was developed. The Company will update its financing plan once the Company’s income tax strategy for 2013 and 2014 is developed and the related cash flow impact can be determined.

Q. Does the Company’s capitalization as filed in this proceeding include Preferred Stock?

A. No. During 2012 the Company redeemed all of its outstanding Preferred Stock and replaced it with long term debt. Debt Series 2012A was issued to provide the funds necessary to redeem the outstanding preferred stock. This matter was reviewed by the Commission in Case 08-M-1244.

Q. Please explain how you derived the average customer deposits, set forth on Exhibit ___ (AP-10), Schedules 2 - 4.

A. With respect to customer deposits, we started with the average balance outstanding at June 30, 2012 of $291 million. The balance is expected to grow by approximately 0.3% a month making the average of customer deposit balance for the Rate Year $317.8 million. The 0.3% monthly growth rate is based on the general rate of inflation.

Q. Please explain the change in Common Equity during the linking period from June 30, 2012 to the beginning of the Rate Year.

A. During the linking period from June 30, 2012 to the beginning of the Rate Year, we increased common equity for net income of $1.962 million and decreased it for common dividends of $1.249 million to the parent company.

Q. What is the average cost rate of CECONY's long-term debt?

A. CECONY's long-term debt is comprised of tax-exempt debt issued through NYSERDA and debenture bonds. The average annual cost rate of this debt is calculated by dividing the average annual interest requirements for all long-term debt issues, including the average annual amortization of the net amount of any premiums or discounts realized when the securities were sold and the cost and expense of issuance, by the amount of long-term debt outstanding. As shown on Schedules 6 through 8 of Exhibit ___ (AP-10), the average cost of long-term debt for the Rate Year is 5.18 percent, 5.26 percent for the twelve months ending December 31, 2015 and 5.40 percent for the twelve months ending December 31, 2016.

Q. What cost rate was assigned to customer deposits?

A. We reflected the current 1.65 percent cost rate, as mandated by the Commission. The Commission reviews this rate annually. We will update this rate for any change the Commission may decide with respect to customer deposits, at the appropriate time.

Q. What cost rate has the Company reflected as the rate of return for common equity?

A. We have utilized a return on common equity of 10.35 percent to calculate an overall rate of return of 7.6974 percent, which we used in determining the revenue requirement for the rate year. The return on common equity is based on Company witness Hevert’s testimony.

Q. Will the Accounting Panel update the rate of return at the appropriate time in this proceeding?

A. The rate of return may be updated as part of the Company’s rebuttal and update testimony if financial conditions at that time indicate a significant change.

Q. Is it your decision or do you participate in any decision making as to what CECONY’s dividend funding requirements to CEI will be?

A. No. The Board of Directors makes the dividend decision for CEI. We are not members of the Board of Directors nor are we participants in its meetings or meetings of the Finance Committee of the Board.

Q. Does that mean that your assumption of an estimated per annum dividend increase is not based upon any projections that the Board of Trustees may have made?

A. That is correct.

XIII. FUND REQUIREMENTS AND SOURCES -- (AP-11)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – FUND REQUIREMENTS AND SOURCES – TWELVE MONTHS ENDING DECEMBER 31, 2014," set forth as Exhibit ___(AP-11), prepared under your direction and supervision?

A. Yes, it was.

Q. What does Exhibit ___ (AP-11) reflect?

A. This exhibit reflects the Company's forecast of capital fund requirements and sources of capital funds, as well as certain financial statistics, for the Rate Year. Exhibit ___ (AP-11) shows that capital funds required during the Rate Year will exceed internal sources by $1,210 million.

Q. Please describe the items contained in the exhibit under the heading "INTERNAL SOURCES OF FUNDS."

A. The first item is retained earnings of $433 million. This estimate includes certain earnings and common dividend assumptions. For the Rate Year, net income for common stock is projected at $1,154 million, offset by projected common stock dividends of $721 million. The second item is depreciation. The third item is the amortization of net accounting credits. The forth item is net working capital requirements. The fifth item is deferred tax accruals, are funds provided principally by the use of tax depreciation subject to normalization. As we stated previously, the Board of Trustees makes the dividend decision for CECONY. We are not members of the Board of Trustees nor are we participants in its meetings or meetings of the Finance Committee of the Board and our assumption of an estimated per annum dividend increase is not based upon any projections that the Board of Trustees may have made.

Q. Please describe the next section of Exhibit ___ (AP-11).

A. The next section shows the projected debt issuances and changes to short-term borrowings for the Rate Year. Our projections show internal sources of funds will provide $1,466 million. External sources of funds from proceeds will provide $1,210 million. As a result the outstanding balance of commercial paper and temporary investments will be increased by $1,210 million at December 31, 2014.

Q. Please describe the items contained in this exhibit under the heading "USE OF FUNDS".

A. The first item, requiring the largest amount of capital funds, is Construction Expenditures of $2,182 million. This amount is consistent with the Company's five-year forecast of construction expenditures.

The second item shows the long term debt maturities during the rate year.

XIV. INTEREST COVERAGE – S.E.C. BASIS PER BOOKS – (AP-12)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – INTEREST COVERAGE – S.E.C. BASIS – PER BOOKS," set forth as Exhibit ___ (AP-12), prepared under your direction and supervision?

A. Yes, it was.

Q. Does your calculation of interest coverage only include the interest paid on long-term debt?

A. No. As shown in Exhibit ____ (AP-12), the interest coverage calculation also includes "other" interest.

Q. Please explain what is included in "other" interest.

A. “Other” interest is comprised of interest on the following items: customer deposits, commercial paper, customer overpayments and other miscellaneous items.

Q. Does the Company currently have lines of credit available to it?

A. Yes. The Company, along with CEI and O&R, has agreements with various banks for revolving credit lines of $2,250 million. However, assuming that CEI and O&R have not used their assigned portions of this credit, $1,000 million and $200 million, respectively, the Company can utilize the entire $2,250 million.

XV. COST ALLOCATIONS

Q. How did you allocate CECONY’s common costs between electric, gas and steam services?

A. We used the same allocations that have been effect since 1999. These percentages have been approved in every rate plan since 1999. Customer Operations and Customer Services costs were allocated electric (82%) / gas (18%). Administrative & General labor expenses were allocated electric (78.7%) / gas (16.2%) / steam (5.1%). Administrative & General non-labor expenses were allocated electric (81.14%) / gas (13.21%) / steam (5.65%).

Q. How did you allocate common costs between electric, gas and steam services, if they applied to O&R, as well as CECONY?

A. Administrative & General labor expenses were allocated electric (73.07%) / gas (15.04%) / steam (4.74%), with the remaining 7.15% pertaining to O&R. Administrative & General non-labor expenses were allocated electric (75.34%) / gas (12.26%) / steam (5.25%), with the remaining 7.15% pertaining to O&R.

Q. Does this conclude your testimony?

A. Yes, it does.