

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates,
Charges, Rules and Regulations of Consolidated Edison
Company of New York, Inc. for Steam Service.

Case 25-S-XXXX

November 26, 2025

Prepared Testimony of:

Joshua C. Nowak -

Return on Equity Panel

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DIRECT TESTIMONY OF JOSHUA C. NOWAK

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, affiliation, and business address.**

3 A. My name is Joshua C. Nowak. I am employed by Concentric Energy
4 Advisors, Inc. (“Concentric”) as Vice President. Concentric is a
5 management consulting and economic advisory firm, focused on the North
6 American energy and water industries. Based in Marlborough,
7 Massachusetts, and with offices in Washington, D.C. and Calgary, Alberta,
8 Concentric specializes in regulatory and litigation support, financial
9 advisory services, energy market strategies, market assessments, energy
10 commodity contracting and procurement, economic feasibility studies, and
11 capital market analyses. My business address is 293 Boston Post Road
12 West, Suite 500, Marlborough, Massachusetts 01752.

13

14 **Q. On whose behalf are you submitting this Direct Testimony?**

15 A. I am submitting this Direct Testimony on behalf of Consolidated Edison
16 Company of New York, Inc. (“CECONY” or the “Company”), which is a
17 wholly owned subsidiary of Consolidated Edison, Inc. (“CEI”). My Direct
18 Testimony is part of the Company’s rate case filings being submitted to the
19 New York State Public Service Commission (“Commission”).

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1

2 **Q. Please describe your experience in the energy and utility industries and**
3 **your educational and professional qualifications.**

4 A. I hold a Bachelor's degree in Economics from Boston College and have
5 more than 15 years of experience in providing economic, financial, and
6 strategic advisory services. As a consultant, I primarily advise clients in
7 regulated utility industries and have provided testimony regarding financial
8 matters before multiple regulatory agencies. I have advised numerous
9 energy and utility clients on a wide range of financial and economic issues
10 with primary concentrations in valuation and utility rate matters. Many of
11 these assignments have included the determination of the cost of capital for
12 valuation and ratemaking purposes. I have provided testimony before the
13 Federal Energy Regulatory Commission ("FERC"), as well as state and
14 provincial jurisdictions in the U.S. and Canada, including the Commission.
15 A summary of my professional and educational background is presented as
16 Exhibit ___(JCN-1).

17

18 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

19 **Q. What is the purpose of your Direct Testimony?**

20 A. The purpose of my Direct Testimony is to present evidence and provide a
21 recommended range for the Company's cost of equity (sometimes referred
22 to as the Return on Equity or "ROE" for rate-setting purposes) and capital

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1 structure for the Company's steam utility operations. My analysis and
2 recommendations are supported by the data and support presented in
3 Exhibits ___(JCN-2) through (JCN-45).

4
5 **Q. Please provide a brief overview of the analyses that led to your ROE**
6 **recommendation.**

7 A. As discussed in more detail in my Direct Testimony below, it is important
8 to consider the results of several analytical approaches in determining a
9 reasonable recommendation for the Company's ROE. To establish my
10 ROE recommendation, I developed a proxy group consisting of utilities that
11 face investment risk generally comparable to CECONY's steam operations.
12 I developed a multi-stage Discounted Cash Flow ("DCF") model and two
13 forms of the Capital Asset Pricing Model ("CAPM"). I have presented the
14 DCF and CAPM results weighted equally, and with the Commission's
15 preferred 2/3 weighting of the DCF and 1/3 weighting of the CAPM. As a
16 check on the reasonableness of these results, I also considered the results of
17 the Bond Yield Plus Risk Premium ("Risk Premium") model, which is
18 based on authorized returns in other state jurisdictions and the
19 corresponding government bond yield at the time decisions were issued.

20

21 The use of a multi-stage DCF model and two forms of the CAPM is
22 consistent with the approach employed by the Commission in prior cases.

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1 While my equal weighting of the DCF and CAPM results diverges from the
2 weighting typically employed by the Commission, I explain why placing
3 equal weight on the DCF and CAPM approaches is reasonable and
4 consistent with the goals of the Recommended Decision (“Generic Finance
5 RD”) issued in the Generic Finance Proceeding (“GFP”), Case 91-M-0509,
6 which is the docket that is consistently cited by the Commission when
7 setting ROEs for New York State utilities.

8
9 In addition, I have considered how current market conditions have affected
10 the results of the ROE estimation models. Although the United States
11 (“U.S.”) Federal Reserve (the “Fed”) reduced short-term interest rates as
12 inflation has moderated in 2024, and again reduced interest rates in
13 September 2025 and October 2025, long-term (30-year) spot interest rates
14 on U.S. Treasury bonds are (as of October 31, 2025) 4.67 percent and,
15 according to the June 2025 issue of Blue Chip Financial Forecasts (Vol. 44,
16 No. 6, June 2, 2025), are expected to average 4.40 percent over the longer-
17 term from 2027-2031. Further, I evaluated CECONY’s risk profile,
18 including the Company’s capital spending plans and the regulatory
19 environment in New York relative to that of the proxy group companies.

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2 **Q. Please summarize the results of the ROE estimation models that you**
3 **considered in your analyses.**

4 A. The results of my analyses are summarized in Exhibit___(JCN-2) The
5 mean results range from 9.91 percent to 10.12 percent, depending on the
6 weighting given to the DCF and CAPM results.

7 **Q. What are your conclusions regarding the appropriate cost of equity for**
8 **the Company?**

9 A. Based on the quantitative and qualitative analyses (Exhibits___(JCN-3)
10 through___(JCN-8.1)) and the weighting of the DCF and CAPM results
11 presented in Exhibits___(JCN-2), as well as my assessment of the business
12 and financial risk environment of CECONY relative to the proxy group
13 (Exhibits___(JCN-9) through___(JCN-11)), I conclude that the appropriate
14 ROE for the Company is within a range from 9.75 percent to 10.75 percent.
15 From within that range, the Company is requesting an ROE of 9.90 percent,
16 which is below the midpoint of the range of reasonableness, and a
17 conservative estimate of the investor-required ROE.

18

19 **Q. Please summarize your analysis of the appropriate ratemaking capital**
20 **structure for CECONY.**

21 A. As discussed in Section VIII of my Direct Testimony below, CECONY's
22 requested equity ratio of 48.00 percent is well below the mean and median

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1 common equity ratios of 53.06 percent and 53.24 percent, respectively, for
2 the operating utility companies in the proxy group over the last four years
3 (2021 to 2024). As a result, CECONY has greater financial risk than the
4 proxy group. My conclusion is that the Company's requested equity ratio
5 is reasonable, if not conservative, relative to the proxy group.

6

7 **Q. How is the remainder of your Direct Testimony organized?**

8 A. The remainder of my Direct Testimony is organized as follows:

9 Section III – Discusses the regulatory guidelines and financial
10 considerations pertinent to the development of the
11 cost of capital;

12 Section IV – Briefly discusses the current capital market
13 conditions and the effect of those conditions on the
14 Company's cost of equity;

15 Section V – Explains my selection of the proxy group used to
16 develop my analytical results;

17 Section VI – Explains my analyses and the analytical bases for
18 my ROE recommendation;

19 Section VII - Summarizes the specific regulatory and business
20 risks and equity issuance costs that have a direct
21 bearing on the Company's cost of equity;

22 Section VIII – Provides an assessment of the Company's proposed
23 capital structure;

24 Section IX – Provides an assessment of the effect of a multi-year
25 rate plan on the ROE; and

26 Section X – Summarizes my conclusions and recommendations.

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**III. REGULATORY GUIDELINES AND FINANCIAL
CONSIDERATIONS**

Q. Please describe the guiding principles to be used in establishing the cost of capital for a regulated utility.

A. The foundations of public utility regulation require that utilities receive a rate of return sufficient to attract needed capital to maintain service to customers at reasonable rates. The basic tenets of this regulatory doctrine originate from two decisions by the United States Supreme Court: *Bluefield Waterworks and Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) (“*Bluefield*”), and *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944) (“*Hope*”). In *Bluefield*, the Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties...

The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. (See Exhibit __ (JCN-12))

In *Hope*, the Court established a standard for the ROE that remains the guiding principle for ratemaking regulatory proceedings to this day:

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1 [T]he return to the equity owner should be commensurate
2 with returns on investments in other enterprises having
3 corresponding risks. That return, moreover, should be
4 sufficient to assure confidence in the financial integrity of
5 the enterprise, so as to maintain its credit and to attract
6 capital. (See Exhibit ___ (JCN-13))

7

8 **Q. Please explain how these principles apply in the context of the regulated**
9 **rate of return.**

10 A. Regulated utilities rely primarily on common stock and long-term debt to
11 finance permanent property, plant, and equipment. The allowed rate of
12 return for a regulated utility is based on its weighted average cost of capital,
13 where the costs of the individual sources of capital (*i.e.*, debt and equity)
14 are weighted by their respective book values. The ROE represents the cost
15 of raising and retaining equity capital and is estimated with one or more
16 analytical techniques that use market data to quantify investor requirements
17 for equity returns. However, the ROE cannot be derived mechanically
18 through quantitative metrics and models alone. To estimate the ROE
19 properly, the financial, regulatory, and economic context must also be
20 considered.

21

22 Based on the standards established in *Hope* and *Bluefield*, the authorized
23 ROE in this proceeding should provide the Company with the opportunity
24 to earn a fair and reasonable return that is:

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- 1 • Adequate to allow the Company to attract the capital that is
2 necessary to provide safe and reliable service (the “capital attraction
3 standard”);
- 4 • Sufficient to allow the Company to maintain its financial integrity
5 (the “financial integrity standard”); and
- 6 • At a level that is comparable to returns required on investments of
7 similar risk (the “comparability standard”).

8 Importantly, a fair and reasonable return must satisfy all three of these
9 standards. The authorized ROE should enable CECONY to finance capital
10 expenditures on reasonable terms and to raise capital under a full range of
11 capital market circumstances to serve its customers. The DCF and CAPM
12 approaches, while fundamental to the ROE determination, are still only
13 models. The results of these models cannot be mechanically applied
14 without also using informed judgment to consider economic and capital
15 market conditions and the relative risk of CECONY as compared to the
16 proxy group companies.

17

18 **Q. Did the Commission conduct a proceeding to review the standard for**
19 **estimating the Cost of Capital for a regulated utility?**

20 A. Yes. On August 21, 1991, the Commission established the GFP to review
21 the Commission’s then-current methodology for estimating the cost of
22 equity and to examine various alternatives (Case 91-M-0509, *Proceeding*

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1 *on Motion of the Commission to Consider Financial Regulatory Policies for*
2 *New York State Utilities*, Order Establishing Proceeding, issued August 21,
3 1991).

4
5 **Q. What was the purpose of the GFP?**

6 A. The Commission's goal in the GFP was to eliminate controversy around
7 ROE calculations and attempt to find common ground on contentious issues
8 by developing a consensus approach for setting utility equity returns.
9 Among other things, the Commission questioned whether there should be
10 greater consistency in rate of return determinations from company to
11 company, such that differences in returns could be directly attributed to
12 differences in risk between companies, and whether the Commission's
13 historical primary reliance on DCF-based ROE determinations continued to
14 provide fair returns. That proceeding ultimately led to consensus
15 documents, agreed to by the parties, and ultimately the issuance of a
16 Recommended Decision, Case 91-M-0509, Recommended Decision,
17 (issued July 19, 1994) ("Generic Finance RD"), which, although never
18 formally adopted by the Commission, has guided the Commission over the
19 intervening three decades.

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1

2 **Q. Please describe the conclusions outlined in the Generic Finance RD.**

3 A. The Generic Finance RD concluded that the Commission should implement
4 a generic process for setting returns, based on proxy groups (not company-
5 specific data), and that sole reliance on the DCF method should be replaced
6 with a combination of the DCF and CAPM methodologies. The Generic
7 Finance RD proposed to use as a preferred convention a methodology that
8 gives a respective 2/3 to 1/3 weighting to the results of the DCF and CAPM
9 analyses, respectively. The Generic Finance RD (p. 60) further recognized
10 that the CAPM “should figure prominently in the analysis” because this
11 methodology provides fundamental information on interest rates and the
12 returns required by stocks as a result of changes in interest rates. At that
13 time, the CAPM was not accorded the same level of prominence as the DCF
14 analysis, given that the former had previously only been used as a check.

15

16 In the intervening 30 years, the Commission has consistently relied on both
17 the DCF and CAPM methodologies. Further, while the Generic Finance
18 RD recognized a benefit to establishing an “operating norm” with respect
19 to setting the ROE, it also recognized that there may be good reason to
20 adjust either the weighting of the DCF and CAPM models or to rely on
21 different ROE estimation models. Specifically, the Generic Finance RD
22 (pp. 60-61) provided the following guidance:

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1 In either an annual proceeding to determine a rate of
2 return or in individual proceedings, the 2/3 DCF and 1/3
3 CAPM convention should be the presumption, but as
4 Multiple Intervenors suggests, parties would not be
5 barred from introducing new methods or different
6 weightings. Such parties, however, would have the
7 burden of convincing other parties and the Commission
8 of the relevance or superiority of their proposals.

9

10 **Q. Is the analysis presented in your Direct Testimony consistent with the**
11 **intent of the Generic Finance RD?**

12 A. Yes, it is. As discussed in greater detail in Section VI below, the
13 methodologies that I have applied to estimate the ROE are consistent with
14 Commission precedent since the issuance of the Generic Finance RD in the
15 GFP. Moreover, the models used in my analysis extend the principles
16 advanced in the Generic Finance RD to best practices in financial analysis
17 and current capital market conditions, as was contemplated in the Generic
18 Finance RD.

19

20 Specifically, I rely on the weighted results of the DCF and CAPM analyses.

21 In developing these ROE estimation models, I rely on a proxy group of risk-
22 comparable companies as discussed in Section V below. I have used both
23 the DCF and CAPM approaches to estimate the Company's ROE. The
24 multi-stage DCF model that I relied on is consistent with the methodology
25 the Commission has relied on in that it allows growth rates to vary over
26 time. Consistent with the fundamental principles established by the

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1 Commission, I have applied two forms of the CAPM: Traditional and Zero
2 Beta. Finally, consistent with the principles of the GFP, to reduce the
3 volatility associated with reliance on any one model (p. 27), I have
4 considered the DCF and CAPM results weighted equally, and with the
5 Generic Finance RD's proposed 2/3 weighting of the DCF and 1/3
6 weighting of the CAPM.

7

8 **Q. Do the principles and intent of the Generic Finance RD in the GFP**
9 **require adherence to a static formula?**

10 A. No, they do not. The GFP and the Generic Finance RD did not require strict
11 adherence to a static formula; rather, they promoted several basic principles
12 and afforded parties the flexibility to propose alternative approaches to
13 address changing financial market conditions. When faced with the task of
14 estimating the cost of equity, analysts are inclined to gather and evaluate as
15 much relevant data (both quantitative and qualitative) as can be reasonably
16 analyzed. Analysts and academics understand that ROE models are tools
17 to be used in the ROE estimation process, and that strict adherence to any
18 single approach, as opposed to multiple approaches, can lead to flawed
19 conclusions. Because capital markets are dynamic, not static, no model can
20 exactly pinpoint the correct ROE; rather, each model brings its own
21 perspective and set of inputs that inform the estimate of the ROE. That
22 position is consistent with the Court's finding in *Hope* (320 U.S. at 602)

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1 that “[u]nder the statutory standard of ‘just and reasonable,’ it is the result
2 reached, not the method employed, which is controlling.”

3
4 Although each model brings a different perspective and adds depth to the
5 analysis, each model also has its own inherent limitations and should not be
6 relied upon individually without corroboration from other approaches.
7 Changes to inputs due to changes in economic conditions could have widely
8 different effects on the results of the various analyses. Regardless of which
9 analyses are performed to estimate the investors’ required ROE, the analyst
10 must apply informed judgment to assess the reasonableness of results and
11 to determine the best weighting to apply to the results under prevailing
12 capital market conditions. No one model can reliably and consistently
13 estimate the cost of capital that meets the fairness standard of *Hope* and
14 *Bluefield* in all market conditions.

15
16 **IV. CAPITAL MARKET CONDITIONS**

17 **Q. Why is it important to analyze capital market conditions?**

18 A. The ROE estimation models rely on market data that are either specific to
19 the proxy group, in the case of the DCF model, or to the expectations of
20 market risk, in the case of the CAPM. The results of the ROE estimation
21 models can be affected by prevailing market conditions at the time the
22 analysis is performed. While the ROE that is established in a rate

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1 proceeding is intended to be forward looking, the analyst uses current and
2 projected market data, specifically stock prices, dividends, growth rates and
3 interest rates in the ROE estimation models to estimate the required return
4 for the subject company.

5 **Q. What are the key factors affecting the cost of equity for regulated**
6 **utilities in the current and prospective capital markets?**

7 A. The cost of equity for regulated utility companies is being affected by
8 several key factors, including: (1) the interest rate environment and central
9 bank monetary policy; (2) inflationary pressure and the longer-term outlook
10 for inflation; and (3) uncertainty in the economic environment as a result of
11 evolving public policy at the federal level. In this section, I discuss each of
12 these factors and how it affects the models used to estimate the cost of
13 equity for regulated utilities.

14

15 **Q. Please discuss current economic conditions.**

16 A. The Federal Reserve continued to tighten monetary policy in the first half
17 of 2023 to combat higher than expected inflation, and economic conditions
18 were unsettled due to ongoing inflationary pressure and the prospects for
19 weaker economic growth or a possible recession. Real Gross Domestic
20 Product (“GDP”) grew at an annual rate of 2.9 percent and 2.8 percent in
21 2023 and 2024, respectively, and settled most recently at 3.8 percent in Q2

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1 2025 following a small decrease in Q1 2025, as shown in Exhibit___(JCN-
2 14). The Bureau of Economic Analysis noted (*see* Exhibit___(JCN-15)) that
3 the increase in Q2 2025 “primarily reflected a decrease in imports.”
4

5 **Q. Please discuss the path of monetary policy since 2022.**

6 A. As a result of persistently high inflation, the Federal Reserve raised the
7 federal funds target rate from 0.00 percent to 0.25 percent in March 2022 to
8 a range of 5.25 percent to 5.50 percent (the highest level in the last 20 years)
9 in July 2023. In August 2024, Federal Reserve Chair Jerome Powell
10 signaled that the economic data on inflation and unemployment was likely
11 to lead to a reduction in short-term interest rates as soon as the Federal Open
12 Market Committee (“FOMC”) meeting in September 2024. The Federal
13 Reserve reduced the federal funds rate by 50 basis points on September 18,
14 2024, and by 25 basis points at subsequent meetings on November 7, 2024
15 and December 18, 2024. After the December 2024 meeting, Chair Powell
16 signaled that the Fed would slow the pace of rate cuts in 2025, and the
17 FOMC in fact held the Federal Funds rate steady through its July 2025
18 meeting (*see* Exhibit___(JCN-16)). At its September 2025 meeting, the
19 FOMC lowered the target range of the federal funds rate by 25 basis points
20 to 4.00 to 4.25 percent and further reduced the target range of the federal
21 funds rate by 25 basis points to 3.75 to 4.00 percent at its October 2025
22 meeting. In its October 2025 FOMC meeting press release, the Federal

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1 Reserve noted that inflation remains a key consideration for the Committee
2 noting that “[i]nflation has moved up since earlier in the year and remains
3 somewhat elevated” (see Exhibit___(JCN-17)). Further, in a November 12,
4 2025 speech, Atlanta Fed President Raphael Bostic cautioned that inflation
5 risks remain elevated and could become self-reinforcing if expectations
6 drift upward; he summarized by noting that “despite shifts in the labor
7 market, the clearer and urgent risk is still price stability.” (see
8 Exhibit___(JCN-18)).

9
10 **Q. Do these reductions in the federal funds rate in 2024 and 2025 indicate**
11 **that capital costs for utilities are expected to decrease in the future?**

12 A. No, they do not. As I previously noted, utilities primarily rely on common
13 stock and *long-term* debt to finance their long-lived property, plant, and
14 equipment. Long-term bond yields are less sensitive to the Federal
15 Reserve’s monetary policy, and as such have not responded to the Federal
16 Reserve’s reduction in the Federal Funds rate as short-term yields have. As
17 shown in Exhibit___(JCN-19), since the end of June 2024 (prior to the Fed’s
18 rate cuts), the 1-year and 2-year Treasury yields have declined by 139 and
19 111 basis points, respectively, whereas 30-year Treasury yields actually
20 *increased* by 16 basis points.

21

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1 **Q. Please explain why higher long-term interest rates are important to the**
2 **ROE analysis.**

3 A. Interest rates are a direct input into both the CAPM and the Risk Premium
4 models. As interest rates increase, the cost of capital generally increases,
5 and the ROE estimates from those two models also increase, although not
6 on a one-to-one basis. Further, while interest rates are not a direct input to
7 the DCF model, dividend yields on utility stocks must compete with yields
8 on Treasury bonds. As interest rates on Treasury bonds increase, utilities
9 must offer a higher dividend yield to attract and retain investors, signaling
10 an increase in the cost of equity for utilities. All else equal, higher dividend
11 yields produce higher ROE estimates in the DCF model.

12

13 **Q. Please discuss the status of inflation.**

14 A. While the overall consumer price index (“CPI”) and core inflation (which
15 excludes volatile food and energy prices) have declined from the extreme
16 levels of 2022 when they reached annualized rates of 9.1 percent and 6.6
17 percent, respectively, they have ticked up recently and remain well above
18 the Federal Reserve’s target of two percent. As shown in Exhibit___(JCN-
19 20), the CPI and core inflation rates were both 3.0 percent for the 12-month
20 period ended September 2025, according to the Bureau of Labor Statistics.

21

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1 Inflation expectations also remain well above the Federal Reserve's target
2 of 2.0 percent, as shown in the University of Michigan's preliminary
3 November 2025 consumer confidence survey (*see* Exhibit___(JCN-21),
4 University of Michigan Consumer Confidence Survey, Preliminary Results
5 for November 2025). This report indicated that U.S. consumers expect
6 inflation of approximately 4.7 percent over the next year, while long-run
7 inflation expectations were at 3.6 percent.

8

9 **Q. What is your conclusion regarding the effect of capital market**
10 **conditions on the cost of equity for CECONY in this proceeding?**

11 A. My conclusion is that while inflation has moderated recently, it remains
12 well above the Fed's target of 2.0 percent, and although short-term interest
13 rates have declined, current and projected long-term 30-year Treasury bond
14 yields remain between 4.40 and 4.75 percent. Under these conditions, it is
15 reasonable that equity investors would require a higher ROE to compensate
16 them for the additional risk associated with owning common stock. These
17 circumstances are reflected in the results of multiple models used to
18 estimate the cost of equity, such as the DCF, CAPM, and Risk Premium
19 models.

20

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V. PROXY GROUP SELECTION

Q. Please explain why you have used a group of proxy companies to determine the cost of equity for CECONY.

A. In this proceeding, I am focused on estimating the cost of equity for the Company's rate-regulated steam utility operations. Because ROE is a market-based concept and CECONY is not publicly traded, it is necessary to establish a group of companies that are both publicly traded and comparable to the Company in terms of business and financial risk. Even if CECONY were a publicly traded entity, it is possible that transitory events could bias the Company's market value in one way or another in a given period of time. A significant benefit of using a proxy group is the ability to mitigate the effects of short-term events that may be associated with any specific company and is consistent with the Commission's historical practice. The proxy companies used in my ROE analyses possess a set of business and operating characteristics similar to the Company's utility operations and thus provide a reasonable basis for estimating the Company's ROE.

Q. Please provide a summary profile of the Company.

A. CECONY's business consists of its regulated electric distribution and transmission operations and natural gas distribution operations in New York City and Westchester County and steam service in parts of Manhattan. The

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1 Company provides electric service to approximately 3.7 million customers,
2 natural gas distribution service to approximately 1.1 million customers, and
3 steam distribution service to approximately 1,520 customers (*see*
4 Exhibit___(JCN-22), CEI 2024 Form 10-K, at 15). As of October 31, 2025,
5 CECONY's long-term issuer ratings are A3, (Moody's Ratings, Outlook:
6 Stable), A- (S&P Global Ratings, Outlook: Stable), and A- (FitchRatings,
7 Senior Unsecured Rating, Outlook: Stable).

8

9 **Q. How did you select the companies included in your proxy group?**

10 A. I began with the companies that Value Line classifies as "Electric Utilities,"
11 which includes electric-only and combination utilities as well as companies
12 Value Line classifies as "Natural Gas Distribution Companies." The
13 combined group includes 45 domestic U.S. utilities. I applied the following
14 screening criteria to establish a risk-comparable proxy group that includes
15 both electric utility companies and natural gas distribution companies:

- 16 • In order that information regarding the proxy group companies is
17 consensus-based, I eliminated companies that are not covered by at
18 least two utility industry equity analysts;
- 19 • I eliminated companies that do not have investment grade corporate
20 credit ratings and/or senior unsecured bond ratings according to
21 S&P Global and Moody's because such companies do not have a
22 similar financial risk profile to that of the Company;

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- 1 • I eliminated companies that have not paid regular dividends or do
2 not have positive earnings growth projections from at least one
3 source because such characteristics are inconsistent with the
4 underlying assumptions for utility companies when using the DCF
5 model;
- 6 • In order that the proxy group consists of companies that are
7 primarily regulated utilities, I eliminated companies with less than
8 70 percent of total operating income derived from regulated utility
9 operations; and
- 10 • I eliminated companies known to be party to a significant merger,
11 acquisition, or other transformational transaction as such activities
12 may have a temporary effect on such companies' stock prices and
13 projections unrelated to the overall cost of capital.

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1

2 **Q. What is the composition of your proxy group?**

3 A. My proxy group consists of the following 30 companies: Atmos Energy
4 Corporation, Chesapeake Utilities Corporation, NiSource Inc., Northwest
5 Natural Gas Company, ONE Gas, Inc., Southwest Gas Corporation, Spire,
6 Inc., Alliant Energy Corporation, Ameren Corporation, American Electric
7 Power Company, Inc., Avista Corporation, CenterPoint Energy, Inc., CMS
8 Energy Corporation, Dominion Energy, Inc., DTE Energy Company,
9 Entergy Corporation, Eversource Energy, Exelon Corporation, FirstEnergy
10 Corporation, Evergy, Inc., IDACORP, Inc., NextEra Energy, Inc., OGE
11 Energy Corporation, Pinnacle West Capital Corporation, Portland General
12 Electric Company, PPL Corporation, Public Service Enterprise Group Inc.,
13 Southern Company, Wisconsin Energy Corporation, and Xcel Energy Inc.
14 This includes 20 of the 21 electric companies that Staff included in its proxy
15 group (putting aside CEI and six companies that subsequently announced
16 significant transactions or had significant financial events) in CECONY's
17 recent Cases 25-E-0072 and 25-G-0073.

18

19 **Q. Has the Commission typically relied on similar screening criteria when**
20 **estimating a utility's ROE?**

21 A. Yes. The Commission has typically relied on screening criteria that are
22 similar to those that I have used to develop my proxy group. The proxy

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1 group that is typically relied on by the Commission is composed of a large
2 group of dividend-paying companies with investment grade bond ratings
3 and regulated revenues of at least 70 percent that are not engaged in merger-
4 related or corporate restructuring activities. (*see, e.g., Case 13-E-0030,*
5 *Proceeding on Motion of the Commission as to the Rates, Charges, Rules*
6 *and Regulations of Consolidated Edison Company of New York, Inc. for*
7 *Electric Service*, Testimony of Craig E. Henry, at 14-16).

8
9 In establishing my proxy group, however, I relied on the percentage of net
10 operating income derived from regulated operations instead of the
11 percentage of total revenue derived from regulated operations because net
12 operating income is more representative of the contribution of that business
13 segment to earnings and the corporation's overall financial position.
14 Specifically, a significant portion of gas and electric utility company
15 revenue is derived from the costs of purchased gas, purchased fuel, and
16 purchased power, which, in most cases, are recoverable through tracking
17 mechanisms and do not, therefore, contribute to earnings. Furthermore, this
18 portion of total revenue can fluctuate considerably based on the cost of
19 electricity or gas and other inputs. Therefore, relying exclusively on a
20 revenue screen does not provide a clear or necessarily consistent indicator
21 of the contribution of the regulated utility operations to a company's
22 earnings. Net operating income excludes the cost of purchased

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1 commodities and therefore more closely represents the contribution of the
2 business segment to earnings.

3

4

VI. COST OF EQUITY ESTIMATION

5 **Q. How is the required ROE determined?**

6 A. While the cost of debt can be directly observed, the cost of equity and the
7 required ROE are market-based and, therefore, must be estimated based on
8 observable market data. The required ROE is determined by using one or
9 more analytical techniques that rely on market data to quantify investor
10 expectations regarding the range of required equity returns. Informed
11 judgment is applied, based on the results of those analyses, to determine
12 where within the range of results the cost of equity for a company falls. As
13 a general proposition, the key consideration in determining the cost of
14 equity is that the methodologies employed reasonably reflect investors'
15 views of the financial markets, the proxy group companies, and the subject
16 company's risk profile.

17

18 **Q. What methods did you use to determine the Company's cost of equity?**

19 A. While various forms of the DCF and CAPM approaches are used in practice,
20 the Commission has consistently relied upon the Multi-Stage form of the
21 DCF approach (as opposed to e.g., Constant Growth, Two-Stage, and Two-
22 Growth forms) and an equal weighting of the Traditional CAPM and Zero-

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1 Beta CAPM. Consistent with Commission precedent, I relied on a multi-
2 stage form of the DCF model, and I used both the traditional form of the
3 CAPM as well as the Zero-Beta form of that model. These forms of the
4 DCF and CAPM approaches are consistent with the Commission's stated
5 preferences. In both forms of the CAPM, I incorporated a forward-looking
6 measure of the Market Risk Premium ("MRP").
7

8 **Q. Please elaborate on why it is important to use more than one model to**
9 **estimate the cost of equity.**

10 A. The cost of equity cannot be directly observed in the same way as the cost
11 of debt or preferred stock. Various financial models have been developed
12 to estimate the cost of equity, including the DCF, CAPM, and Risk Premium
13 models. Each model has strengths and limitations, depending on market
14 conditions, and no one model always produces reliable or "accurate" results.
15 In his financial textbook, Financial Management Theory and Practice,
16 Fourth Edition, copyright 1985 (at 256), Dr. Eugene F. Brigham writes:

17 In practical work, *it is often best to use all three methods –*
18 *CAPM, bond yield plus risk premium, and DCF – and then*
19 *apply judgment when the methods produce different results.*
20 *People experienced in estimating equity capital costs*
21 *recognize that both careful analysis and some very fine*
22 *judgments are required (See Exhibit___(JCN-23)).*

23 The important conclusion to be drawn is that these various financial models
24 provide estimates of the cost of equity. They cannot be mechanically

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1 applied to produce a precise or “correct” authorized ROE for a regulated
2 utility such as CECONY.

3

4 **A. DISCOUNTED CASH FLOW MODEL**

5 **Q. Please describe the DCF model.**

6 A. The DCF model is based on the theory that a stock’s current market price
7 represents the present value of all expected future cash flows. In its most
8 general form, the DCF model is expressed as follows:

9
$$P_0 = \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \dots + \frac{D_n}{(1+r)^n} \quad [1]$$

10 Where P_0 represents the current market stock price, $D_1, D_2, \dots D_n$ are all
11 expected future dividends, and r is the discount rate, or required ROE. As
12 discussed below, I have not included the constant growth form of the DCF
13 model but instead have focused on a multi-stage form of the DCF model.

14

15 **Q. Please describe the DCF model you relied on.**

16 A. The multi-stage DCF model is an extension of the constant growth form that
17 enables the analyst to specify growth rates over multiple stages. As with
18 the constant growth form of the DCF model, the multi-stage form defines
19 the cost of equity as the discount rate that sets the current price equal to the
20 discounted value of future cash flows. A multi-stage DCF model addresses
21 the possibility that mean five-year growth rates may not be reasonable in
22 perpetuity and that payout ratios could vary over time.

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1

2 **Q. Please describe the structure of the multi-stage DCF model.**

3 A. The multi-stage DCF model that I have used sets the proxy company's
4 current stock price equal to the present value of future cash flows received
5 over three time periods. In all three periods, cash flows are equal to the
6 annual dividend payments that stockholders receive. The first period is a
7 short-term growth period that consists of the first five years; the second
8 period is a transition period from the short-term growth rate to the long-term
9 growth rate that occurs over five years (*i.e.*, years six through ten); and the
10 third period is a long-term growth period that begins in year 11 and
11 continues in perpetuity. The ROE is then calculated as the rate of return
12 that results from the initial stock investment and the dividend payments over
13 the analytical period.

14

15 **Q. Has the Commission relied on a multi-stage DCF model in prior cases?**

16 A. Yes. The Commission has relied on a two-stage form of the DCF model in
17 prior cases (*see*, Case 10-E-0362, *Proceeding on Motion of the Commission*
18 *as to the Rates, Charges, Rules and Regulations of Orange and Rockland*
19 *Utilities, Inc. for Electric Service*, Order Establishing Rates for Electric
20 Service, (issued June 17, 2011) ("2011 O&R Rate Order"), at 68-69). The
21 two-stage model that the Commission has relied on and the multi-stage
22 model that I rely on both define the cost of equity as the discount rate that

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1 sets the current stock price equal to the discounted value of future cash flows
2 that are expressed as projected dividends. Both models project dividends
3 using growth rates over multiple periods.
4

5 **Q. Does the multi-stage DCF model offer advantages over the two-stage**
6 **model traditionally relied upon by the Commission?**

7 A. Yes. The general form of the two-stage model relied upon by the
8 Commission involves a near-term growth stage based on projected
9 dividends and a long-term growth stage employing an estimated long-term
10 growth rate in dividends (*see, e.g., 2011 O&R Rate Order*). The
11 Commission's application of a two-stage DCF model assumes that a
12 company's growth abruptly shifts to a long-run growth state after the initial
13 five-year period. In contrast, the multi-stage model relies on growth rates
14 over three periods, as described above. The multi-stage form of the DCF
15 model provides for a gradual transition to a company's expected long-term
16 growth, whereas the two-stage DCF model assumes the transition from
17 short-term to long-term growth occurs in one year.

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1

2 **Q. What market data did you use to calculate the current stock price in**
3 **your DCF model?**

4 A. The stock prices that I relied on in my DCF model are based on the average
5 market closing prices for the proxy companies over the three months ended
6 October 31, 2025.

7

8 **Q. What growth rates did you rely on in the multi-stage DCF model?**

9 A. As shown in Exhibit___(JCN-4), I began with the current annualized
10 dividend as of October 31, 2025, for each proxy group company. In the first
11 stage of the model, the current annualized dividend is escalated based on
12 the average of the three-to five-year earnings growth estimates reported by
13 S&P Capital IQ Pro, Zacks Investment Research, and the Value Line
14 Investment Survey. For the third stage of the model, I relied on long-term
15 projected growth in GDP. The second stage growth rate is a transition from
16 the first stage growth rate to the long-term growth rate on a geometric
17 average basis.

18

19 **Q. Why do you believe that earnings growth rates are the appropriate**
20 **measure of growth in the first stage of the multi-stage DCF model?**

21 A. Earnings are the fundamental driver of a company's ability to pay
22 dividends; therefore, earnings growth is the appropriate measure of a

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1 company's long-term growth. In contrast, changes in a company's dividend
2 payments are based on management decisions related to cash management
3 and other factors. For example, a company may decide to retain certain
4 earnings to fund investments rather than pay out those earnings as
5 dividends. Therefore, dividend growth rates are less likely than earnings
6 growth rates to reflect investor perceptions of a company's growth
7 prospects.

8

9 **Q. Is there support for the use of analysts' earnings growth estimates in**
10 **the DCF model?**

11 A. Yes. There is significant academic support for the use of analysts' earnings
12 growth rates. In addition, the majority of the data that are publicly available
13 to investors sets forth analysts' projections of earnings growth rates. Value
14 Line is the only publication I am aware of that provides projected dividend
15 growth rates.

16

17 **Q. Please summarize the academic research on growth rates and stock**
18 **valuation.**

19 A. The relationship between various growth rates and stock valuation metrics
20 has been the subject of much academic research. Many published articles
21 specifically support the use of analysts' earnings growth projections in the
22 DCF model in general, as well as for a method of calculating the expected

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1 MRP. In particular, while this article is focused on the calculation of the
2 CAPM, Dr. Robert Harris demonstrates that financial analysts rely on
3 earnings forecasts (referred to in the article as “FAF”) and the use of a
4 constant growth DCF formula to estimate the expected MRP (*See*
5 Exhibit___(JCN-24), Robert S. Harris, Using Analysts’ Growth Forecasts
6 to Estimate Shareholder Required Rates of Return, Financial Management,
7 Spring 1986, at 59-60, 66). Dr. Harris’s work demonstrates that analysts
8 rely on earnings as the appropriate measure of growth in the DCF model.

9
10 Professors Carleton and Vander Weide also performed a study to determine
11 whether projected earnings growth rates are superior to historical measures
12 of growth in the implementation of the DCF model (*see* Exhibit___(JCN-
13 25), James H. Vander Weide, Willard T. Carleton, Investor Growth
14 Expectations: Analysts vs. History, The Journal of Portfolio Management,
15 Spring 1988). Although the purpose of that study was to “investigate what
16 growth expectation is embodied in the firm’s current stock price” (p. 78),
17 the authors clearly indicate the superiority of earnings projections in the
18 context of the DCF model. In addition, the Carleton and Vander Weide
19 study was updated to determine whether the finding that analysts’ earnings
20 growth forecasts are relevant in the stock valuation process still holds. The
21 results of that updated study continued to demonstrate the importance of
22 analysts’ earnings forecasts, including the application of those forecasts to

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1 utility companies (*see* Exhibit___(JCN-26), Advanced Research Center,
2 Investor Growth Expectations, Summer, 2004).

3

4 Similarly, Harris and Marston presented “estimates of shareholder required
5 rates of return and risk premia which are derived using forward-looking
6 analysts’ growth forecasts.” (*See* Exhibit___(JCN- 27), Robert S. Harris,
7 Felicia C. Marston, Estimating Shareholder Risk Premia Using Analysts’
8 Growth Forecasts, Financial Management, Summer 1992). In addition,
9 Brigham, Shome and Vinson noted that “evidence in the current literature
10 indicates that (1) analysts’ forecasts are superior to forecasts based solely
11 on time series data; and (2) investors do rely on analysts’ forecasts.” (*See*
12 Exhibit___(JCN-28), The Risk Premium Approach to Measuring a Utility’s
13 Cost of Equity, Financial Management, Spring 1985).

14

15 **Q. Are there other practical considerations with respect to the**
16 **Commission’s historical reliance on dividend per share growth rates**
17 **during the initial five-year term of its Two-Stage DCF model?**

18 A. Yes. In prior cases, Staff of the New York State Department of Public
19 Service’s (“Staff”) sole reliance on Value Line projections of dividend per
20 share growth is not appropriate for several reasons. First, the use of only
21 dividend growth rates ignores the aforementioned substantial body of
22 academic research demonstrating that earnings growth rates are the most

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1 relevant factor in stock price valuation. The Generic Finance RD indicates
2 that the Telecommunications Group, which included Staff, supported the
3 use of earnings per share growth in the DCF models employed to estimate
4 the ROE (Generic Finance RD at 44). Second, projections of dividend
5 growth, which would not include growth in retained earnings, only measure
6 a portion of a company's growth and may be subject to company
7 management decisions on its retention ratio. Therefore, earnings growth
8 projections are more complete estimates of total company growth than are
9 projected dividend growth rates. Third, Value Line's projections are not
10 consensus estimates, but reflect the viewpoint of a single analyst.
11 Therefore, the Commission's models, which have historically relied only
12 on projected dividend per share growth rates from Value Line, reflect the
13 growth expectations of a single analyst in the first stage of the model. In
14 contrast, consensus estimates of projected earnings per share growth rates
15 are publicly available and widely used by investors. Each of these
16 consensus forecasts considers the growth expectations for each company
17 based on the expectations of multiple equity analysts. Finally, Value Line
18 is the only source I am aware of that publishes dividend per share growth
19 rate projections. The fact that dividend growth rate projections are not
20 widely reported by other sources further indicates that earnings growth is
21 the most meaningful measure of growth among the investment community.
22 In other words, if investors relied heavily on projections of dividend growth,

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1 more sources would offer that data. In conclusion, it is not reasonable to
2 exclude these timely and widely available earnings growth rates from the
3 analysis when these real-time sources have become the more common data
4 points relied on by investors.

5

6 **Q. How did you calculate the long-term GDP growth rate?**

7 A. As shown in Exhibit___(JCN-5), the long-term growth rate of 5.44 percent
8 is based on the real GDP growth rate of 3.18 percent from 1929 through
9 2024 (U.S. Department of Commerce, Bureau of Economic Analysis,
10 National Income and Product Accounts Tables, Table 1.1.6, September 25,
11 2025), and a projected long-term inflation rate of 2.19 percent $((1 + 0.0318)$
12 $\times (1 + 0.0219) - 1 = 0.0544$ or 5.44%). The projected rate of inflation is
13 based on three measures beyond the 2026-2030 near-term growth period:
14 (1) the average long-term projected growth rate in the CPI of 2.20 percent,
15 as reported by Blue Chip Financial Forecasts (*see* Confidential
16 Exhibit___(JCN-29), Vol. 44, No. 6, June 2, 2025, at 14); (2) the compound
17 annual growth rate of the CPI for all urban consumers for 2031-2050 of 2.20
18 percent as projected by the Energy Information Administration (“EIA”) in
19 the Annual Energy Outlook 2025; and (3) the compound annual growth rate
20 of the GDP chain-type price index for 2031-2050 of 2.18 percent, also
21 reported by the EIA in the Annual Energy Outlook 2025 (U.S. Energy
22 Information Administration, Annual Energy Outlook 2025, Table 20).

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1

2 **Q. Why is the long-term GDP growth rate a reasonable estimate of long-**
3 **term growth in the multi-stage DCF model?**

4 A. Long-term estimates of GDP growth are commonly used in regulatory
5 proceedings as a proxy for the long-term growth rate in the multi-stage DCF
6 analysis. That application is based on the common theoretical assumption
7 that, over the long run, all companies in the economy will tend to grow at
8 the same constant rate. That assumption is designed to address the
9 uncertainty associated with estimating individual company growth rates
10 over very long-time horizons and is not meant to suggest that company
11 growth rates in the economy will indeed converge in practice over any given
12 period.

13

14 **Q. Is your calculation of GDP growth consistent with the way in which**
15 **other analysts compute estimates of long-term GDP growth?**

16 A. Yes. Investors understand that the U.S. economy goes through cycles of
17 growth and contraction. Therefore, it is appropriate to consider the longest
18 period possible to measure historical real growth in GDP. This view is
19 consistent with Morningstar's explanation (*See Exhibit___(JCN-30)*),
20 Ibbotson and Associates, *Stocks, Bonds, Bills and Inflation, 1926-2012*,
21 2013 Valuation Yearbook, at 52) about measuring GDP growth:

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1 Growth in real GDP (with only a few exceptions) has
2 been reasonably stable over time; therefore, its
3 historical performance is a good estimate of expected
4 long-term future performance. By combining the
5 inflation estimate with the real growth rate estimate, a
6 long-term estimate of nominal growth is formed.
7

8 Furthermore, Morningstar (at 59) supports the use of long-term historical
9 data:

10 The 87-year period starting with 1926 is representative
11 of what can happen: it includes high and low returns,
12 volatile and quiet markets, war and peace, inflation and
13 deflation, and prosperity and depression. Restricting
14 attention to a shorter historical period underestimates
15 the amount of change that could occur in a long future
16 period. Finally, because historical event-types (not
17 specific events) tend to repeat themselves, long-run
18 capital market return studies can reveal a great deal
19 about the future. Investors probably expect “unusual”
20 events to occur from time to time, and their return
21 expectations reflect this.
22

23 **Q. What is your conclusion regarding the methodology typically relied on**
24 **by Staff to estimate the sustainable growth rate in the two-stage DCF**
25 **model?**

26 A. I have several concerns with the use of the sustainable growth rate in the
27 two-stage DCF model. First, the sustainable growth rate is not a long-term
28 measure of growth and as such should not be applied in perpetuity in the
29 second stage of the model. Second, the exclusive use of Value Line data,
30 which is a single analyst’s viewpoint, to establish the sustainable growth
31 rate assumes that investors do not consider any of the other financial

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1 information that is widely available when establishing future dividend
2 expectations. In addition, the sustainable growth rate calculation includes
3 Value Line's ROE projections as an input, implicitly accepting them as
4 reasonable. However, Value Line's ROE projections are often significantly
5 different from the ROE estimates produced by the two-stage DCF model.
6 Finally, Staff's sustainable growth rate methodology implicitly assumes
7 that investors establish long-term growth expectations based entirely on
8 short-term, company-specific projections. My conclusion is that it is
9 unreasonable to assume that investors would ignore the expectations of
10 long-term macroeconomic growth in establishing the long-term growth
11 estimates for an electric or natural gas distribution utility or any other
12 company.

13

14 **Q. What are the results of your DCF analyses?**

15 A. As shown in Exhibit___(JCN-4), the multi-stage DCF analysis based on a
16 three-month average stock price and a range of near-term growth rate
17 assumptions produces a mean ROE estimate of 9.49 percent.

18

19 **B. CAPITAL ASSET PRICING MODEL**

20 **Q. Please briefly describe the CAPM.**

21 A. The CAPM is a risk premium approach that estimates the cost of equity for
22 a given security as a function of a risk-free return plus a risk premium (to

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1 compensate investors for the non-diversifiable or “systematic” risk of that
2 security). Systematic risks are fundamental market risks that reflect
3 aggregate economic measures and therefore cannot be mitigated through
4 diversification. Unsystematic risks reflect company-specific risks that can
5 be mitigated and ultimately eliminated through investments in a portfolio of
6 companies and/or market sectors. As shown in Equation [2] below, the
7 CAPM is defined by four components, each of which must theoretically be
8 a forward-looking estimate:

$$k_e = r_f + \beta(r_m - r_f) \quad [2]$$

10 where:

11 k_e = the required market ROE

12 β = Beta coefficient of an individual security

13 r_f = the risk-free rate of return

14 r_m = the required return on the market as a whole

15 The term $(r_m - r_f)$ represents the MRP. According to the theory underlying
16 the CAPM, unsystematic risk can be diversified away, therefore investors
17 should be concerned only with systematic or non-diversifiable risk. Non-
18 diversifiable risk is measured by Beta, which is defined as:

$$\beta = \frac{\text{Covariance}(r_e, r_m)}{\text{Variance}(r_m)} \quad [3]$$

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1 where:

2 r_e = the rate of return for the individual security or portfolio.

3 The variance of the market return, noted in Equation [3] above, is a measure
4 of the uncertainty of the general market, and the covariance between the
5 return on a specific security and the market reflects the extent to which the
6 return on that security will respond to a given change in the market return.
7 Thus, Beta represents the risk that the selected security will not be effective
8 in diversifying systematic market risks.

9
10 **Q. What risk-free rate did you use in your CAPM analysis?**

11 A. I used three estimates of the yield on Treasury bonds: (1) the current three-
12 month average yield on 30-year Treasury bonds (4.75 percent) (Bloomberg
13 Professional as of October 31, 2025); (2) the near-term projected 30-year
14 Treasury yield for Q1 2026 to Q1 2027 (4.58 percent) (Blue Chip Financial
15 Forecasts, Vol. 44, No. 11, October 31, 2025, at 2); and (3) the projected
16 30-year Treasury yield for the period 2027-2031 (4.40 percent) (Blue Chip
17 Financial Forecasts, Vol. 44, No. 6, June 2, 2025, at 14). In determining the
18 security most relevant to the application of the CAPM, it is important to
19 select the term (or maturity) that best matches the life of the underlying
20 investment. As noted by Morningstar (*See Exhibit___*(JCN-31),
21 Morningstar Inc., Ibbotson SBBI 2013 Valuation Yearbook, at 44):

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1 The traditional thinking regarding the time horizon of
2 the chosen Treasury security is that it should match the
3 time horizon of whatever is being valued... Note that
4 the horizon is a function of the investment, not the
5 investor. If an investor plans to hold stock in a company
6 for only five years, the yield on a five-year Treasury
7 note would not be appropriate since the company will
8 continue to exist beyond those five years.

9 Because utility companies represent long-duration investments, it is
10 appropriate to use yields on long-term Treasury bonds as the risk-free rate
11 component of the CAPM. In my view, the 30-year Treasury bond is the
12 appropriate security for that purpose. Because the cost of capital is intended
13 to be forward-looking, it is appropriate to consider projected measures of
14 the MRP and interest rates.

15

16 **Q. Please describe your estimate of the MRP used in your CAPM.**

17 A. The estimated MRP is based on the expected return on the S&P 500 Index,
18 less the 30-year Treasury bond yield. The expected return on the S&P 500
19 Index is calculated using a DCF model for all companies in the index based
20 on market capitalization-weighted growth rates and dividend yields. The
21 MRP implied by each of the three Treasury yields discussed above is used
22 in my CAPM analysis to produce a range of estimates.

23 The Commission previously has relied upon the calculation of a projected
24 MRP, based on the difference between the estimated forward-looking
25 required market return for the S&P 500, as provided by Bank of America

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1 Merrill Lynch’s (“BAML”), and the risk-free rate (*see e.g.*, 2011 O&R Rate
2 Order, at 77). As a practical matter, that approach is consistent with the
3 Market DCF-derived forward-looking MRP estimate discussed above (*see*
4 *also* Confidential Exhibit____(JCN-7.1)). Nonetheless, I have relied on the
5 average of: (1) the forward-looking required market return for the S&P 500
6 as calculated using a DCF model for all companies in the index; and (2) the
7 estimated forward-looking required market return for the S&P 500, as
8 provided by BAML (Confidential Exhibit____(JCN-32) includes the
9 relevant pages from the BAML’s three most recent *Quantitative Profiles*
10 with data through October 27, 2025).

11

12 **Q. What Beta coefficient did you use in your CAPM analysis?**

13 A. I relied on the average Beta coefficients for the proxy group companies as
14 reported by Bloomberg and Value Line (*see* Exhibit____(JCN-6)). The Beta
15 coefficients reported by Bloomberg were calculated using ten years of
16 weekly returns relative to the S&P 500 Index. Value Line’s calculation is
17 based on five years of weekly returns relative to the New York Stock
18 Exchange Composite Index.

19

20 **Q. Did you consider another form of the CAPM in your analysis?**

21 A. Yes. In prior proceedings, the Commission has relied upon the Zero-Beta
22 CAPM (the form of which is sometimes referred to as the “Empirical

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1 CAPM”, *see e.g.*, Exhibit ___ (JCN-33), Roger A. Morin, New Regulatory
2 Finance, Public Utilities Reports, Inc., 2006, at 189) in estimating the cost
3 of equity. The Zero-Beta CAPM calculates the product of the adjusted Beta
4 coefficient and the MRP and applies a weight of 75.00 percent to that result.
5 The model then applies a 25.00 percent weight to the MRP, without any
6 effect from the Beta coefficient. The results of the two calculations are
7 summed, along with the risk-free rate, to produce the Zero-Beta CAPM
8 result, as noted in Equation [4] below:

$$9 \quad k_e = r_f + 0.75\beta(r_m - r_f) + 0.25(r_m - r_f) \quad [4]$$

10 where:

11 k_e = the required market ROE

12 β = Adjusted Beta coefficient of an individual security

13 r_f = the risk-free rate of return

14 r_m = the required return on the market as a whole

15
16 In essence, the Zero-Beta form of the CAPM addresses the tendency of the
17 “traditional” CAPM to underestimate the cost of equity for companies with
18 lower Beta coefficients such as regulated utilities. In that regard, the Zero-
19 Beta CAPM is not redundant to the use of adjusted Betas; rather, it
20 recognizes the results of academic research indicating that the risk-return
21 relationship is different (in essence, flatter) than estimated by the CAPM,
22 and that the CAPM underestimates the “alpha,” or the constant return term.

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1

2 As with the CAPM, my application of the Zero-Beta CAPM uses the
3 forward-looking MRP estimates, the three yields on 30-year Treasury
4 securities noted earlier as the risk-free rate, and the Bloomberg and Value
5 Line Beta coefficients. Exhibit___(JCN-6) shows the results of the CAPM
6 models. The traditional CAPM mean ROE results range from 9.30 percent
7 to 11.74 percent. The Zero-Beta CAPM results range from 9.69 percent to
8 12.30 percent. The range established by the average of the traditional
9 CAPM and the Zero-Beta CAPM results is 9.50 percent to 12.02 percent
10 with a mean of 10.76 percent.

11

12 **C. BOND YIELD PLUS RISK PREMIUM ANALYSIS AS A TEST OF**
13 **REASONABLENESS**

14 **Q. Did you consider the results of any other model to test the**
15 **reasonableness of your DCF and CAPM results?**

16 A. Yes. I also considered the results of the Risk Premium analysis to evaluate
17 whether the return estimates produced by the multi-stage DCF and CAPM
18 methods are reasonable.

19

20 **Q. Please describe the Risk Premium approach that you used.**

21 A. In general terms, this approach recognizes that equity is riskier than debt
22 because equity investors bear the residual risk associated with ownership.

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1 The Risk Premium approach estimates the cost of equity as the sum of the
2 Equity Risk Premium and the yield on a particular class of bonds.

3 $ROE = RP + Y$ [5]

4 Where:

5 RP = Risk Premium (difference between allowed ROE and the 30-
6 Year Treasury Yield) and

7 Y = Applicable Treasury bond yield.

8 Since the equity risk premium is not directly observable, it is typically
9 estimated using a variety of approaches, some of which incorporate *ex-ante*,
10 or forward-looking estimates of the cost of equity, and others that consider
11 historical, or *ex-post*, estimates. For my Risk Premium analysis, I have
12 relied on authorized returns from a large sample of electric utility
13 companies, as described below.

14

15 **Q. What did your Risk Premium analysis reveal?**

16 A. To estimate the relationship between risk premiums and interest rates, I
17 conducted a regression analysis using the following equation:

18 $RP = a + (b \times Y)$ [6]

19 where:

20 RP = Risk Premium (difference between allowed ROEs and the
21 30-Year Treasury Yield);

22 a = Intercept term;

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1 b = Slope term; and

2 Y = 30-Year Treasury Yield.

3 Data regarding allowed ROEs were derived from 1027 electric utility
4 company rate cases and 856 natural gas utility company rate cases from
5 January 1992 through October 31, 2025 as reported by Regulatory Research
6 Associates (“RRA”).

7
8 As demonstrated in Exhibit___(JCN-8) and Exhibit___(JCN-8.1), the risk
9 premium varies with the level of the bond yield, and generally increases as
10 bond yields decrease, and vice versa. To apply this relationship to current
11 and expected bond yields, I considered three estimates of the 30-year
12 Treasury yield: the current three-month average; a near-term Blue Chip
13 consensus forecast for Q1 2026 – Q1 2027; and a longer-term Blue Chip
14 consensus forecast for 2027–2031. Based on the regression coefficients in
15 Exhibit___(JCN-8) and Exhibit___(JCN-8.1), which allow for the
16 estimation of the risk premium at varying bond yields, the results of my
17 Risk Premium analysis range from 10.37 percent to 10.53 percent for
18 electric utilities, and from 10.31 percent to 10.45 percent for natural gas
19 utilities

20

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1 **Q. Do investors consider returns for regulated utilities in other**
2 **jurisdictions when they are determining their return requirements for**
3 **CECONY?**

4 A. Yes. Investors are informed by authorized ROEs from hundreds of rate case
5 decisions to frame their return expectations. A fundamental principle in
6 setting a just and reasonable return is that the return must be comparable to
7 returns available to investors in companies with commensurate risk. In that
8 regard, the returns that have been authorized for other utility companies are
9 one relevant consideration for investors. Although I have not used the Risk
10 Premium model as a primary analysis in arriving at my ROE
11 recommendation, the Risk Premium results confirm the reasonableness of
12 the multi-stage DCF and CAPM results.

13

14 **Q. Have other utility regulators used the Risk Premium model as a**
15 **primary methodology for estimating the authorized ROE?**

16 A. Yes. The Risk Premium model has been used in other jurisdictions as a
17 primary model to estimate the authorized ROE, such as California, Florida,
18 Georgia, North Carolina, Virginia, West Virginia, and Wisconsin. Also,
19 New Jersey and Missouri have considered authorized returns in other
20 jurisdictions as a check on the reasonableness of returns for the utilities they
21 regulate.

22

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1 **D. WEIGHTED AVERAGE RESULTS**

2 **Q. Please summarize the results of your analysis and your recommended**
3 **ROE.**

4 A. As shown in Exhibit___(JCN-2), I have presented the DCF and CAPM
5 results weighted equally, and with the Generic Finance RD's proposed 2/3
6 weighting of the DCF and 1/3 weighting of the CAPM. I did not include
7 the Risk Premium analysis in my weighted average results. The average
8 results range from 9.91 percent to 10.12 percent, depending on the
9 weighting assigned to the DCF and CAPM results.

10

11 **Q. What was the Commission's reasoning for developing its weighting of**
12 **the DCF and CAPM methodologies in the Generic Finance RD?**

13 A. At the time of the Generic Finance RD, the Commission did not have a
14 significant amount of experience with the CAPM and the Co-Facilitators in
15 the GFP opted for a gradual transition toward the CAPM, ultimately settling
16 on a 1/3 weighting, indicating that "proposals have simply not shown that
17 the CAPM should be raised all at once to parity with the DCF analysis in
18 the setting of returns on equity." (Generic Finance RD at 60). To the extent
19 that this was a consideration in the RD's weighting determination, the
20 Commission's more than 30 years of experience with the CAPM since that
21 time now provides a sound basis for altering the weighting of the two ROE
22 methodologies and raising the CAPM "to parity with the DCF analysis...."

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1 In recent years, several regulators have recognized the challenges associated
2 with relying solely on the DCF model to establish the authorized ROE for
3 regulated utilities. For example, the FERC considered what it termed
4 “anomalous” market conditions as a basis for abandoning its practice of sole
5 reliance on the DCF model to set ROEs for electric transmission companies
6 which began in the 1980s (*see* Exhibit___(JCN-34), 165 FERC ¶ 61,030,
7 October 16, 2018, at para. 44-46). FERC now places equal weight on the
8 DCF and CAPM results. Similarly, several state jurisdictions have
9 recognized the importance of relying on multiple methodologies, while
10 placing less weight on the DCF model (*see, e.g.,* (Exhibit___(JCN-35),
11 Pennsylvania Public Utility Commission, PPL Electric Utilities, R-2012-
12 2290597, meeting held December 5, 2012, at 80-81; (Exhibit___(JCN-36),
13 Missouri Public Service Commission, GR-2017-0215, Report and Order,
14 Issue Date February 21, 2018, at 32-34).

15
16 **Q. Please summarize your conclusion regarding the relative weighting of**
17 **the CAPM and DCF results.**

18 A. Although the Generic Finance RD proposed the 2/3 weighting on the DCF,
19 the weightings and methodologies used to estimate the ROE were left open
20 for additional consideration in future rate proceedings. Since then, the
21 Commission has employed the CAPM as one component of the formula
22 used to develop the authorized ROE. There is no reason why the

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1 Commission should have less confidence in the results of the CAPM than
2 those of the DCF. Therefore, it is reasonable to apply equal weight to the
3 DCF and CAPM methods when determining the ROE for CECONY, and to
4 test the reasonableness of these results with the Risk Premium model.

5

6 **VII. BUSINESS AND REGULATORY RISKS**

7 **A. REGULATORY RISK ASSESSMENT**

8 **Q. Have you performed an analysis of the level of regulatory support that**
9 **CECONY receives in New York State as compared to the proxy group**
10 **companies?**

11 A. Yes. I conducted an analysis of the regulatory protections that are in place
12 for CECONY compared with those for the operating utility companies held
13 by the proxy group companies. The results of my analysis are presented in
14 Exhibit___(JCN-9). Specifically, I examined the following factors that
15 affect the business risk of CECONY and the proxy group companies: (1)
16 test year convention; (2) fuel cost recovery; (3) revenue decoupling; and (4)
17 capital cost recovery.

18

19 As shown in Exhibit___(JCN-9), 41 percent of the operating companies
20 (*i.e.*, 56 out of 136) held by the proxy group companies provide service in
21 jurisdictions that allow the use of a fully or partially forecast test year. The
22 vast majority (approximately 90 percent) of the operating companies held

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1 by the proxy group companies are allowed to pass through fuel costs and
2 purchased power costs directly to customers, so that the utility does not
3 incur any risk associated with fuel or purchased power costs. It is important
4 to recognize that fuel and purchased power costs typically account for 50 –
5 60 percent of the total operating costs for a regulated utility. Like
6 CECONY, 57 percent of the operating utilities held by the proxy group
7 companies (*i.e.*, 77 out of 136) have revenue decoupling mechanisms or
8 weather normalization adjustment clauses that allow them to break the link
9 between customer usage and revenues. However, CECONY's weather
10 normalization adjustment does not provide the same level of risk mitigation
11 from differences in usage as the full revenue decoupling mechanisms
12 employed. Finally, approximately 77 percent of the operating utilities held
13 by the proxy group (105 out of 136) have capital cost recovery mechanisms
14 that allow them to recover capital investments that are placed into service
15 between rate cases.

16

17 **Q. Based on these analyses, what is your conclusion regarding the level of**
18 **regulatory support for CECONY relative to that of the proxy group**
19 **companies?**

20 A. My conclusion is that CECONY has comparable regulatory protection to
21 the proxy group companies. While the Commission has been a leader in
22 implementing mechanisms that reduce the business risk of regulated

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1 utilities in New York, many other jurisdictions have taken similar steps in
2 recent years, leading to no meaningful difference in business risk between
3 CECONY and the proxy group. On balance, however, the suite of
4 regulatory mechanisms available to the proxy companies and CECONY
5 result in comparable risk levels. Despite a comparable degree of regulatory
6 support through recovery mechanisms, the Commission has consistently
7 provided some of the lowest equity returns in the nation as New York
8 State's electric and gas utilities' average authorized ROEs were 40 basis
9 points below the national average for electric and gas utilities from January
10 2021 to October 2025 (9.28 percent in New York State vs. 9.68 percent
11 nationwide). (*See* Exhibit___(JCN-37), Source: RRA. January 2021 –
12 October 2025 average authorized ROEs for states other than New York
13 (excluding limited issue riders, formula rate plans, and penalty ROEs)). As
14 shown in Exhibit___(JCN-37), the combination of low authorized ROEs
15 and low equity ratios demonstrates that New York State is consistently in
16 the bottom quartile of the lowest authorized ROEs and the lowest authorized
17 equity ratios. Authorized returns at this level place New York State utilities
18 such as CECONY at a disadvantage in terms of competing for capital to
19 finance the investments that are necessary to continue providing safe and
20 reliable service to customers.

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1

2 **Q. Are there other risks to the Company that are specific to New York**
3 **State utility regulation?**

4 A. Yes. In addition to the low equity returns that are typically authorized by
5 the Commission for New York State's utilities, New York State utilities are
6 subject to strictly enforced customer service quality, reliability, and/or
7 safety measures where the utility is required to achieve predetermined
8 performance benchmarks or be subject to a negative revenue adjustment for
9 any shortfall.

10

11 **Q. Do the negative revenue adjustments associated with these**
12 **performance metrics differentiate the Company from the proxy group**
13 **companies?**

14 A. Yes, they do. CECONY's exposure to these potential revenue adjustments
15 places the Company at greater risk than proxy companies on average.

16

17 **B. REGULATORY ENVIRONMENT**

18 **Q. Please explain how the regulatory framework affects investors' risk**
19 **assessments.**

20 A. The ratemaking process is premised on the principle that, for investors and
21 companies to commit the capital needed to provide safe and reliable utility
22 services, the subject utility must have the opportunity to recover its invested

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1 capital and the market-required return on such capital. Regulatory
2 commissions recognize that because utility operations are capital intensive,
3 regulatory decisions should enable the utility to attract capital at reasonable
4 terms, which balance the long-term interests of investors and customers. In
5 that respect, the regulatory framework in which a utility operates is one of
6 the most important factors considered in both debt and equity investors' risk
7 assessments.

8

9 **Q. Do credit rating agencies consider the regulatory framework in**
10 **establishing a company's credit rating?**

11 A. Yes. Both Moody's and S&P assess the overall regulatory framework in
12 establishing credit ratings for regulated utilities. As shown in
13 Exhibit___(JCN-38), Moody's establishes credit ratings based on four key
14 factors: Regulatory Framework; Ability to Recover Costs and Earn Returns;
15 Diversification; and Financial Strength.

16

17 Two of these factors (*i.e.*, regulatory framework and the ability to recover
18 costs and earn returns) are based on the regulatory environment such that
19 half of Moody's overall assessment of business and financial risk for
20 regulated utilities is based upon the regulatory environment (*see*
21 Exhibit___(JCN-38), Moody's Investor Service, Rating Methodology,
22 Regulated Electric and Gas Utilities, August 6, 2024, at 2). Moody's

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1 observes (at 8) that “[t]he regulatory framework is important because it
2 provides the basis for decisions that affect utilities, including rate-setting as
3 well as the consistency and predictability of regulatory decision-making.”
4

5 With respect to the regulatory framework, Moody’s looks for transparency,
6 predictability, and supportiveness of regulatory commissions. For the
7 second factor, ability to recover costs and earn returns, Moody’s evaluates
8 the regulatory elements that directly affect the ability of the utility to
9 generate cash flow and service its debt over time. Moody’s views (at 10)
10 the ability to recover costs on a timely basis and to attract debt and equity
11 capital as crucial credit considerations, noting that “[t]he inability to recover
12 costs...has been one of the greatest drivers of financial stress in this sector,
13 as well as the cause of some utility defaults.” This is particularly true as
14 utilities are often cash flow negative due to large capital expenditures, so
15 any lack of timely recovery or sufficiency of rates can strain access to
16 capital markets.
17

18 S&P has also identified the regulatory environment as an important factor,
19 stating, “One significant aspect of regulatory risk that influences credit
20 quality is the regulatory environment in the jurisdictions where a utility
21 operates.” (See Exhibit ___ (JCN-39) S&P Global Ratings, “Assessing U.S.
22 Investor-Owned Utility Regulatory Environments,” August 10, 2016, at 1).

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1

2 Given the importance of the regulatory environment to the rating agencies,
3 the proportion and cost of debt capital available to utility companies are
4 influenced by the rating agencies' assessment of the regulatory
5 environment.

6

7 **Q. Are you aware of independent sources that have evaluated the**
8 **regulatory environment in New York State as compared to other**
9 **jurisdictions?**

10 A. Yes. RRA, a division of S&P Capital IQ, views New York State's
11 regulatory environment as "somewhat balanced" from an investor
12 perspective, with lower than nationwide ROEs for electric and gas utilities
13 offset by the use of forecast test years, revenue decoupling, and multi-year
14 rate settlements that incorporate increasing rate base and deferral
15 accounting for increasing costs of labor and pensions. (See Confidential
16 Exhibit___(JCN-40), S&P Capital IQ, RRA, as of May 9, 2025).

17

18 RRA ranks New York State as "Average/2", which is consistent with the
19 majority of regulatory jurisdictions across the U.S. Average/2 is the median
20 ranking given by RRA; there are 18 jurisdictions with a higher ranking, 19
21 jurisdictions with a lower ranking, and 15 other jurisdictions with the same
22 ranking. This puts New York State squarely in the middle of the range,

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1 supporting the conclusion that, even with the risk reducing measures
2 implemented in New York State, there is no significant difference in overall
3 regulatory risk between New York State and other jurisdictions.

4
5 UBS, an investment bank, ranks regulatory jurisdictions in the U.S. and
6 Canada for purposes of determining whether to apply valuation discounts
7 or premiums to the utility stocks it covers. Specifically, UBS places
8 regulatory jurisdictions into five tiers based on the following equally
9 weighted criteria: (1) whether commissioners are elected or appointed, (2)
10 allowed returns relative to 10-year Treasury notes, (3) mechanisms that
11 reduce regulatory lag, (4) rate and customer bill levels, (5) the tendency to
12 settle or litigate rate cases, and (6) a subjective “investor friendliness”
13 factor. (See Confidential Exhibit___(JCN-41) UBS Global Research,
14 “North America Power & Utilities: Mind the Gap(s): 2021 Utility Outlook,”
15 December 14, 2020, at 5). Exhibit___(JCN-42) shows that UBS ranks New
16 York State’s regulatory environment in tier five out of five (with one being
17 the best) in a July 2024 report. (UBS Global Research, “North America
18 Power & Utilities: Updating Valuation & Regulatory Rankings,” July 19,
19 2024, at 8).

20
21 The UBS ranking demonstrates that, from the perspective of equity
22 investors, the overall regulatory environment in New York State is viewed

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1 as less favorable than all but 6 other U.S. jurisdictions that are also in the
2 fifth tier. UBS also categorizes utility holding companies by regulatory
3 quartile; CEI is ranked in the bottom (fourth) quartile. The companies that
4 are ranked in the third and fourth quartiles receive valuation discounts of
5 two percent and six percent, respectively.

6
7 **Q. What is your conclusion with regard to CECONY's regulatory risk?**

8 A. As discussed above, the regulatory mechanisms available to CECONY are
9 comparable to those available to the proxy group utilities, and as such, the
10 Commission should authorize an ROE that reflect's the Company's market-
11 based cost of equity. It is important that the decision in this case, including
12 the authorized ROE, is credit supportive. New York's regulatory framework
13 is very impactful to the Company's credit ratings, and any decline in credit
14 ratings will increase costs to customers by increasing the cost of debt and
15 equity.

16

17 **C. FLOTATION COSTS**

18 **Q. What are flotation costs?**

19 A. Flotation costs are the costs associated with the sale of new issues of
20 common stock. These costs include out-of-pocket expenditures for
21 preparation, filing, underwriting, and other costs of issuance of common
22 stock. To the extent that a company is denied the opportunity to recover

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1 prudently incurred flotation costs, actual returns will fall short of expected
2 (or required) returns, thereby diminishing the utility's ability to attract
3 adequate capital on reasonable terms.

4

5 **Q. Why is it important to recognize flotation costs in the authorized ROE?**

6 A. Flotation costs are reflected on the utility's balance sheet as "paid in capital"
7 and are not expensed on the utility's income statement. When a company
8 issues common stock, flotation costs are incurred and netted against the
9 proceeds from the issuance, thereby reducing the amount available for
10 investment in rate base by the amount of the flotation costs. The authorized
11 ROE is the most appropriate way for a regulated utility to recover these
12 necessary costs, and they are not recovered elsewhere in a company's
13 revenue requirement. If CECONY is not allowed to recover its prudently
14 incurred flotation costs through its ROE, its authorized return will be
15 insufficient, and equity share value will be diluted. Staff has recognized the
16 importance of recovering flotation costs when there is a reasonable
17 expectation that such costs will be incurred (*see, e.g.*, Case No. 06-E-1433,
18 06-E-1547).

19

20 **Q. Has CEI recently incurred flotation costs?**

21 A. Yes, it has. As detailed on Exhibit___(JCN-10), CEI had incurred flotation
22 costs in conjunction with its equity issuances on March 4, 2025 and

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1 December 3, 2024. While these flotation costs were incurred at the parent
2 level rather than at CECONY (as is the case with most if not all utility
3 company flotation costs), this equity, along with its associated costs,
4 ultimately goes to fund CEI's utility subsidiaries' (i.e., CECONY) capital
5 expenditures.

6

7 **Q. Do academic and financial experts recognize the need to consider**
8 **flotation costs in a utility's cost of equity?**

9 A. Yes. Dr. Roger Morin, a recognized expert in regulatory economics and
10 finance, summarizes (*see* Exhibit___(JCN-43) Roger A. Morin, New
11 Regulatory Finance (Public Utility Reports, Inc., 2006), at 321):

12 The costs of issuing these securities are just as real as
13 operating and maintenance expenses or costs incurred to
14 build utility plants, and fair regulatory treatment must permit
15 recovery of these costs.... The simple fact of the matter is
16 that common equity capital is not free.... [Flotation costs]
17 must be recovered through a rate of return adjustment.

18 According to Dr. Shannon Pratt, a published expert in cost of capital
19 estimation (*see* Exhibit___(JCN-44) Shannon P. Pratt, Cost of Capital
20 Estimation and Applications, Second Edition, at 220-221):

21 Flotation costs occur when new issues of stock or debt are
22 sold to the public. The firm usually incurs several kinds of
23 flotation or transaction costs, which reduce the actual
24 proceeds received by the firm. Some of these are direct out-
25 of-pocket outlays, such as fees paid to underwriters, legal
26 expenses, and prospectus preparation costs. Because of this
27 reduction in proceeds, the firm's required returns on these
28 proceeds equate to a higher return to compensate for the
29 additional costs. Flotation costs can be accounted for either

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1 by amortizing the cost, thus reducing the cash flow to
2 discount, or by incorporating the cost into the cost of capital.
3 Because flotation costs are not typically applied to operating
4 cash flow, one must incorporate them into the cost of capital.

5

6 **Q. How did you calculate flotation costs for CECONY?**

7 A. Based on CECONY's costs shown in Exhibit___(JCN-10), flotation costs
8 for the Company have equaled 1.82 percent of gross equity raised on
9 average. To reflect these issuance costs properly in my cost of capital
10 estimates, it would require a 6-basis point addition to the ROE results
11 produced by my ROE estimates for CECONY, as shown in
12 Exhibit___(JCN-10). While I have not made an explicit adjustment to my
13 ROE results, I have considered the effect of flotation costs in my
14 recommendation.

15

16 **VIII. CAPITAL STRUCTURE**

17 **Q. Please summarize the Company's proposed capital structure.**

18 A. The Company is requesting a capital structure for ratemaking purposes that
19 includes a common equity ratio of 48.00 percent.

20

21 **Q. Have you conducted any analysis of the Company's proposed capital
22 structure as compared with the proxy companies?**

23 A. Yes. I have reviewed CECONY's proposed capital structure as compared
24 with the actual capital structures of the operating companies in the proxy

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1 group for the most recently reported four years. As shown on
2 Exhibit___(JCN-11), the mean and median common equity ratio of the
3 proxy companies over that period are 53.06 percent and 53.24 percent,
4 respectively.

5

6 **Q. What do you conclude from this analysis?**

7 A. The requested 48.00 percent common equity ratio is conservative
8 considering the equity ratios of the proxy companies and the current
9 business and financial risks of CECONY. This information indicates that
10 the utility operating subsidiaries owned by holding companies with business
11 characteristics similar to CECONY have for the last four years, on average,
12 maintained common equity ratios more than five percentage points above
13 the 48.00 percent equity ratio that CECONY is requesting in this
14 proceeding. These higher proxy group equity ratios reflect a lower level of
15 financial risk than the financial risk implied by the proposed 48.00 percent
16 equity ratio.

17

18 **Q. How does the Company's proposed equity ratio compare to authorized**
19 **equity ratios in other jurisdictions?**

20 A. Equity ratios that are typically authorized by the Commission for New York
21 State's electric and gas utilities are considerably lower than equity ratios
22 authorized by other jurisdictions (in January 2021-October 2025 average

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1 authorized equity ratios in New York State were 3.76 percentage points
2 below the national average for electric and gas utilities, *see*
3 Exhibit___(JCN-37)). According to RRA, January 2021-October 2025
4 average authorized equity ratios for states other than New York State
5 (excluding limed issue riders) were 51.90 percent compared to an average
6 authorized equity ratio of 48.14 percent in New York State. Rate cases in
7 Arkansas, Florida, Indiana, and Michigan have been excluded from the
8 analysis since the authorized capital structure approved in the cases includes
9 deferred taxes and other credits as non-investor supplied capital. Further,
10 the Commission's recently authorized equity ratios of 48.00 percent are
11 inconsistent with the trend in other jurisdictions. As shown in
12 Exhibit___(JCN-45), the average authorized equity ratio for the operating
13 utility subsidiaries of the proxy companies has consistently increased over
14 the last two decades and averaged 52.32 percent from January 2021-
15 October 2025).

16

17 Therefore, I conclude that CECONY's requested equity ratio of 48.00
18 percent should be considered a lower bound on the equity ratio relative to
19 the range of reasonableness established by industry practice. As such, it
20 would be reasonable for the Commission to use a higher equity ratio for
21 CECONY closer to those of the proxy group operating companies for
22 ratemaking purposes. The lower equity ratio also implies that CECONY

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1 has greater financial risk than the operating companies of the proxy group,
2 which, all else equal, suggests that investors require a higher ROE for an
3 investment in the Company as compared to other similarly situated utilities.
4

5 **IX. MULTI-YEAR RATE PLAN**

6 **Q. Would a multi-year rate plan impact your ROE recommendation?**

7 A. Yes, it would. The Commission has in many cases adopted Joint Proposals
8 covering multi-year periods that include stay-out premiums. In keeping
9 with Commission precedent, a stay-out premium would reflect the increased
10 risk faced by the Company under a multi-year rate plan.
11

12 **Q. What are the relevant risk factors to equity investors inherent in a**
13 **multi-year stay-out?**

14 A. As described in Section IV above, persistent inflation, elevated interest
15 rates, and policy uncertainty are the predominant factors in the current
16 economic environment. As such, the Company is exposed to changes in
17 underlying costs that deviate from expected levels of inflation. However,
18 the stay-out premium associated with a multi-year rate plan should not only
19 compensate investors for changes in the level of interest rates and inflation,
20 but also for the potential risk of under-earning that is introduced by “staying
21 out.” By staying out of rate cases, the utility may not fully recover material
22 amounts of capital expenditures and may be required to absorb losses due

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1 to differences between the cost of service established in the rate plan and
2 actual levels of revenue and expense. The premium should compensate the
3 utility and its investors for these additional risks over and above interest rate
4 risk.

5

6 **Q. What do you propose as the stay-out premium for a three-year rate**
7 **plan?**

8 A. The Company's request ROE of 9.90 percent will not provide the Company
9 a return commensurate with the return available on investments of similar
10 risk over the term of the multi-year rate plan without an adequate stay-out
11 premium. Consistent with prior cases in which a stay-out premium was
12 included in multi-year rate plans, I recommend that a stay-out premium be
13 included in this multi-year rate plan. I believe 50 basis points is a
14 reasonable, albeit conservative, reflection of the incremental risk to the
15 Company under a multi-year stay-out provision.

16

17 **X. CONCLUSION AND RECOMMENDATION**

18 **Q. What is your conclusion regarding a fair return on book equity for**
19 **CECONY's steam operations?**

20 A. My recommended return on book equity considers the results of the DCF
21 model and CAPM, summarized in Exhibit___(JCN-2), and the specific
22 risks to which the Company is exposed. My DCF and CAPM results are

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1 corroborated by my Risk Premium model results. I conclude that the
2 appropriate ROE for the Company is within the range of 9.75 percent and
3 10.75 percent. From within that range, the Company is requesting an ROE
4 of 9.90 percent, which is below the midpoint of the range of reasonableness,
5 and a conservative estimate of the investor-required ROE.

6

7 Furthermore, if the Commission approves a multi-year rate plan, typically
8 covering three years, a stay-out premium of 50 basis points should be added
9 to the ROE.

10

11 **Q. Does this conclude your Direct Testimony?**

12 **A. Yes, it does.**