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

A. Richard G. Muzikar, Helen L. Lee and Richard A. Kane. Our business address is Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company"), 4 Irving Place, New York, NY 10003.

Q. What are your current positions with Con Edison?

A. **(Muzikar)** I will act as chairperson of the Panel. I am an Assistant Controller.

(Lee) I am the Department Manager of Regulatory Accounting.

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

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

A. **(Muzikar)** I received a Bachelor of Science Degree in Economics from Saint Peter's College in 1972 and a Master of Business Administration with a major in Accounting from New York University in 1975. I am also a Certified Management Accountant. I taught accounting at Rutgers University from September 1975 through May 1980 and at Pace University Graduate School of Business from September 1980 through June

1986. I started my career at Con Edison in 1972 as a Staff Assistant in the General Accounting Department and worked in areas of increasing responsibility until 1983, when I was promoted to Manager of Accounting Research and Procedures. In 1985, I was appointed Division Controller of Brooklyn and in 1991, promoted to General Manager of Administration for Queens Division and reassigned as General Manager of Customer Operations in 1995. In 1998, I was assigned as Section Manager of Field Operations for Customer Operations in Westchester and in December 2001, reassigned as Section Manager of Retail Choice. In December 2003, I was promoted to Director of Internal Controls in charge of the Company's Sarbanes-Oxley effort and in March 2007, I was appointed as an Assistant Controller with the additional responsibilities of Regulatory Accounting and Filings.

(Lee) I graduated from Bernard M. Baruch College in June 1970 with a degree in Bachelor of Business Administration. From June 1970 to August 1984, I worked in the General Accounts Section of the Corporate Accounting Department in various capacities up to Assistant Manager of the section. In August

1984, I was transferred to the Rate Matters Section as Administrator and held increasing levels of responsibility up to Department Manager. In January 1998, I was assigned to Central Operations as Department Manager, Finance and Budget, reporting to the Senior Vice President on administrative, budgets and financial matters. In July 1999, I returned to my prior position in Corporate Accounting. The regulatory function section was subsequently separated into two groups, Regulatory Filings and Regulatory Accounting. I currently manage the Regulatory Accounting section but my section also contributes toward the regulatory filing function. The primary responsibility of the Regulatory Accounting section is to ensure the accuracy of the Company's books and records by verifying consistency between internal accounting procedures and regulatory policies and orders.

(Kane) In May 1976, I received a Bachelor of Science degree in Accounting from Manhattan College. I worked for Con Edison from August 1976 until January 1978 as a staff accountant. I then joined Orange & Rockland Utilities, Inc ("O&R") and became Supervisor –

Facility Accounting. In 1980, I became Manager - Budgets. In 1989, I became Manager – General Accounting and in 1996, the Accounts Payable Section was added to my responsibilities. As a result of O&R's merger with Con Edison, the two Accounting Departments were combined. After the merger, I continued to be responsible for overseeing O&R's General Accounting Section and Financial Reporting area until March 2003. At that time, I assumed my current position as Department Manager of Regulatory Filings. The primary responsibility of the section is to coordinate as well as participate in rate case applications before regulatory agencies.

Q. Have any of you previously submitted testimony in a proceeding before the New York State Public Service Commission ("PSC" or the "Commission")?

A. We have all previously submitted testimony and testified in various cases before the Commission.

Q. What is the purpose of the Accounting Panel's testimony in this proceeding?

A. The Accounting Panel, in summary, will primarily sponsor:

- Historic financial statements and statistical data (Exhibit___(AP-1) to Exhibit___(AP-5) and testimony beginning at page 6);
- Other Operating Revenues and Taxes, Other than Income Taxes (Exhibit___(AP-6), Schedule 1, pages 2 and 4) and testimony beginning at page 16);
- A summary of normalizing adjustments as well as specific normalizing adjustments to the historic year (Exhibit ___ (AP-6), Schedule 7, and testimony beginning at page 26);

A summary of various program changes as well as specific program changes, general and labor escalation factors (Exhibit___(AP-6), Schedules 2,8 and 9, and testimony beginning at page 32);

- The average rate base for the rate year and the impact of the current construction and retirement programs on the steam department's rate base (Exhibit___(AP-9) and testimony beginning at page 67);

Various accounting changes, amortizations of deferred charges and the resultant revenue requirement (Exhibit___(AP-10) and testimony beginning at page 84);

- Fund requirements and sources of funds for the rate year ending September 30, 2009 (Exhibit ___ (AP-11) and testimony beginning at page 102); and
- Interest coverage on the SEC basis for the calendar years 2006 and 2007, forecast for 2008 and the rate year ending September 30, 2009 (Exhibit ___ (AP-12) and testimony beginning at page 105).

HISTORIC FINANCIALS AND STATISTICAL DATA

Q. To the best of your knowledge and belief, has the Company maintained its books and accounts in accordance with the Uniform System of Accounts prescribed by the Commission and with accounting orders of the Commission?

A. Yes, it has.

Q. Has the Panel prepared historic financial and statistical data for the steam department?

A. Yes.

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - FINANCIAL AND STATISTICAL DATA -

INDEX TO SCHEDULES", set forth as Exhibit ___ (AP-1), prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-1)

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

A. The Exhibit consists of an index and eight separate schedules containing financial data and the results of operations. The balance sheets are shown as of December 31 for the years 2003 through 2006, and as of June 30, 2007, while details of the income accounts are shown for the years 2004 through 2006 and the twelve months ended June 30, 2007. The arrangement of the schedules is as follows:

Balance Sheets are shown on Schedule 1.

Income Statements are shown on Schedule 2.

Unappropriated Retained Earnings are shown on Schedule 3.

Steam Utility Operating Income, before and after income taxes, is presented in Schedule 4.

Steam Operating Revenues by account classification with revenues shown in dollar amounts and in equivalent cents per MLBS sold are shown on Schedule 5.

MMLBS of steam supplied by Service Classification and the revenues realized therefrom are shown on Schedule 6. This schedule also reflects revenue in equivalent cents per MLBS sold.

Steam Operation and Maintenance Expenses consisting of eight pages are shown on Schedule 7. Page 1 is a summary statement, which shows the operation and maintenance expenses on a functional basis, both in dollar amounts and equivalent cents per MLBS sold. Pages 2 to 8 show the details of the various functional groups by account number, in dollar amounts and in equivalent cents per MLBS sold, except for pages 2 and 3, which show steam production expenses in equivalent cents per MLBS produced.

Taxes Other Than Income Taxes - Steam is shown on Schedule 8.

All of the information in Exhibit ___ (AP-1) comes from the books and records of the Company; where revenues or expenses are stated in cents per MLBS sold or produced, these figures have been computed.

Q. Turning to Exhibit ___ (AP-1), Schedule 7, page 2, Production Expenses - Steam, are generating stations classified as electric plant also used in the production of steam for delivery to the Company's steam customers?

A. Yes. Steam was produced at East River.

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

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

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

A. Company witness Catuogno discusses in his testimony the computations of quantities of fuel used to produce steam for steam operations. Both he and the Operations Panel address the processing charges.

Q. Have you prepared an exhibit, which shows the breakdown of steam production costs by station for the twelve months ended June 30, 2007?

A. Yes. It is the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - PRODUCTION EXPENSES - STEAM - (INDIVIDUAL STATIONS) - TWELVE MONTHS ENDED JUNE 30, 2007", set forth as Exhibit (AP-2).

MARK FOR IDENTIFICATION AS EXHIBIT (AP-2)

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

A. This exhibit consists of two pages and shows the allocation by station of steam production expenses in the historic year, the twelve months ended June 30, 2007. The total amount of production expenses is also shown on Exhibit ___ (AP-1), Schedule 7, page 2. Included on the second page of Exhibit ___ (AP-2) are the production costs as shown on page 1 expressed in terms of equivalent cents per MLBS produced.

Q. Was the document entitled "CONSOLIDATED EDISION COMPANY OF NEW YORK, INC. - CALCULATION OF FEDERAL AND

STATE INCOME TAXES - FOR THE TWELVE MONTHS ENDED JUNE 30, 2007" consisting of three pages, set forth as Exhibit ___ (AP-3), prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-3)

Q. Please describe Exhibit (AP-3).

A. Pages 1 and 2 set forth the calculation of Federal income tax for steam operations, including accruals, deferrals and amortizations of deferrals. Page 3 shows the calculation of New York State income tax for steam operations. These amounts are also included on Exhibit ___ (AP-1), Schedule 2, page 4.

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - BOOK COST OF UTILITY PLANT - STEAM - AS OF DECEMBER 31, 2003, 2004, 2005, 2006 AND JUNE 30, 2007", set forth as Exhibit ___ (AP-4), prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-4)

Q. What is shown on Exhibit (AP-4)?

A. This exhibit shows the book cost of Utility Plant - Steam - by utility plant account at December 31, 2003, 2004, 2005, 2006 and June 30, 2007. The amounts shown for Steam Plant in Service and Construction Work in Progress are taken directly from the books and records of the Company.

Q. Do the figures shown for steam plant in service on Exhibit ___ (AP-4) represent the original cost of existing property, which is used and useful as of the dates indicated?

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

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - ACCUMULATED PROVISION FOR DEPRECIATION OF STEAM PLANT IN SERVICE AS OF DECEMBER 31, 2003, 2004, 2005, 2006 AND JUNE 30, 2007", set forth as Exhibit ___ (AP-5), prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-5)

Q. Please describe this exhibit.

A. This exhibit shows the accumulated provision for depreciation of Steam Plant in Service as of December 31, 2003, 2004, 2005, 2006 and June 30, 2007. The amounts shown on this exhibit are taken from the books and records of the Company. Company witness Hutcheson addresses the accumulated provision for depreciation.

Q. I show you a document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - REVENUES AND OPERATING EXPENSE DATA", set forth as Exhibit ___ (AP-6), and I ask you if it was prepared under the Panel's direction and supervision?

A. Yes, it was. The first page contains an index of the 10 schedules included in the exhibit.

MARK FOR IDENTIFICATION AS EXHIBIT (AP-6)

Q. Will you describe Schedule 1 of this exhibit?

A. Schedule 1, page 1 is a statement of Steam Operating Income before income taxes by component for the historic year ended June 30, 2007, and for the rate year ending September 30, 2009. Column 1 shows the data as recorded on the Company's books of account for the 12 months ended June 30, 2007. Column 2 reflects the changes made to normalize the historic year costs and to provide for increased or decreased costs and activity levels or other linkage to arrive at the rate year estimate shown in column 3. The historic year revenues and costs were developed from various schedules from Exhibit ___ (AP-1). Total steam operating revenues are shown on Exhibit ___ (AP-1) whereas operation and maintenance expenses by cost element as summarized on page 1 of Schedule 1, are detailed in this exhibit on Schedule 1, page 3 and were developed from various other schedules in the exhibits we are presenting.

Q. How were sales revenues and associated fuel costs developed for the rate year?

A. Company witness Yaegel provided the sales forecast. The changes from the historic year to the rate year are explained in his testimony. Incurred fuel costs were developed by Company witness Catuogno and fuel costs were then adjusted to an accounting basis.

Q. How were Other Operating Revenues, and Other Operating Income Deductions, as shown on line 2 and lines 6 - 8 of Schedule 1 determined?

A. The historic year levels were developed from Exhibit ___ (AP-1). We provided the forecasts for Other Operating Revenues and Taxes Other than Income Taxes.

They are shown on Schedule 1, pages 2 and 4, respectively. Company witness Hutcheson developed the rate year level for Depreciation and Amortization expense.

Q. Please explain the derivation of the operation and maintenance expenses for the rate year shown on page 3 of Schedule 1.

A. Page 3 shows the derivation of the projected costs in the rate year from the historic year costs. Various Company witnesses, including this Panel, explain normalizing adjustments and program changes. In addition, we will explain labor escalation and general escalation. The development of the labor escalation is included in Exhibit ___ (AP-6) as Schedules 2 and 3. Schedule 4 summarizes the historic and rate years' operation and maintenance expenses by Major Account Group (MAG) function and the changes between the two periods. Schedule 5 shows the historic year elements of expense by MAG.

Q. Please continue with Schedule 6.

A. Schedule 6 shows a summary by function of the operating and maintenance expenses for the historic year and the changes in the forecast to the rate year ending September 30, 2009. It also includes a summary on pages 4 and 5 of the normalizations and program changes by projects within categories, the responsible witnesses and the allocation to the steam department where appropriate. These normalizations and program changes are also reflected in Schedules 7 and 8, respectively, by cost element. When a normalizing adjustment or program change affects an individual element of expense, this is shown as an addition or subtraction from the historic year, at the historic year price level.

Q. Please describe Schedules 9 and 10 of Exhibit ___ (AP-6).

A. Schedule 9 shows the Company's steam operating and maintenance expenses subject to escalation. Schedule 10 lists expenses the Company may update later in this proceeding and the witnesses that we anticipate would sponsor the updates. There may be others, and if so, the Company will provide notification at the appropriate time.

OTHER OPERATING REVENUES

Q. What does Exhibit ___ (AP-6), Schedule 1, page 2 show?

A. This schedule shows the details of Other Operating Revenues both in the historic and rate years. The historic year level of $113,348,000 is forecasted to decrease by $25,485,000, for a rate year level of $87,863,000.

Q. How were lines 1 and 2, Interdepartmental Rents revenue from the East River Repowering Project ("ERRP") and other assets for the rate year developed?

A. These revenues represent carrying charges that the steam department charges the electric department for facilities it uses jointly with steam. Carrying charges on shared facilities include components for rate of return, depreciation and taxes. The carrying charges are applied to the book cost of the facility. For the rate year, revenue includes a $75,401,000 charge to the electric department for the ERRP out of the total annual carrying charges for the rate year of $113,477,000. Interdepartmental rent revenue for the historic year for the joint usage of the Hudson Avenue Tunnel continues in the rate year at a small increase to a level of $2.1 million.

Q. Please explain line 3, Revenue Offset Re: 74/59 St. Transfer from Electric.

A. The 74/59th Street Stations are steam plants. Under the 2006 rate plan, the operating costs of the two stations were transferred to the steam department, except for a portion of the operating costs that are remaining with electric. However, as both stations are used by the electric department in that they house gas turbines used to support local electric networks and that the Company intends to build a new electric substation in an unused portion of the 74th Street station to support networks in the vicinity of the station, carrying charges are allocable to electric operations. In Case 05-S-1376, the allocable costs representing carrying charges and property taxes on land and structures and facility-related O&M costs were approximately $9.5 million. The projected total cost is estimated at $14.3 million of which $6.5 million is allocated to electric operations. The $6.5 million is an increase over the $4.4 million currently in steam rates as a result of several capital projects. These projects include capital work such as refurbishing the dock and bulkhead in 2007 and 2008 for a total of $4.8 million; master plan office relocation/OSHA Evacuation East Side Phase 1 and structural Steel/concrete in 2008 and 2009 for $5 million; and replacing water tanks on the roof in 2007 for $1.350 million.

Q. Please continue with line 4.

A. The historic period amount of $1.6 million represents revenues received related to the Fuel Management Program allocated to steam. The rate year forecast was provided by Company witness Catuogno and is discussed in his testimony.

Q. Please continue.

A. Late payment charges, line 5, are estimated at $1.094 million for the rate year and are based on the historic three-year average factor of late payment charges in relation to sales revenues. This average factor was then applied to the rate year sales revenues. Line 6, Special Services Repair Program, represents the current steam repair program and other special services, such investigations of leaks and turn-ons/turn-offs. The Company estimates the rate year level for such activity at $361,000 based on a historic three-year average. Company witness Wheeler discusses proposed tariff changes for these services.

Q. Please describe the items included in the group entitled Regulatory Accounting.

A. These items reflect the impacts of various Commission decisions and legislative actions. Line 7, NYS Tax Law Changes, represents reconciliation of the collection from customers for the New York State Income tax law change of 2000 per Case 00-M-1556. This reconciliation will not be necessary for the rate year as state income taxes are included in base rates and no longer reconciled.

Q. Please continue.

A. Lines 8 and 9 consist of two items related to the Company's sale of its First Avenue properties. The first item, Reserve for Manufacturing Tax Deduction, relates to domestic production activities and was enacted in October 2004 as part of the American Job Creation Act. This Act provides a tax savings on profits from production activities. In 2005, the Company set up a reserve based on a preliminary estimate and allocation of the steam department's share of the net gain from the sale of the Company's Waterside generating station. This parcel is one of four parcels sold as the First Avenue Properties. In

2006, the IRS disallowed the Company's manufacturing deduction on its return. The amount in the historic year represents the Company's reversal of the reserve. The second item, ITC/Excess Deferred FIT Balances, represents the reversal of deferred investment tax credits and excess deferred FIT balances related to the sale of the Waterside property. We discuss the disposition of the remaining net gain from the sale of the First Avenue Properties later in this testimony.

Q. Continuing with Regulatory Accounting, please explain lines 10 through 15.

A. Lines 10-15 represent the accounting effects of the 2006 Rate Plan adopted by the Commission in Case No. 05-S-1376, effective October 1, 2006. With respect to line 10, SO2 Allowance Amortization, under the current rate plan, customers are receiving the benefit of credits in the amount of $3.5 million annually for estimated proceeds from the sale of vintage year 2004-2005 SO2 allowances. For the rate year ending September 30, 2009, the Company proposes to continue to credit customers for estimated proceeds from the sale of vintage year 2006-2007 SO2 allowances in the amount of $2.075 million as explained by Company witness Price.

Q. Please explain GHP Interest on line 16.

A. To mitigate gas price volatility, the Company hedges gas purchased to generate steam and electricity. The Company assesses and charges interest on funds advanced for hedges. The Company bills the steam portion to its steam customers through the FAC. On the Company's books, the interest income is then reclassified by debiting Other Operating Revenues and crediting Interest Income.

Q. Please continue with lines 17 and 18.

A. Line 17, Rents, represents rental income from Verizon Wireless related to property at 506 East 75th Street. The current agreement, which is in its second renewal, is set to expire November 30, 2008. The Company does not know whether Verizon will renew again, but the Accounting Panel has assumed that it will and forecast $68,000 of revenues for the rate year. Line 18 represents a reclassification of sales taxes.

DEPRECIATION AND AMORTIZATION

Q. Please explain Depreciation and Amortization shown on Exhibit __ (AP-6), Schedule 1, page 1.

A. Depreciation expense using existing rates in effect is projected for the rate year to be $63,651,000. This was provided to us by Company witness Hutcheson and is fully discussed in his testimony.

TAXES OTHER THAN INCOME TAXES

Q. On your Schedule 1, page 4, Taxes Other than Income Taxes increased by $9,486,000. Please explain the increase.

A. The first item, New York City Property Taxes, consist of New York City real estate and special franchise taxes. For the 12 months ended June 30, 2007, taxes applicable to steam operations were $55,750,000. The rate year forecast of $62,461,000 was provided to us by Company witness Hutcheson and is fully described in his testimony. Line 2 represents the reconciliation of actual property taxes to the levels established per Case No. 05-S-1376.

Q. How did the Panel develop Revenue Taxes for the rate year on line 4 of Schedule 1, page 4?

A. Revenue taxes consist of taxes derived from base and fuel rider revenues as well as other operating revenues. Revenue taxes for the rate year are projected to be $16.198 million, which is comprised of

$16.164 million from sales revenues, as provided by Company witness Yaegel, and $34,000 associated with other operating revenues, i.e., late payment charges and the special services repair program.

Q. Please continue with Payroll Taxes, line 5.

A. The $318,000 increase in payroll taxes from the historic year to the rate year is due principally to increased base wages subject to FICA. It also includes payroll taxes for the projected new hires discussed later in our testimony. The Company will revise payroll taxes for known changes, if any, in the FICA rate and base in the update stage of this proceeding.

Q. Please explain Sales and Compensating Use Tax, line 6.

A. The Company accrues the New York State and local use tax by summarizing charges from the accounts payable invoice system and materials and supplies requisitioned from inventory from the Materials Management System to determine the tax basis. Based on the coding assigned to the items, the tax is calculated and charged on these transactions to work orders and accounts on an automated basis. A liability account and work order accumulates the total taxes charged to other Company accounts. Using summarized data, the Tax Department prepares a worksheet that calculates the total tax. To properly record the capitalized and expensed portion, we compare this calculation with the total sales tax accrued in the liability account and work order. The difference between the calculated tax liability and the total of the balance in the accrued liability account and work order is expensed or credited to the electric, gas and steam services. Credits may arise due to the non-taxability of items that were originally taxed, prior period tax audit adjustments, and corrections. The Company does not project any difference between the tax liability and the contra accounts for the rate year.

Q. Please continue with Subsidiary Capital Tax, line 7.

A. The Subsidiary Capital Tax is a tax that New York City imposes on Consolidated Edison, Inc.'s ("CEI") ownership of Consolidated Edison Company of New York, Inc. ("the Company"), because the Company is not included in CEI's New York City corporate franchise return. The forecast was based on the latest actual

2006 return. The allocation to steam operations for the rate year is $286,000.

Q. Please describe All Other Taxes, line 8.

A. All other taxes represent minor taxes such as commercial rent and occupancy tax, motor vehicle taxes, state gasoline tax, state highway use tax, Federal diesel and gasoline taxes and the New York State tax on insurance premiums. Our forecast of $65,000 is based on recent trends and insurance increases.

NORMALIZING ADJUSTMENTS

Q. In Exhibit ___ (AP-6), Schedule 7, please describe your normalizing adjustments on lines 5, 7, 15, and 17-25.

A. We will begin with lines 5 and 7 entitled Hudson Avenue 10/100 Shutdown. As a result of the Commission's Order Relating to Supplemental Cost Recovery in Case No. 01-E-0147, issued May 21, 2007, regarding the Company's petition to recover certain decommissioning costs at Hudson Avenue Steam-Generating Unit 10/100, the Company was directed to expense the cost of certain repairs and the relocation of the control room. The Commission had previously (in April 2001) established special rate making treatment for costs incurred by the Company related to restoration of the generating plant to provide additional electric generation in New York City. All other operating costs would continue to be allocated to steam operations. The Company was authorized to recover on an accelerated basis over a two-year period certain restoration and operating costs through the electric Monthly Adjustment Clause. After the restoration was completed, the Company operated Unit 10/100 for three years, from July 2001 until October 2004, after which its DEC air permit expired. Subsequently, the Company retired Unit 10/100 and electric operations ceased at Hudson Avenue, except for three peaking gas turbines used primarily in the summer. In May 2005, the Company filed a petition seeking recovery of nearly $1 million in decommissioning costs associated with the 10/100 Unit in the same manner as the Commission had originally permitted. The Commission's May 2007 Order permitted this type of recovery for some, but not all of the shut down costs. Specifically, costs related to wall/facade repairs and the control room relocation were deemed chargeable to steam customers and as a result, $293,000 was charged to steam O&M in June 2007.

Q. Please continue with Rate Case Accounting - Interference Expense, line 15.

A. This item in the historic year represents the accounting entries to true-up actual interference expense with the targets established in the 2004 Rate Plan and the 2006 Rate Plan for the rate years ended September 30, 2006 and September 30, 2007, respectively. Entries were booked in the months of September and October 2006 and June 2007, all in the historic year. Interference costs for the rate year ended September 30, 2006 were estimated to be above the level established in rates under the 2004 rate plan and as a result the reconciliation entry booked by the Company decreased expense for the overrun. In October 2006, the Company adjusted the estimate for the rate year ended September 30, 2006. In June 2007 estimated interference costs for the rate year ended September 30, 2007 were above the level established in rates and an entry was booked crediting expense.

These true-up entries are not applicable to the rate year ending September 30, 2009.

Q. Please continue with line 17, A&G Expense Capitalized.

A. Line 17, A&G Expense Capitalized, represents the normalization of two adjustments made in November 2006 and January 2007. The adjustments were to correct prior period entries.

Q. Please continue.

A. The normalizing adjustments on lines 18, 20 and 21 represent allocations to steam operations of $77,000, $38,000 and $52,000, respectively, reflecting various positions in the Public Affairs, Finance and Law Departments that were either not filled or partially filled during the historic year.

Q. Please describe line 19 entitled Shared Services Administration.

A. Shared Services Administration, relates to the implementation of shared services and the new shared service organization structure, effective July 1, 2006. This included the creation of the Shared Services Administration group. Shared Services is the concentration of Company resources performing like activities in order to service multiple internal customers with higher service levels. The benefits of a shared service structure include increased efficiency, better utilization of personnel, improving and integrating systems, leverage technology, and improved effectiveness through standardization of processes and the sharing of expertise and best practices across organizations and companies. These benefits are not easily achieved and take time to realize. As noted in the program change discussed later, we expect to achieve benefits over time and any efficiencies would be reflected in future rates, starting with the implementation of new steam rates in October 2008.

Q. Please describe the normalizing adjustment.

A. The staffing will be comprised of 13 management personnel, of which 12 are in place. The normalization of $25,000 includes $19,000 for labor costs and $6,000 for expenses that were not reflected in the historic year. The labor adjustment reflects the cost of replacing the management personnel within the Shared Services Administration group with external hires in their original organizations. The Company expects to fill the remaining one open position by year-end 2007.

Q. Please describe your normalizing adjustments for lines 22 and 23.

A. Line 22 is to remove from steam operating expenses the cost of the Company's executive incentive plan as these costs are being borne by shareholders rather than recovered through base rates. In addition, we are also eliminating the cost of an officer who retired in November 2006 (line 23).

Q. Please continue with your normalizing adjustment on line 24 entitled Rate Case Accounting – Pensions/OPEBs.

A. This item reflects the overcollection of pension/OPEBs costs in the amount of $1.299 million pursuant to the true-up provision of the 2006 Rate Plan. This reconciliation is not necessary in the rate year.

Q. Please continue with your last adjustment on line 25.

A. Our adjustment on line 25 normalizes out of historic expenses the administrative fee related to the Supplemental Retirement Income Plan and the administrative costs and gains on participants' accounts under the Deferred Income Plan. Both are shown on Company witness Reyes' exhibit. Assets of these plans are held in trust funds and are being invested. The rate year costs to administer these programs are projected to be offset by the investment gains generated by the trust funds.

PROGRAM CHANGES

Q. Please discuss your first program change on Schedule 8 of Exhibit __ (AP-6).

A. We will start with Interdepartmental Rent expense, lines 5, 17 and 52. The decrease of $260,000 on line 5 under MAG 42 - Production Operation represents slightly higher carrying charges at East River Station offset by a charge to expense in the historic period to true-up earlier months that were booked based on an underestimate of the costs. The increase of $96,000 on line 17 under MAG 46 - Distribution Maintenance represents the increased cost of the Ravenswood Tunnel. The increase of $347,000 on line 52 under MAG 49 - Administrative and General Expense is primarily due to the increased cost for common capital expenditures for such items as computers, mobile equipment, communication equipment, etc.

Q. Under MAG 49, Administrative and General there are several program changes. Please describe those you are sponsoring.

A. We will address several program changes under MAG 49, Administrative and General beginning with line 29, Security - Central Monitoring System. In recent years, the Company has invested significant funds for the purchase, installation, and maintenance of technical countermeasures employed for the purpose of providing the appropriate level of security required for its facilities. This technical equipment includes security cameras, digital video recorders, card access systems and security alarms. In order to utilize this technology effectively, Con Edison is building a centralized monitoring station where these measures will be monitored 24/7 by dedicated, trained security personnel. Other O&M costs associated with operating the Central Monitoring System will include two additional human resources and overheads, such as leases, equipment maintenance costs, and communication charges. The cost of this program change is $800,000, of which $45,000 is allocable to steam operations.

Q. How was the program change of ($17,000) for the Shared Services Administration on line 30 calculated?

A. As discussed in the Normalization section above, the Company has instituted a Shared Services Administration. It is estimated that as a result of the restructuring and the formation of the Shared Services Administration that savings will be achieved over time. That is, the Company assumes that the cost of the group will be offset by achieved savings within five years. In this filing, the Company is reflecting 25 percent of the group's labor cost as a proxy for productivity savings, or $17,000, in the rate year.

Q. What are the facilities maintenance costs shown on lines 31 and 32?

A. This filing includes costs for O&M and Capital associated with the Company's compliance under the City's Local Law 26 ("LL26"), Local Law 11 ("LL11") and other Facilities Maintenance programs.

Q. What is LL26?

A. LL26 requires full sprinklering of buildings greater than 100 feet in height throughout New York City. This law was implemented after September 11, 2001 and compliance is mandatory by 2019. This compliance includes not only O&M costs but also capital costs.

Q. What are the O&M costs associated with LL26 compliance?

A. The O&M expenses associated with this compliance, including temporary relocations of personnel, are projected to be approximately $12.3 million in RY1, $7.0 million in RY2 and $7.0 million in RY3. Steam's allocated share of the incremental cost for the rate year is $670,000.

Q. Are there capital costs associated with this project?

A. Yes. These costs are recovered from steam through the interdepartmental rents as are other common projects.

Q. Please describe Local Law 11.

A. Local Law 11 ("LL11") requires the periodic inspection of the exterior facades of buildings in NYC greater than six stories in height. These inspections primarily act as a safety measure to protect the public from falling building materials and improve awareness of the importance of maintaining and restoring NYC's architecture.

Q. What is the total of cost of this program?

A. To comply with the current cycle of Local Law 11, the total O&M cost estimate is approximately $4.1 million, or approximately $1.025 million per year for the next four years. Steam's allocated share of the incremental cost for the rate year is $28,000.

Q. Are there any additional O&M programs for Facilities Maintenance?

A. Yes. The Company plans to undertake a program to improve air quality at Company facilities in order to mitigate the spread of potential infectious diseases and/or health dangers at an estimated incremental annual cost of $1.5 million, of which approximately $87,000 is allocable to steam.

Q. Are there other facilities programs proposed?

A. Yes. The Company plans to undertake various programs to upgrade existing floors, address building infrastructure and perform a comprehensive Master Plan for all Company facilities.

Q. What are the costs associated with these programs?

A. The cost is an incremental $9.4 million in the rate year with $497,000 allocable to steam operations.

Q. Do you require additional human resources to accomplish all this facilities work?

A. Yes, we have included a request for 2 Operating Supervisors, 3 Engineers and 2 Planners. The Engineers are to support both the capital and maintenance programs. The Planners are to manage the work load of both capital and maintenance projects. The latter two types of openings are being driven by LL26 compliance work. The allocation to steam operations is $36,000.

Q. Please continue with lines 33 and 34 regarding corporate hiring and the payroll system.

A. The Company has been experiencing high attrition levels as its workforce ages and new employees opt not to stay with the Company. Employees are leaving at the rate of 1,000 employees annually (approximately 700 union and 300 management positions each year). The attrition rate is expected to continue at this level for the foreseeable future. Approximately 35 percent of our employees have more than 25 years of experience, and the Company will need to hire new employees to replace these employees as they leave. In 2006, the Company hired 1,283 new employees to address both attrition and increases in Company labor required for the Company's expanding programs. We expect to hire 4,200 new employees over the period 2008 through 2010.

Q. What are the incremental costs in the rate year associated with hiring so many employees?

A. The incremental costs are projected to increase in RY1 as follows: Recruitment ($590,000), Occupational Health ($105,000), and Corporate Gold Program ($211,000). The amount allocable to steam is $50,000.

Q. Please explain the bases for these increases.

A. For Recruitment, the incremental costs represent an increase in the current staff of employees that currently handles hiring of new employees, conducting background checks, and associated costs, such as advertising, supplies, and search and relocation fees. For Occupational Health, in the area of medical testing, we need to increase the staff to perform additional administrative functions at an estimated cost of approximately $350 per new hire. For the Gold program that employs recent college graduates and provides them with basic leadership development and technical skills training to fill anticipated openings, we expect to hire additional new GOLD Associates in the rate year.

Q. Please describe the Company's new Human Resources ("HR") payroll system.

A. One of Human Resources' biggest challenges is the multiple systems gathering Human Resource information that are not integrated and do not provide an effective method of accessing all relevant employee data. The new HR payroll system, a PeopleSoft product, will facilitate efficiencies through improved access to data via one integrated system. This filing reflects approximately $17.5 million of corporate capital costs for the HR Payroll system in 2008 and 2009. We are requesting an additional $650,000 annually for ongoing maintenance and system support. That amount is divided between Con Edison ($603,000) and Orange & Rockland ($47,000). The allocation to steam is $34,000.

Q. Please discuss the Company's strike contingency expenses.

A. The Company and its two local unions, UWUA Local 1-2 and IBEW Local 3 employees, have collective bargaining agreements that expire on June 28, 2008 and June 27, 2009, respectively. In the event of a labor stoppage, the Company has developed a planned approach to ensure the continued safe operation of its facilities and its services.

Q. Are there costs associated with these preparations?

A. Yes. Incremental costs for contingency planning for Local 1-2 are estimated at $1.2 million and for Local 3 at $200,000 for a total estimate of $1.4 million, of which 5.65 percent, or $79,000, is allocated to the steam department. As in prior filings, the Company seeks in base rates, strike preparation costs over a three-year period. As a result, the Company's proposed three-year recovery of steam's share of the costs for strike preparations is $79,000, or $26,000 annually.

Q. Please continue with line 36.

A. The single entry point ordering system for the Purchasing Department will streamline the process of ordering materials and services. A new vendor package will allow the Corporate Purchasing Department to consolidate orders, which is expected to result in obtaining better pricing from vendors, and automate the payment process to take advantage of early payment discounts from vendors. The initial phase of this project is expected to be completed during 2007, which will focus on streamlining the manually intensive General Office Invoice payment process. Phase 2 will consist of utilizing this procurement system for the Company's purchases of all services including construction activities. An analysis is currently in progress on the current processes with the plan of continuing to streamline processes in conjunction with the deployment of Phase 2. The estimated O&M cost for this project in the rate year is $150,000, with the steam department's share at $8,000. The capital cost is currently estimated at $2.0 million and $1.3 million for 2008 and 2009, respectively.

Q. Next, there are four Information Resources ("IR") Programs. Please describe those.

A. The four IR programs are the 1) Expand Data Warehouse; 2) Expanded Programming Support; 3) NERC Cyber Security Assessment; and 4) Supply Chain Replacement Study. The estimated aggregate O&M cost of these programs is $1.0 million, of which Steam's share is $244,000.

Q. What is the Expand Data Warehouse Project?

A. This project incorporates information from the Company's warehouse systems and O&R's Supply Chain systems to the new Ariba data warehouse in order to provide business intelligence and the ability to analyze the supply chain processes and costs.

Q. What are the benefits of this project?

A. The benefits of the project will be to enable the Company to continue to produce the reports that are needed for financial control and regulatory purposes. The reports are currently produced using a technology that is no longer commercially supported, and is extremely cumbersome and inefficient. In addition, a data warehouse will enable the Company to perform spend analyses, which will allow the Company to source materials and services more effectively and obtain better pricing.

Q. Are there associated maintenance costs involved with this project?

A. Yes. There needs to be continued IR support to maintain the reliability and integrity of the Data Warehouse. One programmer is required at an estimated cost of $100,000; the allocation of the cost to steam operations is $5,000.

Q. What is the IR Expanded Programmer Support?

A. Steam Operations is requesting various new programs as well as scope changes to existing Capital Projects. This request is for additional labor in the form of programmers to meet the growing IT demands of Steam Operations. The cost of the additional labor is $200,000.

Q. What are the benefits of this project?

A. In order to maintain the quality and integrity of the steam system, additional IR programmers will need to be hired to fully support the various new steam capital projects.

Q. What is the NERC Cyber Security Assessment Project?

A. The North American Electric Reliability Corporation ("NERC") Cyber Security Standards were approved in June 2006 with a graduated implementation plan. This project will engage an independent third party to assess the compliance readiness of the Company regarding the NERC Cyber Security standards.

Q. What are the benefits of this project?

A. Compliance to NERC Cyber Security Standards is mandatory for transmission companies and failure to comply can result in a compromise to the Company's reliability and significant financial penalties.

Additionally, failure to correctly apply cyber security protection against critical electric control systems could result in unauthorized access and potential malicious behavior against the electric infrastructure. A third party independent assessment provides a necessary outside assessment of the Company's compliance with these standards.

Q. Are there associated maintenance costs involved with this project?

A. Again, there needs to be continued IR support to maintain compliance with the NERC Cyber Security Assessment standards. The cost requires vendor integration support of $200,000, of which $11,000 is allocable to steam operations.

Q. What is the Supply Chain Replacement Study Project?

A. This project is to initiate a study of Supply Chain Systems for the regulated companies to determine the feasibility of replacing the existing systems. Con Edison has several supply chain systems and O&R has its own supply chain system. Maintaining these systems and gathering information requires significant effort. These systems are also tightly integrated with the financial systems supporting each company.

Q. What are the benefits of this project?

A. There are currently a multitude of systems that support the supply chain for the regulated companies. Con Edison's system is 1975 vintage, does not support multi-company capability, is difficult to modify for changing business needs and does not easily produce meaningful reports. Current reporting mechanisms require individuals to extract information from many different sources and then merge the data together. This manual effort can be error prone and lead to inaccurate information. The consultant's cost to perform the study is estimated to be $500,000, of which $28,000 is allocable to steam operations.

Q. Turning to another area, please discuss the Public Affairs Department's information and communication programs, included on lines 41 and 42.

A. We plan to expand public awareness and energy information programs and upgrade our Web site. The cost of our program changes is estimated to be $2.2 million, of which $124,000 is allocable to steam operations.

Q. Please provide a general description of the public awareness and energy information programs proposed in this filing.

A. These programs are tools for communicating with the public. Communication and public outreach are very important to Con Edison and our goal is to be able to reach as wide an audience as possible through various materials. We use advertising and marketing to inform our customers and the public about topics such as the need to maintain and enhance the electric infrastructure, energy conservation, and how to contact us in the event of an emergency, as well as about Company programs such as our Minority and Women-Owned Business program. The programs are intended to help people understand the relationship between the equipment they use in their daily lives and the electric infrastructure that provides their energy.

Q. How do you communicate these programs?

A. We rely on a wide variety of outlets including traditional daily and weekly print publications. We also advertise in local neighborhood publications to reach a more targeted audience. We use a broad range of New York's ethnic press to ensure that our messages reach all segments of our customer population. We also use radio to communicate with the local population. To effectively reach a broad audience in the New York metropolitan media market, we need to communicate through many different local and mass market outlets.

Q. Please describe your program change.

A. We plan to increase our energy information and public awareness by expanding the *Energy Information* and the *We're Working for You 24/7* communication programs. The programs will be sustained over a full year, rather than just a part of the year. We will do this by increasing the number of advertisements that are placed in different publications and on the radio.

Q. What are the goals of expanding these programs?

A. By expanding these programs, we will continue to educate and inform customers about Con Edison's infrastructure investments and how to contact Con Edison to report any power problems, safety concerns, or emergencies (for example, at 1-800-75-CONED or by visiting www.conEd.com). It also encourages the public to learn about energy in their daily lives, from conservation (for example, by calling toll-free

EnergyLine for conservation tips to help them use energy wisely everyday and save money) to bill paying.

Q. How much does the Company plan to spend on expanded energy information and public awareness programs during the term of the rate case?

A. We project our annual spending to increase by approximately $8.5 million to cover the cost of the expanded programs with the steam allocation at $113,000.

Q. Would you please describe the upgrades the Company is planning to make on its Web site?

A. Con Edison is increasingly relying on the Internet for communicating with the public, its customers, the media, regulators and governmental bodies, as well as for employee communication. Customers can review their accounts, change their services, pay bills, report service problems and present outage information in a way that is easy for customers to understand. There is more than ever an increasing need to update and change information very quickly.

Q. Please describe Public Affairs' need to expand the program.

A. Public Affairs is responsible for the overall management and design of the Con Edison Website. Public Affairs works closely with several departments to develop content and manage information flow on the Web site. The increased use of the Web to conduct transactions, report problems and disseminate information requires a greater commitment of staffing, technical support, system development and electronic infrastructure. There will be an ongoing need to regularly upgrade the Web design and infrastructure with technical support personnel available for maintenance or problems that might arise. This will require increased staffing and consultants who can provide assistance as the Web site is regularly updated.

Q. How does the Web upgrade program benefit customers?

A. It allows a greater two way street for communication from the Company to our customers and from our customers to the Company. In order to maintain this communication, there is a significant amount of work "behind-the-scenes" that needs to be done to ensure that the Con Edison Web site is regularly updated and that it maintains accurate, current and timely information.

Q. Has the traffic on the Company's Web site increased?

A. Yes. From July 1 through December 31, 2005, the previous corporate home page received more than 2.6 million hits. The redesigned home page received more than 3.1 million hits during the same six-month period in 2006. For the period January 1, 2007 through September 30, 2007, the home page averaged more than 556,915 hits per month. During the year, within the Customer Central area, the primary repository for customer information, improvements were made for storm preparations and added entry points for reporting outages online and viewing outage maps. For the period January 1, 2007 through September 30, 2007 we averaged 1,383,072 hits per month. A user friendly Web site is essential for encouraging increased electronic customer payments. Enrollment in electronic payment options reduces the number of customer accounts in arrears, and reduces our cash-processing costs, thereby saving money for customers.

Q. In what other ways have customers benefited from the Company's redesigned Web site?

A. The customer benefits are significant. The redesigned Web site proved to be a useful communications vehicle, especially during storms and outages. Recent upgrades such as the "news and highlights" box provide links to restoration information, claims information, and ice distribution locations directly on the corporate home page. More recently, Con Edison has deployed an online service problem-reporting feature that enables customers to report service problems on the Web site in such a way that the Company can then integrate those reports into its service problem counting process. In addition, the Company has deployed an online feature allowing customers to check the progress of a previously reported service problem, whether reported online or via telephone.

Q. How much does the Company expect to spend on Web site upgrades?

A. In order to continue enhancements to online customer service by taking advantage of the latest technologies and best practices, Con Edison will be working on its Web redevelopment on an ongoing basis. The Company anticipates that the annual cost of maintaining and upgrading the Web will increase by $200,000 (of which

$11,000 is allocable to steam). These expenditures are essential if the Web is to remain a viable, informative and effective way for the Company to communicate with its customers, and for our customers to communicate with us.

Q. What is the next program change that you will discuss?

A. Our next program change (line 43) represents an allocation to steam of $63,000 for twelve incremental employee positions in the Finance Department. Seven of the twelve incremental employees are a result of an assessment performed by KPMG LLP ("KPMG") of the tax function in the Company. The Company's organizational structure historically separated Tax Accounting and Tax Compliance. Resource levels were determined by KPMG to be not comparable with that of peer companies. KPMG recommended that the Company consolidate the tax functions into one department, led by a Tax Director or similar executive devoted solely to tax matters. The study pointed out that the staff consisted of very few experienced tax specialists supported by relatively inexperienced personnel and that the staffing level for income tax matters is also significantly lower than that of peer companies. As of October 2007, the Company has hired four additional employees including a new Vice President for the Tax Department. The Company is continuing to work towards filling the remaining three additional positions for the Tax Department. The Company also hired an employee in October 2007 for the Regulatory Filing Section and is seeking to hire two new employees for its Treasury Department, and one each for its Corporate Accounting and Real Estate sections. The Company intends to fill all of these open positions by year-end 2007.

Q. Please explain why the Company needs the two employees for its Treasury Department.

A. One position is required in the Risk Management Section. It will provide a greater segregation of duties between the responsibilities of the front office and the middle office. This includes deal validation based on deal tickets and deal data files from front office and confirmations from counterparties, maintenance of independent price curves used in the mark-to-market process and monthly reporting to the Regulated Risk Management Committee. The other position would assist in the financing area where the increased financing needs of the Company require additional help in today's more complex and difficult market.

Q. Please explain why the Company needs an additional employee in Corporate Accounting.

A. In order to more efficiently process, account and report its financial information, the Company will be replacing its 37 year old legacy, General Ledger system ("GL") in the near future. This system is estimated to take four years to implement. During that time, it is important to have a dedicated employee begin to perform the huge task of reviewing the many implications it has to other accounting systems. This change in systems will be the largest in Company history and will have ripple effects in internal controls throughout the Company's operations.

Q. Why does the Company require an additional employee for the Real Estate Department?

A. This new employee would be handling some of the Company's real estate transactions that have increased significantly over the past few years. We anticipate that these projects will remain at a high level for the foreseeable future. The increase in demand for real estate by the Company is primarily for the acquisition of new substations and other utility requirements, including, but not limited to, the negotiation of cellular antennas on transmission towers.

The new position will handle substation requests for parcels of land that will be required for future area and transmission substations. The negotiations for such real estate acquisitions have become more difficult and time consuming during the last few years because real estate is not only difficult to acquire in New York City and Westchester but has also become more expensive and is in great demand. In addition, the position will handle cellular antenna requests from wireless telecom providers. The Commission asserted jurisdiction on these matters several years ago and currently is reviewing the Company's first Section 70 for these types of transactions. Upon completion of this review, the Company will need to submit other applications for pending site licenses. In addition, the Commission has requested the Company to file petitions for all those sites licensed prior to the Commission's exercise of jurisdiction.

Finally, the Company will be shortly accepting new antenna applications. Since the Real Estate Department acts as project manager for all these licenses, additional manpower will be required.

Q. Why does the Company need a new GL system?

A. The new GL system is to replace multiple, stand-alone general ledger systems for Con Edison, (mainframe customer built legacy system), O&R (Walker), the Competitive Energy Businesses (Oracle), CEI parent company (Walker) and for the CEI consolidation process (Infor). In addition, there are multiple work management systems currently in use that lead to increased administrative costs. A new GL system will allow both operating and financial personnel to retrieve information in a user-friendly format to more efficiently run their businesses. It will provide a more flexible reporting environment for various reporting needs, with detailed and summarized historical and current information, available real-time or via a secure web-based interface.

Q. When is the new GL system expected to be in operation?

A. The implementation project will continue for several years, beginning in 2009. The in-service date is anticipated to be in 2012 with a current order of magnitude estimated capital cost of $51 million.

Q. Please continue with line 44.

A. The Company plans to spend $1 million for a Phase Zero study to determine the cost and scope of implementing a new, single General Ledger System for the Company and O&R. The allocation to steam operations of the Phase Zero study is $26,000.

Q. Please continue with the Law Department, lines 45 through 47.

A. Our next program changes reflect approximately $25,000 for new staff members, $21,000 for new technology projects and $14,000 for a new records retention management system. The Law Department requires nine new employees in total: five to provide assistance for increased work associated with increasing numbers of company-specific and generic state and federal regulatory proceedings and other work, and to handle workload associated with other major matters, such as large scale litigation, claims processing, and incident responses; one due to the significant increase in remediation activities as a result of an agreement with the New York State Department of

Environmental Conservation for the investigation and, if necessary, remediation of 45 manufactured gas plant sites; and three to design and implement a new records retention management system.

Q. Please continue.

A. The increase of $21,000 on line 46 represents the allocation to steam operations of the cost of two technology projects involving the scanning of historical regulatory documents and the purchase of software to more efficiently manage electronic discovery in major litigation matters.

Q. Why does the Company need to implement a new record retention management system on line 47?

A. The application, and associated hardware, are necessary for the management of our records retention policy, notification of litigation holds, data collection in response to litigation holds, and electronic discovery production, in large part, in response to new Federal regulations promulgated in December 2006 that establish stringent record retention regulations in connection with litigation. The current records retention system relies on manual identification of record retention dates by each organization. The Company currently does not have an electronic records retention system in place.

Q. Please continue.

A. Line 48 represents an allocation to steam for an increase in fees that the Company will pay to PricewaterhouseCoopers for services, such as auditing, research, accounting advice and consultations.

Q. Please continue with Line 49, Shared Services.

A. Shared Services reflect the allocation or net billing of costs from Con Edison and Consolidated Edison, Inc. ("CEI") for administrative and general services provided to O&R, such as accounting, treasury and tax services.

Q. How did you determine the rate year Shared Services expense?

A. We started with the actual shared services for the historic year, the 12 months ended June 30, 2007, of ($549,000). We then escalated the labor component of the shared service billing by the labor escalation factor of 6.77 percent, the fringes/overheads by the fringe benefit rate of 38 percent, and the other components of the billing by the general inflation factor of 5.10 percent.

Q. Please continue.

A. Line 51, Fringe Benefits - New Employees, represents the increase in employee welfare expenses related to the increase in human resources that we and other Company witnesses sponsor.

Q. Please continue with line 53, Injuries and Damages.

A In accordance with prior Commission practice, the rate year level of injuries and damages is equivalent to the annual average of all claim disbursements for a recent three-year period. For this filing, we used July 2004 to June 2007, the three-year period ending with the historic year. The allocation to steam is a decrease of $319,000. This three-year average will be updated during the course of the proceeding to reflect more recent actual experience.

The increase of $639,000 on line 54, Insurance, represents primarily increases in premiums for property and liability insurance. To the extent necessary and appropriate, the Company will update this item at the appropriate point in this proceeding.

Q. Please explain the increase of $2,121,000 on line 55, MGP/Superfund.

A. This represents an allocation to steam operations of 5.1 percent for the increased program costs for remediation of manufactured gas plants and superfund sites as discussed by Company witness Price. Environmental remediation costs are considered to be corporate-wide expense and, as such, are allocated to the Company's three services. As Mr. Price explains, the Company projects that it will spend nearly $200 million between the historic year and the end of the rate year for site investigation and remediation. The steam department's allocated share of these costs is $10.2 million. After increasing this total for the undercollection currently on the books and reducing the total for the amortization currently allowed in the 2006 rate plan, the estimated balance to be recovered from steam customers is $9.9 million, or $3.3 million annually over our proposed three-year amortization period. This amount compared to the historic year produces the $2.1 million program change.

Q. Please discuss Pensions & OPEBs on line 56.

A. The estimated decrease of $624,000 reflects the actuarially determined level of expenses for employee pensions and other post employment benefits ("OPEBs"), which was based on a study performed by the Company's actuary, **buck**consultants. The study was based on the Company's actual 2006 experience and included 10-year projections. Assumptions used in the forecast of pensions and OPEBs were a discount rate of 6.00 percent and an expected return on plan assets of 8.50 percent, and a health care cost trend rate of 9.0 percent for 2007 with the rate decreasing gradually to 4.5 percent for 2012.

Q. Please sum up the estimate of employee pension/OPEBs expense allocable to steam.

A. The net amount of the actuarially determined level of expenses for employee pension/OPEBs and other payments net of capitalization allocable to steam for the historic year is $5,731,500. The rate year allocation is $5,107,500, reflecting a decrease of $624,000.

Q. What are your last two program changes?

A. The increase of $48,000 in financing costs on line 57 represents the steam portion of an increase in miscellaneous financing costs, fees and services for the Company's expected increase in financing needs to supports its increased capital and operational costs as testified to by various witnesses in this proceeding. The increase of $369,000 in Regulatory Commission Expense on line 58 represents usage of the latest PSC Assessment bill and other expenses. The Company intends to update this item to reflect the latest PSC Assessment bill and any adjustment of the bill, if necessary, at an appropriate point in the proceeding.

GENERAL ESCALATION

Q. Please describe the general escalation rate used.

A. The general escalation rate reflects cost increases anticipated to occur as the result of inflation. The labor content has been extracted from each element of expense and the residual amounts were then escalated either specifically for known cost increases or generally to reflect the overall anticipated rate of inflation. The general escalation factor is based on the projected increase in the Gross Domestic Product ("GDP") price deflator.

Q. What are the forecasted rates of increase in the GDP price deflator that were used to develop the general escalation factor, and what are their sources?

A. Since Blue Chip will not publish a GDP deflator forecast for 2009 until the January 10, 2008 issue, the increase for January through September 2009 was derived from the Blue Chip quarterly rate forecast, which was projected at 2.2 percent annually from the fourth quarter of 2007 to the third quarter of 2009. Utilizing these forecasts, the increase from the average of the historic year ended June 30, 2007 through the average of the rate year ending September 30, 2009 is 5.1 percent. In accordance with past practice in the Company's rate cases, the inflation factors will be updated to reflect the latest available inflation forecasts later in this proceeding. As mentioned earlier, Schedule 9 of Exhibit ___ (AP-6) lists the various operation and maintenance expenses that are subject to general escalation.

LABOR ESCALATION

Q. Please explain the derivation of the 6.77 percent labor factor used to escalate the historic year labor expense level to the rate year.

A. As shown on Exhibit __ (AP-6), Schedule 2, page 1, column 1, total Company salaries and wages for the twelve months ended June 30, 2007 amounted to $1,194,894,000. Straight-time union labor includes temporary summer employees. For the rate year, total Company salaries and wages, as shown in column 3, amount to $1,275,810,000. The increase of $80,916,000 in total Company labor dollars from the historic year level to the rate year level represents a 6.77 percent increase. Thus, we assumed the same factor to escalate the historic Company labor amount for steam operations to arrive at the rate year amount.

Q. Please describe the development of the total Company rate year labor forecast.

A. As shown on Exhibit __ (AP-6), Schedule 3, starting with the total number of employees on roll with pay for the week ended June 30, 2007 of 13,623, we assumed a 1 percent annual productivity reduction from July 2007 to September 2009 to arrive at the average number of employees during the rate year of 13,388.

Q. Please continue.

A. Schedule 2, page 4, shows the computation of the average wages and salaries in the rate year for Weekly and Management employees. For Weekly employees, we assumed a general wage increase of 3.25 percent in

June 2008 and June 2009 and the effect of the semi-annual progression increases of 0.6 percent in October 2008 and 0.5 percent in February 2009. These rates are all pursuant to the labor agreements with the unions representing the weekly employees. For Management employees, we assumed a 3.5 percent merit increase in April 2008.

Q. Please continue.

A. Having developed the rate year average staffing levels and average rates of pay, we then used these amounts to develop the total Company rate year straight-time wages and salaries as shown on Schedule 2, page 2.

Q. Please explain Schedule 2, page 3.

A. Page 3 shows the calculation of salaries and wages other than straight-time payrolls. In the historic year, actual weekly premium time and overtime payrolls were $28,149,000 and $138,135,000, respectively. We then increased these historical year payrolls by the estimated contractual wage awards. Management compensatory time is determined by starting with the historic year level of $35,686,000 and then applying the average rate of increase, as previously determined, to arrive at the rate year amount.

AVERAGE RATE BASE

Q. Has the Accounting Panel prepared projections of plant balances for the twelve months ending September 30, 2008 and September 30, 2009 reflecting the impact of the current construction and retirement programs on the steam department's average rate base?

A. Yes, we have.

Was the two page tabulation, the first entitled "ESTIMATED NET PLANT - STEAM - TWELVE MONTH AVERAGE ENDING SEPTEMBER 30, 2009," and the second "ESTIMATED NET PLANT - STEAM - JUNE 30, 2007 TO SEPTEMBER 30, 2008," prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-7)

Q. What is shown on Exhibit ___ (AP-7)?

A. Page 1 of this exhibit shows the projected average net plant for the twelve months ending September 30, 2009. Page 2 of the exhibit shows the estimated monthly balances from June 30, 2007 to September 30, 2008 that served as a basis for our rate year projections. The first column shows the book cost of plant; the second column shows the accumulated provision for depreciation; and the third column shows the resulting net plant.

Q. Was the two page tabulation, the first entitled "ESTIMATED CONSTRUCTION WORK IN PROGRESS - STEAM - TWELVE MONTH AVERAGE ENDING SEPTEMBER 30, 2009," and the second "ESTIMATED CONSTRUCTION WORK IN PROGRESS - STEAM - JUNE 30, 2007 TO SEPTEMBER 30, 2008," prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-8)

Q. Please describe this exhibit.

A. Page 1 of this exhibit shows the projected construction work in progress balances for the twelve months ending September 30, 2009. Page 2 of the exhibit shows the estimated monthly balances from June 30, 2007 through September 30, 2008 that served as a basis for our rate year projections. The first column shows the total construction work in progress balances for steam plant; the second column shows the interest bearing construction work in progress; and the third column shows the resulting non-interest bearing construction work in progress ("NIB-CWIP").

Q. Please describe the development of the projections contained in these exhibits.

A. Using estimated capital expenditures provided to us by the various witnesses in this proceeding and the Company's books and records for construction work in progress balances through June 30, 2007, we developed estimated transfers to plant in service, and construction work in progress balances. We then added the estimated transfer to plant in service to the actual plant in service account balances at June 30, 2007 and deducted the book cost of plant for retirements. In addition, we calculated the accumulated provision for depreciation in order to develop net plant balances. Included in this calculation is the forecasted depreciation accruals based on current depreciation rates, and net removal costs provided by Company witness Hutcheson. The details of the average net plant balances are included in the first four lines of the average rate base, Exhibit __ (AP-9), page 1, columns 1 through 3, for the rate year. The forecast used for the projections was based on Company's forecasted capital expenditures addressed by various Company witnesses. We will update for any significant changes at the appropriate point in this proceeding.

Q. Turning to the average rate base, was the document entitled, "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - RATE BASE - STEAM - AVERAGE TWELVE MONTHS ENDED JUNE 30, 2007 AND AVERAGE TWELVE MONTHS ENDING SEPTEMBER 30, 2009," consisting of two pages prepared under your direction and supervision?

A. Yes, it was.

MARK YOUR IDENTIFICATION AS EXHIBIT __ (AP-9)

Q. Please describe this exhibit.

A. Page 1 shows the average rate base for the actual twelve months ended June 30, 2007 in column 1; the adjustment to the historic year to reflect conditions in the rate year absent a rate filing in column 2; the average rate base for the rate year absent a rate filing in column 3; the adjustments to the average rate base in rate year as a result of this filing in column 4; and the fully adjusted average rate base for the rate year upon which the proposed rate increase is based in column 5. Page 2 details the items in working capital as shown on page 1, line 10.

Q. Turning to page 1 of Exhibit __ (AP-9), please describe the various items that are listed in the first three columns.

A. Lines 1 through 3 show the average book cost, accumulated provision for depreciation and net plant balance and line 4 shows the average balance for NIB-CWIP. Historic year levels on lines 1 through 4 were developed from the books and records of the Company. The rate year levels were previously discussed. Lines 5 and 6 reflect the steam portion of preferred stock expense and the unamortized balance of debt discount, premium and expense as additions to rate base. This rate base treatment was directed by the Commission's Order on Rehearing in Electric Case 27353. Line 7 represents the average balance of deferred fuel, net of federal income tax. This amount represents 30 days of recoverable fuel costs. Deferred fuel is the amount of fuel, above the base cost of fuel, that will be recovered in the following month

Q. Please continue with your explanation of lines 8 and 9.

A. Line 8 shows the balance of customer advances for construction. These are funds provided by customers for the construction of utility services on their premises. Line 9 represents the average balance of the Metropolitan Transportation Authority ("MTA") surcharge paid but not yet collected from customers, net of income taxes.

Q. Please continue with line 10.

A. Line 10 shows the level of working capital included in rate base. We will explain the details of working capital later in our testimony. Line 11 reflects the required adjustment to bring rate base equal to capitalization. The Company's adjustment is currently a positive adjustment. This is due to the higher working capital requirements than reflected in rate base. Items such as the growth in the Company's accounts receivable and the Company's net prepaid pension/OPEBs balance can be attributed to the higher working capital requirement.

Q. You previously indicated that line 11 of the Rate Base Exhibit reflects a requirement to make rate base equal to capitalization. Would this represent the Earnings Base Capitalization or "EB/Cap" Adjustment the Commission has adopted in numerous prior rate proceedings?

A. Yes. This adjustment has been required by the Commission to synchronize the total capitalization of a utility with rate base and produce what is often referred to as the "Earnings Base."

Q. You indicate that the working capital requirements are higher than reflected in your Exhibit ___(AP-9), Schedule 1, page 2 of 2. You attribute this to the growth in accounts receivable and the prepaid pension balance. Why is it appropriate to recognize the impact of these items?

A. The Joint Proposal adopted in Case 03-G-1671 and 03-S-1672 prescribes this rate treatment for the prepaid pension/OPEB balance and states the following at the top of page 20:

> The gas and steam pension/OPEB expense or credit recorded prior to October 1, 2004 will not be eliminated from the Company's earnings base or capitalization for ratemaking purposes.

Q. What was the prepaid pension/OPEB balance at June 30, 2007?

A. The steam prepaid pension/OPEB balance was $39.0 million. This balance was made up of a prepaid pension balance of $72.0 million offset in part by an accrued OPEB liability of negative $7.0 million and deferred income taxes of negative $26.0 million.

Q. What was the average prepaid pension/OPEB balance during the historic year, the twelve months ended June 30, 2007?

A. The average prepaid pension/OPEB balance during the historic year was $25.0 million. The balance was made up of a prepaid pension balance of $47.0 million offset in part by an accrued OPEB liability of negative $5.0 million and deferred income taxes of negative $17.0 million. The current prepaid pension/OPEB balance is virtually unchanged from the level reflected in the current rate plans.

Q. How is the net prepaid pension/OPEBs balance reflected in this filing?

A. The prepaid pension/OPEBs balance is reflected in this filing as part of the Company's capitalization and, as noted above, is one of the reasons why the earnings base is higher than rate base.

Q. Please explain the pension/OPEBs prepaid balance.

A. The prepaid pension/OPEBs balance was created as a result of negative pension costs or credits recognized for a number of years. The credits were non-cash and while they reduced the Company's operating expenses, they did not provide cash needed to fund other operating costs that they offset in netting operating income. This situation required the Company to finance these credits in order to fund the cost on ongoing operations.

Q. Please continue with your explanation of rate base.

A. Lines 12 through 18 are programs such as Recoverable Fuel Charge Deferred, Steam Make Whole Deferred Revenue, WTC Deferred Costs, Steam Business Development, Steam Production Study, and ERRP Esplanade, Steam Conversion and Fuel Switching. Line 13 reflects various items, such as deferred NYC property taxes, SO2 allowances, gain on sale of First Avenue Properties and WTC expense that are being amortized pursuant to the 2006 rate plan. It is anticipated that there will be no balance remaining for these items in the rate year.

Q. Please explain the next grouping on lines 19 through 39, Rate Case Reconciliations - Net of Income Taxes.

A. In general, these items represent the estimated average rate base impacts of the various reconciliation provisions of the 2006 Rate Plan and any remaining balances from prior rate plans that were not reflected in the 2006 Rate Plan. The derivation and disposition of these items, as well as the rate treatment for these items, are discussed later in of our testimony.

Q. Please continue.

A. Lines 40 to 53 reflect the accumulated deferred Federal and State income taxes for various items. Line 40 represents the taxes resulting from the normalization of Federal tax depreciation. The average balance of accumulated deferred taxes for the rate year was developed by starting with the August 31, 2007 actual balance and was increased each month, through the rate year, to the extent of tax depreciation normalized for book purposes offset in part by the flow-back of tax depreciation previously deferred.

Q. Please continue with line 41.

A. Lines 41 and 42 reflect the amount of accumulated deferred Federal income taxes on Prepaid Insurance Expenses and Vested Vacation. Line 43 is the Asset Depreciation Range ("ADR") deferred tax benefits to be passed back to steam customers per the petition filed and approved by the Commission. This is a result of deferred tax balances that were not properly amortized to income during the years 2000 through 2004.

Q. Regarding line 44, please explain why taxes paid on unbilled revenues are included in rate base.

A. The Commission, in its Statement of Policy on Accounting and Ratemaking Procedures to Implement Requirements of the Tax Reform Act of 1986 ("TRA-86"), issued July 8, 1989 in Case 29465, directed utilities to normalize the effect of unbilled revenues in taxable income.

Q. Please continue.

A. Line 45 reflects the accumulated deferred Federal income taxes associated with Contribution in Aid of Construction, which are reflected in taxable income and for which the Commission also mandated tax normalized since TRA-86. Line 46 reports the deferred Federal income taxes of Capitalized Interest. The Commission, also in Case 29456, concluded that utilities should normalize the income tax expense for additional interest required to be capitalized for tax purposes under TRA-86. Line 47 is the accumulated deferred Federal tax related to the reclassification of capitalized major maintenance projects during the years 1998 through 2002 as a result of an IRS audit.

Q. Please continue with your explanation of line 48.

A. Line 48 reflects the accumulated deferred taxes associated with the Advanced Refunding of Mortgage Bonds. It is projected that there will be a zero balance for this item by the year 2010. Line 49 relates to capitalized overheads (Section 263A of the IRS Code). Line 50 is the deferred Federal income tax effect resulting from the payment of Call Premiums when redeeming long-term debt issues prior to their maturity dates. Call Premiums paid are a current deduction for Federal income tax purposes, but amortized over the remaining lives of the redeemed issues, in accordance with prior Commission policy. Line 51 is the accumulated deferred Federal income tax relates to the accelerated deduction of plant service costs computed under the Simplified Service Cost Method for the years 2002 through 2005. It is expected that approximately 40 percent of the deduction may be disallowed by the IRS. As more information becomes available, we will update this balance accordingly.

Q. Please explain the last two items of the rate base.

A. Line 52, Excess Deferred SIT, represents the excess accumulated deferred State income tax balance that was established at the statutory rate of 9.03 percent as compared to the current rate of 8.63 percent. It also includes a balance of the previously accrued excess deferred SIT taxes from years 2000 and 2001, which were established under the statutory rate of 10.3 percent vs. 9.53 percent.

Line 53 reflects the deferred balance of New York State income taxes on various items.

Q. Please turn to page 2 of Exhibit __ (AP-9) and explain the items of Working Capital.

A. Working capital is comprised of materials and supplies, including liquid fuel inventory, prepayments and cash working capital.

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

A. The information to calculate the rate year forecast of the average balance of liquid fuel inventory was provided to us by Company witness Catuogno. The forecasted cost of residual fuel oil was allocated to

Electric and Steam based upon the oil burn budget. The average balance of liquid fuel allocated to steam is then reduced to the extent that the balance is financed by amounts owed by the Company to fuel vendors. Based on the historic year, we determined that 32.58 percent or ($5,983,000) is financed by accounts payable, leaving $12,381,000 to be included in rate base.

Q. Please continue with the materials and supplies inventory.

A. To develop the rate year amount of materials and supplies, excluding fuel, we took the average balance at June 30, 2007 and escalated it by the general escalation of 5.1 percent, which we discussed previously, to arrive at the total increase of $1,067,000 as shown in column 2.

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

A. Steam prepayments, lines 4 to 7, consists of the steam department's allocation of insurance premiums, property taxes, the PSC assessment, and other miscellaneous items.

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

A. Prepaid insurance for the rate year was forecasted by assuming that 25 percent of the insurance premiums are prepaid based on historic year data. We then applied this factor to our estimate for steam insurance premiums in the rate year of $3,507,000 to arrive at the rate year level for insurance prepayments of $877,000. This treatment is consistent with the Commission's determination in the Company's prior rate cases. Prepayment for New York City taxes was based on the Company's actual level of steam property taxes for fiscal year 2007/2008 and the estimated level for fiscal year 2008/2009. Based on the forecast level of expense and semi-annual payment in January and July, prepayment for New York City taxes in the rate year is estimated to be $13,085,000.

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

A. We developed the amount for the PSC assessment, line 6, by taking the latest known PSC assessment of $2,325,000 for the fiscal year ending March 2008 with escalation to the rate year and reflected payments on a semi-annual basis in March and September. As indicated above, if a revised assessment is received during the course of this proceeding, we will update the prepayment balance, as appropriate.

Q. Please explain the last item of prepayment.

A. To develop prepayment applicable to "other" miscellaneous items on line 7, we took the average balance for the historic year of $303,000 and escalated this amount by the general escalation of 5.1 percent to arrive at the rate year level of $318,000.

Q. Please explain the next item of cash working capital.

A. The next item of working capital, line 18, is the allowance for cash working capital. The historic year calculation was described earlier in our testimony. For the rate year, we started with operation and maintenance expense of $562,304,000. Based on the methodology we previously described, the total cash working capital allowance is $36,326,000 as shown in column 3, line 18.

Q. Please describe the adjustments to the average rate base for the rate year as reflected on Exhibit __ (AP-9), page 1, column 4.

A. The first adjustment on line 2 reflects the change in the average accumulated depreciation reserve resulting from the proposed changes in depreciation rates. Lines 19 to 39 reflect the effect on average rate base of amortizing over a three-year period the balances of previously deferred items and reconciliations. Again, these items and reconciliations will be discussed in greater detail in the following section of our testimony, wherein we discuss the basis for the revenue requirement.

Q. Please continue.

A. The adjustment shown on line 40 represents the change in average rate base due to changes to Accumulated Deferred Federal income taxes for ACRS/MACRS/ADR-Depreciation as a result of the proposed depreciation changes. The adjustment on line 52 represents the change in the rate year balance of excess deferred State income tax resulting from the Company's proposal to recovery it over a three year period.

Q. What is the adjustment of $926,000 shown in page 2, column 4?

A. This $926,000 represents the fuel adjustment related to the billing dates that will be discussed later in our testimony.

REVENUE REQUIREMENT AND ACCOUNTING ADJUSTMENTS

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

A. The rate year is the twelve months ending September 30, 2009, which is the first twelve months that rates set in this proceeding will be in effect. The revenue requirement is based upon our forecast of steam operations for the twelve months ending September 30, 2009, and an overall rate of return requirement of 8.58 percent. The increase in the Company's revenue requirement is $126,587,000, inclusive of gross receipts taxes.

Q. Have you prepared a rate of return exhibit?

A. Yes, we have.

Q. I show you a document, the first page of which is entitled "OPERATING INCOME, RATE BASE AND RATE OF RETURN FOR STEAM OPERATIONS SHOWING THE EFFECT OF THE PROPOSED INCREASE IN RATES - TWELVE MONTHS ENDING SEPTEMBER 30, 2009" and ask if it was prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-10)

Q. Will you please describe Exhibit ___ (AP-10)?

A. Yes. Exhibit ___ (AP-10) consists of four schedules. Schedule 1 summarizes the development of operating income, average rate base and rate of return for the rate year as adjusted for the rate increase. Column 1 shows operating income and rate of return unadjusted, or as it would be reflected in the books of account, for the rate year. The operating income before income taxes is as shown on Exhibit ___ (AP-6), Schedule 1, page 1, column 3. The New York State and Federal income tax computations in this column are detailed on Schedule 2, pages 1 and 2, respectively, and the average rate base in this column is as reflected on Exhibit ___ (AP-9). Column 2 summarizes certain adjustments to operating income that are detailed on Schedule 3. The adjustments to average rate base in this column are as reflected on Exhibit ___ (AP-9), pages 1 and 2. Column 3 is the summation of columns 1 and 2. Column 4 shows the effect of the $126,587,000 rate increase. Column 5, which is a summation of columns 3 and 4, shows operating income, average rate base and rate of return for the rate year after factoring in the rate increase.

Q. What rate of return does Schedule 1 show?

A. The unadjusted rate of return in column 1 is 3.44 percent. After factoring in the adjustments to operating income, rate base and the proposed rate increase, the rate of return on average rate base is 8.58 percent.

Q. What was the Steam department's rate of return for the actual twelve-month period ended June 30, 2007?

A. As shown on Exhibit ___ (AP-1), Schedule 2, page 4, steam operating income for the twelve-month period ended June 30, 2007 was $86,851,000. The steam department's average rate base for the actual twelve-month period ended June 30, 2007, as shown on Exhibit ___(AP-9) page 1, was $1,344,640,000. Accordingly, the actual rate of return for the historic year was 6.46 percent.

Q. Will you please explain Schedule 2, page 1?

A. Schedule 2, page 1 details the New York State income tax computation for each of the 5 columns shown on Schedule 1. Column 1 of Schedule 2, page 1 is the calculation of New York State income tax expense for steam operations. Starting with book operating income before income taxes as shown on line 1, we then set forth on lines 2-39 the various required tax adjustments to book operating income to determine taxable income as shown on line 40. We then compute the amount of New York State income tax payable on line 41 using the statutory rate applicable to such taxable income. From the New York State income tax payable so calculated, we reflect on lines 42-43 normalizations for certain items reflected as adjustments to taxable income and the amortization of previously deferred excess SIT to arrive at New York State income tax expense as shown on line 44. The items detailed on column 2 of this schedule, which reflect rate case adjustments, are more fully detailed on Schedule 3, pages 1 and 2 of our exhibit and are discussed later. Column 3 is the sum of columns 1 and 2. Column 4 is the additional New York State income tax to be paid as a result of the additional revenue requirement and column 5 is the sum of columns 3 and 4.

Q. Will you go on and explain Schedule 2, page 2?

A. Schedule 2, page 2 details the Federal income tax computation for each of the 5 columns shown on Schedule 1. Column 1 of Schedule 2, page 2 is the calculation of Federal income tax expense for steam operations. Starting with book operating income before income taxes as shown on line 1, we deducted on line 2 the amount of New York State income tax previously determined on Schedule 2, page 1, exclusive of the amortization of previously deferred excess State income tax, to arrive at book operating income before Federal income tax on line 3. We then set forth on lines 4-46 the various required tax adjustments to book operating income to determine taxable income as shown on line 47. We then compute the amount of Federal income tax payable on line 48 using the statutory rate applicable to such taxable income. From the Federal income tax payable so calculated, we reflect on lines 49-53 normalizations for certain items reflected as adjustments to taxable income as well as amortizations for items normalized in the rate year or in prior periods to arrive at Federal income tax expense as shown on line 54. The items detailed on column 2 of this schedule, which reflect rate case adjustments, are more fully detailed on Schedule 3, pages 1 and 2 of our exhibit and will be discussed later. Column 3 is the sum of columns 1 and 2. Column 4 is the additional Federal income tax to be paid as a result of the additional revenue requirement and column 5 is the sum of columns 3 and 4.

Q. Please explain the adjustments to operating income as shown on Schedule 3.

A. Schedule 3 consists of 2 pages and details the adjustments to operating income as shown on Schedule 1, column 2 by functional income statement category.

Q. Please describe the adjustments that you made to sales revenues as shown on page 1 of Schedule 3.

A. Our first adjustment is a billing day adjustment. In the instant proceeding, the rate year sales forecast as provided by Company witness Yaegel assumes 366.85 billing days of sales revenues. Because there is a leap year every four years, we assume for ratemaking purposes that there are 365.25 billing days, on average, in any given year. Therefore, we have decreased Company witness Yaegel's sales forecast by

$(2,193,000) to account for a decrease of 0.60 billing days.

Our second adjustment of $(1,447,000) eliminates the fuel rider over-recovery and reconciles fuel rider revenues with recoverable fuel costs. Absent this required adjustment, any calculated difference between fuel rider revenues and recoverable fuel costs would be included in the calculation of the requested base rate change. This adjustment is consistent with past rate case decisions and the Commission's generic rule prescribed in Opinion #80-24 in Case No. 27137 issued June 18, 1990.

Q. Please describe your adjustments to other operating revenues.

A. Our adjustments 1 through 11, inclusive, reflect items for which there are deferred Regulatory Assets on the books of account that the Company is proposing to collect from customers over a three-year period in the instant proceeding. Our adjustments 12 through 19, inclusive, reflect items for which there are deferred Regulatory Liabilities on the books of account that the Company is proposing to refund to customers over a three-year period in the instant proceeding.

Q. Please discuss the items included in other operating revenues that the Company is now proposing to collect from customers.

A. Our Adjustment 1 of ($8,029,000) relates to the collection of deferred costs relating to the World Trade Center Incident over a three-year period consisting of 1) $23,061,000 of actual operation and maintenance expenditures as of August 31, 2007, (including interest through the beginning of the new rate year in this proceeding less recoveries authorized under the terms of the current rate plan), or ($7,687,000) per year and 2) $10,272,000 of capital related expenditures over an assumed 30-year recovery period or ($342,000) per year, that the Company believes are not recoverable from governmentally-sponsored programs. Under the terms of the current rate plan, the Company is authorized to collect $4,000,000 annually for a two-year period.

Adjustment 2 relates to the continued amortization over a three-year period of prior period reconciliations. In steam Case No. 05-S-1376, the Company proposed to collect $10,818,000 of prior period reconciliations over a three-year period or $3,606,000 per year. That filing resulted in a two-year rate plan that left one-third of the $10,818,000 proposed amount to be disposed of in a future proceeding. Our adjustment of ($1,202,000) now proposes to collect from customers that remaining one-third in the rate year. The items that comprise this adjustment are detailed on our Schedule 4, (Customer Debits, Regulatory Assets, item #2).

Adjustments 3 and 4 in the amount of ($134,000) and ($184,000) seek to recover over a three-year period the unrecovered costs incurred by the Company associated with the development of a Steam Business Plan and Steam Production Study, respectively, as provided for in the 2004 rate plan.

Adjustment 5 relates to the recovery from customers of the unrecovered costs of interference work subject to reconciliation. As with Adjustment 2, the amount related to the 2000 rate plan ($208,000) represents the amortization over a three-year period of the remaining one-third ($625,000) of such reconciliation sought by the Company in Case No. 05-S-1376. The amount related to the 2004 rate plan ($276,000) represents the amortization over a three-year period of the remaining one-third ($144,000) or ($48,000) per year of such reconciliation sought by the Company in Case No. 05-S-1376, plus the recovery of a final reconciliation amount of ($685,000) for that period or

($228,000) per year.

Q. Please continue.

A. Adjustment 6 relates to the recovery over a three-year period of previously deferred New York City property taxes. The actual undercollection of such property taxes during the first rate year under the current rate plan was $3,231,000. The projected undercollection for the second rate year is $1,513,000 for a total of $4,744,000. One-third of this amount is equal to our adjustment of ($1,581,000). These amounts reflect the 90 percent/10 percent sharing between customers and shareholders.

Adjustment 7 in the amount of ($488,000) relates to the recovery over a three-year period of the estimated level of deferred Pension/OPEB expenditures at September 30, 2008 that are subject to reconciliation under the Commission's Policy Statement.

Adjustment 8 of ($66,000) relates to the recovery over a three-year period of accrued interest income to the Company as a result of spending on MGP/Superfund Sites exceeding amounts being recovered under the terms of the current rate plan.

Adjustment 9 of ($42,000) relates to the recovery of the excess amount previously returned to customers as a result of the required SIT reconciliation process that resulted from the reduction in the level of gross receipts taxes and the implementation of a New York State income tax in the year 2000.

Adjustment 10 of ($1,000) relates to the recovery of interest on a New York State income tax audit adjustment.

Adjustment 11 of ($476,000) relates to the recovery over a three-year period of the estimated shortfall ($1,427,000) in SO2 allowance proceeds to be received during the period of the current rate plan as compared to amounts included in the current two-year rate plan ($7 million, $3.5 million per year for two years). While sales proceeds exceeded the rate plan imputation by $73,000 for the first rate year, second rate year proceeds are expected to fall $1.5 million short of the imputation for a net shortfall of $1,427,000, one-third of which is our adjustment of ($476,000).

Q. Please discuss the items included in other operating revenues that the Company is now proposing to refund to customers.

A. Adjustment 12 relates to the refund to customers of previously deferred overcollections of New York City property taxes. As with previously discussed items above, the $120,000 amount related to the 2000 rate plan represents the amortization over a three-year period of the remaining one-third ($359,000) of such reconciliation that was refunded in Case No. 05-S-1376. The amount related to the 2004 rate plan of $1,697,000 represents the amortization over a three-year period of the remaining one-third ($3,581,000) or $1,194,000 per year of such reconciliation refunded in Case No. 05-S-1376, plus the refund of a final reconciliation amount of ($1,509,000) for that period or $503,000 per year.

Adjustment 13 relates to the continued amortization over a three-year period of SO2 allowance proceeds. In Case No. 05-S-1376, the Company proposed to refund $10,317,000 of SO2 proceeds over a three-year period or $3,439,000 per year. As previously mentioned, that filing resulted in a two-year rate plan that left $3,439,000 to be disposed of in a future proceeding. Our adjustment of $1,146,000 now proposes to refund to customers that remaining amount. In addition, interest on these yet to be refunded amounts continues to accrue and will total $371,000 at the beginning of the new rate year in this proceeding. This amount will be refunded over a three-year period or $124,000 per year.

Adjustment 14 related to Medicare Rx Legislation continues the process of refunding to customers remaining balances for items adjudicated in the prior rate proceeding. The balance remaining from the prior proceeding is $515,000. In addition, the final reconciliation for this item produced an additional $118,000 of savings for a total of $633,000. One-third of this amount is our adjustment of $211,000.

Adjustment 15 relates to carrying charges on capital underspending by the Company. In the prior rate case proceeding, Case No. 03-S-1672, the Company forecast that customers were due a carrying charge on the Company's underspending on capital projects totaling $3,306,000. Of this amount, $2,204,000 is being returned to customers under the terms of the current rate plan. Actual carrying charges on the underspending totaled $3,012,000, leaving a remaining balance of $808,000 to be refunded to customers in this proceeding. Our adjustment of $269,000 proposes to refund this balance to customers over the three-year term of the proposed rate plan.

Q. Please continue.

A. Adjustment 16 relates to proceeds received from the Department of Energy as a result of the Company's successful efforts in litigating the costs of fuel oil purchases in prior periods. In Case 05-S-1376, it was estimated that these proceeds would total $1,746,000 and, therefore, two-thirds, or $1,164,000 was refunded to customers under the terms of the current rate plan. The actual refund totaled $1,715,000 leaving a balance to be returned to customers of $551,000 or $184,000 per year over the proposed three-year rate plan.

Adjustment 17 reflects the refund of the actual level of interest due customers through the end of the first rate year in the current rate plan on rate case reconciliations, using the unadjusted customer deposit rate of interest. The total amount is $325,000, one-third of which is our adjustment of $108,000.

Adjustment 18 of $683,000 reflect the refund over a three-year period of the revenue requirement effect ($2,049,000) of previously deferred Asset Depreciation Range ("ADR") deferred tax benefits, plus interest thereon ($117,000). The details of this adjustment were supplied to the Commission by letter dated April

11, 2006. By Order of the Commission dated September 19, 2007, the accounting and ratemaking proposed by the Company to correct this issue was approved. Adjustment 19, of $1,439,000 reflects the refund over a three-year period of the estimated amount of interest that will be accrued as of September 30, 2008 ($4,316,000) on the gain from the sale of the First Avenue Properties applicable to steam. In accordance with the currently effective rate plan, interest is being accrued at the unadjusted customer deposit rate of interest.

Q. Please describe the adjustment you made to fuel costs as shown on page 2 of Schedule 3.

A. The adjustment to fuel costs of ($926,000) is related to the first adjustment to sales revenues. Because we have adjusted the rate year level of sales revenues to reflect 365.25 billing days, we must similarly adjust the level of fuel costs to reflect an equal number of days of sendout.

Q. What is your next adjustment as shown on Schedule 3, page 2?

A. The adjustment to steam depreciation and amortization expenses of $4,830,000 relates to changes in steam depreciation rates and was provided to us by Company witness Hutcheson.

Q. Please explain the adjustments you made to taxes, other than income taxes.

A. The adjustments to taxes, other than income taxes are directly related to the first and second adjustments to sales revenues. Both of these adjustments relate to revenue taxes.

Q. Please explain the adjustment you made to gains from disposition of utility plant.

A. The adjustment to gains from disposition of utility plant represents the refund to customers over a three-year period of the remaining one-third ($25,584,000) of the revenue requirement effect ($76,750,000) of the estimated net-after-tax gain ($46,146,000) from the sale of the First Avenue Properties applicable to steam. The details of the calculated net after-tax gain were previously supplied to the Commission in the Company's July 25, 2005 filing in Case No. 01-E-0377. In Steam Case 05-S-1376, two-thirds of the revenue requirement effect of the gain ($51,166,000) was refunded to customers over the two-year period of the rate plan in that proceeding.

Q. Do you plan to update your adjustments related to items subject to reconciliation during the term of the current rate plan, at the appropriate point in this proceeding?

A. Yes.

Q. Please continue and describe Schedule 4.

A. Schedule 4 summarizes by rate year and in total, those items reflected on Schedules 2 and Schedule 3, and in the calculation of the revenue requirement, that are reflective of customer credits and debits. In summary, over the period of the proposed three-year rate plan, customers would be the recipients of some $7 million of credits in excess of debits if the refunds and recoveries were approved in their entirety.

Q. Please discuss the two items under the heading "Customer Credits - Deferred Tax Liabilities".

A. The first item, Deferred Excess New York State Income Taxes, reflects deferred taxes that were provided on items subject to normalization at tax rates in excess of the current 8.63 percent statutory rate, inclusive of the 1.53 percent MTA tax surcharge. In the years 2000 and 2001, the comparable rates were 10.03 percent and 9.53 percent, respectively. In the years 2002-2006, the comparable rate was 9.03 percent. Of the total proposed amortization over the three-year period, $222,000 relates to years 2000 and 2001 and $876,000 relates to years 2002-2006 for a total of $1,098,000, one-third of which, or $366,000, represents the annual credit to customers. This amount is reflected on Schedule 2, page 1, column 2, line 43 of Exhibit __ (AP-10). The $222,000 amount related to years 2000 and 2001 represent the remaining one-third of the original amount of such deferred taxes with the other two-thirds ($444,000) currently being refunded to customers in the existing rate plan. The second item relates to a refund received by the Company as the result of a settlement with the Internal Revenue Service ("IRS") related to Investment Tax Credits ("ITCs") deducted in prior years. Of the original amount of the after-tax benefit of the refund applicable to steam customers of $222,000, two-thirds or $148,000, is currently being refunded to customers in the existing rate plan period, leaving a balance to be refunded to customers during the period of the proposed three-year rate plan in this proceeding of

$74,000 or $25,000 per year. This amount is reflected on Schedule 2, page 2, column 2, line 52 of Exhibit (AP-10).

FUND REQUIREMENTS AND SOURCES

Q. Was the document entitled "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - FUND REQUIREMENTS AND SOURCES - TWELVE MONTHS ENDING SEPTEMBER 30, 2009," set forth as Exhibit ___ (AP-11), prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT (AP-11)

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

A. This exhibit reflects the Company's forecast of capital fund requirements and sources of capital funds, as well as certain financial statistics, for the 12 months ending September 30, 2009. Exhibit __ (AP-11) shows that capital funds required during the rate year will exceed internal sources by $1,425 million.

Q. Please describe the two items contained in this exhibit under the heading "CAPITAL FUNDS REQUIRED."

A. The first item, requiring the largest amount of capital funds, is Construction Expenditures of $2,621 million. This amount is consistent with the Company's five-year forecast of construction expenditures.

Q. Please continue.

A. The second item, Rate Case Amortization/Accruals, in the amount of $(96) million, represent the net anticipated recovery of deferred items from this rate proceeding. The third item, Working Capital, in the amount of $69 million is the Company's estimate of its incremental working capital requirements.

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

A. The first item is retained earnings of $317 million. This estimate includes certain earnings and common dividend assumptions. For the rate year, net income for common stock is projected at $919 million, offset by projected common stock dividends of $591 million and projected preferred stock dividends of $11 million. The second item is depreciation. The third item, deferred tax accruals, are funds provided principally by the use of tax depreciation subject to normalization. The fourth item, other expense, includes AFUDC Debt and Equity from other operating activities and other Operating Cash flow.

Q. Is it the Panel's decision or does the Panel participate in any decision making as to what Con Edison's common stock dividend to CEI will be?

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

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

A. That is correct.

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

A. The final section shows that at September 30, 2009, the Company will have temporary cash investments estimates in the amount of $10 million is repayment of $(95) million of commercial paper issues projected in the rate year ending September 30, 2009.

Q. Please describe the components in the equity line in the final section of Exhibit (AP-11).

A. This estimate includes a projected equity issuance of $450 million in 2009.

INTEREST COVERAGE

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

A. Yes, it was.

MARK FOR INDENTIFICATION AS EXHIBIT ___ **(AP-12)**

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

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

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

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

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

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

Q. Does this conclude the Accounting Panel's initial testimony?

A. Yes, it does.