Part 8(g)

Case 04—E-0572

JOSEPH A. HOLTMAN - UPDATE AND REBUTTAL
ELECTRIC

Q. Please state your name.

A. My name is Joseph A. Holtman.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I have.

Q. What is the purpose of your additional testimony?

A. The purpose of my testimony is to update two of my exhibits to recognize a recent supply portfolio contract change; one of those exhibits has also been modified to correct certain cost projections and to provide greater clarity. As part of that update, I also introduce and justify a capital expenditure for a new risk management software system. Finally, I will rebut portions of the direct testimony of Carl Pechman on behalf of the New York Energy Consumers Council (which includes rebuttal to Ashok Gupta of the Natural Resources Defense Council), Jerrold Oppenheim on behalf of PULP, Paul Chernick on behalf of the City of New York, and Joel P. Brainard on behalf of IPPNY.

UPDATE

Q. Have you updated your projected commodity purchase costs and the accompanying exhibits from your pre-filed direct testimony?

A. Yes. Under my supervision, Exhibits __ (JAH-2 REVISED) and __ (JAH-4 REVISED) have been updated.

MARK FOR IDENTIFICATION EXHIBIT __ (JAH-2 REVISED) and EXHIBIT __ (JAH-4 REVISED)

Q. Please explain your updates.

A. As set forth in my initial testimony, the Company relies on a mix of purchases to supply its full service customers. One of the contracts shown on Exhibit __ (JAH-2) was with the New York Power Authority ("NYPA") for capacity from its Blenheim-Gilboa facility. In April 2004, NYPA notified the Company that it would be seeking a price increase, effective July 1, 2004. While the price of capacity in the New York Independent System Operator's ("NYISO") capacity markets was expected to be more costly than the NYPA prices originally included in my cost projections, it now is expected that the NYISO's prices will be less costly than NYPA's revised prices. NYPA allowed the Company to terminate its agreement as of July 1, 2004 and avoid the new, higher prices. Exhibit ___ (JAH-2) has therefore been modified to eliminate that contract, and Exhibit ___ (JAH-4) has been modified to reflect the elimination of that contract's cost and to add the cost of corresponding NYISO capacity market purchases. Also, although the Company's 500 MW purchase from Astoria Energy, LLC is not expected to begin until May 1, 2006, I have included that contract on Exhibit ____ (JAH-2 REVISED).

In the process of updating the costs, it was discovered that certain ancillary service cost projections were inadvertently included in capacity costs. To provide greater clarity, Exhibit ___ (JAH-4) has also been revised to reflect these ancillary costs in the "Other Costs" line rather than in the "Capacity Costs" line. Finally, it was also discovered that the non-utility generation ("NUG") and steam-electric energy costs projected in Exhibit ___ (JAH-4) erroneously relied on older projections than those used to prepare the Company's initial filing in this proceeding. These projections have therefore been updated and are consistent with projections reflected in Witness Muccilo's, Lee's and Lenz's testimony. The Company previously provided this information in its response to information request IPPNY-8, which was served on all parties to this proceeding.

Q. Please describe the risk management system you mentioned.

A. The Company currently uses a series of in-house-developed applications to track its electric and natural gas financial hedges. In order to facilitate the Accounting Department's certification of compliance with Sarbanes-Oxley financial reporting requirements, the Company's risk management group determined in June of this year that the Company should use a state-of-the-art, consolidated risk management system. The approximate installed cost of such a system is estimated at $2.5 million, which includes an estimated $2 million for software and $0.5 million for installation, hardware and training. Since the system, which is planned to be installed in the first quarter of 2005, will be used to support both electric and natural gas hedging activity, the Company proposes to allocate the cost to electric and gas service using the common allocation ratio, which would assign 83% of the cost to electric.

The Company has therefore included an additional $2.08 million in capital expenditures in Exhibit ___ (JPR-3 Revised).

REBUTTAL TO CARL PECHMAN

Q. Have you reviewed the pre-filed testimony of NYECC witness Pechman?

A. Yes. Dr. Pechman proposes, with respect to procurement, a continuation of the Company's current 90/10 "incentive" mechanism for supply purchases and hedges; establishment of explicit planning and reporting requirements for the purchase of power; and that the Company enter into a long-term contract to supply its small commercial and residential ("mass market") customers, possibly tied to new capacity.

Q. Do you agree with his proposal to keep the current incentive mechanism that the Company has proposed to eliminate?

A. No. For the reasons stated in my direct testimony, the 90/10 incentive mechanism should be eliminated. Moreover, while Dr. Pechman asserts on page 6 that the Company has no incentive to try to minimize the cost or volatility of power, this is simply not true. First, the Commission's Staff has continuously reviewed, and will continue to review, the prudence of the Company's power purchasing practices. Second, the Company, which is always seeking to encourage growth in its service territory, has an economic incentive to maintain reasonable commodity prices for its customers. Finally, such a proposal is contrary to the Commission's POLR Policy Statement,[1] which explicitly states (p. 41):

> "Finally, the January Notice asked whether an incentive mechanism is needed for utilities to minimize their commodity costs. In general, the respondents saw no need for such an incentive mechanism. Based on our experience and the responses to the January Notice, we conclude that there is no need for an incentive mechanism of this type."

Q. Do you agree with Dr. Pechman's procurement proposals, i.e., that the Company should generally seek to enter into long-term contracts?

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[1] Case 00-M-0504 - Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets and Fostering Development of Retail Competitive Opportunities. Statement of Policy on Further Steps Toward Competition in Retail Energy Markets, issued and effective August 25, 2004.

A. No. I would note in general that his proposals, if implemented, would constitute a significant retreat from the competitive market that the Commission has been seeking to implement. It was the Commission's intent that new capacity would be supplied from the competitive wholesale market, and not from a regulated utility's planning process. It is for this reason, among others, the Company has generally opposed the use of long-term contracts to finance infrastructure. Dr. Pechman appears to be suggesting an integrated resource planning process that the Commission rejected when it began electricity market restructuring in 1996. Moreover, in its POLR Policy Statement, the Commission explicitly states (p. 34):

> "There could be instances where a long term commodity contract might be judiciously used in support of public policy goals (system reliability, environmental considerations, fuel diversity, or market power mitigation). Those instances will be examined on a case-by-case basis as required. However, if it is determined that a utility has entered into a long term contract to retain market share or to otherwise impede the development of a competitive market, the costs of those contracts may not be recoverable from ratepayers."

Thus, the Commission made it clear that utilities should not be entering into *any* long-term contracts unless it is for one of these public policy purposes. For the same reasons, the Commission should reject the recommendation of Mr. Gupta that the Company should be required to develop a long-term procurement plan.

Q. Do you agree with Dr. Pechman's proposal that the Company should enter into a long-term contract for mass market customers?

A. No. Dr. Pechman asserts at pages 12-13 of his testimony that it would be responsive to the POLR Policy Statement for the Company to enter into such a contract for mass market customers, and that it would enable the construction of new generation, shift the market supply curve and reduce market prices for customers taking competitive service. As stated above, however, it is clear that his proposed purposes are not one of the Commission's public policy purposes and would therefore be impermissible under the POLR Policy Statement.

Q. Finally, do you agree with Dr. Pechman's general criticisms of the Company's procurement practices?

A. No. At page 5 of his testimony, Dr. Pechman attacks the Company's power procurement practices as follows:

> "An affirmative role for prudent power procurement is absent from the rate proposal. Con Edison seeks to be a pipe, transferring power to customers without sharing information about, or taking responsibility for its procurement. In doing so, this case could move market conditions one step closer to some of the fundamental flaws that contributed to the California Power Crisis."

He further states on page 11:

"The company relies upon its membership in the New York State Reliability Council and participation with the New York State Independent System Operator to fulfill its role of providing adequate generation to its customers. The Company has not provided any evidence that it considers the cost of power to its customers in making its power procurement decisions."

These inflammatory statements misstate the Company's performance. As shown in Exhibit ___ (JAH-4 REVISED), the Company relies on a mix of its own generation, contracts, and market purchases. As stated in my direct testimony (at page 5), the Company aggressively pursues favorable contracts and market structure changes that are beneficial to its customers. Also, the Company's East River Repowering Project and 10-year contract with Astoria Energy, LLC, noted below, are expected to mitigate volatility in customers' supply costs and ensure continued supply reliability. The assertion that we are moving one step closer to a 'California crisis' is especially misleading, given the Company's, the Commission's and the NYISO's commitment to reliability and the superior market design in New York State that has, to date, prevented the kind of market dysfunction that occurred in California. I note that the POLR Policy Statement (p. 14) explicitly found that:

> "Market power concerns at the wholesale level are being addressed and resolved by the New York Independent System Operator (ISO) and FERC, and wholesale electric energy prices in New York, for the most part, can be considered to be unaffected by the exercise of market power."

Q. Do you agree with Dr. Pechman's criticism that the Company needs to develop a better forecast of its "open position," i.e., those mass market customers who may move to ESCOs, and should do so by requiring the Company to provide a plan for migrating its load to competitive providers?

A. No. First, the Company already relies on a balanced portfolio that will accommodate such customer migration. Second, the only way to better forecast the "open" position is to ensure that customers migrate at certain dates; this is unlikely to coincide with customers' own migration plans. As the Commission noted in its POLR Policy Statement at page 10, retail access is "an evolving and predictably unpredictable process." Finally, the Company's Customer Service Panel explains that unlike the consideration of new backout credits, which the Commission, in its Unbundling order, directed be considered in the Company's current electric rate proceeding, the Commission did not view the Company's current electric rate proceeding to be the forum to develop a new plan for migrating customers in furtherance of the matters addressed by the Policy Statement. The Commission directed that such efforts be pursued collaboratively with Staff and other interested parties, not through litigation in the Company's current rate proceeding. It would, therefore, be premature for the Company to propose any changes to its forecasted retail access migration at this time.

REBUTTAL TO JERROLD OPPENHEIM

Q. Have you reviewed the pre-filed testimony of PULP Witness Oppenheim?

A. Yes. He recommends, among other things, "the Company should engage in a purchasing practice that ladders purchases over time and thus relies less on the spot market."

This type of structure has merits for reasons stated by Mr. Oppenheim. However, for the reasons I stated above, customers should realize those "ladder" type benefits from the financial hedges that the Company already executes, not from a series of long-term "supply contracts."

REBUTTAL TO PAUL CHERNICK

Q. Have you reviewed the pre-filed testimony of City of New York witness Chernick?

A. Yes. Mr. Chernick proposes, among other items, that the Company should issue a transmission capacity Request for Proposals ("RFP") in 2005.

Q. Do you agree with his recommendation?

A. No. As noted by Mr. Chernick at page 10 of his testimony, Con Edison has taken important steps to ensure supply reliability for its customers. First, it is completing its East River Repowering Project, which increases in-City supply by 122 MW. Second, the Company's 2002/2003 RFP for 500 MW of new in-City capacity resulted in a 10-year contract for 500 MW from Astoria Energy, LLC. NYISO's in-City zone has a supply reliability criterion that requires that 80% of its summer peak demand be capable of being supplied from in-City generation. As a result of recent generation construction, and the expected Astoria Energy project, that criterion will be satisfied for the next several years. Given that there is no projected deficiency in the in-City zone for the next few years, there is no reason to issue an RFP for new transmission capacity. Accordingly, Mr. Chernick's recommendation conflicts with the Commission's POLR Policy Statement, as discussed above in the rebuttal to Dr. Pechman.

Q. Is Mr. Chernick correct that a Con Edison RFP for transmission would not conflict with the NYISO's planning process?

A. No. The NYISO's process provides that the reliability needs will be established after consultation with market participants. Simply informing the NYISO of a planned Con Edison RFP, as Mr. Chernick suggests, would not satisfy the NYISO's participation requirements. The City is a member of the NYISO and can certainly request, through the NYISO planning process, that Con Edison issue an RFP for new transmission, but that request would be subject to the review of all affected market participants.

REBUTTAL TO JOEL BRAINARD

Q. Have you reviewed the pre-filed testimony of IPPNY witness Brainard?

A. Yes. Dr. Brainard proposes, among other items, that the Company implement an auction similar to the New Jersey basic generation service ("BGS") auction to replace its currently projected spot market purchases for residential and small commercial ("mass market") customers.

Q. Do you agree with his recommendation?

A. No, at least not on the scale proposed by Dr. Brainard. As noted in its comments filed in Case 00-M-0504, the

Company is concerned about the potential abuse of market power by suppliers, given the tight supply-to-demand ratio in New York City. Moreover, suppliers seeking to import power to the City are exposed to the financial risks of using the transmission system. Financial transmission hedges available from the NYISO are limited in quantity, and unhedged positions are subject to volatility. During the Summer 2004 period, only 1,596 MW of financial transmission hedges into NYC were available from NYISO. Monthly average unhedged congestion prices across the Dunwoodie interface into NYC, which are heavily dependent on weather-related demand and both generation and transmission availability, ranged from $2.74/MWh to $26.37/MWh, averaging $10.15/MWh and with a standard deviation of $5.80/MWh.

Q. Do you agree with Dr. Brainard's testimony that there are no significant concerns for a BGS type auction?

A. No. First, he asserts (p. 21) that the NYISO administered market mitigation measures resolve market power concerns and a supply auction will not "reduce the existing protection." However, after a BGS auction as proposed by IPPNY, customers would no longer make direct purchases from the NYISO markets, so this assertion is not relevant. Second, he asserts (at p. 22) that a supplier without generation should be able to check the market power of a supplier with generation, and noted that such suppliers participated in the New Jersey BGS auction. I would note that the New York City market is more constrained and volatile, and less liquid, than in the PJM market so that such checks may be ineffective here.

Q. Do you agree with Dr. Brainard's testimony that his BGS proposal is consistent with the POLR Policy Statement?

A. No. In its Policy Statement, the Commission explicitly states (p. 26):

> "We are not endorsing the New Jersey model because it unnecessarily prolongs the utilities' commitment to multi-year wholesale contracts and their role as a commodity supplier."

While the one-year period suggested by IPPNY might address the Commission's concern over multi-year agreements, New Jersey has used a staged three-year auction to produce what it believes to be the best prices for consumers and Dr. Brainard does not explain why a one-year auction would be a good idea. Moreover, the IPPNY proposal itself still contravenes the POLR Policy Statement, which concludes (pp. 26-27):

> "Although the commodity auction proposal would create a visible price to beat, it does not directly facilitate the movement of customers to competitive retail suppliers and it does not encourage an ESCO/customer relationship."

Q. Could the auction described by IPPNY increase mass market customer costs as compared to the Company's current practices?

A. Yes, especially if, as discussed above, a one-year auction is used. Further, as shown in Exhibit ___ (JAH-4 REVISED), energy prices are expected to decline over the next few years, largely due to expected lower prices of natural gas. Locking in the price of a large portion of customers' energy needs now may deny them the lower prices attendant to natural gas fuel price cycles.

Q. Dr. Brainard notes on page 7 of his pre-filed testimony that you have projected the expiration of the Indian Point contract and therefore an increase in spot market exposure. Are any other facts relevant to this observation?

A. Yes. While Exhibit ___ (JAH-4 REVISED) shows the minimum volumes assumed to be taken under the Indian Point contract, the Company has the option of negotiating periodically for extensions to the agreement with Indian Point's owner, which relate to the Commission's concerns with potential market power raised at the time of the Company's sale of Indian Point No. 2. Should such extensions be in customers' interests, the Company would certainly exercise them. Moreover, the Company continually reviews its portfolio and the purchasing environment to determine the appropriate time to enter into new hedges. A BGS auction would interfere with this process.

Q. Do you agree with Dr. Brainard's recommendation that the Commission should establish a collaborative process to work out the details of BGS procurement for mass market customers?

A. No. As Con Edison stated in its comments in the POLR proceeding, it would be willing to explore a BGS auction only if: (1) the results of the auction are reviewed and the prudence of the auction results are approved by the Commission prior to contract execution; (2) the risk of customer migration lies with the suppliers and not the utility; and (3) all the costs of administering the auction are recovered by the utility on a timely basis. Absent a change in Commission policy that allowed approval of the auction results, there is no sense in holding a collaborative on BGS procurement. As to Dr. Brainard's suggestion that there should be a collaborative concerning the need for long-term contracts to increase supply, I have already addressed that part of his testimony in my rebuttal to Carl Pechman and Paul Chernick.

Q. Does this conclude your testimony?

A. Yes, it does.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Firm Contracts as of July 1, 2004

	Effective Term	Capacity Supply (MW)
PURPA: Energy and Capacity		
East Coast Power	1992-2017	645
Brooklyn Navy Yard Cogeneration Project	1996-2036	262
Warbasse Cogeneration Project	1995-2011	21
Indeck Corinth	1995-2015	129
Selkirk Phase II	1994-2014	265
PURPA: Capacity Only		
Sithe - Independence	1994-2014	740
Firm contracts		
Entergy Nuclear Indian Point 2, LLC	2001-2011	1000
Astoria Energy, LLC	2006-2016	500

Exhibit ___(JAH-2 REVISED)

CONSOLIDATED EDISON COMPANY OF NEW YORK INC.

Projected Wholesale Electricity Supply Costs

2004 through 2008

		Total 2004	%	Total 2005	%	Total 2006	%	Total 2007	%	Total 2008	%
Firm contracts	Capacity Cost	$461,735,298	48%	$437,906,336	48%	$473,561,546	57%	$490,712,897	55%	$491,147,850	50%
	Energy Cost	891,767,648	45%	871,133,865	45%	955,248,924	49%	1,001,626,878	52%	665,652,044	31%
	Other Cost	149,979,949	70%	187,788,464	67%	192,982,784	69%	196,711,213	70%	108,884,001	48%
	Total Cost	1,503,482,896	48%	1,496,828,665	48%	1,621,793,254	53%	1,689,050,988	54%	1,265,683,895	38%
	Capacity Supplied (MW)	3,033		2,999		3,113		2,963		2,629	
	Energy Supplied (MWh)	17,564,905		17,018,683		18,336,643		19,026,683		11,055,483	
Steam-electric generation	Energy Cost	$106,529,107	5%	$202,423,000	11%	$185,549,900	10%	$177,124,900	9%	$182,488,500	9%
	Other Cost	13,489,526	6%	30,875,590	11%	29,959,885	11%	30,392,630	11%	30,194,649	13%
	Total Cost	120,018,634	4%	233,298,590	7%	215,509,785	7%	207,517,530	7%	212,683,149	6%
	Capacity Supplied (MW)	538		597		556		556		556	
	Energy Supplied (MWh)	1,314,265		2,793,200		2,697,900		2,731,800		2,739,300	
Spot purchases	Capacity Cost	$491,690,192	52%	$479,466,847	52%	$361,195,820	43%	$408,964,543	45%	$498,844,866	50%
	Energy Cost	993,598,026	50%	846,835,861	44%	801,010,327	41%	760,143,506	39%	1,268,940,216	60%
	Other Cost	49,848,725	23%	61,063,874	22%	55,782,724	20%	53,146,411	19%	87,611,539	39%
	Total Cost	1,535,136,943	49%	1,387,366,581	45%	1,217,988,871	40%	1,222,254,460	39%	1,855,396,620	56%
	Capacity Supplied (MW)	5,374		5,435		5,501		5,724		6,095	
	Energy Supplied (MWh)	14,433,050		13,637,117		12,633,457		11,883,517		19,841,217	
Financial hedges	Total Cost	(683,700)	0.02%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Total portfolio	Capacity Cost	$953,425,491		$917,373,183		$834,757,366		$899,677,440		$989,992,716	
	Energy Cost	1,991,894,781		1,920,392,726		1,941,809,151		1,938,895,284		2,117,080,759	
	Other Cost	213,318,201		279,727,928		278,725,394		280,250,254		226,690,188	
	Net financial hedge cost	(683,700)		-		-		-		-	
	Total Cost	3,157,954,772		3,117,493,836		3,055,291,911		3,118,822,978		3,333,763,664	
	Capacity Supplied (MW)	8,946		9,032		9,170		9,243		9,280	
	Energy Supplied (MWh)	33,312,220		33,449,000		33,668,000		33,642,000		33,636,000	

NOTES:

A 2004 includes actual results for January and February, and projections for the remaining 10 months.
B Projected Capacity Supplied reflects the average of expected monthly UCAP requirement
C Capacity Supplied includes both In-city and Rest-of-State regions.
D Hudson Avenue is anticipated to retire in the fourth quarter of 2004.
E East River Repowering Project is projected to go in service in the fourth quarter of 2004.
F Waterside is anticipated to retire in the first quarter of 2005.
G Astoria Energy LLC is projected to go in service in the second quarter of 2006.
H The Indian Point contract is assumed to end in December 2007.
I Steam-electric generation costs do not include the embedded cost of Company-retained generation.
J Other Cost includes TUCs, NTAC, ancillary and other miscellaneous charges.

Exhibit ___(JAH-4 REVISED)