BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Consolidated Edison Company of New York, Inc.

Case 09-G-0795

March 2010

Prepared Testimony of:

Gas Capital Construction Panel

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Q. Please state your name and business address.
A. Daniel G. Downs. I am employed by the New York State Department of Public Service, Agency Building Three, Empire State Plaza, Albany, NY 12223.
Q. In what capacity are you employed?
A. I am employed by the Department of Public Service (Department or DPS) as a Utility Supervisor in the Office of Electric, Gas & Water, Gas Policy and Supply Section.
Q. Please summarize your education background and professional experience.
A. I received a Bachelor of Science Degree in Civil and Environmental Engineering from Clarkson University in 1973. Since that time I have been employed by the Department and have held positions primarily involved with the natural gas industry sector. My responsibilities have included: assisting in the New York State Public Service Commission's (Commission) intervention activities at the Federal Energy Regulatory Commission (FERC) regarding interstate natural gas matters; reviewing the adequacy of gas supply and delivery capacity; natural gas

reliability issues; natural gas purchasing practices; natural gas rates and ratemaking issues; and, assisting in the development of the Draft 2009 New York State Energy Plan.

Q. Have you filed testimony before the Commission in other proceedings?

A. Yes. I have testified before the Commission on: sales and revenue forecasting; the adequacy, reliability, and cost of gas supply; utility rate design; and on the need for new pipeline facilities in Article VII proceedings. I have also prepared testimony for FERC proceedings on interstate pipeline rate issues and for Article X proceedings before the New York State Board on Electric Generation Siting and the Environment on gas supply and capacity matters.

Q. Mr. Riebel, please state your full name and business address.

A. Andrew G. Riebel. I work at Three Empire State Plaza, Albany, NY 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department as a Utility Engineer 2 in the Office of Electric, Gas and Water, Gas Policy and Supply Section.

Q. Please summarize your education and work experience.

A. I am a graduate of Syracuse University with a Bachelor Degree in Mechanical Engineering. I joined the Staff of the DPS in October 1990, and have worked as an engineer for the DPS in various offices since that time. My experience has been in the areas of Gas Rates, Energy Resources and the Environment, Retail Market Development and currently in Gas Policy and Supply. This exposure to different fields of utility regulation has provided me with a broad knowledge of the utility industry.

Q. Have you previously testified in proceedings before the Commission?

A. Yes, on several occasions, most recently in the Orange and Rockland gas rate proceeding, 08-G-1398.

Q. What is the purpose of the Gas Capital Construction Panel’s testimony?

A. The purpose of the testimony is to present Staff’s review of Consolidated Edison of New York, Inc.’s (Con Edison or the Company) Capital Construction budgets, and adjustments to plant

and depreciation reserve and depreciation expense. We will also address proposed gas plant reconciliations.

Q. Is the Panel sponsoring any exhibits?

A. Yes, we are sponsoring the following exhibits: Exhibit ___ (GCCP-1), Interrogatory Response 107; Exhibit ___(GCCP-2), Gas Capital Expenditures; and, Exhibit ___(GCCP-3), Staff's Estimated Net Plant-Gas.

Capital Construction Budget Review and Adjustments

Q. Please explain the Company's capital construction forecast for gas operations.

A. Con Edison's rate year average net plant, as shown on its Exhibit ___ (AP-6), was derived based on a gas capital construction forecast of $315,101,000 in 2010 and $314,019,000 in 2011, shown in its Exhibit ___ (GOP-1). In addition to the capital construction forecasts that impact the rate year, Exhibit ___ (GOP-1) also includes annual forecasted budgets of $307,950,000, $308,977,000 and $320,910,000 for 2012, 2013 and 2014, respectively.

The budgets are broken out into major categories which include Mandated Programs, Supply Mains,

Technical Operations, Transmission and Generation, Special Projects, as well as Public Improvements and Interference. Each category contains specific projects that are detailed in the company filing.

Q. Please continue.

A. The Company's Exhibit ___ (GOP-2) discusses each of the projects that make up the budget. A majority of the work that is performed each year is related to mandated projects. When new customers receive gas service, the Company is required to install infrastructure to provide those customers with that gas. Con Edison is also required to maintain a minimum level of replacements of leak prone mains and services. Costs related to this mandatory work have historically represented 60% – 70% of the total capital expenditures, and the Company has forecast that this level of spending will continue into the future.

Q. How does the forecast of gas capital expenditures in this case compare with what the Company has done historically?

A. Con Edison's response to Staff interrogatory

DPS-107, Exhibit ___(GCCP-1), details the Company's budget and actual capital expenditures for the 5 year period 2005 to 2009. Exhibit ___(GCCP-2) provides detail in regard to the historic capital expenditures as well as the Company's budget forecast for the years 2010 to 2013. Actual and budgeted capital expenditures have remained fairly constant over the 2008 to 2009 period. In 2008, Con Edison significantly increased its expenditures from prior levels. The primary drivers for the increased expenditures were an additional leak prone main replacement program, and proposed upgrades to the Company's liquefied natural gas (LNG) plant. The increased expenditures related to these project areas resulted in the Company increasing its budget from $178,790,000 in 2007 to $302,254,000 in 2008 and $312,027,000 in 2009. As mentioned earlier, the current five year budget forecast of gas capital expenditures is consistent with a continuation of total expenditures at approximately 2008 and 2009 budgeted levels.

Q. How did Con Edison's actual gas capital

expenditures compare with the budget?

A. As shown in Exhibit ___ (GCCP-1), the Company overspent its budget for the years 2005 to 2007 by about 2.7%, 4.8%, and 5.0% respectively. In both 2008 and 2009, the Company spent about 2.6% and 5.0% less than budgeted respectively.

Q. Are there any projects which the Company could slip or otherwise remove from its budget?

A. Since Con Edison filed its initial testimony, it has partnered with Spectra Energy Corporation (Spectra) to bring a new supply point into lower Manhattan. This additional supply will not be available for a few years, but will make the Astoria to Ravenswood Transmission Main project slip beyond the forecast period.

Q. Please continue.

A. For the years 2010 to 2014 the Company's proposed Capital Budget includes a total of about $75 million dollars for the Astoria to Ravenswood Transmission Main project. The Company details the project in Exhibit ___(GOP-2). As explained by the Company on page 202 of Exhibit ___(GOP-2):

> "The possible arrival of a new gate station in lower Manhattan could lower the priority

of this project as another backup to existing gate stations would be available."

Subsequent to the Company filing the rate case, on December 28, 2009, Spectra announced that it signed agreements with Chesapeake Energy Corporation, Con Edison and Statoil Natural Gas for an expansion of its existing Texas Eastern Transmission and Algonquin Gas Transmission pipeline systems to deliver new natural gas supplies to the New Jersey and New York City area. Part of Spectra's proposed pipeline project would involve construction of a new, 16-mile pipeline extension that connects Texas Eastern Transmission's existing pipeline in Staten Island, N.Y. to a new interconnect with Con Edison's system in Lower Manhattan. The addition of a new delivery point into lower Manhattan will mitigate the reliability impacts associated with the loss of another gate station. This would allow the Astoria to Ravenswood Transmission Main to be deferred beyond the rate year 3 of the multi-year rate plan proposed by Staff and the Company in this proceeding.

Q. How would the forecast budget be affected for

removal of the costs associated with the Astoria to Ravenswood Transmission Main project?

A. As shown on Exhibit ___ (GCCP-2), we recommend that the Company's capital expenditure budget for the years 2010 to 2013 be reduced by $7,960,000, $10,350,000, $20,000,000, and $20,000,000, respectively, to reflect the deferral of the Astoria to Ravenswood Transmission Main.

Q. How would your adjustment to the capital expenditure budget impact the rate year(s) plant and depreciation forecasts?

A. In addition to our adjustment, the Staff Gas Rate Panel is recommending that the Company's currently effective depreciation rates be used for determining rates in this proceeding instead of the depreciation rates proposed by Con Edison. The resulting adjusted plant, accrued depreciation, and net plant rate year levels are shown in our Exhibit ___ (GCCP-3). For the rate years ending September 30, 2011 through 2013, the Company's net plant reflected in rate base would be $3,172,585,000, $3,415,655,000, and $3,631,186,000 respectively. Annual

depreciation expense for the rate periods would be $108,022,000, $116,632,000, and $124,058,000.

Q. Is the Panel recommending any other changes to specific projects or programs in the rate year?

A. Yes. Included in the Company's budget are expenditures related to the Company's Leak-Prone Pipe Replacement Program. The current gas rate plan, adopted by Order issued September 25, 2007 in Case 06-G-1332, requires that the Company replace 40 miles of leak-prone pipe per year. The Company's budget reflects a proposal to continue the current program. However, the Staff Gas Safety Panel is recommending that the level of leak-prone pipe replacement be expanded to 50 miles per year.

Q. Are you proposing any capital expenditure adjustments related to the proposed expansion of the Leak-Prone Pipe Replacement program?

A. No.

Q. Why not?

A. There should be sufficient dollars in the Company's capital expenditure budget to cover a 50 mile per year Leak-Prone Pipe Replacement program. The Leak-Prone Pipe Replacement

Program costs are part of Con Edison's Gas Distribution - 4 (GD-4), Gas Distribution – 11 (GD-11) and Gas Distribution – 29 (GD-29) capital program costs as detailed in the Company's Exhibit ___(GOP-1) and Exhibit ___ (GOP-2). The total budgeted costs for GD-4, GD-11, and GD-29 for 2010 to 2013 are $78,340,000, $79,265,000, and $79,690,000 respectively. For calendar years 2008 and 2009 actual expenditures for GD-4, GD-11, and GD-29 totaled $71,576,000 and $79,769,000 for an average of $75,672,500. According to Staff's Gas Safety Panel, the Company replaced 66 miles of leak-prone pipe in 2008 and 53 miles in 2009 for an average of about 60 miles. Considering Con Edison's recent performance and expenditure levels, the Company's budgeted amounts should be more than sufficient to maintain a 50 mile per year Leak-Prone Main Replacement program.

Gas Plant Reconciliations/Deferrals

Q. Does the current gas rate plan contain a reconciliation mechanism for capital infrastructure expenditures?

A. Yes. The current rate plan provides mechanisms

for the reconciliation of capital expenditures (exclusive of capital interference plant additions) and capital interference expenditures. Under the current mechanism Con Edison defers the carrying costs, including depreciation, on the amount that the Company's actual capital expenditures (exclusive of capital interference plant) result in average net plant more or less than the average plant included in rate base up to a specified average plant cap.

In regard to interference plant additions, the current rate plan provides for the deferral of carrying costs, including depreciation, on interference plant additions that result in average interference plant being more or less than the interference plant included in rate base.

The carrying costs are based on a combination of the pre-tax rate of return and a depreciation rate.

Q. What is the Company proposing in regard to the current mechanisms?

A. The Company's Gas Operations Panel proposes that

the current reconciliation mechanism for capital infrastructure expenditures, other than interference, not be continued. For capital interference costs, the Company proposes to modify the reconciliation mechanism. Con Edison indicates that there may be a significant impact on capital interference costs if New York City receives federal stimulus funds that result in an increase in the City's infrastructure programs. Under the Company's proposed mechanism, it would be permitted to defer an increase in capital interference costs above the projected level that are attributed to the stimulus program.

Q. Generally, does the Commission allow for capital expenditure reconciliation and deferral mechanisms in gas rate proceedings?

A. Yes, In addition to the Company's last rate proceeding in Case 06-G-1332, the Commission has approved capital expenditure deferral clauses in Central Hudson Gas & Electric Corporation Case 05-G-0935, National Grid US Cases 06-G-1185, 06-G-1186, and 08-G-0609, Orange & Rockland Utilities, Inc. Case 08-G-1139, and St. Lawrence

Gas Case 08-G-1392.

Q. What are you proposing in this rate proceeding?

A. We propose the continuation of a reconciliation mechanism with some modifications.

Q. Please explain.

A. We recommend that the reconciliation mechanism be based on total capital expenditures (inclusive of interference capital expenditures). The Company would defer the carrying costs, including depreciation, on the amount that the Company's actual capital expenditures result in actual average net plant less than the average net plant included in rate base. Unlike the current mechanism there would not be a separate net plant cap which Con Edison could spend up to.

Q. Why doesn't your proposed mechanism include a net plant cap?

A. The current rate plan adopted a net plant level in rate base based on a reduction in the Company's overall capital expenditure budget. It is our understanding that the net plant cap in that case reflected the Company' total proposed budget. Since Staff is recommending

the adoption in this proceeding of the Company's forecast capital expenditures in total, except for expenditures related to the Astoria to Ravenswood main, there is no need for a separate net plant cap. The net plant amount included in rate base is the cap.

Q. Do you have any comments regarding the Company's position on the potential impact of federal stimulus funds on interference capital expenditures?

A. If New York City can identify which infrastructure projects are tied to stimulus funds and the Company can track the interference costs related to those projects, it may be reasonable under our proposed mechanism to allow the Company recovery of the carrying charges for such interference costs to the extent that such identified costs result in the total net plant exceeding the amount of net plant included in rate base.

Q. Do you have any additional comments in regard to the reconciliation of capital expenditures?

A The Company's Gas Operations Panel recommends a continuation of the Distribution Integrity and

Gas Inspections deferral mechanism and that there be additional deferral mechanisms to recognize increased capital costs associated with two proposed law changes: revisions to N.Y.C. Chapter 2, Title 15, of the Rules of the City of NY, which, as proposed, would prohibit the use of #4 and #6 bunker oil to heat certain large buildings and require the use of #2 oil or natural gas, instead and U.S. Senate Bill S1643, "the Cleaner, Secure, Affordable Thermal Energy Act," which proposes to amend the IRS Tax Code to provide tax credits for fuel oil to gas conversions.

Q. What is your recommendation in regard to the Company's proposal to continue the Distribution Integrity and Gas Inspections deferral mechanism?

A. The current rate plan includes a provision to allow the Company to recover costs incurred as a result of new federal or state regulatory requirements for distribution integrity and gas inspections. We are advised by counsel that in December 2009, the U. S. Department of Transportation amended its regulations so to

improve the management and integrity of gas distribution systems including the formation of a Distribution Integrity Management Plan (DIMP). In this proceeding, the Company's Gas Operations Panel referenced the DIMP and reserved the right to reflect the cost impact, if any, of these specific rule changes during the update stage of this proceeding. Con Edison did not identify any additional pending regulations in regard to distribution integrity and leak inspections. Since the Company is proposing to reflect the cost impact of recent DIMP rule changes in this proceeding and it is unknown if and when further rule changes will be made, we do not see a need for the continuance of a deferral mechanism for these costs.

Q. What is your view on reflecting the proposed New York City regulations and the Senate Bill?

A. It is premature to establish deferral mechanisms related to these potential regulation and law changes. At this time it is extremely uncertain whether these changes will have any material impact on costs during a three year rate plan. As explained in the Company's Gas Operation

Panel's testimony at page 93:

> "….the nature, timing and extent of such changes, and the resultant impact on Company spending, is both uncertain and not subject to reasonable estimation.

Furthermore, Con Edison currently has the right to petition the Commission for deferral of any material changes in costs.

Q. Does that conclude your testimony at this time?

A. Yes.