ACCOUNTING PANEL – ELECTRIC

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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 electric utility plant for the Historic Year through the Rate Year are presented in Exhibit ___ (AP-6);
- Common and general equipment capital projects for the Finance and Law organizations for 2012 through 2017 are presented in Exhibit ___ (AP-7);
- 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 revenue requirement of $375.364 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 effect of the proposed increase in rates as allocated between the Monthly Adjustment Clause (“MAC”) and delivery service rates (Exhibit ___ (AP-10);

- Historic costs and forecast changes in recovery of major maintenance costs related to Units 1 and 2 of the East River Generating Station ("ERRP") and major storm costs (Exhibit ___ (AP-11);
- The overall rate of return of 7.69 percent and the capital structure for the Rate Year (Exhibit ___ (AP-12);
- Fund requirements and sources of funds for the Rate Year (Exhibit ___ (AP-13);
- 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-14); 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 ten separate schedules containing financial data and the results of operations with particular reference to the Company's electric 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 - Electric Utility Operating Income before and after income taxes;
- Schedule 5 - Electric Operating Revenues by Amount and Equivalent Cents per kWh Sold;

- Schedule 6- Statement of Megawatthours Supplied and Revenue Billed by Classification of Service. This schedule also reflects revenue per kWh sold;
- Schedule 7 - Other Operating Revenues – Electric;
- Schedule 8 - Electric Operation and Maintenance Expenses. Schedule 8 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 kWh sold. Pages 2 through 8 show the details of the various functional groups by account number, in dollar amounts and in equivalent cents per kWh sold, except for pages 2 and 3, which show electric production expenses in equivalent cents per kWh generated and purchased;
- Schedule 9 - Power Production Expenses – Electric including equivalent cents per kWh generated and purchased for the year 2011; and
- Schedule 10 - Taxes Other Than Income Taxes – Electric.

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 kWh 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 – ELECTRIC - FOR THE TWELVE MONTHS ENDED JUNE 30, 2012 " consisting of 7 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 4 set forth the calculation of federal income tax for electric operations, including accruals, deferrals and amortizations of deferrals for the Historic Year. Pages 5 through 7 show the calculation of New York State income tax for electric 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 – ELECTRIC – 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 – Electric – by utility plant account at December 31, 2008, 2009, 2010, 2011 and June 30, 2012. The amounts shown for Electric 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 Electric 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 ELECTRIC PLANT -- (AP-4)

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – ACCUMULATED PROVISION FOR DEPRECIATION OF ELECTRIC 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 Electric 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 Electric 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 Rear estimate shown in Column 3. The Historic Year revenues and costs were developed from various schedules from Exhibit ___ (AP-1). Total electric 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 4 and 5 of Schedule 1 detail the electric depreciation and amortization expenses. Page 6 details the costs classified as taxes other than income taxes.

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

A. The Company's Electric Forecasting Panel provided us with the sales revenue forecast and is addressed in their testimony. Fuel and purchased power costs were developed by Company witness Kimball. We adjusted the fuel costs to an accounting basis to reflect the deferred accounting for these costs prescribed by the Commission as implemented through the Monthly Adjustment Clause ("MAC") and the Market Supply Charge ("MSC").

Q. How were Other Operating Revenues, and Other Operating Income Deductions, as shown on line 2 and lines 86 - 89 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 4 and 5. 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 12 new categories of expenses. We added Load Dispatching &

PJM Wheeling and Other Fuel Charges (lines 2 and 3) separating the Load Dispatching and Other Fuel charges from Fuel & Purchased Power (line 1) and the PJM Wheeling costs from Rents-General (line 65). We added Bargaining Unit Contract Cost (line 12), Company Labor – Fringe Benefit Adjustment (line 19), Environmental Programs (line 34), Smart Grid (line 72), and Uncollectible Expenses – Sundry (line 79) in order to show the Rate Year amounts for these items with better clarity. We added Demand Response Programs (line 24), RCA – Levelization of Rate Increase (line 59), Regulatory Commission Expense – 18-a Assessment (line 62), and Regional Gas Greenhouse Initiative (line 63), to segregate these items that need to be excluded from the Revenue Requirement, as explained below. Finally, we added Management Audit Savings (line 46) to segregate these identifiable Rate Year savings, which are explained in the testimony of the Management Audit Panel. 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 electric, 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 electric O&M expenses subject to escalation. Page 1 relates to general escalation and page 2 to labor 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 $188.424 million is forecast to increase by $48.859 million for a Rate Year level of $237.283 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 53 items.

Line 1, Miscellaneous Service Revenues: This is the Company's forecast of various charges to customers resulting from miscellaneous tariff charges. The charges are for "no access," meter recovery, meter reconnection and collection charges for field calls and others. The forecast for the Rate Year represents the historic three-year (July 2009 through June 2012) average of these revenues which is $699,000 less than the Historic Year level. We note that in the Company's last electric rate case, Case 09-E-0428, the Company's rate year forecast of these revenues was also based on the historic three-year average which was $2.7 million higher than the amount for the historic year in that case.

Line 2, Rent from Electric Property: This represents income from cable TV pole attachments, easements and various amounts billed by the Company for usage of its transmission and distribution facilities. The forecast of revenue includes an analysis of the terms of the Company's rental agreements. The forecasted decrease of $1.8 million from the Historic Year to the

Rate Year reflects the expiration of leases for phone lines in the Company's conduit that will not be renewed. The decrease is also attributed to normalizing a prior period adjustment reflected in the Historic Year related to the Ramapo Phase Angle Regulator Facilities carrying charge billed to NYISO.

Line 3, Interdepartmental Rents: This revenue, projected to be $16.931 million in the Rate Year, represents carrying charges that the electric department charges the gas and steam departments for electric facilities used jointly with gas and steam. Carrying charges on shared facilities include components for rate of return on net plant investment, depreciation and taxes. The Interdepartmental Rents revenue for the Historic Year and Rate Year were derived from the joint usage of the head house at Hell Gate Station with the gas department, facilities at the East River station with the steam department and a portion of common utility plant. Changes in revenues for the electric department are offset by changes in interdepartmental rent expense for the gas and steam departments.

Line 4, Transmission of Energy and Line 5, Transmission Service Charges ("TSC"): Transmission of Energy on line 4 represents revenues from the transmission of energy under bundled "grandfathered" firm transmission agreements primarily with NYPA, LIPA, and three municipalities on Long Island. Transmission contracts with the Long Island municipalities (Villages of Freeport, Greenport, and Rockville Center) will expire in April 2013; therefore, the Rate Year forecast reflects only revenues from NYPA and LIPA and that amount is projected for the Rate Year at the Historic Year level because these revenues do not normally fluctuate from year to year.

Transmission Service Charges ("TSC"), line 5, represents daily transmission wheeling transactions scheduled through the NYISO. The Company proposes to maintain the current level of revenues imputed in rates of $15 million. Effective April 1, 2008 with the Commission's Order in Case 07-E-0523, under the MAC, variations in the level of TSC revenues received from non-firm transmission contracts compared to the levels imputed in rates are deferred for the future benefit or recovery from customers. Because these revenues cannot be estimated with any reasonable degree of certainty, that treatment should continue.

Line 6, PCS Antenna Installation: These revenues represent the net profit received from Nextel for accommodation work performed by the Company's System and Transmission Operations Department. Revenues from this source are infrequent and variable due to necessary work required. As has been the practice in Company rate cases, we have not reflected any such revenues in the Rate Year forecast.

Line 7, Maintenance of Interconnection Facilities: The Rate Year amount of $2.353 million reflects a projection for the net reimbursement of certain expenses the Company incurs for the interconnection of the East Coast Power plant to the Con Edison system. The projection is based on carrying charges on COGEN Interconnect Facilities from nine customers currently using the services.

Line 8, Excess Distribution Facilities: This represents tariff payments from customers for distribution facilities provided by the Company in excess of those normally provided. The Rate Year amount of $3.113 million is based on the historic three-year (July 2009 through June 2012) average of these revenues.

Line 9, Late Payment Charges: This includes revenues from residential and non-residential customers. The Rate Year estimate is based on the Historic Year ratio of late payment charges to sales revenues. That factor of 0.385% was then applied to the Rate Year sales revenue forecast to arrive at late payment charges of $30.904 million.

Line 10, Revenues from Meter Reading Services: The Company had been receiving revenue for reading water meters for the City of New York. The City has been phasing-out the use of Company personnel for that purpose over the last several years and completed doing so in December 2011. Consequently, our forecast assumes no revenue will be received in the Rate Year.

Line 11, Revenues from The Learning Center: These revenues result from providing training and conference services to outside parties. The Rate Year forecast is based on the historic three-year (July 2009 through June 2012) average of these revenues.

Line 12, Fuel Management Program: This represents the electric 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 in the Company's concurrent steam rate filing.

Line 13, Facilities Fees – KeySpan and NRG: This line item represents revenues KeySpan pays the Company as an annual facilities charge for the use of equipment at the Ravenswood generating station and facilities charge payments to the Company by NRG for NRG's use of equipment at the Astoria generating station. A three-year (July 2009 through June 2012) average was used to project the Rate Year level of revenues for these facility charges.

Line 14, Proceeds from Sales of TCCs: We have included on line 14, $120 million of projected auction proceeds from the sale of Transmission Congestion Contracts ("TCC") which is the level of revenues set in the current rate plan. Variances between the actual amount of revenues achieved and the levels included rates are surcharged or passed back to customers over period varying from six to twelve months through an existing tariff mechanism in the MAC and that approach should continue due to the significant uncertainty concerning future levels of these revenues.

Line 15, POR Discount: POR Discount represents the discount on receivables purchased by the Company from ESCOs. The Company projects the Rate Year level of the POR discounts to be the historic three-year average for July 2009 through June 2012.

Line 16, KeySpan Inside Del Credit: This represents a credit for Company's use of equipment at Keyspan. TransCanada supplies oil to the Ravenswood Steam Plant via pipeline to the 74th Street station, and the oil is metered by both parties with the TransCanada meters. The Company has an agreement to supply steam to heat the Lemon Creek fuel barge and switch off with Ravenswood TransCanada supplying the steam. The pumps that circulate the oil are used by both parties and the electricity is measured on the customer's meter. The Company gives Transcanada credits for the electricity used by the pumps for our purposes. The credits are calculated based on the oil percentage that is used by the Company. The Rate Year amount is based on the three-year average for July 2009 through June 2012.

Line 17, ESCO Funding Fees: These are amounts collected from ESCOs to reimburse the Company for Call Center labor costs under the PowerMove program. This program began in April 2011, shortly before the beginning of the Historic Year. The Rate Year forecast was kept at the Historic Year level.

Line 18 – ESCO Internet Daily/Weekly: This line represents fees paid to the Company by ESCOs for interval data provided on a daily or weekly basis. The Rate Year forecast is the three-year average for the period (July 2009 through June 2012).

Line 19, Transmission Netting Credit: This line represents credits given to Entergy for the Indian Point facility for station power electric usage. The credits are related to the FERC legislation for the station power netting program. The legislation states that electric usage for generating station purposes should not be charged a transmission component. Since our conventional rates include the transmission piece, a manual transmission credit is calculated and credited to their accounts. The Rate Year amount is based on the three-year average for the period (July 2009 through June 2012).

Line 20, 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 21, Substation Operation Services and Line 22, Fees: These are revenues associated with work done for third parties. The Rate Year forecast is based on a three-year average for the period of July 2009 through June 2012.

Line 23, 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 24, Dishonored Check Fees: The fees collected from customers for dishonored checks were relatively small during the Historic Year. We have projected the Rate Year level to be that same amount.

Line 25, Reserve for 05-08 Capital Expenditures: This represents the revenue recorded by the Company to offset the revenue requirement effect of capital expenditures in order to limit recovery to the level directed by the Commission's March 26, 2010 order in Case 07-E-0523. The amounts of such revenues are specified in the March 26, 2010 order, which was effective April 1, 2010.

Line 26, EEPS Program Revenue Adjustment: This represents the reversal of a negative revenue adjustment related to the Company's EEPS performance. The negative revenue adjustment was accrued by the Company in 2010. Based on recent changes by the Commission in the methodology for measuring EEPS performance, the negative revenue adjustment will not be imposed. The Rate Year projection is zero.

Line 27, Electric Service Reliability Rate Adjustment: The Company recorded a negative revenue adjustment in connection with the Customer Average Interruption Duration Index ("CAIDI") aspect of the electric service reliability performance mechanism under its current electric rate plan. This is not forecasted to recur during the Rate Year and was, therefore, normalized out of the projection of Other Operating Revenues. We later discuss the crediting of the amount to customers.

Line 28, Retention of Property Tax Refund Incentive: This relates to the Company's retention for shareholders of 14 percent of various property tax refunds as allowed under its current electric rate plans. Because these revenues are retained by the Company, they are not included in the Rate Year revenue requirement.

Line 29, DC Service Incentive: The revenues recorded represent an accounting adjustment recorded to amortize remaining DC Service Incentive program credits. This program originally provided incentives for Direct Current (DC) customers to convert to Alternating Current (AC) and has ceased.

Line 30, Electric RDM Reconciliation: This represents the accounting adjustments recorded by the Company to implement the Revenue Decoupling Mechanism in place under its current electric rate plan. It relates to the deferral of the variation between the actual delivery revenues billed and the established target level. Such deferrals are not projected for the Rate Year.

Line 31, System Benefits Charge – Deferral: This reflects the reconciliation of SBC revenue collections with the level of expense as required by the Commission. Such deferrals are not projected for the Rate Year.

Line 32, TCC Auction Proceeds: This revenue is recorded to offset sales revenue reductions for wholesale customers for their portion of TCC auction proceeds which are refunded on a monthly basis.

Line 33, Purchased Capacity from Customers: This represents the accounting entries related to the purchase of installed capacity from customers under the tariff leaf, Rider P – Purchase of Installed Capacity. Under Rider P, the Company pays the customer for each kW of installed capacity and includes the amounts as part of the monthly MSC and MAC calculations for recovery from all customers. At the time of purchase, purchased power expense is charged and a regulatory liability account is credited. When the Company recovers the cost from customers, the liability account is charged and an Other Operating Revenue account is credited. The Company's forecast of MSC and MAC revenues match the forecast of purchased power costs and as a result we have normalized this accounting adjustment out of Other Operating Revenues for the Rate Year.

Line 34, Sithe Agreement: This represents subordinated payments we receive from Sithe Global Power for above-market NUG (Non-Utility Generators) contracts. The payments received are credited to customers through the MAC. The Rate Year amount of $1.698 million is based on the existing contract with Sithe that expires October 2014 with the subordinated payments remaining to be made through September 2014.

Line 35, MFC – Lost Supply Revenues: This represents the variation between the level of Merchant Function Charge supply revenues collected from full service customers and the actual amounts received during the Historic Year. The variation is the result of customers switching to retail access suppliers (ESCOs), who bill the retail access customers for their supply costs. Such variations are not projected for the Rate Year.

Line 36, Hedging Program Interest: This line reflects a reclassification of interest assessed on funds advanced for the program to Interest Income.

Line 37, ESCO/Marketers – Bill Charges: These are billing and payment processing charges the Company collects from ESCOs for consolidated billing services. These revenues were excluded from the Rate Year forecast of Other Operating Revenues and are included in Sales Revenue. The Forecasting Panel addresses these revenues in total and will update their projection as part of the update stage of this case.

Line 38, Amortization of Temporary Credit (Case 12-E-0008): This revenue represents the Company's retention of certain deferred credits as an offset to the Commission's elimination of a temporary rate increase that was scheduled to go into effect April 1, 2012 under the Company's current electric rate plan. This is being done pursuant to the Commission's March 22, 2012 order in Cases 12-E-0008 and 09-E-0428. The matter is explained in more detail by Company witness Muccilo. It has no effect during the Rate Year.

Line 39, ERRP Maintenance Accounting: This relates to the Company's use of reserve accounting for major maintenance costs for Units 1 and 2 at the East River Generating Station as has been adopted by the Commission in the Company's last several electric rate cases including its most recent, Case 09-E-0428. The reserve accounting is based on rate allowances of $7.5 million, $7.6 million, and $7.7 million for the first, second and third rate years, respectively, under the Company's current electric rate plan.

Q. Does that conclude your description of each item of Other Operating Revenues shown on page 2 of Schedule 1 of Exhibit __ (AP-5)?

A. No, we discuss the Regulatory items, lines 40 – 53, below. But first, we would like to address two of the above subjects more fully. They are revenues from accommodation work for third parties (Line 21, Substation Operation Services and Line 22, CES Management Fees) and Line 39, ERRP Maintenance Accounting related to major maintenance costs for Units 1 and 2 at the East River Generating Station.

Q. What additional comments would you like to make regarding the accommodation work that the Company performs for third parties?

A. Accommodation billings are pursuant to General Rule 17.2 of the Company's electric tariff which lists the elements of cost charged for special services performed by the Company. The Rate Panel has updated a number of tariffs that outline the overhead rates currently applied to accommodation billings. If the updated overhead calculations and associated tariffs are approved by the Commission, the Company would reflect these updates effective with the start of the Rate Year. As discussed below, several of the overhead rates will increase and others will decrease. The stores handling rate has decreased from 14.5% to 7.5%; the corporate overhead rate for engineering, drafting, administration, and inspection related to special services has increased from 20% to 48%; and the corporate overhead rate applicable when the labor cost for engineering or drafting services is decreasing from 4% to 3%.

The corporate overhead is made up of three components: Engineering, Construction Management, and Administrative & General support. The increase in this rate is primarily due to the increase in the Construction Management overhead. Since not all accommodation work requires Construction Management supervision, we also would establish another overhead rate of 16%, which covers only two components: Engineering and Administrative & General support. The new rate would result in a reduction of the overheads billed on accommodation work for the majority of customers.

Q. What additional comments would you like to make regarding major maintenance costs for Units 1 and 2 at the East River Generating Station?

A. The Company's East River Units 1 and 2 began commercial operation in April 2005. In Case 04-E-0572 the Company was allowed rate relief for, major maintenance costs expected to be incurred for each of the units. These costs have been reflected in rates on a levelized basis since that case. Beginning in Case 04-E-0572 and continuing through Case 09-E-0428, the Commission adopted the use of reserve accounting for these costs.

The Company defers the variation between the levelized rate allowance and actual expense. To accomplish this, the Company's books reflect the rate allowance ratably in an expense account with a concomitant credit to a liability account. As actual costs are incurred, they are also charged to maintenance expense. The revenues of $29.1 million on line 39 of Schedule 2 of Exhibit __ (AP-5) reflect the variation between the actual expenses incurred and the rate allowance during the Historic Year. That is, actual expenses exceeded the rate allowance by that amount during that period. This item has been normalized for the Rate Year meaning that variations from the rate allowance requested by the Company in this proceeding, although they would not be unexpected, are not projected. The actual and projected expenditures related to the major maintenance program are discussed by the Company's Electric Production Panel.

Q. Does the Company have a proposal in this proceeding regarding the accounting and ratemaking treatment of these costs?

A. Yes. As explained by Company witness Muccilo, the Company proposes to continue the use of reserve accounting with a current rate allowance for these costs as allowed in recent cases.

There was a deficiency in the reserve account of $23.157 million at June 30, 2012. As we discuss below, we propose to recover that $23.157 million deficiency over three years.

Exhibit ___ (AP – 11) entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – EAST RIVER MAINTENANCE

EXPENSES – DEFERRAL – JULY 1, 2012 – DECEMBER 31, 2018" set forth as Exhibit ___ (AP-11), which was prepared under our direction and supervision, shows the estimated spending for these units over the next several years as provided by the Company's Electric Production Panel. As shown on Schedule 1, Pages 1 and 2 of the exhibit, the Company anticipates spending $45 million in outage related costs between January 2013 and December 2018. We estimated the spending from July to December 2012 to be approximately $2.4 million, based on actual spending of July to November 2012. Under the current rate plan, the Company is collecting $7.739 million for outage costs per year so for the eighteen-month period of July 2012 through December 2013 the Company will collect $11.609 million. We propose to collect the remaining $35.791 million ($47.4 million July 2012 – December 2018)less 11.609 million) over five years starting at the beginning of the Rate Year by setting the annual reserve allowance to $7.158 million ($35.791 million / 5 = $7.158 million). The decrease in the annual reserve accrual from $7.739 million to $7.158 million is $0.581 million.

Q. Turning to the grouping entitled Regulatory Accounting on page 2 of Schedule 1 of Exhibit __ (AP-5), please explain the types of items included in this category of Other Operating Revenues.

A. These items reflect the accounting impacts of various Commission decisions and they generally are not applicable to the Rate Year. This category includes the effect of accounting entries made to defer variations between actual costs and the rate allowances for items subject to true-up and to record the amortization of previously deferred costs and credits.

Q. Please describe each item of Other Operating Revenues in the Regulatory Accounting section of page 2 of Schedule 1 of Exhibit __ (AP-5).

A. We will do so addressing each item in sequence. There are 14 items. They are lines 40 through 53.

Line 40, Property Taxes; This represents the deferral of property tax expense underruns as compared to the target levels reflected in rates in Case 09-E-0428. The amortization or passback of the forecast deferred balance at December 31, 2013 is shown on

Exhibit___(AP-9), Schedule 4. Variations are not projected for the Rate Year.

Line 41, Interest Rate Deferral: This represents the net variation between the cost of long term debt reflected in rates and the Company's actual cost during the Historic Year. The interest rates will be reset in this case and as a result, this variation is assumed to be zero in the Rate Years.

Line 42, Deferred Plant Carrying Charges: This represents amounts deferred for credit to customers resulting from net additions to utility plant being less than reflected in rates in Case 09-E-0428. The variation is primarily attributable to the timing of the implementation of the Company's new financial system "Project One", and lower spending on electric production and general plant projects.

Line 43, Customer Cash Flow Benefits: This item includes the carrying charges the Company has deferred for the benefit of customers resulting from cash flow benefits received from the change in tax depreciation rates referred to as Bonus Depreciation and tax savings associated with the Company's repair allowance deduction. Such deferral is required under the Company's current electric rate plan.

Line 44, Amortization of T&D Deferral – Case 09-E-0428: This represents the annual amortization established in Case 09-E-0428 of prior period deferrals of carrying charges pursuant to the rate plan adopted by the Commission in Case 07-E-0523. The amortization will continue through March 31, 2018.

Line 45, Amortization Other Net Deferred Costs - 09-E-0428: This reflects the amortization of deferred costs that will be fully amortized as of March 31, 2013 under the current rate plan.

Line 46, Municipal Infrastructure Support: represents the accounting adjustment recorded by the Company to defer the variation between the actual interference cost incurred and the level of expense reflected in rates in Case 09-E-0428. In 2012, after several years of delays, relocation projects associated with the City of New York's Water Tunnel #3 project began. As a result, the Company expects that underruns of interference costs recorded through June 30, 2012 will be offset by spending above the rate allowance target through December 31, 2013.

Line 47, Revenue Furnace Brook Lake: The $150,000 in the Historic Year represents the deferral of funding provided in Case 09-E-0428 for later refund to customers under a plan related to the sale of property pursuant to Case 11-M-0083. The Company is proposing to refund this and other deferred amounts over three years, as discussed below.

Line 48, New York State Gross Receipts Tax - Power for Jobs Credit: This represents the actual credits received by the Company during the Historic Year that have been deferred for the benefit of customers. This job credit has been legislatively eliminated and replaced by the "Recharge New York" program.

Line 49, 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 50, PSE&G Wheeling Service Deferral: This represents transmission rents for the Public Service Electric and Gas Hudson Farragut Transmission Line. The contract for this service expired April 30, 2012.

The Company began deferring monthly amounts of the level of rents provided in rates effective May 1, 2012, for the purpose of offsetting the Company's recovery of PJM OATT charges through the MAC for the contemporaneous period commencing May 1, 2012. The details of this proposal are set forth in the Company's July 9, 2012 letter to the Commission, which was docketed in Case 09-E-0428.

Line 51, Reactive Power Deferred Revenues: This represents the deferral of amounts collected from customers due to insufficient power factor or efficiency circumstances. The deferral is required by the Commission's September 22, 2009 order in Case 08-E-0751.

Line 52, WTC Carrying Costs: The represents the net amount of carrying charges accrued on the average deferred World Trade Center cost balance during the Historic Year.

Line 53, 263A Deferred Taxes: This represents the carrying costs attributable to the difference between the rate base amounts for deferred 263A tax benefits projected in rates and the actual amount.

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 $789.854 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 4 and 5.

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 real estate and special franchise taxes and Westchester County and other upstate county property taxes for the Historic Year applicable to electric operations of $949,000,000 and $104,000,000, respectively. The Rate Year forecast totaling $1,257,463,000 was provided to us by the Company's Property Tax and Depreciation Panel and is described in their testimony. Line 3 represents the reconciliation of actual property taxes to the levels established in base rates in Case 09-E-0428 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 6, of Exhibit __ (AP-5)?

A. Revenue taxes derived from MAC and MSC revenues as included in the Electric Forecasting Panel's electric sales revenue forecast are $232,785,000. To this, we added revenue taxes applicable to Other Operating Revenues, such as late payment charge revenues and others, in the amount of $3,360,000 for a total of $236,145,000.

Q. Please describe the increase in Payroll Taxes from the Historic Year to the Rate Year indicated on line 5 of 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 electric operations. This factor was then applied to the projected level of payroll to arrive at the Rate Year level of payroll tax expense of $60,366,000. 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. In the Historic Year, this amount was negative due to the receipt of refunds. We normalized this item for the Rate Year.

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 the tax that New York City imposes on Consolidated Edison. The tax is based on the Company's capitalization. The Rate Year forecast of the subsidiary capital tax was based on the average historic growth in the Company's capitalization from 2005 through 2010 and the allocation of the tax to electric operations is $6,905,000.

Q. Please explain the Receipts Tax on line 8.

A. This tax is imposed by New York City on gross receipts derived from electricity sold in certain parts of the

Boroughs of Staten Island and Brooklyn. Payments of this tax to a municipality under franchise agreements are deductible from the Special Franchise property tax, as provided in Section 626 of the Real Property Tax Law. As to the Rate Year, property taxes forecasted by the Company's Property Tax and Depreciation Panel reflect this deduction.

Q. Please describe All Other Taxes on line 9.

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 $3,554,000 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 7, are you responsible?

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

Line 3, ERRP Major Maintenance: This normalization adjustment removes from the calculation of the Rate Year revenue requirement the effect of applying reserve accounting to the $29.1 million variation between the expenses incurred for the major maintenance of Units 1 and 2 of the East River Generating Station as compared to the rate allowance during the Historic Year.

Line 5, Hudson-Farragut Amortization: This adjustment is to eliminate an amortization that will expire prior to the Rate Year.

Line 6, PSE&G Wheeling: This adjustment is to eliminate the cost of an energy exchange agreement with PSE&G that expired April 30, 2012.

Line 15, Demand Response Programs: This adjustment is to remove from the revenue requirement an expense that is recovered through the MAC. The Company's filing does not include any projected MAC revenues for recovery of the cost of these programs, so there is no impact on the Company's revenue requirement.

Line 17, 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 18, Executive Annual Variable Pay: This normalization adjustment eliminates the cost of the executive variable pay plan. 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 19, Employee Welfare Expenses: The total normalization for this element of expense is a decrease of $3,801,000. As shown on Exhibit CBP-9, 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 $669,000 increase related to the Deferred Income Plan, which we will discuss. 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 20; 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 21, 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 and is discussed in further detail in the Shared Services normalization section (Line 34).

Line 22, 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 electric rate plan.

Line 23, 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 24, 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 25; 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 overaccrual related to a prior period. This normalization eliminates the out of period adjustment during the Historic Year to the water accrual.

Line 26, 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 27, Austerity: This adjustment removes the Historic Year effect of the austerity imputations reflected in the revenue requirements under the Company's current electric rate plan.

Line 29, 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 for any of these returning employees. The $1,507,000 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 30, Insurance: This adjustment is to eliminate an out of period life insurance premium payment.

Line 32, Business Ethics & 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 33, Fringe Benefit Adjustment: This adjustment represents the increase in pensions and OPEBs, employee welfare expenses, and workers' compensation related to the increase in employees, through normalization adjustments, as sponsored by various Company witnesses, including the Accounting Panel.

Line 34, Shared Services: This item reflects an accounting reclassification. The Historic Year level of shared service costs 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, the pension, OPEB and health insurance costs will be included under PSC account 926, while the payroll tax costs will be included in account 408. The $18.2 million adjustment reflects the electric portion of this adjustment.

Line 35; 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 $966,000 removes the electric 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.

Line 3, Rents – ERRP: This adjustment represents an increase of $3.295 million in the electric department's share of annual carrying charges on the investment in the East River Repowering Project due to higher property taxes offsetting the lower return on the declining rate base.

Line 7, ERRP Major Maintenance: This decrease of $480,000 is necessary to reflect a Rate Year amount of $7.158 million. Based on the schedule of maintenance costs through December 2018, the Company anticipates it would have a deferral of $35.7913 million, in the absence of rate relief. An annual amount of $7.158 million reflects one fifth of the $35.791 million. This method of establishing the rate allowance for this item is that as has been used in prior Company proceedings.

Line 10, Interdepartmental Rents: The $842,000 decrease shown for Interdepartmental Rents is comprised of a $1.5 million decrease in the rent to Steam for the 74th and 59th Street stations and a $658,000 increase for all other rents. The change in the rents for the 74th and 59th Street stations is discussed by the Company's Steam Fuel Panel in the

Company's concurrent steam rate filing. The $658,000 increase in the other rents is due primarily to an increased investment in the Ravenswood tunnel.

Line 18, Storm Reserve: This increase of $15.827 million is required to reflect a Rate Year amount of $21.2427 million, which is the four-year average of major storm costs incurred between July 2008 and June 2012. That rate allowance would be used in the reserve accounting for this item. Company witness Muccilo addresses the Company's view that including Superstorm Sandy costs in determining the appropriate major storm reserve accrual would be premature at this time but that the level of the major storm allowance should be revisited in this proceeding.

Line 20, Uncollectibles: The Rate Year level of uncollectible accounts expense is estimated to be $75,568,000, an increase of $3,013,000 above that reflected in the Historic Year. The Company's uncollectible factor, write-offs as a percent of revenues equates to $0.81/$100 for the 12 months ended June 30, 2012. We applied this factor to the Rate Year levels of sales revenues and late payment charges and that resulted in uncollectible accounts expense of

$65,269,000. The remaining $10,299,000 is the uncollectible accounts expense related to revenues from ESCOs billed through the POR Discount Rate. We intend to update for the uncollectible rate during the proceeding as has been customary practice.

Line 21, Collection Agency Fees: The Historic Year includes $1.1 million for collection agency fees and $0.8 million for payment agency fees. The program change of $153,000 represents the electric portion of an estimated increase for collection agency fees. Based on the total accounts for collection sent to agencies, these fees are paid to the agency upon collection of the balance. The rate level requested is based on recent history as well as the fee structure of payments made to collection agencies. For the second part, fees associated with third party collection agencies used to assist in the recovery of uncollectible bills, is estimated to be at the Historic Year level. The sum of the two for the Rate Year, including escalation, is forecast at $2.2 million.

Line 28, 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 electric is $43.7 million. With escalation, the Rate Year amount for injuries and damages is $45.9 million.

Line 29, Institutional Dues and Subscriptions: This adjustment of $109,000 is to reflect the three-year (July 2009 through June 2012) average for this element of expense.

Line 30, Insurance: The increase of $5,020,700 primarily represents increases in premiums for liability insurance ($3.3 million), property insurance ($1 million) and in the Workers Compensation Board assessment charge ($0.6 million). 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 32, Outside Legal: This adjustment of $89,000 is to reflect a three-year (July 2009 through June 2012) average cost for use of outside legal services.

Line 33, 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 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 $23 million decrease in OPEB expense.

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

A. The net amount of the actuarially determined level of expense for employee pensions/OPEBs and other payments, net of capitalization, allocable to electric for the Historic Year is $382 million. The Rate Year estimated cost allocated to electric is $393 million. This $11 million increase consists of a program change increase of $24 million offset by a normalization adjustment decrease of $13 million discussed previously in the normalization section of our testimony. The $24 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 the 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.

Line 36, Electricity and Gas Used: The $243,000 decrease to a Rate Year level of $3.175 million represents the forecast of electricity and gas used at various Company locations, other than for the production of electric or steam boiler fuel. The Rate Year forecast for this cost is based on the historic usage of electricity and gas and the use of the latest cost rates per unit of usage. The latest rates, which are based on an annual time study effective January 2013, are 12.34 cents/kwh for electric and $3.98/dth for gas.

Line 37, Financial Services: The increase of $2.808 million 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 38, Regional Greenhouse Gas Initiative: We removed the Historic Year expense of $6,711,000, because it is collected through the MAC.

Line 39, Renewable Portfolio Standard: This adjustment matches expenses that are collected as a separate surcharge through the MAC with the related MAC revenues to avoid a revenue requirement effect.

Line 40, Regulatory Commission Expenses: The increase of $898,000 is comprised of a $1,236,000 increase related to the PSC Assessment and a $339,000 decrease 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.

Line 41, 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 42, DSM: This adjustment increases expenses that are collected through a separate surcharge through the MAC and are an offset to those MAC revenues.

Line 43, 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 $193.8 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 $6.90 million.

Line 44, Duplicate Miscellaneous Charges: Duplicate miscellaneous charges is made up of credits for charges made to operating expenses or other accounts for the Company's own use of utility service. The increase in duplicate miscellaneous charges of $691,000 for the Rate Year is the result of the annual time study that decreases the 2012 rate of 13.21 cents/kwh to the rate of 12.34 cents/kwh, which will be effective January 2013.

Line 46, System Benefit Charge: This adjustment increases expenses that are collected through a separate surcharge through the MAC and are an offset to those MAC revenues.

Line 47, Smart Grid: As part of case 09-E-0310, in November 2009, the Company was awarded a $45 million Smart Grid Demonstration Project ("SGDG") from the DOE to identify, develop, and test new technologies within the electric delivery system that will help build a smarter, more efficient grid. The PSC has authorized a portion of the Company's costs for the SGDG ($16.4M) to be recovered from customers over a 5-year period. These costs are recovered through the MAC as they are expended. The program change of $508,000 reflects 5-year amortization of expenditures booked through September 2012.

Line 50, Sundry Uncollectibles: This $947,000 decrease to Sundry Uncollectibles results in a Rate Year amount of $548,000. The Rate Year amount is based on a five-year average for the period July 2007 through June 2012.

Line 51, 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 provided further explanation regarding these departments later in our testimony

Line 52, 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 53, Legal: As we discuss below, the Company’s Law Department is seeking to upgrade its Case Management System and its Document Imaging System. This $150,000 increase to Company labor reflects the electric portion of the salaries for two new positions which will be filled during the first quarter of 2013.

Line 55, 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 $330,000 program change for electric.

Line 56, Project One: This increase of $4,765,000 is comprised of two programs. An increase of $2,492,000 related to Project One labor support, as discussed in the testimony of the Electric Shared Services Panel and a $2,273,000 increase related to Oracle support fees, which we will discuss. 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 $2,273,000 increase to expense represents the electric allocation of the fees.

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-15) 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 15.

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 preemployment 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 $926,000 is allocated to electric.

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 $104,700 is allocated to Electric.

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 $54,440 is allocated to Electric.

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 water for electricity generation as addressed by the Company's Electric Production Panel and 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 electric 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 electric operations to arrive at the total Rate Year level of payroll 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 then 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. 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 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 employees and weekly employees.

Q. What productivity imputation was reflected in rates in the Company's last two electric rate cases?

A. In Cases 08-E-0539 and 09-E-0428, a two percent annual productivity factor was imputed.

Q. Why did you use a one percent rather than two percent productivity imputation in this case?

A. The reasons for reverting to the Commission's standard one-percent productivity adjustment are explained in the testimony of the Electric Infrastructure and Operations Panel.

Q. Have you captured anticipated savings from other programs undertaken by the Company over and above the 1% productivity imputation?

A. Yes, we were provided specific additional productivity and cost savings by the Electric Customer Operations Panel, Electric Infrastructure and Operations Panel, and Management Audit Implementation Panel, which are reflected on of Exhibit __ (AP-5), Schedule 4. For the twelve months ending December 31, 2014, these panels have projected savings of over $18 million from the implementation of the new Work Management System for Electric Operations, expansion of the Automated Meter Reading (AMR) System and other initiatives shown on Exhibit __ (AP-5).

These efforts, as well as other Company cost-conscious practices that have served to avoid unnecessary costs and result in this rate request being lower than it would otherwise be, are described by various witnesses in addition to the aforementioned Panels, including the Shared Services Panel, the Municipal Infrastructure Support Panel, the Compensation and Benefits Panel, the Property Tax and Depreciation Panel, and Company witness Price as to environmental costs. In addition, other Company witnesses identify efforts to achieve efficiencies that are anticipated to result in MAC/MSC charges lower than they would otherwise be, through fuel efficiency measures (addressed by the Company's Electric Production Panel) and efforts before the NYISO and FERC (addressed by Company witness Ivan Kimball, who provides examples of aggressive Company efforts that have resulted in materially reduced costs to our customers). Accordingly, the rate request reflects the productivity that should be reasonably expected from the Company's proposed capital spending and programs and demonstrates the Company's commitment to efficient operations.

Q. Why did the Company nonetheless apply a one percent productivity adjustment in addition to the productivity identified?

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 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 electric department's average rate base?

A. Yes, we have.

Q. Was the three page tabulation, the first entitled "ESTIMATED NET PLANT – ELECTRIC – TWELVE MONTH AVERAGE ENDING DECEMBER 31, 2014 AT CURRENT DEPRECIATION

RATES," the second entitled "ESTIMATED NET PLANT – ELECTRIC – TWELVE MONTH AVERAGE ENDING DECEMBER 31, 2014 AT PROPOSED DEPRECIATION RATES" and the third "ESTIMATED NET PLANT – ELECTRIC – 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") (i.e., 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 5, discussed later in our testimony. Page 2 of Schedule 1 ties into the last column of Exhibit ___ (AP-8) lines 1 through 5. Non-Interest bearing CWIP on Page 1 of Schedule 2 ties into the average rate base Exhibit ___ (AP-8), line 6.

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 projected removal costs. 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 electric 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 common plant 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. COMMON GENERAL EQUIPMENT – FINANCE/LAW -- (AP-7)

Q. Is the Accounting Panel testifying in support of any common plant projects?

A. Yes. In our testimony we will discuss common plant as it applies to the Finance and Law Departments.

Q. Please continue.

A. The Finance and Law Department's capital spending includes the routine annual spending on items such as office equipment, communications equipment, and other miscellaneous equipment (referred to as XMs), which are necessary for daily operations of these departments. The Shared Services Panel discusses the projected spending for these items. We will discuss non-routine capital expenditures for the Finance and Law Department that are projected for 2013 through 2017. These expenditures are shown in the exhibit entitled, "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. COMMON CAPITAL PROJECTS – FINANCE/LAW" designated as EXHIBIT ___ (AP-7) which was prepared under our direction and supervision?

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

A. This exhibit includes expenditures for Corporate Accounting, Tax Department, Law, Rate Engineering and

Treasury. These projects are included in the Company's Five-Year Capital Forecast. The first three projects discussed are allocated between CECONY and O&R, while the remaining projects listed are applicable to CECONY operations only.

Four projects listed are discussed by other Company witnesses: Dynamic Load Shaping by the Demand Analysis and Cost of Service Panel; Bill Impact Enhancements and Customer Usage System Enhancements by the Electric Rate Panel and CUS Phase II by the Gas Rates Panel in the Company's concurrent gas rate case.

Q. Which of the projects will you address?

A. We will address:

- Electronic Appropriation - $3.0 million – estimated completion at the end of calendar year 2015;
- Oracle Upgrade - $12.0 million – estimated completion date in 2016;
- Allegro Upgrade - $1.44 million – estimated completion in May 2014;
- XBRL Reporting System - $250,000 – estimated completion date December 2013;

- Replacement of Payroll Budget System - $1.0 million – estimated completion in 2014;
- PowerPlant Enhancement for Tax Depreciation - $300,000 – estimated completion in 2016;
- Real Estate Management System Replacement - $1.0 million – estimated completion in the fourth quarter of fiscal year 2013

Q. Please describe the need for these new programs

A. The Electronic Appropriation Project represents an initiative to develop automated and streamlined processes to improve controls of financial commitments and reduce processing time and errors in multiple processes throughout CECONY and O&R. The project is still in the conceptual stages and the Company is currently benchmarking its "Delegation of Authority and Project Approval Processes" in order to evaluate available appropriation software programs that could produce greater efficiencies and enhanced controls.

Q. Please continue with the Oracle Upgrade.

A. The final phase of the new Oracle Finance and Supply Chain System became operational in July 2012. With the implementation of a large scale system that replaced over 60 systems and integrates numerous processes throughout the Company, there will be an expectation of required expansions and upgrades after operating for three to five years. It is necessary when utilizing vendor packaged software, that we perform version upgrades to be able to access new functionality as well as to ensure robust technical support from Oracle. The Oracle upgrade project represents work that will be required to migrate to current release(s) in order to maintain Oracle Corporation's support for the system and ensure that we are able to apply functional upgrades along with security updates to the system. The upgrade effort would not only include the Oracle modules but the imaging solution, automated system job scheduler and bar code printing solution. As part of the upgrade full regression testing would need to be completed to ensure required functionality across Oracle and the Company's applications properly successfully meet test conditions. In addition, as the Company employees gain familiarity with the new system over the next two years, it is also anticipated that enhancements and system changes will be warranted to improve the utilization of the system. The Company estimates it will invest an additional $12 million in further updates to the system over 2014 and 2015. The estimate is based on the Oracle modules the Company implemented, the data volumes that would need to be converted, the interfaces with other Company applications, and extensions made to the Oracle software to meet company-specific business needs.

Q. Please continue with XBRL Reporting System.

A. Extensible business reporting language (XBRL) is an international information format standard designed to help investors and analysts find, understand and compare financial and non-financial information by making this information machine-readable. This computer language uses a standardized eXtensible Markup Language (XML) technology and permits the automation of what are now largely manual steps for access, validation, analysis and reporting of disclosures. The Company currently uses a filing agent, RR Donnelly, to translate financial statements and footnotes into the XML format and submit the document with the regular SEC EDGAR filing. The review process is time consuming and last minute changes can delay a scheduled filing. By implementing a platform that includes an XBRL module to manage the reporting process, the Financial Reporting Section can better control documentation and changes that need to be made to the filing to comply with filing deadlines. This will enable users to enter data, report and interactively analyze information using Microsoft Suite. Additionally, XBRL provides an end-user reporting tool with highly formatted, production quality reports in either HTML or PDF.

Q. Please continue with Payroll Budgeting System Replacement.

A. Pay Bud is the current budget system used by the Company for corporate budgeting and reporting. The system provides disaggregated historical pay information by week/month and by earnings categories (straight time, overtime, etc.). The system has been in place for a number of years and uses technologies that can no longer be supported in a cost effective manner and is not integrated with the Capital and O&M budgeting system. The payroll budgeting process involves a number of manual steps to extract data from Pay Bud download it to Excel spreadsheets and then upload it into the Hyperion budget system. The current approach involves the compilation of numerous spreadsheets to analyze budget information and makes managing the budget process more difficult and prone to error. To improve the overall budget preparation and monitoring process, a system is required that integrates the labor budget with O&M and Capital activities.

Q. Please continue with PowerPlant Enhancement for Tax Depreciation.

A. Power Tax is the Company’s tax depreciation system that contains historic tax basis and reserve data. It also has the functionality to perform tax depreciation calculations. Power Plant is a software application that facilitates processes performed by Property Records, automating the identification and creation of units of property and closure to plant-in-service. As the systems are separate, any changes to plant forecasts impacting tax depreciation require manual processing. The development of a direct interface between Power Tax and the Hyperion Strategic Finance system will automate the updating of the tax depreciation impact of changes to short and long term financial forecasts of plant in service data from Power Plant, enhancing efficiency and accuracy.

Q. Please continue with Real Estate Management System.

A. As the current Real Estate Management System was purchased in 2002 and it is no longer maintained and supported by the external vendor. A replacement software system is needed to streamline the core Real Estate responsibilities of managing leases and licenses where the Company is either the landlord or the tenant. The software requirements include database features, financial features, reporting features, document storage features and alarm features. The financial features of the replacement system will substitute the current manual process, which is time-consuming and may result in input error, when accessing the Accounts Receivable and accounts Payable software. This upgrade will appropriately manage the risk of untimely and inaccurate payment of rent and other lease obligations.

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 – ELECTRIC – AVERAGE TWELVE MONTHS ENDED JUNE 30, 2012 AND AVERAGE TWELVE MONTHS ENDING DECEMBER 31, 2014," designated as EXHIBIT __ (AP-8) and consisting of three pages prepared under your direction and supervision?

A. Yes, it was.

Q. Please describe this exhibit.

A. Page 1 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 7. Page 3 provided the details of the current and projected deferred balances from reconciliation mechanisms contained in the current rate plan as shown on page 1, line 24.

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

A. Lines 1 through 5 show the average book cost of plant, accumulated provision for depreciation and net plant balance and line 6 shows the average balance for non-interest bearing CWIP. Historic Year levels on lines 1, 4, and 6 were developed from the books and records of the Company.

We described the development of Rate Year net plant earlier. Because all Smart Grid project cost projections are included in the methodology used, we made an adjustment on Line 2 to remove Smart Grid projects beyond those that the Company is requesting be reflected in rate base in this proceeding from the projected net plant balances. We describe that request later in our testimony.

Line 3 relates to the Hudson Avenue Generating Station ("Hudson Avenue"). This historic amount of $1.669 million represents the book cost of land that was transferred from Steam plant in service to the Electric plant held for future use in May 2011 upon the retirement of Hudson Avenue. The adjustment in Column 2 of $92.288 million reflects the transfer of 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. The transfer is discussed by Company witness Muccilo. The second adjustment of minus $2.307 million represents the Rate Year rate base effect of amortizing those undepreciated costs over twenty years at $4.6 million per year as also explained by Mr. Muccilo.

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

A. Yes. The Company's storm hardening proposals are discussed by the Electric Infrastructure and Operations Panel, the Electric Production Panel, the Shared Services Panel and Company witness Muccilo. Planned expenditures for storm hardening in 2013 of $42 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 $5.6 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 7** shows the level of the working capital included in rate base. We will explain the details of working capital later in our testimony.

Line 8 represents unbilled revenue. The unbilled deferral was established to allow the Company to recover a portion of the deferred WTC-related costs. The Company defers all earnings variations between the monthly unbilled revenue accrual and the unbilled balance provided in base rates to fund WTC costs.

Line 9 represents the average balance of deferred fuel, net of federal income tax. This amount represents 30 days of recoverable fuel costs. Deferred fuel is comprised of deferred MSC/MAC costs less the unbilled revenue portion.

Line 10 represents the average balance of the Metropolitan Transportation Authority ("MTA") surcharge paid but not yet collected from customers, net of income taxes.

Lines 11 and 12 reflect the electric portion of preferred stock expense and the unamortized balance of debt discount, premium and expense, respectively, as additions to rate base. This rate base treatment was directed by the Commission’s Order on Rehearing in Case 27353.

Line 13 represents the Early Retirement Termination Benefit offered to employees in 1999, which continues to be amortized until September 2015.

Line 14 shows the preliminary survey and investigation costs, net of income tax.

Line 15 primarily represents interest related to a federal income tax audit adjustment for tax years 1995-1997.

Line 16 represents the Mount Vernon properties that the Company purchased as part of the environmental remediation.

Line 17 represents 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.

Lines 18 and 19 reflect the customer advances for construction from Extell in connection with the Company’s proposed addition of gas firing capability at the 59th Street generating station and advances from Hudson Transmission Partners. These funds will be applied to the capital projects.

Line 20 represents and amounts billed in advance of construction, net of income tax.

Line 21 reflects items that are being amortized pursuant to the current rate plan. This balance will be zero in the Rate Year.

Line 22 is the unamortized balance of T&D carrying charges deferred pursuant to the rate plan adopted by the Commission in Case 07-E-0523. The amortization will continue through March 31, 2018.

Line 23 represents the average Historic Year balance of accounting credits being refunded to customers pursuant to the Commission's March 22, 2012 order in Case 12-E-0008. This balance will be zero in the Rate Year.

Line 24 represents the estimated average rate base impacts of the various reconciliation provisions in effect during the current rate plan. We will discuss the derivations and disposition of these items in the Revenue Requirement and Accounting Adjustments section of our testimony that covers the rate treatment for these items.

Line 25 represents interest calculated on various deferrals and is expected to have a zero balance in the Rate Year.

Line 26 represents the average unamortized balance of the carrying costs associated with the Hudson Farragut Interconnection. This amortization expired in April of 2012. This balance will be zero in the Rate Year.

Line 27 represents the average Historic Year balance of proceeds from the sale of properties, net of income taxes, being passed back to customers pursuant to Case 12-E-0008. This balance will be zero in the Rate Year.

Line 28 represents the average Historic Year balance of NYS excess dividend and GRT refunds that were passed back to customers pursuant to Case 12-E-0008. This balance will be zero in the Rate Year.

Lines 29 through 44 reflect the accumulated deferred federal and State income taxes for various items.

Line 29 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 50% bonus depreciation 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 30.

A. **Line 30** represents deferred income taxes for repair allowance deductions claimed in lieu of tax depreciation on new plant.

Line 31 represents deferred income taxes for capitalized overheads deducted on the Company’s tax returns for under Section 263A of the IRS Code. This accounting treatment is also referred to as the Simplified Service Cost Method.

Line 32 is the accumulated federal income tax related to capitalized computer software costs.

Line 33 reflects excess deferred federal income tax for variations between the statutory tax rates in effect historically when certain deductions were claimed and the current tax rates in effect.

Line 34 reflects excess deferred state income tax for variations between the statutory tax rates in effect historically when certain deductions were claimed and the current tax rates in effect.

Line 35 reflects the amount of accumulated deferred federal income taxes on the vested vacation pay deduction.

Line 36 reflects the amount of accumulated deferred federal income taxes on prepaid insurance expenses.

Line 37 represents the 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. This line also reflects the effects of the unbilled revenue change we previously mentioned in this section of the testimony.

Line 38 reflects the accumulated deferred federal income taxes associated with Contributions in Aid of Construction which are reflected in taxable income and for which the Commission also mandated tax normalization since TRA-86.

Line 39 is the deferred federal income tax related to the deduction for MTA taxes.

Line 40 shows 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 41 reflects accumulated deferred federal income tax associated with the repair and maintenance allowance claimed on assets prior to 2009.

Line 42 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 Commission policy.

Line 43 is the deferred balance of Brownfield credits.

Line 44 reflects the deferred balance of New York State income taxes on various items.

Q. Please explain **Line 46**, Rate base over/under capitalization adjustment.

A. This reflects the required adjustment to rate base 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 46** 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 $142 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. The Rate Year forecast of both items represents the Historic Year amount escalated using the general escalation factor of 4.96 percent. The development of the 4.96 percent general escalation factor was discussed by us previously.

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

A. Electric prepayments, lines 4-12, consist of the electric department's allocation of insurance premiums, rents, property taxes, the PSC assessment, the 18-a surcharge assessment, software and maintenance contracts, interference, EPRI fees, and other items.

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 40 percent of insurance premiums are prepaid. This factor was developed by dividing the prepaid insurance balance at June 30, 2012 by the electric portion of the insurance premiums at June 30, 2012. We applied this factor to our estimate for electric insurance premiums in the Rate Year of $35.028 million to arrive at the rate year level for insurance prepayments of $14.089 million. This treatment is consistent with the Commission's determination in prior Company rate cases.

Prepayments for New York City and Westchester property taxes were forecasted based on the Company's actual level of electric 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. Payments to Westchester are made at various points in time during the calendar year. Based on the forecast level of expense, prepayments for New York City and Westchester property taxes in the Rate Year are estimated to be $247.272 million.

Q. Please explain the basis for prepaid rents.

A. This prepayment principally represents Transformer Vault rents paid to the City of New York. Payments are made in the fourth quarter of each year and are amortized to expense over the following twelve-month period. The Rate Year payments were developed by starting with the December 2012 payment of $36.721 million, then escalating at annual increase of 2.8 percent as per the rent agreement to arrive at $37.749 million for November 2013. This amount was then escalated at 2.8 percent to arrive at the 2014 level of $38.806 million. Additional amounts for other rents, including NYC Transit Authority, were also added to arrive at a prepaid average balance for the Rate Year of $17.746 million.

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

A. We developed the amount for the PSC assessment, line 7, by taking the latest known electric assessment of $14.503 million for the fiscal year ending September 30, 2012. This amount was 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 the 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 under Public Service Law 18-a. The average prepaid assessment for the Rate Year is $64.180 million.

Q. How have you handled the 18-a assessment for 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 Historic 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 IR Maintenance Contracts.

A. The prepayment amount was developed by utilizing the average balance for the Historic Year of $2,759,000 and escalating it at the 4.96 percent general escalation factor to arrive at a Rate Year level of $2,896,000.

Q. Please explain the prepayment for Interference.

A. The prepayment amount for interference was developed by utilizing the average balance for the Historic Year of $570,000 and escalating it at the 4.96 percent general escalation factor to arrive at a Rate Year level of $598,000.

Q. Please explain the prepayment amount for EPRI Funding.

A. The prepayment amount for EPRI was developed by utilizing the latest assessment, effective January

2012, of $927,000, assuming quarterly payments of $309,000. The quarterly payment was then escalated by the general escalation factor of 4.96 percent annually to derive a quarterly payment of $315,000 and $321,000 for 2013 and 2014, respectively. The twelve-month average balance for the Rate Year is projected to be $321,000.

Q. How did you develop the amount for “Other” prepayments?

A. To develop prepayments applicable to “other” or miscellaneous items on line 12, we took the average prepayment balance for the Historic Year of $7.377 million and escalated that amount by the general escalation factor of 4.96 percent to arrive at the Rate Year level of $7.743 million.

Q. Please explain the allowance for the cash working capital component of working capital rate base on line 27.

A. Line 27 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 $4.304 billion. From this amount we eliminated purchased power and fuel expenses, system benefit charges, renewable portfolio charges, 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 cash working capital allowance is $230.548 million as shown in column 3, line 27.

Q. Please explain the last item of working capital related to fuel and purchased power.

A. Line 31, represents the working capital allowance related to fuel and purchased power. It is calculated based on a time lag between fuel billed and payment collected from the customers.

Q. How did you treat the cost of projects undertaken as part of the Federal Stimulus Program in the development of rate base?

A. Pursuant to the Commission's October 19, 2010 Order in Case 09-E-0310, Con Edison was authorized to implement a customer surcharge through the MAC and under its Power Authority of the State of New York and Economic Development Delivery Service tariffs to allow for recovery of the customers' share of Smart Grid projects not funded by federal Smart Grid Investment and Smart Grid Development grants under the American Recovery and Reconstruction Act of 2009. The Order provided that the surcharge should continue until those capital projects could be included in rate base and in Con Edison's revenue requirement in its next rate proceeding.

In this proceeding the Company proposes to include a portion of the Smart Grid project costs in rate base and continue the previously authorized surcharge approach for others. Specifically, the Company has included Smart Grid project costs through June 30, 2012 in rate base and has reflected the associated carrying costs in the revenue requirement. The Company proposes to continue the surcharge approach with respect to Smart Grid project costs incurred after June 30, 2012 until included in rate base and reflected in rates at a time after the Rate Year

Q. Please explain the bases of the Company's ratemaking approach to the Smart Grid projects.

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

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 on our forecast of electric operations for the Rate Year, and an overall rate of return requirement of 7.691 percent. The increase in the Company's revenue requirement is $375,364,000, 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 ELECTRIC 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 $375,364,000 rate increase. 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 6.64 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 6.43 percent.

Q. What was the electric 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, electric operating income for the Historic Year was $1,210,035,000. The electric department's average rate base for the Historic Year, as shown on Exhibit ___ (AP-8), was $15,925,872,000 producing an actual rate of return for the Historic Year of 7.60 percent. For the reasons explained throughout this filing, absent rate relief, the Company is projecting a return of 6.43% 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 electric operations. Starting with book operating income before income taxes as shown on line 1, we then set forth on lines 2-55 the various required tax adjustments to book operating income to determine taxable income as shown on line 56. We then compute on line 57 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 lines 58 and 59 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 60. 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 electric 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 4-66 the various required tax adjustments to book operating income to determine taxable income as shown on line 67. We then compute the amount of federal income tax payable on line 68 using the statutory rate applicable to such taxable income. From the federal income tax payable so calculated, we reflect on lines 69-74 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 75. 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(u) 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 $181.162 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-E-0428 in excess of the actual expense incurred as determined by applying the property tax sharing mechanism under the current rate plan.

Adjustment 1(b) 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(c) represents the refund over three years 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-12), 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 majority of this under run is attributable to the operational date of the Company's new financial and supply chain system, which went into service in July 2012, and lower than projected spending for electric production and shared service projects.

Adjustments 1(e) and 1(f) 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(g) reflects the refund over a three-year period of electric interference under-spending of $11,744,000, or $3.9 million per year. The City of New York recently commenced work on its Water Tunnel Project, so it is anticipated that the majority of cost under runs deferred during the first two years of the current rate plan will be offset by the beginning of the Rate Year by expenditures attributable to this project.

Adjustment 1(h) 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.

Adjustment 1(i) reflects the refund over a three-year period of $10,653,000 of New York State Power For Jobs Credits deferred by the Company above the level reflected in the current RDM revenue targets. As discussed previously, due to recent legislative changes in New York, this job credit has been eliminated going forward and will be replaced by the "Recharge New York" Program.

Adjustment 1(j) reflects the refund to customers over a three-year period of proceeds from the transfer of joint use poles to Verizon. The transfers were to eliminate imbalances and restore parity under joint use pole sharing agreements.

Adjustment 1(k) reflects the refund to customers over three years of a negative revenue adjustment associated with the CAIDI performance target under the current electric rate plan.

Adjustment 1(l) reflects the refund to customers over three years of various property tax refunds. During the term of the current rate plan, the Company has deferred $4.6 million of property tax refunds to be refunded to ratepayers.

Adjustment 1(m) 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 are reset. This adjustment reflects the refund to customers over a three-year period of these net savings.

Adjustment 1(n) reflects the refund to customers over three years of DC Program Incentives remaining after the completion of this program. The incentives were originally reserved to help mitigate the cost to customers of converting from DC to AC service. All of these customers have been converted.

Adjustment 1(o) reflects the refund to customers over three years of Business Incentive Rate refunds plus interest. In August 2011, the Company received $296,584.88 a refund from BlackRock Financial Management, In. of Business Incentive Rate discounts that were included as part of a package of economic development benefits provided to businesses as inducements to relocate to New York City, to add employees, or to remain in the City. After performing an audit, the City concluded that BlackRock Financial Management had received more discounts than it was contractually entitled to, and told BlackRock to refund these discounts to the Company.

Adjustment 1(p) 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 electric rate plan and the actual deferred balance.

Adjustment 1(q) refunds to customers over three years $1.2 million that was collected via the SBC but not paid to a vendor that the Company believes did not perform under its contract.

Adjustment 1(r) refunds to customers over three years

Targeted DSM costs collected during the period that DSM cost recoveries were shifted from base rates to the MAC. These funds represent amounts that have not been utilized by NYSERDA. These amounts fully reconcile the Targeted DSM costs that predate their recovery through the MAC.

Adjustment 1(s) reflects the pass-back of amounts collected in rates for the third rate year of the current rate plan for the Furnace Dock Road Dam repairs. Amounts collected and deferred during the first two rate years were among the credits used by the Commission to offset the elimination of the temporary rate surcharge for the third rate year of the current electric rate plan pursuant to the Commission's March 22, 2012 order in Case 12-E-0008.

Adjustment 1(t) reflects the pass-back of an estimated $5.5 million gain on the pending sale of various Company properties. The Company will update this amount during the course of the proceeding and only amounts related to consummated sales should be reflected in the revenue requirement.

Adjustment 1(u) 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 $2.615 million represents nine monthly accruals, for the period April 1, 2013 through December 31, 2013, based on the $3.486 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(d) related to the amortization of SIR 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 $195.293 million.

Adjustment 2(a) represents the three-year recovery of deferred storm costs on the Company's books as of June 30, 2012 of $78.3 million at $26.1 million annually. For purposes of this filing we assumed that increases to the storm reserve would offset new charges until rates are reset. The Company will update the deferred storm balance if significant storm costs are incurred during this proceeding. It should be noted that this adjustment and our related assumptions and proposals are independent of costs and ratemaking associated with Superstorm Sandy which, for filing purposes, have been presented separately.

Adjustment 2(b) proposes to recover over a three-year period deferred pension and OPEB costs of $87,545,000 at June 30, 2012, less $1,574,000 of estimated decreases to the deferral through December 31, 2013. Thus the deferred amount at the start of the Rate Year is estimated to be $85,971,000. A three-year amortization would be $28,657,000 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 2(c) proposes to recover over a three-year period, deferred Medicare Part D costs of $5,557,000 at June 30, 2012, plus $9,864,000 of estimated increases to the deferral through December 31, 2013. Thus the deferred amount is estimated to be $15,421,000 at the start of the Rate Year. A three-year amortization would be $5,140,000 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 from taxable income.

Adjustment 2(d) 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 $38.486 million. The use of a five-year amortization period is explained by Company witness Muccilo.

Adjustment 2(e) reflects the recovery 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 electric 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 recovery of $3.4 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 charges on Schedule 3 of Exhibit __ (AP-9), please continue addressing the items in turn beginning with adjustment 2(f) related to ERRP Spare Parts Maintenance.

A. **Adjustment 2(f)** is to recover deferred maintenance costs incurred through June 30, 2012 for turbine overhaul repairs at the East River Repowering Plan (ERRP) over three years. The Company will update the deferred ERRP balance if major overhaul costs are incurred during this proceeding.

Adjustment 2(g) represents recovery, over three years, of the Company's Spent Nuclear Fuel (SNF) litigation costs, net of amounts recovered. The litigation involved a claim by Con Edison concerning DOE's disregard of a 1982 statute and breach of a 1983 contract under which DOE was required to commence disposal of spent nuclear fuel from the Indian Point nuclear power plant beginning in January 1998. In January 2004, the Company sued the United States for breach of contract for failure to pick up spent nuclear fuel from Indian Point beginning in 1998. The suit sought recovery of expenses incurred for engineering studies and related internal labor to evaluate on-site fuel storage options; investments made in an off-site private fuel storage initiative; decommissioning funds for spent fuel storage; and lost profits incurred when Indian Point was sold to Entergy in 2001, based on the Company's assertion that potential purchasers lowered their bid prices for Indian Point to account for the risk of addressing spent nuclear fuel storage. As part of the sale, Entergy assumed ownership and disposal responsibility for all of the spent fuel, but Con Edison retained claims against DOE that accrued before the closing date of the sale (for the benefit of its customers). The case went to trial in June 2009 before the Court of Federal Claims. Regrettably, in May 2010, the Court awarded Con Edison $448,859 for the engineering studies, but denied Con Edison's remaining claims. The Company thereafter made a motion to reargue the private fuel storage costs claim, which the trial judge denied.

Q. Have any costs related to the SNF been reflected in rates?

A. Yes. Some of the costs were reflected in Cases 07-E-0523 and 08-E-0539. However, in the Company's last electric rate case, 09-E-0428, wherein the Company requested a rate allowance of $2.67 million per year over three years (based on the 2006-08 historical average of costs), Staff's Accounting Panel recommended that, given the size of the rate increase requested in that proceeding and the then current state of the economy, the Company recover its actual litigation costs not already reflected in rates, with interest, from the proceeds received from DOE at the conclusion of the litigation. Case 09-E-0428 was resolved by a three-year settlement reflecting Staff's position on this matter. The Company's request in this case reflects the amount deferred by Staff in the last case, plus the subsequent 2009 and 2010 costs, less the amount recovered from DOE. As recommended by Staff, the Company applied interest at the Other Customer Capital Rate.

Q. Please continue with adjustment 2(h) related to TSC revenues.

A. **Adjustment 2(h) -** In Case 08 -E-0539, the Company had a TSC revenue target of $18.6 million for the twelve-month period ended March 31, 2010. The actual revenues were $8.1 million resulting in an under recovery of $10.5 million. Prior to April 2009, the beginning of the rate year in Case 08-E-0539, when there was no target, the Company collected TSC revenues of approximately $22.6 million from April 1, 2008 – March 31, 2009 and deferred them for the benefit of customers. The Company will have refunded $21.7 million of those revenues under the current rate plan as of the beginning of the Rate Year leaving a remaining deferred credit balance of $900,000. This adjustment reflects the recovery over a three-year period of the $10.5 million under recovery less the $0.9 million remaining credit. Under the current rate plan any variances between the TSC target and actual revenues are flowed through the MAC.

Adjustment 2(i) reflects the recovery over a three-year period of interest on the TSC revenue undercollection.

Adjustment 2(j) 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(k) reflects the recovery of deferred Reactive Power costs over a three-year period. These costs represent the initial start up costs for equipment to effectuate the billing of commercial customers for reactive power costs. They have been deferred in accordance with the Commission's September 22, 2009 order in Case 08-E-0751.

Adjustment 2(l) reflects the recovery over a three-year period of the Company's deferred program costs related to the NYISO's Emergency Demand Response and Demand Reduction program costs.

Adjustment 2(m) First Avenue Property Sale represents the recovery of amounts that were credited to customers above the amount included in the Commission's final allocation of the net gain to electric operations by its August 22, 2008 order in Case 01-E-0377.

Adjustment 2(n) relates to Superstorm Sandy and represents the amortization over three years of incremental O&M costs incurred in response to the storm and charged to the storm reserve. The costs remain subject to update as well as review by Staff. The storm resulted in more than 1.1 million customers being out of service (more than five times the number for Hurricane Irene). The Company lost five transmission substations and 4,000 megawatts of generation. Outages occurred for 14 Manhattan networks, one Brooklyn network and three Staten Island area substations. Nearly 70% of the Company’s overhead system was affected. Nearly 1,000 poles (ten times the number for Hurricane Irene), more than 900 transformers (five times the number for Hurricane Irene) and approximately 140 miles of cable (four times the number for Hurricane Irene) were replaced. Mutual aid was secured from several utilities and the Company secured approximately 5,600 external personnel for overhead and underground line work, tree trimming, damage assessment, and site safety, among other functions necessary to respond to the storm.

The incremental costs relate to, among other items, contract and mutual aid restoration crews, contract tree trimming and flagging services, Company overtime labor, materials and replacement parts from inventory or purchased as required, lodging, meals and dry ice. The amortization amounts shown are based on approximately $273 million of costs reduced by anticipated insurance reimbursements of approximately $40 million. The Company has accounted for the costs in accordance with the Commission-authorized reserve accounting for major storm costs.

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 a total of $54.577 million due to changes in electric depreciation rates and other reasons as identified in the testimony of the Electric Property Tax and Depreciation Panel. This amount reflects an adjusting deduction of $1.056 million to track the adjustment to plant rate base related to Smart Grid projects that we described earlier in our testimony.

XII. PROPOSED INCREASE IN RATES ALLOCATED BETWEEN DELIVERY SERVICE RATES AND THE MAC -- (AP-10)

Q. Did the Accounting Panel determine how much of the total increase in the revenue requirement of $375,364,000 was allocable to delivery service and how much was allocable to the MAC?

A. Yes, and we have prepared an exhibit that reflects this allocation.

Q. I show you a document entitled "SUMMARY OF RATE INCREASE FOR ELECTRIC OPERATIONS SHOWING THE EFFECT OF THE PROPOSED INCREASE IN RATES – TWELVE MONTHS ENDING December 31, 2014" bearing the designation Exhibit __ (AP-10) and ask if it was prepared under your direction and supervision?

A. Yes, it was.

Q. Please describe this exhibit?

A. This Exhibit __ (AP-10) includes four schedules. Schedule 1 summarizes the proposed $375,364,000 increase as allocated between delivery service rates and the MAC. Schedules 2 and 3 relate to the production function and Schedule 4 shows the average rate base allocated between the delivery and the MAC components. As shown on Exhibit ___ (AP-10), Schedule

1, the required increase in Delivery Service revenues is $320,495,000, while the required increase in MAC revenues is $54,869,000.

XIII. RATE OF RETURN -- (AP-12)

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-12), which was prepared under our direction and supervision for that purpose?

Q. Please describe Exhibit ___ (AP-12), Schedule 1.

A. Exhibit __ (AP-12), 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-12), 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-12), 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 $360 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-12).

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-12), 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-12), 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 7.69 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.

XIV. FUND REQUIREMENTS AND SOURCES -- (AP-13)

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-13), prepared under your direction and supervision?

A. Yes, it was.

Q. What does Exhibit ___ (AP-13) 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-13) 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-13).

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 $1,446 million out of balance. 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.

XV. INTEREST COVERAGE – S.E.C. BASIS PER BOOKS – (AP-14)

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-14), 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-14), 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.

XVI. 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.