BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Consolidated Edison Company Of New York, Inc.

Cases 25-E-0072 and 25-G-0073

May 2025

Prepared Testimony of:

Staff Accounting Panel

Rachel Catricala
Auditor Trainee 2

Clarke-Kerr, Monique
Auditor 1

Christopher Simon
Auditor 3 (Public Utilities)

Hongbing (Jerry) Shang
Supervisor, Utility Accounting and Finance

David Wilsey
Auditor 1

Christopher Logan
Auditor 2 (Public Utilities)

Daniela Reinhart
Auditor 3 (Public Utilities)

Office of Accounting, Audits, and Finance

State of New York
Department of Public Service
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Q. Would the members of the Staff Accounting Panel please state your names, employer, and business address.

A. We are Rachel Catricala, David Wilsey, Monique Clarke-Kerr, Christopher Logan, Christopher Simon, Daniela Reinhart, and Hongbing (Jerry) Shang. We are employed by the New York State Department of Public Service, which we will refer to as the Department. Our business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. Ms. Catricala, what is your position at the Department?

A. I am an Auditor Trainee 2 in the Office of Accounting, Audits, and Finance.

Q. Please describe your educational background and professional experience.

A. In 2023, I received a Bachelor of Science in Accounting from the State University of New York (SUNY) Oneonta. I joined the department in April 2024.

Q. Please briefly describe your responsibilities with the department.

A. I am responsible for general accounting and ratemaking matters, including the examination of accounts, records, documentation, policies, and procedures of utilities regulated by the Public Service Commission, which we refer to as the Commission.

Q. Ms. Catricala, have you previously submitted testimony in proceedings before the Commission?

A. No.

Q. Mr. Wilsey, what is your position at the Department?

A. I am an Auditor 1 in the Office of Accounting, Audits, and Finance.

Q. Please describe your educational background and professional experience.

A. In 2016, I received a Bachelor of Arts in Accounting from Emmanuel College. In 2022, I received a Master of Science in Accounting and Taxation from the University of Hartford. Prior to joining the Department, I worked in the Corporate Tax department at Liberty Mutual Insurance for eight years. I joined the Department in August 2024.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for general accounting and ratemaking matters, including the examination of accounts, records, documentation, policies and procedures of utilities regulated by the Commission.

Q. Mr. Wilsey, have you previously submitted testimony in proceedings before the Commission?

A. No.

Q. Ms. Clarke-Kerr, what is your position at the Department?

A. I am an Auditor 1 in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. In 2012, I received a Bachelor of Business Administration degree in Accounting from Berkeley College and a Master of Business Administration degree in Accounting from DeVry University. I joined the Department in November 2022.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for general accounting and ratemaking matters, including the examination of accounts, records, documentation, policies, and procedures of regulated utilities.

Q. Ms. Clarke-Kerr, have you previously submitted testimony in proceedings before the Commission?

A. No, I have not.

Q. Mr. Logan, what is your position at the Department?

A. I am an Auditor 2 (public utilities) in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. In 2012, I received a Bachelor of Science in Accounting and a Bachelor of Science in Finance from the State University of New York (SUNY) New Paltz. I joined the Department in October 2019.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for general accounting and ratemaking matters, including the examination of accounts, records, documentation, policies and procedures of utilities regulated by the Commission.

Q. Mr. Logan, have you previously submitted testimony in proceedings before the Commission?

A. Yes. Most recently, I submitted testimony in the Orange and Rockland Utilities, Inc. rate proceedings, Cases 24-E-0060 and 24-G-0061. Prior to that, I submitted testimony in the Consolidated Edison Company of New York, Inc. (Con Edison or the Company) rate proceedings in Cases 22-S-0659, Cases 22-E-0064 and 22-G-0065 and Niagara Mohawk Power Corporation d/b/a National Grid rate proceedings, Cases 20-E-0380 and 20-G-0381. I submitted testimony in the Orange and Rockland Utilities, Inc. (O&R) rate proceedings, Cases 21-G-0073 and 21-E-0074. In addition, I submitted testimony in the Brooklyn Union Gas Company d/b/a National Grid NY and Keyspan Gas East Corporation d/b/a National Grid rate proceedings, Cases 23-G-0225 and 23-G-0226.

Q. Ms. Reinhart, what is your position at the Department?

A. I am an Auditor 3 (Public Utilities) in the Office of Accounting, Audits, and Finance.

Q. Please describe your educational background and professional experience.

A. In 2013, I received a Bachelor of Science in Accounting and in 2014, a Master of Science in

Accounting from the University of North Carolina Greensboro. I joined the Department in April 2016.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for general accounting and ratemaking matters, including the examination of accounts, records, documentation, policies, and procedures of utilities regulated by the Commission and the development from that information of various analyses and recommendations.

Q. Ms. Reinhart, have you previously submitted testimony in proceedings before the Commission?

A. Yes. I testified before the Commission, as part of a witness panel, in the O&R rate proceedings, Cases 24-E-0060 and 24-G-0061, Veolia Water New York, Inc. rate proceeding, Case 23-W-0111, and the Suez Water Owego-Nichols, Inc. rate proceeding, Case 17-W-0528. I have also submitted pre-filed testimony in a number of proceedings, most recently Cases 24-E-0060 and 24-G-0061, O&R rate proceedings, Case 23-W-0111, Veolia Water New York, Inc. rate proceeding, Cases 22-E-0064 and 22-G-0065, Con Edison rate proceedings, and Cases 21-G-0073 and 21-E-0074, Orange and Rockland Utilities, Inc. rate proceedings.

Q. Mr. Simon, what is your position at the Department?

A. I am an Auditor 3 (Public Utilities) in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from the SUNY Institute of Technology at Utica/Rome with a Master of Business Administration with a concentration in accounting. I worked for two and one-half years at Warren Koch, PC, Croton-on-Hudson, New York. At Warren Koch, I worked as a staff accountant and as the network administrator. After Warren Koch, I was employed as a staff accountant at LCS&Z, LLP in Latham, New York. In February 2005, I joined the Office of Accounting and Finance in the Department and advanced to my present position.

Q. Please briefly describe your responsibilities with the Department.

A. My responsibilities include the examination of the accounts, financial statements, policies, and procedures of utilities regulated by the Commission.

Q. Mr. Simon, have you previously submitted testimony in proceedings before the Commission?

A. Yes. I have filed testimony as a part of an accounting panel in Con Edison rate proceedings, Cases 22-E-0064, 22-G-0065, and 22-S-0659. In those proceedings, I testified to labor expense, medical benefits, payroll taxes and the revenue requirement.

Q. Mr. Shang, what is your position at the Department?

A. I am employed as a Supervisor of Utility Accounting and Finance in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from China Anhui Institute of Finance and Trade in 1993 with a Bachelor of Business Administration in Accounting. In 2006, I received my Master of Science in Accounting from SUNY Albany. After I graduated from SUNY

Albany, I was employed by Ernst & Young, LLP at its Stamford, Connecticut office from June 2006 to March 2008 as an audit associate. In May 2008, I joined the Department as a senior auditor and advanced to my present position.

Q. Please briefly describe your responsibilities with the Department.

A. I examine accounts, records, documentation, policies and procedures of utilities regulated by the Commission. I also review petitions for property transfers, financings, and rate filings.

Q. Mr. Shang, have you previously submitted testimony in proceedings before the Commission?

A. Yes. I submitted testimony in O&R rate proceedings in Cases 24-E-0060, 24-G-0061, 21-E-0073, 21-G-0074, 18-E-0067, 18-G-0068, 11-E-0408, 10-E-0362 and 08-G-1398. I also submitted testimony in Con Edison rate proceedings in Cases 22-E-0064, 22-G-0065, 22-S-0659, 19-E-0065, 19-G-0066, 16-E-0060, 16-G-0061, 13-E-0030, 13-G-0031 13-S-0032, 09-E-0428 and 09-G-0795 and Central Hudson Gas & Electric Corporation rate proceedings in Cases 14-E-0318 and 14-G-0319.

Scope of Testimony

Q. Panel, what is the scope of your testimony in this proceeding?

A. First, we will discuss Staff's recommended overall electric and gas revenue requirements. Next, we will address Con Edison's Rate Year forecast for the following other operating revenues: Late Payment Revenues; electric service specific revenue of Excess Distribution Facilities; and gas service specific revenues of Field Collection Revenues and NYPA Variable & Maintenance Revenues. The Rate Year, or RY, is the twelve-month period ending December 31, 2026. Then, we will address Con Edison's Rate Year forecast for the following operation and maintenance, referred to as O&M, expenses: Fuel and Purchased power; Administrative and General (A&G) Capitalized; Advanced Metering Infrastructure; Bargaining Unit Contract Cost; Company Labor expense; Company labor – fringe benefit expense; Corporate & Shared Services, Employee Welfare expense; East River Repowering Project, or ERRP, Major Maintenance expense;

Institutional Dues and Subscriptions; Regulatory Commission Expense; Uncollectible Reserve-Customer; and general inflation. Next, we will address Taxes Other than Income Taxes, Federal and State Income Taxes, Rate Base, Amortization of Regulatory Deferrals, and the Company's proposed modifications to existing reconciliation mechanisms, as well as new reconciliations the Company proposes in these proceedings. Finally, we will discuss our recommendation to the Commission regarding how it should address the gas weld issues raised in Consolidated Edison, Inc.'s (CEI) 2024 Securities and Exchange Commission 10-K filing.

Q. Is the Panel sponsoring any Exhibits?

A. Yes, we are sponsoring three Exhibits: Exhibit__(SAP-1), Exhibit__(SAP-2), Exhibit__(SAP-3).

Q. Please describe Exhibit__(SAP-1), and Exhibit__(SAP-2).

A. Exhibit__(SAP-1) is our Rate Year cost of service presentation for the electric business and Exhibit__(SAP-2) is our Rate Year cost of service presentation for the gas business. Both consist of thirteen schedules. Schedule 1 summarizes our projection of operating income, rate base and rate of return for the Rate Year ending December 31, 2026, and includes our proposed base rate increases. Schedule 1 is supported by Schedules 2 through 13. Schedule 2 is a summary of other operating revenues. Schedule 3 is a summary of operating expenses. Schedule 4 is a summary of the amortization of regulatory deferrals in the Rate Year. Schedule 5 is a summary of taxes other than income taxes. Schedules 6 and 7 show the computation of state and federal income taxes, respectively. Schedule 8 is the calculation of rate base for the Rate Year, supported by Schedules 9 through 11. Schedule 9 shows the allowance for working capital included in rate base. Schedule 10 reflects the unamortized deferral balances included in rate base. Schedule 11 reflects the forecast of accumulated deferred income taxes included in rate base. Schedule 12 is a summary of the capital matrix. Schedule 13 is a list of Staff’s adjustments for the Rate Year.

Q. Please describe Exhibit__(SAP-3).

A. Exhibit__(SAP-3) includes the responses to information requests, or IRs, that we have relied upon and referenced throughout our testimony. We will refer to these responses by the number assigned by the Department, for example DPS-123.

Q. Please summarize Con Edison's requested electric and gas revenue requirements.

A. In its January 31, 2025, initial filing, the Company requested a $1,611.592 million increase for its electric business and $440.522 million increase for its gas business for the Rate Year. In its April 10, 2025 Update and Correction filing, the Company decreased its request for its electric business by $3.156 million to $1,608.436 million. For the gas business the Company decreased its request by $91.478 million or a request of $349.042 million.

Q. What is the Historic Test Year (HTY) in these proceedings?

A. The twelve-month period ended September 30, 2024.

Q. What is the Company's Fiscal Year (FY)?

A. Con Edison's Fiscal Year runs from January 1 to

December 31. For example, Fiscal Year 2024 is the twelve-month period ending December 31, 2024.

Q. Please summarize Staff's recommended electric revenue requirement for Con Edison.

A. Staff recommends an electric base delivery revenue increase of $~~319.204~~ 411.876 million, or $~~1.289~~ 1.196 billion less than the amount requested by Con Edison in its Update and Correction filing. The largest difference between the Company's request and Staff's recommended revenue requirement is due to our adjustment to property taxes expense, which accounts for approximately $269.386 million of the $~~1.289~~ 1.196 billion. Other major differences include: (1) $~~221.033~~ 133.724 million related to rate base adjustments; (2) $~~162.518~~ 160.107 million related to the amortization of regulatory deferral adjustments; (3) $~~156.236~~ 153.229 million related to labor adjustments; (4) $~~147.604~~ 151.938 million related to Staff's recommended 9.30% ROE and 48% equity ratio; (5) $~~103.320~~ 85.963 million related to depreciation expense adjustments; and

(6) $75.593 million related to an increase in other operating revenues, mainly driven by higher RY late payment revenues. Staff's recommended delivery revenue increase also reflects a $79.836 million adjustment to increase RY uncollectible expense. Exhibit__(SAP-1), Schedule 13 lists the adjustments that Staff witnesses and panels recommend which comprise this $~~1.289~~1.196 billion revenue requirement difference, with the exception of Staff's recommended rate of return.

Q. Please summarize Staff's gas delivery revenue requirement recommendation.

A. Staff recommends a gas base delivery revenue decrease of $~~45.463~~ 15.220 million, or $~~394.505~~ 364.262 million less than the amount requested by the Company as of its Update and Correction filing. The largest difference between the Company and Staff is due to Staff's recommended adjustments to the Company's proposed amortization of regulatory deferrals, which accounts for approximately $~~63.071~~ 62.316 million of the $~~394.505~~ 364.262 million difference. Other major differences include:

(1) $59.818 million related to property taxes expense adjustments; (2) $~~58.380~~ 60.701 million related to depreciation expense adjustments (3) $~~57.112~~ 36.802 million related to rate base adjustments; (4) $~~51.419~~ 52.434 million related to Staff's recommended 9.30 percent ROE and 48 percent equity ratio; (5) $~~38.945~~ 37.710 million related to labor adjustments; and (6) $~~36.847~~ 25.093 million related to an increase in sales revenues due to a difference in the forecasted level of sales. Staff's recommended delivery revenue increase also reflects a $17.666 million adjustment to increase RY uncollectible expense. As discussed, Exhibit__(SAP-2), Schedule 13 lists the adjustments that Staff witnesses and panels recommend that comprise this $~~394.505~~364.262 million revenue requirement difference, with the exception of Staff's rate of return.

Other Operating Revenues

Field Collection Revenues (Gas)

Q. Please explain the nature of field collection revenues.

A. As explained on page 46 of the initial testimony of the Company's Accounting Panel, these revenues represent charges that are assessed to commercial customers when the Company sends employees to the field to collect overdue balances.

Q. How did the Company forecast its RY gas field collection revenues?

A. The Company started with a HTY revenue level of $0.155 million, then normalized out the full amount resulting in a zero-dollar RY forecast.

Q. Did the Company explain why it reflected zero revenues in the RY?

A. Yes. The Company explained, in its response to DPS-435, that the historical data shows minimal or no collections for gas.

Q. Does the Panel agree with the Company's RY forecast?

A. No, we do not agree for two reasons. First, the Company's underlying policy for generating such revenue for its gas service has not changed; second, the Company received gas collection revenues during the latest 15-months, or from December 2023 through February 2025.

Q. Please explain your first reason.

A. The Company's response to question 1b, of DPS-435, states that, "When we go out for field collections, we attempt to terminate or collect on the electric first unless it is a gas only account". The Company then explained that this policy will "remain in place" in the RY. Therefore, the policy to send field representatives to collect or terminate its gas customer's service, and the charging of a fee for such collection and termination, will not change in the RY.

Q. Please explain your second reason.

A. As shown in the response to DPS-435, Attachment 1, the Company has still been receiving gas field collection revenues on a monthly basis during the latest 15-months, with total revenue collected of $0.179 million. Given that the policy will remain the same in the RY and the fact the Company is still receiving these revenues on an on-going basis, it is not reasonable to reflect a zero-dollar forecast in the RY for gas field collection revenues.

Q. What is the Panel's recommendation for forecasting RY gas field collection revenues?

A. We recommend the Commission forecast revenues based on the Company's HTY level of $0.155 million. We recommend the use of the HTY level because the Company has continually received gas collection revenues since December 2023 and the HTY is representative of what gas field collection revenues will be in the RY.

Excess Distribution Facilities (Electric)

Q. What is the Company's excess distribution facilities component of other operating revenues?

A. As explained on page 48 of the initial testimony of the Company's Accounting Panel, these revenues represent tariff payments from customers for distribution facilities provided by the Company in excess of those normally provided.

Q. How did the Company forecast its excess distribution facilities revenues for the RY?

A. The Company explains on page 48 of the initial testimony of its Accounting Panel that the RY forecast of $2.038 million reflected an average of these revenues for the prior three years beginning October 1, 2021, and ending September

30, 2024.

Q. Did the Company explain why it utilized a three-year average to derive its RY forecast?

A. Yes. The Company stated in response to DPS-531 that it has consistently used a three-year average to forecast these revenues in past rate cases. Further, the Company states that this method normalizes fluctuations over the years and is therefore reasonable.

Q. Did the Company's excess distribution revenues fluctuate over the three-year period ending September 30, 2024?

A. No. The response to DPS-531 shows that the Company's excess distribution revenue has trended upward year over year totaling $1.802 million, $2.128 million, and $2.184 million for the 12-months ended September 30, 2022, 2023, and 2024, respectively. In response to DPS-531, the Company explains that the upward trend is driven by increases in electrification of heating in existing buildings, large electric vehicle charging loads, and clean heat (heat pump) loads. The Company further states that it generally expects that new Excess Distribution

Facility customers will require larger new electric services versus what has been installed in the past.

Q. Does the Company claim that the upward trend will continue into the RY?

A. Yes. In the response to DPS-855, the Company states that it believes that the upward trend will continue as a function of new customers that require larger services for electrification, vehicle charging, and clean heat loads. Furthermore, in its response, the Company identifies new electric distribution facilities customers representing additional revenues which it stated should continue to support the upward trend.

Q. Does the Panel agree with the Company's three-year average methodology?

A. No. Given the upward trend in excess distribution facilities revenues, which the Company expects to continue, the use of a three-year average would inappropriately understate the RY forecast.

Q. How did the Panel develop its RY forecast of excess distribution facilities revenues?

A. First, we calculated a two-year average annual growth rate of 10.36 percent based on the Company's actual excess distribution facilities revenues from the 12-months ended September 30, 2022 to September 30, 2024. We then applied our 10.36 percent two-year average annual growth rate to the Company's HTY excess distribution revenues to reach our RY forecast of $2.729 million for the Company's electric operations.

Q. What is your adjustment to the Company's RY forecast of excess distribution facilities revenues?

A. Our adjustment increases the Company's RY forecast for its electric operations by $0.691 million.

Late Payment Revenues

Q. Please summarize the Company's forecast of late payment charge revenues for the RY.

A. As shown on Schedule 5 of Exhibit___(AP-E3) and Exhibit___(AP-G3) of the Company's Update and Correction filing, the Company forecasts late payment charge revenues, prior to the base revenue increases, of $52.425 million for electric and $14.255 million for gas. These amounts were then adjusted to reflect additional late payment charge revenues associated with the Company’s proposed electric and gas rate increases by applying the late payment factors adopted in the Commission’s Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans with Additional Requirements issued July 20, 2023 in Cases 22-E-0064 and 22-G-0065, referred to as the 2023 Rate Order, of 0.52 percent for the Company’s electric operations and 0.42 percent for the Company’s gas operations to each respective commodities proposed RY revenue increase.

Q. How did the Company forecast its late payment charge revenues for the RY prior to adjusting for the proposed electric and gas revenue increases?

A. As explained on page 48 of the initial testimony of its Accounting Panel, the Company proposed to utilize the amount set in its current rate plans as its RY forecast in these proceedings. As stated on page 14 of the Update and Correction testimony of the Accounting Panel, the Company subsequently updated its forecast to track its update to sales revenues.

Q. Why did the Company utilize the levels set by the Commission in its current rate plans to forecast the RY late payment charge revenues in these proceedings?

A. As explained on page 48 of the initial testimony of the Company's Accounting Panel, compared to the HTY revenues, the Company claims that the RY late payment charges will significantly decrease due to its proposed increase in Company collection efforts. However, the Company states that it is unable to firmly forecast the impact of those efforts on the late payment charges.

Q. Why does the increase in the Company's collection efforts have an impact on the Company's late payment charge revenues?

A. As explained on pages 112 and 113 of the initial testimony of the Company's Accounting Panel, late payment charges are generally higher when more customers are in arrears, as they have been since the pandemic. The Company states that it is focusing heavily on arrears reduction efforts in 2025 and beyond and expects that these efforts will lead to a reduction in late payment charge revenues.

Q. Does the Panel agree with the Company that a reasonable RY forecast of late payment charge revenues cannot be determined in light of the Company's arrears reduction efforts?

A. No. As the Company explained, late payment revenues are directly related to customer arrears. Late payment charges represent an additional charge applied when a customer's bill has not been paid on time, while the Company's arrears balances reflect the unpaid amounts for bills that were not paid on time, including any late payment charges that have accrued. Given the correlation between the two, a reasonable forecast can be developed by utilizing a historical ratio of late payment charges to average arrears balances and then applying that ratio to the projected level of average arrears in the RY. By applying this ratio to the projected average arrears balance for the RY, we are able to develop a forecast of late payment charge revenues for the RY that takes into account the resulting impact of the Company's arrears reduction efforts.

Q. How did the Panel project the average arrears balance for the RY?

A. In its redacted response to DPS-416, the Company provides its initial arrears reduction forecast for January through December 2025 based on its proposed arrears management program. We compared the Company's arrears reduction forecasts to its actual arrears balances for January, February, and March 2025, from the Company's monthly Collection Activity Reports filed in Case 91-M-0744, and found that while the Company initially forecasted arrears balances of $1.670 billion, $1.660 billion and $1.650 billion, respectively, as a result of its arrears management program, actual arrears balances were somewhat lower, totaling $1.428 billion, $1.387 billion and 1.340 billion, respectively. On pages 7 and 8 of the Update and Correction testimony of the Company's Customer Operations Panel, the Company acknowledges the variance, noting that the reductions in arrears were currently trending ahead of its original forecasts as a result of the better-than-expected reductions. Given the results of the Company's arrears reduction efforts through March 31, 2025, we developed an overperformance ratio of 81 percent by dividing the Company's latest known actual arrears balance of $1.340 billion by the Company's forecasted arrears balance of $1.650 billion for March 2025. We then applied the 81 percent overperformance ratio to the Company's projected arrears balance for December 31, 2025 of $1.260 billion, as provided in the redacted response to DPS-416, to reach our projected arrears balance for December 31, 2025 of $1.023 billion. To recognize the impact of the Staff Consumer Service Panel's recommendations to the Company's proposed arrears reduction program, we held the projected arrears balance for December 31, 2026 constant at the December 31, 2025 level.

Q. Why does the Panel's recommended methodology result in a reasonable arrears forecast for the RY?

A. On page 9 of the Update and Correction testimony of the Company's Customer Operations Panel, the Company indicated that as of April 2, 2025, it had already hired 208 of the incremental customer field representatives, referred to as CFRs, under its proposed arrears management program. Based on the information provided in the redacted response to DPS-416, of the total hired CFRs as of April 2, 2025, only 48 had been hired prior to calendar year 2025, with an additional 48 hired on January 10, 2025, 51 hired on January 31, 2025, 51 hired on February 28, 2025 and 10 hired between March 12 and April 2, 2025. On page 9 of the Update and Correction testimony of the Company's Operations Panel, it states that it expects to hire another 29 CFRs by June 2025. As such, the Company was able to achieve better-than expected arrears reductions, or an overperformance ratio of 81 percent, in the first quarter of 2025, despite the majority of CFRs not being hired until, or after, January 10, 2025. Given the significant ramp up in CFRs during and after the first quarter of 2025, expecting the Company to be able to at a minimum maintain its current overperformance ratio through the end of calendar year 2025 is reasonable. Furthermore, as previously mentioned, maintaining the December 31, 2025 arrears balance through December 31, 2026 is a reasonable approach considering the Staff Consumer Service Panel’s recommendation to decrease the number of CFRs in the RY compared to the Company’s proposal. However, this still is an increase in the number of CFRs compared to the 68 included in the HTY, based on the response to DPS-347, which allows the Company to continue managing and reducing its arrears balances during the RY more effectively than it was able to in the HTY.

Q. What historical ratio of late payment charge revenue to arrears balances is the Panel recommending be applied to the projected average arrears balance for the RY?

A. We recommend applying the latest known ratios of 12.2 percent for the Company’s electric operations and 2.7 percent for the Company’s gas operations, or a combined ratio of 14.9 percent, for the 12-months ending March 31, 2025. These ratios were developed based on the Company’s historical actual late payment charge revenues provided in its original and supplemental responses to DPS-513 and the Company’s average combined residential and non-residential arrears balances over 60-days, from the Company’s monthly Collection Activity Reports filed in Case 91-M-0744.

Q. Why did the Panel choose to use the latest known ratio of late payment charge revenues to average arrears balances for the 12-months ending March 31, 2025 as opposed to utilizing a ratio, or an average ratio, for an alternative time period?

A. We calculated and reviewed the combined electric and gas ratios for calendar years 2018 through 2024 of 13.1 percent, 12.4 percent, 1.3 percent, 3.6 percent, 13.9 percent 15.1 percent and 16.5 percent, respectively, using the data sources previously discussed. However, we determined that those ratios were not the best fit for projecting the RY level compared to the latest known 12-month ratio which better represents what will occur in the RY.

Q. Why are the late payment charge revenue to average arrears balance ratios for calendar year 2018 and 2019 not appropriate for forecasting the Company’s late payment charge revenues for the RY?

A. For calendar years 2018 and 2019, the Company's combined residential and non-residential average arrears balance over 60-days, totaled only $0.353 billion and $0.392 billion, respectively, or approximately $700 million less than our projected average arrears balance for the RY. Using the 2018 and 2019 ratios, which are based on stale data and reflect customer payment behavior prior to the COVID-19 pandemic, would be inappropriate as they do not reflect the current conditions nor the Company's significantly increased level of current or projected arrears balances. As a result, using either of these ratios would have the potential to significantly understate the late payment charge revenues in the RY.

Q. Why are the late payment charge revenue to average arrears balance ratios for calendar years 2020 and 2021 not appropriate for forecasting the Company's late payment charge revenues for the RY?

A. The late payment charge revenue to average arrears balance ratios of 1.3 percent and 3.6 percent for calendar years 2020 and 2021, respectively, were significantly lower than all other years reviewed. During this time frame, the Company suspended late payment charges as a result of the COVID-19 pandemic which resulted in the lower ratios in those years. Because 2020 and 2021 reflect abnormal late payment charge practices, using either of these ratios to forecast the RY would severely understate the late payment charge revenues in the RY where there is no expectation that late payment charges would be suspended.

Q. Why are the late payment charge revenue to average arrears balance ratios for calendar years 2022 through 2024 not appropriate for forecasting the Company's late payment charge revenues for the RY?

A. As the Company explains on pages 14 through 15 of the initial testimony of its Customer Operations Panel, there were several periods during these years where the Company paused its credit and collection activity. From June 2022 through September 2022 and from January 2023 through April 2023, as a result of the Commission's Order Authorizing Phase 1 Arrears

Reduction Program issued June 16, 2022 and Order Authorizing Phase 2 Arrears Reduction Program issued January 19, 2023 in Case 20-M-0266, referred to as the Commission's bill relief programs, the Company could not terminate specific classes of customers for non-payment. Additionally, the Commission's bill relief programs, as claimed by the Company, significantly reduced the outstanding arrears balances of its residential and commercial customers in the short term. Then, from September 2023 through April 2024, the Company voluntarily suspended credit and collections activity during the implementation and stabilization of its Customer Care and Billing system. These pauses in the Company's credit and collections activities during the noted portions of calendar years 2022 through 2024 had an impact on the Company's arrears balances, write-offs and, as such, late payment revenues during this time that are not representative of the Company's typical operations. Therefore, using the ratios for calendar years 2022 through 2024, during which there were significant periods of time where the Company's collections activities were paused, is not appropriate to forecast a time period of normal collections activities and could skew the forecast.

Q. Please summarize the Panel's forecast of RY late payment charge revenues.

A. Applying our late payment charge revenue to average arrears balances ratios of 12.2 percent for the Company's electric operations and 2.7 percent for its gas operations to our projected average arrears balance for the RY of $1.023 billion results in a RY forecast of late payment charge revenue of $125.131 million for electric and $27.635 million for gas, respectively.

Q. Please quantify the Panel's recommended adjustment to the Company's RY forecast of late payment charge revenues.

A. Our adjustment results in an increase to the Company's RY forecast of late payment charge revenues of $72.706 million and $13.380 million for electric and gas, respectively.

Q. Is the Panel recommending any other adjustments to the Company's forecast of Late Payment Charge Revenue in the RY?

A. Yes. As we have previously mentioned, the Company adjusted its forecast to reflect additional late payment charge revenues at a rate of 0.52 percent for the Company’s electric operations and 0.42 percent for the Company’s gas operations associated with the Company’s proposed electric and gas rate increases. As Staff’s recommended forecasting methodology is based on the ratio of late payment charge revenues to arrears balances, and not as a function of sales revenues, we are recommending that the Company’s proposed 0.52 percent and 0.42 percent ratios for its electric and gas operations, respectively, be reduced to zero percent and no additional late payment charge revenues be imputed as a result of the proposed rate increases.

<u>New York Power Authority (NYPA) Variable and Maintenance Revenue (Gas)</u>

Q. Panel, what is the NYPA Variable and Maintenance Revenue?

A. These revenues consists of two parts, the variable revenue and revenue generated for maintaining the Hunts Point Compressor. The variable revenue represent payments the Company receives from NYPA for recovering gas transmission facility reinforcement costs and include three components, variable, excess variable, and variable balancing charge. The maintenance revenue, also called Hunts Point maintenance revenue, is charged on a per dekatherm basis for volumes delivered to the Tennessee gate stations when the Hunts Point compressor is in operation. The amount of NYPA variable and maintenance revenue depends on the volume of gas delivered to meet generator load and can vary from year to year due to factors such as weather.

Q. How did Con Edison develop its RY forecast for this revenue?

A. The Company explains on page 57 of the initial testimony of its Accounting Panel that it uses the historical average revenues of the past three years, or October 1, 2021, through September 30, 2024, to forecast the Rate Year level.

Q. Did the Company explain why it used a three-year historical average method to forecast the RY level?

A. Yes. In the redacted response to DPS-649, the Company explained that a three-year period was used to capture the variability of the delivery volumes.

Q. Does the Panel agree with the Company's proposed methodology?

A. No. Although the use of three-year historical revenues can smooth the variability over time, information provided by the Company indicates this revenue has been increasing consistently over the past four years for the 12-months ending September 30, 2021, through 2024, with the HTY revenue reaching the highest level. Specifically, in the redacted response to DPS-649, the Company states that its actual NYPA Variable and Maintenance Revenue for the 12-month period ended September 30, 2021 was $1.536 million; in the workpaper entitled AP-EG3, Sch 5, OOR provided in response to DPS-287, the Company indicates that its actual NYPA Variable and Maintenance Revenue for the 12-month periods ended September 30, 2022, 2023 and 2024 was $1.559 million, $1.843 million and $2.139

million respectively. The workpaper shows that the upward trend is mainly driven by increases in variable revenue, which comprises the major portion of this revenue. The Company's use of the past three years' historical average to forecast the RY level will understate this revenue in the Rate Year by ignoring the year over year increasing trend the Company experienced over the past four years.

Q. What is the Panel's recommendation regarding forecasting this revenue?

A. We recommend that the RY forecast be set the historical level, i.e. $2.139 million, which is the highest level over the past four years. Our recommendation properly captures the increasing revenue trend and therefore, is a better RY forecast.

Q. Is the Company expecting this revenue will continue to increase in the Rate Year?

A. No, in response to DPS-649, the Company states that the revenues will increase, decrease, or remain the same based on the factors discussed previously.

Q. Does the Panel agree with the Company's explanation?

A. No. This revenue has consistently increased over the past four years, as such, we believe the trend will continue into the RY.

Q. What is the Panel’s adjustment to NYPA Variable and Maintenance Revenue?

A. Our proposal increases the Company’s RY gas revenue from $1.847 million to $2.319 million, or by $0.292 million.

Operation and Maintenance Expenses

Fuel and Purchased Power

Q. Please summarize the Company’s forecast of fuel and purchased power for the RY.

A. As shown on Schedule six of Exhibit___(AP-E3) and Exhibit___(AP-G3) of the Company’s Update and Correction testimony, for the RY the Company forecasted fuel and purchased power expense of $2,363.327 million for electric and $784.719 million for gas.

Q. Does the Panel recommend any adjustments to the Company’s RY forecast of fuel and purchased power?

A. Yes. We recommend that the Company’s forecasted fuel and purchased power expense be adjusted to reflect the impact of Staff's sales revenue forecast as recommended in the direct testimony of the Staff Rates Panel.

Q. Please quantify the Panel's adjustment to the Company's RY forecast of fuel and purchased power.

A. The adjustment results in an increase to the Company's RY forecast of fuel and purchased power of $3.541 million and $11.657 million for electric and gas, respectively.

Administrative and General (A&G) Capitalized

Q. Panel, please explain the nature of the A&G capitalized line item.

A. As explained on page 73 of the initial testimony of the Company's Accounting Panel, this line represents the capitalized portion of A&G overhead costs applicable to construction activities, including general office salaries and expenses. As such, this item reduces the Company's total O&M expenses.

Q. How did Con Edison develop its RY forecast of A&G capitalized costs?

A. On page 73 of the initial testimony, the Accounting Panel explains that it increased the

HTY level of A&G capitalized costs by its proposed labor escalation factors resulting in a reduction to its total O&M forecast for the RY of $59.198 million for electric and $12.168 million for gas.

Q. Did the Company revise its forecast in its Update and Correction filing?

A. Yes. As stated on page 15 of Accounting Panel's Update and Correction testimony, the RY forecast of A&G capitalized costs was revised to increase the HTY level by general inflation, as opposed to labor escalation as originally proposed. This results in a reduction to its total RY O&M forecast of $58.602 million for electric, and $12.045 million for gas.

Q. Does the Panel agree with the Company's proposed methodology?

A. No. In response to DPS-38, the Company provided its actual A&G capitalized costs for its electric and gas businesses for the 12-month periods ended September 30, 2020 through September 30, 2024. Based on the information provided, the Company's electric and gas A&G capitalized costs have increased by 5.6 percent from the 12-months ended September 30, 2020 to September 30, 2021, 1.1 percent from September 30, 2021 to September 30, 2022, 14.9 percent from September 30, 2022 to September 30, 2023, and 15.2 percent from September 30, 2024. As such, while the Company experienced a total increase of 41 percent from the 12-months ended September 30, 2020 to September 30, 2024, inflation for the same time period totaled only 18.60 percent. In its response to DPS-510, the Company explains that the upward trend was a result of increased budget amounts for the organizations that support the Company’s construction work. Further, the Company states that it expected the upward trend to continue into the RY consistent with its expectation that the overall budget amounts for those organizations would increase. Because the Company expects the growth in its actual A&G capitalized costs to continue, the Company’s updated proposal of using general inflation, which has historically been much lower than the Company’s actual growth in its A&G capitalized costs, to forecast the RY level is inappropriate and would understate the RY forecast.

Q. How did the Panel develop its RY forecast of A&G capitalized costs?

A. Given the continued increase in year-over-year growth, we applied the annual growth rate for the 12-months ended September 30, 2023 to the 12-months ended September 30, 2024 of 15.2 percent to the Company's actual A&G capitalized costs for the 12-months ended September 30, 2024 to arrive at a reduction to total forecasted O&M in the RY of $76.577 million and $15.740 million for electric and gas, respectively.

Q. Quantify your adjustment to the Company's RY forecast of A&G capitalized costs.

A. Our adjustment increases the Company's RY forecast of A&G capitalized costs forecast by $21.034 million for electric and $4.323 million for gas.

Advanced Metering Infrastructure

Q. What does Advanced Metering Infrastructure (AMI) expense represent?

A. AMI expense represents historical costs for the maintenance of the AMI systems and communications infrastructure.

Q. How did the Company calculate its RY AMI expense?

A. The Company escalated the HTY amount by the general escalation factor to arrive at the RY balance.

Q. Does the Panel agree with the Company's forecasted RY AMI expenses?

A. No, we do not. In its response to question five of DPS-282, the Company states that the AMI installation project was completed as of June 30, 2024, a time prior to the start of the Rate Year. However, in its response to DPS-760, the Company states that it included $0.472 million of AMI installation costs in the RY forecast. These installation costs should be removed from the RY forecast since the project is completed.

Q. Please quantify the Panel's adjustments.

A. The Panel has removed $0.396 million and $0.076 million from electric and gas RY AMI forecasts, respectively.

<u>Bargaining Unit Contract Cost</u>

Q. What are bargaining unit contract costs?

A. As the Company explained in its response to DPS-509, these are various costs that the Company incurs in preparing for and engaging in the negotiation of collective bargaining contracts with its two unions, Local 1-2 Utility Workers Union of America, which we will refer to as Local 1-2 UWUA, and Local 3 International Brotherhood of Electrical Workers, which we will refer to as Local 3 IBEW.

Q. How did Con Edison develop its RY forecast of bargaining unit contract costs?

A. As explained on page 73 of the initial testimony of the Company’s Accounting Panel, the Company increased the HTY expense by inflation to reach its RY forecasts of $0.223 million for electric and $0.046 million for gas.

Q. When do the Company’s current collective bargaining contracts expire?

A. In its response to DPS-22, the Company provides copies of its current collective bargaining contracts which indicate expiration dates of June 21, 2025 and June 24, 2028, for the Local 3 IBEW and Local 1-2 UWUA contracts, respectively.

Q. Did the Company indicate when contract negotiations would commence with its unions?

A. In its response to DPS-509, the Company states that it begins its efforts approximately six to 12 months in advance of the contract expiration. As such, we would expect that at the time of our testimony, the Company is currently engaging in contract negotiations with Local 3 IBEW and will not commence negotiations with Local 1-2 UWUA until June 2027 at the earliest. Further, the Company explains that contracts for Local 3 IBEW have typically been four-year contracts therefore, the next Local 3 IBEW contract is not likely to expire until approximately June 2029.

Q. Does the Panel recommend any adjustments to the Company's RY forecast of bargaining unit contract costs?

A. Yes. Considering the Company's contract negotiations are not expected to occur during the RY, we recommend that the Commission remove the entire $0.223 million for electric and $0.046 million for gas from the RY forecasts resulting in adjustments of $0.212 million and $0.044 million, respectively, before inflation.

Employee Welfare Expense

Q. What is the nature of the Company's Employee Welfare expense?

A. The Company's Employee Welfare costs are costs incurred by the Company for several employee benefits, including but not limited to, medical, dental prescription drugs, vision coverage and the Company's match for its thrift savings plan. The amounts are net of capitalized amounts.

Q. How did the Company develop its Rate Year forecast for Employee Welfare expense?

A. As shown in the Company's Exhibit___(CBP-12) and Exhibit__(CBP-13), the Company's RY forecasts for its electric and gas operations were derived by adjusting its HTY level for allocation changes, normalization adjustments, program changes and escalations.

Q. What method did the Company use to escalate its HTY costs level to its RY costs forecast?

A. As explained on page 66 of the initial testimony of the Compensation/Benefits Panel, the Company's HTY costs were escalated using three different methods. First, a labor escalation factor of 8.0 percent, or 4.0 percent per year, is used to escalate employee benefits costs that are a function of salaries and wages. Second, a non-labor escalation factor of 9.41 percent is used to escalate specific employee benefit costs that are unrelated to salaries and wages, such as stock purchase plan matching contributions and employee wellness programs. Third, a health care cost escalation factor was derived using medical inflation rates based on historical experience.

Q. What is the Company’s Rate Year forecast for Employee Welfare expense?

A. The Company’s Rate Year forecast for Employee Welfare expense is $151.5 million for electric and $45.2 million for gas.

Q. Is the Panel recommending an adjustment to Employee Welfare expense?

A. Yes. The Panel recommends that the Commission adjust the Company’s Rate Year forecast of hospital insurance costs.

Q. Please explain.

A. As a starting point for the Rate Year forecast, we recommend using the latest known 2025 health insurance costs, which was provided by the Company in its response to DPS-676. We then applied the Gross Domestic Product Price Index inflation index, or GDP-PI, to forecast the total Rate Year health insurance costs. As explained in the direct testimony of Staff witness Daniel Gadomski, GDP-PI is the most appropriate means of forecasting health insurance increases. Our recommended adjustment results in a decrease of the Company's RY Employee Welfare expense of $6.601 million for electric and $1.971 million for gas.

Q. Are there additional adjustments to the Company's RY Employee Welfare expenses?

A. Yes. We recommend removing a portion of Employee Welfare expense associated with the Company's Customer Clean Energy Program (CCEP) from the Company's RY Employee Welfare expenses forecast. The CCEP is part of the Company Energy Efficiency (EE) program. Pursuant to Commission order issued on May 15, 2025 in Case 18-M-0084, in the Matter of a Comprehensive Energy Efficiency Initiative (May 2025 Order) the Staff Markets and Innovation Panel recommends removing all EE related costs from base rates. This adjustment decreases the Company's RY Employee Welfare expense by $0.751 million for electric and by $0.136 million for gas.

ERRP Major Maintenance (Electric)

Q. What is the nature of the ERRP Major Maintenance cost component?

A. This cost component represents major maintenance costs incurred at the Company's East River repower plant for Units 1 and 2, which started operations in 2005.

Q. Does the Company reconcile the costs associated with ERRP Major Maintenance?

A. Yes. Pursuant to Commission's January 19, 2020 Order establishing Con Edison electric and gas rates in Cases 19-E-0065 and 19-G-0060, to the extent that the ERRP Major Maintenance costs incurred by the Company vary from the amount provided for in rates, the Company is required to defer the variance for future recovery from or credit to customers.

Q. Is there a deferred balance related to ERRP Major Maintenance costs that either needs to be recovered from or returned to customers?

A. Yes. As shown in the Company's workpaper entitled "AP-EG3 Schedule 6 ERRP Major Maintenance", provided in its response to DPS-

287, the Company projects that as of December 31, 2025, it will have a deferred credit balance of $9.438 million, which the Company proposes to return to customers over a three-year period, or $3.146 million annually.

Q. What is the Company’s projected spending over the next five years?

A. As shown in workpaper AP-EG3 Schedule 6 ERRP Major Maintenance, the Company projects over the next five-year period, or from January, 2026, through December 2029, that it will spend a total of approximately $61.900 million, or approximately $12.380 million on an average annual basis.

Q. How did the Company develop its Rate Year forecast of ERRP Major Maintenance expense for its electric business?

A. The Company’s forecast is derived by reducing the average annual projected spending amount of $12.380 million by the annual credit amortization amount of $3.146 million to arrive at its Rate Year forecast of $9.234 million.

Q. Does the Panel agree with how the Company developed its Rate Year forecast of ERRP Major

Maintenance expense?

A. No. Given the significant revenue requirement increases requested by the Company in these proceedings, in an effort to mitigate the rate impact on customers and to address affordability concerns, we recommend that the Commission deny the Company's proposal to return the deferred credit balance over three years, instead we recommend it return the entire deferred balance of $9.438 million to customers in the Rate Year.

Q. What is your Rate Year forecast for ERRP Major Maintenance expense?

A. Our Rate Year forecast for ERRP Major Maintenance expense is $2.652 million, or a reduction of approximately $6.292 million.

Company Labor

Q. How is the Company's labor expense presented?

A. As explained on pages 74 through 77 of the initial testimony of the Company's Accounting Panel, the Company broke out its labor expense into the following categories: Advanced Metering Infrastructure; Central Engineering; Construction Management; Corporate and Shared Services; Customer Energy Solutions; Customer

Operations; Electric Operations; Gas Operations; Production; Steam Distribution; Substation Operations; and System & Transmission Operations. While the Panel recommends adjustments that affect each individual labor category, our testimony will discuss our adjustments as a total labor adjustment combined for all categories.

Q. How did the Company develop its Rate Year expense forecast for Company labor?

A. The Company began with the expense level for the Historic Test Year, and then adjusted that level to reflect its request for incremental full-time-equivalent employees, referred to as FTEs, as proposed by the Company's various witnesses. The Company then applied its labor escalation factor of 6.58 percent, inclusive of a semi-annual wage progression increase of 0.5 percent, to arrive at its Rate Year forecast for Company labor expense.

Q. How much labor expense does the Company request in the Rate Year?

A. In the Company's Update and Correction filing, it requests $804.835 million for Electric and

$200.354 million for gas.

Q. Does the Panel agree with the Company's RY forecast of labor expense?

A. No. We recommend nine adjustments to the Company's RY labor expense forecast, which we will discuss in more detail below.

Q. Please explain the Panel's first adjustment.

A. Our first adjustment addresses the incremental FTEs proposed by the Company. We quantified and reflected in our revenue requirements any labor adjustments recommended by other Staff Panels and witnesses. The Company, in its Correction and Update filing workpaper AP-3 Sch 6 Various Company Labor Lines - Update Filing 20250408, provided in its response to DPS-867, reflects a total of 2,187 incremental FTEs for the Rate Year. Other Staff Panels and witnesses recommend reductions to the incremental FTEs requested by Con Edison by 1,282, resulting in a reduction to the Company's RY labor expense of $51.022 million for electric and $8.691 million for gas. Specifically: the Staff Electric Infrastructure and Operations Panel removed 544 FTEs; Staff Gas Safety Panel removed 60 FTEs;

Staff Sales Forecasting Panel removed 2 FTEs; Staff Shared Services Panel removed 50 FTEs; Staff Utility Safety Panel removed 41 FTEs; Staff Markets and Innovation Panel removed 19 FTEs; the Direct Testimony of Andrew Carpenter removed 39 FTEs; Staff Gas Reliability Panel removed four FTEs; and Staff Consumer Service Panel removed 523 FTEs.

Q. Does the Panel also recommend any adjustment to incremental FTEs requested by the Company?

A. Yes. In our second adjustment, we recommend modifications to 10 requested FTEs in the Company’s Corporate Affairs program contained in its Corporate and Services labor category.

Q. Please explain your adjustment.

A. The Company’s response to DPS-752 states that it plans to initiate the hiring process for the eight manager and specialist positions in the Corporate Affairs program in the first quarter of 2027, however, the Company includes the costs associated with these positions in the Rate Year. As such, we adjusted these eight positions out of the Rate Year. The Company also proposes to hire two additional Directors and two Senior Specialists. The response to DPS-752 further states that the Company plans to initiate the hiring process for these positions in the second quarter of 2026. However, in its initial testimony, the Company stated that one Director and one Senior Specialist would be hired as of start of the Rate Year and the other Director and Senior Specialist will start approximately March 1st 2026. Therefore, the Panel recommends an adjustment to reflect hiring these employees later in the Rate Year as discussed by the Company in their response to DPS-752.

Q. What is the impact of the Panel's recommendations?

A. Our adjustments result in a reduction to Labor Corporate & Shared Service expense of $0.646 million for electric and $0.193 million for gas.

Q. Please explain your third, fourth and fifth, adjustments.

A. We recommend adjusting the Company's labor escalation rate to remove the semi-annual wage progression increase, impute an additional one percent annual productivity related to the incremental FTEs, and impute an additional one percent annual productivity related to Rate Year capital expenditures.

Q. What is the Company's proposed labor escalation rate?

A. The Company uses a labor escalation rate of 6.58 percent for the 27-months period from October 1, 2024, through December 2026. The Company's labor escalation rate includes a one percent productivity imputation and a 0.5 percent semi-annual wage progression.

Q. Please explain your third adjustment related to the wage progression increases reflected in the Company's forecast.

A. The semi-annual wage progression increases, given in February and October, are step increases designed to provide periodic increases in union employee's wages from the hiring rate to the top pay rate for a job title. These increases, provided in the current union and collective bargaining contracts, are awarded semi-annually to employees who earn a satisfactory performance evaluation. Employees who receive satisfactory performance evaluations continue to receive the step increase until they reach the maximum rate of pay for the job title.

Q. Does the Panel agree with imputing step increases?

A. No. We disagree with imputing step increases for two reasons. First, the Company will realize savings from employees who either are at or near the top of the wage scale, leave the Company, or are promoted to a new title, and are then replaced by employees at or near the bottom of the wage scale. These savings will offset the costs associated with wage progression for other employees. For some employees at Con Edison, there are twelve progression increases between the bottom and the top of the pay scale for a given job title. Therefore, if a person at the top of the pay scale retires and is replaced by an employee at the bottom of the pay scale, the Company will incur savings in the amount of 12 progression increases. This type of savings realized by the Company is not accounted for in its labor calculation. Over time, with the natural turnover of employees, the progressive steps are averaged into any given year. In years with a high rate of turnover, the net costs associated with wage progression could result in a net incremental savings; in years with a low rate of turnover, the progressive increments may result in a net incremental cost. Over time, though, the savings from seasoned employees at higher pay level leaving, or being promoted to a new title, and being replace with an employee at the bottom of the pay scale, at a minimum, can offset the costs of step increases for new employees.

Q. What is the second reason for disallowing step increases?

A. In the Company’s initial filing it requested an additional 2,415 FTEs. This request was then reduced to 2,187 FTEs in the Update and Correction filing. Various Staff panels have proposed to reduce that request by 1,290, allowing 897 new FTEs. The Company’s labor forecast applies a wage progression increase to those new employees during the RY, however these employees will not be eligible for a wage progression increase until after the RY.

Q. Has the Commission previously rejected Con

Edison's inclusion of wage progression increases in labor forecasts?

A. Yes. In the rate order in Case 08-E-0539, Proceedings on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service (issued April 24, 2009) the Commission concluded that the Company would experience savings as employees at or near top of the salary grade leave Con Edison and are replaced by employees at the bottom of the salary grade. The Commission noted that these savings would offset the wage progression for employees below the top pay rate.

Q. What is your adjustment related to wage progression increases?

A. We recommend a decrease to the Labor expense forecast of $4.238 million for electric and $1.092 million for gas.

Q. Please explain your fourth adjustment to impute an additional one percent annual productivity related to incremental FTEs.

A. We recommend an additional one percent productivity adjustment as a proxy to capture the savings that should reasonably result from the Company’s hiring activities. As shown on the Company’s accounting workpaper AP-3 Sch 6 Various Company Labor Lines - Update Filing 20250408, provided in its response to DPS-867, the Company forecasts an additional 2,187 incremental FTEs for the Rate Year, almost all of which are projected to be hired prior to or at the start of the Rate Year. The Company, however, did not recognize additional productivity gains or efficiencies resulting from these additional employees outside of the Commission’s traditional one percent. While Staff has recommended disallowing 1,290 of the 2,187 requested FTEs, the remaining 897 incremental employees the Company proposes to hire, which represents a 6.5 percent increase to the Company’s total employee headcount, should increase productivity as those new employees are skilled workers that cover the Company’s various functional areas. Cost savings should be expected due to enhanced efficiency or productivity such as quicker response time and service restorations, improved system plannings, better customer service and communications, more support for regulatory compliance, enhanced renewable integration and more employees' trainings and developments. As such, we recommend imputing an additional one percent annual productivity related to the incremental FTEs Staff supports.

Q. How did you calculate the additional productivity adjustment related to the additional employees?

A. The Company imputed one percent annual productivity in its labor escalation rate forecast over the 27-month period from the end of HTY through the end of RY, resulting in a 2.25 percent deduction to its labor escalation rate. We recommend that the Commission adjust the Company's labor escalation rate to reflect an additional one percent productivity over the same 27 months.

Q. Please quantify your additional one percent productivity imputation relating to the hiring of additional employees?

A. Our recommendation reduces Company's RY Labor expense forecast by $14.315 million for electric and $3.690 million for gas

Q. Please explain your fifth adjustment.

A. We recommend imputing an additional one percent productivity adjustment to capture the efficiency or productivity savings associated with the Company's RY capital spending.

Q. How much capital investment related efficiency or productivity gains has the Company reflected in its current rate filings?

A. The Company, in its rate filing cover letter dated January 31, 2025, claims it made several efficiency efforts in which it leverages various business processes and technology. It further claims that it imputed an efficiency or productivity adjustment in the current filings. However, when asked in DPS-790 to quantify the efficiency or productivity savings related to its new capital investments, the Company stated that it only reflected the Commission's traditional one percent annual labor productivity adjustment in its labor escalation.

Q. Is the Company's conventional one percent annual labor productivity adjustment enough to capture efficiency or productivity savings for the

Company’s RY new capital investment?

A. No, considering the significant incremental FTEs to be added, which we have discussed above, and the magnitude of the Company’s proposed new capital investments to be implemented in RY, the conventional one percent productivity adjustment is far from enough.

Q. How much does the Company propose to invest in the RY?

A. The Company proposes $6.938 billion of total new capital investments during the RY, with information technology (IT) investments of $984 million. Of this, $1.380 billion of total new capital investments will be closed into service before the end of Rate Year.

Q. Did the Company identify any potential savings that should arise from its proposed capital spending?

A. The Company provided various exhibits and whitepapers to support its capital requests. On numerous occasions, these exhibits and whitepapers identified anticipated cost savings resulting from either efficiency boosts due to processes modernizations, automations, system improvement, workflow streamlining, or productivity enhancements. In the review of these exhibits and whitepapers, we identified a list of new projects where the Company stated that specific efficiency boosts or productivity enhancements would occur and asked that the Company quantify potential savings associated with these efficiency boosts or productivity enhancements. The Company, however, in its response to DPS-796 failed to provide the quantified and measurable savings, citing various reasons including that the savings have been built into the costs requested, or that "efficiency/productivity cost savings cannot be quantified at this time due to the complex nature of the improvements and stakeholder activities involved".

Q. Does any other Staff Panel identify savings that may result from the Company's capital project budgeting and implementation processes?

A. Yes. As discussed in the Staff Management and Operation Audit Panel direct testimony, Recommendations VII-2 and IX-3 contained in the Commission approved Implementation Plan under the 2021 Management Audit, directed the Company to more accurately estimate, track, and report and reflect efficiency gains in its capital budgeting and implementation processes. As such, Staff Management and Operation Audit Panel recommends these efficiency gains be captured by a productivity adjustment.

Q. Considering the above, what is the Panel’s recommendation?

A. We recommend imputing an additional one percent productivity adjustment to the Company’s labor escalation rate over the 12 months during the RY to capture the efficiency or productivity savings the Company failed to reflect in its RY forecast. Our new capital investments related productivity imputation results in a 2.66 percent labor escalation rate.

Q. Please quantify your adjustment of an additional one percent productivity imputation related to capital investments?

A. Our recommendation reduces Company’s RY Labor expenses by $6.362 million for electric and $1.640 million for gas.

Q. Has the Commission ever set rates for a utility with a productivity adjustment of more than one percent?

A. Yes. The Commission has determined a productivity adjustment of more than one percent in a number of rate orders including Case 93-E-1123, Long Island Lighting Company (issued July 3, 1995), Case 95-G-1034, Central Hudson Gas and Electric Corporation (issued October 3, 1996), Case 97-G-0949, St. Lawrence Gas Company (issued January 22, 1998), and Case 08-E-0539, Con Edison (issued April 24, 2009).

Q. What is the sixth adjustment the Panel recommends?

A. We recommend an adjustment to address slippage in the Company’s planned hiring of its proposed incremental FTE employees. Schedule 6 of Company Exhibit___(AP-E3) and Exhibit___(AP-G3) provides the incremental costs associated with the new positions requested by the Company as program changes for the Rate Year. While these new positions, with the exception of those Staff recommends be removed, may be necessary, the projected start date for each new position represents only an estimate and it is unknown when, or if, these positions will actually be filled in the Rate Year. The Company could fill the positions either before, on, or after the Company's projected start date, or not at all, which would affect the actual labor expense incurred in the Rate Year. Furthermore, incremental positions could be filled by existing employees, resulting in no incremental cost to the Company, or a potentially lower incremental cost if the existing employee is transferred to a position with a higher salary.

Q. In the event the Company is unable to fill a proposed incremental position, would the Company recover the cost of those unfilled positions in rates?

A. Yes. In the event the Company is unable to fill a proposed incremental position, or fills the position at a later date, the Company would continue to receive cost recovery in rates for the position based on the original estimate. By applying a slippage adjustment to the proposed staffing level for the Rate Year, we can account for these potential variances in the Company's actual hiring activity. Absent the application of a slippage adjustment, we can reasonably conclude that customers would be paying the Company for incremental positions that are vacant during all or part of the Rate Year. Thus, customers would be paying for an FTE without receiving the associated benefit.

Q. How did the Panel adjust the Company's Rate Year forecast of labor expenses to reflect slippage in the Company's planned hiring activities?

A. In DPS-469, the Company was asked to report on the status of the FTEs that were approved in the 2023 Rate Order. The Company did not provide the requested information. The Company did, however, provide information to give the Panel insight into the Company's hiring activities over the last few years which showed that on average it takes about 120.2 days from the time a position is posted to the time Con Edison actually fills the position. Absent additional information, we utilized the time between the posting of a position and the actual hiring date of 120.2 days out of 365, or 33 percent, as a proxy for our slippage adjustment. We recommend this 33 percent slippage adjustment be applied to the Company's FTE requests to estimate slippage in the Company's planned hiring activities for the Rate Year. This adjustment reduces the Company's labor forecast by $15.690 million for electric and $2.547 million for gas.

Q. Did other Staff panels provide labor related adjustments to this Panel?

A. Yes, the seventh adjustment comes from the Staff Incentive Compensation Panel, which recommends removing Con Edison's incentive-based compensation for non-officer management employees from the Company's RY electric and gas labor forecast. The adjustment decreases the Company's RY labor forecast by $34.950 million for electric and by $9.742 million for Gas, to reflect that panel's adjustments to Company's Management Variable Pay program and decreases the Company's RY Other Compensation forecast by $16.149 million for electric and $4.818 million for gas for costs associated with the Company's Long-Term Incentive Pay program for non-officer management employees.

Q. Besides the Staff Incentive Compensation Panel, are there any other Staff Panels providing labor related adjustments to this Panel?

A. Yes. The eighth and ninth adjustments come from the Staff Markets and Innovation Panel. Pursuant to the May 2025 Order, the Staff Markets and Innovation Panel recommends removing the Energy Efficiency related labor costs from base rates. This results in a decrease in electric labor costs of $16.538 million and a decrease in gas labor costs of $2.919 million. The Staff Markets and Innovation Panel also recommends a reclassification of labor dollars associated with the Customer Analytics, Reporting, and Engagement program from electric to gas, which results in a reduction of electric labor costs by $0.085 million and an increase in gas labor costs by $0.085 million.

<u>Company Labor – Fringe Benefit Adjustment</u>

Q. How did the Company develop its Fringe Benefit Adjustment expense related to its Company Labor forecast?

A. The Fringe Benefit Adjustment expense reflects the change in fringe benefits, such as employee welfare expenses and workers' compensation, related to the increase in the number of employees through program change requests sponsored by various Company witnesses. The Company applied a fringe benefit rate of 16.4 percent to the total of the labor-related program changes. Then, the Company escalated that amount by the general inflation factor to derive the Rate Year Fringe Benefit Adjustment expense.

Q. Does the Panel agree with the Company's proposed fringe benefit rate?

A. No. We recommend two adjustments.

Q. What is the Panel's first adjustment?

A. In its response to DPS-304 the Company provides an updated Authority Letter effective January 2025 with a revised fringe benefit rate of 16.58 percent. As such, we recommend updating the Fringe Benefit factor accordingly. This results in an increase to electric Fringe Benefit expense of $0.034 million and an increase to gas Fringe Benefit expense of $0.006 million.

Q. What is your second adjustment?

A. We recommend an adjustment to the Company's RY Fringe Benefit Adjustment that tracks all Staff panels' adjustments to the Company's forecasted labor expense using the updated fringe benefit rate. Specifically, the direct testimonies of the Staff Electric Infrastructure and Operations Panel, Staff Gas Safety Panel, Staff Sales Forecasting Panel, Staff Shared Services Panel, Staff Utility Safety Panel, Staff Markets and Innovation Panel, Direct Testimony of Andrew Carpenter, Staff Gas Reliability Panel, Staff Consumer Service Panel, and finally this panel—the Staff Accounting Panel. These Panels' adjustments reduce the Company's RY labor expense by a total of $151.697 million for electric and $32.012 million for gas, resulting in a Fringe Benefit expense tracking adjustment that reduces the Company's RY Fringe Benefit expense forecast by $25.151 million to electric and $5.308 million to gas.

Q. Is there another adjustment recommended by the Staff Markets and Innovation Panel?

A. Yes. Pursuant to the May 2025 Order, the Staff Markets and Innovation Panel recommends removing all EE related costs from base rates. This results in a decrease in the Company's RY Fringe Benefits forecast by $2.712 million for electric and by $0.479 million for gas.

Corporate & Shared Services

Q. Does the Panel recommend any adjustment to the Company's Corporate & Shared Service forecast?

A. Yes. In its supplemental response to DPS-1046, the Company explains that in forecasting its RY Corporate & Shared Services expense for its electric and gas operations, it erroneously reversed the sign of a normalization adjustment to the HTY level, resulting in an understatement of the RY forecast by $27.160 million for its electric operations and $5.583 million for its gas operations. We reviewed the underlying supporting documentation provided in the Company's above response and recommend a correction for this error. The correction increases the RY forecast of Corporate & Shared Services expense by $27.160 million for its electric operations and $5.583 million for its gas operations.

Institutional Dues and Subscriptions

Q. Please explain the nature of the Company's institutional dues and subscriptions expense.

A. This expense represents fees and dues paid by the Company for various memberships and associations.

Q. Is the Company seeking recovery of the membership fees and association dues paid to organizations that engage in lobbying activities?

A. No. As explained on page 82 of the initial testimony of the Company's Accounting Panel, the Company excluded from its RY forecast all membership fees and association dues.

Q. Did the Panel verify that the Company excluded fees and dues paid to organizations who engage in lobbying activities from its RY forecast of institutional dues and subscriptions?

A. Yes. The Company's workpaper regarding its initial testimony AP-3, Informational Advertising CECONY 25, provided in its response to DPS-287 contains a list of organizations to which the Company pays membership fees and organization dues. The Panel reviewed each organization included in the list and verified that the Company properly excluded from its rate year forecast all amounts paid to Edison Electric Institute (EEI) and American Gas

Association (AGA), which did engage in lobbying.

<u>Regulatory Commission Expense – General and Research & Development (R&D)</u>

Q. Panel, what is the nature of the Company's regulatory commission expense – general and R&D line item?

A. Section 18-a of the Public Service Law provides that the costs and expenses of the Department and the Commission, which we will refer to as the general assessment, as well as New York State Energy Research and Development Authority costs, which we will refer to as the NYSERDA assessment, shall be paid by the public utility companies, corporations, and persons subject to the Commission's regulation. The Company's regulatory commission expense - general and R&D line item represents the portion of those costs assessed to Con Edison.

Q. Briefly explain the Department's assessment process.

A. The Department issues three bills, or statements, as part of its assessment process. In February, before the start of each New York State, or NYS, fiscal year, which is the twelve-months ending March 31, the Company is issued a Statement of Estimated Assessment. The assessments in this statement are developed based on the NYS Executive Budget, as it was originally proposed by the executive branch, and the Company’s adjusted intrastate revenues from the calendar year ending two years prior. The Company’s Statement of Estimated Assessment provides the estimated general assessment but does not provide an estimated NYSERDA assessment. In August of each State fiscal year, the Company is issued a Statement of Revised Assessment which updates the general assessment to reflect the NYS Enacted Budget, which has modifications of the Executive Budget as passed by the legislature and signed by the governor, and the Company’s adjusted intrastate revenues for the prior calendar year, and reflects the NYSERDA assessment. Finally, in October following the end of the State fiscal year, the Company is issued a Final Statement of Assessment which updates the total assessment to reflect the actual, rather than budgeted, expenditures incurred during the State fiscal year. At this time, the Company's estimated assessment is reconciled with its final assessment resulting in a refund of any overpayments made or a request for additional payment of the remaining assessment owed.

Q. How did the Company develop its RY forecast of regulatory commission expense?

A. As explained on page 91 of the initial testimony of the Company's Accounting Panel, the Company's RY forecast was based on the Statement of Revised Assessment for the 2024/2025 State fiscal year, excluding refunds. The Company then applied its general inflation factor to the 2024/2025 estimated assessment to reach a RY forecast of $54.817 million for electric and $15.456 million for gas.

Q. Did the Company revise its forecast in its Update and Corrections filing?

A. Yes. As stated on page 18 of the Update and Corrections testimony of the Company's Accounting Panel, the Company updated its regulatory commission expense – general and R&D forecast for the RY based on its Statement of Estimated Assessment letter dated February 1, 2025, which results in a RY forecast of $57.561 million for electric and $16.224 million for gas.

Q. Did the Company explain why it excluded refunds from its RY forecast?

A. Yes. In its response to DPS-335, the Company states that the assessment is calculated based on budget information from the State and that the Company cannot forecast whether a refund or additional payment would be appropriate.

Q. Does the Panel agree that the RY forecast should exclude an estimated refund?

A. No. As we explained earlier in our testimony, a Final Statement of Assessment is issued subsequent to the end of each State fiscal year for the specific purpose of reconciling the estimated assessment billed to utilities to the final assessment, which is based on actual expenditures incurred. As such, the assessment process recognizes that the estimate will likely differ from the final assessment. This is further supported by the Company's Final Statements of Assessment provided in response to DPS-335 which shows that the Company made an overpayment, and received a subsequent refund, in each of the past seven State fiscal years for which a Final Statement of Assessment has been issued. Because the Company has historically received a refund, excluding this component is unreasonable and would result in an overstated regulatory commission expense - general and R&D forecast for the RY.

Q. How did the Panel develop its RY forecast of regulatory commission expense?

A. Using the Final Statements of Assessment for the 2021/2022, 2022/2023, and 2023/2024 State fiscal years, provided by Con Edison in response to DPS-335, we calculated a three-year average ratio of the Company's refund of its overpayment to its estimated assessment of 12.2 percent. We then reduced the Company's estimated assessment for its electric and gas businesses by this refund ratio to develop an estimated final assessment of $47.904 million for electric and $13.502 million for gas, prior to inflation.

Q. Please quantify your recommended adjustment to the Company's RY forecast of regulatory commission expense – general and R&D.

A. Our adjustment reduces the Company's RY forecast by $6.653 million for electric and $1.875 million for gas.

<u>Uncollectible Reserve – Customer</u>

Q. What is the nature of the Company's uncollectible reserve – customer expense?

A. As explained on page 93 of the initial testimony of the Company's Accounting Panel, this expense represents an allowance for the recovery of write-offs of customer accounts receivables.

Q. Please summarize the Company's forecast of the uncollectible reserve – customer expense for the RY.

A. As shown on Schedule 6 of Exhibit___(AP-E3) and Exhibit___(AP-G3) of the Company's Update and Corrections filing, the Company forecasts an uncollectible reserve – customer expense, prior to the base revenue increases, of $66.209 million for electric and $21.071 million for gas. These amounts were then adjusted to reflect additional uncollectible reserve – customer expenses associated with the Company's proposed electric and gas rate increases by applying the uncollectible factor adopted in the

2023 Rate Order of 0.60 percent to each respective commodities proposed RY revenue increase.

Q. How did the Company forecast its uncollectible reserve – customer expense for the RY before the incremental increase that tracks its proposed RY revenue increase?

A. As explained on page 93 of the initial testimony of the Company’s Accounting Panel, the Company proposed to use the same amount set in its current rate plans as its RY forecast in these proceedings, subject to a full reconciliation.

Q. Why did the Company use the levels in its current rate plans to forecast the RY uncollectible reserve – customer expense in these proceedings?

A. As explained on page 93 of the initial testimony of the Company’s Accounting Panel, the Company is actively addressing its high customer arrears balances and, therefore, utilized an approach consistent with its forecast of late payment charge revenues, which we previously discussed. Further, the Company states on page 112 that it is unable to predict how quickly arrears levels will decrease or when uncollectible expense levels will increase which makes a proposed forecast untenable.

Q. Why does the Company's efforts to actively address its high customer arrears balances have an impact on the Company's uncollectible reserve – customer expense?

A. As the Company explains on page 111 of the initial testimony of its Accounting Panel, aged arrears go through a collection process and, if unpaid, eventually result in customer termination and a conversion of the aged arrears to uncollectible expense. In addition, the Company states that it instituted deferred payment agreement plans which provide customers with needed flexibility, however these agreements also result in customers paying small amounts against their outstanding balance, which delays termination for those that ultimately do not pay. As a result, the Company claims it can be years before arrears balances translate to uncollectible expenses even when the Company's field operations are fully funded. Further, the Company explains on page 112 that as write-offs lag arrears, the Company's uncollectible expense is expected to increase in the upcoming years to track the elevation in arrears but should then decrease and stabilize once arrears do the same.

Q. Does the Panel agree with the Company that a reasonable RY forecast of uncollectible reserve – customer expense cannot be determined?

A. No. The Company's write-offs are primarily driven by its arrears balances in that the write-offs represents the portion of the Company's arrears balance that it no longer expects to collect from its customers. As such, and consistent with our position for forecasting the Company's late payment charge revenue for the RY, a reasonable forecast for the Company's uncollectible reserve – customer expense can be developed by using a historical ratio of write-offs to average arrears balances and then applying that ratio to the projected level of average arrears in the RY. The methodology we recommend allows us to develop a RY forecast of uncollectible reserve – customer expense that takes into account the Company's recent write-off and arrears history as well as the resulting impact of the Company's arrears reduction efforts.

Q. What historical ratio of customer write-offs to arrears balances does the Panel recommending applying to the projected average arrears balance for the RY?

A. We recommend applying the latest known ratio of 17.8 percent for the Company's combined electric and gas operations, for the 12-months ending March 31, 2025. This ratio was developed based on the Company's historical actual customer write-offs provided in response to DPS-828 and the Company's average combined residential and non-residential arrears balances over 60-days, from the Company's monthly Collection Activity Reports filed in Case 91-M-0744.

Q. Why did the Panel choose to use the latest known ratio of write-offs to average arrears balances for the 12-months ending March 31, 2025 as opposed to utilizing a ratio, or an average ratio, for an alternative time period?

A. We calculated and reviewed the combined electric and gas write-offs to average arrears balance ratios for calendar years 2018 through 2024 of

15.6 percent, 16.3 percent, 7.4 percent, 6.6 percent, 6.3 percent, 11.7 percent, and 15.8 percent, respectively, using the data sources previously discussed. While the write-off to average arrears balance ratio has fluctuated during this time period, the volatility from 2020 through 2023 can be attributed to COVID-19 related disruptions and the Company's suspension of collections and are not expected to repeat during the RY as we previously discussed in the late payment charge revenue section of our testimony. The return to higher write-off to average arrears balance ratios in 2024 and the most recent 12-months ended March 31, 2025 suggests the ratio has stabilized and has returned to pre-pandemic levels. The latest known ratio, therefore, reflects current conditions and provides a reliable proxy for forecasting write-offs for the RY. Further, we did not make additional adjustments to our forecasting methodology to specifically account for the time lag between arrears and write-offs. While we recognize that a lag exists, and has always existed, our use of the latest known ratio which is broadly consistent with pre-covid levels, is based on the Company's actual historical experience, not on assumptions or speculation, and reflects how arrears and write-offs have behaved over time.

Q. Please summarize the Panel's forecast of RY uncollectible reserve - customer expense.

A. Applying our write-off to average arrears balances ratio of 17.8 percent to our projected average arrears balance for the RY of $1.023 billion, which we previously discussed, results in a combined RY forecast of write-offs for the Company's electric and gas operations of $181.940 million. We then allocated the combined RY write-offs to the Company's electric and gas operations based on each commodity's share of HTY operating revenues, from which arrears balances, and ultimately write-offs, originate, to derive our RY forecast of uncollectible reserve customer expense of $143.725 million for electric and $38.214 million for gas.

Q. Please quantify the Panel's recommended adjustment to the Company's RY forecast of uncollectible reserve – customer expense.

A. Our adjustment increases the Company's forecast of uncollectible reserve – customer expense in the RY by $77.516 million for electric and $17.143 million for gas.

Q. Is the Panel recommending any other adjustments to the Company's forecast of uncollectible reserve – customer expense in the RY?

A. Yes. As we previously mentioned, the Company adjusted its forecast to reflect additional uncollectible reserve – customer expenses at a rate of 0.60 percent for the Company's electric and gas operations associated with the Company's proposed electric and gas rate increases. As our forecasting methodology is based on the ratio of write-offs to arrears balances, and not as a function of sales revenues, we recommend that the Company's proposed 0.60 percent ratio for its electric and gas operations be reduced to zero percent and no additional uncollectible reserve – customer expenses be imputed because of the proposed rate increases.

<u>Inflation</u>

Q. Did the Company develop its RY forecast of certain O&M expenses by inflating the HTY expenses by GDP inflation?

A. Yes. As shown in Schedule 6 of Exhibit___(AP-E3) and Exhibit___(AP-G3) of its initial filing, the Company developed its RY forecast by increasing the HTY expense by an inflation rate of 5.02 percent.

Q. What period does this inflation rate reflect?

A. The inflation rate reflects the period from the end of the HTY through the Rate Year, or October 1, 2024 through December 31, 2026.

Q. Did the Company revise its forecasted inflation rate?

A. Yes. As explained on page 14 of the Update and Correction testimony of the Company's Accounting Panel, the Company updated its forecasted inflation rate to 5.51 percent.

Q. Do you agree with the Company's forecasted inflation rate of 5.51 percent?

A. No. In testimony, Staff witness Daniel Gadomski forecasts an inflation rate of 6.62 percent for the period October 1, 2024 through December 31, 2026.

Q. Did the Panel apply Staff's forecasted inflation rate to the O&M expenses increased by GDP inflation?

A. Yes. Our adjustment increases the forecasted electric and gas O&M expenses by $2.109 million and $1.795 million, respectively.

Q. Does Staff Witness Gadomski's inflation rate recommendation impact any of the Company's other forecasts?

A. Yes. As explained on page 19 of the initial testimony of the Company's Accounting Panel, the Company also used inflation to forecast its materials and supplies, as well as all of its prepayments, excluding property tax. Therefore, we updated these forecasts to reflect Staff's recommended inflation rate, which increases the Company's forecasted electric and gas materials and supplies and prepayments, other than property tax prepayments, by $5.246 million and $0.757 million for electric and gas, respectively.

Taxes Other Than Income Taxes

Property Taxes-Overall Review

Q. Please provide a brief description of the Company's property tax expenses.

A. As stated on pages seven and eight of the initial testimony of Witness Stephanie Merritt, the Company pays the majority of its property taxes to New York City, which we will refer to as NYC, which has a four-class tax system and four different tax rates. Most of the Company's properties fall within Class 3 which contains utility property and Class 4 which contains all commercial and industrial property, as well as all other properties not included in the other three classes. In addition to NYC, the Company also pays property taxes to municipalities in Westchester, Orange, Rockland, Dutchess and Putnam Counties as well as property taxes on its gas storage facilities in West Virginia and Mississippi, which the Company refers to as "Westchester and Other."

<u>Property Taxes- New York City Forecast</u>

Q. How did the Company develop its RY forecast of NYC property tax expenses?

A. As summarized on pages 12 and 13 of the initial testimony of Witness Merritt, to develop its RY forecast of NYC property taxes, the Company increased the 2024/2025 real estate and special franchise values by the estimated effect of the net plant changes in electric and gas plant to arrive at the RY assessment values for its Class 3 and Class 4 property. Then, the Company applied its estimated tax rates to its assessed value forecasts in order to reach its initial RY NYC property tax expense forecast of $2.491 billion for electric and $0.538 billion for gas. On April 10, 2025, the Company submitted its Update and Correction filing. As explained on pages five through nine of the updated testimony of Witness Merritt, the Company updated its RY forecast to reflect the actual NYC fiscal year 2025/2026 tentative assessments, changes in the Company’s capital forecast, updates to the NYS Real Property Tax Law, which we will refer to as RPTL, Section 626-Credit for the NYC Special Franchise Receipt Taxes and changes to the estimated tax rates applied to forecast the RY. These changes resulted in an updated NYC property tax expense forecast for the RY of $2.486 billion for electric and $0.510 billion for gas.

Q. How did Witness Merritt derive her estimated NYC tax rates as updated in the Company’s Update and Correction filing?

A. As explained on pages seven and eight of the updated testimony of Witness Merritt, to forecast the property tax rates for NYC, the Company developed a five-year average annual growth rate for its Class 3 and Class 4 tax rates of 0.002 percent and 0.148 percent, respectively. The average annual growth rates were then applied to the actual fiscal year 2023/2024 tax rates to arrive at the forecasted tax rates for Class 3 and Class 4 properties.

Q. Did the Company use the latest known Class 3 and Class 4 tax rates to develop its growth rates and forecasted tax rates for the RY?

A. No. Despite the fact that the fiscal year 2024/2025 NYC tax rates are currently known, the Company developed its five-year average annual growth rates beginning with fiscal year 2018/2019 and ending with fiscal year 2023/2024. The fiscal year 2023/2024 rates, as opposed to the latest known fiscal year 2024/2025 rates, were then also used as the starting point to which the average annual growth rates were applied.

Q. What is the Company's rationale for excluding the fiscal year 2024/2025 property tax rates from the development of its forecasted property tax rates in the current filings?

A. As explained on page 14 of the initial testimony of Witness Merritt, the Company considers the Class 3 property tax rate for fiscal year 2024/2025 of 11.181 percent, which decreased 7.440 percent from fiscal year 2023/2024, to be an outlier, and therefore, used an alternative approach to forecast the future property tax rates. The Company further explained on page seven of the updated testimony of Witness Merritt that its modified approach was taken due to significant factors that resulted in a lower NYC Class 3 property tax rate for fiscal year 2024/2025 compared to fiscal year 2023/2024.

Q. Please briefly describe the first factor that resulted in a lower NYC Class 3 property tax rate for fiscal year 2024/2025 compared to fiscal year 2023/2024.

A. As explained in more detail on pages 14 through 16 of the initial testimony of Witness Merritt, the first factor resulting in a lower 2024/2025 Class 3 property tax rate was the sharp increase in the citywide Class 3 taxable assessed values. Citywide Class 3 taxable assessed values increased by $4.4 billion, or by 20.13 percent, from fiscal year 2023/2024 to fiscal year 2024/2025 compared to an average increase of 3.75 percent for Class 1 and Class 2 tax citywide taxable assessed values and 2.31 percent for Class 4 citywide taxable assessed values.

Q. How does an increase in the Class 3 citywide taxable assessed values result in a decrease to the Class 3 property tax rate?

A. As the Company explains on page 16 of the initial testimony of Stephanie Merritt, property tax is the main revenue source to balance local municipal budgets so if the assessed value increases, the tax rate may decrease and still yield the necessary municipal revenue. In other words, to determine the Class 3 tax rate, the Class 3 tax levy, or the amount of municipal revenues to be collected by NYC from the Class 3 properties within its jurisdiction, would be divided by the total Class 3 citywide taxable assessed value. As such, all else equal, as Class 3 citywide taxable assessed values increase, a lower Class 3 tax rate would be needed to collect the same Class 3 tax levy.

Q. Briefly describe the second factor that resulted in a lower NYC Class 3 property tax rate for fiscal year 2024/2025 compared to fiscal year 2023/2024.

A. The Company explains on pages 17 and 18 of the initial testimony of Witness Merritt that the 2024 legislative amendment to adjust the standard five percent cap on the Class Shares that affects how property taxes are calculated and distributed among NYC’s four property tax Classes also contributed towards a lower Class 3 property tax rate for fiscal year 2024/2025 compared to fiscal year 2023/2024. The legislative amendment was enabled by Chapter 210 of the Laws of New York of 2024, which codified an exception to allow the NYC Council the discretion to adjust the standard five percent Cap on Class Shares to a lower percentage. The NYC Council exercised its discretion and lowered the standard five percent Cap on Class Shares to 0.09 percent in order maintain the same Class 1 property tax rate for Fiscal Year 2024/2025 as for fiscal year 2023/2024. As a result of the redistribution of the tax burden, the Class 3 property tax rate decreased from 11.639 percent to the current rate of 11.181 percent for fiscal year 2024/2025.

Q. Does the Panel agree that the fiscal year 2024/2025 Class 3 tax rate is an outlier?

A. No. On pages 28 through 35 of the initial testimony of Witness Merritt, the Company explains in detail NYC's complex tax rate process, which considers various factors including the NYC budget, revenue sources other than property taxes, class share proportions, and assessed values, as well as limitations imposed on the tax levy and class shares, all of which can produce very different results from one year to the next. The Company states that it considered the Class 3 tax rate of 11.181 percent for fiscal year 2024/2025, a decrease of 7.440 percent from the previous year, to be an outlier, and therefore normalized it out of its five-year average annual growth rate. However, the tax rate level is not unheard of and can hardly be considered an outlier given the numerous factors that can influence the property tax rates in a given year. This is apparent from the Summary of Historic NYC Property Tax Rates from fiscal year 2000/2001 through 2024/2025, provided by the Company in Exhibit___(PTP-4), which shows tax rates as high as 12.826 percent (fiscal year 2020/2021) and tax rates as low as 10.540 percent (fiscal year 2000/2001) for Class 3 property. Further, while the current decrease from fiscal year 2023/2024 to 2024/2025 of 7.440 percent is the highest decrease seen in Class 3 property tax rates at least since fiscal year 2000/2001, Exhibit___(PTP-4) indicates similar levels of decreases of 5.2 percent (fiscal year 2022/2023 to 2023/2024) and 6.5 percent (fiscal year 2013/2014 to 2014/2015) and percentage increases as high as 9.9 percent (fiscal year 2001/2002 to 2002/2003 average rate) and 8.8 percent (fiscal year 2016/2017 to 2017/2018). As such, the current decrease of 7.440 percent, although on the higher end, remains in line with the overall variability historically observed in the NYC tax rate process. Furthermore, the purpose of the traditional five-year average methodology is to incorporate, while smoothing out, the actual year-over-year fluctuations in property tax rates to provide a more stable and realistic growth rate for predicting the tax rates for future periods. Excluding specific fluctuations undermines the purpose of the average and risks overstating the forecast, especially when those fluctuations are consistent with the level of variability seen in the past.

Q. Does the Panel believe that the 2024/2025 Class 3 tax rate can be considered an outlier due to the increase in the Class 3 citywide taxable assessed values?

A. No. The Company explains on page 15 of the initial testimony of Witness Merritt that the citywide Class 3 taxable assessed values for fiscal year 2024/2025 increased by $4.4 billion, or by 20.13 percent, from fiscal year 2023/2024. We recognize that the year over year assessed value increase was significantly higher than that experienced in prior fiscal years, with the second highest increase in the last 10 years being an increase of 12.7 percent from fiscal year 2022/2023 to fiscal year 2023/2024, however, we do not believe that this significant increase in citywide Class 3 taxable assessed values creates a NYC class 3 tax rate that can be considered an outlier, and that should therefore be ignored when estimating future Class 3 tax rates. On the contrary, we view the significant increase in citywide Class 3 taxable assessed values as a reason why the Class 3 2024/2025 tax rate should be included in the five-year average growth rate, as well as be the starting point to which the growth rate is applied.

Q. Please explain why the Panel believes the increase in Class 3 citywide taxable assessed values from fiscal year 2023/2024 to 2024/2025 supports the use of the 2024/2025 Class 3 property tax rate as the basis to which the five-year average growth rate is applied?

A. While the significant increase in the Class 3 citywide taxable assessed value resulted in a reduction in the NYC Class 3 tax rates greater than what could have occurred had the increase not been as high, it resulted in a Class 3 tax rate that, all else equal, we would expect to continue going forward. Based on the NYC Tax Fixing Resolutions adopted by the City Council each year, which authorizes the tax rates to be used for each class and the levy of real property taxes for the fiscal year, the Class 3 NYC property tax rate for any fiscal year is determined by dividing the Class 3 property tax levy by the Class 3 citywide assessed value for that year. As such, assuming an equal Class 3 property tax levy, future Class 3 property tax rates would not increase from the current level of 11.181 percent unless there was a corresponding future decrease in the Class 3 Citywide taxable assessed value.

Q. Does the Panel have reason to believe that there will be a decrease in the Class 3 Citywide assessed values for the fiscal year impacting the Company’s property taxes in the RY?

A. No. Based on the NYC Tax Fixing Resolutions we reviewed, the NYC Class 3 citywide assessed values have increased year over year for every fiscal year since at least 2013/2014. As such, we would not expect a sudden decrease to occur in fiscal years 2025/2026 or 2026/2027.

Q. Does the Panel agree that the 2024/2025 Class 3 tax rate can be considered an outlier due to the 2024 legislative amendment to adjust the standard five percent cap on the Class Shares?

A. No. The Company explains on page 33 of the initial testimony of Witness Merritt that in most years, the NYC Legislature has passed annual laws lowering the five percent overall cap for Class 1, the effect of which has been to cause the other classes to bear more of the overall tax burden than would have been the case under the five percent limit. Further, on page 34, the Company explains that this shift is the primary reason for the increase in the Class 3 tax rate year over year where Class 3 has historically been burdened by this legislation. In response to DPS-353, the Company further indicates that in its last three rate case proceedings, it did not normalize out the impact of this legislation on the NYC Class 3 and Class

4 tax rates when forecasting its property tax expenses for the respective rate plans. As it is not an unusual occurrence for the NYC Legislature to pass amendments lowering the 5 percent cap on class shares, the impact of the legislation for the 2024/2025 fiscal year should not be treated as an extraordinary or one-time occurrence that should be normalized out of the forecast. Further, it is inappropriate to exclude the impact of the amendment for the RY forecast in these proceedings where it happens to result in a lower Class 3 tax rate, while the impact has been included in prior proceedings where it has contributed to a higher Class 3 tax rate, and therefore a higher forecasted property tax expense.

Q. Does the Panel agree that the fiscal year 2024/2025 tax rates should be normalized out of the five-year average?

A. No. As previously discussed, the process utilized to determine the NYC tax rates is complex and involves a multitude of different factors, all of which can produce different results from year to year. As such, the five-year average growth rate should take into account all of the outcomes of the NYC tax rate process to reasonably estimate its impact on future tax rates. Therefore, excluding the 2024/2025 NYC tax rates from the five-year average would be inappropriate. Further, given our expectation that Class 3 Citywide taxable assessed values will continue to increase in future fiscal years, the five-year average growth rate should be applied to the latest known fiscal year 2024/2025 property tax rates.

Q. What growth rate does the Panel recommend be used to forecast the NYC property tax rates for Class 3 and Class 4 property, respectively, for the RY period?

A. We recommend using growth rates for its Class 3 and Class 4 tax rates of -2.262 percent and 0.423 percent, respectively.

Q. How did the Panel develop its average annual growth rates for Class 3 and Class 4 property?

A. Our rates are developed based on the five-year average growth in property taxes beginning with fiscal year 2019/2020 and ending with fiscal year 2024/2025. We then applied those growth rates to the fiscal year 2024/2025 Class 3 and Class 4 property tax rates on an annual basis to forecast the tax rates for future fiscal years.

Q. Does the Panel have any other adjustments to the Company's forecast of NYC property tax expense for the RY?

A. Yes. We recommend an adjustment to the "Iroquois Adjustment" component of the Company's RY forecast.

Q. Please explain the nature of the "Iroquois Adjustment" component of the Company's RY property tax forecast.

A. As the Company explains in its redacted response to DPS-386, the "Iroquois Adjustment" is the Company's reimbursement of its share of the property taxes paid for the metering and regulating facility at the Hunts Point Station in the Bronx, NY pursuant to the terms of the O&M agreement between the Company and Iroquois Gas Transmission System, L.P.

Q. How did the Company develop the "Iroquois Adjustment" component of its RY forecast?

A. As it explains in its redacted response to DPS-386 and further demonstrated in the Excel workpapers provided in response to DPS-867, the Company based its RY forecast of the "Iroquois Adjustment" on the current market value, and the resulting taxable/billable assessed value of $14.805 million, for the facility and its forecasted property tax rates.

Q. Does the Panel agree with the Company's methodology?

A. No. In its redacted response to DPS-386, the Company provides the fiscal year 2025/2026 tentative assessment for the metering and regulating facility at the Hunts Point Station which provided a tentative market value of $30.110 million, a tentative Industrial and Commercial Incentive Program (ICIP) tax exemption of $4.950 million and a tentative taxable/billable assessed value of $8.599 million. As such, we recommend that the "Iroquois Adjustment" component of the Company's property tax expense be updated to reflect the now available tentative taxable/billable assessed value of the property of $8.599 million.

Q. Does the Company agree that the forecast should be updated to reflect the 2025/2026 tentative assessment?

A. No. In its response to DPS-925 the Company states that it is the Company's practice to forecast the property taxes for the "Iroquois Adjustment" based on the final taxable assessed value for the most recent fiscal year that is published by the NYC Department of Finance, or DOF, on May 25 of each year. The Company further states that the taxable/billable assessed value for fiscal year 2025/2026 is, at the time this testimony is being written, tentative and not yet final and therefore may be subject to change.

A. Does the Panel agree that the forecast should be based on the 2024/2025 final assessed values?

Q. No. While we understand that the 2025/2026 tentative assessed values are just that, tentative, and are therefore subject to change before final assessed values are provided by the NYC DOF on May 25, 2025, using the latest known estimates provided directly from the NYC DOF as the basis for the RY forecast in this proceeding is reasonable and appropriate. Moreover, it is consistent with the Company’s own practice of updating its RY forecast to reflect the actual NYC fiscal year 2025/2026 tentative assessments for its special franchise, Class 3 and Class 4 properties, from the final fiscal year 2024/2025 assessed values reflected in its initial forecast, as explained in the update and corrections testimony of Witness Merritt.

Q. Is the Panel concerned that the final 2025/2026 assessed value for the “Iroquois Adjustment” could vary from the tentative 2025/2026 assessed value used in its forecast?

A. No. As the Company states in response to DPS-925, the final NYC fiscal year 2025/2026 assessed values will be published by the NYC DOF on May 25, 2025. If the final fiscal year 2025/2026 assessed value varies from the tentative fiscal year 2025/2026 assessed values utilized by Staff, the Company can update its RY forecast as appropriate to reflect the final 2025/2026 assessed values during the rebuttal phase of these proceedings.

Q. Please quantify the Panel’s adjustments to the Company’s forecast of NYC property taxes for the

RY.

A. Our adjustments result in a RY forecast for NYC property taxes of $2.236 billion, or a reduction to the Company forecast of $0.250 billion for its electric operations and $0.457 billion, or a reduction to the Company RY forecast of $0.053 billion, for its gas operations.

Property Taxes- Westchester & Other Forecast

Q. How did the Company develop its RY forecast of Westchester and Other property tax expenses?

A. As explained on pages 20 through 24 of the initial testimony of Witness Merritt, the Company first established a base level of electric and gas property taxes based on the actual property taxes paid in calendar year 2024. Then, the Company applied a 2.92 percent five-year average annual escalation rate based on historical tax payments for calendar years 2019 to 2024 to its base property tax level. Finally, the Company made additional adjustments to capture projected changes in assessed values in the RY to reflect the incremental additions to plant in service forecasted by the Company. The Company’s methodology results in an initial

RY forecast of $179.026 million for electric and $77.468 million for gas. Subsequently, as explained on pages 9 through 11 of the updated testimony of Witness Merritt, the Company updated its Westchester and Other forecast to reflect changes in the Company's capital forecast, corrections and updates to the effective property tax rates utilized to determine the property taxes associated with the Company's incremental additions, and updated property tax savings as a result of a settlement between the Company and the Town of Cortlandt. As such, the Company stated that these changes resulted in an updated Westchester and Other property tax expense forecast for the RY of $186.508 million for electric and $80.737 million for gas.

Q. Did the Company explain why it forecasts incremental property taxes on net plant on top of the five-year average increase in property taxes paid?

A. Yes. The Company states on pages 23 and 24 of the initial testimony of Witness Merritt and corrected on pages 2 and 3 of the update and corrections testimony of Witness Merritt, that the Company does not expect taxes in each of the next several years to increase by the average 2.92 percent. The Company points to the recent increase in the total property taxes paid of 7.99 percent from 2023 to 2024 stating that it believes that the 2.92 percent five-year average escalation percentage, in addition to the forecasted property taxes associated with the incremental additions to plant in service based on net plant changes, is the most reasonable method based on available information at the time of its testimony.

Q. Does the Panel have concerns with the Company's forecast of its Westchester and Other property tax expense for the Rate Year?

A. Yes. Based on its response to DPS-389, the Company's 2.92 percent growth rate was derived based on the $32 million increase in property taxes paid from 2019 to 2024, of which increases in assessed values contributed $55 million offset by lower property tax rates of $23 million. As such, we are concerned that the Company's adjustment to capture projected changes in assessed value in the RY based on the Company’s forecasted capital expenditures is a double count of projected growth in assessed values that has already been captured and projected using the Company’s five-year average annual escalation rate.

Q. Does the Company agree that the additional adjustment is duplicative?

A. No. In response to DPS-388, the Company states that the incremental additions to plant are not already captured by the growth projected as a result of the Company’s proposed five-year average annual escalation rate because the incremental plant additions are not included on the municipal tax rolls as of the taxable status date and the valuation date, and therefore subject to property taxes in those years. Further, the Company states that because utility property in NYS is based on a cost approach known as Reproduction Cost New Less Depreciation, the valuation for real property and any incremental changes that occur after the valuation date are not currently assessed.

Q. Does the Company’s explanation address Staff’s concerns?

A. No. The Company explains on pages 10 and 11 of the initial testimony of Witness Merritt that property taxes increase for three reasons: the tax rate increases, the assessed value of the taxable property increases, or both the tax rate and assessed value increase. The Company explains that the primary driver of assessment increases is due to the growth of the value of the Company’s property and equipment through new infrastructure investment, and changes in the market value due to the annual Class Equalization Ratios, the application of the Handy-Whitman construction index, and changes in depreciation that include physical depreciation, as well as functional and economic obsolescence. The Company further states in its response to DPS-388, that the Company’s 2.92 percent proposed five-year average growth rate measures the taxes paid from these changes based on the most recent historical property tax payment information from calendar years 2019 through 2024 to forecast future year property taxes. By applying the 2.92 percent five-year average annual growth rate, which reflects the trend in the actual taxes paid by the Company resulting from changes in both tax rates and assessed values, to the 2024 base level of property taxes paid, the Company is forecasting not only the impact of changes in tax rates as well as the assessed values of existing taxable properties, but also the impact of changes in assessed values resulting from growth in the Company’s infrastructure investments. This is apparent from the Company’s response to DPS-388 in which the Company provides a list of both the incremental plant additions as well as new incremental properties subject to assessment that hit the assessment rolls from 2018 to 2023. As such, making an additional adjustment to increase the Company’s property tax forecast for incremental capital expenditures on top of the projected growth is duplicative and ignores the actual historical trend in the property taxes paid by the Company and is therefore inappropriate.

Q. How did the Panel forecast the Company’s Westchester and Other property tax expense for the rate year?

A. We applied the Company's proposed five-year average annual growth rate of 2.92 percent to the Company's actual property taxes paid in 2024 for its electric and gas businesses, as detailed in the Company's updated Excel workpapers provided in response to DPS-867, on an annual basis to reach our RY forecasts of $175.356 million for electric and $75.550 million for gas.

Q. Please quantify the Panel's adjustments to the Company's RY forecast of Westchester and Other property tax expense.

A. Our adjustments reduce the Company's forecast by $11.152 million for its electric operations and $5.187 million for its gas operations.

Payroll Taxes

Q. Please explain how the Company calculated its Rate Year payroll tax forecast?

A. The Company began with the HTY level, then increased this amount by applying a payroll tax rate of 15.75 percent to the forecasted labor increase associated with the incremental FTEs it requested.

Q. What comprises the 15.75 percent payroll tax rate?

A. The Company's payroll tax rate of 15.75 percent includes a 6.20 percent FICA Social Security rate, a 1.45 percent FICA Medicare rate, a 6.0 percent federal unemployment rate, and a 2.10 percent NYS unemployment rate. The Company applied these rates to every dollar associated with their new FTE requests to derive the increase in the payroll tax forecast.

Q. Does the Panel have any adjustments to the Company's payroll tax expense forecast?

A. Yes, we have three adjustments.

Q. Explain your first adjustment.

A. Applying the Company's payroll tax rate to the entire labor increase amount overstates the RY payroll tax by ignoring the salary caps for various payroll tax components. Specifically, for 2025, FICA Social Security is limited to the first $160,200 earned; federal unemployment is limited to the first $7,000 earned; and NYS unemployment is limited to the first $12,300 earned. Any salary in excess of the above caps will be not subject to the respective payroll tax.

Q. What is the Panel’s recommended method to forecast the RY payroll taxes?

A. Due to the complexity of trying to apply the various payroll tax rates to only a portion of the labor expense increase, we recommend using the historical effective payroll tax rate to forecast RY payroll tax expense. The historical effective payroll tax rate, which inherently reflects the payroll tax rate limits previously discussed, is 9.88 percent for electric and 7.73 percent for gas.

Q. How did you calculate these rates?

A. In response to DPS-823, the Company provided its electric and gas labor costs and the actual payroll taxes it paid for the HTY. The Company reported electric labor of $647.414 million and payroll taxes of $63.935 million, resulting in an effective payroll tax rate of 9.88 percent. The Company reported gas labor of $169.886 million and payroll taxes of $13.135 million resulting in an effective payroll tax rate of 7.73 percent.

Q. What is your second adjustment?

A. We recommend an adjustment to the payroll tax expense forecast to track the reduction in labor expense supported by various Staff witnesses. Applying the effective payroll tax rates of 9.88 percent and 7.73 percent to the reduced labor expense results in a reduction of the Company's RY payroll tax expense by $24.229 million for electric and $4.918 million for gas.

Q. What is your third adjustment?

A. The Staff Markets and Innovation Panel recommends that removing all CCEP related costs from base rates. This results in a decrease in RY payroll tax expense forecast of $1.302 million for electric and $0.230 million for gas.

Q. Do you have any other comments regarding the Company's payroll tax calculation?

A. Yes. In response to DPS-823, the Company states that it failed to include a 5.4 percent FUTA Tax credit in its RY payroll tax calculation. This credit reduces the Company's payroll tax rate from 15.75 percent to 10.35 percent. If the Commission does not adopt our adjustment to forecast payroll taxes based on the historical effective payroll tax rate, we recommend the

Commission use the corrected rate of 10.35.

Revenue Taxes

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of revenue taxes?

A. Yes. We recommend that the Company's forecasted revenue taxes be adjusted to reflect the impact of Staff's electric and gas sales revenues as recommended in the direct testimony of the Staff Forecasting Panel. Our adjustment results in an increase to the Company's forecasted Rate Year revenue taxes of $0.456 million for electric and $1.365 million for gas.

State and Federal Income Taxes

Q. What are the new Internal Revenue Service, or IRS, tax law changes or rulings that are reflected in the Company's current rate filings?

A. The Company reflects the impact of following new IRS tax law changes or rulings for Safe Harbor rules, including the associated excess deferred federal income tax (EDFIT) balances, and the June 4, 2024 IRS Private Letter Ruling (PLR) on standalone company net operating loss carryforward (NOLC) and Corporate Alternative Minimum Tax (CAMT) regulations. The Safe Harbor rules impact both the Company’s federal income tax expenses and accumulated deferred income taxes (ADIT); while the IRS June 2024 PLR and CAMT tax regulations only impact the Company’s ADIT balance in rate base.

Q. Please describe how you reviewed these new IRS tax law changes or rulings in the Company’s rate filings.

A. First, we obtained an understanding of the new laws or rulings. We then checked that the Company’s facts and circumstance were applicable and consistent to those new laws or rulings. After these steps, we reviewed the Company’s income tax workpapers to ensure the Company properly and accurately reflected related amounts in its electric and gas RY revenue requirement forecast. In our review, other than the NOLC deferred tax assets (DTA) issue we identified, which we will discuss further later in our testimony, we did not find any issue that necessitates an adjustment to the Company’s RY forecast for its income tax expense and ADFIT balance in rate base.

Q. Please discuss the Company’s proposals regarding

EDFIT balance related to the Safe Harbor rules.

A. The Company, on pages 9 through 10 of its Income Tax Panel's initial testimony, states that it identified an $80.1 million tax benefit resulting from its adoption of the Safe Harbor rules on the income tax accounting method change for gas repairs. The Company's adoption of this change in accounting method results in its unamortized EDFIT expense that was previously classified as protected under normalization rules being reclassified as unprotected EDFIT. Under IRS rules, the Commission has authority to decide the disposition of any unprotected EDFIT balances.

Q. What is the Company's proposal for refunding, or amortizing, the $80.1 million tax benefit?

A. The Company proposes to pass the benefit back to gas customers using a three-year amortization period, commencing at the beginning of the RY.

Q. Does the Panel support the Company's proposal?

A. Yes. We recommend the Commission amortize this amount over three years to help to mitigate the revenue requirement increases determined in this proceeding.

Q. Please explain the NOLC DTA issue.

A. According to the requirements set forth in the June 4, 2024 IRS PLR, a public utility should include in its ratemaking process a deferred tax asset related to its NOLC on a standalone basis to comply with normalization provisions under the Internal Revenue Code. The NOLC DTA balance can be broken down between “protected” and “unprotected” in accordance with IRS normalization rules using a with and without accelerated tax depreciation method; only the “protected” NOLC DTA is allowed to be included in ratemaking by the Commission. Specifically, the protected NOL DTA should be included in rate base as an offset to the ADIT liability balance, resulting in an increase in the revenue requirement.

Q. Did the Company reflect any NOLC DTA balance in its initial filing?

A. Yes. As shown in Schedule 5 of its Exhibit__(AP E-2) and Exhibit__(AP E-2) of its initial filings, the Company’s Accounting Panel includes the NOLC DTA balance through its 2023 filed tax return in its electric and gas rate filings.

Specifically, the Company reflects a RY NOLC DTA balance of $4.963 million for electric and $284.886 million for gas.

Q. Did the Company update its RY NOLC DTA balance in its April 2025 Correction and Updates filings?

A. Yes, as explained on page 2 through page 3 of the Update and Corrections testimony of the Income Tax Panel, the Company reflects two updates to its RY NOLC DTA balances in its rate base. The Company first updated its gas RY NOL DTA balance to remove the "unprotected" NOL DTA from its RY rate base forecast, leaving only the "protected" balance in to follow IRS normalization rules. This update decreases the rate base amount for gas customers. The Company's second update was to include its NOLC DTA amounts for 2024 through 2028. The Company has updated its NOLC for 2024 year-end activity and forecasted NOLC DTA activity from 2024 through 2028.

Q. Does the Panel recommend any adjustments to the Company's updated NOL DTA balances reflected in its electric and gas rate bases?

A. Yes. We recommend adjusting the RY NOLC DTA balances contained in the Company's April Update and Corrections filings to reflect the latest balances. The Company explained in its response to question 1 of DPS-886, that it has a further update to its 2026 to 2028 (Rate Years 1, 2 and 3) NOLC DTA balances after its April 2025 Update and Corrections testimony. Specifically, the latest update reduces the Company's RY NOL DTA balance from $97.848 million to $70.854 million, or by $26.994 million for electric, and from $26.098 million to $18.898 million, or by $7.2 million for gas. We recommend that the RY electric and gas revenue requirement be adjusted to reflect this update of NOL DTA balances.

Q. Please quantify your adjustment.

A. Our recommendation reduces the Company's electric RY rate base NOLC DTA balance by $8.492 million and gas RY rate base NOLC DTA balance by $2.265 million.

Q. Please explain the CAMT.

A. The CAMT is a 15 percent minimum tax imposed on large corporations in the U.S. A corporation becomes an "applicable corporation" for a taxable year, and thus subject to the CAMT, if its average annual Adjusted Financial Statement Income, or AFSI, for the three-taxable-year periods ending with the year prior to the taxable year, exceeds $1 billion or if the corporation met this threshold for any prior taxable year. The CAMT was first introduced under the Inflation Reduction Act of 2022, but the IRS has not yet issued final regulations to implement this law.

Q. How does a corporation calculate its CAMT liability?

A. The calculation of the CAMT liability includes a comparison of the regular tax liability and the CAMT liability. When the CAMT liability is higher than the regular tax liability, the incremental amount can be carried forward indefinitely to offset a future regular tax liability. In a future year, when regular tax liability exceeds the CAMT liability, the CAMT credit carryforward can be used to reduce the regular tax liability up to the CAMT liability, such that the taxpayer is paying the CAMT liability instead of the higher regular tax liability.

Q. Did the Company's initial testimony include estimated future CAMT liability and estimated CAMT credit carryforward DTA amounts for its electric and gas customers?

Q. No. Due to the uncertainty surrounding whether the IRS would adopt the proposed regulations without change, the Company did not reflect the related estimates in its RY ADFIT balance forecast.

Q. Did the Company reflect the impact of CAMT in its April Update and Correction testimony?

A. Yes, but only partially. Based on the AFSI test described previously, the Company expects that it became an "applicable corporation" subject to CAMT for taxable year 2024, therefore only reflected an estimated 2024 CAMT liability and a CAMT carryforward DTA in its RY rate base forecast. The Company explains on page 5 of its Update and Correction testimony of its Income Tax Panel that it did not reflect any future CAMT liability or CAMT credit carryforward DTA for tax years 2025 through 2028 because the IRS has not issued the final regulations on calculating the CAMT liability, and therefore uncertainty remains regarding the estimated amount. The Company proposes to reconcile any future impact to the CAMT amounts included in rate base. We will discuss our position on the Company's reconciliation proposal subsequently in the "New Deferral Mechanism" portion of our testimony.

Rate Base

Prepaid Property Taxes

Q. Please summarize the Company's prepaid property tax forecast for the RY.

A. As shown on Schedule 3 of Exhibit___(AP-E2) and Exhibit___(AP-G2) of its Update and Correction filing, the Company forecasts prepaid property taxes for the RY of $533.560 million for electric and $112.971 million for gas.

Q. Does the Panel recommend any adjustments to the Company's RY forecast of prepaid property taxes?

A. Yes. We recommend adjusting the Company's forecasted prepaid property taxes to reflect our adjustments to the Company's forecast of property tax expense for the RY. Our adjustment results in a reduction to the Company's RY prepaid property tax forecast of $53.098 million for electric and $11.445 million for gas.

Cash Working Capital Allowance

Q. Please summarize the Company's cash working capital allowance for the RY.

A. As shown on Schedule 3 of Exhibit___(AP-E2) and Exhibit___(AP-G2) of its Update and Correction filing, the Company forecasted a RY cash working capital allowance of $226.765 million for electric and $54.074 million for gas.

Q. Does the Panel recommend any adjustments to the Company's RY forecast of its cash working capital allowance?

A. Yes. We recommend that the Company's forecast of its cash working capital allowance for the RY be reduced by $41.765 million for electric and $7.418 million for gas to account for Staff's adjustments to the Company's RY forecast of O&M expenses.

Amortization of Regulatory Deferrals

Q. Explain the amortization of regulatory deferrals.

A. As discussed in detail on page 31 of the initial testimony of the Company's Accounting Panel, these amounts represent the Company's proposal for crediting or charging customers for a variety of deferred credits or deferred charges.

Q. What is the net amortization amount that the Company is proposing to collect from or refund to customers in the RY?

A. As stated on page 32 of the initial testimony of the Company's Accounting Panel, the Company reflected a net amount to be collected from its electric and gas customers in the RY of $149.086 million and $30.988 million, respectively. In its Update and Correction testimony, the Company updates its balances and, as shown on Schedule 4 of Exhibit__(AP-E3) and Exhibit___(AP-G3), proposes to collect $131.638 million and $22.595 million from electric and gas customers, respectively, in the RY.

Q. Does the Panel recommend any adjustments to the Company's forecasted amortization of regulatory deferrals?

A. Yes. We recommend adjustments to the amortization of the following regulatory deferrals: Brooklyn Queens Demand Management Program, referred to as BQDM; Pension and Other

Post Employment Benefit, referred to as Pension & OPEB; Site Investigation Remediation, referred to as SIR, Energy Efficiency New Energy New York, referred to as NENY, Energy Efficiency Carrying Charge and Sales and Use Tax Refund.

BQDM Deferral

Q. Please describe the Company’s BQDM deferral.

A. As explained on page 37 of the initial testimony of the Company’s Accounting Panel, the BQDM Program deferral reflects the recovery from electric customers of BQDM program expenditures. Based on schedule 4 of Exhibit___(AP-E3) of its updated filing, the Company projected a regulatory asset balance, or monies to be collected from customers, as of December 31, 2024, of $27.006 million for its electric operations. The Company proposes to amortize the balance, plus forecasted expenditures in the RY of $8.520 million, over a 10-year period, resulting in a collection from customers in the RY of $3.553 million for electric.

Q. Please describe the Panel’s adjustment to the BQDM Program deferral.

A. In its response to DPS-755, the Company explains that it updated its total forecasted BQDM expenditures to $1.400 million in CY 2025 and $13.965 million in the RY from its original estimates of $9.030 million and $8.520 million included in its initial filing. The Company further states that the updated estimates were not reflected in the Company's April 10, 2025 Update and Correction filing. As such, our adjustment properly updates the BQDM Program deferral to reflect the updated spending estimates provided in the Company's response to DPS-755.

Q. Please quantify your adjustment.

A. Our adjustment reduces the RY amortization by $0.219 million for a total RY amortization expense of $3.334 million. A concomitant adjustment was also made to reduce the Company's RY unamortized BQDM Program regulatory asset balance in rate base by $1.081 million for electric.

Pension and OPEB Deferral

Q. In its current filings, how does the Company project its RY pension and OPEB deferral balance?

A. The Company’s pension and OPEB deferral balances represent the difference between the forecasted pension or OPEB amounts included in rates in prior years and the actual expense incurred. However, the Company proposes to exclude the deferral accrued during a portion of its linking period from its projected RY deferral balance. Specifically, the Company stated, on page 36 of its Accounting Panel’s initial filing testimony, “For rate-making purposes, the Company has adjusted the September 30, 2024 balance to exclude the effect of deferrals recorded for the period January 1, 2023 to September 29, 2024. Further, the Company has excluded forecasted deferrals from the projected Rate Year balance.”

Q. Did the Company update the deferral amounts?

A. Yes, as provided in its response to DPS-912, the Company updated the deferral amounts in its April 10, 2025, Correction and Update filing, however, the updated balance still does not reflect the pension and OPEB deferral accrued during January 1, 2023 through December 31, 2024, and the projected deferral accrued for twelve months in 2025.

Q. Did the Company explain why it excluded these amounts from the deferral balance?

A. Yes. In its response to DPS-432, the Company explains that during the period January 1, 2023 through September 30, 2024, the Company experienced non-cash actuarial gains in its pension and OPEB expense activity. These resulted in lower pension and OPEB expenses compared to the targets in rates, which were, in fact, pension credits that had reduced the Company's revenue requirement. These gains were not supportive of cash flows available to the Company, resulting in additional costs needed to finance operations. As such, the Company believes any additional pass back of such gains via base rate amortization would be overly burdensome. In addition, the Company argues that future non-cash actuarial losses may offset such gains.

Q. Did the Company exclude any such amounts in its last rate cases?

A. No. In recent rate cases, the Company has deferred the difference between allowed and actual pension and OPEB expense, regardless of whether it was positive or negative, as required by the Commission’s Pension and OPEB Policy Statement, issued September 7, 1993 in Case 91-M-0890, referred to as the Policy Statement.

Q. Does the Panel agree with the Company that the deferral amounts for this period should be excluded from the RY deferral balance?

A. No. The Panel does not agree with the Company’s rationale for two reasons. First and foremost, the Company’s proposal is inconsistent with the Commission’s Policy Statement. It is important to note that the Policy Statement provides equal protection to the Company and its customers. The continuity of its application is essential to ensure that those protections continue, therefore the various provisions of the Policy Statement must be followed in their entirety and cannot be viewed as a pick and choose menu of options.

Q. What does the Policy Statement say regarding pension and OPEB deferrals?

A. The Policy Statement makes no distinction between positive or negative allowances or deferrals and clearly states that the difference between the rate allowance and actual pension expense must be deferred. Appendix A, pages 2 and 3 of the Policy Statement states, "the companies shall defer the difference between 1) the rate allowances for pensions, less any pension rate allowance the company is directed to use for OPEB purposes, and 2) pension expense determined as required by this Statement of Policy." Similar language for OPEBs is included in Appendix A, page 10. Pension and OPEB expenses include, among other things, the expected return on plan assets, which by its nature could be an expense, if the plan assets are expected to lose value, or income, if the assets are expected to gain value. The notion that if the return on those assets is larger than the other components of pension or OPEB expense, resulting in a negative expense, then the benefit should go to shareholders, rather than ratepayers, is unfair and inaccurate. Ratepayers funded the amounts that were included in the pension and OPEB rate allowances, therefore, any gains due to market conditions or other causes should accrue to ratepayers.

Q. What is the Panel’s second reason?

A. As explained on pages 27 and 28 of the initial testimony of the Company’s Accounting Panel, the Company included a modification to its Earning Base/Capitalization, referred as EBCAP, adjustment in rate base to address the Company’s cash shortfall concerns resulting from negative pension and OPEB expenses. We support the Company’s EBCAP adjustment proposal to alleviate its cash shortfall during the RY. As such, the Company’s concerns regarding additional costs associated with financing these amounts have been addressed.

Q. What adjustment does the Panel recommend?

A. The Panel recommends including the effect of the deferrals for the period January 1, 2023 through December 31, 2024, which is a credit, or monies due to ratepayers, of $275.875 million for electric, $56.702 million for gas, in the pension and OPEB deferral balance. We also recommend including the effect of the deferrals for the twelve-months ending December 31, 2025, which is estimated to be $75.081 million for electric and a credit of $28.783 million for gas.

Q. Please quantify your adjustment

A. Our adjustments change the Company's electric pension & OPEB deferral annual amortization from a collection of $16.219 million to a refund of $50.712 million, or a decrease of annual rate recovery of $66.931 million; and the gas pension & OPEB deferral annual amortization level from a collection of $3.334 million to a refund of $25.161 million, or a decrease of annual rate recovery of $28.495 million. A concomitant adjustment was also made to reduce the Company's RY unamortized pension and OPEB balance in rate base by $123.597 million for electric and $52.620 million for gas respectively.

SIR Deferral

Q. Please describe the Company's SIR deferral.

A. The Company explains on pages 36 through 37 of the initial testimony of the Company's Accounting Panel that the SIR deferral represents the recovery for SIR Expenditures including MGP, Superfund, Appendix B, Astoria, Underground Storage Tank, and other remediation sites.

Q. Does the Panel have any adjustments to the SIR deferral?

A. The Staff Site Investigation and Remediation Panel direct testimony recommends adjusting the amortization to reflect a historical underspending adjustment, which reduces the amount the Company collects from customers per year by $6.673 million and $1.993 million for electric and gas, respectively. We reflected this reduction in the revenue requirements. A concomitant adjustment was also made to reduce the Company's RY unamortized SIR balance in rate base by $4.929 million for electric and $1.471 million for gas.

Energy Efficiency NENY Deferral

Q. Please describe the Company's Energy Efficiency NENY program deferral.

A. As explained on page 34 of the initial testimony of the Company's Accounting Panel, the Energy Efficiency NENY deferral reflects the recovery of energy efficiency program costs. Based on schedule 4 of Exhibit___(AP-E3) and Exhibit___(AP-EG) of its update and corrections filing, as of December 31, 2025, the Company projects a regulatory asset balance, or monies to be collected from customers, of $916.886 million for its electric operations and $350.974 million for its gas operations. The Company proposes to amortize the balance, plus forecasted expenditures in the RY of $255.583 million for electric and $101.085 million for gas, over a 15-year period, resulting in collections from customers in the RY of $78.165 million for electric and $30.137 million for gas.

Q. Please describe Staff's adjustment to the above Energy Efficiency NENY deferral.

A. As explained in the Staff Markets and Innovation Panel's testimony, Staff recommends removing these amounts from base rates which results in a reduction to the RY amortization from $78.165 million for electric and $30.137 million for gas to zero for both businesses. A concomitant adjustment was also made to remove the Company's RY unamortized Energy Efficiency NENY deferral regulatory asset balances from rate base.

<u>Energy Efficiency and Demand Management Carrying Charge Deferral</u>

Q. Please describe the Company's Energy Efficiency and Demand Management, or DM, Carrying Charge deferral.

A. As explained on page 34 of the initial testimony of the Company's Accounting Panel, the Energy Efficiency and DM Carrying Charge deferral reflects the carrying charges accrued on energy efficiency program over- and under-spending in accordance with the energy efficiency program reconciliation mechanism in the Company's current rate plans. Based on schedule 4 of Exhibit___(AP-E3) and Exhibit___(AP-EG) of its updated filing, the Company projected a regulatory asset balance, or monies to be collected from customers, as of December 31, 2025, of $15.068 million for its electric operations and $1.258 million for its gas operations. The Company proposes to amortize the balance over a three-year period, resulting in a collection from customers in the RY of $5.023 million for electric and $0.419 million for gas.

Q. Please describe Staff's adjustment to the above Energy Efficiency and DM Carrying Charge deferral.

A. As explained in the Staff Markets and Innovation Panel's testimony, the panel removed these amounts from base rates which results in a reduction to the RY amortization from $5.023 million for electric and $0.419 million for gas to zero for both businesses. A concomitant adjustment was also made to remove the Company's RY unamortized Energy Efficiency and DM Carrying Charge deferral regulatory asset balances from rate base.

Sales and Use Tax Refund

Q. In the Company's Update and Correction filing, did the Company include the costs to achieve the Sales and Use Tax Refund in its RY projected deferral balance?

A. Yes, the Company reflects costs to achieve the Sales and Use Tax Refund of $5.656 million for electric and $1.162 million for gas in its RY projected deferral balance.

Q. Did the Company explain why it reflected the costs to achieve the Sales and Use Tax Refund in its RY projected deferral balance?

A. Yes, in its response to DPS-890, the Company explained that in this rate case proceeding, it seeks to establish a treatment of costs to achieve sales and use tax refunds that matches the Company's deferred sales and use tax refunds. Previously, the Company has not reflected any such costs in the associated regulatory liability.

Q. Does the Panel agree with including the costs to achieve the Sales and Use Tax Refund in the associated regulatory liability?

A. Yes, the Panel agrees that the cost to achieve the sales and tax refund should be included in the deferral. However, the Panel does not agree with the Company's amount for the cost to achieve the refund.

Q. Please explain.

A. The Company has already collected a portion of the cost to achieve in its current rate proceedings. In its supplemental response to DPS-890, the Company states that in its previous rate proceedings, Case 22-E-0064 and Case 22-G-0065, it included the costs to achieve its sales and use refunds as regular O&M expense under the "Finance and Accounting Operations". The

Company provided a table in response to question two indicating that $0.680 million for electric and $0.140 million for gas was included in the Company's last rate proceedings in the HTY on which the rate year allowances were based.

Q. What is the Panel’s adjustment to the Other Sales and Tax Refund deferral?

A. We began with the HTY in the Company's last rate proceedings of $0.680 million for electric and $0.140 million for gas, based on the Company's response to DPS-890, and escalated it by the then approved GDP escalation factors to reach the amount included in each of the three rate years under the 2023 Rate Order. As the Company is already collecting these amounts in current rates from customers, we then reduced the proposed amount of $5.656 million for electric and $1.162 million for gas by the amounts already collected in current rates, i.e. $2.356 million for electric and $0.484 million for gas, to reach our recommended incremental deferral amount for future recovery from customers. Our adjustment increases the amount due back to electric customers by $0.785 million or a total credit of $4.725 million for the RY, and decreases the amount to collect from gas customers by $0.162 million or a total expense of $0.219 million for the RY.

Q. What is the Panel's incremental allowance for cost to achieve other sales and tax refund recommendation?

A. The Panel's incremental allowance for cost to achieve is $3.300 million and $0.678 million for electric and gas respectively. A concomitant adjustment was also made to the Company's RY unamortized Sales and Use Tax balance in rate base.

Audit of Pre-Rate Year Deferrals

Q. Has the Panel completed its audit of the Company's deferral balances as of December 31, 2024?

A. No, we have not completed the audit of all deferral balances as of December 31, 2024. We will endeavor to complete the audit on open deferral balances and report back to the Commission on any areas of disagreement that cannot be resolved through the traditional deferral audit process. However, until such time, these deferral balances are still subject to future Staff adjustments.

Reconciliation and Deferral Mechanisms

New Deferral Mechanism

Q. Does the Company propose any new reconciliation or deferral mechanisms?

A. Yes. On pages 113 to 115 of the initial testimony of the Company's Accounting Panel, the Company proposes the following new reconciliation or deferral mechanisms: Affordable Multifamily Electrification Pilot reconciliation (Electric); Sulfur Hexafluoride Standards reconciliation (Electric); New York City Revocable Consent Fees reconciliation; Wildfire Responses reconciliation and Management Audit Costs reconciliation. Further, on page 19 through 20 of the Company's Update and Correction testimony of its Accounting Panel, the Company proposes a new reconciliation related to Corporation Alternative Minimum Tax, or CAMT.

<u>Affordable Multifamily Electrification Pilot deferral (Electric)</u>

Q. Please explain the Company's proposal for its

Affordable Multifamily Electrification Pilot reconciliation.

A. On page 113 of the initial testimony of the Company’s Accounting Panel, the Company proposes an affordable multifamily electrification pilot that will help provide incremental electric bill credits to certain low-income customers whose landlords electrify their residential buildings. This program provides incremental bill credits to minimize the financial impact of the conversion.

Q. Does Staff agree with the Company’s proposal?

A. No. The direct testimony of the Staff Markets and Innovation Panel discusses Staff’s rationale for denying this request in detail.

Sulfur Hexafluoride Standards deferral (Electric)

Q. Please explain the Company’s proposal for its Sulfur Hexafluoride Standards reconciliation.

A. On page 114 of the initial testimony of the Company’s Accounting Panel, the Company proposes to defer incremental compliance costs associated with phasing out gas-insulated equipment containing sulfur hexafluoride due to a New York State Department of Environmental Conversation

(DEC) rule that was adopted at the end of 2024.

Q. Does Staff agree with the Company's proposal?

A. No. The Staff Electric Infrastructure and Operations Panel discusses the rationale for denying this request in detail.

<u>New York City Revocable Consent Fees deferral</u>

Q. Please explain the Company's proposal for its New York City Revocable Consent Fees reconciliation.

A. On page 114 of the initial testimony of the Company Accounting Panel, it states that "New York City has recently begun requiring revocable consents for utility installations in New York City locations outside the traditional right-of-way. New York City has not indicated the scope of the implementation, so the Company is unable to fully analyze cost impacts and incorporate forecasts into its revenue requirements. The Company proposes to defer incremental compliance costs for recovery in its next electric and gas base rate case."

Q. Does the Panel agree with this request?

A. No. We are testifying to a one-year rate plan for the Company's electric and gas businesses.

Reconciliation mechanisms are generally not employed for a single-year rate plans as the risk that exists in the context of a multi-year rate plan does not exist in a single-year rate plan. The Company may file a deferral request for the Revocable Consent Fees, if it believes it meets the Commission's requirements for deferral accounting treatment.

Wildfire Response deferral

Q. Please explain the Company's proposal for its Wildfire Response deferral.

A. On page 115 of the initial testimony of the Company's Accounting Panel, the Company states "wildfire risk is becoming a pressing challenge for many utilities whose facilities are in areas increasingly vulnerable to drought. Taking into account this escalating risk, the Company is proposing to establish a deferral for incremental costs incurred to respond to wildfire events."

Q. Does the Panel agree with this request?

A. No. The Staff Electric Resilience and Reliability Performance Mechanism Panel discusses the rationale for denying this request.

CAMT Reconciliation

Q. Please explain the Company's proposal for its CAMT reconciliation.

A. On page 19 through 20 of the Update and Correction testimony of the Company Accounting Panel, it proposes to reconcile any future CAMT liability and the impacts on its CAMT credit carryforward DTA balances included in rate base. The Company would calculate the difference between the amount included in the revenue requirement and the actual amounts in the three-year period, or 2026-2028, and defer the impact of the increase/decrease to rate base, inclusive of a carrying charge, for disposition in the Company's next electric and gas rate cases.

Q. Does the Panel agree with the Company's proposal for the CAMT reconciliation?

A. Considering the uncertainty surrounding CAMT issue and the fact that we are testifying to a one-year rate plan, we only partially support the Company's CAMT reconciliation proposal. Specifically, the Company should only be allowed to reconcile the revenue requirement impact associated with the CAMT issue in the Rate Year (i.e., 2026 tax year). The reconciliation should not cover any period after the RY. In the event the revenue requirement effects of any future CAMT liability and the impacts on its CAMT credit carryforward DTA balance in rate base beyond 2026 are extraordinary and material, the Company may petition the Commission to seek authority to defer the extraordinary costs.

Q. Panel, other than the above new deferrals or reconciliations proposed by the Company, does any Staff Panel or witness recommend any new reconciliation mechanism?

Q. Yes. As discussed in Staff Consumer Services Panel testimony, Staff recommends a one-way downward only reconciliation for costs associated the Company’s customer outreach and education program.

Proposed Modification of Existing Mechanisms

Q. Does the Company propose to modify any of its existing deferral mechanisms?

A. Yes. On pages 116 to 127 of the initial testimony of the Company Accounting Panel, it proposes to modify the following reconciliation or deferral mechanisms: Electric and Gas Net Plant reconciliation; Property Tax Reconciliation; Interference O&M Reconciliation; Energy efficiency reconciliation; Long Term Debt Rate Reconciliation; and Legislative, Regulatory, and/or Related Actions Reconciliation.

<u>Electric & Gas Net Plant Reconciliation</u>

Q. Briefly explain the Company's existing electric and gas net plant reconciliations.

A. Under the 2023 Rate Order, the revenue requirement impact of the Company's actual electric and gas net plant, excluding net plant associated with AMI and Customer Service System implementation, is subject to a downward only reconciliation, with the potential of a limited upward reconciliation for certain interference costs. The rate plans also include an adjustment to the electric and gas net plant reconciliations to account for certain Non-Wires and Non-Pipeline Alternative programs implemented during the rate plans.

Q. Is the Company proposing to modify its existing electric and gas net plant reconciliation mechanisms?

A. Yes. On pages 116 through 120 of the initial testimony of the Company's Accounting Panel, Con Edison proposes it be permitted to recover carrying charges on the amount of net plant that exceeds the aggregate net plant target through a surcharge. Additionally, the Company proposes that the current electric and gas net plant reconciliations be modified to fully reconcile all interference capital and New Business capital costs.

Q. Did the Company explain why it proposes surcharge recovery of the carrying charges on the amount of net plant that exceeds the aggregate net plant target?

A. Yes. On page 119 and 120 of the initial testimony of the Company Accounting Panel, it states that under Generally Accepted Accounting Principles, referred to as GAAP, accruals of net plant carrying charges require a recovery mechanism that provides for full recovery within 24-months. As such, the Company proposes a surcharge mechanism be utilized for carrying charges unless recovery is imminent to be consistent with GAAP rules and to avoid any potential issues with appropriately recognizing the Company’s accruals or deferrals on its financial statements.

Q. Does Staff agree with the Company’s proposed modifications to fully reconcile all interference and New Business capital costs?

A. No. The direct testimony of the Staff Municipal Infrastructure Support Panel addresses Staff’s concerns with the Company’s proposed modification to fully reconcile all interference capital and why it should be denied. The direct testimony of the Staff Electric Infrastructure and Operations Panel addresses Staff’s concerns with the Company’s New Business capital and why it should be denied.

Q. Does the Panel agree with the Company’s proposal for surcharge recovery?

A. No, we disagree with the Company’s proposal for surcharge recovery. In DPS-680, the Company cited to Financial Accounting Standards Board, referred to as FASB, Accounting Standards Codification, referred to as ASC, 980-605-25-4 in support of its claim that GAAP rules require carrying charges on net plant to be fully recovered within 24-months of the accrual of those carrying charges. FASB ASC 980-605-25-4, however, applies to the recognition of additional revenues specifically under an alternative revenue program. According to FASB ASC 980-605-25-2, alternative revenue programs can generally be categorized as Type A programs, which adjust for billings for the effects of weather abnormalities or broad external factors or to compensate the utility for demand-side management initiatives, or as Type B programs, which provide for additional billings (incentive awards) if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or demonstratively improving customer service. The deferred carrying charges on net plant balances in excess of the amount allowed in rates do not represent deferred revenues under either a Type A or Type B alternative revenue program, but instead reflect a cost that was already incurred by the Company which it has deferred for future recovery from customers.

Q. Did the Company receive any guidance from its external auditors on this topic?

A. No. In response to IR DPS-680, the Company indicates that it did not receive any guidance from its external auditors regarding the recovery of the accrual of carrying charges on net plant within 24-months of the accrual.

Q. What does the Panel recommend?

A. Since the deferred carrying charges on the variation between the Company's actual and allowed net plant balances are not subject to the 24-months collection requirement cited by the Company and the Company has not received any alternative guidance from its external auditor, we recommend that the Company's proposal for surcharge recovery be denied.

Q. Does Staff agree with the Company's proposed modifications to fully reconcile all interference and New Business capital costs?

A. No. The direct testimony of the Staff Municipal Infrastructure Support Panel addresses Staff's concerns with the Company's proposed modification to fully reconcile all interference capital and why it should be denied by the

Commission. The direct testimony of the Staff Electric Infrastructure and Operations Panel addresses Staff's concerns with the Company's New Business capital and why it also should be denied by the Commission.

Property Tax Reconciliation

Q. Is the Company currently authorized to reconcile the difference between its actual property tax expenses and the property tax expense allowance set in rates?

A. Yes. In the 2023 Rate Order, the Commission authorized the Company to defer 90 percent of the difference between its actual property tax expenses and the allowance reflected in rates subject to a cap on the Company's ten percent share of the variance equal to ten, five, and five basis points on common equity in each rate years 1, 2, and 3, respectively.

Q. Is the Company proposing to continue this reconciliation in the current proceeding?

A. Yes, but with a modification. As explained on pages 121 and 122 of the initial testimony of the Accounting Panel, the Company proposes a full and symmetrical reconciliation of property taxes with any variance between the Company's actual property tax expense and the level set in rates to be recovered through surcharge. The Company further states that a reconciliation for property taxes is needed regardless of whether a single year rate order or multi-year rate plan is adopted.

Q. Does the Panel agree with the Company's request for a reconciliation of property taxes in these proceedings?

A. No. We are testifying to one-year rate plans for the Company's electric and gas businesses. Reconciliation mechanisms are generally not employed for a single-year rate plan as the Company's property taxes can be reasonably forecasted for the Rate Year and therefore the risk that exists in the context of a multi-year rate plan does not exist in a single-year rate plan.

Q. Does the Company agree that property taxes can be reasonably forecasted?

A. No. On pages 27 through 38 of the initial testimony of Witness Merritt, the Company explains in greater detail that in NYS, property taxes are the main revenue source to balance local municipal budgets which are strongly influenced by the state of the economy and, moreover, that the majority of its property taxes are assessed by NYC where the property classification system adds complexity and uncertainty. The Company states that, as such, NYC's tax adjustment process can produce very different property tax rates from one year to the next and that the degree of possible variability results in an inability to reasonably forecast property taxes for the RY.

Q. Does the Company's explanation of its inability to reasonably forecast property tax expense change the Panel's position?

A. No. While we agree that estimating property taxes can be difficult, especially considering NYC's tax rate process, this difficulty does not mean that a reasonable forecast cannot be determined, especially for the RY. For example, in the 2023 Rate Order, a rate allowance of $1.902 billion for electric and $0.439 billion for gas was forecasted for the first rate year of the Company's rate plan, or calendar year

2023. Based on the attachment provided in the Company's response to DPS-337 the Company's actual property tax expenses for calendar year 2023 varied by only -0.23 percent and 0.59 percent, for electric and gas, respectively, from the forecasted rate allowances. The minimal variances between the Company's actual property tax expenses and its forecasted rate allowances for the first rate year of its existing rate plan demonstrate that despite difficulties in forecasting property taxes, including NYC's complicated tax rate process, a reasonable estimate can still be made. Moreover, according to the established procedure timeline in the current proceedings, by the time the Company submits its rebuttal filing, the Company will be able to update its NYC property tax forecast to reflect the then available final assessment values and Class 3 and Class 4 tax rates for fiscal year 2025/2026 resulting in a portion of the Rate Year forecast being known at the time rates are set. Finally, in the event there was any extraordinary or unforeseen circumstances that result in the Company's actual property taxes for the RY to materially vary from the allowances provided for in rates, the Company may have the ability to file a deferral petition with the Commission to seek authority to defer extraordinary expenses for future recovery.

Q. Has the Commission previously allowed a full reconciliation mechanism for property taxes for a single-year rate plan?

A. Yes. As noted on page 40 of the initial testimony of Witness Merritt, the Commission approved the full reconciliation of property taxes in the one-year rate order in Case 08-E-0539, which we will refer to as the 2009 Rate Order, which was a fully litigated rate case. In the 2009 Rate Order, Con Edison was allowed a full reconciliation for a single rate year due to the potential risk to property taxes because of the economic downturn that began in the fall of 2008.

Q. Does the Panel believe that the same conditions exist in the current proceeding that existed during the economic downturn?

A. No. When the 2009 Rate Order was issued on

April 24, 2009, the 2008 economic recession, which did not end until June 2009, caused greater uncertainty around the Company’s property tax forecasts. As discussed in the direct testimony of the Staff Finance Panel, the current financial markets are nowhere near as volatile as they were during the 2008 economic recession.

Q. Does the Panel disagree with the Company’s proposal for any other reasons?

A. Yes. We are concerned that a full reconciliation would reduce the Company’s incentive to minimize its property tax expenses, as ratepayers would be responsible for paying 100 percent of those expenses. As such, the Company’s motivation to aggressively challenge property taxes could be diminished because of it bearing none of the financial risk.

Q. Did the Company address this concern in its testimony?

A. Yes. On pages 39 and 40 of the initial testimony of Witness Merritt, the Company states that it has a long history of actively fighting to reduce the Company’s property tax burden.

Further, the Company states challenges to unfair assessments, litigation, lobbying efforts to seek favorable legislation and aggressively pursuing available property tax benefits are all a normal course of business for the Company.

Q. Does this alleviate the Panel's concern?

A. No. While the Company has actively fought to reduce its property tax burden, it has done so under rate plans that have typically included property tax reconciliations subject to a sharing arrangement between the customers and the Company of any variances and, therefore, the incentive to mitigate its property tax expenses is reflected in the "long history" the Company has of disputing its property tax burden to earn incentives.

Q. What is the Panel's final concern with the Company's proposal for a full and symmetrical property tax reconciliation?

A. The Company's property tax reconciliation proposal is inconsistent with its proposal to continue to retain 14 percent of any property tax refunds net of the costs to achieve those refunds, as explained on pages 121 and 122 of the initial testimony of the Company's Accounting Panel. It is not reasonable for the Company to be responsible for none of the variance in property tax expense while being allowed to retain a portion of the benefits associated with any property tax refunds it receives.

<u>Interference O&M Reconciliation</u>

Q. Is the Company currently authorized to reconcile its non-Company labor interference expenses with the levels set in rates?

A. Yes. Under the 2023 Rate Order, if the actual non-Company labor interference expenses vary from the level in rates for any rate year, then 100 percent of the variation below the target will be deferred for the benefit of customers, and 80 percent of the variation above the target within a band of 15 percent will be deferred for recovery from customers with limited exceptions as set forth in the 2023 Rate Order.

Q. Is the Company proposing to continue its existing non-Company labor interference expense reconciliation?

A. Yes, but with a modification. As explained on pages 122 and 123 of the initial testimony of the Company's Accounting Panel, the Company proposes that a full and symmetrical reconciliation mechanism replace the mechanism currently in effect.

Q. Does Staff agree with the Company's proposed modification to the existing non-Company labor interference expense reconciliation?

A. No. As explained in the direct testimony of the Staff Municipal Infrastructure Panel, the Company's proposed modification of the existing reconciliation should be denied by the Commission.

<u>Long Term Debt Cost Rate</u>

Q. Does the Company propose modifying its reconciliation associated with long-term debt costs?

A. Yes. The Company proposes to true-up the entirety of its weighted average cost of long-term debt. Under the 2023 Rate Order, the Company is currently allowed to true-up its actual weighted cost of Variable Rate Debt, including costs associated with retirement and financing of the Variable Rate Debt, to the cost reflected in the rate plan.

Q. Does Staff agree with this modification?

A. No. The direct testimony of the Staff Finance Panel addresses Staff's concerns with the Company's proposed modification and why it should be denied.

Energy Efficiency reconciliation

Q. Does the Company propose modifying the reconciliation associated with its energy efficiency costs?

A. Yes, as explained on page 124 of the Company's initial accounting panel testimony, the Company wants to continue the three-year cumulative mechanism with a modification to account for new future budgets.

Q. Does the Panel have any recommendations regarding the Company's proposed modifications to the energy efficiency reconciliation?

A. The Commission addressed this issue in Case 18-M-0084, In the Matter of a Comprehensive Energy Efficiency Initiative issued May 15, 2025.

Legislative, Regulatory, and/or Related Actions Provision

Q. Please describe the Company's existing deferral authorization regarding legislative, regulatory, and related actions.

A. The 2023 Rate Order allows the Company to defer any change in revenues, costs, or expenses, equating to ten basis points of return on equity or more on an annual basis, resulting from laws, rules, regulations, orders or other requirements or interpretations of law if not anticipated in the forecasts and assumptions upon which rates were established.

Q. Please describe the Company's proposed modification to this deferral.

A. As explained on pages 125 through 127 of the initial testimony of the Accounting Panel, the Company proposes two changes to this deferral authorization. First, it proposes to clarify that in the case of revenue deferrals, it can recover the deferral using a surcharge as opposed to waiting until its next base rate proceeding.

Q. Did the Company explain why it seeks to clarify this language?

A. Yes. On pages 125 through 126 of the initial testimony of the Accounting Panel, the Company explains that under GAAP, different treatment is afforded to the deferral of costs and expenses than the deferral of revenues. Under GAAP, the deferral of revenues must be recovered within 24-months from the end of the period in which the deferral is recorded. As such, the Company proposes to clarify the deferral language authorized by the Commission to avoid any potential issues with appropriately recognizing deferrals on its balance sheet in accordance with GAAP.

Q. What is the second change the Company proposes to its legislative, regulatory, and related actions deferral?

A. The Company proposes to clarify or change the language so that the provision can be applicable to changes in capital expenditures and the Company can accrue carrying charges on incremental net plant that stems from any action covered in this provision.

Q. Does the Panel agree with the Company's proposed changes to the legislative, regulatory, and related actions provision?

A. No, we do not agree. The existing provision is a result of a negotiated joint proposal for multi-year rate plans. Such deferrals are not appropriate in one-year litigated rate cases. In the event there are any extraordinary or unforeseen circumstances resulting from legislative, regulatory, and related actions for the RY which result in revenues or expenses to materially vary from the allowances provided for in rates, the Company may seek deferral authority by petitioning the Commission. Furthermore, if the Company wishes to extend such deferral to carrying charges on incremental plant it can request to do so in the context of said deferral petition.

Discontinuation of Existing Mechanisms

Uncollectible Expense & Late Payment Charge Reconciliations

Q. Is the Company currently authorized to reconcile its late payment charge revenues and uncollectible expenses with the levels set in rates?

A. Yes. Under the 2023 Rate Order, the Company is authorized to defer the difference between its actual late payment charge revenues and uncollectible expenses with the levels included in rates in each rate year, with the variance being recovered from or refunded to customers via surcharge or sur-credit, as applicable. The 2023 Rate Order further provides that the deferral amount would be fully reconciled with the cumulative actual write-offs for the period January 1, 2020 through December 31, 2025.

Q. What is the Company proposing regarding its existing late payment charge revenue and uncollectible expense reconciliations in these proceedings?

A. As explained on pages 110 through 113 of the initial testimony of the Accounting Panel, the Company proposes to continue both the late payment charge revenue and uncollectible expense reconciliations. The Company states that its significantly elevated arrears balances and number of customers in arrears relative to pre-pandemic levels, along with its inability to predict how quickly arrears levels will decrease or when uncollectible expense levels will increase considering time lag between the two, makes the forecast for uncollectibles untenable and necessitates the continuation of the uncollectible expense reconciliation. The Company states that its proposal will allow customers to pay, and the Company to recover, the actual level of uncollectible expense incurred in each Rate Year rather than the amount in an unreliable forecast. Further, the Company states that it expects its arrears reduction efforts to lead to a reduction in late payment charge revenues and an increase in uncollectible expenses levels, the timing of which the Company claims is not possible to accurately estimate. Therefore, paired with the intertwined nature of late payments and uncollectible expenses, the Company states that it is appropriate to continue both reconciliations.

Q. Does the Panel agree with the continuation of the Company's existing late payment charge revenue and uncollectible expense reconciliations?

A. No. We disagree with the continuation of the uncollectible expense and late payment charge reconciliations and recommend they end with the current rate plan on December 31, 2025.

Q. Why does the Panel disagree?

A. As previously stated, the Company claims that its significantly elevated level of arrears compared to pre-pandemic levels, proposed arrears reduction program and associated impacts on arrears, late payment charge revenues and uncollectible expenses, and time lag between arrears and write-offs leads to what the Company claims to be untenable and unreliable forecasts. We agree that the Company's proposed forecasts of its late payment charge revenue and uncollectible expenses for the RY, which are based on the amounts allowed in the 2023 Rate Order and reflect stale data, do not appropriately reflect current and future arrears balances or collections activities and likely represent unreliable RY forecasts for which a reconciliation could be considered. However, as discussed in detail previously in our testimony, we believe that a reasonable forecast of late payment charge revenue and uncollectible expenses, which takes into account the Company's elevated arrears balances and arrears reduction program, as well as Staff’s recommendations, can be made for the RY. As such, reconciliation mechanisms for these items are not needed in the context of a one-year rate proceeding as the forecasts recommended by Staff represent a reasonable estimate of what will occur. Additionally, if the Company’s actual late payment charge revenues and uncollectible expenses vary significantly from what was forecasted in rates, the Company could file a petition with the Commission seeking authority to defer those extraordinary and material variances.

<u>Recovery of a Portion of the Gas Revenue Requirement through a Rate Adjustment Mechanism</u>

Q. Panel, are you aware of Consolidated Edison, Inc.’s (CEI) 2024 Securities and Exchange Commission (SEC) 10-K filing in which CEI states in the “other Regulatory Matters” section that Con Edison initiated a review of various gas and steam main welds?

A. Yes. We are aware of CEI’s 10-K filing dated February 20, 2025, in which CEI discloses at pages 129-130 non-conforming welds on the gas system. The filing raises accounting concerns that the costs associated with the non-conforming welds may be encompassed in - and thus reflected in - the HTY and the Company’s proposed RY revenue requirement.

Q. Panel, when would you be able to determine whether such costs are included in the HTY and/or the RY?

A. We will not know until the Company completes its investigation and any necessary remedial actions at some point in the future.

Q. Panel, in light of the uncertainty as to whether such costs are in the HTY and Rate Year, do you have a recommendation to protect customers from these costs for which customers should not be responsible?

A. Yes, we recommend that the Commission require that a portion of the gas revenue requirement be recovered through an adjustment clause, which we refer to as a rate adjustment mechanism, subject to refund to customers. This rate adjustment mechanism would be designed to provide for recovery of the affected portion of the gas revenue requirement and will continue to be recovered through the rate adjustment mechanism, subject to Commission audit, review, vetting, and refund, until such a time as the Commission determines that the Company has fully satisfied its burden of proof with regard to the expenditures made in conjunction with the investigation and remediation of the non-conforming welds.

Q. Panel, what portion of the Company’s gas revenue requirement do you recommend the Commission direct be collected through the rate adjustment mechanism?

Q. We recommend that the Commission require recovery of not less than $100 million of the Company’s gas revenue requirement through the rate adjustment mechanism, subject to refund.

Q. Has the Commission required recovery of a portion of a utility’s revenue requirement through an adjustment clause subject to refund in prior rate orders in instances where similar issues were raised?

A. Yes, the Commission has done so in two previous rate orders where similar facts and circumstances occurred. Specifically, the order issued on April 24, 2009 approving electric rates for Con Edison in Case 08-E-0539 (2009 Rate Order) and the order issued on August 12, 2021 setting the revenue requirements of The Brooklyn Union Gas Company (KEDNY) and KeySpan Gas East Corporation (KEDLI) in Cases 19-G-0309 and 19-G-0310 (2021 KEDNY & KEDLI Order). In both instances, during the pendency of the utilities' rate proceedings, the companies and regulators were reviewing certain unknown amounts of O&M and capital expenditures that might be included in the Company's historic test period and requested in the rate year.

Q. Please describe the Commission's directive in the 2009 Rate Order.

A. On page 346 of the 2009 Rate Order, the Commission directed Con Edison to file tariff amendments necessary to continue the adjustment clause mechanism established in Case 07-E-0523 and to modify such clause to recover, in the same manner as the Company's delivery revenue requirement is recovered in base rates, a portion of the Company's revenue requirement equal to the amount determined by the Commission (which was $254.4 million). The Commission also directed that the tariff specify that this portion of the revenue requirement shall be subject to refund based on the Commission's audit and review of the Company's capital expenditures at issue.

Q. Please discuss the Commission's determination in the 2021 KEDNY and KEDLI Order.

A. On pages 225 through 226 of the 2021 KEDNY & KEDLI Order, the Commission directed KEDNY and KEDLI to file tariff amendments to establish an adjustment clause mechanism to facilitate the provision of refunds that may be directed by the Commission.

Q. In the Panel's opinion, in light of the Company's February 2025 10-K disclosing the gas weld issue, do you believe that it would be appropriate for the Commission to follow an approach similar the 2009 Rate Order and 2021 KEDNY & KEDLI Order?

A. Yes. Following a similar approach here would be appropriate to shield ratepayers from costs that as ratepayers and customers they are not responsible for.

Q. Does this conclude the Panel's testimony at this time?

A. Yes.